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**CONSOLIDATED ANNUAL REPORT & ACCOUNTS**  
YEAR ENDED 31 MARCH 2020

**VIANET** GROUP PLC  
DATA. REIMAGINED.

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# WHO ARE WE

Vianet Group plc is a leading Business to Business (“b2b”) provider of actionable management information and business insight created through combining data from our customers assets with our smart, cloud based, Internet of Things (‘IOT’) solutions. We deliver critical insight and analysis that drives superior operational performance. With over 300 customers and more than 224,000 connected devices across the UK, Europe and the US, Vianet’s experience and knowledge combine to form a powerful proprietary technology and insight capability that few can match.

Vianet operates in two core business verticals. Our **Smart Machines** solution is designed for the unattended coffee, snack and soft drink vending machine market, and our **Smart Zones** solution is designed for the pub and hospitality industry, both connecting customers to their assets and delivering powerful insights and analytics in real time

In both our **Smart Machines** and **Smart Zones** divisions, we connect 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.

Smart Machines is one of the largest b2b connected solutions providers in Europe with established long-term relationships with major industry players and growing recurring revenues which comprise c. 90% of total revenues. The acquisition of Vendman Systems Limited (“Vendman”) in 2017 resulted in a further c. 200,000 machines connected via mobile technology, the majority of which will, over time, become higher value Smart Machines connections.

Value is created by connecting customers to their assets to gather data from which insight and analytics support improved decision-making and an end-to-end contactless payment solution. This drives sales growth and reduced operating costs. The outcome for our clients is increased asset utilisation, improved operational performance and more informed customer decision-making.

We achieve this by;

- Identifying asset performance opportunities to drive increase utilisation and significantly reduce servicing cost;
- Providing alerts on fault conditions and product availability so that asset uptime and sales can be maximised;
- Tracking real-time sales performance to support more efficient resource planning and improving cash management through more frequent invoicing;

- Defining potential new procedures, revenue streams, automation services, and incorporating these into the customers’ existing processes; and
- Reducing customer dependency on ‘dirty’ hard cash, and materially improving cash flow and driving sales growth.

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:

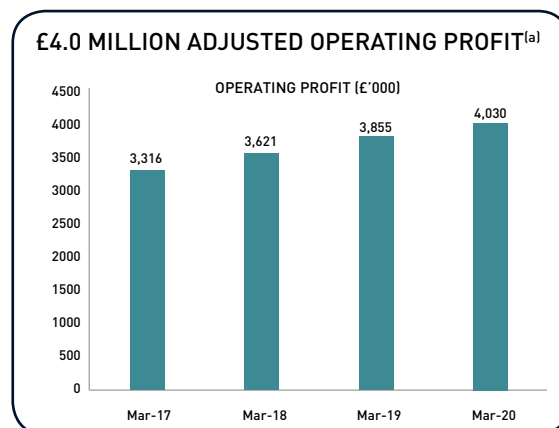
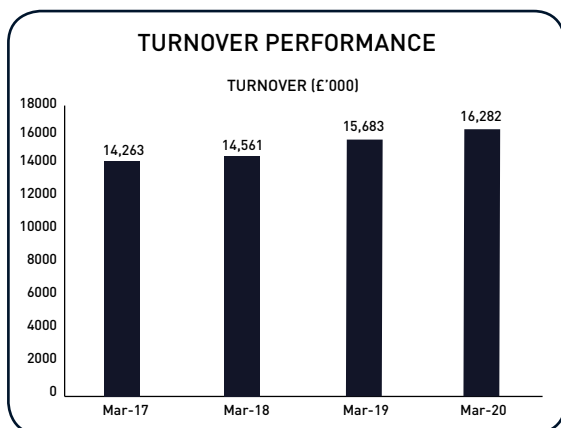
- Combining an industry leading ability to connect customers to their assets via our smart devices and IOT platform, with powerful data analytics tools to deliver critical insight and information
- Continuously striving to be a business that is passionate about developing innovative solutions by employing 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 revenue streams that facilitate ongoing product development.

Whilst our technologies were developed for unattended retailing and hospitality, the flexibility and functionality of our Smart Devices offer multiple applications which can be connected to practically any machine that has a data output. The device used in our Smart Machines division is also the same device used to both connect our contactless payment solution and communicate payment terms to our cloud-based payment services providers.

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 Electronic Point of Sale (‘EPOS’) equipment or machine condition sensors, as well as from externally hosted 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

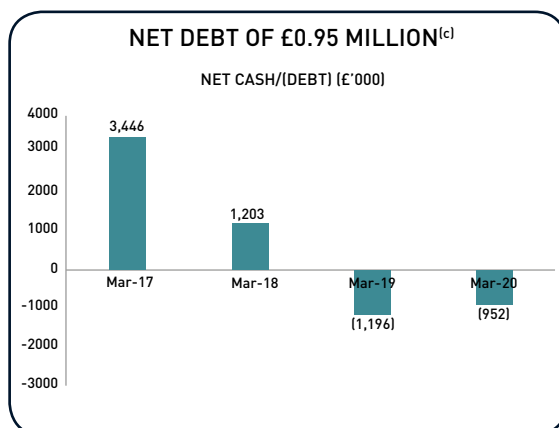
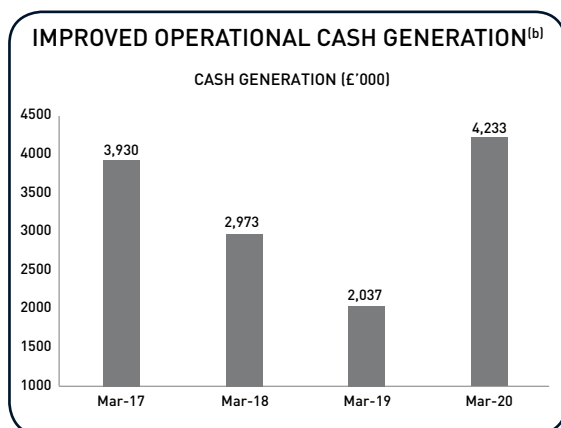


RECURRING REVENUE

**92%**  
(2019: 94%)

ADJUSTED<sup>(a)</sup> OPERATING  
PROFIT GROWTH (YOY)

**4.5%**



BASIC EPS

**8.56P**  
(2019: 8.87p)

NEW CONNECTIONS

**13,860**  
(2019: 11,330)

Note:

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

b) 2020 figure is pre LTIP tax payment of £17k, 2019 figure is pre LTIP tax payment of £496k

c) Net debt is post annuity stock investment and R&D acceleration

# OPERATIONAL HIGHLIGHTS

Our business has two divisions: Smart Machines and Smart Zones.

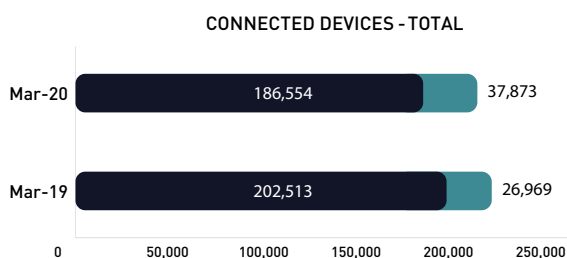
Smart Machines connections grew by c. 12,000 to c. 38,000 in the year, excluding the Vendman estate of c. 200,000 mobile connections. Our plan is to convert the majority of these Vendman connections to higher value Smart Machines connections with some 8,600 now converted.

The Smart Zones division has performed well, maintaining profit contribution despite continued pub disposals in the UK but helped by our Tech Refresh programmes.

The Group's Smart Zones connected device base remains significant with c. 187,000 devices in c. 12,000 premises in the UK and USA.

## SMART ZONES

- Technology upgrades in 2,518 pubs (2019: 1,901 pubs) creating IOT hubs, with a further 900 in the pipeline for FY21.
- c. 1,800 new drinks monitoring connections in the UK resulting from 151 new system installations in pubs (2019: 88 system installations).
- Several key contract renewals including Charles Wells, Greene King, Hawthorn, Hydes, JW Lees, and Punch.



## SMART MACHINES

- 12,059 new connected devices (2019: 10,285).
- Highest level of Payment Card industry compliance (PCI-DSS level 1) was re-confirmed in September 2019 for Contactless Payment deployment.
- Three significant new 3 – 5-year contracts with leading vending operators. The combined contracts for 20,000 units will generate in the region of £10 million of revenue over the contract terms,
- Smart Machines adjusted operating profit of £1.53 million grew 8.5% from £1.41 million.
- Post period Enterprise Resource Planning ("ERP") contract win with revenue of c. £400k over the three-year term.

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# COMPANY INFORMATION

<b>Directors</b>	J W Dickson (Chairman) S W Darling (Chief Executive Officer) M H Foster (Chief Financial Officer) D C Coplin (Non-Executive Director) C Williams (Non-Executive Director)
<b>Secretary</b>	M H Foster
<b>Registered office</b>	One Surtees Way Surtees Business Park Stockton on Tees TS18 3HR
<b>Registered number</b>	05345684
<b>Auditors</b>	Grant Thornton UK LLP No 1 Whitehall Riverside Leeds LS1 4BN
<b>Bankers</b>	Lloyds Banking Group plc 1st Floor Black Horse House 91 Sandyford Road Newcastle NE1 8HQ
<b>Nominated Adviser</b>	Cenkos Securities plc 6. 7. 8. Tokenhouse Yard London EC2R 7AS
<b>Stockbroker</b>	Cenkos Securities plc 6. 7. 8. Tokenhouse Yard London EC2R 7AS
<b>Solicitors</b>	Gordons LLP Riverside West Whitehall Road Leeds LS1 4AW
<b>Registrars</b>	Link Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

# COVID-19 (“C19”) REPORT

## **Proactive Initial Response to Management of C19**

There is nothing like a crisis to create a common sense of purpose and provide an opportunity to demonstrate leadership. From the very outset, our goal has been to preserve cash to ensure both business continuity and to enable ongoing investment in the business with the aim of being strongly positioned for the C19 exit phase. To this end we have been proactive on a number of fronts:

### **Commercial Approach**

- The majority of our Smart Zones customers have signed up to a new and reduced weekly charge. The result of this variation is that approximately 25% of our recurring revenue income is protected. Prior to the mandatory pub closures by the Government, we contacted all of our customers to confirm our business continuity preparations and our commercial response to C19. These plans, which were well received by customers, provided the option to continue contracts at a reduced rate during shutdown rather than incur a more costly future reconnection charge.
- For our Smart Machines customers, we proactively introduced reduced monthly charges for Vending machines with no activity. There have been mixed trading impacts for customers. Some vending machines, including those for essential workers, are trading very well, whereas those in city centre offices have seen little or no sales. For vending machines which are subject to lockdown in closed offices, we provided the option of a reduced weekly charge rather than the more costly option of a future reconnection. Encouragingly, approximately 70% of machines have remained active and we are seeing an increase in demand and usage of our contactless payment solution rather than ‘dirty’ coins.
- Both these initiatives have been extremely well received and bodes well for relationships during the exit and recovery phase from C19.

### **Technology**

- We have been working hard in recent weeks to drive our Technology roadmap forward and also progress some exciting new product development opportunities, including potential new verticals for our contactless payment solution, new features for Smart Zones customers, and establishing a C19 sanitisation service for pubs and bars.

### **Government Assistance**

- Vianet moved swiftly to utilise the Governments Job Retention scheme and almost 60% of our 155 employees are now furloughed, whilst the balance are working from home.
- The business also secured a £3.5 million Coronavirus Business Interruption Loan (“CBIL”) which provides some comfort should there be a

prolonged recovery period. Our aim is that the CBIL will be used for maintaining investment in growth rather than day-to-day business.

### **Our People**

- Systems and processes are in place to support both retained and furloughed employees through what may be difficult and mentally challenging times. Microsoft Teams is being used extensively to maintain strong two-way communication across the business to ensure that we keep everyone fully engaged regardless of status or role.

Taking account of our current cash, available resources and possible worst case forecasts, the actions that we have already taken will provide us with a healthy cash runway into 2021, protecting our business for a period well beyond official indications of the likely duration of the crisis.

Whilst these are still early days, we are encouraged that April’s trading performance was well ahead of our prudent C19 re-forecasted loss, giving us confidence that we are well positioned going forward.

### **C19 exit strategy**

The business impact of C19 has been markedly different in each of our divisions.

For Smart Zones, the overnight closure of pubs meant that the full range of insight and analytics required to support compliance and retail services were temporarily no longer required by our customers. This has been a significant challenge, however, it has also provided opportunities for wider engagement with our customers and acceleration of our product roadmap. In addition to ongoing compliance information, our customers are increasingly seeking trading data to improve decision-making during the exit phase. There is also an increasing desire to embrace digital capability to improve efficiency and to enable more frictionless delivery both back of house and front of house to consumers.

