CONSOLIDATED ANNUAL REPORT & ACCOUNTS

YEAR ENDED 31 MARCH 2019

VIANET GROUP PLC

DATA. REIMAGINED.

WHO ARE WE

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

Servicing over 300 customers across the world and rendering live data to our IOT platform from circa 230,000 connected machines daily, Vianet is one of the largest business to business ('b2b') connected solutions providers in Europe with established long-term relationships with blue chip customers and growing recurring revenues which comprise 94% of total revenues. The acquisition of Vendman Systems Limited ("Vendman") resulted in a further circa 200,000 mobile connections, the majority of which will over time become higher value Smart Machines connections.

Vianet delivers value for customers by connecting customers to their assets and generating analytics and insight from data gathered from those assets to support more informed customer decision making to drive improvement by:

- Predicting future asset performance to increase utilisation and significantly reduce servicing costs;

- Identifying previously unknown trends, inefficiencies, and wasted resources;

- Defining potential new procedures, revenue streams, automation services, and incorp¬orating these into the customers' existing processes; and

- Providing alerts on fault conditions and product availability so that asset uptime can be maximised.

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

The business and technological capability that allows Vianet to achieve this is driven by:

- Combining an industry leading ability to connect customer assets via our smart devices and IOT platform with powerful data analytics tools to deliver critical insight and information;

- Continuously striving to be a business that is passionate about developing innovative and game changing solutions by employing talented people focused on transforming business performance; and

- Driving our financial performance through long term contracts which have recurring high cash margins and scalable annuity streams.

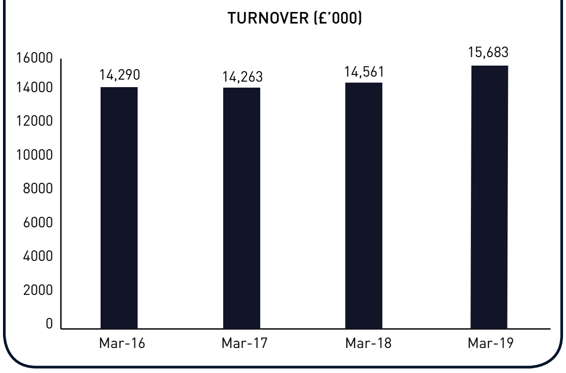
In both our Smart Machines and Smart Zones divisions, we deliver analytics and insight to our customers by connecting customers to their assets via single or multiple IOT Smart Devices which interface to the asset and collects the relevant data. The machine data is sent to our cloud hosted IOT platform and data storage capability where it is processed. Whilst our technologies were developed for unattended retailing and hospitality, the flexibility and functionality of our Smart Devices means that it offers multiple applications which can be connected to practically any machine that has the capability to output data. The device used in our Smart Machines division is also used to connect our contactless payment solution and communicate payment terms to our cloud-based payment services providers where that application is also required.

As well as data from connected Smart Devices our cloud-based IOT platform can also collect and store data from any digital Edge device such as an Electronic Point of Sale ('EPOS') equipment or machine condition sensor, and can collect and store data from externally hosted databases from relevant data sources such as demographics and consumer brands.

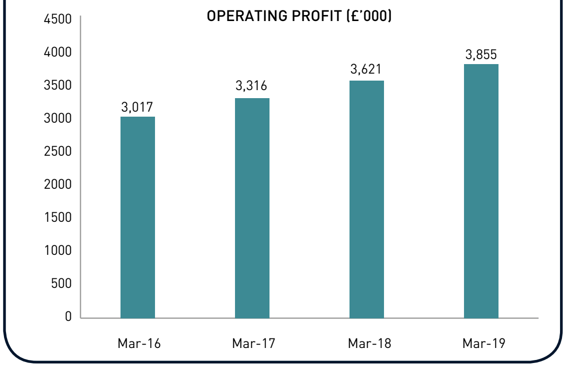
In both divisions the data collected is structured and rendered through an advanced web portal and mobile applications to provide the analytics and insight that support improved business decision making with the aim of improving our customers' asset utilisation and profitability.

FINANCIAL HIGHLIGHTS

TURNOVER PERFORMANCE



£3.9 MILLION ADJUSTED OPERATING PROFIT*



RECURRING REVENUE

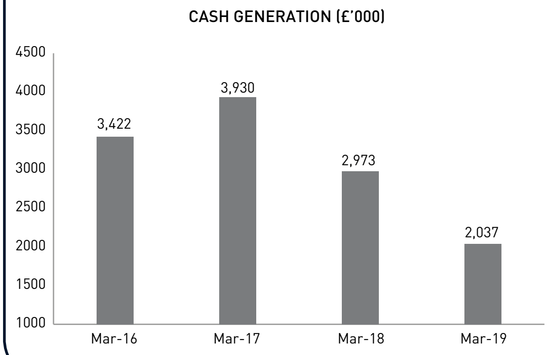
94%

(2018: 90%)

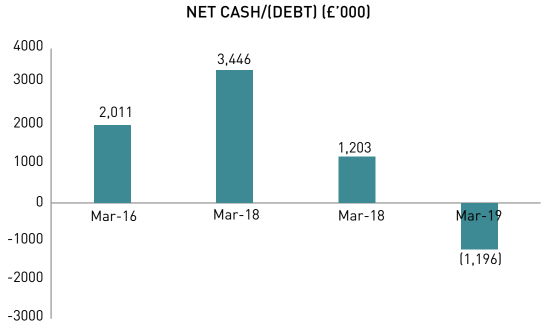
ADJUSTED* OPERATING PROFIT GROWTH (YOY)

6.4%

SOLID OPERATIONAL CASH GENERATION**



NET DEBT OF £1.20 MILLION***



BASIC UNDERLYING EPS

6.97P

(2018: 6.55p)

PROPOSED FINAL DIVIDEND

4.00P

(2018: 4.00p)

Giving a full year of 5.70 pence per share (2018: 5.70 pence per share)

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

** 2019 figure is pre LTIP tax payment of £496k

*** net debt is post annuity stock investment and R&D acceleration

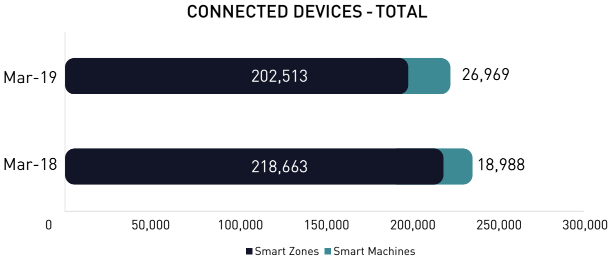
OPERATIONAL HIGHLIGHTS

Our business is divided into two divisions: Smart Machines including Vendman and Smart Zones.

Smart Machines new connections grew substantially in the year, with the integration of Vendman which has circa 200,000 mobile connections. Over time we aim to convert the majority of the Vendman connections to higher value Smart Machines connections of which 2.9% had been converted at the year end.

Excluding Vendman, the number of Smart Machines connections increased despite a major customer implementing a global system upgrade which slowed the pace of orders received. This project will complete in June 2019 and we are confident of progress in the coming year.

The Smart Zones division has performed well, maintaining profit contribution despite continued pub disposals in the UK. The Group's Smart Zones connected device base remains significant with circa 202,000 devices in circa 12,600 premises in the UK and USA.



SMART MACHINES

- Number of new connected devices relating to Smart Machines was 10,285 (2018: 4,490).
- Highest level of Payment Card industry compliance (PCI-DSS level 1) was re-confirmed in September 2018 for Contactless Payment deployment.
- Smart Machines adjusted operating profit of £1.41 million grew 31.8% from £1.07 million.
- Contract with Montagu Group for ERP and 2,000 Contactless units per annum, 5 years.

SMART ZONES

- Technology upgrades in 1,901 pubs creating IOT hubs, with a further 2,497 in the pipeline for 2019/20.
- New drinks monitoring connections of circa 1,000 in the UK resulted from new system installations in 88 pubs. (2018: 195 systems respectively).
- EI Group plc two-year contract extension.

CONTENTS

Section	Page
Company Information	1
Chairman's Statement	2
Strategic Report	4
Report of the Directors	14
Corporate Governance Statement	19
Independent Auditor's Report	22
Consolidated Statement of Comprehensive Income	27
Consolidated Balance Sheet	28
Consolidated Statement of Changes in Equity	29
Consolidated Cash flow Statement	30
Notes to the Consolidated Financial Statements	31-59
Company Balance Sheet	60
Company Statement of Changes in Equity	61
Notes to the Company Balance Sheet	62-69

COMPANY INFORMATION

Directors
J W Dickson (Chairman)
S W Darling (Chief Executive Officer)
M H Foster (Chief Financial Officer)
D Coplin (Non-Executive Director)
M McGoun (Non-Executive Director) – resigned 28 June 2018
C Williams (Non-Executive Director)

Secretary
M H Foster

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Registered number
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Stockbroker
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Registrars
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Kent
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CHAIRMAN'S STATEMENT

James Dickson
Chairman

Performance

The Group has made very good progress towards delivery of earnings breakthrough and continues to benefit from the focus on exploiting growth opportunities in the Smart Machines division whilst managing performance back towards growth in the Smart Zones division.

Group turnover was £15.68 million (2018: £14.56 million) whilst adjusted operating profit was up by 6.4% at £3.86 million. Group profit before taxation was £2.66 million post exceptional items (2018: £2.05 million), with profit after tax up 37.1% to £2.48 million. Our Smart Machines division's move from capex to annuity only model had the short term impact of reducing FY2019 turnover by £0.97 million and profit by £0.5 million. However, there will be a significant benefit to future recurring incomes and visibility of profits.

There was an exceptional net credit of £0.22 million (2018: net cost £0.54 million) principally related to the Vendman acquisition deferred consideration release, which was offset by staff rationalisation and network obsolescence costs. Whilst there has been a £0.53 million write back on the Vendman earn out provision, we are delighted with the progress and momentum against a stretching earn out which will be finalised at end H12020.

Basic pre-tax earnings per share was 8.87p (2018: 6.55p) with underlying earnings per share, pre deferred tax release, growing 6.4% to 6.97p (2018: 6.55p).

Given the solid underlying performance, high quality recurring income and the strong prospects for the Group, the Board is proposing to maintain the final dividend at 4.00 pence which, if approved by shareholders, would give a total dividend for the year of 5.70 pence (2018: 5.70 pence). Subject to approval from shareholders at the Annual General Meeting, to be held on 26 June 2019, the final dividend will be paid on 26 July 2019 to shareholders on the register as at 14 June 2019.

Board and Staff

The Board's composition and effectiveness is continually evaluated to ensure it has the optimum balance of experience and independence to support the business and our growth ambitions.

We continue to evaluate and develop the Group's management team who are focused on executing against the exciting growth opportunities for Vianet's IOT expertise and technology.

In an age where change is a constant, our people continue to engage with their usual enthusiasm, commitment, and openness which helps underpin the Group's excellent reputation with customers. Whilst there is still much to be done the Group's recent annual engagement survey demonstrated further year on year progress and valuable feedback from employees.

Thank you once again to all employees and my Board colleagues for their ongoing commitment and enthusiasm in taking the Group forward.

Outlook

The Group is in good shape to deliver strong earnings growth and enters FY2020 with solid momentum and focus on our exciting growth opportunities.

- Smart Machines' leading end to end product suite and established presence is continuing to create strong growth opportunities across UK and Europe, having already gained long term contracts with major global and national customers.

- The synergy and momentum resulting from the now integrated Vendman acquisition is exciting and, together with full realisation of the global coffee company contract will transform Smart Machines' earnings over the next few years. Encouraging progress has been made on the significant opportunity to overlay circa 200,000 Vendman mobile connections with higher value Smart Machines connections and also to cross sell from the integrated portfolio to existing customers and vending operators internationally.

- The Group is making further sales investment to accelerate growth in the areas above, with extra focus on developing our capability and accelerating growth from our leading position in coffee device and contactless payment device connectivity where sales momentum will continue to grow.

- The recent circa £3.0 million investment in cloud infrastructure and mobile technology will help develop existing revenues in both Smart Zones and Smart Machines, and also provide the scalability, flexibility and speed to support rapid growth in existing and potential new verticals.

