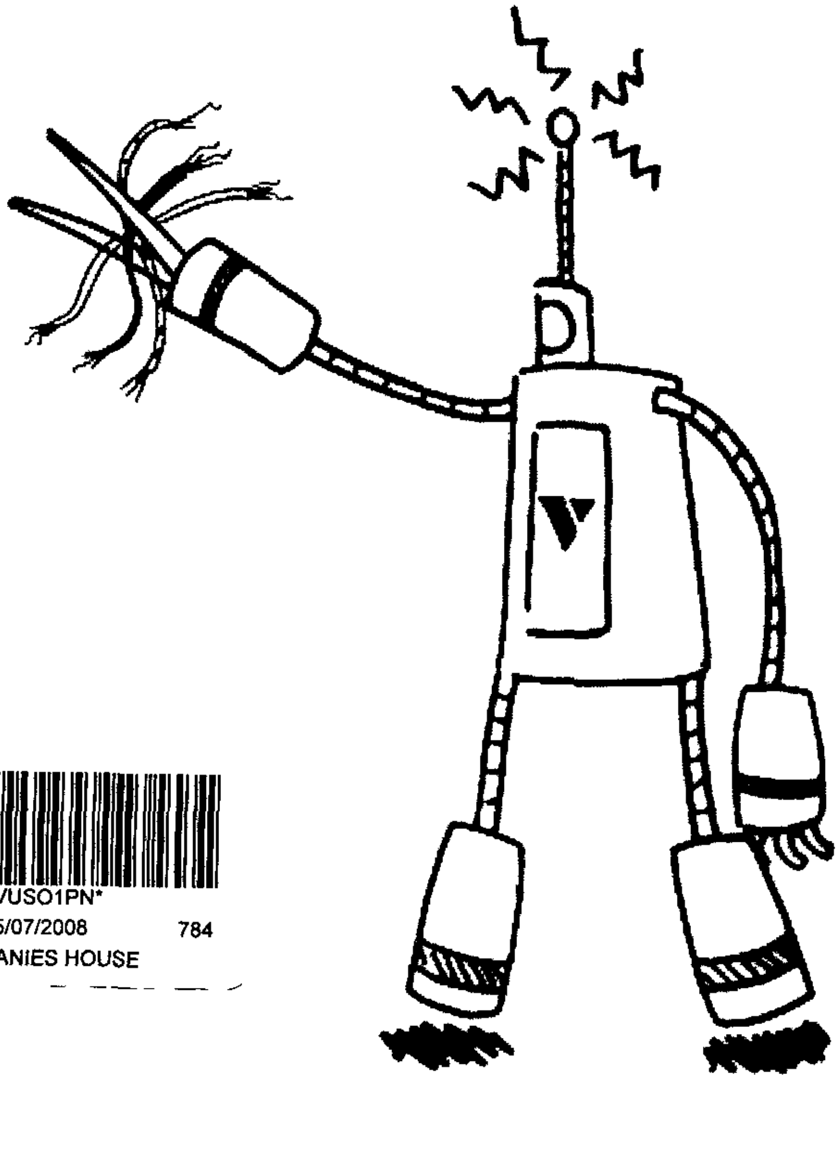
VIANET
Group plc

SC204140

annual report & accounts

for the 12 months ended 31st December 2007



Cut the wires
Connect with Vianet

About Vianet

Vianet provides connectivity services to global companies and organisations, in vending and beyond, helping them to make sense of the data held across widely distributed facilities so that they can transform their business processes and improve performance and customer service This enables them to relate to their customers and suppliers in ways that are creative and more direct, immediate, profitable and dynamic These are often referred to as 'Smart' services

Vianet Vending

Historically, the main focus for Vianet has been to provide on line management information services for the vending industry where there are compelling arguments for the adoption of these services such as increased sales and improved productivity A complete suite of data management services is provided to support the needs of international corporate users as well as smaller companies with regional operations

The ability to monitor the vending machine enables the brand owners of products on sale to monitor in considerable detail data about the purchaser Time, date, and place of sale along with product presentation are all recorded Since most vended products are consumed almost right away this information can be invaluable in providing major brand owners with unique product profiles associated with the point of consumption

In response to the market's trend toward credit purchases Vianet has developed a suite of applications that serve the closed user group environment of large offices and factories and also caters for the credit card and chip & pin requirements of premium sales in the wider market

Vianet's wireless link also enables age verification, enhanced monitoring and integrated payment services

Vianet Connectivity

Vianet Connect Services enable two way communications with remote devices and processes located anywhere in Europe and potentially anywhere in the world that GPRS coverage is available There are a huge number of applications and Vianet has delivered services in a number of market sectors including

- Energy monitoring and management for supermarkets
- Transfer of election results from special Proportional Representation voting machines in the Netherlands
- Portable and remote CCTV cameras for security monitoring
- Water pumps and water quality monitoring
- Building services and management systems for companies with multiple facilities

The ***Connect*** service can be provided on multiple networks which ensures connections for devices which do not move, which is often a major problem when trying to monitor remote devices A central monitoring station, back office information centre or corporate ERP system can securely receive from and transmit data to any device or process Vianet provides the virtual network infrastructure, SIM, data capacity and a single bill to cover all communications The tariff is customised to reflect the needs of the business and high volume users can benefit from pooled data charges For the manager, a secure web based asset register identifies all connected devices and also provides real time traffic monitoring

Cashless Connect

Vianet has enhanced its ***GPRS Connect*** service to provide highly secure connections specifically to support the growing demand for portable card transaction terminals This is ideal for taxis, outdoor events, rent collection and even on the spot fines Of course it also works in kiosks and vending machines providing 'smart' retail facilities for application both inside and outside existing retail premises

VIANET Group plc

Contents

VIANET Group plc

Chairman's Statement

OVERVIEW

2007 saw good progress at Vianet as we almost doubled sales, exceeded the £1 million revenue mark for the first time, increased our customer base with M2M and expanded our market reach with our wireless connectivity services In late 2007 and into 2008 we are receiving more M2M enquiries than at any time previously However, our progress has been hampered by our limited financial resources, coupled with the disappointment of a continuing and significant lag between vending enquiries and conversion to firm orders In particular, we anticipated that GSK, our largest vending customer, would spend to plan in the last quarter of 2007, however, as we moved from the prior ad hoc arrangements through procurement to a full contract, they deferred shipments into 2008 and revenues and cash flows slipped accordingly

I am pleased to report that a formal contract with GSK has now been signed and that they have placed a further volume order for 2,000 devices taking us to 7,000 GSK is now contracted for the Vianet service for an initial 3 year period The roll out of Vianet systems across GSK's vending operations will continue although no further devices will be ordered in 2008 and 2009 shipments will be discussed later this year

The global telecoms operator, which undertook an extensive evaluation of the vending telemetry sector in early 2007, subsequently selected Vianet's devices and applications software for a supply and license contract from a short list of European bidders in September They then commissioned a 300,000 Euro portation of ***vOpen*** in late 2007, fulfilment of this project carried into 2008 and is now in the process of being handed over for test and integration and the project has been billed

Completion of negotiations of an initial 5 year extendable contract with the global telecoms operator is nearing completion The contract will enable it to white label Vianet devices and license our vending and cashless applications for sale and distribution across its domestic and international markets using its own networks and hosted services This customer particularly wishes to protect its identity and product profile until the marketing launch

The number of customers that have been signed up to our M2M wireless connectivity service has the capacity to scale over the coming years and users are contracted for at least 2 and sometimes 3 or 5 years giving increased visibility of growth We are providing GPRS and 3G services to a wide variety of specialist companies and large end users who appreciate the flexibility and connectivity benefits available from Vianet, rather than through the mobile networks We are one of only a few suppliers able to provide cross network, robust, Internet secure, high speed, two way communications, where our M2M service is easier to install and aggregate than working with multiple mobile and fixed line network suppliers The service is fully supported with an itemised bill and a single invoice across borders and networks

Financial and Funding

The loss after tax for the year ended 31 December 2007 was £1,694,000 on sales of £1,058,000 (year to 31 December 2006 reported under IFRS £1,626,000 loss, on sales of £577,000) The resultant loss per share was 0 8p (2006 0 8p) Gross margins improved from 25% to 42% in 2007 and continue to improve in 2008 Administrative costs and overheads increased by 23% over 2006 as a result of absorbing option grants and the costs of the additional staff and also resources committed to M2M

Following the EGM on 8 January 2008, at which the Company's authority to allot shares was replaced, the Board used its updated authority to place on a non pre emptive basis (with an equal number of warrants attached) 4 7% of the Company's issued share capital, at 5p per share The 10 5m shares issued generated £0 45m net of expenses and loan repayments and were placed with existing investors and management At the same time a £600,000 loan from Barkley Limited, together with £15,041 of lender's fees due to Barkley Limited, was converted to approximately 12 3m ordinary shares (and 12 3m warrants) on the same terms The Company's net cash balances stood at £124,000 at 31 December 2007 and currently stand at £108,000 demonstrating the marginal nature of our funding

VIANET Group plc

With the increased cash pressure resulting principally from delays in billing the initial Telco project and extended stock holding in anticipation of GSK's needs, we sought to re instate the loan facilities with Barkley Limited that had been so helpful in the past Accordingly, on March 18th 2008 we announced the structuring of a working capital loan facility similar to that implemented in 2007 whereby Barkley Limited agreed to loan the Company £500,000 in two equal parts These loans have now been drawn down as planned Since year end sales invoice financing facilities have been put in place and are providing an effective additional support to the Company's day to day funding requirements The company continues to trade within its limited financial resources and the board is active as to addressing these severe constraints Terms for a further £300,000 facility have been agreed with Barkley Limited to support possible funding requirements in the second half of 2008

The Directors do not recommend the payment of a dividend

MARKETS AND STRATEGY

Since the investment famine in vending, following the introduction of the euro, we have been conscious of the extended decision making and procurement process among the major brands However, the underlying business case remains intact telemetry products remain their best option to gain efficiency and eliminate fraud and thereby to improve their business model Despite our past concerns a number of the world's leading drinks, catering and tobacco companies, that we have built relationships with in recent years, are now advancing at various stages along the procurement process This, combined with the improving enquiry levels mentioned above evidences an encouraging sentiment toward Vianet's services as the European leader in this still evolving market The development of our new VOpen connect software and our cashless payment product should enhance these prospects

With regard to M2M, for some time research houses and expert commentators have claimed that this sector is the next major area for growth in the global telecoms marketplace The scale of opportunity is large and, as is typical of such evolving technologies where customers are themselves exploring their options, the prediction of timings and best opportunities can be difficult It is also the case that it takes some time for customers to fully exploit the opportunities offered by the technology

Vianet's marketing strategy expanded into managed M2M in 2007, going beyond the vertical applications of vending, catering and FMCG brands who are seeking to control their vending assets Our M2M proposition is to provide a higher level of managed service across all markets and networks, with full Internet Protocol security, so that users can be confident of passing critical data to and from applications connected to their corporate enterprise systems Sales effort is focussed on markets where revenue per connection is high such as security through CCTV and other technologies and energy management where the financial pay back is compelling Irrespective of activity our users have one point of contact, one bill and a dedicated service support capability as opposed to the networks' standard terms and limited connection support We continue to believe that this will create a prospective high growth revenue stream based on our proven engineering capability Progress through 2007 has seen an M2M sales team assembled with central and field support with around eighty customers signed up by year end In the back office, engineering and support areas vending and M2M draw on the same engineering and support team

VIANET Group plc

BOARD AND STAFF

I am pleased to report that we have strengthened the board and management Hans Kuroptawa joined the board on 4th March 2008 bringing valuable experience of mobile networks and markets from international general management and business development roles with Vodafone and Motorola Iain Gibson joined the Company on 3rd December 2007 having previously been with Filtronic plc and was invited to join the board on 25th April 2008 Iain is well established and making a material contribution to the business On 7th December 2007 I announced the intended departure of our Finance Director, Alastair Kerr, and would like to wish him and his family well for the future After a suitable handover period Richard Armit, our Financial Controller, took over Alastair's responsibilities and was appointed Company Secretary on 13th May 2008 Each of these new appointments has settled into his role well and I am delighted to welcome them to the Company

Our people continue to work with great effect in building the Vianet vending and M2M propositions and almost everyone is closely involved with the sales process Meeting the diverse requirements of the global organisations we deal with by virtue of the dedication and competence of the Vianet team is hugely satisfying and I thank them all for their unstinting commitment Strengthening the management team and beginning to grow the business to realistic levels generates confidence both internally and externally and provides all our staff with fresh challenges and opportunities for personal development

OUTLOOK AND PROSPECTS

Current trading is dominated by the agendas and scale of GSK and the Telco, as described earlier Other brands that are coming on stream in a similarly protracted manner generate confidence that we are slowly building embedded relationships with global customers that are capable of scaling significantly As we evolve towards a true service model gross margins have improved from 25% in 2006 to 42% in 2007 The economic benefits of our services can greatly outweigh the down side risk to our customers of not making the investment, although as noted repeatedly in previous statements take off has been slower than anticipated