In contrast, activity levels in our Smart Machines Division has seen only marginal declines due to many unattended retail assets being installed in sites where essential workers were still required. Importantly we anticipate that the C19 crisis will accelerate the growing business requirement and industry trend for telemetry and contactless payment solutions.

### **Pub market recovery and implications for Smart Zones**

Current thinking suggests that the mandatory closure of pubs could be removed as early as July with strict social distancing criteria required.

The existing two metre social distancing guidelines would likely restrict capacity in a pub to around 30% of maximum, well below profitable levels. By contrast a move from the current two metres to one metre, now being used in France, will restrict capacity to around 70% of maximum.



The social distancing requirements may put extreme pressure on the viability of city centre pubs whereas the average community-based leased and tenanted pubs are likely to fare better.

This could mean that some pubs will decide not to re-open whilst the existing social distancing measures remain in place.

It is also likely that some 15-20% of managed estates may also not open immediately, whilst others will only be able to open if they are successful in finding some way to effectively manage their existing cost base.

Our core Leased & Tenanted customers are likely to be highly proactive in exploring all possible avenues to ensure they find effective ways to re-open from the outset:

- Self-employed tenants are generally more entrepreneurial and creative than managers
- Tenants may be able to work longer hours to reduce staff costs
- Pubco's may be able to flex rents during the recovery period – with the potential to use Smart Zones data to validate trading levels
- Community-based pubs are more likely to work with locals to find ways to re-open effectively.

Whilst pubs may find ways of resuming operations, consumer confidence is likely to be impacted. A recent MCA Insight snap poll identified that a majority of consumers were either "worried" or "very worried" about the prospect of eating or drinking out.

In the absence of a vaccine, rebuilding consumer confidence is likely to require focus on three key areas:

- Hyper Clean – everything from cutlery to toilets – even sachets of ketchup will need to be clean and perceived as being clean.
- Frictionless – finding ways of demonstrating less handling of everything in the consumer experience, for example, drinks pre-ordering apps with serve at table.
- Employee welfare – effective PPE for staff and employee training and welfare.

Consumers will want to know that retailers are proactively managing the C19 threat.

### **Smart Zones are well positioned to navigate the C19 exit and recover strongly**

We are currently running at 25-30% of weekly service pack charges during mandatory closure and we are working proactively to support our customers during this difficult time.

When pubs are allowed to re-open, albeit with social distancing conditions, we anticipate that:

- In those pubs remaining closed we will receive 30% of normal weekly charges.
- In pubs which are able to open we will invoice 70% of weekly charges for a period of time which will remain under review.

Draught beer insights will be vital to our customers in order to better understand tenant and lessee trading performance and patterns during the C19 exit phase. Consequently, we have already received orders and enquiries for installations of new systems.

Our Smart Zones product roadmap has been accelerated during the crisis to bring new features and functionality which will generate increased customer interest. These include automated line cleaning manager, automated till variance alerts, market data provision, and interface with labour management.

In the past month, in partnership with Filta Group Holdings plc, we have introduced Vianet SmartShield, which is a C19 sanitisation service which kills C19 and provides 30 day protection. The solution utilises an existing certified product and vapour applicator. Initial interest has been encouraging and we are also introducing to vending operators for sanitisation of keypads. Whilst very early days, we see this as an opportunity to help our customers and allow our field engineers to provide a valuable service.

### **Smart Machines to accelerate growth during C19 exit**

Unattended machines have been operating in sites for essential workers, with a material increase in the use of contactless payments. We strongly believe that the trend away from cash payments will accelerate post lockdown, increasing the requirement for remote connection to unattended retail assets.

We have made a significant investment in additional sales and marketing capability in addition to increasing investment in the product roadmap.

### **The Group has the cash to invest in growth through C19 exit phase**

We have conservatively modelled our cash forecasts on a range of recovery scenarios over varying periods of time with a return to more normal trading in the second half of FY21. This includes a full review of cash and bank facilities and all trade debt and receipts post 31 March.

A CBIL scheme facility of £3.5 million was signed for on 26 May 2020. Combined with the measures already taken the Group is confident that it has funding to support business cash requirements and ongoing investment in growth for a period significantly beyond the next 12 months.

We have assumed no reduction in staff but this will be reviewed on an ongoing basis during the easing of lockdown and resumption of business.

# CHAIRMAN'S STATEMENT

**James Dickson**  
Chairman



## Performance

I have been very pleased with how Vianet and its employees have responded to this crisis, and the actions implemented to ensure Vianet comes through the C19 exit phase with momentum to accelerate our growth plans.

Prior to C19, the Group has made very good progress towards delivery of earnings momentum and continues to benefit from the focus on exploiting growth opportunities in the Smart Machines division whilst delivering a solid performance in the Smart Zones division.

Group turnover was £16.28 million (2019: £15.68 million) and adjusted operating profit was up by 4.5% at £4.03 million. Group profit before taxation was £2.40 million post exceptional items (2019: £2.66 million), with profit after tax flat at £2.43 million (2019: 2.48 million). Our Smart Machines division's move from Capex to an Opex annuity only model had the short-term impact of reducing FY2020 turnover by £0.73 million and profit by £0.40 million. However, there will be a significant long-term benefit for future recurring income streams and the visibility of profits.

Net exceptional cost was minimal (2019: net credit £0.22 million) as the release of the Vendman acquisition deferred consideration provision was offset by costs associated with staff transition, corporate restructuring, network obsolescence, and loan impairment. Whilst there has been a £1.45 million overall write back on the Vendman earn out provision, including £1.08 million in the period, we are delighted with the progress and momentum in this part of the business against what was a stretching earn out which concluded at H1 2020 period end.

Basic earnings per share was 8.56p (2019: 8.87p).

Despite the strong financial position of the Group, given the level of uncertainty as to how the C19 exit and recovery phase will develop and, alongside the other measures we are taking to preserve the Company's cash position, the Board withdrew its recommendation to pay a final dividend at the forthcoming AGM, which would amount to approximately £1.16 million. This makes a total dividend for the year of 1.70 pence (2019: 5.70 pence).

The Board will review this decision again later in the year once the outlook becomes clearer, however our goal remains to re-introduce the dividend as soon as it is practical and prudent to do so.

The Board recognises that this is a significant decision, but believes that it is an appropriate and prudent measure to take at this point as the Group seeks to preserve its strong liquidity, cash flow, and financial position through these uncertain times.

## 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 in addition to navigating C19 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 provided 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.

## Conclusion and Outlook

Ahead of the impact of the C19 restrictive measures introduced in March by the Government, momentum and performance of the Group had been encouraging across both divisions.

Whilst the start to the new financial year has been challenging, initial results have been encouraging with losses well below our prudent C19 re-forecast, and the Group is very well equipped to weather this storm and emerge with even stronger customer relationships and growth prospects

It is worth reiterating that through the C19 exit phase the Group remains in good shape to resume strong earnings growth and pick up the solid momentum that was building into FY2021 in order to deliver 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, coupled with the opportunities from the now integrated business and estate of Vendman.
- The Group is making further sales investment to accelerate growth in the above areas, with an 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 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 continue to complete the customer technology upgrade programs through FY2021 and will benefit greatly from our recent infrastructure investment. This will allow our Smart Zones division to maintain its existing profit contribution whilst taking advantage of improving growth prospects both in the UK pub market and the 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 strategic 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.

In the meantime, the Board's absolute focus is on ensuring that Vianet comes through this global crisis in a position to continue to take advantage of its exciting growth opportunities, whilst maintaining the health, well-being and safety of our employees and customers.



**James Dickson**  
Chairman  
1 June 2020

# STRATEGIC REPORT

**Stewart Darling**  
Chief Executive Officer



Our core strategy centres on IOT and the collection and collation of customers' asset data, to deliver actionable insight and analytics that drive improved operating performance for businesses, machine owners and operators in our chosen market segments.

By connecting and analysing an increasing number of remote assets, Vianet is able to deliver insights and analytics that support better decision-making, enabling customers to improve their key asset utilisation and performance metrics.

Combined with a leading-edge contactless payment capability to support sales growth in unattended retail machines, Vianet is well placed to strengthen its position in this rapidly developing area.

Whilst our focus is predominantly on delivering insight and analytics, hardware and software remain critical components in enabling remote assets to be connected. To support this our IOT platform has evolved in a manner that supports much greater flexibility of device connection and data connectivity to the extent that it is now possible to connect a range of business critical third party devices and not just those we supply. Underpinning this is our ability to collaborate with customers to identify compelling end-to-end solutions to address business opportunities. This rich combination of capabilities will enable us to drive sustained business growth over the coming years.

The process of developing and promoting end-to-end solutions has also been supported by a conscious and strategic choice to explore partnerships with industry leading third party technology providers such as Elavon and OTI, rather than attempt to replicate technologies and market knowledge that already exist.

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. One of our key strategic goals is to accelerate growth and improve revenue visibility by continuing to migrate to an Opex annuity model where hardware is effectively leased and not purchased, thereby aligning payment out of customers' cash flow. The result of this will be an increase in the quality, visibility and longevity of earnings for the Group.

The transition from higher value one off capital sales to regular smaller payments over the contract duration hits turnover and profit in the short term but has a positive impact in the longer term. Typically, the Opex model will deliver 1.3 x the profit of an outright sale over the life of the device. In this financial year, on a like for like basis, the impact was a reduction of c. £726,000 in turnover and c. £370,000 in profit.

## **Smart Machines**

Conversion of the Vendman estate to higher value Smart Machines connections will be further accelerated through a significant increase in resource in the commercial team towards the end of the financial year. There are now c. 200,000 vending machines in the Vendman estate, the vast majority of which are not yet connected via a real-time device. To date we have connected almost 8,600 (c. 3.8%) of these machines which leaves a significant conversion runway that will be addressed in the coming year, principally through increased marketing and commercial efforts.

This will further accelerate the roll out of our contactless payment solution which drives increased machine utilisation and sales. The growth of non-cash transactions is accelerating with contactless payments giving customers a fast, easy and secure transaction in a world where fewer people are carrying cash. Retailers benefit from reduced cost of cash handling, improved cash flow and an assured payment. This trend is likely to accelerate further as a result of the C19 crisis.

I am encouraged by our continued progress in Continental Europe with key customers and significant major distributors, all of which enhances our route to market and distribution opportunities through establishing a strong network and footprint with distributors and machine suppliers.

## **Smart Zones**

We are proactively supporting our clients during these difficult times through temporarily reduced fees and adapting our contract terms. As the lockdown begins to be relaxed and the pub and hospitality sectors

re-open we believe that the insights and analytics offered by our iDraught offering will be especially valuable, helping to optimise revenues and minimise costs. We are seeing an increased level of interest in new analytics and insights to support management decision making and we are exploring an exciting range of new services specifically designed to help clients during this unprecedented crisis.

## OPERATING REVIEW

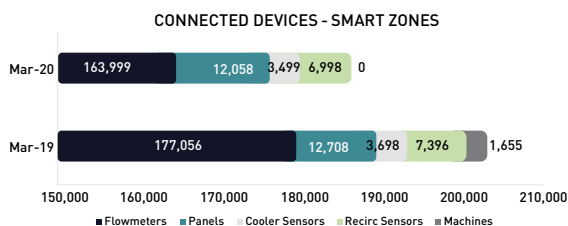
### Smart Zones

We saw modest growth in the operating profit of our drinks monitoring and support services solutions for the UK Hospitality sector supported by high gross margins and strong cash generation.

In the period, technology upgrades to our fourth generation IOT hubs were completed in 2,519 pubs (FY20: 1,901) with a potential further c. 900 to complete in the pipeline for FY2021. This progress in deploying new technology capability has also created a healthy pipeline of installs for the next 12 months or so which will help sustain the divisional contribution. Despite customers being focused on this high level of technology upgrade activity, we still carried out 151 new site installations, which was ahead of the 88 new installations in the prior year.

UK pub disposals have continued but it is encouraging that the rate of disposal has slowed (FY 2020: 838 and FY 2019: 911). The resulting impact is that there was a net reduction of 687 (FY 2019: 823) licenced premises in our installation base over the financial year, with a consequential impact on operating contribution.

However, our Smart Zones connected device base remains significant with c. 186,000 devices in c. 12,000 premises in the UK and USA, and with evermore granular levels of data from our fourth generation IOT hubs, we are better placed than ever to offer insight and analytics delivered via our website and mobile applications. This is particularly relevant for the provision of retail data for Brewers where we are now contracted with the Oxford Partnership to deliver ground-breaking insight that will support consumer level decision making in respect of beer brands.



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.

The past year has also seen significant level of corporate activity with the acquisition of major pub companies by Private Equity. Consequently, we expect to see increased focus on operational and retail performance in pubs with the aim of driving greater value. This will play to the strengths of our operational and retail analytics and insight toolsets against which we will likely be targeting investment expenditure.