- Smart Zones will carry momentum from several major customer technology upgrade programs through FY2020 and will benefit greatly from our recent infrastructure investment. This will allow Smart Zones to maintain existing profit contribution whilst taking advantage of improving growth prospects both in the UK pub market and significant US hospitality market.

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

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

James Dickson
Chairman
5 June 2019

STRATEGIC REPORT

Stewart Darling
Chief Executive Officer

Vianet delivers value to its customers by providing analytics and insight on asset utilisation and performance allowing more informed decision making and business change.

Whilst we currently operate two business divisions: Smart Zones (drinks monitoring and machine management services) and Smart Machines (unattended retail machine ERP and mobile software, telemetry and contactless payment solutions), the technological capability and expertise we have developed supports our market leading ability to connect to any asset with a digital output.

With over 300 customers including several global blue-chip companies with nearly 230,000 devices (excluding circa 200,000 Vendman mobile connections) connected to our IOT platform, our experience and knowledge combine to form a powerful technology and insight capability that, we believe, is unmatched by competitors in our markets.

As the IOT evolves and businesses seek to identify means of improving asset utilisation and performance, Vianet is well placed to grow its position in this rapidly developing area.

Whilst hardware and connectivity still has a significant role to play in enabling the connection to an asset, our IOT platform has evolved so that our connectivity capability is agnostic and can connect to any device. Therefore we do not always need to connect to one of our own Smart Devices. Our ability to harvest data on customer asset performance enables the creation of powerful analytics and insight and this will drive sustained business growth over the coming years.

We have resisted the distraction of developing other enablement technologies necessary to create the overall solution. Instead, our strategic choice has been to build partnerships with leading providers and partners such as Elavon and Creditcall.

In the last year the Group has continued to take positive steps forward to execute key elements of our growth plan and secure new business.

We were delighted to win a tender process with an existing strategic Smart Machines customer for the supply of connected devices, analytics and insight data. Due to a significant IT project undertaken by the customer, this project will complete in June 2019 and we are confident of progress in the coming year.

Simultaneously, as part of our strategic intent to accelerate growth and improve revenue visibility we have migrated from a largely capital sales based model to an annuity only model where hardware is effectively leased and not purchased. Whilst this will drive increased quality of earnings in the medium to long term, in the short term it has, as expected, adversely impacted both turnover and profitability, accounting for just over £967,000 turnover and circa £500,000 profit on a like for like basis when compared to last year.

With the integration of Vendman into the Group complete, progress is now being made towards improving the operating performance of the combined business. As a positive demonstration of this, Vendman contributed £0.42 million of adjusted operating profit in the year, underpinning our belief that the combination of Smart Machines and Vendman has a compelling strategic, commercial and financial rationale.

As well as establishing a market leading portfolio of solutions for unattended retail through the combination of expertise, products and services, the acquisition of Vendman opened up significant cross selling opportunities for Vianet IOT connectivity, real-time data and contactless payment technology. In the machine estate there are c 200,000 vending machines, the vast majority of which are not connected via a real-time device. To date we have connected almost 6,000 (circa 3%) of these machines which leaves significant conversion headroom that we will exploit in the coming year through increased investment in sales and commercial resource in the field.

At the same time, the presence of Vianet and Vendman in Continental Europe is enhancing our route to market and distribution opportunities through establishing a strong network and footprint with distributors and machine suppliers.

To enable and accelerate our strategy we have also invested nearly £3.0 million in new cloud and mobile technology that will allow us to scale quickly and effectively whilst engaging customers via new mobile applications and connectivity.

We aim to complete the substantial task of migrating all customers and data from our legacy platform to this new platform and capability in 2019.

OPERATING REVIEW

Smart Zones

The performance of our drinks monitoring and support services solutions for the UK Hospitality sector was maintained year on year in respect of operating profit and remains resilient with high gross margins and strong cash generation.

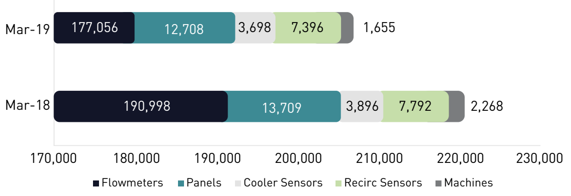
In the period technology upgrades, creating IOT hubs, were completed in 1,901 pubs with a further 2,497 in the pipeline for FY2020. This progress in deploying new technology capability has delivered a healthy pipeline of installs for the next 18 months or so, all of which will help sustain the divisional contribution. However, our customers' focus on this high level of activity, together with encouraging extensions to managed pub company commercial pilots resulted only 88 new site installations.

UK pub disposals have continued but slowed (2019: 911 and 2018: 1,420) with the resulting impact being a net reduction of 823 (2018: 1,175) licenced premises in our installation base over the financial year with a consequential impact on operating contribution.

Despite these pub disposals, our Smart Zones connected device base remains significant with circa 202,000 devices in circa 12,600 premises in the UK and USA. The data sent from these devices forms the core of the insight and analytics delivered to customers via our website and mobile applications.

The combination of strong recurring revenues from long term contract extensions, robust cost base and margin management offset the lower turnover resulting from pub closures enabling the Group to maintain profit contribution year on year.

CONNECTED DEVICES - SMART ZONES



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

Our annual Beer Quality report continues to demonstrate the cost to the industry of poor draught beer management and we will continue to use this as the basis for discussion with our customers to unlock business improvement opportunities.

In summary, Smart Zones is focussed on maintaining performance despite the UK pub market headwinds, and executing the roll-out of technology upgrades to give us a platform to provide new analytics and insight to customers.

In our Vianet Americas business we have made more progress with 43 new installations, resulting in year on year operating performance being effectively breakeven and an expectation of delivering a maiden profit during FY2020.

The quality of our installation base in Blue Chip operators, including AMC Theatres, across the USA continues to be a source of encouragement and provides strong validation of the value provided by iDraught™. The expectation for the coming year is to secure a new large -scale operator which will further cement our position in the USA.

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

Whilst the pace of progress is slower than we would wish, we recognise that for a relatively modest level of investment in what is the world's largest multiple operator market, a breakthrough could be significant. Therefore, the Group remains committed to establishing a significant US profit centre.

Overall, the Board is confident that the Smart Zones division will maintain its existing profit contribution whilst also being positioned to benefit from the encouraging growth prospects in both the UK managed pub and US hospitality sectors.

Smart Machines

Smart Machines made great progress in the year as our strategy of securing agreements with significant industry players who have the scale to invest and the sophistication to unlock the value of our technology provides, continues to fuel growth.

With the acquisition of Vendman and the resulting access to new customers and markets, we are now driving growth in the unattended retail market by delivering market leading analytics and insight in premium coffee and snack & can channels from new device connections to assets and roll-out of contactless payment capability.

We are very much encouraged by the sales growth in these channels and our securing of vending contracts with major industry customers whose businesses are growing. This resulted in Divisional adjusted operating profit growth of 31.8% to £1.41 million in the year. Profit before tax however increased to £0.98 million (2018: £0.36 million). Whilst this was helped by a Vendman contribution of £0.42 million, it was a highly encouraging performance as the move from capex to annuity only model effectively reduced FY2019 profit by some £0.5 million

Our approach is to build an annuity only income model to drive sales and strengthen recurring revenues, improving the quality and visibility of earnings in the medium to long term. Whilst a positive step for the business, this transition adversely impacted turnover in Smart Machines by around £967,000 in the year and also increased our upfront cash requirements. The approach will result in higher quality income streams and profits in the coming years and we have already seen our recurring revenues grow to 87% of Smart Machines income in the year, an increase of 13% on last year's figure of 74%.

Total Smart Machine connections grew by just under 10,300 devices in the year helped by the highly encouraging roll-out of our cloud based contactless payment solution.

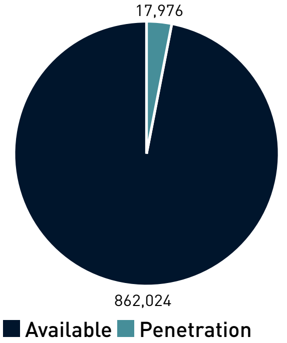
The contactless payment solution, which is driving increased sales of around 20% per unattended retail machine for our customers, increased its own footprint by 140% in the year. This strong acceleration is also unlocking further growth opportunities through the provision of analytics and insight to machine operators who wish to unlock more value available from their assets and overall operations.

The strategic contract with a global coffee customer for the roll-out of connected coffee machines to a large part of its estate was slower than anticipated in the year due to software development the customer had to undertake to scale the program. We anticipate the roll-out will begin in the coming months and the phased deployment of this contract across ten further countries in Europe, Australia and New Zealand will gather pace.

From breakeven at acquisition, Vendman contributed £0.42 million in the year as it took advantage of cross selling opportunities presented by IOT connectivity and real-time data to customers including the roll-out of Vianet contactless payment technology.

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

SMART MACHINE PENETRATION



Our contactless payment solution, continues to be supported by leading industry partners, Elavon and CreditCall. This will further evolve in the coming year when we introduce a master merchant capability allowing us to speed up the on-boarding of customers for payment capability. Contactless payment remains a very attractive solution to the marketplace where traditional cash-only payments have long been an inhibitor of vending-related consumption, usage and customer experience. We believe the evolution and growth of contactless payment solutions provides a material opportunity to change this dynamic and attract more consumers to the vending vertical.

In summary, we expect that Vianet's analytics and insight delivered from data harvested from unattended retailing assets and evolving contactless payment solution will provide exciting growth opportunities in years to come.

R&D Investment

The Group continues to invest in development activity with accelerated activity in the year. Development has broadly covered enhancements to customer experience. Revenue generating analytics and insights from new platforms allows us to leverage new revenue streams, and provide the ability to operate a cloud based self-service model. Simultaneously, it has allowed us to gradually migrate from legacy systems and software to a cloud based technology environment. The accelerated investment took the total investment to date in the cloud platform, analytics and mobile technology to almost £3.0 million.

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

LOOKING FORWARD

The business is strongly placed to benefit from its proven track record of converting data gathered from its IOT devices into analytics and insight that drive better decision making for customers aimed at improving asset utilisation and increased profitability.

The combined business capability and potential of Vianet and Vendman and the rollout of the global coffee contract will be transformational for the overall Smart Machines business and should drive significantly increased earnings for the Group in the next few years. In tandem, we continue to grow and develop strong working relationships with significant industry players where contracted recurring revenues now represent 94% of turnover.

Whilst Smart Machines is already exploiting growth opportunities through its strong portfolio of products and services to existing customers across Europe, the recent investment of almost £3.0 million in new cloud and mobile capability, and the transformation of legacy systems, will facilitate rapidly scalable growth in existing and new vertical markets. Our contactless payment solution and introduction of a master merchant scheme, combined with rapid adoption of technology by brand owners and machine operators, positions this division for strong underlying growth.

The Smart Zones division will aim to maintain contribution from the UK pub market helped by new technology upgrades in existing customers, which will enhance existing income streams and unlock further opportunities for enhanced analytics and insight. In parallel we are encouraged by managed operator growth prospects here and in the USA where we expect to expand our iDraught footprint through existing and new mid-size multiple operators.

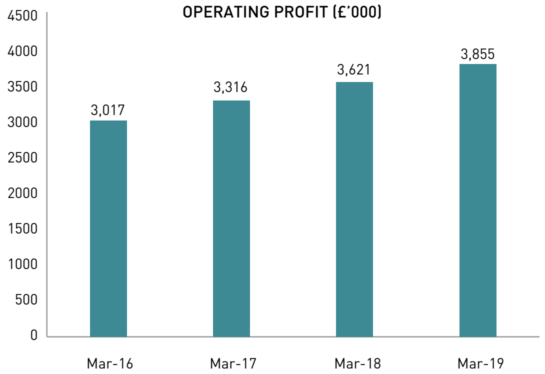
Finally, the combination of our experienced team and robust finances provide a strong platform for the further development and expansion of our IOT capability and the delivery of data and insight applications that help our customers make better decisions about their assets.

FINANCIAL REVIEW

Mark Foster
Chief Financial Officer

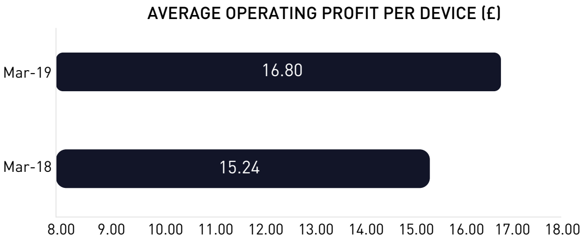
GROWING PROFITABILITY

Group operating profit, pre-exceptional costs, was up 6.4% to £3.86 million (FY2018: £3.62 million).