Vianet is an increasingly visible player in its chosen markets This has resulted in increased interaction at a corporate level between Vianet and major service providers in related sectors, in response to which we are exploring what options, if any, might be available to secure additional long term financing to strengthen our balance sheet and hence our commercial negotiating position

Acknowledging the trials and limited funding in taking Vianet forward it is worth stressing that the markets in which we are active have basic commercial drivers that can only be addressed effectively and economically with the type of services that Vianet and a small cadre of others have developed Extending our reach across multiple sectors with M2M enhances the opportunity to promote our expertise and reduces our historic sector dependency Our new services and the long term benefits that accrue to users encourage me to believe that our technology and business model are sound and scalable and can provide premium returns to customers and shareholders alike

Ian J Orrock
Chairman

30 June 2008

Advisers

Company Registration Number	SC 204140
Registered Office	Buchan House Carnegie Campus Dunfermline Fife KY11 8PL
Directors	Ian J Orrock (Chairman and Chief Executive) Iain A Gibson (Managing Director) David Lockwood (Non Executive Director) Hans Kuropatwa (Non Executive Director)
Audit Committee	David Lockwood (Non Executive Director) Hans Kuropatwa (Non Executive Director)
Remuneration Committee	David Lockwood (Non Executive Director) Hans Kuropatwa (Non Executive Director)
Secretary	Richard J Armit
Nominated Adviser	Brewin Dolphin Securities Limited 7 Drumsheugh Gardens Edinburgh, EH3 7QH
Nominated Broker	Brewin Dolphin Limited 48 St Vincent Street Glasgow, G2 5TS
Bankers	Bank of Scotland New Uberior House 11 Earl Grey Street Edinburgh, EH3 9BN
Solicitors	Dundas & Wilson CS LLP 191 West George Street Glasgow, G2 2LD
Auditors	PricewaterhouseCoopers LLP Chartered Accountants Kintyre House 209 West George Street Glasgow, G2 2LW
Registrars	Capita IRG plc Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA
Website	www.vianet.co.uk

VIANET Group plc

Ian Jackson Orrock, Chairman and Chief Executive

Ian was responsible for Vianet's original recovery plan and for devising and implementing the new strategy for the Company He has previously held senior, chief executive and chairman positions in major international and public companies in the electronics and telecom sectors He is also a director of New Star Private Equity Investment plc Trust and a number of private companies

Iain Andrew Gibson, Managing Director

Iain was previously a director of Filtronic plc where he was responsible on the plc board for the Integrated Products Division Prior to this he held a number of management positions in the Avionics business of Marconi Electronic Systems and thereafter in BAE Systems Avionics Limited

David Charles Lockwood, Senior Non Executive Director

David is the Managing Director of Thales Optronics UK and a non executive director of WFEL Limited, the world's leading military tactical bridging company Prior to this he built the start up photonics company, Intense Limited, which now supplies major multinational printing companies worldwide He was previously Managing Director of BAE Systems' largest Avionics division For the last two years he has been Chairman of Photonics Limited, a public sector incubator David is chairman of Vianet's audit and remuneration committees

Hans Anthony Kuropatwa, Non Executive Director

Hans was CEO and MD at both the country and regional level with Vodafone as well as holding senior marketing and business development positions within the Group He has extensive international experience and sat on the boards of 17 of Vodafone's international operating companies in Europe, the Middle East and Africa over a period of eight years Prior to joining Vodafone he spent seven years with Motorola in both their cellular subscriber and networks businesses Hans is a member of both Vianet's audit and remuneration committees

The Directors present their report together with financial statements for the year ended 31 December 2007 The Chairman's Statement also forms part of the report of the Directors

Principal activities

The principal activities of the Group are the development and provision of mobile data connectivity, cashless payment systems and remote data management vending solutions

Business review and future developments

A full review of the business's progress during the year and future developments are contained in the Chairman's Statement on pages 2 4

There was a loss for the period after taxation amounting to £1,694,000 (2006 £1,626,000) In view of the loss the Directors do not recommend payment of a dividend and the loss is transferred from reserves

The Group's key performance indicator is sales which is discussed in the Chairman's Statement

Directors

The membership of the Board is set out below
Ian J Orrock
David C Lockwood
Hans A Kuropatwa became a Director on 4 March 2008
Alastair J Kerr ceased to be a Director on 20 March 2008
Iain A Gibson became a Director on 25 April 2008

The interests of the Directors and their families in the shares of the company as at 31 December 2007 and 31 December 2006 were as follows

Directors	31 December 2007 Ordinary 5p shares	31 December 2006 Ordinary 5p shares
Ian J Orrock	5,215,766	5,215,766
Alastair J Kerr	560,000	560,000
David C Lockwood	100,000	100,000
Iain A Gibson	0	0
Hans Kuropatwa	0	0

The beneficial interest of Ian J Orrock includes shares held by a business in which he has a controlling interest and by way of a pension fund

Ian J Orrock will retire by rotation at the next AGM and offer himself for re election

Details of Directors' options are disclosed in Note 8

Share Capital

On 17 January 2007 the Company issued 21,100,000 new ordinary shares of 5p each at a price of 5p per share and the cash consideration received was £964,000 net of expenses For each ordinary share issued a warrant was granted giving the holder the right to convert each warrant into one ordinary share within the five year period from 17 January 2007 at a fixed price of 5 pence

On 10 January 2008 the Company issued 10,500,000 new ordinary shares of 5p each at a price of 5p per share and the cash consideration received was £450,000 net of expenses For each ordinary share issued a warrant was granted giving the holder the right to convert each warrant into one ordinary share within the five year period from 10 January 2008 at a fixed price of 5 pence

On 10 January 2008 the Company issued 12,300,822 new ordinary shares of 5p each at a price of 5p per share following the conversion of an existing loan and associated lender's fee from Barkley Limited For each ordinary share issued a warrant was granted giving Barkley Limited the right to convert each warrant into one ordinary share within the five year period from 10 January 2008 at a fixed price of 5 pence

Statement of Directors' responsibilities in respect of the Annual Report, the Directors' Remuneration Report and the financial statements

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the group and the parent company 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 prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the company and group for that period

In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state that the group financial statements comply with IFRSs as adopted by the European Union, and with regard to the parent company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the group and parent company financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business, in which case there should be supporting assumptions or qualifications as necessary

The Directors confirm that they have complied with the above requirements in preparing the financial statements

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the parent company financial statements and the Directors' Remuneration Report comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

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

In accordance with Section 234ZA(2), in the case of each Director in office at the date the Directors' report is approved, that

(a) so far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in liquidity risk, interest risk, foreign currency risk and credit risk

Credit risk

The Company has implemented policies that require appropriate credit checks on potential customers before sales are made The amount of exposure to any individual counterparty is subject to a limit, which is regularly reassessed and monitored by management

Liquidity risk

The Company actively maintains sufficient cash balances to ensure that the Company has available funds for operations The Company finances its operations principally from a combination of equity, convertible loans and an invoice discounting facility

Interest rate cash flow risk

The Company has both interest bearing asset and interest bearing liabilities Interest bearing assets include cash balances, all of which earn interest at a variable rate

Further analysis of financial risk management is discussed in Note 3

Exchange rate risk

The company will consider risks on a contract by contract basis and will consider options such as hedging arrangements as appropriate and available to minimise risk

Substantial shareholders

As at 30 June 2008 the Directors were aware of the following interests of 3% or more in the issued ordinary share capital of the Company and had not been notified, pursuant to the provisions of the Companies Act 1985, of any further such interests

Name	Shareholding	Percentage
Mr Michael Underwood	55,957,003	22 85%
Liverpool Limited	25,984,904	10 61%
Singer & Friedlander AIM 3 Venture Capital Trust	22,760,250	9 30%
Barkley Limited	18,802,156	7 68%
Artemis Investment Management Limited	14,000,000	5 72%
Noble Fund Managers Limited	10,847,000	4 43%
Cantebury Limited	9,186,340	3 75%
Mr Michael J Stubbs	8,696,666	3 55%

Employee Share Scheme

The Company has historically offered an employee Save As You Earn scheme to which 2 employees are currently contributing

Payment policy and practice

It is the Company's policy to settle the terms of payment with suppliers when agreeing the terms of the transactions, to ensure that suppliers are aware of these terms and to abide by them It is Company policy to carry agreed creditors of no more than 30 60 days at any financial period end, other than any disputed items At 31 December 2007, the period of purchases represented by year end trade creditors was 313 days (2006 144 days) This elevated figure reflects stock procurement during Q4 2007 of £300,000, the equivalent of 180 creditor days The 2006 figure of 144 days is similarly impacted by high stock procurement in November and December 2006 of £78,000, the equivalent of 67 creditor days

Research and Development

During the period the Group incurred additional research and development expenditure relating to the development of solutions to address the requirements of the machine to machine connectivity market as well as a number of vending solutions aimed particularly at the growing cashless and mobile phone payment technologies

Political donations and political expenditure

The Group made no political donations or incurred no political expenditure during 2007 (2006 nil)

Charitable donations

The Group made no charitable donations during 2007 (2006 nil)

Post balance sheet events

On 10 January 2008 the Company issued 10,500,000 new ordinary shares of 5p each at a price of 5p per share and the cash consideration received was £450,000 net of expenses For each ordinary share issued a warrant was granted giving the holder the right to convert each warrant into one ordinary share within the five year period from 10 January 2008 at a fixed price of 5 pence

On 10 January 2008 the Company issued 12,300,822 new ordinary shares of 5p each at a price of 5p per share following the conversion of an existing loan and associated lender's fee from Barkley Limited For each ordinary share issued a warrant was granted giving Barkley Limited the right to convert each warrant into one ordinary share within the five year period from 10 January 2008 at a fixed price of 5 pence

£500,000 has been borrowed in two tranches of £250,000 each on 14 April and 16 June 2008 from Barkley Limited, a related party The tranches are repayable after 24 months, they are non interest bearing, there is a lenders fee payable of 10%

The £200,000 convertible loans received in June 2002 were consolidated post year end and the convertible loan was increased from £200,000 to £300,000 on 17 January 2008

On 27 June 2008 terms for a loan facility of £300,00 were established with Barkley Limited The facility will be available to be drawn down in three tranches of £100,000 with one month notice The tranches are repayable after 12 months, they are non interest bearing, there is a lenders fee payable of 10%

BY ORDER OF THE BOARD

Richard J Armit
Secretary

30 June 2008

Corporate governance

The Company has considered the Principles of Good Governance and Code of Best Practice (the Combined Code) AIM listed companies are not required to comply with the Combined Code The Board of Directors is committed to the Code's principles of openness, integrity and accountability in dealing with the Company's affairs and believes they have always acted in the best interests of the Company In the opinion of the Board of Directors, the costs of adopting the Combined Code in full are disproportionate with the benefits derived in a company the size of Vianet Group plc Therefore the Board of Directors has chosen not to fully comply with the Combined Code

Compliance

The Company has, however, complied throughout the year with the Code provisions set out in the Combined Code with the following exceptions,

The roles of Chairman and Chief Executive are both held by Ian J Orrock and therefore the company does not comply with provision A 2 1 of the Code

The Company has not created a Nomination Committee and therefore does not comply with provision A 4 1 of the Code

The Company has not yet conducted a comprehensive review of the effectiveness of all internal controls although it considers its internal control procedures to be suitable for the size of company, it therefore does not comply with provision C 2 1 of the Code

The Board of Directors

The Company is headed by the Board of Directors who lead and control the Company The Board of Directors meets formally each month and, when necessary, also meets for any matters that may arise between these regular meetings The Board of Directors has a formal schedule of matters reserved for its attention, such as acquisitions, capital expenditure, budgets and banking facilities, together with a monthly review of the financial and operational performance of the Group

The Board of Directors consists of four Directors, two executive and two non executives The Board of Directors recognises the need to have a clear division of responsibilities to ensure the right balance of authority and accountability Continuing are David C Lockwood as the senior Non Executive Director and Ian J Orrock as Chief Executive Iain A Gibson became an Executive Director on 25 April 2008 and Hans Kuropatwa became a Non Executive Director on 4 March 2008

One third of the Directors are subject to re election every year and, if appointed by the Directors to fill a casual vacancy, at the first annual general meeting after appointment The Executive Directors have 6 or 12 month rolling service contracts

Relations with shareholders

The Company values the views of its shareholders and recognises their interest in the Company's strategy and performance, Board membership and quality of management

The AGM is used to communicate with investors and they are encouraged to participate The Chairman of both the Audit and Remuneration Committees is available to answer questions

Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a resolution to receive the annual report and accounts The Company counts all proxy votes and will indicate the level of proxies lodged and the balance for and against on each resolution, after it has been dealt with by a show of hands The Chairman maintains contact with the principal shareholders

The Company uses its website as a means of providing information to shareholders and other related parties The Company's annual report and accounts, interim results and other relevant announcements are maintained on the website