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.

The Vianet Americas business achieved break even on £0.4m of revenue and we look to build on this going forward.

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 still to secure a new 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.

The opportunity for the Company remains significant in the world's largest single operator market, and while progress is slower than anticipated, the Company remains committed to establishing a US profit centre.

The combination of strong recurring revenues from long term contract extensions, a robust cost base and margin management offset by the lower turnover resulting from pub closures enabled the Group to maintain profit contribution year-on-year. Overall, the Board remains confident that the Smart Zones division will not only maintain its significant contribution but also has the potential to grow further post C19.

# Strategic Report (continued)

## Smart Machines

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

In this combined division 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. This is supported by increasing recognition from vending operators that the use of cash by consumers continues to decline and that the ability to manage the operation efficiently and effectively is being materially inhibited by the pricing inflexibility of cash and the continued reliance on frequent and costly machine visits.

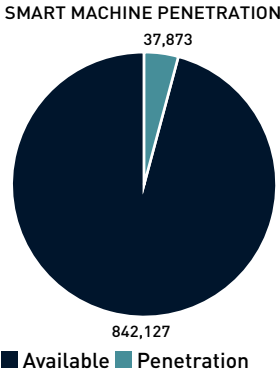
We secured long term contracts with fast growing major industry operators, which contributed to an overall operating profit growth of 8.5% to £1.53 million in the year. The shift from capital sales to Opex effectively reduced profit by £370,000.

This gives us confidence that the transition from capital sales to an Opex model will be well supported by customers, giving the Company a more balanced mix of revenues and greater profit potential over the longer term.

Our strategy is to continue to drive more annuity income sales, to improve the quality and visibility of earnings, but we recognise that the business model must be able to adapt to meet different customer requirements. Whilst turnover for the year was held back by annuity sales there was also a year on year increase in Capex sales during the period. This sales mix resulted in the portion of recurring revenues reducing from 87% to 80%.

Total Smart Machine connections grew by just over 12,000 devices in the year, helped by the highly encouraging roll-out of our cloud-based contactless payment solution which is driving an average sales growth of around 17% per unattended retail machine for our customers. This acceleration is also unlocking further growth opportunities through the provision of analytics and insight to machine operators who wish to unlock more value from their assets and overall operation.

The market opportunity remains extensive even when limited to the immediately addressable market projections of over 300,000 vending machines in the UK. Beyond this, it is estimated that the addressable market in mainland Europe is nearer 3 million machines. As technology adoption evolves, and the benefits of insight and analytics in the vending sector become more widely recognised, it is anticipated that more of the addressable market will embrace the technology and the corresponding opportunity.



Our contactless payment solution, is supported by leading industry partners, Elavon and NMI. This was further evolved in the year when our PCI Master Merchant status was granted and launched, 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 will materially change this dynamic and attract more consumers to the vending vertical, which will accelerate post C19.

In summary, the prospects for our Smart Machines business are extremely positive, and we expect that Vianet's analytics and insight delivered from data harvested from unattended retailing assets and evolving contactless payment solution will continue to provide exciting growth opportunities.

## R&D Investment

The Group continued to invest in the development of its technology and capabilities with accelerated activity in the year. Development has ranged from customer experience enhancements through to revenue generating analytics and insights from new platforms which allow 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 environment. We have now migrated all our Smart Machines customers to the new platform and expect to migrate our historic Smart Zones division in the coming months.

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**

Whilst it is difficult to ignore the short-term impact of C19, it is equally important to acknowledge that its impact may be short term and that we will return to the levels of growth the Group has enjoyed for the past 5 years. In short, the Group is well placed to operate within the anticipated "new normal" of a post C19 landscape.

Beyond C19, 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.

Smart Machines will continue to leverage its strong portfolio of products and services to existing customers across Europe and the recent significant investment in commercial resource will add further momentum. Our new cloud and mobile capability will continue to transform what we deliver to customers and will facilitate rapidly scalable growth in existing and new vertical markets. Our contactless payment solution and introduction of our PCI Master Merchant scheme, combined with declining use of cash by consumers and rapid adoption of technology by brand owners and machine operators, positions this division for strong year-on-year growth.

The Smart Zones division will strive to maintain contribution from the UK pub market, helped by new technology upgrades for existing customers, which will enhance existing income streams and unlock further opportunities for enhanced analytics and insight. The arrival of Private Equity into the pub market is expected to drive greater focus on operating and retail performance, areas in which we are well placed to deliver value for customers

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

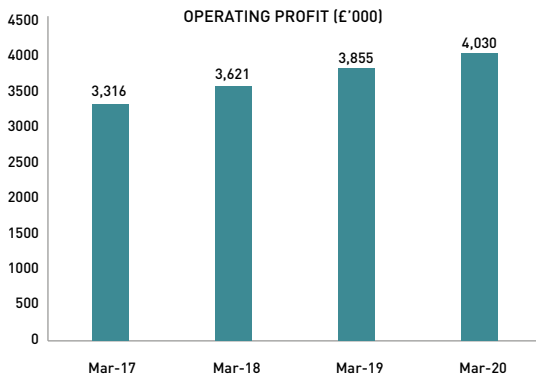
Mark Foster  
Chief Financial Officer



## Pre C19

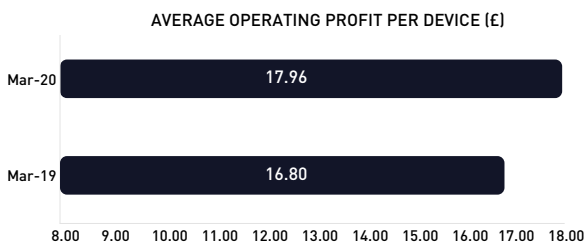
### GROWING PROFITABILITY

Group operating profit, pre-exceptional costs, amortisation and share based payments was up 4.5% to £4.03 million (FY2019: £3.86 million).



Gross margin remained healthy year-on-year at c. 68%.

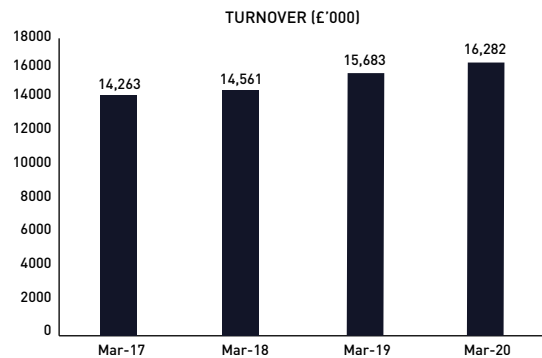
The average operating profitability per connected device has grown 6.9% to £17.96 (2019: £16.80);



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 3.8% principally from growth in Smart Machines division despite it being held back by c. £0.73 million due to the shift from Capex to Opex. Smart Zones division had modest year on year growth despite being impacted by the ongoing decline in pub numbers, albeit the rate of closure has slowed year on year.

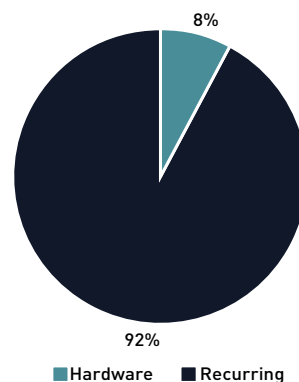


## RECURRING REVENUE

Recurring revenue is measured by taking full year revenue from service packs, licenses, rentals and technology upgrades, as per Note 3.

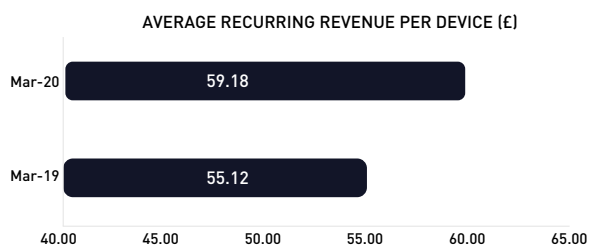
Consolidated recurring revenue across the two divisions remained strong at 92% (2019: 94%), being sustained by contactless growth, maintained smart zones contribution and a continued strategic shift towards an Opex annuity based sales model in Smart Machines, albeit with a more balanced mix in the year.

### TURNOVER - MAR 20



Impacted positively by higher value technology upgrades in Smart Zones the average recurring revenue per connected device has grown 7.4% to £59.18 (2019: £55.12)





This KPI is measured by taking full year recurring revenue and dividing by the total number of connected devices at the year end.

### PERFORMANCE SUMMARY

PBT was down 9.8% at £2.40 million (2019: £2.66 million) principally from higher intangible amortisation of R&D costs in the year. The table below shows the performance of the Group;

	FY2020	FY2019	Change %
Revenue	£16.28m	£15.68m	3.8
Operating profit(a)	£4.03m	£3.86m	4.4
Profit after tax	£2.43m	£2.48m	(2.0)
Basic EPS	8.56p	8.87p	(3.5)
Dividend per share	1.70p	5.70p	
Net debt (b)	£0.95m	£1.20m	

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

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

### EXCEPTIONALS

	FY2020 '£000	FY2019 '£000
People and office rationalisation	415	163
Network obsolescence costs	50	107
Deferred consideration release	(1,086)	(530)
Loan impairment	200	-
Corporate Activity	311	-
Other items	109	38
<b>Total</b>	<b>(1)</b>	<b>(222)</b>

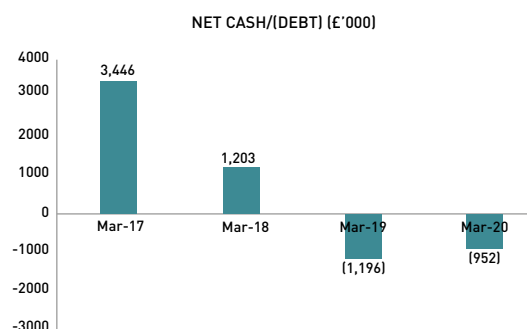
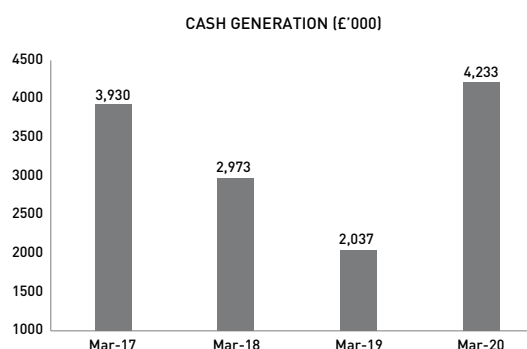
Net impact was negligible overall, with a deferred consideration release in relation to the Vendman acquisition, offset by staff rationalisation costs, network obsolescence costs and corporate activity costs in the main.

### DIVIDEND

Due to C19 the Board has not proposed a final dividend giving a total dividend for the year of 1.70 pence (2019: 5.70 pence).

Dividend cover has not been calculated due to the dividend being suspended due to C19 (2019: circa 1.56).

### CASH



Net cash generation pre-working capital movements and LTIP taxation payments was down 6.3% to £3.74 million (2019: £4.01 million), impacted by the net movement between amortisation, depreciation and the Vendman deferred consideration release.

Relatively stable working capital, together with the unwinding of the working capital investment in FY19, has meant that after working capital movements but before LTIP taxation payment there was an operational cash generation of £4.23 million versus £2.06 million last year. Operational cash generation post LTIP taxation payment was £4.22 million (2019: £1.56 million).

The cash generated was principally used to service accelerated R&D investment, dividend payment, servicing of borrowings and deferred consideration payment, offset by Treasury and share option sale proceeds which resulted in a much-reduced outflow of £0.42 million (2019: £3.12 million outflow).

## Financial Review (continued)

At the year end, pre-mortgage and the acquisition loan, the Group had net cash including overdraft of £0.38 million (2019: £0.80 million) and net debt of £0.95 million (2019: £1.20 million).

### C19

C19 has impacted our business as referred to in the C19 Report where the actions taken to mitigate the impact have been presented. In addition to the borrowing we had at the year end, we have secured a £3.5m CBIL. Following the CBIL we now have solid cash runway forecasts well into 2021, which will underpin our business strategy and allow us to return to our growth plans.

The going concern section of the report and accounts makes reference to this, but based on known factors, the actions taken, and the funding secured, we are well placed to navigate C19 successfully and exit with momentum.