Gross margin remained healthy year on year at circa 68%.

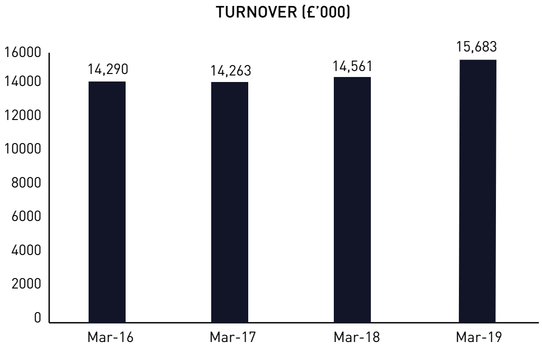
The average operating profitability per connected device has grown 10.2% to £16.80 (2018: £15.24);



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

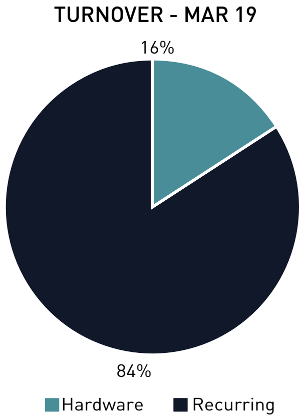
TURNOVER

Turnover increased by 7.7% helped by the integration of Vendman which offset a moderate decline in Smart Zones and the £0.97 million revenue impact of the shift from capex to annuity model and vending estate rationalisation in Smart Machines.



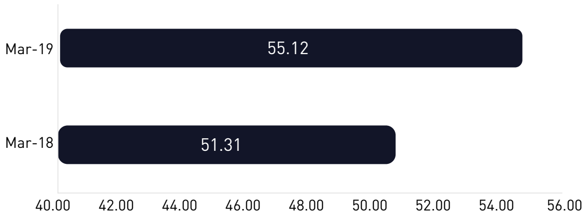
RECURRING REVENUE

Blended recurring revenue across the two divisions was 94% (2018: 90%), helped by the Vendman integration and the transition from capital to annuity based sales in Smart Machines.



The recurring revenue per connected device has grown 7.4% to £55.12 (2018: £51.31);

AVERAGE RECURRING REVENUE PER DEVICE (£)



PERFORMANCE SUMMARY

PBT was up 3.9% at £2.13 (2018: £2.05 million). The table below shows the performance of the Group;

	FY2019	FY2018	Change %
ReveRevenue	£15.68m	£14.56m	7.7
Operating profit[a]	£3.86m	£3.62m	6.4
Operating profit	£4.08m	£3.08m	32.2
Operating profit[b]	£3.55m	£3.08m	15.3
Profit before tax[b]	£2.13m	£2.05m	3.9
Profit after tax	£2.48m	£1.81m	37.1
Basic EPS[c]	6.97p	6.55p	6.4
Basic EPS	8.87p	6.55p	35.4
Dividend per share	5.70p	5.70p	
Net (debt)/cash[d]	£(1.20)m	£1.20m	

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

(b) Pre deferred consideration

(c) Profit after tax pre deferred consideration release

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

EXCEPTIONALS

	FY2019 '£000	FY2018 '£000
People and office rationalisation	163	260
Network obsolescence costs	107	43
Acquisition costs	-	231
Deferred consideration release	(530)	-
Other items	38	4
Total	(222)	538

Current year total relates to deferred consideration release in relation to the Vendman acquisition, offset by staff rationalisation costs and network obsolescence costs.

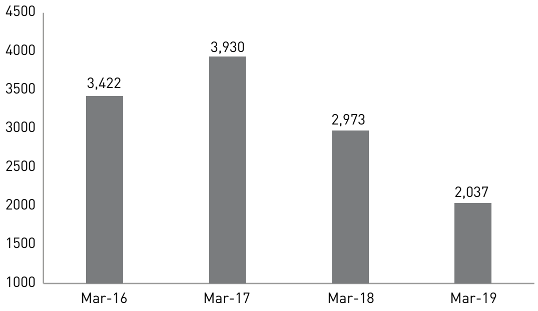
DIVIDEND

The Board is proposing to maintain the final dividend at 4.00 pence which, if approved by shareholders, would give a total dividend for the year of 5.70 pence (2018: 5.70 pence).

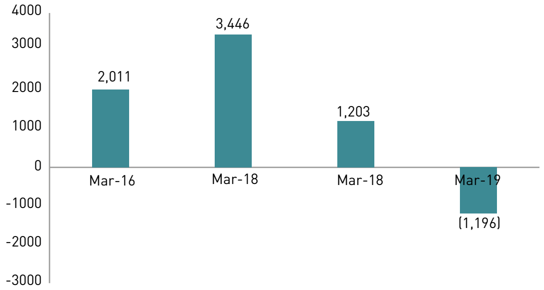
On a profit after tax basis, dividend cover has increased to circa 1.56 (2018: circa 1.16), but on an underlying basis cover increased to 1.23. We expect the cover to improve further in FY2020 as a result of our anticipated growth in profits and reduction in exceptional costs.

CASH

CASH GENERATION (£'000)



NET CASH/(DEBT) (£'000)



Net cash generation pre working capital movements and LTIP taxation payment was £3.99 million (2018: £3.52 million), growth of 13.3% (including share based payments and asset disposals). This year we have invested £0.6 million in increased stock levels to fulfil annuity sales and secure supply chain stocks of key electronic components in a volatile world component market.

This, together with; the impact of a move away from Capex to annuity modelling; externally contracted investment in our new IOT platform; and the incorporation of the Vendman working capital metrics, has meant after working capital movements but before LTIP taxation payment an operational generation of £2.04 million versus £2.97 million last year. Operational generation post LTIP taxation payment was £1.54 million (2018: £2.97 million).

Financial Review (continued)

We reported at the half year that H2 would start to see an upturn in cash generation with less investment in stock and external contractors – the working capital position reduced to a £0.76 million impact in H2 compared to £1.19 million in H1, impacted mainly by creditor payments from H1 commitments. This was as forecast and as expected given the transition the business has been going through.

The cash generated was principally used to service accelerated R&D investment, dividend payment and servicing of new borrowings leaving an outflow of £3.12 million (2018: £0.6 million outflow). As expected, however, the H2 outflow was significantly reduced at £0.52 million compared to H1 of £2.60 million.

At the year end, pre mortgage and the acquisition loan, the Group had net cash including overdraft of £0.80 million (2018: £3.92 million), borrowings of £1.99 million (2018: £2.65 million), and net debt of £1.20 million (2018: net cash £1.20 million) impacted by the £2 million term loan associated with the Vendman acquisition and cloud based platform investment. FY2020 should see an improved cash performance result.

DIVISIONAL PERFORMANCE

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

SMART ZONES

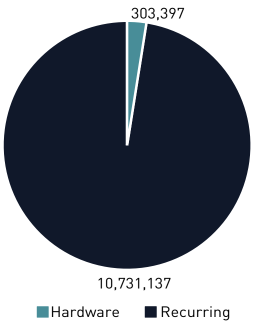
	FY2019	FY2018	Change %
Turnover	£11.00m	£11.45m	(3.9)
Operating profit[a]	£4.48m	£4.53m	(1.1)
Profit before tax	£4.06m	4.05m	0.2
Total connected devices	202,513	218,663	(7.4)
New Installation sales	88	245	(64.1)
YE Net premises[b]	c12,600	c13,570	(7.1)
iDraught penetration[b]	27.0%	28.0%	

[a] Pre-exceptional items, share based payments and amortisation

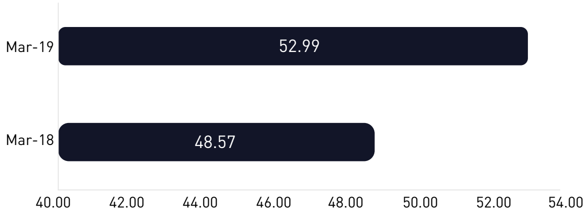
[b] UK, USA and Europe only

Turnover mix is shown below with recurring revenue being 97% (2018: 92%)

SMART ZONES TURNOVER (£) - MAR 19

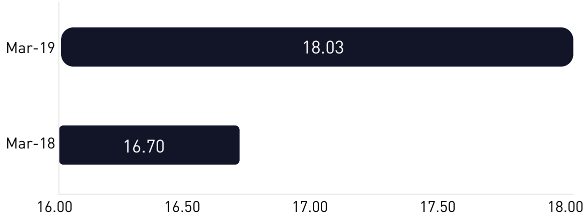


AVERAGE RECURRING REVENUE PER DEVICE (£)



Recurring revenue per device has increased 8.9% to £52.99 (2018: £48.67) reflecting the higher quality recurring revenue streams which has resulted from our customers' disposal of relatively lower performing pubs during their estate rationalisation programmes.

AVERAGE OPERATING PROFIT PER DEVICE (£)



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

Average adjusted operating profit per device (above) has increased circa 8.0% to £18.03 (2018: £16.70) reflecting flat profitability against a lower estate size.

The Smart Zones division has performed fairly against a challenging pub market backdrop that resulted in a net estate reduction of 823 sites (2018: 1,175) to circa 12,300 (2018: 13,125) in the UK and Europe.

Against this backdrop, Smart Zones maintained its operating profit at £4.48 million (2018: £4.53 million).

SMART MACHINES

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

	FY2019	FY2018	Change %
Turnover[b]	£4.68m	£3.12m	50.0
Operating profit [a] [b]	£1.41m	£1.07m	31.8
Profit before tax	£0.98m	£0.36m	172.2
Vendman [d] [b]	£0.42m	£0.12m	250.0
New Telemetry connections	2,485	1,660	49.7
New Contactless connections	7,800	2,830	175.6
YE Net estate [c]	c27,000	c18,000	50.0

[a] Pre-exceptional items, share based payments and amortisation on a continuing basis.

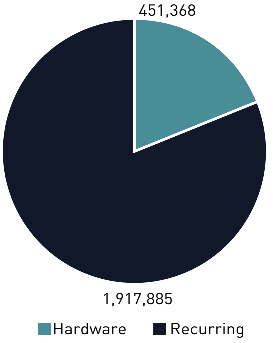
[b] Included in the above FY2019, Vendman contributed £2.88m in turnover and £0.42m in operating profit

[c] Excludes circa 200,000 Vendman connections.

[d] Vendman contribution is pre-exceptional items, share based payments and amortisation on a continuing basis, and included in the operating profit figure

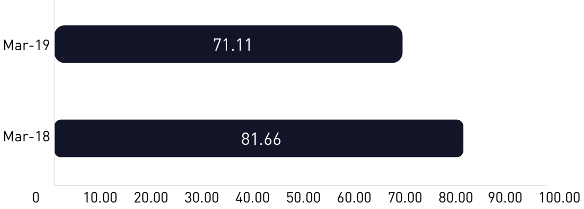
Turnover mix is shown in the chart below. Recurring revenues grew to 87% of turnover (2018: c 74%).

SMART MACHINES TURNOVER (£) - MAR 19



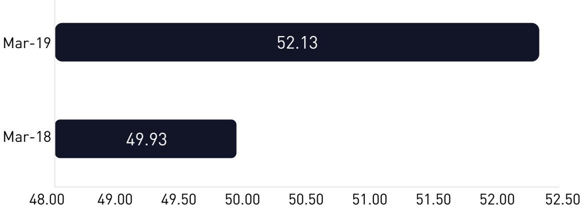
Smart Machines continued to make progress in the year with growth in number of new connected devices, especially in contactless with new contactless connections being 4,970 ahead of FY2018. The estate figures reflect the net movement shown above.

AVERAGE RECURRING REVENUE PER DEVICE (£)



Average recurring revenue per device decreased 12.9% to £71.11 (2018: £81.66) principally due to the mix of estate, with the shift towards annuity based revenue streams along with increased penetration of contactless solutions.

AVERAGE OPERATING PROFIT PER DEVICE (£)



Average adjusted operating profit per device (above) has increased 4.4% to £52.13 (2018: £49.93) due to sales/revenue stream mix as noted above set against a relatively stable fixed cost base.