Standing Committees

The Board of Directors has standing Remuneration and Audit Committees, the membership of which is detailed on page 5 Each committee reports to and has its terms of reference approved by the Board of Directors The minutes of the committee meetings are reviewed by the Board of Directors

No Nomination Committee has been established given the small size of the Board The Remuneration Committee presents its report on pages 15 16

The Audit Committee meets twice a year, or more often if necessary Minutes of the meetings are circulated to all Board members The Group's external auditors also attend the meetings at which the committee considers the Group's half year and final results and any other matter, which the committee feels it necessary to discuss

Internal control

The Board of Directors has overall responsibility for ensuring that the Group maintains a system of internal control for reviewing its effectiveness The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Company's objectives Such systems can only provide reasonable and not absolute assurance against material misstatement or loss The Board discusses various aspects of internal control with the external auditors

The Directors believe that the current level of internal control is appropriate based on the existing level of activity but recognise that control processes will need to be further developed as the level of activity within the Group increases

The Group's operating procedures include a comprehensive system for reporting financial and non financial information to the Board The Directors' responsibility for the system of financial control is effected through a management information system and reporting procedures There are established financial controls and procedures There is a budgeting system with the annual budget being approved by the Directors Monthly actual results are reported against budget and revised forecasts are prepared regularly to take account of changing conditions In addition, a number of key areas are subject to regular reporting to the Board, namely, cash utilisation, treasury management, developments in the sales order book and changes in accounting policies and reporting requirements

Detailed functional reviews have been completed which will lead to operational procedures being developed for each of the company's operating areas that include key controls The implications of changes to law and regulations will be taken into account within these procedures

The Board of Directors reviews the operation and effectiveness of the internal control framework on a regular basis The Directors consider that there have been no weaknesses in internal financial control that have resulted in any material losses, contingencies or uncertainties requiring disclosure in the financial statements

The Audit Committee has considered the need for an internal audit function and has concluded that the company's existing internal control procedures are suitable for the size of company

VIANET Group plc

Going Concern

The Directors have considered business plan projections, including cashflow forecasts, prepared for the year ending 31 December 2008 and 31 December 2009, and the adequacy of existing funds to meet the projected cash requirements of the Company The business plan projections show that, with the additional loan facilities available from Barkley Limited, the Group will have sufficient working capital for at least a twelve month period

Directors

The Board recognises that directors' remuneration is of legitimate concern to the shareholders and is committed to following current best practice The Company operates within a competitive environment that is subject to rapid technical change Its performance depends on the individual contributions of the Directors as employees and it believes in rewarding vision and innovation

Policy on Executive Directors' remuneration

The policy of the Board is to provide executive remuneration packages designed to attract, motivate and retain directors of the calibre necessary to maintain the group's position and to reward them for enhancing shareholder value and return It aims to provide sufficient levels of remuneration to do this, but to avoid paying more than is necessary The remuneration should also reflect the directors' responsibilities and contain incentives to deliver the Company's objectives

The Remuneration Committee currently comprises David C Lockwood and Hans Kuropatwa It has responsibility for making recommendations to the Board on the Company's general policy on remuneration and also specific packages for individual directors It carries out the policy on behalf of the Board and meets at least twice each year

As well as considering conditions in the Group as a whole, it takes into account the position of the Company relative to other companies and is aware of what these companies are paying, though comparisons are treated with caution to avoid an upward ratchet in remuneration without a corresponding improvement in performance The Committee has access to professional advice within the Company and obtains its own independent professional advice from outside the Company

Main elements of remuneration

There are two main elements of the Executive Directors' remuneration package

- i annual salary inclusive of pension contributions and bonuses
- ii share option incentives

Basic annual salary

Each Executive Director's basic salary is reviewed annually by the Committee In deciding upon appropriate levels of remuneration the Committee believes that the Company should offer average levels of base pay reflecting individual responsibilities compared to similar jobs in comparable companies Executive Directors' basic salaries were last reviewed and changed in January 2008

Bonuses

The bonus arrangement for the Chief Executive and the senior management team are defined relative to basic remuneration by reference to corporate performance against a matrix of performance targets agreed in respect of each financial year

Termination payments

As Directors' service contracts are currently constructed, termination payments are at the discretion of the Remuneration Committee

VIANET Group plc

Share option incentives

The Company operates Group share option schemes and the Committee has responsibility for supervising the schemes and the grant of share options under their terms

Save As You Earn scheme

The Company operates a Save As You Earn scheme to which a number of employees and Executive Directors are currently contributing

Directors' pension arrangements

The Company contributes to individual money purchase pension plans on behalf of certain Directors

Non executive Directors

The remuneration of the non executive Directors is determined by the Executive Directors

Details of Directors' remuneration and share options

This report should be read in conjunction with note 8 to the financial statements which also forms part of this report Full details of all elements of the remuneration package and share options of each Director are given in note 8 to the financial statements Details of Directors' share interests are given in the Directors' Report

ON BEHALF OF THE BOARD

Richard J Armit
Secretary

30 June 2008

Independent Auditors' report to the members of Vianet Group plc

We have audited the group financial statements of Vianet Group plc for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Shareholders' Equity and the related notes These group financial statements have been prepared under the accounting policies set out therein

We have reported separately on the parent company financial statements of Vianet Group plc for the year ended 31 December 2007 That report is modified by the inclusion of an emphasis of matter

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the group financial statements

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements The other information comprises only the Chairman's Statement, the Directors' Report, the Corporate Governance Statement and the Report on Remuneration We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements

Opinion

In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its loss and cash flows for the year then ended,
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the Directors' Report is consistent with the financial statements

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 2 and note 4 to the financial statements concerning the company's ability to continue as a going concern The group incurred a net loss of £1,694,000 and experienced a net cash outflow from operating activities of £1,408,000 during the year ended 31 December 2007 The company's ability to continue as a going concern depends inter alia on the achievement of its business plan projections, the continued availability of the invoice discounting facility and / or suitable working capital alternatives The circumstances, as explained in note 2 and note 4, represent significant uncertainty which may cast doubt about the company's ability to continue as a going concern The consolidated financial statements do not include the adjustments that would result if the company was unable to continue as a going concern

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Glasgow

30 June 2008

Consolidated Income Statement
for the year ended 31 December 2007

VIANET Group plc

	Note	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Revenue		1,058	577
Cost of Sales		(610)	(431)
Gross Profit		**448**	**146**
Administrative Expenses		(2,304)	(1,869)
Operating Loss		(1,856)	(1,723)
Finance income		26	25
Finance costs		(18)	(7)
Finance Income net	7	8	18
Loss before taxation		(1,848)	(1,705)
Income tax credit	9	154	79
Loss for the financial year attributable to equity holders of the Company	22	(1,694)	(1,626)
Earnings per share for loss attributable to the equity holders of the Company during the year			
Basic and diluted loss per share (pence)	10	(0 8p)	(0 8p)

All activities relate to continuing operations

The notes on pages 23 to 62 are an integral part of these consolidated financial statements

Consolidated Balance Sheet
as at 31 December 2007

VIANET Group plc

	Note	31 December 2007 £'000	31 December 2006 £'000
Assets			
Non-current Assets			
Intangible Assets	11	14	36
Property, plant and equipment	12	18	14
		32	50
Current Assets			
Inventory	13	394	188
Trade and other receivables	14	408	240
Current income tax receivable		154	138
Cash and cash equivalents	15	124	160
		1,080	726
Total Assets		**1,112**	**776**
Equity			
Capital and reserves attributable to equity holders of the Company			
Ordinary Shares	20	11,103	10,048
Share premium	21	3,910	4,001
Other reserves	21	1,277	1,277
Retained Loss	22	(16,547)	(14,919)
Total equity		**(257)**	**407**
Liabilities			
Non Current Liabilities			
Borrowings	17	600	3
Current Liabilities			
Trade and other payables	16	766	335
Borrowings	17	3	31
		769	366
Total Liabilities		1,369	369
Total Equity and Liabilities		**1,112**	**776**

The notes on pages 23 to 62 are an integral part of these consolidated financial statements

The financial statements on page 19 to 62 were authorised for issue by the Board of Directors on 30 June 2008 and were signed on its behalf

Ian J Orrock Director

David C Lockwood Director

Consolidated Cash Flow Statement
for the year ended 31 December 2007

VIANET Group plc

	Note	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Cash flows from operating activities			
Cash generated from operations	23	(1,546)	(1,740)
Income tax received		138	
Net cash outflow from operating activities		(1,408)	(1,740)
Cash flows from investing activities			
Interest received	7	26	25
Purchase of intangible assets	11	(151)	(42)
Purchases of property, plant and equipment	12	(18)	(6)
Net cashflow used in investing activities		(143)	(23)
Cash flows from financing activities			
Interest paid	7	(18)	(7)
Proceeds from issue of ordinary share capital		964	921
Proceeds from borrowings		600	
Repayment of borrowings		(31)	(31)
Net cashflow from financing activities		1,515	883
Net decrease in cash and cash equivalents		**(36)**	**(880)**
Cash and cash equivalents at the beginning of the year		160	1,040
Cash and cash equivalents at the end of the year	15	**124**	**160**

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

Consolidated statement of changes in shareholders' equity for the year ended 31 December 2007

VIANET Group plc

	Note	Ordinary Shares £'000	Share Premium £'000	Other reserves £'000	Retained loss £'000	Total £'000
At 1 January 2006		9,117	4,011	1,277	(13,344)	1,061
New shares issued	20, 21	931	(10)			921
Employee share options schemes						
Value of employee services					51	51
Net loss recognised in the income statement	22				(1,626)	(1,626)
At 1 January 2007		10,048	4,001	1,277	(14,919)	407
New shares issued	20, 21	1,055	(91)			964
Employee share options schemes						
Value of employee services					66	66
Net loss recognised in the income statement	22				(1,694)	(1,694)
At 31 December 2007		11,103	3,910	1,277	(16,547)	(257)

VIANET Group plc

1 General information

Vianet Group plc is a public limited company incorporated in Scotland The company has a primary listing on the AIM stock exchange The address of its registered office and principal location of business is disclosed on page 5 of the financial statements The principal activities of the Company and its subsidiaries ('the Group') are described in the directors' report

2 Summary of significant accounting policies

This is the first period in which International Financial Reporting Standards (IFRS) have been applied Comparatives are required to be restated from UK GAAP to comply with IFRS The Group's transition date is 1 January 2006 and the Group prepared its opening balance sheet at that date Reconciliations of the income statement, balance sheet and changes in equity from UK GAAP to IFRS are presented in note 32

Details of the material accounting policies followed by the Group are set out below These policies have been consistently applied to all the years presented, unless otherwise stated

Basis of preparation

The principal activities of the group are the development and provision of mobile data connectivity, cashless payment systems and remote data management vending solutions

This financial information comprises consolidated balance sheet as at 31 December 2007 and 2006 and related consolidated income statement, consolidated statement of changes in shareholders' equity, consolidated cash flow statement and related notes for the twelve months then ended of Vianet Group plc

The consolidated financial statements of Vianet Group plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC interpretations and the Companies Act 1985 applicable to Companies reporting under IFRS The consolidated financial statements have been prepared under the historical cost convention

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates It also requires management to exercise its judgement in the process of applying the Group's accounting policies The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed on pages 32 33

(a) Standards, amendment and interpretations effective in 2007

IFRS 7, 'Financial instruments Disclosures', and the complimentary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the group or company's financial instruments

IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instrument in order to establish whether or not they fall within the scope of IFRS 2 This standard does not have any impact on the group or company's financial statements The company already applies an accounting policy which complies with the requirements of IFRIC 8 Refer to the share based payment accounting policy in note 2

2 Summary of significant accounting policies (continued)

IFRIC 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at subsequent balance sheet date This standard does not have any impact on the group or company's financial statements

(b) Standards, amendment and interpretations effective in 2007 but not relevant
The following standards, amendments and interpretations to published statements are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the group or company's operations

- IFRS 4 'Insurance contracts'
- IFRIC 7 'Applying the restatement approach under IAS 29, 'Financial reporting in hyper inflationary economies', and
- IFRIC 9 'Reassessment of embedded derivatives'

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group and company

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2008 or later periods, but the group and company have not early adopted them

- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009)
- IAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009)
- Amendment to IAS 32, 'Financial instruments Presentation' and IAS 1, 'Presentation of financial statements Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009)
- Amendment to IFRS 2, 'Share based payment Amendment Vesting conditions and cancellations' (effective 1 January 2009)
- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009)
- IFRS 8 'Operating segments' (effective 1 January 2009)
- IFRIC 11, 'IFRS 2 – Group and treasury share transactions' (effective from 1 March 2007)
- IFRIC 12 'Service concession arrangements (effective from 1 January 2008)
- IFRIC 13 'Customer loyalty programmes' (effective from 1 July 2008)
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset minimum funding requirements and their interaction' (effective from 1 January 2008)

It is not expected that these changes will have a significant impact on the group or company's financial statements