### DIVISIONAL PERFORMANCE

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

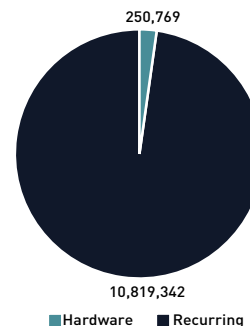
#### SMART ZONES

	FY2020	FY2019	Change %
Turnover	£11.06m	£11.00m	0.5
Operating profit(a)	£4.57m	£4.48m	2.0
Profit before tax	£3.75m	4.06m	(7.6)
Total connected devices	186,554	202,513	(7.9)
New Installation sales	151	88	71.6
YE Net premises(b)	c12,000	c12,600	(4.8)
iDraught penetration(b)	26.6%	27.0%	

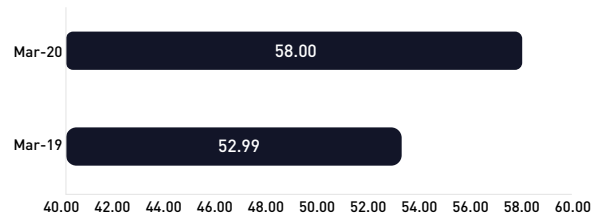
a) Pre-exceptional items, share based payments and amortisation  
b) UK, USA and Europe only

Turnover mix is shown below with recurring revenue being 98% (2019: 97%)

SMART ZONES TURNOVER (£) - MAR 20



AVERAGE RECURRING REVENUE PER DEVICE (£)



Recurring revenue per device has increased 9.5% to £58.00 (2019: £52.99) 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 7.5% to £19.39 (2019: £18.03) reflecting sustained profitability against a lower estate size.

The Smart Zones division has performed well against a challenging pub market backdrop that resulted in a net estate reduction of 687 sites (2019: 823) to circa 11,600 (2018: 12,300) in the UK and Europe (excluding USA).

Despite this we were able to maintain Smart Zones operating profit at £4.57 million (2019: £4.48 million).

## SMART MACHINES

The Smart Machines division consists of telemetry and contactless monitoring predominantly in the vending sector, as well as ERP and mobile connectivity services from the Vendman integration.

	FY2020	FY2019	Change %
Turnover	£5.22m	£4.68m	11.5
Operating profit (a)	£1.53m	£1.41m	8.5
Profit before tax (b)	£2.09m	£0.98m	113.3
New Telemetry connections	3,111	2,485	25.2
New Contactless connections	8,948	7,800	14.7
YE Net estate (c)	C38,000	c27,000	40.7

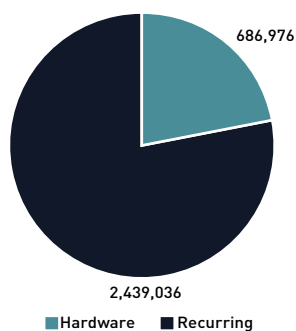
a) Pre-exceptional items, share based payments and amortisation on a continuing basis.

b) FY2020 includes £1.09 million of deferred consideration release (2019: £0.53 million)

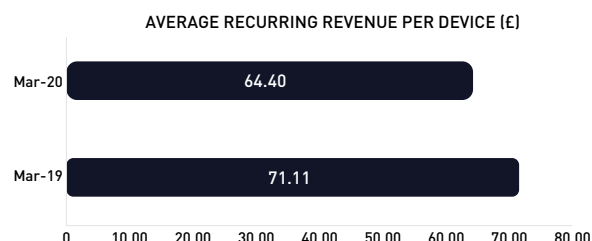
c) Excludes circa 200,000 Vendman connections.

Turnover mix is shown in the chart below. Recurring revenues were 80% of turnover (2019: c.87%) impacted by year-on-year Capex sales being higher in the year.

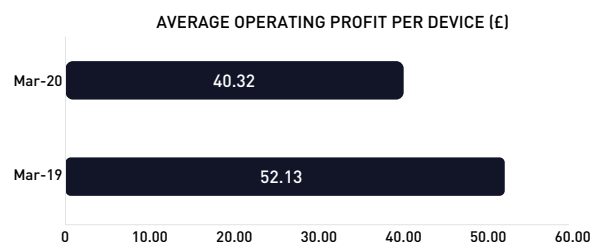
SMART MACHINES TURNOVER (£) - MAR 20



New contactless connections in our Smart Machines division continued to show good progress. New connected devices grew by 14.7% to 8,948 an increase of 1,148 year on year. The estate figures reflect the net movement shown above.



Average recurring revenue per device was £64.40 (2019: £71.11) principally due to the mix of estate, with a more balanced split between Capex and annuity sales in the year. As stated previously we consider this to be an evolving growth story, with overall turnover and profit growth trends being driven by increased penetration of our contactless solutions.



There was a reduction in profit per device to £40.32 (2019: £52.13). This was due to higher one-off income from development fees in FY19 versus FY20, as well as a large competitively priced order, increased investment in commercial sales resource in Q4 and some legacy Vendman debt provisions which were prudently taken at the time of the earn out closing plus C19.

## Taxation

The Group has continued to utilise available tax losses during the year resulting in no tax being paid (2019: £nil). The Group will continue to utilise the available tax losses carried forward into FY2021. In the financial year under review, the tax line includes a deferred tax credit of £0.03 million (2019: tax charge of £0.18 million) recognising the impact of the tax losses available and being utilised.

## Earnings per share

Basic EPS was 8.56 pence compared to 8.87 pence in 2019. This small fall was principally due to an additional c. £0.20 million intangible asset amortisation for R&D, c. £0.14 million bad debt provisions for C19 and Vendman earn out, together with the weighted average number of shares increasing by c. 451,000 in the year.

# 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 £4.23 million (2019: £2.06 million).

Helped by Treasury and Share option sale proceeds the cash generated in FY2020 was used to accelerate the Group's technology plans, to service borrowings, and fund the final payment for Vendman and the share dividend.

At the year end, the Group had borrowings of £1.33 million (2019: £1.99 million), and net debt of £0.95 million (2019: £1.20 million) with a post balance sheet borrowing of £3.5m in relation to a Coronavirus Business Interruption Loan facility.

Our strong balance sheet and capacity to generate cash provides the Company with a solid base to pursue the significant growth opportunities that have been identified.

## Business risk

In normal circumstances, the Board and senior management review business risk at least half yearly. Prior to the impact of C19, the Directors had 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.

In addition to C19 which is covered earlier, 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**

	<b>Target</b>	<b>Actual 2020</b>	<b>Actual 2019</b>
Percentage of revenue from recurring income streams <sup>1</sup>	80%	92%	94%
Gross Margin <sup>2</sup>	70%	68%	68%
Employee Turnover <sup>3</sup>	2%	2.1%	2.1%

**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.

**C19**

Despite the current uncertainty surrounding C19, this report has sought to outline our approach to managing and mitigating its impact and risk and we remain confident of the future path for our business,

**On behalf of the Board**



**Stewart Darling**  
**Chief Executive Officer**  
 1 June 2020

# REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements for the year ended 31 March 2020.

## Business Risk

Business risk is discussed in the Chief Executive's report pages 6 to 15.

## Going Concern

Please refer to the C19 and Chairman's report which provides full insight into our approach to COVID19 and our position on Going Concern.

The Directors, after having made appropriate enquiries, including (but not limited to) a review of the Group's budget for 2020/2021, and cash generating capacity at least 12 months from the date of signing (underpinned by long term contracts in place and historical results), have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

The financial statements are prepared on a going concern basis which the directors believe to be appropriate for the following reasons;

## Current Trading

- The Group made an operating profit of £4.03 million for the year to March 2020. The group has a strong track record of earnings and cash growth as demonstrated in the table below.

Vianet Group plc	March 2020	March 2019	March 2018	March 2017	March 2016
Turnover (£'000)	16,282	15,683	14,561	14,400	14,290
Recurring Revenue %	92.0	94.0	90.0	85.0	85.6
Operating Profit (£'000)	4,030	3,855	3,621	3,316	3,017
Cash Generation (£'000)*	3,870	3,990	3,523	2,750	2,695
Cash Generation (£'000)**	4,232	2,036	2,974	3,930	3,422
Basic EPS (p)	8.56	8.87	6.55	4.14	3.74
Dividend Cover (PAT)	N/A	1.23	1.16	0.73	0.66

\* operational cash generation pre working capital movements

\*\* operational cash generation post working capital movements

- The Group has bank facilities up to £1.5 million, outstanding loans of £1.3 million, and deposit funds of £1.8 million as at 26 May 2020, in addition to which it has taken advantage of the Government supported CBIL scheme securing a £3.5 million loan confirmed on 12 May 2020, to ensure the impact of COVID19 is managed and allow for continued investment.
- The Directors have prepared prudent forecasts through to March 2021, built from the detailed Board approved FY21 budget. The forecasts include a number of assumptions in relation to sales volume, pricing, margin impact and potential new avenues of business. These forecasts have been extended through to June 2021, to ensure the forecast period covers 12 months from signing the financial statements.
- Whilst the Group's trading and cash flow forecasts have been prepared on the basis of pre COVID19 trading conditions, backed by the year on year growth noted above, the impact of COVID19 is noted below.

The Groups cash flow forecast and projections, taking account of reasonable normal trading performance expectation pre COVID19, show that the Group will be able to operate within the level of its facilities for at least the next 12 months.

## COVID19

COVID19 is an unprecedented business interruption event impacting business and economies globally.

The potential uncertainty as to the future impact on the Group from COVID19 has been separately considered and acted upon, as part of the Directors consideration of the going concern basis of preparation, noting FY20 was largely un-impacted by COVID19 pre the month of March 2020. In any downside scenario analysis performed, the Directors have considered the potential impact of COVID19 alongside the proactive actions implemented, in its trading and, in particular, cash forecasts. The Board has taken a number of key steps and reviews in those cash projections as follows;

- 1) Pro-actively worked with its customers to vary their business trading terms during the mandatory lockdown period, in both trading divisions, where such varied terms are appropriate. In so doing, the majority of customers have agreed to these terms which provides a level of certainty regarding revenue and cash coming into the business
- 2) Trading terms at the time of writing will revert to normal terms at the end of the mandatory lockdown period
- 3) Cash forecasting assuming the above trading conditions for a period of time with a move toward normality in the second half of FY21, such forecasting taking a cautious view versus what is more likely to be better trading
- 4) Company Cash and bank facilities
- 5) Overlay of opportunities won or likely to be won above those scenario reviews
- 6) Trade receivable receipts post 31 March 2020
- 7) Appropriate staff have been furloughed to take advantage of the Government Job Retention Scheme support measure
- 8) We have assumed no reduction in staff but this will be reviewed on an ongoing basis during the easing of lockdown and resumption of business.
- 9) Shareholder dividend has been cancelled for the forthcoming Final and Interim dividend due in July 2020 and January 2021
- 10) Loan and mortgage payments have been deferred for 6 months, reducing due within one year from £664,000 to £639,000
- 11) Business running costs cancelled, suspended, deferred as appropriate
- 12) A Coronavirus Business Interruption Loan Scheme receipt of £3.5 million confirmed on 12 May 2020.

It is difficult to predict the overall impact of COVID19 in the vertical markets we serve beyond a recognition that the Pub trade, which we expect to re-open in July, will be slower to recover whereas the Vending and contactless payment activity is likely to see a more rapid return to more normal levels helped by the accelerated demise of cash in that industry.

Based on the above, however, the combination of all actions taken provide Vianet with a clear cash runway well into 2021, noting there are further mitigating operational actions we can take that have not been factored in, thereby allowing the company to pro-actively come through COVID19 and return to the growth ambition it has, building on the last 5 years of year on year growth, with market opportunities that clearly exist in the verticals it serves, particularly for Contactless growth.

## Report of the Directors (continued)

As a result of the above principal factors, the Board consider the Group has adequate resources to continue in operational existence for at least 12 months from the date of signing these accounts. Thus, they continue to adopt the going concern basis in preparing the annual financial statements. The Board does recognise, however, COVID19 provides a level of uncertainty arising from COVID19 only, and as such, dependent on the recovery path from COVID19, there is a level of uncertainty associated with any forecasts and their duration, which could cast some doubt on our cash position beyond the minimum 12 months currently forecast from date of signing, pre any further action we may seek to take which is referenced.

### 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 19.

### 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% on average per month, 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 £1,941,000 (2019: £1,524,000) all of which has been capitalised as an asset on the balance sheet (2019: £1,524,000).

### Dividends

No final dividend will be paid this year (2019: final 4.00p), taking the full year dividend to 1.70p (2019: 5.70p).



## Capital Structure

Details of the authorised and issued share capital, together with details of the movements in the company's issued share capital during the year are shown in note 21. The company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the company. During the year the company disposed of its 456,000 Treasury shares and 218,564 shares within its Employee Benefit Trust, winding the Trust up in the process.

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

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

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

## Directors' Indemnity

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

## Directors and their interests

The current directors of the company are shown below.