Taxation

The Group has continued to utilise available tax losses during the year resulting in no tax being paid (2018: £nil). The Group will continue to utilise the available tax losses carried forward into FY2020. In the financial year under review, the tax line includes a deferred tax charge of £0.18 million (2018: £0.24 million) recognising the impact of the tax losses available and being utilised.

Earnings per share

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

The underlying profit after tax from continued operations pre deferred consideration release, earnings per share is 6.97 pence for FY2019 compared to 6.55 pence for FY2018.

Basic EPS was 8.87 pence compared to 6.55 pence in 2018.

Financial Review (continued)

Balance sheet and cash flow

The Group balance sheet remains strong.

The Group generated operating cash flow (pre LTIP tax payment) of £2.04 million (2018: £2.97 million) with FY2019 impacted by the continued shift to annuity revenue streams and stock investment as well as external contractor investment in our cloud based platform.

The cash generated in FY2019 was utilised to invest in the Group's accelerated technology plans through research and development, to service borrowings and to fund dividend. At the year end, the Group had borrowings of £1.99 million (2018: £2.65 million), and net debt of £1.20 million (2018: net cash £1.20 million) which was forecast to occur given the transition the Group is going through.

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

Business risk

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

The directors consider that material business risks are limited to:

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

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

Key performance indicators

	Target	Actual 2019	Actual 2018
Percentage of revenue from recurring income streams[1]	80%	94%	90%
Gross Margin[2]	70%	68%	70%
Employee Turnover[3]	2%	2.1%	3.3%

Notes to KPIs

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

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

On behalf of the Board
Stewart Darling
Chief Executive Officer
5 June 2019

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements for the year ended 31 March 2019.

Business Risk

Business risk is discussed in the Chief Executive's report pages 4 to 13

Going Concern

The Directors, after having made appropriate enquiries, including (but not limited to) a review of the Group's budget for 2019/2020, and cash generating capacity at least 12 months from the date of signing (underpinned by long term contracts in place and historical results), have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Financial Instruments

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

Environment

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

Employees

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

The quality and commitment of our people overall has continued to play a major role in our business performance, despite several changes in personnel in the previous 12 months. This has been demonstrated in many ways, including improvements in employee engagement survey, customer satisfaction, contract gains and continued profitability, the development of customer offering and the flexibility they have shown in adapting to changing business requirements and new ways of working. Employees' performance is aligned to company goals through an annual performance review process that is carried out with all employees. Employee turnover was 2.1%, above the target of 2% we have set.

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

Research and Development

The Group has a continuing commitment to levels of research and cost in ensuring systems are at the forefront of technological advance to ensure future growth. During the year expenditure on research and development was £1,524,000 (2018: £1,500,000) all of which has been capitalised as an asset on the balance sheet (2018: £1,500,000).

Dividends

The Directors recommend the payment of a final dividend of 4.00p per share (2018: final 4.00p), taking the full year dividend to 5.70p. (2018: 5.70p).

Capital Structure

Details of the authorised and issued share capital, together with details of the movements in the company's issued share capital during the year are shown in note 20. The company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the company.

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

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

Details of employee share schemes are set out in note 23 and no person has any special rights of control over the company's share capital and all issued shares are fully paid.

Directors' Indemnity

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

Directors and their interests

The current directors of the company are shown below.

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

	Ordinary shares of 10p each 2019	**Ordinary shares of 10p each 2018**
S W Darling	188,987	63,244
J W Dickson	4,934,259	4,889,259
M H Foster	328,000	228,000
C Williams	14,250	9,250
D Coplin	3,000	-

Directors' emoluments

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

	Salary and fees 2019 £'000	Other emoluments 2019 £'000	Total emoluments 2019 £'000	Salary and fees 2018 £'000	Other emoluments 2018 £'000	Total emoluments 2018 £'000
Executive						
M H Foster	177	31	208	174	34	208
S W Darling	231	12	243	230	12	242
Non-executive						
J W Dickson	123	14	137	94	14	108
C Williams	32	-	32	30	-	30
M McGoun	8	-	8	30	-	30
D Coplin	32	-	32	-	-	-
Total	**603**	**57**	**660**	**558**	**60**	**618**

1. Executive remuneration is determined by the remuneration committee consisting of non-executive Directors C Williams, D Coplin and J W Dickson.
2. No payments were made to any Director in respect of compensation for loss of office in 2019 or 2018.
3. Other emoluments received consist of the provision for private medical care, motor car allowances and pension contributions.
4. C William's fees are paid to MCHD Investments Limited, a company of which he is a Director.
5. M McGoun's fees are paid to Noble Adamson Limited, a company of which he is a Director.
6. D Coplin's fees are paid to The Envisioners Limited, a company of which he is a Director.
7. Pension contributions represent payments made to defined contribution schemes. Payments made are disclosed within other emoluments. Non-executive Directors are not entitled to retirement benefits.
8. J W Dickson salary and fees for 2018 includes exceptional fees of £34,000 relating to time spent on the Group's acquisition of Vendman Systems Limited.

Directors' share options

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

	At 1 April 2018	At 31 March 2019	Option price	Date granted
J W Dickson	18,600	18,600	96.5p	January 2011
M H Foster	18,600	18,600	96.5p	January 2011
	135,000	135,000	85.0p	May 2014
	124,000	124,000	103.0p	December 2015
S W Darling	18,600	18,600	96.5p	January 2011
	285,000	285,000	85.0p	May 2014

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

The market price of the Company's shares at the end of the financial year was 121.0p and the range of market prices during the year was between 139.5p and 96.0p.

Long Term Incentive Plan

Vianet adopted a new LTIP scheme on 17 December 2015. On 21 December 2015, awards were granted to five members of staff, who each have a percentage entitlement in the overall awards pool. Further detail is provided on page 57. During the year an award was made under the first award pool which under the conditions of the scheme, the Directors were required to purchase Company shares with their award which occurred on 6 July 2019

	Gross Award £'000
Executive	
S W Darling	290
M H Foster	221

Substantial Shareholdings

The Company has been informed that on 9 May 2019 the following shareholders (excluding Directors) held substantial holdings of the issued ordinary shares of the company:

	Holding of Ordinary shares Number	Issued Share capital %
Gresham House plc	3,707,786	13.11%
AXA SA	1,716,000	6.07%
Interactive Investor Trading	1,708,684	6.04%
Canaccord Genuity Group Inc	1,559,439	5.51%
Hargreaves Lansdown plc	1,497,237	5.29%
City Asset Management plc	1,412,839	5.00%
Downing Corporate Finance	1,017,650	3.60%
Liontrust Asset Management	832,516	2.94%
Affiliated Managers Group	735,000	2.60%

Annual General Meeting

The Annual General Meeting will be held on 26 June 2019 at 11.30am, at the offices of Grant Thornton UK LLP, No 1 Whitehall Riverside, Leeds, LS1 4BN.

Statement of Directors' responsibilities for the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have to prepare group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the parent company has elected to prepare company statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the parent company and of the profit or loss of the company and Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent

- state whether applicable UK Accounting Standards or IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business. The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the Directors is aware

- there is no relevant audit information of which the Company's auditor is unaware; and

- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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

Auditor

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

Approval

The report of the Directors was approved by the Board on 5 June 2019 and signed on its behalf by:

Mark Foster
Director

CORPORATE GOVERNANCE STATEMENT

General Principle

In accordance with AIM rule 26, the company has adopted the QCA code. The statement of compliance with the QCA Corporate Governance Code can be found on our website.

The Board

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

Executive Directors

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

Non-Executive Directors

J W Dickson (Chairman)
C Williams
D Coplin

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

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

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

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

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

Board Committees

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

Audit Committee

This consists of:

C Williams (Chairman)
J W Dickson
D Coplin

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

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

Remuneration Committee

This consists of:

D Coplin (Chairman)
J W Dickson
C Williams

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

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

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

Nominations Committee

This consists of:

J W Dickson (Chairman)
C Williams
D Coplin

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

Internal Control and Risk Management

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

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

The main elements of the internal control systems are:

- management structure with clearly identified responsibilities
- budget setting process including longer term forecast review
- comprehensive monthly financial reporting system, with comparison to budget, supported by written report from the Chief Executive Officer and Chief Financial Officer
- report to the Audit Committee from the external auditor stating the material findings arising from the audit. This report is also considered by the main Board and action taken where appropriate

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

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

- day to day hands on involvement of the Executive Directors

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

Shareholder Communication

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

Share Options

The share option plans in existence at 31 March 2019 were the EMI plan, the Executive plan, the Employee Plan, the Employee Company Share Option Plan and a Long Term Incentive Plan. Share options will be issued at appropriate intervals in order to motivate and retain Executive Directors, senior management and other key staff whilst aligning their interests with those of the Group's shareholders. Such grants are approved by the Remuneration Committee.

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

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Vianet Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2019, which comprise the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated statement of changes in equity, the Consolidated cash flow statement, the Company balance sheet, the company statement of changes in equity and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosures Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Overview of our audit approach

- Overall materiality: £140,000, which represents 5% of the group's adjusted (pre-exceptional items) profit before taxation at the planning stage of the audit;
- We have identified three key audit matters, which are revenue recognition, valuation of goodwill and other intangible assets and the accuracy of the contingent consideration balance in respect of the acquisition of Vendman Systems Limited; and
- We performed full scope audit procedures on the financial statements of Vianet Group plc and on the financial information of Vianet Limited. We performed targeted audit procedures on the financial information of Vendman Systems Limited and analytical procedures on the financial information of Vianet Americas Inc.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Revenue recognition There is a risk that revenue may be misstated due to the improper recognition of revenue. In respect of revenue recognised for sale of equipment, there is a risk that revenue is recognised before the risk and rewards of ownerships have transferred to the customer. In respect of the provision of monitoring services, there is a risk that revenue is misstated by recognising the revenue before the provision of the service to the customer. Therefore, we identified revenue recognition as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Testing of the operating effectiveness of controls over revenue, where the documentation of these could be evidenced; • Evaluation of the revenue recognition accounting policies for appropriateness with IFRS 15 'Revenue from Contracts with Customers', which was adopted in the year, and of the accounts disclosures relating to the adoption of the standard; • Testing a sample of revenue transactions in respect of sales of equipment and provision of monitoring services and agreeing them to supporting documentation to vouch that income had been appropriately recognised in accordance with the group's accounting policy, including IFRS 15 'Revenue from Contracts with Customers'; and • Comparison of revenue from the sale of goods and provision of services with the revenue in the prior year and budgets, and corroborating the explanation for significant and unusual variances. The group's accounting policy on revenue recognition, including the key sources of estimation uncertainty, is shown in accounting policy 1.4 and related disclosures are included in Note 3 to the financial statements. **Key observations** Based on our work performed, we have not identified any material misstatements with respect to revenue recognition.

Valuation of goodwill and other intangible assets

The Group records goodwill and other intangibles assets of £22.9m as at 31 March 2019. Of this £1.5m relates to internally generated intangibles capitalised in the year.

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

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

We therefore identified valuation of goodwill and other intangible assets as a significant risk, which was one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- Challenging the capitalisation policy for intangible assets to ensure it is reasonable and in accordance with the financial reporting framework;
- Testing, on a sample basis, the additions to intangible assets during the year to supporting documentation;
- Challenging management's assessment of the useful economic lives of intangible assets and developing an expectation of amortisation expense for the year, and comparing against the expense recorded; and
- Assessment and challenge of management's impairment reviews of the carrying value of goodwill and intangible assets to confirm they are appropriate, focussing on assumptions regarding future revenues relative to historic performance.

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

Key observations

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

Accuracy of the contingent consideration balance in respect of the acquisition of Vendman Systems Limited

On 3 October 2017, the group acquired 100% of the issued share capital of Vendman Systems Limited.

IFRS 3 'Business Combinations', with reference to IFRS 9 'Financial Instruments' requires that contingent consideration is measured at fair value at each year end. Any gains or losses are recognised in profit or loss. There is management judgement in relation to the fair value of the contingent consideration balance.

Therefore, we identified the accuracy of the contingent consideration balance in respect of the acquisition of Vendman Systems Limited as a significant risk, which was one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- Obtaining management's calculation of their best estimate of the fair value of the contingent consideration balance;
- Assessing the appropriateness of the assumptions used in the valuation calculations for consistency with other financial information and forecasts for Vendman Systems Limited;
- Challenging management on the inputs into the contingent consideration calculation; and
- Assessing the adequacy of the disclosures included within the financial statements.