Basis of consolidation

The group financial statements consolidate the financial statements of Vianet Group plc and the entities it controls (its subsidiaries) drawn up for the year ended 31 December 2007 Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases Control comprises the power to govern the financial and operating policies of the investee, so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights The financial statements of subsidiaries are prepared for the same reporting year as the parent Company, using consistent accounting policies All inter-company balances and transactions including unrealised profits arising from them are eliminated

VIANET Group plc

2 Summary of significant accounting policies (continued)

Going concern

The financial information has been prepared on the going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future The validity of this assumption depends inter alia on the achievement of the business plan projections, the continued availability of the invoicing discounting facility and / or suitable working capital alternatives Whilst there is a present uncertainty as to the outcome of the matters described above, the directors believe that it is appropriate for the financial statements to be prepared on a going concern basis

Intangible Assets

a) **Computer Software**
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software These costs are amortised over their estimated useful lives on a straight line basis (4 years)

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred

b) **Research and development costs**

Costs incurred on pure research projects are charged to the income statement in the year in which they are incurred Development costs on projects which are expected to generate future income and other qualifying development expenditure is capitalised as deferred development expenditure within intangible assets where it is considered that there is a commercially viable and technically feasible product, the related expenditure is separately identifiable and there is a reasonable expectation that these will be exceeded by future revenues Capitalised development costs are amortised from the date on which the asset is available for use The amortisation period is based on the period over which the expected benefits are expected to be consumed Costs are currently amortised over 3 years

Impairment of non financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount The recoverable amount is the higher of an asset's fair value less costs to sell and value in use For the purposes of assessing impairment assets are grouped at the lowest levels for which there are separately identifiable cash flows Non financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses

Depreciation is provided on all property, plant and equipment, on a straight line basis at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the balance sheet date, of each asset evenly over its expected useful life as follows

Plant and Machinery – 25% per annum
Computers, fixtures and fittings – 25% to 50% per annum

2 Summary of significant accounting policies (continued)

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains – net' in the income statement

Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions Foreign exchange gains and losses resulting from the settlement of such transactions and from transaction at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement

Leases

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term

Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use

Inventories

Inventories are stated at the lower of cost and net realisable value Cost is determined using the weighted average method The cost of finished goods comprises, raw materials, direct labour and other related overheads Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal Provision is made for obsolete or slow moving stock or defective items where appropriate

Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to recover balances in full Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement

2 Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term deposits with original maturities of three months or less and bank overdrafts Bank overdrafts are shown within borrowings in current liabilities on the balance sheet

Share Capital

Ordinary shares are classified as equity

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds

Warrants

Warrants issued on ordinary shares which will be settled by the company delivering a fixed number of its own equity instrument in exchange for a fixed amount of cash are treated as equity instruments Equity instruments are initially measured at fair value and are not subsequently re measured

Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries operate and generate taxable income

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor taxable profit or loss Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled

Deferred income tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilised

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference will not reverse in the foreseeable future

Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation If the effect is material, expected future cash flows are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre tax rate that reflects current market assessments of the time value of money and the risks specific to the obligations The increase in provision due to passage of time is recognised as interest expense

2 Summary of significant accounting policies (continued)

Employee Benefits

(a) Pension obligations

The group has a defined contribution pension scheme for the benefit of the employees under which it pays fixed contributions to a third party insurance company The group has no further payment obligations once the contributions have been paid The contributions are recognised as employee benefit expense when they are due Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available

(b) Share based compensation

The group operates a number of equity settled, share based compensation plans The fair value of the employee services received in exchange for the grant of the options is recognised as an expense The total amount to be expensed over the vesting period is determined by the fair value of the options granted, excluding the impact of any non market vesting conditions Non market vesting conditions are included in assumptions about the number of options that are expected to vest The impact of the revision to original estimates, if any, are recognised in the income statement, with a corresponding adjustment to equity

The proceeds net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the investing period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities as described below The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement

2 Summary of significant accounting policies (continued)

(a) Vending solutions

(i) The sale of hardware devices to customers for use in vending machines Its revenue is recognised at the point of despatch at which point the significant risks and rewards of ownership are transferred The sales value is based on the number of devices sold at an agreed price for each device, and

(ii) Monthly service charges for the provision of on line management information services where customers are charged a monthly service charge based on the number of hardware devices in operation Revenue is recognised in line with the service provided

(b) M2M Connectivity

M2M Connectivity enables two way communications with remote devices and processes through GPRS M2M customers are invoiced on a monthly basis in line with their agreed tariff and number of connections made Revenue is recognised in the same way as monthly service charges under Vending Solutions

(c) Interest income

Interest income is recognised on a time proportion basis using the effective interest method When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income Interest income on impaired loans is recognised using the original effective interest rate

Financial Liabilities

Financial liabilities are classified according to the substance of the contractual arrangements

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred Borrowings are subsequently stated at amortised cost Any difference between proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date

Convertible loans

The fair value of the liability component of the convertible loan is determined using a market interest rate for an equivalent non convertible loan This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the loan The remainder of the proceeds is allocated to the conversion option This is recognised in equity, net of income tax effects

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method

3 Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks market risk (primarily currency risk), credit risk and liquidity risk The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance

(a) Market risk

(i) Foreign exchange risk

Management consider that the Group has not historically been significantly exposed to foreign exchange risk arising from various currency exposures as the Group operates predominantly in the UK with a small proportion of transactions denominated in Euros During the year foreign currency transactions amounted to €155,000 At 31 December 2007, if the Euro had weakened/ strengthened by 10% against the UK£ with all other variables held constant, post tax loss for the year would have been £10,000 higher / lower Exposure to foreign exchange risk is anticipated to increase as the business grows

(ii) Cash flow and fair value interest rate risk

The Group has both interest bearing assets and interest bearing liabilities Interest bearing assets include cash balances, all of which earn interest at a variable rate Interest bearing liabilities include bank borrowings which bear interest at a rate of 7 5%

The interest bearing bank borrowings, £3,000 as at 31 December 2007, will be repaid in full in 2008

As such management consider that the Group is not significantly exposed to cash flow and fair value interest rate risk

(b) Credit risk

Credit risk is managed on group basis Credit risk arises from deposits with banks as well as credit exposures to its customers, including outstanding receivables For banks, only independently rated parties with a minimum rating of 'A' are accepted The Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors The board monitors on a regular basis the outstanding receivables due from each customer Management does not expect any losses from non performance by these counterparties

The tables below analyse financial assets subject to credit risk using Standard and Poor's ratings or equivalent

As at 31 December 2007

	Total	AAA	AA	A	BB or lower	Not rated
	£000	£000	£000	£000	£000	£000
Trade receivables	314		246			68
Cash and cash equivalents	124		124			
Total	438		370			68

3 Financial risk management (continued)

As at 31 December 2006

	Total £000	AAA £000	AA £000	A £000	BB or lower £000	Not rated £000
Trade receivables	159		71			88
Cash and cash equivalents	160		160			
Total	319		231			88

Trade receivable classified as 'AA' in the above tables relate to one counter party Assets classified as 'not rated' in the above tables are not rated by Standard and Poor's or an equivalent rating agency and largely relate to private limited companies

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its cash commitments as they fall due Liquidity risk may result from either the inability to realise financial assets quickly at their fair values, or from the inability to generate cash inflows as anticipated

Management monitors rolling forecasts of the group's liquidity and cash and cash equivalents (note 15) on the basis of expected cash flow

The following tables indicate the timing of the contractual cashflows arising from the Group's liabilities, as required by IFRS 7

As at 31 December 2007

		Contractual cashflows (undiscounted)					
	Carrying amount £000	No stated maturity £000	Less than 1 month £000	1 3 months £000	3 12 months £000	1 5 years months £000	More than years £000
Trade and other payables	766			766			
Bank borrowings	3		3				
Convertible loan	600	600					
Total	1,369	600	3	766			

As at 31 December 2006

		Contractual cashflows (undiscounted)					
	Carrying amount £000	No stated maturity £000	Less than 1 month £000	1 3 months £000	3 12 months £000	1 5 years months £000	More than ars £000
Trade and other payables	335			335			
Bank borrowings	34		3	9	19	3	
Total	369		3	344	19	3	

Balances due within 12 months equal their carrying value as the impact of discounting is not significant

3 Financial risk management (continued)

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt

The Group has continued with its strategy of issuing new shares and drawing down convertible loan notes to safeguard the Group's ability as a going concern The directors review cash balances, forecasts, and requirements on a weekly basis

The total capital of the Group comprises net debt and equity (notes 20, 21 and 24)

4 **Critical accounting estimates and judgements**

The group makes estimates and assumptions concerning the future The resulting accounting estimates will, by definition, seldom equal the related actual results The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below

Fundamental uncertainty surrounding the going concern basis of accounting

The Directors have considered business plan projections, including cash flow forecasts, prepared for the years ending 31 December 2008 and 31 December 2009, and the adequacy of existing funds to meet the projected cash requirements of the Company The business plan projections show that, with the additional loan facilities from Barkley Limited, and the continued operation of an invoice discounting facility, the Group will have sufficient working capital for at least a twelve month period

The financial information has been prepared on the going concern basis, which assumes that the Company and its subsidiaries will continue in operational existence for the foreseeable future The validity of this assumption depends inter alia on the achievement of the business plan projections, the continued availability of the invoice discounting facility and / or working capital alternatives

If the Company or its subsidiaries were unable to continue in operational existence for the foreseeable future, adjustments would have to be made to reduce the balance sheet values of assets to their recoverable amounts, and to provide for further liabilities that might arise, and to reclassify fixed assets and long term liabilities as current assets and liabilities

Whilst there is at present uncertainty as to the outcome of the matters described above, the Directors believe that it is appropriate for the financial statements to be prepared on a going concern basis

Capitalised development costs

The Group capitalises certain development costs when it is probable that a development project will be a success and certain criteria, including commercial and technological feasibility, have been met

During the development stage, management must estimate the commercial and technological feasibility of these projects as well as their expected useful lives

Whenever there is an indicator that development costs capitalized for a specific project may be impaired, the recoverable amount of the asset is estimated

4 Critical accounting estimates and judgements (continued)

Impairment of non financial assets

The Directors assess the impairment of property, plant and equipment and intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable Factors that are considered important and which could trigger an impairment review include the following

- obsolescence or physical damage,
- significant changes in technology and regulatory environments,
- significant under performance relative to expected historical or projected future operating results,
- significant changes in the use of its assets or the strategy for its overall business,
- significant negative industry or economic trends, and
- significant decline in its stock price for a sustained period and its market capitalisation relative to net book value

The Group determines any impairment by comparing the carrying value to recoverable amounts, which is the higher of net realisable value and value in use

The identification of impairment indicators, the estimation of future cash flows and the determination of the recoverable amount for assets or cash generating units requires judgement concerning the identification and validation of impairment indicators, the timing and amount of expected cash flows and applicable discount rates

Share based payments

The measurement of the fair value of employee services received as consideration for equity instruments of the company, is calculated using the Black Scholes option pricing model The inputs into this model are disclosed in note 20

Convertible loans

The Group issues compound instruments in the form of convertible loans In accordance with IAS 32 on initial recognition the liability and the equity components must be presented separately on the balance sheet This separation involves splitting the fair value of the consideration received for the compound instrument into its liability and equity components The fair value of the consideration in respect of the liability component is measured first, at the fair value of a similar liability (including any embedded non equity derivative features such as an issuer's call option to redeem the bond early) that does not have any associated equity conversion option This becomes the liability component's carrying amount at initial recognition The equity component (the equity conversion option) is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component

A key judgement in respect of convertible loans issued is whether the loans are debt instruments or equity instruments

As at 31 December 2007 there were convertible loans outstanding with two counterparties

The convertible loans to Barkley Limited comprise two loans of £300,000 These loans have been classified as debt instruments on the basis that the loan agreement contains a contractual obligation to repay the principal For further details refer to note 17

The terms of the other convertible loans of £40,000 and £160,000 are such that the holder has no right to call for the repayment of the loan but the Group can repay at its discretion, otherwise the loan will convert to equity at the conversion date Hence, the loan agreement does not contain a contractual obligation to repay the principal However, the loan is repayable in certain situations such as winding up, receivership or administration The loan has been treated as a compound financial instrument with both an equity and liability component The liability component has been attributed a nil value, hence, the full amount of the convertible loans has been recognised in equity For further details refer to note 21

5 Segmental Information

Primary reporting format – business segments

The primary segment reporting format is determined to be line of business segments as the Group's risks and rates of return are affected predominately by the differences in the products the company produces

The segment results for the year ended 31 December 2007 are as follows

	M2M Connectivity £'000	Vending Solutions £'000	Unallocated £'000	Total £'000
Revenue	78	980		1,058
Operating Loss	(207)	309	(1,958)	(1,856)
Finance Income net			8	8
Loss before Taxation				(1,848)
Taxation				154
Loss for the year				(1,694)