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

	Ordinary shares of 10p each 2020	Ordinary shares of 10p each 2019
S W Darling	195,480	188,987
J W Dickson	5,034,981	4,934,259
M H Foster	333,050	328,000
C Williams	20,250	14,250
D Coplin	4,500	3,000

## Report of the Directors (continued)

### Directors' emoluments

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

	Salary and fees 2020 £'000	Other emoluments 2020 £'000	Total emoluments 2020 £'000	Salary and fees 2019 £'000	Other emoluments 2019 £'000	Total emoluments 2019 £'000
<b>Executive</b>						
S W Darling	289	12	301	231	12	243
M H Foster	224	23	247	177	31	208
<b>Non-executive</b>						
J W Dickson	157	-	157	123	14	137
C Williams	32	-	32	32	-	32
M McGoun	-	-	-	8	-	8
D Coplin	32	-	32	32	-	32
<b>Total</b>	<b>734</b>	<b>35</b>	<b>769</b>	<b>603</b>	<b>57</b>	<b>660</b>

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 2020 or 2019.
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 were 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.

### Directors' share options

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

	At 1 April 2019	At 31 March 2020	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 73.0p and the range of market prices during the year was between 167.5p and 60.0p.

## 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 66. 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.

	<b>Gross Award €'000</b>
Executive	
S W Darling	16
M H Foster	12

## Substantial Shareholdings

The Company has been informed that on 1 May 2020 the following shareholders (excluding Directors) held substantial holdings of the issued ordinary shares of the company:

	<b>Holding of Ordinary shares Number</b>	<b>Issued Share capital %</b>
Gresham House plc	4,147,786	14.33%
AXA SA	1,716,000	5.93%
Canaccord Genuity Group Inc	1,578,399	5.45%
Hargreaves Lansdown plc	1,476,938	5.10%
City Asset Management plc	1,403,294	4.85%
Interactive Investor Trading	1,104,620	3.82%
Liontrust Asset Management	1,034,425	3.57%
Downing Corporate Finance	1,017,650	3.51%
Teviot Partners LLP	901,970	3.12%

## Annual General Meeting

The Annual General Meeting will be held on 30 June 2020 at 11.00am, at the offices of Vianet Group plc, One Surtees Way, Surtees Business Park, Stockton on Tees, TS18 3HR, but will be a closed meeting due to COVID19.

## 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

## Report of the Directors (continued)

- 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 1 June 2020 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 being James Dickson (Chairman), Chris Williams and David Coplin, 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.

## Corporate Governance statement (continued)

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 Board's Executive Directors.

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 and Stakeholder Communication**

The Group places a high level of importance on communicating with its shareholders and key stakeholders including customers, suppliers and employees. The Group welcomes and encourages such dialogue with all such parties and with the investor community in compliance with the regulations governed by the London Stock Exchange. The Group actively engages directly with shareholders and works closely with Cenkos its nominated advisor and broker, Yellow Jersey and H2Glenfern investor communications and relations advisors.

While attending to full and half year investor meetings and follow up, the Directors actively engage in new and existing investor contact throughout each reporting period. This is also the case with customers and suppliers as needed, and very importantly with employees, undertaking an annual engagement survey to determine employee engagement and views on the company and actions that may need to be considered to build upon that engagement.

Whilst COVID19 has been challenging it has afforded the Board and management with a great opportunity to demonstrate leadership and engage proactively with all stakeholders. Many of the activities and actions have been covered in the Chairman's report, however it is worthy to note that employee engagement and welfare management has been exceptionally good, including live all business Microsoft Teams question and answer sessions attended by over 90% of employees with the recording available to those who were unable to join.

The Group prides itself on pro-active communication across all interested parties where appropriate as our relationships with investors, customers, suppliers and employees form core foundations upon which the businesses success is built and it is the Directors considered view that we treat all such parties fairly and impartially.

### **Share Options**

The share option plans in existence at 31 March 2020 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 2020, 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 notes to the financial statements and notes to the company balance sheet, each 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 Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2020 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.

### The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Group associated with these particular events.

### 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.



In our evaluation of the directors' conclusions, we considered the risks associated with the group's business model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the group's resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group will continue in operation.

### Overview of our audit approach

- Overall materiality: £120,000, which represents 5% of the group's adjusted (before exceptional items) profit before tax;
- Key audit matters were identified as going concern, revenue recognition, capitalisation of internally generated development costs and valuation of goodwill and other intangible assets; and
- We performed full scope audit procedures on the financial information of the significant group components Vianet Group Plc and Vianet Limited. We performed specified audit procedures on the financial information of Vendman Systems Limited and analytical procedures on the non-significant component 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

##### Going Concern

As stated in 'the impact of macro-economic uncertainties on our audit' section of our report, Covid-19 is one of the most significant economic events currently faced by the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty. This event could adversely impact the future trading performance of the company and as such increases the extent of judgement and estimation uncertainty associated with management's decision to adopt the going concern basis of accounting in the preparation of the financial statements.

As such we identified going concern as a significant risk, which was one of the most significant assessed risks of material misstatement.

#### How the matter was addressed in the audit – Group

We undertook procedures to evaluate management's assessment of the impact of Covid-19 on the Group's Going Concern status. Our audit work included, but was not restricted to:

- Obtaining management's forecasts covering the period to June 2021, including their assessment of the impact of Covid-19;
- Evaluating the key assumptions applied in the forecast, including the forecast reduction in revenue as a result of the lockdown restrictions in place and assumptions on the available level of support from the Government, for reasonableness and determined whether they had been applied appropriately. We also considered whether the assumptions are consistent with our understanding of the business and with current lockdown restriction guidance;
- Requesting that management prepare additional sensitised forecasts to model a range of downside scenarios and assessing these sensitised forecasts for reasonableness;
- Obtaining confirmation that assumed facilities are in place and that the assessment of covenants has been suspended until December 2021;
- Assessing management's determination of the impact of potential mitigating factors;
- Assessing the reliability of management's forecasting by comparing the accuracy of actual historical financial performance to historic forecast information; and
- Assessing the adequacy of the going concern disclosures included within the Financial Statements by management including the Covid-19 Report in the Chairman's statement, the Going Concern assessment included in the Report of the Directors and the basis of preparation in note 1 to the financial statements.

# Independent auditor's report (continued)

	<b>Key observations</b> Based on the procedures performed, we have not identified any issues regarding management's assessment of the impact of Covid-19 on the Group's Going Concern status.
<b>Revenue recognition</b> Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.  The risk is assessed to be in relation to the occurrence of revenue which is unpaid at the year end and to manual journals to income in the year. We have assessed this risk to reside primarily with these revenues as there is an increased risk that these revenues did not occur if they have either not been paid at the balance sheet date, or have been recognised through a manual journal process.  In respect of revenue recognised for the sale of equipment, there is a risk that revenue is recognised before the risks and rewards of ownership have transferred to the customer. Some hardware is rented to customers so there is a risk that revenue is not recognised in line with the agreement with 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 and before performance obligations have been met.  We therefore 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: <ul style="list-style-type: none"><li>• Updating our understanding of the design of the controls in place over significant revenue streams and performing a walkthrough test to confirm they were implemented as designed;</li><li>• Evaluation of the group's revenue recognition accounting policies for consistency with the requirements of IFRS 15 'Revenue from Contracts with Customers';</li><li>• Testing a sample of revenue transactions across all material revenue streams and agreeing them to supporting documentation to confirm that income has been appropriately recognised in accordance with the group's accounting policy;</li><li>• Analytical procedures comprising comparison of revenue from the sales of goods and provision of services with equivalent revenue in the prior year and budget and corroborating explanations from management for unusual and significant variances; and</li><li>• Testing a sample of revenue journal postings to supporting documentation, to ensure that deferred and accrued income transactions had been recognised in accordance with the group's revenue accounting policy.</li></ul> The group's accounting policy on revenue recognition is shown in note 1.4 to the financial statements and related disclosures are included in note 3. <b>Key observations</b> Based on our work performed, we have not identified any material misstatements with respect to revenue recognition.
<b>Capitalisation of internally generated development costs</b> The group capitalises internally generated development costs. In the year ended 31 March 2020 £1.9m of these costs were capitalised within other intangible assets.  There is a risk that the specific requirements under International Accounting Standard (IAS) 38 'Intangible Assets' regarding capitalisation of internally generated intangible assets are not met and that the gross book value is materially misstated  We therefore identified capitalisation of internally generated development costs as a significant risk, which was on the most significant assessed risks of material misstatement.	Our audit work included but was not restrict to: <ul style="list-style-type: none"><li>• Updating our understanding of the design of the controls in place over the capitalisation of internally generated development costs and performing a walkthrough to confirm they were implemented as designed;</li><li>• Challenging management's capitalisation policy for intangible assets to ensure it is reasonable and in accordance with the relevant financial reporting framework; and</li><li>• Testing on a sample basis the additions to intangible assets in the year to supporting documentation and evidencing that they have been appropriately capitalised;</li></ul> The group's accounting policies on capitalisation of internally generated development costs are shown in notes 1.8 and 2.1 to the financial statements and related disclosures are included in note 11. <b>Key observations</b> Based on our audit work, we have identified that the capitalisation of internally generated developments costs has been accounted for in accordance with the group's accounting policies. We have not identified any material misstatements with respect to capitalisation of these costs.

### Valuation of goodwill and other intangible assets

The group records goodwill and other intangible assets of £23.4 million as at 31 March 2020.

Management has undertaken its annual impairment review based on discounted cash flows, allowing for the uncertain macro-economic environment. There are significant judgements in these calculations including forecasting future operating cash flows and estimating 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:

- Updating our understanding of the design of the controls in place over the impairment of goodwill and other intangible assets and ensuring that they were implemented as designed;
- For intangible assets, excluding goodwill, challenging management's assessment of their useful economic lives, developing an expectation of amortisation expense for the year and comparing against the amortisation charge recorded in the financial statements;
- Challenging the assumptions included within the discounted cash flow model, which included gaining an understanding of the key factors and judgements applied in determining future revenues, altered appropriately to allow for possible future impacts of the Covid-19 pandemic;
- Challenging of the discount rates used in the model; and
- Performance of sensitivity analysis on the forecast cash flows and their impact on the carrying value of the intangible assets.

The group's accounting policies on valuation of goodwill and other intangible assets are shown in notes 1.7 and 2.1 to the financial statements and related disclosures are included in notes 10 and 11.

#### Key observations

Based on our audit work, we have identified that the valuation of goodwill and other intangible assets was accounted for in accordance with the group's accounting policies. We have not identified any material misstatements in the carrying value of goodwill and other intangible assets.

We have not identified 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
Financial statements as a whole	<p>£120,000 which is 5% of the group's adjusted (pre-exceptional items) profit before tax. This benchmark is considered the most appropriate because it is a key performance indicator for the group's stakeholders. It excludes exceptional costs, related primarily to a release of contingent consideration and restructuring costs.</p> <p>Materiality for the current year is lower than the level that we determined for the year ended 31 March 2019 due to the group's reduced adjusted (pre-exceptional items) profit before tax.</p>	<p>£119,000 which is 2% of the parent company's total assets, capped at component materiality. This benchmark is considered the most appropriate because the activities of the parent company are primarily those of a holding company and its major activities relate to holding investments in the group's subsidiaries.</p> <p>Materiality for the current year is lower than the level that we determined for the year ended 31 March 2019 due to the group's reduced adjusted (pre-exceptional items) profit before tax.</p>

## Independent auditor's report (continued)

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 related party transactions.	We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	£6,000 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 our understanding of and evaluating the processes and controls relevant to the key audit matters outlined above;
- 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 the group's total assets, liabilities, revenues and profit before tax;
- we performed full scope audit procedures on the financial information of the parent company, Vianet Group Plc, and the group's largest subsidiary, Vianet Limited. Vendman Systems Limited was subject to specified procedures in relation to relevant financial statement items included in the consolidated statement of comprehensive income and the consolidated balance sheet, 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 represent 76% of group revenue, with the component subject to specified procedures representing 21% of group revenue; and
- the accounting functions are performed centrally for all group components subject to full scope audit procedures. All such procedures have 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 annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

### **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 for the financial statements set out on pages 21 and 22, 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Independent auditor's report (continued)

### 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.



Mark Overfield BSc FCA  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
Leeds  
1 June 2020