The group's accounting policy on business combinations and the related contingent consideration are shown in accounting policy 1.3 and related disclosures are included in Note 15 to the financial statements.

Key observations

Our audit work identified that changes in the forecasts for Vendman Systems Limited were not fully reflected within management's assessment of the valuation of the contingent consideration. As a result of this challenge, the contingent consideration balance has been adjusted in the year by management.

Based on our audit work, we have found that the contingent consideration at the year end in respect of the acquisition of Vendman Systems Limited has been accounted for in accordance with the group's accounting policies, including IFRS 3 'Business Combinations' and IFRS 9 'Financial Instruments'. We have not identified any further material misstatements in the value of the contingent consideration balance in the consolidated statement of financial position.

We did not identify any key audit matters relating to the audit of the financial statements of the parent company.

Our application of materiality

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

Materiality was determined as follows:

Materiality measure	Group	Parent company
Financial statements as a whole	£140,000, which is 5% of the group's adjusted (pre-exceptional items) profit before tax at the planning stage of the audit. We determined that we did not need to revise materiality in light of the final results. This benchmark is considered the most appropriate because adjusted profit before tax is a key performance indicator of the group. This excludes exceptional costs, related primarily to a release in contingent consideration and restructuring costs. Materiality for the current year is consistent with the level that we determined for the year ended 31 March 2018.	£126,000, which is based on 2% of the parent company's total assets, capped at 90% of group materiality. This benchmark is considered the most appropriate because the activities of the parent company primarily are those of a holding company, and its major activities related to holding the investments in the group's subsidiaries. Materiality for the current year is consistent with the level that we determined for the year ended 31 March 2018.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	We determined a lower level of specific materiality for certain areas such as directors' remuneration and certain related party transactions.	We determined a lower level of specific materiality for certain areas such as directors' remuneration and certain related party transactions.
Communication of misstatements to the audit committee	£7,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£6,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

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

- Documenting and evaluating the processes and controls covering the key audit matters;
- Evaluation by the group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality considering each as a percentage of group's total assets, liabilities, revenues and profit before tax;
- We performed a full-scope audit of the financial statements of the parent company, Vianet Group Plc and of the financial information of the group's largest subsidiary, Vianet Limited. Vendman Systems Limited was subject to targeted procedures over the balance sheet and income statement with a focus on applicable risks identified above and the significance to the group's balances. The financial information of the group's subsidiary in the US, Vianet Americas Inc., was subject to analytical procedures;
- The components subject to a comprehensive audit approach cover 83% of the consolidated revenues, with the component subject to a targeted approach representing 15% of the consolidated revenues; and
- The accounting functions are performed centrally for all entities subject to a comprehensive audit. All audit work has been undertaken by the group audit team.

Other information

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

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

We have nothing to report in this regard.

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

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

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

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

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Wood
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Leeds
5 June 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2019

		Before			Before		
		Exceptional	Exceptional	Total	Exceptional	Exceptional	Total
		2019	2019	2019	2018	2018	2018
	Note	£000	£000	£000	£000	£000	£000
Continuing operations							
Revenue	3	15,683	-	15,683	14,561	-	14,561
Cost of sales		(5,023)	-	(5,023)	(4,381)	-	(4,381)
Gross profit		**10,660**	**-**	**10,660**	**10,180**	**-**	**10,180**
Administration and other operating expenses		(6,805)	222	(6,583)	(6,559)	(538)	(7,097)
Operating profit pre amortisation and share based payments		**3,855**	**222**	**4,077**	**3,621**	**(538)**	**3,083**
Intangible asset amortisation		(1,192)	-	(1,192)	(865)	-	(865)
Share based payments		(132)	-	(132)	(142)	-	(142)
Total administrative expenses		(8,129)	222	(7,907)	(7,566)	(538)	(8,104)
Operating profit		**2,531**	**222**	**2,753**	**2,614**	**(538)**	**2,076**
Net finance costs	6	(95)	-	(95)	(28)	-	(28)
Profit from continuing operations before tax	5	2,436	222	2,658	2,586	(538)	2,048
Income tax expense	7	(178)	-	(178)	(239)	-	(239)
Profit and other comprehensive income for the year		**2,258**	**222**	**2,480**	**2,347**	**(538)**	**1,809**
Earnings per share							
Total							
- Basic	8			8.87p			6.55p
- Diluted	8			8.80p			6.54p
Continuing Operations							
- Basic	8			8.87p			6.55p
- Diluted	8			8.80p			6.59p

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

CONSOLIDATED BALANCE SHEET

at 31 March 2019

	Note	2019 £000	2018 £000
Assets			
Non-current assets			
Goodwill	10	17,975	17,975
Other intangible assets	11	4,875	4,529
Property, plant and equipment	12	3,503	3,166
Deferred tax asset	19	313	391
Total non-current assets		26,666	26,061
Current assets			
Inventories	13	1,670	1,086
Trade and other receivables	14	3,669	3,246
Cash and cash equivalents		1,788	4,324
		7,127	8,656
Total assets		33,793	34,717
Equity and liabilities			
Liabilities			
Current liabilities			
Trade and other payables	15	4,138	4,416
Borrowings	17	1,652	1,062
Current tax liabilities		-	20
		5,790	5,498
Non-current liabilities			
Other payables	16	139	1,339
Borrowings	17	1,333	1,994
Deferred tax liability	19	972	872
		2,444	4,205
Equity attributable to owners of the parent			
Share capital	20	2,874	2,872
Share premium account		11,530	11,519
Share based payment reserve		314	483
Own shares		(754)	(1,114)
Merger reserve		310	310
Retained profit		11,285	10,944
Total equity		25,559	25,014
Total equity and liabilities		33,793	34,717

The Group financial statements were approved by the Board of Directors on 5 June 2019 and were signed on its

J Dickson
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2019

	Share capital £000	Share premium account £000	Own shares £000	Share based payment reserve £000	Merger reserve £'000	Retained profit £000	Total £000
At 1 April 2017	2,843	11,287	(1,221)	418	310	10,624	24,261
Dividends	-	-	-	-	-	(1,562)	(1,562)
Issue of shares	29	232	-	(50)	-	50	261
Share based payments	-	-	-	115	-	27	142
Exercise of options	-	-	107	-	-	(4)	103
Transactions with owners	29	232	107	65	-	(1,489)	(1,056)
Profit and total comprehensive income for the year	-	-	-	-	-	1,809	1,809
Total comprehensive income less owners' transactions	29	232	107	65	-	320	753
At 31 March 2018	2,872	11,519	(1,114)	483	310	10,944	25,014
At 1 April 2018	2,872	11,519	(1,114)	483	310	10,944	25,014
Dividends	-	-	-	-	-	(1,585)	(1,585)
Issue of shares	2	11	-	-	-	-	13
Share based payments	-	-	-	132	-	-	132
Share option forfeitures	-	-	-	(2)	-	2	-
LTIP exercise	-	-	360	(299)	-	(556)	(495)
Transactions with owners	2	11	360	(169)	-	(2,139)	(1,935)
Profit and total comprehensive income for the year	-	-	-	-	-	2,480	2,480
Total comprehensive income less owners' transactions	2	11	360	(169)	-	341	545
At 31 March 2019	2,874	11,530	(754)	314	310	11,285	25,559

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2019

	Note	2019 £000	2018 £000
Cash flows from operating activities			
Profit for the year		2,480	1,809
Adjustments for			
Net interest payable		95	28
Income tax expense		178	239
Amortisation of intangible assets	11	1,192	865
Depreciation	10	450	379
Payment of deferred consideration		(21)	-
Deferred consideration release		(530)	-
Loss on sale of property, plant and equipment and businesses	4	14	61
Share based payments		132	142
Tax payment in respect of LTIP		(495)	-
Operating cash flows before changes in working capital and provisions		3,495	3,523
Change in inventories		(583)	219
Change in receivables		(423)	(537)
Change in payables		(948)	(126)
Change in provisions		-	(105)
		(1,954)	(549)
Cash generated from operations		1,541	2,974
Net cash generated from operating activities		1,541	2,974
Cash flows from investing activities			
Purchase of subsidiary		-	(1,855)
Cash acquired with subsidiary		-	(62)
Purchases of property, plant and equipment		(801)	(398)
Purchases of intangible assets		(1,538)	(1,610)
Net cash used in investing activities		(2,339)	(3,925)
Cash flows from financing activities			
Net interest payable		(95)	(28)
Issue of share capital		13	262
Share options exercised		-	102
New bank loans		-	2,000
Repayments of borrowings		(659)	(450)
Dividends paid		(1,585)	(1,562)
Net cash used in financing activities		(2,326)	324
Net increase in cash and cash equivalents		(3,124)	(627)
Cash and cash equivalents at beginning of period		3,922	4,549
Cash and cash equivalents at end of period		798	3,922

Reconciliation to the cash balance in the Consolidated Balance Sheet			
Cash balance as per consolidated balance sheet		1,788	4,324
Bank overdrafts (see note 17)		(990)	(402)
Balance per statement of cash flows		798	3,922

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2019

1. Significant accounting policies

1.1 Basis of preparation

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

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

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

The Directors, after having made appropriate enquiries, including (but not limited to) a review of the Group's budget for 2019/2020, and cash generating capacity at least 12 months from the date of signing (underpinned by long term contracts in place and historical results), have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

1.2 Subsidiaries

The consolidated financial statements incorporate the results, assets, liabilities and cash flows of the company and each of its subsidiaries for the financial year ended 31 March 2019.

Subsidiaries are entities controlled by the Group. The Group controls an entity if and only if the Group has all of the following elements:

- power over the entity, i.e. the Group has existing rights that give it the ability to direct the relevant activities (the activities that significantly affect the entity's returns)
- exposure, or rights, to variable returns from its involvement with the entity
- the ability to use its power over the entity to affect the amount of the Groups returns

The results, assets, liabilities and cash flows of subsidiaries are included in the consolidated financial statements from the date control commences until the date that control ceases.

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

1.3 Business combinations

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

Under IFRS 3 'Business Combinations' and IFRS 9 'Financial Instruments', management should account for contingent consideration by fair valuing the balance at each reporting date. Any changes in fair value shall be recognised in profit or loss.

1. Significant accounting policies (continued)

1.4 Revenue recognition

IFRS15 'Revenue from contracts with customers' replaced IAS18 'Revenue' and IAS 11 'Construction contracts': The new standard has been applied with the Directors concluding that the impact of this change has no material impact on the previously applied policy.

Revenue arises from the provision of actionable data and business insight services through connected devices. To determine whether to recognise revenue, the Group follows a 5-step process as follows:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

Revenue is measured at transaction price, stated net of VAT and other sales related taxes.

Smart Zones and Smart Machines

Smart Zones

There are two performance obligation with customers, one being the provision of data insight from data collected from customers connected devices and the other being either the outright sale or rental of the connected device to collect the data,

Therefore as such, there are separately identifiable transaction prices for either performance obligation. The transaction prices are set out in the customers' contract and is made up of either a fixed charge for the outright sale of the connected device or a fixed element in the form of a monthly income in respect of the data insight or the rental of the connected device. Revenue is recognised when the performance obligations have been satisfied in line with the contract. Revenue relating to the outright sale of the connected device is recognised when the customer has accepted the hardware. Revenue relating to the data insight services or the rental are recognised on a monthly basis over the life of the contract as the service is performed. The transaction price stated in the contract is representative of the stand-alone price of each performance obligation.

There are no unusual or variable payment terms in relation to performance obligations offered to customers.

Smart Machines

There are two performance obligation with customers, one being the provision of data insight from data collected from customers connected devices and the other being either the outright sale or rental of the connected device to collect the data,

Therefore as such, there are separately identifiable transaction prices for either performance obligation. The transaction prices are set out in the customers' contract and is made up of either a fixed charge for the outright sale of the connected device or a fixed element in the form of a monthly income in respect of the data insight or the rental of the connected device. Revenue is recognised when the performance obligations have been satisfied in line with the contract. Revenue relating to the outright sale of the connected device is recognised when the customer has accepted the hardware. Revenue relating to the data insight services or the rental are recognised on a monthly basis over the life of the contract as the service is performed. The transaction price stated in the contract is representative of the stand-alone price of each performance obligation.