Other segment items included in the income statement are as follows

Depreciation	14	14
Amortisation	52	52
Impairment of intangible assets	121	121
Share based payment expense	66	66

The segment results for the year ended 31 December 2006 are as follows

	M2M Connectivity £'000	Vending Solutions £'000	Unallocated £'000	Total £'000
Revenue	13	564		577
Operating Loss	(57)	(554)	(1,112)	(1,723)
Finance Income net			18	18
Loss before Taxation				(1,705)
Taxation				79
Loss for the year				(1,626)

Other segment items included in the income statement are as follows

Depreciation	15	15
Amortisation	8	8
Share based payment expense	51	51

VIANET Group plc

5 **Segmental Information (continued)**

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are as follows

	M2M Connectivity £'000	Vending Solutions £'000	Unallocated £'000	Total £'000
ASSETS				
Non current assets				
Intangible Assets			14	14
Property, plant and equipment			18	18
Current Assets				
Inventory		394		394
Trade and other receivables	25	289	94	408
Current income tax asset		154		154
Cash and cash equivalents			124	124
Total Assets	25	837	250	1,112
LIABILITIES				
Non Current Liabilities				
Borrowings			600	600
Current Liabilities				
Trade and other payables	5	340	421	766
Borrowings			3	3
Total Liabilities	5	340	1,024	1,369
Capital Expenditure			169	169

5 **Segmental Information (continued)**

The segment assets and liabilities at 31 December 2006 and capital expenditure for the year then ended are as follows

	M2M Connectivity £'000	Vending Solutions £'000	Unallocated £'000	Total £'000
ASSETS				
Non current assets				
Intangible Assets		24	12	36
Property, plant and equipment			14	14
Current Assets				
Inventory		188		188
Trade and other receivables		159	81	240
Current income tax asset		138		138
Cash and cash equivalents			160	160
Total Assets		509	267	776
LIABILITIES				
Non Current Liabilities				
Borrowings			3	3
Current Liabilities				
Trade and other payables		105	230	335
Borrowings			31	31
Total Liabilities		105	264	369
Capital Expenditure			48	48

Secondary reporting format – geographical segments
The Group's business segments operate in two main geographical areas and the Group's revenue is generated mainly within the UK and Europe

5 **Segmental Information (continued)**

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Revenue		
UK	1,043	531
Europe	15	46
Total	1,058	577

Revenue is allocated based on the country in which the customer is located

	31 December 2007 £'000	31 December 2006 £'000
Total assets		
UK	1,112	776
Europe		
	1,112	776
Unallocated		
Total	1,112	776

Total assets are allocated based on where the assets are located

	31 December 2007 £'000	31 December 2006 £'000
Capital expenditure		
UK	169	48
Europe		
Total	169	48

Capital expenditure is allocated based on where the assets are located

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Analysis of revenue by category		
Sales of goods	78	13
Revenue from services	980	564
	1,058	577

6 Expenses by nature

Operating loss as stated after charging / (crediting)

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Changes in inventories of finished goods	610	431
Employee benefit expense (note 8)	1,249	1,028
Depreciation, amortisation and impairment charges	187	23
Operating lease payments (note 29)	66	84
Other expenses	802	744
Total cost of sales, and administrative expenses	2,914	2,300

Services provided by the Group's auditor
During the year, the Group obtained the following services from the Company's auditor and its associates

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Fees payable to company's auditor for the audit of parent company and consolidated financial statements	15	13
Fees payable to the company's auditor and its associates for other services		
The audit of the company's subsidiaries, pursuant to legislation	10	10
Tax services	20	15
Other services	10	
	55	38

7 Finance income and costs

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Interest expense on loans	18	7
Finance costs	18	7
Interest income on short term bank deposits	(26)	(25)
Finance income	(26)	(25)
Net finance income	(8)	(18)

8 Directors and employees

Staff costs during the period were as follows

		Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Wages and salaries		983	825
Social security costs		110	90
Pension costs	Note 28	90	62
Share options granted to directors and employees	Note 20	66	51
		1,249	1,028

The average monthly number of employees (including executive directors) of the group during the period were as follows

	Year ended 31 December 2007 number	Year ended 31 December 2006 number
Management and administration	5	5
Engineering	6	10
Sales and customer support	13	6
	24	21

Remuneration in respect of directors was as follows

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Aggregate emoluments	254	224
Directors' fees	32	44
	286	268

8. **Directors and employees (continued)**

The emoluments of the individual Directors were as follows

	Basic salary & fees £'000	Benefits £'000	Bonus £'000	Pension contributions £'000	Total for year ended 31 December 2007 £'000	Total for year ended 31 December 2006 £'000
I J Orrock	115	1		53	169	146
A J Kerr	76	1		8	85	78
C I Moffat						10
B W C McGhee	8				8	16
D C Lockwood	24				24	18
	223	2		61	286	268

The emoluments of I J Orrock include payments of £15k made to a company in which he has a controlling interest

BWC McGhee ceased to be a Director on 26 July 2007
A J Kerr ceased to be a Director on 20 March 2008
CI Moffat ceased to be a Director on 22 June 2006

The pension contributions in respect of one (2006 one) Director were to an Executive Pension Plan and one Director to his own personal pension plan (2006 one) The number of directors to whom benefits are accruing under money purchase pension schemes as at the year end is one (2006 one) The directors' fees paid to Brian W C McGhee, and David C Lockwood were paid to the trading entities of Craighead McGhee and Portavadie Holdings Ltd respectively

Options granted under the **2000 Approved share option scheme** are outstanding as follows

Share Options	Ordinary share options held	Exercise price per share	Fair value per share	Period of exercise	
Alastair J Kerr	125,000	7 00p	1 36p	09/07/05	08/07/12
Ian J Orrock	400,000	8 00p	1 3p	13/11/04	12/11/11

8 Directors and employees (continued)

Options granted under the **2000 Unapproved share option scheme** are outstanding as follows

Share Options	Ordinary share options held	Exercise price per share	Fair value per share	Period of exercise	
Ian J Orrock	600,000	8 00p	1 3p	13/11/04	12/11/11
	2,272,010	7 00p	1 36p	09/07/05	08/07/12

At 31 December 2007, a total of 5,612,251 unissued shares were subject to outstanding options under **individual EMI share option agreements**

Share Options	Ordinary share options held	Exercise price per share	Fair value per share	Period of exercise	
Alastair J Kerr	500,000	6 00p	1 43p	04/12/05	03/12/13
	250,000	6 00p	1 43p	16/06/07	15/06/15
	440,000	5 00p	1 51p	16/06/08	15/06/16
Ian J Orrock	3,362,251	6 00p	1 43p	04/12/05	03/12/13
	1,060,000	5 00p	1 51p	16/06/08	15/06/16

Exercise is conditional upon the mid price of an ordinary share reaching pre determined levels over a performance period, being defined as the period beginning 20 dealing days prior to the second anniversary of the date of grant and ending on the day before the fifth anniversary of the date of grant

Options granted under the **Standalone share option scheme** are outstanding as follows

Share Options	Ordinary share options held	Exercise price per share	Fair value per share	Period of exercise	
David C Lockwood	800,000	5 00p	1 51p	21/12/06	20/12/16

During the year no share options were exercised or lapsed under any of the above share option schemes

Alastair J Kerr resigned on 20 March 2008 and his share options under the above schemes lapsed on this date

The market price of the shares at 31 December 2007 was 3p and the range during the period from 1 January 2007 to 31 December 2007 was 4 38p to 2 38p

VIANET
Group plc

9 Income Tax Expense

The taxation credit based on the loss for the year is made up as follows

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Current Tax		
UK corporation tax on loss of the year	(119)	(60)
Adjustments in respect of prior periods	(35)	(19)
	(154)	(79)
Deferred Tax		
	(154)	(79)
Loss on ordinary activities before tax	(1,848)	(1,705)
The tax assessed for the period is higher than the standard rate applying in the UK (19 75%) The differences are explained below		
Loss on ordinary activities at UK tax rate 19 75% (2006 19%)	(365)	(324)
Effect of		
Expenses not deductible for tax purposes	(14)	(5)
Deferred tax movement not recognised (note 18)	260	269
Adjustment in respect of prior period	(35)	(19)
Total current tax credit	**(154)**	**(79)**

Unrelieved tax losses of approximately £15 1 million (2006 £14 4 million) remain available to offset against future taxable profits The tax recoverable in the period relates to a tax credit for research and development expenditure

A number of changes to the UK Corporation Tax system were announced in the March 2007 Budget Statement Some of the changes announced were enacted in the 2007 Finance Act so the numbers reported in the financial statements have been adjusted for these changes The following change to the Corporation Tax legislation is expected to be enacted in the 2008 Finance Act where the small company's rate of Corporation Tax will increase to 21% with effect from 1 April 2008 The change had not been substantively enacted at the Balance Sheet date and, therefore, is not included in these financial statements

The effect of the change to be enacted in the Finance Act 2008 would be to increase the unprovided deferred tax asset at 31 December 2007 by approximately £152,000 in 2008

10 Basic and diluted loss per share

The calculation of the basic loss per share is based on the loss for the year divided by the weighted average number of shares in issue during the period

	Year ended 31 December 2007			Year ended 31 December 2006		
	Earnings attributable to ordinary shareholders	2007 Weighted average number of shares	Per share amount pence	Earnings attributable to ordinary shareholders	2006 Weighted average number of shares	Per share amount pence
Basic loss per share	(1,694)	221,070,983	(0 8p)	(1,626)	194,273,533	(0 8p)

Diluted

IAS 33 requires presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share For a loss making company with outstanding dilutive potential ordinary shares, net loss per shares would only be decreased by the exercise of such potential ordinary shares Therefore diluted per share is not presented

11 Intangible assets

Group	Computer Software £'000	Development Expenditure £'000	Total £'000
Cost			
At 1 January 2007	40	29	69
Additions	8	143	151
At 31 December 2007	48	172	220
Accumulated amortisation and impairment			
At 1 January 2007	28	5	33
Amortisation in the year	6	46	52
Impairment charge in the year	0	121	121
At 31 December 2007	34	172	206
Net book amount at 31 December 2007	14	0	14

Group	Computer Development £'000	Software Expenditure £'000	Total £'000
Cost			
At 1 January 2006	27		27
Additions	13	29	42
At 31 December 2006	40	29	69
Amortisation			
At 1 January 2006	25		25
Amortisation in the year	3	5	8
At 31 December 2006	28	5	33
Net book amount at 31 December 2006	12	24	36

The amortisation and impairment expense has been charged to administrative expenses

During 2007 an impairment charge of £121,000 was recognised in respect of capitalised development expenditure following a decision by the board that it was no longer recoverable

The recoverable amount of capitalised development expenditure determined on FVLCTS is nil

The impairment charge arose in the unallocated reporting segment (see note 5)

VIANET Group plc

12 Property, plant and equipment

Group	Plant & Machinery £'000	Computers, Fixtures & Fittings £'000	Total £'000
Cost			
At 1 January 2007	36	191	227
Additions		18	18
As at 31 December 2007	36	209	245
Accumulated Depreciation			
At 1 January 2006	36	177	213
Provided in the period		14	14
At 31 December 2007	36	191	227
Net book amount at 31 December 2007		**18**	**18**

Group	Plant & Machinery £'000	Computers, Fixtures & Fittings £'000	Total £'000
Cost			
At 1 January 2006	36	185	221
Additions		6	6
At 31 December 2006	36	191	227
Accumulated Depreciation			
At 1 January 2006	36	162	198
Provided in the period		15	15
At 31 December 2006	36	177	213
Net book amount at 31 December 2006		**14**	**14**

The depreciation expense has been charged to administrative expenses

13 Inventory

	Group 31 December 2007 £'000	Group 31 December 2006 £'000
Finished goods & component parts	394	188

All inventories are valued at cost at the year end

The cost of inventories recognised as an expense and included in cost of sales amounted to £610,000 (2006 £431,000)
The majority of stock is represented by Vitel units and modems for the vending segment

14 Trade Receivables

Group	Group 31 December 2007 £'000	Group 31 December 2006 £'000
Trade Receivables	314	159
Less Provision for impairment of trade receivables		
Trade Receivables Net	314	159
Other debtors	46	24
Prepayments and accrued income	48	57
	408	240

During 2007 and 2006 there were no movements on the group provision for impairment of trade receivables
Trade receivables that are less than three months past due are not considered impaired As of 31 December 2007 trade receivables of £1,000 (2006 £2,000) were past due but not impaired as these relate to independent customers for whom there is no recent history of default The aging analysis of these trade receivables is

	31 December 2007 £'000	31 December 2006 £'000
3 to 6 months	1	2

The carrying amount of the Group's trade and other receivables are denominated in sterling

There were no bad debt expenses or impairment of trade receivables during 2006 and 2007
There is no difference between the fair value and book value of trade and other receivables
The other classes within trade and other receivables do not contain impaired assets
The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above The Group does not hold any collateral as security
None of the above balances are interest bearing