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2020

	Note	Before Exceptional 2020 £000	Exceptional 2020 £000	Total 2020 £000	Before Exceptional 2019 £000	Exceptional 2019 £000	Total 2019 £000
<b>Continuing operations</b>							
Revenue	3	16,282	-	16,282	15,683	-	15,683
Cost of sales		(5,164)	-	(5,164)	(5,023)	-	(5,023)
<b>Gross profit</b>		<b>11,118</b>	<b>-</b>	<b>11,118</b>	<b>10,660</b>	<b>-</b>	<b>10,660</b>
Administration and other operating expenses		(7,088)	1	(7,087)	(6,805)	222	(6,583)
<b>Operating profit pre amortisation and share based payments</b>		<b>4,030</b>	<b>1</b>	<b>4,031</b>	<b>3,855</b>	<b>222</b>	<b>4,077</b>
Intangible asset amortisation		(1,390)	-	(1,390)	(1,192)	-	(1,192)
Share based payments		(125)	-	(125)	(132)	-	(132)
Total administrative expenses		(8,603)	1	(8,602)	(8,129)	222	(7,907)
<b>Operating profit</b>		<b>2,515</b>	<b>1</b>	<b>2,516</b>	<b>2,531</b>	<b>222</b>	<b>2,753</b>
Net finance costs	6	(113)	-	(113)	(95)	-	(95)
Profit from continuing operations before tax	5	2,402	1	2,403	2,436	222	2,658
Income tax credit/(expense)	7	28	-	28	(178)	-	(178)
<b>Profit and other comprehensive income for the year</b>		<b>2,430</b>	<b>1</b>	<b>2,431</b>	<b>2,258</b>	<b>222</b>	<b>2,480</b>
<b>Earnings per share</b>							
<b>Total</b>							
- Basic	8			8.56p			8.87p
- Diluted	8			8.47p			8.80p
<b>Continuing Operations</b>							
- Basic	8			8.56p			8.87p
- Diluted	8			8.47p			8.80p

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 2020

	Note	2020 £000	2019 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	10	17,856	17,975
Other intangible assets	11	5,505	4,875
Property, plant and equipment	12	3,795	3,503
Deferred tax asset	20	510	313
<b>Total non-current assets</b>		<b>27,666</b>	<b>26,666</b>
<b>Current assets</b>			
Inventories	13	1,491	1,670
Trade and other receivables	14	3,544	3,669
Cash and cash equivalents		1,728	1,788
		6,763	7,127
<b>Total assets</b>		<b>34,429</b>	<b>33,793</b>
<b>Equity and liabilities</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	15	2,710	4,138
Leases	17	64	-
Borrowings	18	2,011	1,652
		4,785	5,790
<b>Non-current liabilities</b>			
Other payables	16	117	139
Leases	17	35	-
Borrowings	18	670	1,333
Deferred tax liability	20	1,141	972
		1,963	2,444
<b>Equity attributable to owners of the parent</b>			
Share capital	21	2,895	2,874
Share premium account		11,709	11,530
Share based payment reserve		364	314
Own shares		-	(754)
Merger reserve		310	310
Retained profit		12,403	11,285
<b>Total equity</b>		<b>27,681</b>	<b>25,559</b>
<b>Total equity and liabilities</b>		<b>34,429</b>	<b>33,793</b>

The Group financial statements were approved by the Board of Directors on 1 June 2020 and were signed on its behalf by:



**J Dickson**  
Director

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



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2020

	Share capital £000	Share premium account £000	Own shares £000	Share based payment reserve £000	Merger reserve £'000	Retained profit £000	Total £000
<b>At 1 April 2018</b>	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
<b>At 31 March 2019</b>	2,874	11,530	(754)	314	310	11,285	25,559
<b>At 1 April 2019</b>	2,874	11,530	(754)	314	310	11,285	25,559
Dividends	-	-	-	-	-	(1,604)	(1,604)
Issue of shares	21	179	-	-	-	-	200
Share based payments	-	-	-	125	-	-	125
Share option forfeitures	-	-	-	(43)	-	43	-
LTIP exercise	-	-	12	(32)	-	3	(17)
Disposal of own shares	-	-	232	-	-	83	315
Disposal of treasury shares	-	-	510	-	-	162	672
Transactions with owners	21	179	754	50	-	(1,313)	(309)
Profit and total comprehensive income for the year	-	-	-	-	-	2,431	2,431
Total comprehensive income less owners' transactions	21	179	754	50	-	1,118	2,122
<b>At 31 March 2020</b>	2,895	11,709	-	364	310	12,403	27,681

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2020

	Note	2020 €000	2019 €000
<b>Cash flows from operating activities</b>			
Profit for the year		2,431	2,480
<b>Adjustments for</b>			
Net interest payable		113	95
Income tax (credit)/expense		(28)	178
Amortisation of intangible assets	11	1,390	1,192
Depreciation	12	674	450
Deferred consideration release		(1,088)	(530)
Loss on sale of property, plant and equipment and businesses	5	3	14
Goodwill write off		119	-
Share based payments		125	132
Tax payment in respect of LTIP		(17)	(495)
<b>Operating cash flows before changes in working capital and provisions</b>		<b>3,722</b>	<b>3,516</b>
Change in inventories		178	(583)
Change in receivables		125	(423)
Change in payables		191	(948)
		494	(1,954)
<b>Cash generated from operations</b>		<b>4,216</b>	<b>1,562</b>
<b>Net cash generated from operating activities</b>		<b>4,216</b>	<b>1,562</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(730)	(801)
Purchases of intangible assets		(2,020)	(1,538)
<b>Net cash used in investing activities</b>		<b>(2,750)</b>	<b>(2,339)</b>
<b>Cash flows from financing activities</b>			
Net interest payable		(113)	(95)
Repayment of leases		(141)	-
Repayments of borrowings		(661)	(659)
Payment of deferred consideration		(552)	(21)
Dividends paid		(1,604)	(1,585)
Disposal of own shares		988	-
Issue of share capital		200	13
<b>Net cash used in financing activities</b>		<b>(1,343)</b>	<b>(2,347)</b>
Net decrease in cash and cash equivalents		(417)	(3,124)
Cash and cash equivalents at beginning of period		798	3,922
<b>Cash and cash equivalents at end of period</b>		<b>381</b>	<b>798</b>
Reconciliation to the cash balance in the Consolidated Balance Sheet			
Cash balance as per consolidated balance sheet		1,728	1,788
Bank overdrafts (see note 18)		(1,347)	(990)
<b>Balance per statement of cash flows</b>		<b>381</b>	<b>798</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2020

## 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 have produced revised forecasts to reflect the expected impact of Covid-19 on the business (and the mitigating actions taken) and have also considered further possible downside impacts alongside having made appropriate enquiries, including (but not limited to) a review of the Group's budget for 2020/2021, and cash generating capacity at least 12 months from the date of signing (underpinned by long term contracts in place and historical results). Together with both the comments noted in the Chairman's report and Strategic and Director reports, noting we have assumed no reduction in staff but this will be reviewed on an ongoing basis during the easing of lockdown and resumption of business 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 2020.

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.

# Notes to the Financial Statements for the year ended 31 March 2020 (continued)

## 1. Significant accounting policies (continued)

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. Please refer to Exceptional cost note 4 in the Financial Review.

### 1.4 Revenue recognition

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.

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

The customer may from time to time request a repair to their equipment. Revenue is recognised when the performance obligation has been satisfied.

##### 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 contracted transaction prices for either performance obligation noted in each customer's contract. 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.

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

The customer may from time to time request a repair to their equipment. Revenue is recognised when the performance obligation has been satisfied.

### 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.

# Notes to the Financial Statements for the year ended 31 March 2020 (continued)

## 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 Leased assets

#### The Group as a lessee

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract

the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

#### Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in trade and other payables.

# Notes to the Financial Statements for the year ended 31 March 2020 (continued)

## 1. Significant accounting policies (continued)

### The Group as a lessor

The Group's accounting policy under IFRS 16 has not changed from the comparative period.

As a lessor the Group classifies its leases as either operating or finance leases.

For items of property, plant and equipment subject to an operating lease, a lessor shall apply the disclosure requirements of IAS 16. In applying the disclosure requirements in IAS 16, a lessor shall disaggregate each class of property, plant and equipment into assets subject to operating leases and assets not subject to operating leases. Accordingly, a lessor shall provide the disclosures required by IAS 16 for assets subject to an operating lease (by class of underlying asset) separately from owned assets held and used by the lessor.

A lessor shall apply the disclosure requirements in IAS 36, IAS 38, IAS 40 and IAS 41 for assets subject to operating leases.

A lessor shall disclose a maturity analysis of lease payments, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

The Group enters in to operating leases as a lessor for equipment rentals. The revenue is accounted for in line with the revenue recognition policy.

IFRS 16 'Leases' replaces IAS 17 'Leases'. It became effective on 1 January 2019 and the Group applied this standard from 1 April 2019. The adoption of this new Standard has resulted in the Company recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, where right-of-use assets are measured at an amount equal to the lease liability and adjusted for any prepaid or accrued lease payments that existed at the date of transition. As is permitted, prior periods have not been restated.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Company has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight line basis over the remaining lease term.

On transition to IFRS 16 the incremental borrowing rates applied to lease liabilities recognised under IFRS 16 were as follows:

Motor vehicles                      5%

The Company has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at 1 April 2019:

	IAS 17 Carrying amount at 31 March 2019 £'000	Reclassification £'000	Remeasurement £'000	IFRS 16 Carrying amount at 1 April 2019 £'000
Property, plant & equipment	239	-	-	239
		239	-	239



## 1. Significant accounting policies (continued)

The following is a reconciliation of total operating lease commitments at 31 March 2019 (as disclosed in the financial statements to 31 March 2019) to the lease liabilities recognised at 1 April 2019:

	£'000
<b>Total operating lease commitments disclosed at 31 March 2019</b>	290
Recognition exemptions:	
Leases of low value assets	-
Leases with remaining lease term of less than 12 months	-
Lease liabilities before discounting	290
Impact of discounting	(61)
PV of reasonably certain extension options	-
PV of reasonably certain break clauses	-
<b>Total lease liabilities recognised under IFRS 16 at 1 April 2019</b>	239

### 1.12 Own shares

The Group held 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. During the year the group disposed of all of the shares held in the employee benefit trust and in treasury.

### 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.

# Notes to the Financial Statements for the year ended 31 March 2020 (continued)

## 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. During the period, due to the impact of COVID19 on the borrower, the Directors considered this asset may not be recoverable and impaired the value in full.

### 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.

# Notes to the Financial Statements for the year ended 31 March 2020 (continued)

## 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

A number of new standards, amendments and interpretations are effective for the year ended 31 March 2020. These are considered either not relevant or to have no material impact on the Group. IFRS 16 is a new material standard, which has been considered in more detail in Section 1.11

There are no standards that are issued but not yet effective that would be expected to have a material impact on the Group in the current or future reporting periods or on foreseeable future transactions.

### 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, loan impairment, deferred consideration fair value, pandemic costs. 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 2019, adopted IFRS 16

IFRS 16 'Leases' replaced 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.

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.

## **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.

#### **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 £1,088k is required. No discounting has been applied due to the deferred consideration payable being within one year.

#### **COVID 19**

Refer to C19 Report and Director Review at the front of these accounts.

Covid-19 has impacted key estimates and judgements, including the cash flow forecasts used for the Going Concern assessment (as covered in both the Chairman review and Directors report) and in assessing whether an impairment is needed for Goodwill and other intangible assets. Further detail on this assessment can be found in Note 10.

## Notes to the Financial Statements for the year ended 31 March 2020 (continued)

### 3. Segment reporting

#### Business segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses. The segment operating results are regularly reviewed by the Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and assess its performance. Vianet Group is analysed into 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.

#### 2020

<b>Continuing Operations (post exceptional items)</b>	<b>Smart Zones £000</b>	<b>Smart Machines £000</b>	<b>Corporate/ Technology £000</b>	<b>Total £000</b>
Total revenue	11,061	5,221	-	16,282
<i>Of which is recurring</i>	10,819	4,162	-	14,981
Pre-exceptional segment result	4,299	1,260	(3,044)	2,515
Exceptional costs	(462)	867	(404)	1
Post exceptional segment result	3,837	2,127	(3,448)	2,516
Finance costs	(86)	(40)	13	(113)
Profit/(loss) before taxation	3,751	2,087	(3,435)	2,403
Taxation				28
Profit for the year from continuing operations				2,431
<b>Other information</b>				
Additions to property, plant equipment and intangible assets	1,081	801	1,107	2,989
Depreciation and amortisation	669	485	910	2,064

### 3. Segment reporting (continued)

	Smart Zones £000	Smart Machines £000	Corporate/ Technology £000	Total £000
Segment assets	28,069	4,083	1,767	33,919
Unallocated assets	-	-	510	510
<b>Total assets</b>	<b>28,069</b>	<b>4,083</b>	<b>2,277</b>	<b>34,429</b>
Segment liabilities	5,291	-	316	5,607
Unallocated liabilities	-	-	1,141	1,141
<b>Total liabilities</b>	<b>5,291</b>	<b>-</b>	<b>1,457</b>	<b>6,748</b>

#### 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
<i>Of which is recurring</i>	10,695	4,095	-	14,790
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
<b>Other information</b>				
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
<b>Total assets</b>	<b>27,568</b>	<b>4,083</b>	<b>2,142</b>	<b>33,793</b>
Segment liabilities	7,028	-	234	7,262
Unallocated liabilities	-	-	972	972
<b>Total liabilities</b>	<b>7,028</b>	<b>-</b>	<b>1,206</b>	<b>8,234</b>

Notes to the Financial Statements for the year  
ended 31 March 2020 (continued)

**3. Segment reporting (continued)**

**Analysis of revenue by category**

	<b>2020 £000</b>	<b>2019 £000</b>
Continuing operations		
Sale of goods		
- Smart Zones and Smart Machines	1,302	893
Rendering of services		
- Smart Zones and Smart Machines	14,980	14,790
	16,282	15,683
Included in rendering of services is £2,303,000 (2019: £2,090,000) of income related to lessor income		
Geographical analysis		
- United Kingdom	14,586	13,816
- Rest of Europe	1,276	1,483
- United States/Canada	420	384
	16,282	15,683

**Major Clients**

In 2020 there were two major clients that individually accounted for at least 10% of total revenues (2019: two clients). The revenues relating to these clients in 2020 were £2.66m and £1.98m (2019: £2.53m and £2.51m)

Both clients are in the Smart Zones segment.