There are no unusual or variable payment terms in relation to performance obligations offered to customers.

1.5 Foreign currencies

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

1. Significant accounting policies (continued)

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

1.6 Goodwill

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

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

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

1.7 Intangible assets: business combinations

Acquisition as part of a business combination

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

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

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

Amortisation

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

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

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

1.8 Intangible assets: Research and development

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

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

- completion of the intangible asset is technically feasible so that it will be available for use or sale
- the Group intends to complete the intangible asset and use or sell it
- the Group has the ability to use or sell the intangible asset
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

1. Significant accounting policies (continued)

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

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

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

Capitalised development costs are amortised over a period which is usually no more than five years. Amortisation commences once an asset is available for use, in line with IAS38.

1.9 Property, plant and equipment

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

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

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

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

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

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

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

1.10 Impairment

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

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

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

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

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

1. Significant accounting policies (continued)

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

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

1.11 Operating leases

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

1.12 Own shares

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

1.13 Inventories

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

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

1.14 Taxation

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

Current tax

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

Deferred tax

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

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

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

1. Significant accounting policies (continued)

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

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

1.15 Pension Costs

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

1.16 Financial instruments

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

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

Financial Assets

Initial recognition and measurement

In accordance with IFRS 9, 'Financial Instruments' the Group has classified its financial assets through the following categories:

- Amortised cost
- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI)

For either year presented the Group does not have any financial assets classified as FVOCI.

The Group determines the classification of its financial assets at initial recognition based on the contractual cash flow characteristics of the financial assets.

All financial assets are recognised initially at fair value plus transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets carried at amortised cost

This category applies to trade and other receivables due from customers in the normal course of business. Trade and other receivables are initially recorded at fair value and thereafter are measured at amortised cost using the effective interest rate. A loss allowance for expected credit losses is recognised based upon an amount equal to the 12-month expected credit loss. This assessment is performed on a collective basis considering forward-looking information.

The group classifies its financial assets as at amortised cost only if both of the following criteria are met:

(i) the asset is held within a business model with the objective of collecting the contractual cash flows; and

(ii) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

1. Significant accounting policies (continued)

Financial assets at fair value through profit or loss (FVPL)

The Group holds one asset at FVPL. This is a debt investment that does not qualify for measurement at amortised cost or fair value through other comprehensive income. This is a loan balance where the Group has an option to convert the loan into equity of the borrower. This assets has been measured at fair value with gains or losses recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, short term overdrafts, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial liabilities

Initial recognition and measurement

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequent measurement

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss. All interest-related charges are included within finance costs or finance income.

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

Deferred consideration is measured at fair value through profit or loss. The deferred consideration is fair valued and represents management's estimate of the deferred consideration which will be paid and is discounted. Further details on the contingent consideration balance is included in notes 15 and 16.

1.17 Dividends

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

1.18 Employee share option schemes

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

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

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

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

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

1. Significant accounting policies (continued)

1.19 Equity

Equity comprises the following:

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

1.20 New IFRS standards and interpretations not applied

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

Annual Improvements to IFRS Standards 2015-2017 Cycle 1 January 2019

IFRIC 23 Uncertainty over Income Tax Treatments 1 January 2019

IFRIC 22 Foreign Currency Transactions and Advance Consideration 1 January 2019

Amendments to IFRS 9: Prepayment Features with Negative Compensation 1 January 2019

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions 1 January 2019

IFRS 16 'leases' is effective for the Group for the year ended 31 March 2020 and replaces IAS 17 'leases'. Under this new standard, the distinction between operating and finance leases is removed and most leases will be brought onto the balance sheet, as both a right-of-use asset and a lease liability. There are two reliefs provided by IFRS 16 for assets of low value and short-term leases of less than 12 months.

IFRS 16 is effective from periods beginning on or after 1 January 2019. Early adoption is permitted; however, the Group have decided not to early adopt.

The right-of-use asset will be depreciated in accordance with the IAS 16 'Property, Plant and Equipment' and the liability will be adjusted for the accumulation of interest and lease payments. We intend to use the modified retrospective transitional approach meaning that the right-of-use asset and the lease liability will be brought onto the balance sheet using the discount rate applicable at the transition date. This will be based on the incremental cost of borrowing at 1 April 2019 where an interest rate is not implicit in the lease contract.

The Group is planning to adopt IFRS 16 on 1 April 2019 using the Standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to equity at the date of initial application. Comparative information is not restated.

Management is in the process of assessing the full impact of the standard. The Group has a number of vehicle leases which are current accounted for as operating leases. The remaining minimum lease payments in respect of these are disclosed in note 22. The impact of IFRS 16 will be to bring the right of use asset in respect of these leases onto the balance sheet with a corresponding liability. This treatment will increase operating profit and increase the interest expense.

1. Significant accounting policies (continued)

1.21 Exceptional Items

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

1.22 Standards, amendments and interpretations adopted during the year:

In these financial statements the Group has, with effect from 1 April 2018, adopted IFRS 9 and IFRS 15.

IFRS 9 'Financial Instruments' replaced IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets. When adopting IFRS 9, the Group has applied transitional relief and opted not to restate prior periods. On transition to IFRS 9 the Group has reclassified one asset as fair value through profit or loss. This has had no material impact on the profit or loss of the entity.

IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to 'IFRS 15'), replace IAS 18 'Revenue', IAS 11 'Construction Contracts, and several revenue related Interpretations. No differences arose on the transition to IFRS 15.

2. Critical accounting judgements and key sources of estimation uncertainty

2.1 Significant judgements and key sources of estimation uncertainty

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

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

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

Impairment of intangible assets and property, plant and equipment

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

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

Revenue

The adoption of IFRS 15 required the Group to identify its performance obligations, determine the transaction price and allocate this to the performance obligations and to recognise revenue when/as performance obligations are satisfied, which are the subject of key judgements. The directors have concluded that the sale of the connected device and the provision of data insight are separate performance obligations, based on their assessment of the nature and benefits of the goods and services including the level of customisation.

Intangible assets acquired in a business combination

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

Development costs

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

Deferred Consideration valuation following Vendman Acquisition

The directors have carefully considered the carrying value of the deferred consideration using the budget for the forthcoming financial year along with other potential contract wins and potential EBIT profit adjustments. Post calculating the deferred consideration, taking in to account these factors, the directors have calculated a credit to the income statement of £530k is required. No discounting has been applied due to the deferred consideration payable being within one year. If the forecast budgets are not achieved then this would result in a future change to the deferred consideration liability.

3. Segment reporting

Business segments

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

The products/services offered by each operating segment are:

Smart Zones: Data insight & actionable data services, design, product development, sale and rental of fluid monitoring equipment.

Smart Machines: Data insight & actionable data services, design product development, sale and rental of machine monitoring equipment.

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

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

3. Segment reporting (continued)

2019

Continuing Operations (post exceptional items)	**Smart Zones £000**	**Smart Machines £000**	**Corporate/ Technology £000**	**Total £000**
Total revenue	10,999	4,684	-	15,683
Pre-exceptional segment result	4,260	1,143	(2,872)	2,531
Exceptional costs	(141)	(109)	472	222
Post exceptional segment result	4,119	1,034	(2,400)	2,753
Finance costs	(63)	(54)	22	(95)
Profit/(loss) before taxation	4,056	980	(2,378)	2,658
Taxation				(178)
Profit for the year from continuing operations				2,480
Other information				
Additions to property, plant, equipment and intangible assets	616	753	970	2,339
Depreciation and amortisation	498	362	782	1,642

	Smart Zones £000	**Smart Machines £000**	**Corporate/ Technology £000**	**Total £000**
Segment assets	27,568	4,083	1,829	33,480
Unallocated assets	-	-	313	313
Total assets	27,568	4,083	2,142	33,793
Segment liabilities	7,028	-	234	7,262
Unallocated liabilities	-	-	972	972
Total liabilities	7,028	-	1,206	8,234

2018

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

3. Segment reporting (continued)

	Smart Zones £000	Smart Machines £000	Corporate/ Technology £000	Total £000
Segment assets	25,883	4,083	4,360	34,326
Unallocated assets	-	-	391	391
Total assets	25,883	4,083	4,751	34,717
Segment liabilities	8,606	-	225	8,831
Unallocated liabilities	-	-	872	872
Total liabilities	8,606	-	1,097	9,703

Analysis of revenue by category

	2019 £000	2018 £000
Continuing operations		
Sale of goods		
- Smart Zones and Smart Machines	893	1,402
Rendering of services		
- Smart Zones and Smart Machines	14,790	13,159
	15,683	14,561
Geographical analysis		
- United Kingdom	13,816	13,234
- Rest of Europe	1,483	1,013
- United States/Canada	384	314
	15,683	14,561

Major Clients

In 2019 there were two major clients that individually accounted for at least 10% of total revenues (2018: two clients). The revenues relating to these clients in 2019 were £2.53m and £2.51m (2018: £2.52m and £1.85m)

Both clients are in the Smart Zones segment.

4. Exceptional items

	2019 £000	2018 £000
Bolton rationalisation	-	(19)
Acquisition costs	-	231
Corporate restructuring and transitional costs	163	260
Deferred consideration release	(530)	-
Network obsolesce costs	107	43
Other	38	23
	(222)	538

Acquisition costs relate to fees paid to corporate advisors in respect of prospective acquisitions.

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

4. Exceptional items (continued)

The deferred consideration release refers to the acquisition of Vendman Systems Limited to where a proportion of the consideration was based upon results of the company for two years post acquisition. This balance has now been fair valued at the year end with the change in fair value recognised through the income statement

5. Profit for the year

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

	2019 £000	2018 £000
Employee benefits expense (note 21)	6,597	6,790
Depreciation of property, plant and equipment (note 12)	450	378
Amortisation of intangible assets (note 11)	1,192	865
Loss on disposal of property, plant and equipment	14	61
Operating lease rentals payable	200	196

Auditor's remuneration

Services to the company and its subsidiaries	2019 £000	2018 £000
Fees payable to the company's auditor for the audit of the annual financial statements	18	16
Fees payable to the company's auditor and its associates for other services:		
Audit of the financial statements of the company's subsidiaries pursuant to legislation	25	22
Audit related services – interim review	13	13
Other services relating to tax - taxation compliance services	8	7
Other services relating to tax – taxation advisory services	6	-
Other services – corporate acquisition advice	-	48
	70	106

6. Net finance costs

	2019 £000	2018 £000
Interest payable on bank borrowings	117	45
	117	45

	2019 £000	2018 £000
Interest receivable on bank deposits	22	17
	22	17

7. Taxation

Analysis of charge in period

	2019 £000	2018 £000
Current tax expense		
- Amounts in respect of the current year	-	-
- Amounts in respect of prior periods	-	-
	-	-
Deferred tax charge/credit		
- Amounts in respect of the current year	174	230
- Amendment re-recognition of losses	4	9
Income tax charge	178	239

Reconciliation of effective tax rate

The tax for the 2019 period is lower (2018 was lower) than the standard rate of corporation tax in the UK (2019: 19% and 2018: 19%). The differences are explained below:

	2019 £000	2018 £000
Profit before taxation		
- Continuing operations	2,658	2,226
Profit before taxation multiplied by rate of corporation tax in the UK of 19% (2018:19%)	505	423
Effects of:		
Other expenses not deductible for tax purposes	44	35
Non taxable income	(101)	-
Amortisation of intangibles	189	123
Losses not provided for	55	120
Adjustments for prior years	4	9
Research and development	(518)	(471)
Total tax charge	178	239

No deferred tax asset has been provided for in relation to the loss making US subsidiary

8. Earnings per share

Earnings per share has been impacted by the release of a deferred tax asset provision. After adjustment for the lower tax charge, the overall basic earnings per share for the year ended 31 March 2019 before exceptional costs increased to 8.08 pence compared to 8.50 pence at March 2018.

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders (£2,480k) by the weighted average number of ordinary shares outstanding during the period.