15. Cash and cash equivalents

	31 December 2007 £'000	31 December 2006 £'000
Cash at bank and on hand	124	160
	124	160

16. Trade and other payables current

	31 December 2007 £'000	31 December 2006 £'000
Trade payables	524	168
Social security and other taxes	53	29
Accruals and deferred income	189	138
	766	335

17. Borrowings

	31 December 2007 £'000	31 December 2006 £'000
Non current		
Bank borrowings		3
Convertible Loan	600	
	600	3
Current		
Bank borrowings	3	31
	3	31
Total Borrowings	603	34

Borrowings are repayable as follows

	31 December 2007 £'000	31 December 2006 £'000
Within one year		
Bank borrowings	3	31
After one and within two years		
Bank borrowings		3
Convertible loan	600	
After two and within five years		
Bank borrowings		
	603	34

The bank borrowings is secured by a bond and floating charge over the assets of the Group companies It is repayable in equal monthly instalments of £2,604, with an interest rate of 7 5%

The convertible loans are interest free and consist of two loans amounting each to £300,000 The convertible loans are not secured on any of the assets of the group The borrower has the right to demand repayment of the whole or any part of the loan at any time during the term The loans are repayable in the situation where refinancing is received by way of cash injection of more than £500,000 If the refinancing is in the form of a share issue then the loan is convertible into ordinary shares at a rate equal to the placing price The lender has the right to convert the relevant loan to Ordinary shares at a subscription price of 5p per share at any time during the term At the end of term, the amount of the relevant convertible loan then unconverted will automatically convert into Ordinary shares at the same subscription price of 5p per share

VIANET Group plc

17 **Borrowings (continued)**

On 10 January 2008 the Company issued 12,300,822 new ordinary shares of 5p each following the conversion of these existing loans For further details refer to note 31
The values of the liability component and equity component were determined at issuance
The fair value of the liability component at 13 December 2007 amounted to £600,000

The carrying amounts and fair value of the non current borrowings are as follows

		Carrying Amount	Fair Value	
	31 December 2007 £'000	31 December 2006 £'000	31 December 2007 £'000	31 December 2006 £'000
Bank Borrowings		3		3
Convertible Loans	600		600	

The fair value of borrowings equals their carrying amount, as the impact of discounting is not significant

The carrying amounts of the Group's borrowings are all denominated in UK sterling

18 Deferred income tax

Deferred tax	31 December 2007 £'000	31 December 2006 £'000
Deferred tax unprovided at the balance sheet date comprises		
Accelerated capital allowances	(30)	(26)
Short term timing differences		
Losses	(3,016)	(2,760)
	(3,046)	(2,786)

The deferred tax asset has not been recognised, as on the basis of all available evidence it cannot be regarded, as more likely than not, that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted

19a Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below

	Loans and receivables 31 December 2007 £'000	Total 31 December 2007 £'000	Loans and receivables 31 December 2006 £'000	Total 31 December 2006 £'000
Financial assets per balance sheet				
Trade receivables	314	314	159	159
Cash and cash equivalents	124	124	160	160
Total	438	438	319	319

	Other Financial Liabilities 31 December 2007 £'000	Total 31 December 2007 £'000	Other Financial Liabilities 31 December 2006 £'000	Total 31 December 2006 £'000
Financial liabilites per balance sheet				
Trade and other payables	766	766	335	335
Borrowings	603	603	34	34
Total	1,369	1,369	369	369

19b Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by historical information about counterparty default rates

Trade Receivables	31 December 2007 £'000	31 December 2006 £'000
Group 1	21	124
Group 2	292	33
Group 3		
Total	313	157

Group 1 new customers (less than 6 months)
Group 2 existing customers (more than 6 months) with no defaults in the past
Group 3 existing customers (more than 6 months) with some defaults in the past All defaults were fully recovered

Cash at bank

As at 31 December 2007 and 2006 cash and cash equivalents were all held in the Group's current account with a bank which is rated AA

20 Share Capital

	31 December 2007 £'000	30 December 2006 £'000
Authorised 300,000,000 (2006 300,000,000) Ordinary shares of 5p each (2006 5p)	15,000	15,000
Allotted, called up and fully paid 222,053,723 (2006 200,953,723) Ordinary shares of 5p each (2006 5p)	11,103	10,048
	11,103	10,048

On 17 January 2007 the Company issued 21,100,000 new ordinary shares of 5p each at a price of 5p per share and the cash consideration received was £964,000 net of expenses

For each ordinary share issued a warrant was granted giving the holder the right to convert each warrant into one ordinary share within the five year period from 17 January 2007 at a fixed price of 5 pence At inception an exercise was undertaken to apportion the proceeds on the issue of new ordinary shares between the share capital and the warrants The warrants have been attributed a value of nil

Share Options

Under the share option schemes, the remuneration committee can grant options over shares in the company to employees of the group
Options are granted under the approved share option scheme, the unapproved share option scheme, the EMI scheme, the sharesave scheme and the Standalone share option scheme Options are granted with a fixed exercise price
Exercise of an option is subject to continued employment
In respect of the EMI Scheme only exercise is conditional upon the mid price of an ordinary share reaching pre determined levels over a performance period, being defined as the period beginning 20 dealing days prior to the second anniversary of the date of grant and ending on the day before the fifth anniversary of the date of grant

The group has no legal or constructive obligation to repurchase or settle the options in cash

20 **Share Capıtal (contınued)**

Optıons were valued usıng the Black Scholes optıon prıcıng model The volatılıty assumptıon ıs based on the hıstorıcal volatılıty of sımılar lısted entıtıes
The assumptıons used ın the calculatıon are as follows

	Approved 2000 share option scheme 13 Nov-01	Approved 2000 share option scheme 15 Nov-01	Approved 2000 share option scheme 9 Jul 02	Approved 2000 share option scheme 7 Jan 03
Share price at date of grant (£)	0 0518	0 0518	0 0684	0 0318
Option price (£)	0 08	0 09	0 07	0 05
Number of options outstanding at 31 December 2007	400,000	40,000	190,000	117,500
Vesting period (years)	3	3	3	3
Expected volatility (%)	80	80	80	80
Expected life (years)	6	6	6	6
Period exercisable	13/11/04 12/11/11	15/11/04 14/11/11	09/07/05 08/07/12	07/01/06 06/01/13
Risk free rate (%)	5	5	5	5
Expected dividends expressed as a dividend yield (%)	0	0	0	0
Fair value per option (£)	0 0130	0 0127	0 0136	0 0151

	Approved 2000 share option scheme 8 Jan 04	Approved 2000 share option scheme 9 Dec 04	Approved 2000 share option scheme 16 Jun 06	Approved 2000 share option scheme 28 Jun-07
Share price at date of grant (£)	0 0718	0 0557	0 0363	0 0425
Option price (£)	0 07	0 06	0 05	0 05
Number of options outstanding at 31 December 2007	420,000	300,000	175,565	2,107,360
Vesting period (years)	3	3	3	3
Expected volatility (%)	80	80	80	80
Expected life (years)	6	6	6	6
Period exercisable	08/01/07 07/01/14	09/12/07 08/12/14	16/06/09 15/06/16	28/06/10 27/06/17
Risk free rate (%)	5	5	5	5
Expected dividends expressed as a dividend yield (%)	0	0	0	0
Fair value per option (£)	0 0135	0 0146	0 0151	0 0295

VIANET Group plc

20 Share Capital (continued)

	Unapproved 2000 share option scheme 13 Nov 01	Unapproved 2000 share option scheme 9 Jul 02
Share price at date of grant (£)	0 0518	0 0684
Option price (£)	0 08	0 07
Number of options outstanding at 31 December 2007	600,000	2,272,010
Vesting period (years)	3	3
Expected volatility (%)	80	80
Expected life (years)	6	6
Period exercisable	13/11/04 12/11/11	09/07/05 08/07/12
Risk free rate (%)	5	5
Expected dividends expressed as a dividend yield (%)	0	0
Fair value per option (£)	0 0130	0 0136

	EMI Scheme 4 Dec-03	EMI Scheme 16 Jun 05	EMI Scheme 16 Jun-06
Share price at date of grant (£)	0 0669	0 0500	0 0363
Option price (£)	0 06	0 06	0 05
Number of options outstanding at 31 December 2007	4,362,251	575,000	1,930,000
Vesting period (years)	2	2	2
Expected volatility (%)	80	80	80
Expected life (years)	6	6	6
Period exercisable	04/12/05 03/12/13	16/06/07 15/06/15	16/06/08 15/06/16
Risk free rate (%)	5	5	5
Expected dividends expressed as a dividend yield (%)	0	0	0
Fair value per option (£)	0 0143	0 0143	0 0151

	Sharesave scheme 14 Nov 05	Standalone option scheme 21 Dec 06
Share price at date of grant (£)	0 0463	0 0313
Option price (£)	0 05	0 05
Number of options outstanding at 31 December 2007	374,000	800,000
Vesting period (years)	3	0
Expected volatility (%)	80	80
Expected life (years)	3 5	6
Period exercisable	01/12/08 31/05/09	21/12/06 20/12/16
Risk free rate (%)	5	5
Expected dividends expressed as a dividend yield (%)	0	0
Fair value per option (£)	0 0151	0 0151

20 Share Capital (continued)

A summary of movements in share options outstanding and their related weighted average exercise prices are as follows

	Approved 2000 share option scheme 2007	Approved 2000 share option scheme 2006	Weighted average exercise price (£) 2007	Weighted average exercise price (£) 2006	Unapproved 2000 share option scheme 2007	Unapproved 2000 share option scheme 2006	Weighted average excercise price (£) 2007	Weighted average excercise price (£) 2006
Outstanding at 1 January	2,659,565	3,246,500	0 06	0 06	2,872,010	2,872,010	0 07	0 07
Granted	2,187,360	225,565	0 05	0 05				
Forfeited								
Exercised								
Lapsed	(1,096,500)	(812,500)	0 06	0 06				
Outstanding at 31 December	3,750,425	2,659,565	0 06	0 06	2,872,010	2,872,010	0 07	0 07

	EMI Scheme 2007	EMI Scheme 2006	Weighted average exercise price (£) 2007	Weighted average exercise price (£) 2006	Sharesave scheme 2007	Sharesave scheme 2006	Weighted average excercise price (£) 2007	Weighted average excercise price (£) 2006
Outstanding at 1 January	8,122,251	5,762,251	0 06	0 06	374,000	374,000	0 05	0 05
Granted		2,480,000		0 05				
Forfeited								
Exercised								
Lapsed	(1,255,000)	(120,000)	0 06	0 06				
Outstanding at 31 December	6,867,251	8,122,251	0 06	0 06	374,000	374,000	0 05	0 05

	Standalone option scheme 2007	Standalone option scheme 2006	Weighted average exercise price (£) 2007	Weighted average exercise price (£) 2006
Outstanding at 1 January	800,000		0 05	
Granted		800,000		0 05
Forfeited				
Exercised				
Lapsed				
Outstanding at 31 December	800,000	800,000	0 05	0 05

See note 8 for the total expense recognised in the income statement for share options granted to directors and employees

Since 31 December 2007, a total of 225,000 options have lapsed or been cancelled from the 2000 Approved Share Option Scheme and a total of 1,190,000 options have lapsed or been cancelled from the EMI Scheme

21 Share premium account and reserves

	Share premium account £'000	Other reserves £'000	Convertible loan £'000	Profit and loss reserve £'000
At 1 January 2006	4,011	1,077	200	(13,344)
New shares issued	(10)			
Employee share options schemes				
Value of employee services				51
Loss for the year				(1,626)
At 31 December 2006	4,001	1,077	200	(14,919)
New shares issued	(91)			
Employee share options schemes				
Value of employee services				66
Loss for the year				(1,694)
At 31 December 2007	3,910	1,077	200	(16,547)

Convertible loans

The convertible loans are interest free and consist of two loans amounting to £60,000 and £140,000 The convertible loans are not secured on any of the assets of the group Historically the loans were for a period of 5 years and one day from 15 July 2002 Historically the lender had the right to convert the relevant loan into Ordinary shares at a subscription price of 5p per share at any time during the five years and one day or in the event of a receiver being appointed over the whole or any part of the assets or undertakings of the Company or if an administration order was made in respect for the Company At the end of the term of five years and one day, the amount of the relevant convertible loan then unconverted will automatically convert into Ordinary shares at the same subscription price of 5p per share During the year the loan agreement was amended to a fixed term of 8 years and one day from 15 July 2002 The subscription price of the share on conversion was also amended to 8 pence per share Subsequent to the year end, the loans were consolidated and the terms amended as described in note 31

Other reserves

Other reserves comprise a merger reserve which arose in the financial statements for the period ended 30 September 2000

22 Retained earnings

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Retained earnings at 1 January	(14,919)	(13,344)
Loss for the financial year	(1,694)	(1,626)
Value of employee services	66	51
Retained earnings at 31 December	(16,547)	(14,919)