**4. Exceptional items**

	<b>2020 £000</b>	<b>2019 £000</b>
Corporate activity and Acquisition costs	311	-
Corporate restructuring and transitional costs	415	163
Deferred consideration release	(1,086)	(530)
Network obsolesce costs	50	107
Loan Impairment	200	-
Other	109	38
	(1)	(222)

Corporate activity and acquisition costs relate to fees paid to corporate advisors in respect of prospective acquisitions and corporate evaluations.

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

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. Within the year the final balance was paid and the change in fair value recognised through the income statement. The deferred period has now closed.



## 5. Profit for the year

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

	2020 £000	2019 £000
Employee benefits expense (note 22)	7,203	6,597
Depreciation of property, plant and equipment (note 12)	530	450
Depreciation of property, plant and equipment – right of use assets (note 12)	144	-
Amortisation of intangible assets (note 11)	1,390	1,192
Loss on disposal of property, plant and equipment	3	14
Operating lease rentals payable	-	200

## Auditor's remuneration

Services to the company and its subsidiaries	2020 £000	2019 £000
Fees payable to the company's auditor for the audit of the annual financial statements	18	18
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	25
Audit related services – interim review	13	13
Other services relating to tax - taxation compliance services	8	8
Other services relating to tax – taxation advisory services	6	6
Other services – IR35 advice	5	-
	75	70

## 6. Net finance costs

	2020 £000	2019 £000
Interest payable on bank borrowings	113	117
Interest payable on leasing arrangements	13	-
	126	117
	2020 £000	2019 £000
Interest receivable on bank deposits	13	22
	13	22

## Notes to the Financial Statements for the year ended 31 March 2020 (continued)

### 7. Taxation

Analysis of charge in period

	2020 £000	2019 £000
Current tax expense		
- Amounts in respect of the current year	-	-
- Amounts in respect of prior periods	-	-
Deferred tax (credit)/charge		
- Amounts in respect of the current year	(9)	174
- Amendment re-recognition of losses	(19)	4
Income tax (credit)/charge	(28)	178

### Reconciliation of effective tax rate

The tax for the 2020 period is lower (2019 was lower) than the standard rate of corporation tax in the UK (2020: 19% and 2019: 19%). The differences are explained below:

	2020 £000	2019 £000
Profit before taxation		
- Continuing operations	2,403	2,658
Profit before taxation multiplied by rate of corporation tax in the UK of 19% (2019:19%)	457	505
Effects of:		
Other expenses not deductible for tax purposes	132	44
Non taxable income	(205)	(101)
Amortisation of intangibles	201	189
Losses not provided for	46	55
Adjustments for prior years	(19)	4
Research and development	(640)	(518)
Total tax (credit)/charge	(28)	178

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

### 8. Earnings per share

Earnings per share for the year ended 31 March 2020 was 8.56p (2019: 8.87p)

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders (£2,431k) 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

## 8. Earnings per share (continued)

	Earnings £000	2020 Basic earnings per share	Diluted earnings per share	Earnings £000	2019 Basic earnings per share	Diluted earnings per share
Post-tax profit attributable to equity shareholders	2,431	8.56p	8.47p	2,480	8.87p	8.80p

	2020 Number	2019 Number
Weighted average number of ordinary shares	28,410,348	27,959,532
Dilutive effect of share options	281,866	216,908
Diluted weighted average number of ordinary shares	28,692,214	28,176,440

## 9. Ordinary dividends

	2020 £000	2019 £000
Final dividend for the year ended 31 March 2019 of 4.0p (year ended 31 March 2018: 4.0p)	1,123	1,108
Interim dividend paid in respect of the year of 1.70p (2019: 1.70p)	481	477
Amounts recognised as distributions to equity holders	1,604	1,585

In addition, the directors are not proposing a final dividend in respect of the year ended 31 March 2020. Total dividend payable 1.70p (2019: 5.70p).

## 10. Goodwill

Group	2020 £000	2019 £000
Cost		
At 1 April	17,975	17,975
Disposal	(119)	-
At 31 March	17,856	17,975
Accumulated impairment losses		
At 1 April and 31 March	-	-
Net book amount	17,856	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:

	2020 £000	2019 £000
Smart Zones	15,384	15,503
Smart Machines	2,472	2,472
Carrying amount 31 March	17,856	17,975

## Notes to the Financial Statements for the year ended 31 March 2020 (continued)

### 10. Goodwill (continued)

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 2021 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. All property, plant and equipment and other intangibles have been allocated to their respective cash generating unit.

More extensive tests have been performed this year due to COVID19 beyond what we normally regard as the growth rates.

Research & Development, as well as other intangibles and Property, Plant and Equipment, has been allocated to the respective Smart Zone and Smart Machine divisions. The impairment review considers a fall in profits through to FY21 due to COVID19 and then a slow return to more normal levels such as those in FY20, using various discount rates with a 10% discount rate accepted as a reasonable base. The impairment review takes a prudent view of the recovery pace versus the market expectation and Government intent. The Directors believe using a discount rate greater than 10% is not suitable for the industry sector the Group operates in.

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 10% 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 10% was applied, the Smart Zones nor the Smart Machines segment would require no impairment.

If forecast cash flows were to reduce by 10% and a discount rate assumption of 10% and a growth rate assumption of 0% was applied, the Smart Zones and Smart machines segment would require no impairment.

## 11. Other intangible assets

Group	Capitalised development £000	Order book £000	Software £000	Customer contracts £000	Patents £000	Total £000
<b>Cost</b>						
<b>At 31 March 2018</b>	6,239	281	362	3,229	103	10,214
Internally generated development costs	1,524	-	-	-	-	1,524
Additions	-	-	4	-	10	14
<b>At 31 March 2019</b>	7,763	281	366	3,229	113	11,752
Internally generated development costs	1,941	-	-	-	-	1,941
Additions	-	-	64	-	15	79
<b>At 31 March 2020</b>	9,704	281	430	3,229	128	13,772
<b>Amortisation</b>						
<b>At 31 March 2018</b>	3,474	281	258	1,623	49	5,685
Charge for the year	788	-	39	356	9	1,192
<b>At 31 March 2019</b>	4,262	281	297	1,979	58	6,877
Charge for the year	989	-	34	356	11	1,390
<b>At 31 March 2020</b>	5,251	281	331	2,335	69	8,267
<b>Net book amount</b>						
<b>At 31 March 2020</b>	4,453	-	99	894	59	5,505
<b>At 31 March 2019</b>	3,501	-	69	1,250	55	4,875

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 £1,941,000 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 £3,219,000 (2019: £2,880,000) relating to research and development in progress

Notes to the Financial Statements for the year  
ended 31 March 2020 (continued)

12. Property, plant and equipment

Group	Freehold Land and buildings £000	Plant, vehicles and equipment £000	Fixtures and fittings £000	Total £000
<b>Cost</b>				
<b>At 31 March 2018</b>	3,266	958	2,097	6,321
Additions	-	724	77	801
Disposals	-	(186)	(84)	(270)
<b>At 31 March 2019</b>	3,266	1,496	2,090	6,852
Additions	38	607	85	730
Additions – right of use assets	-	239	-	239
Disposals	-	(8)	(10)	(18)
<b>At 31 March 2020</b>	3,304	2,334	2,165	7,803
<b>Accumulated depreciation</b>				
<b>At 31 March 2018</b>	729	565	1,861	3,155
Charge for the year	73	241	136	450
Disposals	-	(172)	(84)	(256)
<b>At 31 March 2019</b>	802	634	1,913	3,349
Charge for the year	73	504	97	674
Disposals	-	(6)	(9)	(15)
<b>At 31 March 2020</b>	875	1,132	2,001	4,008
<b>Net book amount</b>				
<b>At 31 March 2020</b>	2,429	1,202	164	3,795
<b>At 31 March 2019</b>	2,464	862	177	3,503

Included in the net carrying amount of property, plant and equipment as at 31 March 2020, are right-of-use assets as follows:

	Carrying amount £'000	Depreciation expense £'000	Impairment £'000
Land and buildings	96	144	-
Plant and equipment	-	-	-
Motor vehicles	-	-	-
	96	144	-

The right-of-use assets are included in the same line item as where the corresponding underlying assets would be presented if they were owned.

### 13. Inventories

	2020 £000	2019 £000
Raw materials	1,622	1,801
Write down on raw materials	(131)	(131)
	1,491	1,670

No reversal of previous write-downs was recognised as a reduction of expense in 2020 or 2019. In 2020 £2,663,000 (2019: £2,025,000) 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

	2020 £000	2019 £000
Trade receivables	2,901	2,866
Other receivables	149	259
Prepayments and accrued income	494	544
	3,544	3,669

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

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 particularly related to COVID19. Provisions have been made amounting to £147,000 (2019: £14,000). 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 2019 calculated under IAS 39	14
Loss allowance unused and reversed during the year	(14)
Loss allowance provided	147
Loss allowance as at 31 March 2020	147

The expected credit loss for trade receivables as at 31 March 2020 was determined as follows:

	Current	Less than 3 months	Less than 6 months	More than 6 months	Total
Expected credit loss rate	0%	0%	36%	100%	-
Gross carrying amount	1,281	1,474	229	64	3,048
Lifetime expected credit loss	-	-	83	64	147

## Notes to the Financial Statements for the year ended 31 March 2020 (continued)

### 15. Trade and other payables

	2020 £000	2019 £000
Trade payables	974	881
Other taxation and social security	547	524
Corporation tax liability	-	-
Accruals and deferred income	1,167	1,093
Deferred consideration	22	1,640
	2,710	4,138

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 as more than one monthly period) for unfulfilled performance obligations relating to data insight. In the year this balance has slightly increased 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.

Included in accruals and deferred income is £477,000 (2019: £662,000) relating to upfront payments in relation to service obligations outlined above

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

The deferred consideration period for Lookoutsolutions Limited was 10 years to March 2022. The expected cash outflows in respect of the Lookoutsolutions Limited deferred consideration have been discounted by 12%.

### 16. Other payables

	2020 £000	2019 £000
Deferred consideration	117	139
	117	139

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 has one deferred consideration liability, from the acquisition of Lookoutsolutions Limited in October 2011.

The deferred consideration period for Lookoutsolutions Limited was 10 years to March 2022. The expected cash outflows in respect of the Lookoutsolutions Limited deferred consideration have been discounted by 12%.

### 17. Leases

Current	2020 £000	2019 £000
Leases	64	-
	64	-
Non-current	2020 £000	2019 £000
Leases	35	-
	35	-



## 17. Leases (continued)

During the year, the group capitalised £239k (2019: nil) of right of use assets. These were capitalised in accordance with IFRS16 and are amortised over the remaining length of the lease.

The Group has leases for some vehicles. With the exception of short term property lease, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see Note 12).

Leases of vehicles are generally limited to a lease term of 3 to 4 years.

Lease payments are fixed over the term of the lease.

Each lease generally imposes a restriction that the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee.

Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over vehicles, the Group must keep those vehicles legally maintained and roadworthy, and must return in a good condition at the end of the lease.

## 18. Borrowings

<b>Current</b>	<b>2020 £000</b>	<b>2019 £000</b>
Bank overdraft	1,347	990
Bank loans	664	662
	2,011	1,652

<b>Non-current</b>	<b>2020 £000</b>	<b>2019 £000</b>
Bank loans	670	1,333
	670	1,333

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:

	<b>2020 %</b>	<b>2019 %</b>
Bank overdrafts - floating rates	2.5	2.5
Bank borrowings - floating rates	1.5	1.5

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

	<b>2020 £000</b>	<b>2019 £000</b>
Between one and two years	670	662
Between two and five years	-	671
	670	1,333

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

None of the above cash flows have been discounted.

## Notes to the Financial Statements for the year ended 31 March 2020 (continued)

### 19. 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	2020 \$000	2019 \$000
Financial assets	55	97
Financial liabilities	-	-
Exposure	55	97

Denominated in Euros	2020 €000	2019 €000
Financial assets	21	15
Financial liabilities	-	-
Exposure	21	15

The Group has no long term foreign exchange exposure.