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

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

		2019			2018	
	Earnings £000	Basic earnings per share	Diluted earnings per share	Earnings £000	Basic earnings per share	Diluted earnings per share
Post-tax profit attributable to equity shareholders	2,480	8.87p	8.80p	1,809	6.55p	6.54p
Pre-tax profit attributable to equity shareholders	2,658	9.51p	9.43p	2,048	7.42p	7.40p
Pre-tax, pre-exceptional profit attributable to equity shareholders	2,436	8.71p	8.65p	2,586	9.36p	9.35p
Post-tax, pre-exceptional profit attributable to equity shareholders	2,258	8.08p	8.01p	2,347	8.50p	8.48p
Post-tax profit, pre deferred consideration release attributable to equity shareholders	1,950	6.97p	6.92p	1,809	6.55p	6.54p
Pre-tax profit, pre deferred consideration release attributable to equity shareholders	2,128	7.61p	7.55p	2,048	7.42p	7.40p

	2019 Number	2018 Number
Weighted average number of ordinary shares	27,959,532	27,613,719
Dilutive effect of share options	216,908	54,259
Diluted weighted average number of ordinary shares	28,176,440	27,667,978

9. Ordinary dividends

	2019 £000	2018 £000
Final dividend for the year ended 31 March 2018 of 4.0p (year ended 31 March 2017: 4.0p)	1,108	1,096
Interim dividend paid in respect of the year of 1.70p (2018: 1.70p)	477	466
Amounts recognised as distributions to equity holders	1,585	1,562

In addition, the directors are proposing a final dividend in respect of the year ended 31 March 2019 of 4.0p per share. If approved by shareholders, it will be paid on 26 July 2019 to shareholders who are on the register of members on 14 June 2019. Total dividend payable 5.70p (2018: 5.70p).

10. Goodwill

Group	2019 £000	2018 £000
Cost		
At 1 April	17,975	15,503
Addition	-	2,472
At 31 March	17,975	17,975
Accumulated impairment losses		
At 1 April and 31 March	-	-
Net book amount	17,975	17,975

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

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

	2019 £000	2018 £000
Smart Zones	15,503	15,503
Smart Machines	2,472	2,472
Carrying amount 31 March	17,975	17,975

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

Budgeted profit and cash flow forecasts for the financial year ended 31 March 2020 were extrapolated for a five year period using sector growth assumptions and used as the basis for the impairment review. The key assumption included within these is a improvement in profitability, based on committed (medium to long term contracts) and pipeline orders.

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

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

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

If sector growth assumption rates were applied at 3% and a discount rate assumption of 15% was applied, the Smart Zones nor the Smart Machines segment would require no impairment.

If sector growth assumption rates were applied at 0% and a discount rate assumption of 15% was applied, the Smart Zones nor the Smart Machines segment would require no impairment.

11. Other intangible assets

Group	Capitalised development £000	Order book £000	Software £000	Customer contracts £000	Patents £000	Total £000
Cost						
At 31 March 2017	4,739	281	262	1,445	93	6,820
Internally generated development costs	1,456	-	-	-	-	1,456
Business acquisitions	-	-	-	1,784	-	1,784
Additions	44	-	100	-	10	154
At 31 March 2018	6,239	281	362	3,229	103	10,214
Internally generated development costs	1,524	-	-	-	-	1,524
Additions	-	-	4	-	10	14
At 31 March 2019	7,763	281	366	3,229	113	11,752
Amortisation						
At 31 March 2017	2,848	281	205	1,445	41	4,820
Charge for the year	626	-	53	178	8	865
At 31 March 2018	3,474	281	258	1,623	49	5,685
Charge for the year	788	-	39	356	9	1,192
At 31 March 2019	4,262	281	297	1,979	58	6,877
Net book amount						
At 31 March 2019	3,501	-	69	1,250	55	4,875
At 31 March 2018	2,765	-	104	1,606	54	4,529

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

The £1,524,000 of capitalised development costs represents expenditure developing technological advancements to ensure the group is at the forefront of technology that fulfils the requirement of IAS 38. These costs will be amortised over the future commercial life of the related product, commencing on the sale of the first commercial unit.

Included within the net book value of capitalised development is £2,880,000 relating to research and development in progress

12. Property, plant and equipment

Group	Freehold Land and buildings £000	Plant, vehicles and equipment £000	Fixtures and fittings £000	Total £000
Cost				
At 31 March 2017	3,125	918	3,174	7,217
Additions	-	311	87	398
Acquisitions	141	-	53	194
Disposals	-	(271)	(1,217)	(1,488)
At 31 March 2018	3,266	958	2,097	6,321
Additions	-	724	77	801
Disposals	-	(186)	(84)	(270)
At 31 March 2019	3,266	1,496	2,090	6,852
Accumulated depreciation				
At 31 March 2017	654	602	2,892	4,148
Charge for the year	68	172	138	378
Acquisitions	7	-	48	55
Disposals	-	(209)	(1,217)	(1,426)
At 31 March 2018	729	565	1,861	3,155
Charge for the year	73	241	136	450
Disposals	-	(172)	(84)	(256)
At 31 March 2019	802	634	1,913	3,349
Net book amount				
At 31 March 2019	2,464	862	177	3,503
At 31 March 2018	2,537	393	236	3,166

13. Inventories

	2019 £000	2018 £000
Raw materials	1,801	1,231
Write down on raw materials	(131)	(146)
	1,670	1,085

No reversal of previous write-downs was recognised as a reduction of expense in 2019 or 2018. In 2019 £2,025,000 (2018: £1,768,000) was included in the statement of comprehensive income under cost of sales. None of the inventories are pledged as securities for liabilities.

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

14. Trade and other receivables

	2019 £000	2018 £000
Trade receivables	2,866	2,225
Other receivables	259	259
Prepayments and accrued income	544	762
	3,669	3,246

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

Of the other receivables £200,000 relates to a related party, Screenreach Interactive Limited, of which the Chairman of Vianet Group plc is also Chairman of Screenreach Interactive Limited. This balance has an option to convert into shares and as such this balance has been designated at fair value through profit or loss. The Directors believe the amount will be recovered in full. No interest is charged on this balance and it is repayable on demand.

The carrying amounts of trade and other receivables are considered to be reasonable approximations to fair value.

The Group's trade receivables have been reviewed for expected credit losses. Provisions have been made amounting to £14,000 (2018: £34,000). It is considered that expected credit loss for receivables balances less than six months is immaterial. Movements on provisions for doubtful debts on trade receivables are as follows:

	£000
Loss allowance as at 1 April 2018 calculated under IAS 39	34
Loss allowance unused and reversed during the year	(20)
Loss allowance as at 31 March 2019	14

The expected credit loss for trade receivables as at 31 March 2019 was determined as follows:

	Current	Less than 3 months	Less than 6 months	More than 6 months	Total
Expected credit loss rate	0%	0%	0%	88%	-
Gross carrying amount	1,456	1,146	262	16	2,880
Lifetime expected credit loss	-	-	-	14	14

15. Trade and other payables

	2019 £000	2018 £000
Trade payables	881	1,479
Other taxation and social security	524	550
Corporation tax liability	-	20
Accruals and deferred income	1,093	1,396
Deferred consideration	1,640	991
	4,138	4,436

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

Deferred income arises when a customer pays the Group in advance (in advance is defined at more than one monthly period) for unfulfilled performance obligations relating to data insight. In the year this balance has reduced as the Group recognises revenue as it provides data insight. The entity has contracts spanning from two to four years at the year end. The deferred income will be released to the income statement as the performance obligations are met.

15. Trade and other payables (continued)

Deferred consideration has been included in both current liabilities and other payables due to the nature of the maturity. The Group have two deferred consideration liabilities, one from the acquisition of Vendman Systems Limited in October 2017 and one from the acquisition of Lookoutsolutions Limited in October 2011.

The deferred consideration period for Vendman Systems Limited was two years to September 2019 and for Lookoutsolutions Limited was 10 years to March 2022. The expected cash outflow in respect of the Vendman Systems Limited deferred consideration has not been discounted as it is payable in October 2019. The expected cash outflows in respect of the Lookoutsolutions Limited deferred consideration have been discounted by 12%.

16. Other payables

	2019 **£000**	**2018** **£000**
Deferred consideration	139	1,339
	139	1,339

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

Deferred consideration has been included in both current liabilities and other payables due to the nature of the maturity. The Group have two deferred consideration liabilities, one from the acquisition of Vendman Systems Limited in October 2017 and one from the acquisition of Lookoutsolutions Limited in October 2011.

The deferred consideration period for Vendman Systems Limited was two years to September 2019 and for Lookoutsolutions Limited was 10 years to March 2022. The expected cash outflow in respect of the Vendman Systems Limited deferred consideration has not been discounted as it is payable in October 2019. The expected cash outflows in respect of the Lookoutsolutions Limited deferred consideration have been discounted by 12%

17. Borrowings

Current	**2019** **£000**	**2018** **£000**
Bank overdraft	990	402
Bank loans	662	660
	1,652	1,062

Non-current	**2019** **£000**	**2018** **£000**
Bank loans	1,333	1,994
	1,333	1,994

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

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

	2019 **%**	**2018** **%**
Bank overdrafts - floating rates	2.5	2.5
Bank borrowings - floating rates	1.5	1.5

17. Borrowings

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

	2019 £000	2018 £000
Between one and two years	662	660
Between two and five years	671	1,334
	1,333	1,994

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

None of the above cash flows have been discounted

18. Financial Instruments

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

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

Foreign currency sensitivity

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

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

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

Denominated in US Dollars	2019 $000	2018 $000
Financial assets	97	39
Financial liabilities	-	-
Exposure	97	39

Denominated in Euros	2019 €000	2018 €000
Financial assets	15	86
Financial liabilities	-	-
Exposure	15	86

The Group has no long term foreign exchange exposure.

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

18. Financial Instruments (continued)

Credit risk analysis

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

	2019 £000	2018 £000
Cash and cash equivalents	1,788	4,324
Trade and receivables	3,125	2,484
	4,913	6,808

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

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

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

Liquidity risk analysis

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

Categories of financial assets and financial liabilities

Accounting policy 1.16 provides a description of each category of financial assets and liabilities and the related accounting policies. The carrying amounts of financial assets and financial liabilities in each category are as follows:

31 March 2019 **Financial assets**	**Amortised cost** **£000**	**FVTPL** **£000**
Cash and cash equivalents	1,788	-
Trade and other receivables	2,925	-
Debenture	-	200
Total assets	**4,713**	**200**

31 March 2019 **Financial liabilities**	**Amortised cost** **£000**	**FVTPL** **£000**
Non current borrowings	1,333	-
Current borrowings	1,652	-
Trade payables	881	-
Deferred consideration	-	1,779
Total financial liabilities	3,866	1,779

18. Financial Instruments (continued)

The financial instrument classifications in the prior period are in accordance with IAS 39 as follows:

Financial assets	**Loans and receivables £000**
Cash and cash equivalents	4,323
Trade and receivables	2,484
Total assets	6,807

Financial liabilities	**Amortised cost £000**
Non current borrowings	1,994
Current borrowing	1,652
Trade payables	1,479
Deferred consideration	2,330
Total financial liabilities	7,455

Capital management policies and procedures

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

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

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

	2019 £000	**2018 £000**
Total equity	25,559	25,014
Less cash equivalents	(1,788)	(4,324)
	23,771	20,690

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

Fair value measurements

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability.

18. Financial Instruments (continued)

The following table shows the levels within the hierarchy of financial assets and liabilities measured at fair value on a recurring basis:

31 March 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Debenture	-	-	200	200
Total financial assets			200	200

31 March 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial liabilities				
Deferred consideration	-	-	1,179	1,179
Total financial liabilities			1,179	1,179

The following valuation techniques are used for instruments categorised as level 3:

Debenture

The fair value of this balance is based on the expected future cash flows to be received from the entity, taking into consideration a risk premium.

Contingent consideration

The fair value of the contingent consideration related to the acquisitions of Vendman Systems Limited and Lookout Solutions Limited are estimated using a present value technique. The fair value is estimated based on the expected target level achieved. The inputs into the fair value have been disclosed in notes 2.1, 15 and 16.

19. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19% (2018: 19%).

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

Deferred tax asset

	2019 £000	2018 £000
At 1 April	391	460
Profit and loss credit in respect of losses utilised	(78)	(69)
At 31 March	313	391

Deferred tax liability

	2019 £000	2018 £000
At 1 April	(872)	(395)
On acquisition of subsidiary	-	(308)
Profit and loss credit in respect of timing differences	(100)	(169)
At 31 March	(972)	(872)

19. Deferred tax (continued)

Deferred tax has been recognised during the year in respect of tax losses in certain of the group's subsidiaries as the Directors believe there is sufficient certainty over the extent and timing of their recovery to do so. Included in the amount of £313k (2018: £391k) are amounts of £313k relating to tax losses (2018: £391k).