23 Net cash outflow from operating activities

	Year ended 31 December 2007 £'000	15 months ended 31 December 2006 £'000
Loss before income tax	(1,848)	(1,705)
Adjustments for		
Depreciation (note 12)	14	15
Amortisation (note 11)	52	8
Impairment on intangible assets (note 11)	121	0
Share based payment	66	51
Finance income net	(8)	(18)
Changes in working capital		
Inventories	(206)	152
Trade and other receivables	(168)	14
Trade and other payables	431	(257)
Net cash outflow from operating activities	(1,546)	(1,740)

24 Reconciliation of net cash flow to movement in net (debt) / funds

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Decrease in cash in the period	(36)	(880)
Cash outflow from bank loan	31	31
Cash inflow from convertible loan	(600)	0
Movement in net funds in the year	(605)	(849)
Net funds at 1 January 2007	126	975
Net (debt) / funds at 31 December 2007	(479)	126

VIANET
Group plc

25 Analysis of changes in net (debt) / funds

	At 1 January 2007 £'000	Cash flow £'000	At 31 December 2007 £'000
Cash at bank and in hand	160	(36)	124
	160	(36)	124
Short term bank loan	(31)	28	(3)
Long term loan	(3)	3	
Convertible loan		(600)	(600)
	126	(605)	(479)

26. Capital commitments

There were no capital commitments at 31 December 2007 (31 December 2006 £nil)

27 Contingent liabilities

There were no contingent liabilities at 31 December 2007 (31 December 2006 £nil)

28 Pensions

The Group operates a defined contribution pension scheme for the benefit of the employees The assets of the scheme are administered by trustees in a fund independent from those of the Group The pension cost charge, including contributions made on behalf of the directors, into an Executive Pension Plan, for the year was £90,000 (2006 £62,000)

29. Leasing commitments

Operating lease payments amounting to £5,000 (2006 £16,000) are due by the group within one year The leases on buildings and cars to which these amounts relate expire as follows

	Land & Buildings 31 December 2007 £'000	Land & Buildings 31 December 2006 £'000	Other 31 December 2007 £'000	Other 31 December 2006 £'000
No later than one year		14	5	2
Later than one year and no later than 5 years				
Later than five years				
		14	5	2

30 Related party transactions

There were no loans, quasi loans or credit transactions in favour of Directors

The directors are considered to be the key management

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Salaries and other short term employee benefits	225	238
Post employment benefits	61	30
	286	268

Further details on directors emoluments are provided in note 8

31 Post balance sheet events

On 10 January 2008 the Company issued 10,500,000 new ordinary shares of 5p each at a price of 5p per share and the cash consideration received was £450,000 net of expenses For each new ordinary share issued a warrant was granted giving the holder the right to convert each warrant into one ordinary share within the five year period from 10 January 2008 at a fixed price of 5 pence

The £600,000 Barkley convertible loans received in September and November 2007 were converted into ordinary shares on 10 January 2008 The conversion included the termination fee due on the loan of £15,000 This resulted in new ordinary shares of 12,300,822 at 5p each For each share issued a warrant was granted giving the holder the right to convert each warrant into one ordinary share within the five year period from 10 January 2008 at a fixed price of 5 pence

£500,000 has been borrowed in two tranches of £250,000 each on 14 April and 16 June 2008 from Barkley Limited, a related party
The tranches are repayable after 24 months, they are non interest bearing, there is a lenders fee payable of 10% per year

The £200,000 convertible loans received in June 2002 were consolidated post year end and the convertible loan was increased from £200,000 to £300,000 The consolidated loan is repayable if an order is made for the winding up of the Company or in the event of a receiver being appointed over the whole or any part of the assets or undertakings of the Company or if an administration order was made in respect of the Company The lender has the right to convert loan into Ordinary shares at a subscription price of 5p per share at any time during the period of the loan At the end of the term, the amount of the relevant convertible loan then unconverted will automatically convert into Ordinary shares at the same subscription price of 5p per share

On 27 June 2008 terms for a loan facility of £300,000 were established with Barkley Limited The facility will be available to be drawn down in three tranches of £100,000 with one month notice The tranches are repayable after 12 months, they are non interest bearing, there is a lenders fee payable of 10%

32 IFRS Reconciliation

Reconciliation of loss for the period

	12 months to 31 December 2006 £'000
Loss for the period reported under UK GAAP	**(1,648)**
Holiday pay accrual	(2)
Intangible Assets	24
Loss for the period reported under IFRS	**(1,626)**

Reconciliation of equity at 1 January 2006 (Date of transition to IFRS)

	Note	Previous GAAP 31 December 2006 £'000	Effect of transition to IFRS £'000	Other (d) £'000	IFRS £'000
ASSETS					
Non current assets					
Intangible Assets	(a)		2		2
Property, plant and equipment	(a)	26	(2)		24
		26			26
Current Assets					
Inventory		340			340
Trade and other receivables		254			254
Current income tax receivable		59			59
Cash and cash equivalents		1,040			1,040
		1,693			1,693
Total Assets		**1,719**			**1,719**
LIABILITIES					
Current Liabilities					
Financial Liabilities		(31)			(31)
Trade and other payables		(593)			(593)
		(624)			(624)
Non current liabilities					
Financial Liabilities		(34)			(34)
		(34)			(34)
Total Liabilities		**(658)**			**(658)**
Net Assets		**1,061**			**1,061**

32 IFRS Reconciliation (continued)

SHAREHOLDERS' EQUITY				
Ordinary Shares	9,278		(161)	9,117
Share Premium	4,011			4,011
Other reserves	1,077			1,077
Convertible loan	200			200
Retained earnings	(13,505)		161	(13,344)
Total equity attributable to shareholders	**1,061**			**1,061**

Reconciliation of equity at 31 December 2006

	Note	Previous GAAP 31 December 2006 £'000	Effect of transition to IFRS £'000	Other (d) £'000	IFRS £'000
ASSETS					
Non current assets					
Intangible Assets	(a)(c)		36		36
Property, plant and equipment	(a)	26	(12)		14
		26	24		50
Current Assets					
Inventory		188			188
Trade and other receivables		240			240
Current income tax receivable		138			138
Cash and cash equivalents		160			160
		726			726
Total Assets		**752**	**24**		**776**
LIABILITIES					
Current Liabilities					
Financial Liabilities		(31)			(31)
Trade and other payables	(b)	(353)	(2)		(355)
		(364)	(2)		(366)
Non current liabilities					
Financial Liabilities		(3)			(3)
		(3)			(3)
Total Liabilities		**(367)**	**(2)**		**(369)**
Net Assets		**385**	**22**		**407**

32 IFRS Reconciliation (continued)

SHAREHOLDERS' EQUITY				
Ordinary Shares	10,260		(212)	10,048
Share Premium	4,001			4,001
Other reserves	1,077			1,077
Convertible loan	200			200
Retained earnings	(15,153)	22	212	(14,919)
Total equity attributable to shareholders	**385**	**22**		**407**

Explanation of reconciling items between UK GAAP and IFRS

a) Property, plant and equipment included software costs under UK GAAP, but under IFRS these have been reclassified as an intangible fixed asset (1 January 2006 £2,000, 31 December 2006 £12,000)

b) In accordance with IAS 19 an accrual for the accumulating absences (holiday pay) is included

c) Under UK GAAP all research and development expenditure was expensed to the profit and loss account, but under IFRS costs on projects which are expected to generate future income has been capitalised as deferred development expenditure (1 January 2006 nil, 31 December 2006 £24,000)

d) The fair value of employee services received under share based payments has been reclassified from ordinary share capital to retained earnings In the prior year this was disclosed as shares alloted under share option schemes

The group has not applied any of the optional exemptions permitted by IFRS 1 on first time adoption of IFRS
No material adjustments were made to the cashflow statements as a result of the first time adoption of IFRS

Independent Auditors' Report
To The Members of Vianet Group Plc

We have audited the parent company financial statements of Vianet Group plc for the year ended 31 December 2007 which comprise the Balance Sheet and the related notes These parent company financial statements have been prepared under the accounting policies set out therein

We have reported separately on the group financial statements of Vianet Group plc for the year ended 31 December 2007 That report is modified by the inclusion of an emphasis of matter

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements The other information comprises only the Chairman's Statement, the Directors' Report, the Corporate Governance Statement and the Report on Remuneration We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements

VIANET Group plc

Opinion

In our opinion

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007,
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the parent company financial statements

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern The company incurred a net loss of £1,691,000 during the year ended 31 December 2007 The company's ability to continue as a going concern depends inter alia on the achievement of its business plan projections, the continued availability of the invoice discounting facility and / or suitable working capital alternatives The circumstances, as explained in note 1, represent significant uncertainty which may cast doubt about the company's ability to continue as a going concern The parent company financial statements do not include the adjustments that would result if the company was unable to continue as a going concern

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Glasgow

30 June 2008

Company Balance Sheet
as at 31 December 2007

VIANET Group plc

	Note	31 December 2007 £'000	31 December 2006 £'000
Fixed Assets			
Investments	3	747	747
Current Assets			
Debtors			
amounts falling due within one year	4	22	17
amounts falling due after more than one year	4	6,072	6,075
Cash at bank and in hand	5	111	163
		6,205	6,255
Creditors amounts falling due within one year	6	(113)	(102)
Net current assets		6,092	6,153
Total Assets less current liabilities		6,839	6,900
Creditors amounts falling due after more than one year	7	(600)	
Net assets		**6,239**	**6,900**
Capital and Reserves			
Called up share capital	8	11,103	10,260
Share premium	9	3,910	4,001
Other reserves		200	200
Profit and Loss account		(8,974)	(7,561)
Total equity attributable to shareholders		**6,239**	**6,900**

The financial statements were approved by the Board of Directors on 30 June 2008

Ian J Orrock Director

David C Lockwood Director

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

Accounting policies

Details of the material accounting policies followed by the Company are set out below These policies have been consistently applied to all the years presented, unless otherwise stated

Basis of preparation

The principal activities of the Company are to act as a holding company and to administer the convertible loan notes issued

This financial information comprises a balance sheet as at 31 December 2007 and 2006 and related notes for the twelve months then ended

These financial statements have been prepared in accordance with UK GAAP on the going concern basis, under the historical cost convention, in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom

Investments

Investments in subsidiary undertakings are stated in the balance sheet of the Company at cost which is the fair value of consideration paid, or nominal value of the shares issued as consideration where applicable, less provision for any impairment in value Shares issued by the Company to employees of its subsidiaries for which the consideration received is less than the fair value of the shares are treated as an increase in the Company's investment in those subsidiaries

Impairment

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount The recoverable amount is the higher of an asset's fair value less costs to sell and value in use Value in use is calculated using estimated cashflows These are discounted using an appropriate long term pre tax interest rate For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units)

Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to recover balances in full Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement

Cash at bank and in hand

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short term deposits with original maturities of three months or less

Share Capital

Ordinary shares are classified as equity

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds

Warrants

Warrants issued on ordinary shares which will be settled by the company delivering a fixed number of its own equity instrument in exchange for a fixed amount of cash are treated as equity instruments Equity instruments are initially measured at fair value and are not subsequently re measured

Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date Deferred tax is measured on a non discounted basis

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which to future reversal of the underlying timing difference can be deducted

Corporation tax is provided on taxable profits at the current rate of taxation

Employee Benefits

Share based compensation
The Company operates a number of equity settled, share based compensation plans The fair value of the employee services received in exchange for the grant of the options is recognised as an expense The total amount to be expensed over the vesting period is determined by the fair value of the options granted, excluding the impact of any non market vesting conditions Non market vesting conditions are included in assumptions about the number of options that are expected to vest The impact of the revision to original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity

The proceeds net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the investing period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred Borrowings are subsequently stated at amortised cost Any difference between proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date

Convertible Loans

The fair value of the liability component of the convertible loan is determined using a market interest rate for an equivalent non convertible loan This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the loan The remainder of the proceeds is allocated to the conversion option This is recognised in equity, net of income tax effects

Trade Payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method

Cash flow statement and related party disclosures

The Company is included in the Group Accounts of Vianet Group plc, which are publicly available Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 'Cash Flow Statements (revised 1996)' The Company is also exempt under the terms of Financial Reporting Standard 8 'Related Party Disclosures' from disclosing related party transactions with entities that are part of the Group

Changes in accounting policy

The group has adopted FRS 29, 'Financial instruments Disclosures' The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly There is no prior year adjustment to reserves resulting from adopting this standard, as its provisions relate to disclosures

Financial risk factors

Financial risk factors
The Company's activities expose it to a variety of financial risks market risk, credit risk and liquidity risk The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance

(a) Market risk
(i) Cash flow and fair value interest rate risk
The Company has both interest bearing assets and interest bearing liabilities Interest bearing assets include cash balances, all of which earn interest at a variable rate

As such management consider that the Company is not significantly exposed to cash flow and fair value interest rate risk

(b) Credit risk

Credit risk is managed on group basis Credit risk arises from deposits with banks as well as credit exposures on outstanding receivables For banks, only independently rated parties with a minimum rating of 'A' are accepted Other financial assets comprise amounts due from group undertakings