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

#### Credit risk analysis

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

	2020 €000	2019 €000
Cash and cash equivalents	1,728	1,788
Trade and receivables	3,050	3,125
	4,778	4,913

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.

## 19. Financial Instruments (continued)

### 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:

<b>31 March 2020</b>	<b>Amortised</b>	<b>FVTPL</b>
<b>Financial assets</b>	<b>cost</b>	<b>£000</b>
	<b>£000</b>	<b>£000</b>
Cash and cash equivalents	1,728	-
Trade and other receivables	3,125	-
Debenture	-	-
<b>Total assets</b>	<b>4,853</b>	<b>-</b>

<b>31 March 2020</b>	<b>Amortised</b>	<b>FVTPL</b>
<b>Financial liabilities</b>	<b>cost</b>	<b>£000</b>
	<b>£000</b>	<b>£000</b>
Non current borrowings	670	-
Current borrowings	2,011	-
Trade payables	974	-
Deferred consideration	-	139
<b>Total financial liabilities</b>	<b>3,655</b>	<b>139</b>

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

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

## Notes to the Financial Statements for the year ended 31 March 2020 (continued)

### 19. Financial Instruments (continued)

#### Capital management policies and procedures

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

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

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

	2020 £000	2019 £000
Total equity	27,681	25,559
Less cash equivalents	(1,728)	(1,788)
	25,953	23,771

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.

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

31 March 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Debtenture	-	-	-	-
Total financial assets			-	-

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

31 March 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial liabilities				
Deferred consideration	-	-	117	117
Total financial liabilities			117	117

## 19. Financial Instruments (continued)

31 March 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial liabilities				
Deferred consideration	-	-	1,779	1,779
Total financial liabilities			1,779	1,779

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

## 20. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19% (2019: 19%).

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

### Deferred tax asset

	2020 £000	2019 £000
At 1 April	313	391
Profit and loss credit in respect of losses utilised	-	(78)
Profit and loss debit in respect of losses realised	197	-
At 31 March	510	313

### Deferred tax liability

	2020 £000	2019 £000
At 1 April	(972)	(872)
Profit and loss credit in respect of timing differences	(169)	(100)
At 31 March	(1,141)	(972)

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 £510k (2019: £391k) are amounts of £510k relating to tax losses (2019: £391k).

The group has unused tax losses amounting to £nil (2019: £nil) for which no deferred tax asset has been recognised

## Notes to the Financial Statements for the year ended 31 March 2020 (continued)

### 21. Issued share capital

	2020 £000	2019 £000
Issued and fully paid		
Ordinary shares of 10p each: 28,953,414 (2019: 28,738,414)	2,895	2,874

#### 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 2020, the Trust owned nil shares (2019: 230,107 shares) with a nominal value of £nil (2019: £23,011).

At 31 March 2020, Vianet Group plc owned nil shares (2019: 456,000 shares) with a nominal value of £nil (2019: £45,600), all held in treasury.

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

Dividends payable on these shares have been waived.

### 22. Employees and directors

Employee benefit expense during the period

	2020 £000	2019 £000
Wages and salaries	6,288	5,739
Social security costs	578	523
Pension costs	212	203
Share based payments	125	132
	7,203	6,597

Average monthly number of people (including directors) employed

	2020 Number	2019 Number
Sales	11	10
Engineering	28	31
Volume Recovery	5	7
Management	10	10
Administration	112	112
	166	170

Key management personnel - Directors

Group	2020 £000	2019 £000
Short term employment benefits	758	641
Pension contributions	11	19
Share based payments	125	132
	894	792

During the year one (2019: one) directors had benefits accruing under defined contribution pension schemes.

## 22. Employees and directors (continued)

Highest paid director

	2020 £000	2019 £000
Short term employment benefits	301	243
Pension contributions	-	-
	301	243

## 23. Operating lease commitments

Following the Group's adoption of IFRS16 Leases, these are now primarily accounted for as finance leases however, the table below represents where low value or short term exemptions have been taken. As is permitted by IFRS 16, the comparatives have not been restated.

The total future operating lease commitments at the Statement of Financial Position date are:

	2020 £000	2019 £000
Properties		
Due in more than five years	-	-
Due between two and five years	30	-
Due within one year	20	-
	50	-
Plant and vehicles		
Due in more than five years	-	-
Due between two and five years	-	108
Due within one year	-	182
	-	290
	50	290

## 24. Share-based payments

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

## Notes to the Financial Statements for the year ended 31 March 2020 (continued)

### 24. Share-based payments (continued)

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

	2020		2019	
	Number of share options	Weighted average exercise price(p)	Number of share options	Weighted average exercise price(p)
At start of the financial year	1,017,550	92.3	1,038,550	92.9
Exercised	(215,000)	(93.1)	(15,000)	(89.0)
Granted	510,000	63.5	30,000	120.0
Forfeited	-	-	(36,000)	(133.9)
Lapsed	-	-	-	-
At end of financial year	1,312,550	80.9	1,017,550	92.3
Exercisable at end of financial year	772,550	90.7	987,550	91.2

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 £125,000 (2019: £132,000) 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.



## 24. Share-based payments (continued)

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

	21 December 2015
Expected volatility (%)	27.3
Risk free rate (%)	1.15
Expected dividend yield (%)	5.534
Share price on grant date (p)	103.0
Exercise price (p)	0
The fair values of each award pool are the following:	£000
30 June 2018	305
30 June 2019	143
30 June 2020	108

## 25. Related party transactions

IAS 24 (Related party transactions) requires the disclosure of the details of material transactions between reporting entities and related parties. Transactions with group entities are eliminated on consolidation. C Williams, a non-executive director, invoiced Vianet Group plc for fees totalling £29,688 (2019: £30,387). As at 31 March 2020, there was £nil outstanding (2019: £nil). D Coplin, a non-executive director, invoiced Vianet Group plc for fees totalling £32,270 (2019: £31,709). As at 31 March 2020 there was £nil outstanding (2019: £nil).

## 26. 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 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)
Net debt as at 1 April 2019	798	(662)	(1,333)	(1,197)
Cash flows	(417)	(2)	663	244
Net debt as at 31 March 2020	381	(664)	(670)	(953)

## 27. Alternative Performance Measures

	2020 £000	2019 £000
Operating profit	2,516	2,753
Add back/(deduct):		
Amortisation charge	1,390	1,192
Share based payments charge	125	132
Exceptional items (credit)/charge	(1)	(222)
Adjusted operating profit	4,030	3,855

Notes to the Financial Statements for the year  
ended 31 March 2020 (continued)

**27. Alternative Performance Measures (continued)**

	<b>2020 £000</b>	<b>2019 £000</b>
Operating cash generation	3,722	3,495
Add back:		
LTIP tax payment	17	495
Adjusted operating cash generation	3,739	3,990
	<b>2020 £000</b>	<b>2019 £000</b>
Net cash generation	4,216	1,541
Add back:		
LTIP tax payment	17	495
Adjusted net cash generation	4,233	2,036

# COMPANY BALANCE SHEET

at 31 March 2020

	Note	2020 £000	2019 £000
<b>Fixed assets</b>			
Investments in subsidiaries	2	4,949	4,946
Other intangible assets	3	55	50
Tangible assets	4	6	12
		5,010	5,008
<b>Current assets</b>			
Debtors	5	12,784	10,820
Cash at bank		1,667	1,700
		14,451	12,520
<b>Creditors: amounts falling due within one year</b>	6	(338)	(241)
<b>Net current assets</b>		14,113	12,279
<b>Net assets</b>		19,123	17,287
<b>Capital and reserves</b>			
Ordinary share capital	7	2,895	2,874
Share premium	8	11,709	11,530
Share based payment reserve	8	364	314
Own shares	8	-	(754)
Merger reserve	8	310	310
Retained earnings	8	3,845	3,013
<b>Total equity</b>		19,123	17,287

The company's profit for the financial year was £2,230,000 (2019: £2,424,000).

The balance sheet was approved by the Board on 1 June 2020 and signed on its behalf by:



**J Dickson**  
Director  
Company number: 05345684

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 2020

	Share capital £000	Share premium £000	Own shares £000	Share based payment reserve £000	Merger reserve £'000	Retained earnings £000	Total £000
<b>At 1 April 2018</b>	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
<b>At 31 March 2019/1 April 2019</b>	2,874	11,530	(754)	314	310	3,013	17,287
Dividends	-	-	-	-	-	(1,604)	(1,604)
Issue of shares	21	179	-	-	-	-	200
Share based payment	-	-	-	125	-	-	125
Share option forfeiture	-	-	-	(43)	-	43	-
LTIP exercise	-	-	12	(32)	-	3	(17)
Disposal of own shares	-	-	232	-	-	(2)	230
Disposal of treasury shares	-	-	510	-	-	162	672
Total transactions with owners	21	179	754	50	-	(1,398)	(394)
Profit and total comprehensive income for the year	-	-	-	-	-	2,230	2,230
<b>At 31 March 2020</b>	2,895	11,709	-	364	310	3,845	19,123

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)

## Notes to the Company Balance Sheet (continued)

### 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	2020 £000	2019 £000
<b>Cost and net book amount:</b>		
Shares in subsidiaries		
At 1 April	4,946	4,941
Additions	3	5
At 31 March	4,949	4,946

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

## Notes to the Company Balance Sheet (continued)

### 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 and Vendman Systems Limited, are indirect investments via Vianet Limited in Leisure.

### 3. Other intangible assets

	Patents £000	Software £000	Total £000
<b>Cost</b>			
<b>At 31 March 2018</b>	75	165	240
Additions	11	-	11
<b>At 31 March 2019</b>	86	165	251
Additions	15	-	15
<b>At 31 March 2020</b>	101	165	266
<b>Amortisation</b>			
<b>At 31 March 2018</b>	28	162	190
Charge for the year	8	3	11
<b>At 31 March 2019</b>	36	165	201
Charge for the year	10	-	10
<b>At 31 March 2020</b>	46	165	211
<b>Net book amount</b>			
<b>At 31 March 2020</b>	55	-	55
<b>At 31 March 2019</b>	50	-	50



#### 4. Tangible Assets

	<b>Fixtures and fittings £000</b>
<b>Cost</b>	
At 31 March 2018	39
Additions	3
At 31 March 2019	42
Additions	3
At 31 March 2020	45
<b>Accumulated depreciation</b>	
At 31 March 2018	21
Charge for the year	9
At 31 March 2019	30
Charge for the year	9
At 31 March 2020	39
<b>Net book amount</b>	
At 31 March 2020	6
At 31 March 2019	12

#### 5. Debtors

	<b>2020 £000</b>	<b>2019 £000</b>
Amounts due from subsidiaries	12,722	10,733
Other debtors	39	67
Other taxation	23	20
	12,784	10,820

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

	<b>2020 £000</b>	<b>2019 £000</b>
Other payables	71	48
Accruals and deferred income	267	193
	338	241

## Notes to the Company Balance Sheet (continued)

### 7. Issued share capital

	2020 £000	2019 £000
Issued and fully paid		
Ordinary shares of 10p each: 28,953,414 (2019: 28,738,414)	2,875	2,874

#### 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

	2020 £000	2019 £000
Final dividend for the year ended 31 March 2019 of 4.0p (year ended 31 March 2018: 4.0p)	1,123	1,108
Interim dividend paid in respect of the year of 1.70p (2019: 1.70p)	481	477
Amounts recognised as distributions to equity holders	1,604	1,585

In addition, the directors are not proposing a final dividend in respect of the year ended 31 March 2020. Total dividend payable 1.70p (2019: 5.70p).

## 10. Employees and directors

Employee benefit expense during the period

	2020 £000	2019 £000
Wages and salaries	710	592
Social security costs	92	75
Pension costs	11	19
Share based payments	125	132
	938	818

Average monthly number of people (including directors) employed

	2020 Number	2019 Number
Management	5	5
	5	5

## 11. Directors

	2020 £000	2019 £000
Directors' emoluments	758	641
Pension contribution	11	19
	769	660

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

	2020 £000	2019 £000
Directors' emoluments	301	243
Pension contribution	-	-
	301	243

For other Directors' emoluments see page 20 in the Report of the Directors.

## 12. Share-based payments

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

## 13. Parent Company Profit and Loss Account

The parent company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The parent company's loss for the financial year was £770,000 (2019: loss £576,000).

## Notes to the Company Balance Sheet (continued)

### **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 £29,688 (2019: £30,387). As at 31 March 2020, there was £nil outstanding (2019: £nil). D Coplin, a non-executive director, invoiced Vianet Group plc for fees totalling £32,270 (2019: £31,709). As at 31 March 2020 there was £nil outstanding (2019: £nil).

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









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