The group has unused tax losses amounting to £nil (2018: £nil) for which no deferred tax asset has been recognised

20. Issued share capital

	2019 £000	2018 £000
Issued and fully paid		
Ordinary shares of 10p each: 28,738,414 (2018: 28,723,414)	2,874	2,872

Own shares

The Group accounts for its own shares held by the Trustees of the employee option scheme as a deduction from shareholders equity. At 31 March 2019, the Trust owned 230,107 shares (2018: 568,470 shares) with a nominal value of £23,011 (2018: £56,847).

At 31 March 2019, Vianet Group plc owned 456,000 shares (2018: 456,000 shares) with a nominal value of £45,600 (2018: £45,600), all held in treasury.

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

Dividends payable on these shares have been waived.

21. Employees and directors

Employee benefit expense during the period

	2019 £000	2018 £000
Wages and salaries	5,739	5,903
Social security costs	523	538
Pension costs	203	207
Share based payments	132	142
	6,597	6,790

Average monthly number of people (including directors) employed

	2019 Number	2018 Number
Sales	10	9
Engineering	31	33
Volume Recovery	7	4
Management	10	11
Administration	112	117
	170	174

21. Employees and directors (continued)

Key management personnel - Directors

Group	2019 £000	2018 £000
Short term employment benefits	641	596
Pension contributions	19	22
Share based payments	132	142
	792	760

During the year one (2018: one) directors had benefits accruing under defined contribution pension schemes.

Highest paid director

	2019 £000	2018 £000
Short term employment benefits	243	242
Pension contributions	-	-
	243	242

22. Operating lease commitments

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

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

Group	Motor Vehicles £000	Land and Buildings £000	2019 Total £000	2018 Total £000
Within one year	182	-	182	174
After one year and less than five years	108	-	108	265
	290	-	290	439

23. Share-based payments

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

23. Share-based payments (continued)

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

	2019		2018	
	Number of share options	Weighted average exercise price(p)	Number of share options	Weighted average exercise price(p)
At start of the financial year	1,038,550	92.9	1,601,300	91.5
Exercised	(15,000)	(89.0)	(296,250)	(88.3)
Granted	30,000	120.0	-	-
Forfeited	(36,000)	(133.9)	(266,500)	(90.0)
Lapsed	-	-	-	-
At end of financial year	1,017,550	92.3	1,038,550	92.9
Exercisable at end of financial year	987,550	91.2	654,550	90.4

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

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

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

The Group recognised an expense of £132,000 (2018: £142,000) in relation to equity settled share-based payment transactions in the year.

Long Term Incentive Plan

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

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

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

23. Share-based payments (continued)

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

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

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

24. Related party transactions

IAS 24 (Related party transactions) requires the disclosure of the details of material transactions between reporting entities and related parties. Transactions with group entities are eliminated on consolidation. C Williams, a non-executive director, invoiced Vianet Group plc for fees totalling £30,387 (2018: £30,188). As at 31 March 2019, there was £nil outstanding (2018: £nil). D Coplin, a non-executive director, invoiced Vianet Group plc for fees totalling £31,709 (2018: £nil). As at 31 March 2019 there was £nil outstanding (2018: £nil).

25. Net Debt Reconciliation

	Cash/bank overdraft £000	Borrowings due within one year £000	Borrowings due after one year £000	Total £000
Net debt as at 1 April 2017	4,549	(325)	(778)	3,446
Cash flows	(627)	(335)	(1,216)	(2,178)
Net debt as at 31 March 2018	3,922	(660)	(1,994)	1,268
Net debt as at 1 April 2018	3,922	(660)	(1,994)	1,268
Cash flows	(3,124)	(2)	661	(2,465)
Net debt as at 31 March 2019	798	(662)	(1,333)	(1,197)

26. Alternative Performance Measures

	2019 £000	2018 £000
Operating profit	2,753	2,076
Add back/(deduct):		
Amortisation charge	1,192	865
Share based payments charge	132	142
Exceptional items (credit)/charge	(222)	538
Adjusted operating profit	3,855	3,621

26. Alternative Performance Measures (continued)

	2019 £000	2018 £000
Operating cash generation	3,495	3,523
Add back:		
LTIP tax payment	495	-
Adjusted operating cash generation	3,990	3,523

	2019 £000	2018 £000
Net cash generation	1,541	2,974
Add back:		
LTIP tax payment	495	-
Adjusted net cash generation	2,036	2,974

COMPANY BALANCE SHEET

at 31 March 2019

	Note	2019 £000	2018 £000
Fixed assets			
Investments in subsidiaries	2	4,946	4,941
Other intangible assets	3	50	50
Tangible assets	4	12	18
		5,008	5,009
Current assets			
Debtors	5	10,820	7,822
Cash at bank		1,700	4,217
		12,520	12,039
Creditors: amounts falling due within one year	6	(241)	(237)
Net current assets		12,279	11,802
Net assets		17,287	16,811
Capital and reserves			
Ordinary share capital	7	2,874	2,872
Share premium	8	11,530	11,519
Share based payment reserve	8	314	483
Own shares	8	(754)	(1,115)
Merger reserve	8	310	310
Retained earnings	8	3,013	2,742
Total equity		17,287	16,811

The company's profit for the financial year was £2,424,000 (2018: £2,398,000).

The balance sheet was approved by the Board on 5 June 2019 and signed on its behalf by:

J Dickson
Director
Company number: 5345684

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

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2019

	Share capital £000	Share premium £000	Own shares £000	Share based payment reserve £000	Merger reserve £'000	Retained earnings £000	Total £000
At 1 April 2017	2,843	11,287	(1,227)	418	310	1,829	15,460
Dividends	-	-	-	-	-	(1,562)	(1,562)
Issue of shares	29	232	-	(50)	-	50	261
Exercise of options	-	-	112	-	-	-	112
Share based payment	-	-	-	115	-	27	142
Total transactions with owners	29	232	112	65	-	(1,485)	(1,047)
Profit and total comprehensive income for the year	-	-	-	-	-	2,398	2,398
At 31 March 2018/1 April 2018	2,872	11,519	(1,115)	483	310	2,742	16,811
Dividends	-	-	-	-	-	(1,585)	(1,585)
Issue of shares	2	11	-	-	-	-	13
Share based payment	-	-	-	132	-	-	132
Share option forfeiture	-	-	-	(2)	-	2	-
LTIP exercise	-	-	361	(299)	-	(570)	(508)
Total transactions with owners	2	11	361	(169)	-	(2,153)	(1,948)
Profit and total comprehensive income for the year	-	-	-	-	-	2,424	2,424
At 31 March 2019	2,874	11,530	(754)	314	310	3,013	17,287

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

NOTES TO THE COMPANY BALANCE SHEET

1. Principal accounting policies

1.1 Statement of compliance

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

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

The financial statements are presented in Sterling (£)

1.2 Disclosure exemptions

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

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

1. Principal accounting policies (continued)

1.3 Income taxes

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

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

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

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

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

Deferred tax liabilities are generally recognised in full with the exception of the following: on the initial recognition of goodwill on investments in subsidiaries and joint ventures where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future on the initial recognition of a transaction that is not a business combination and at the time of the transaction affects neither accounting or taxable profit.

Deferred tax liabilities are not discounted.

1.4 Investment in subsidiaries

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

1.5 Employee share option schemes

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

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

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

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

1. Principal accounting policies (continued)

1.6 Tangible assets

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

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

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

Fixtures and fittings	4 years

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

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

1.7 Intangible assets

Patents

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

Software

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

Amortisation

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

Trademarks	expected length of trademark
Purchased software	4 years

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

1.8 Own shares

The Group holds its own shares in treasury and in Trust for the settlement of any share based payment schemes. The Trust has been aggregated for the company only financial statements.

2. Investments in subsidiaries

Company	**2019** **£000**	**2018** **£000**
Cost and net book amount:		
Shares in subsidiaries		
At 1 April	4,941	4,929
Additions	5	12
At 31 March	4,946	4,941

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

2. Investments in subsidiaries (continued)

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

Subsidiary	Shareholding	Country of incorporation	Principal activity
Energy Level Systems Limited	100%	UK	Dormant
Brulines Group Limited	100%	UK	Dormant
Vianet Americas Inc	100%	USA	Leisure Solutions
Vianet Limited	100%	UK	Leisure Solutions

Brulines Limited, Machine Insite Limited and Vendman Systems Limited, are indirect investments via Vianet Limited in Leisure.

3. Other intangible assets

	Patents £000	Software £000	Total £000
Cost			
At 31 March 2017	65	165	230
Additions	10	-	10
At 31 March 2018	75	165	240
Additions	11	-	11
At 31 March 2019	86	165	251
Amortisation			
At 31 March 2017	21	138	159
Charge for the year	7	24	31
At 31 March 2018	28	162	190
Charge for the year	8	3	11
At 31 March 2019	36	165	201
Net book amount			
At 31 March 2019	50	-	50
At 31 March 2018	47	3	50

4. Tangible Assets

	Fixtures and fittings £000
Cost	
At 31 March 2017	37
Additions	2
At 31 March 2018	39
Additions	3
At 31 March 2019	42
Accumulated depreciation	
At 31 March 2017	12
Charge for the year	9
At 31 March 2018	21
Charge for the year	9
At 31 March 2019	30
Net book amount	
At 31 March 2019	12
At 31 March 2018	18

5. Debtors

	2019 £000	2018 £000
Amounts due from subsidiaries	10,733	7,734
Other debtors	67	75
Other taxation	20	13
	10,820	7,822

All intercompany debt is repayable on demand. Interest is charged at base rate plus 2.5%

The amounts due from subsidiaries have been reviewed for expected credit losses. It is considered that expected credit loss for these balances is immaterial and as such no credit loss provision has been provided for these items.

6. Creditors: amounts falling due within one year

	2019 £000	2018 £000
Other payables	48	59
Accruals and deferred income	193	178
	241	237

7. Issued share capital

	2019 £000	2018 £000
Issued and fully paid		
Ordinary shares of 10p each: 28,738,414 (2018: 28,723,414)	2,874	2,872

Allotments during the year

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

8. Share capital and reserves

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

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

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

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

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

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

9. Dividends

	2019 £000	2018 £000
Final dividend for the year ended 31 March 2018 of 4.0p (year ended 31 March 2017: 4.0p)	1,108	1,096
Interim dividend paid in respect of the year of 1.70p (2018: 1.70p)	477	466
Amounts recognised as distributions to equity holders	1,585	1,562

In addition, the directors are proposing a final dividend in respect of the year ended 31 March 2019 of 4.0p per share. If approved by shareholders, it will be paid on 26 July 2019 to shareholders who are on the register of members on 14 June 2019. Total dividend payable 5.70p (2018: 5.70p).

10. Employees and directors

Employee benefit expense during the period

	2019 £000	2018 £000
Wages and salaries	592	542
Social security costs	75	71
Pension costs	19	22
Share based payments	132	142
	818	777

Average monthly number of people (including directors) employed

	2019 Number	2018 Number
Management	5	5
	5	5

11. Directors

	2019 £000	2018 £000
Directors' emoluments	641	596
Pension contribution	19	22
	660	618

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

	2019 £000	2018 £000
Directors' emoluments	243	242
Pension contribution	-	-
	243	242

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

12. Share-based payments

The company disclosures required under FRS 101 are identical to those required under IFRS. See Group accounts, note 23, for details.

13. Parent Company Profit and Loss Account

The parent company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The parent company's loss for the financial year was £576,000 (2018: loss £602,000).

14. Related Party Transactions

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

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

IAS 24 (Related party transactions) requires the disclosure of the details of material transactions between reporting entities and related parties. Transactions with group entities are eliminated on consolidation. C Williams, a non-executive director, invoiced Vianet Group plc for fees totalling £30,387 (2018: £30,188). As at 31 March 2019, there was £nil outstanding (2018: £nil). D Coplin, a non-executive director, invoiced Vianet Group plc for fees totalling £31,709 (2018: £nil). As at 31 March 2019 there was £nil outstanding (2018: £nil).

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

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