The tables below analyse financial assets subject to credit risk using Standard and Poor's ratings or equivalent

As at 31 December 2007

	Total £000	AAA £000	AA £000	A £000	BB or lower £000	Not rated £000
Trade and other receivables – amounts due from group undertakings	6,072					6,072
Cash and cash equivalents	111		111			
Total	6,183		111			6,072

As at 31 December 2006

	Total £000	AAA £000	AA £000	A £000	BB or lower £000	Not rated £000
Trade and other receivables – amounts due from group undertakings	6,075					6,075
Cash and cash equivalents	163		163			
Total	6,238		163			6,075

Assets classified as 'not rated' in the above tables are not rated by Standard and Poor's or an equivalent rating agency and relate to inter company balances with a wholly owned subsidiary

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its cash commitments as they fall due Liquidity risk may result from either the inability to realise financial assets quickly at their fair values, or from the inability to generate cash inflows as anticipated

Management monitors rolling forecasts of the group's liquidity and cash and cash equivalents (note 4) on the basis of expected cash flow

The following tables indicate the timing of the contractual cashflows arising from the Group's liabilities, as required by FRS 29

As at 31 December 2007

Carrying amount and cashflows arising from	Carrying amount £000	No stated maturity £000	Less Less than 1 month £000	1 3 months £000	3 12 months £000	1 5 years £000	More 5 years years £000
		Contractual cashflow (undiscounted)					
Trade and other payables	113			113			
Convertible loan	600	600					
Total	713	600		113			

As at 31 December 2006

Carrying amount and cashflows arising from	Carrying amount £000	No stated maturity £000	Less Less than 1 month £000	1 3 months £000	3 12 months £000	1 5 years £000	More 5 years years £000
		Contractual cashflow (undiscounted)					
Trade and other payables	102			102			
Total	102			102			

Balances due within 12 months equal their carrying value as the impact of discounting is not significant

1 Going concern basis of accounting

The Directors have considered business plan projections, including cash flow forecasts, prepared for the years ending 31 December 2007 and 31 December 2008, and the adequacy of existing funds to meet the projected cash requirements of the Company The business plan projections show that, with the additional loan facilities from Barkley Limited and the continued operation of an invoice discounting facility, the Group will have sufficient working capital for at least a twelve month period

The financial information has been prepared on the going concern basis, which assumes that the Company and its subsidiaries will continue in operational existence for the foreseeable future The validity of this assumption depends inter alia on the achievement of the business plan projections, the continued availability of the invoice discounting facility and / or suitable working capital alternatives

If the Company or its subsidiaries were unable to continue in operational existence for the foreseeable future, adjustments would have to be made to reduce the balance sheet values of assets to their recoverable amounts, and to provide for further liabilities that might arise, and to reclassify fixed assets and long term liabilities as current assets and liabilities

Whilst there is at present uncertainty as to the outcome of the matters described above, the Directors believe that it is appropriate for the financial statements to be prepared on a going concern basis

2 Loss for the financial year

The parent company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements The parent company's loss for the period was £1,691,000 (2006 £1,699,000)

3 Fixed asset investments

Company	**Shares in group undertakings £'000**
Cost and net book value	
At 31 December 2007	747
At 31 December 2006	747

At 31 December 2007 the Group held 100% of the equity of the following companies, both of which operate in the United Kingdom

Name of Company	Class of share capital held	By parent undertaking	By subsidiary undertaking	Nature of business
Vianet Limited	Ordinary shares	100%		Remote data collection
vOpen Limited (Formerly Phonebox Ltd)	Ordinary shares		100%	Dormant company

4 Trade Debtors

	31 December 2007 £'000	31 December 2006 £'000
Amounts due from group undertakings	6,072	6,075
Corporation tax recoverable		
Other debtors	10	5
Prepayments and accrued income	12	12
	6,094	6,092

The amounts due from group undertakings of £6,072k (2006 £6,075k) included above are due after more than one year As disclosed in note 1 the directors have reviewed the cash flow forecasts and business plan

As a result of this review, the directors have concluded that the amount due from group undertakings included above will not be recovered in the short term It is not anticipated that any of the above balance will be recovered prior to 2009 The directors, having carried out the assessment of the recoverability of the balance, have made a provision of £8,581,000 against the balance of £14,653,000 (2006 provision of £7,120,000 against the balance of £13,195,000)

The amounts due from group undertakings are unsecured and interest free

5 Cash at bank and in hand

	31 December 2007 £'000	31 December 2006 £'000
Cash at bank and on hand	111	163
	111	163

6 Trade and other creditors current

	31 December 2007 £'000	31 December 2006 £'000
Trade creditors	56	39
Accruals and deferred income	57	63
	113	102

VIANET Group plc

7 Trade and other creditors non current

	31 December 2007 £'000	31 December 2006 £'000
Convertible Loan	600	
	600	

The convertible loans are interest free and consist of two loans amounting each to £300,000 The convertible loans are not secured on any of the assets of the group The borrower has the right to demand repayment of the whole or any part of the loan at any time during the term The loans are repayable in the situation where refinancing is received by way of cash injection of more than £500,000 If the refinancing is in the form of a share issue then the loan is convertible into ordinary shares at a rate equal to the placing price The lender has the right to convert the relevant loan to Ordinary shares at a subscription price of 5p per share at any time during the term At the end of term, the amount of the relevant convertible loan then unconverted will automatically convert into Ordinary shares at the same subscription price of 5p per share
On 10 January 2008 the Company issued 12,300,822 new ordinary shares of 5p each following the conversion of these existing loans For further details refer to note 31 to the consolidated financial statements
The values of the liability component and equity component were determined at issuance
The fair value of the liability component at 13 December 2007 amounted to £600,000

The carrying amounts and fair value of the non current borrowings are as follows

	Carrying Amount		Fair Value	
	31 December 2007 £'000	31 December 2006 £'000	31 December 2007 £'000	31 December 2006 £'000
Convertible Loans	600		600	

The fair value of borrowings equals their carrying amount, as the impact of discounting is not significant
The carrying amounts of the Group's borrowings are all denomintated in UK sterling

8. Share Capital

	31 December 2007 £'000	31 December 2006 £'000
Authorised 300,000,000 (2006 300,000,000) Ordinary shares of 5p each (2006 5p)	15,000	15,000
Allotted, called up and fully paid 222,053,723 (2006 200,953,723) Ordinary shares of 5p each (2006 5p)	11,103	10,260
	11,103	10,260

9. Reconciliation of movements on shareholders' funds

	Share capital £'000	Share premium account £'000	Convertible loan £'000	Profit and loss account £'000
At 1 January 2006	9,278	4,011	200	(5,913)
New shares issued	982	(10)		
Employee share options schemes				
Value of employee services				51
Loss for the year				(1,699)
At 31 December 2006	10,260	4,001	200	(7,561)
Reclassification of value of employee services under employee share option schemes	(212)			212
Employee share options schemes				
Value of employee services				66
New shares issued	1,055	(91)		
Loss for the year				(1,691)
At 31 December 2007	11,103	3,910	200	(8,974)

Convertible loans

The convertible loans are interest free and consist of two loans amounting to £60,000 and £140,000 The convertible loans are not secured on any of the assets of the group Historically the loans were for a period of 5 years and one day from 15 July 2002 Historically the lender had the right to convert the relevant loan into Ordinary shares at a subscription price of 5p per share at any time during the five years and one day or in the event of a receiver being appointed over the whole or any part of the assets or undertakings of the Company or if an administration order was made in respect of the Company At the end of the term of five year and one day, the amount of the relevant convertible loan then unconverted will automatically convert into Ordinary shares at the same years and one day from 15 July 2002

The subscription price of the share on conversion was also amended to 8 pence per share Subsequent to the year end, the loans were consolidated and the terms amended as described in note 31 to the consolidated financial statements

10a Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below

	Loans and receivables 31 December 2007 £'000	Total 31 December 2007 £'000	Loans and receivables 31 December 2006 £'000	Total 31 December 2006 £'000
Financial assets per balance sheet				
Trade and other receivables – amounts due from group undertakings	6,072	6,072	6,075	6,075
Cash and cash equivalents	111	111	163	163
Total	6,183	6,183	6,238	6,238

	Other Financial Liabilities 31 December 2007 £'000	Total 31 December 2007 £'000	Other Financial Liabilities 31 December 2006 £'000	Total 31 December 2006 £'000
Financial liabilities per balance sheet				
Trade and other payables	113	113	102	102
Borrowings	600	600		
Total	713	713	102	102

10b Credit quality of financial assets

The inter co balance is with Vianet Ltd a wholly owned subsidiary An impairment provision has been created which the company believes adequately covers it's risk

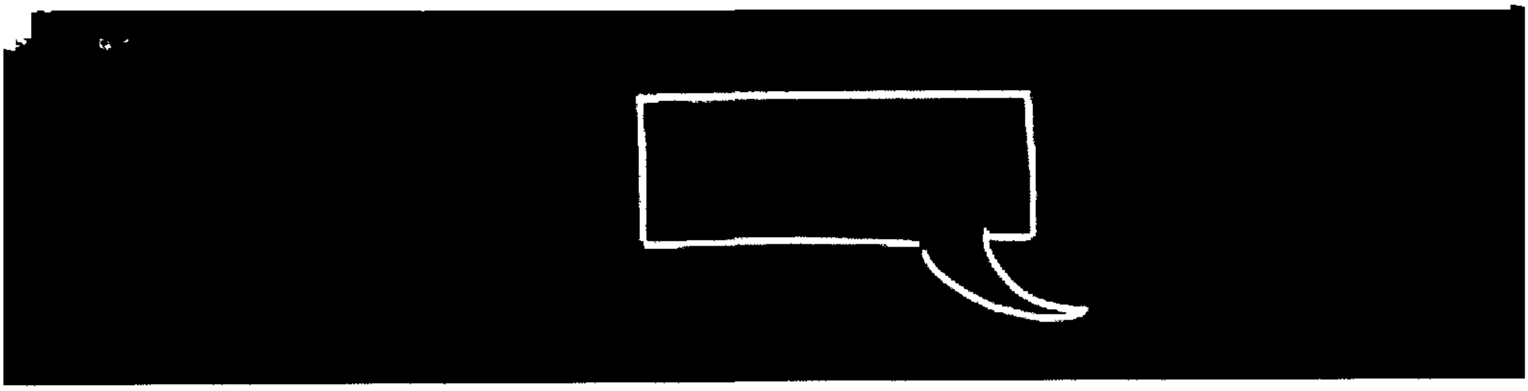
Cash at bank

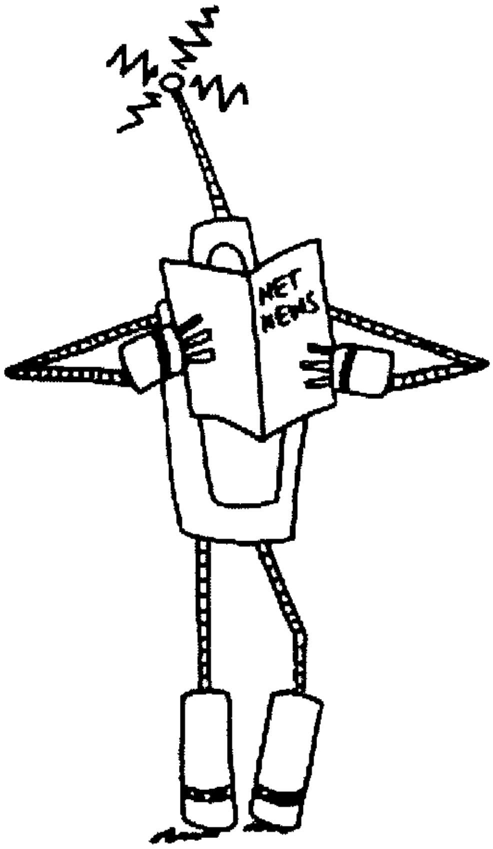
As at 31 December 2007 and 2006 cash and cash equivalents were all held in the Company's current account with a bank which is rated AA

11 Auditor remuneration

Services provided by the Group's auditor
During the year, the Group obtained the following services from the Company's auditor and its associates

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Fees payable to company's auditor for the audit of parent company and consolidated financial statements	15	13
Fees payable to the company's auditor and its associates for other services		
Tax services	20	15
	35	28





"Vianet cuts the wires . — TOTALTELECOM

Overcomes traditional cost, image quality, and flexibility drawbacks of wired surveillance ."

"CCTV is going mobile. .

CCTV is a popular method of crime prevention, but fixed wire camera systems have their limitations "

"Vianet offers 3G based monitoring service... — TECHWORLD

. Vianet describes its Connect service as the world's first 'practical' CCTV over mobile networks "

"Mobile CCTV could save industry £500m a year. .

This equates to the cost of the construction of the London 2012 Olympic Stadium "

"Vianet launches Connect wireless 3G CCTV... — cctv core

The wireless Connect system allows cameras to be swiftly deployed "