

annual report

& accounts

for the year ended 31 December 2005

About Vianet

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

Vianet Vending

Historically, the main focus for Vianet has been to provide on-line management information services for the vending industry where there are compelling arguments for the adoption of these services such as increased sales and improved productivity.

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

The Vianet wireless link also enables new payment services to be offered such as:

- Chip and pin card payment
- M-Payment using the mobile phone
- Interactive display and information screens

Vianet Retailing

The benefits associated with wireless facilities have not been lost on the more technologically aware high street retailers. Vianet has reapplied the skills and technology developed for vending to provide “Smart” automated retail stations. Vodafone is the first company to spot this by providing automated sales facilities within some existing mobile phone stores which now achieve a higher rate of sale while also releasing valuable trained staff to be more productive.

Other retailers are now exploring how to use the same approach to sell higher value products including: mobile phones, media, technology, and games.

Vianet Connectivity

There are many businesses with equipment in the field, or simply remote from the office, which needs monitoring. Sometimes it is vital information – such as detecting a chemical leak or effluent spill. Other times you simply want to know that something is still where you last placed it – like a refrigerated cabinet given to a shop to help them sell your cold drinks brand.

The technology developed by Vianet to communicate with vending machines solves this problem and has now been developed into a product proposition called Vianet **CONNECT**. It enables two-way communications with remote devices located anywhere in Europe. A central monitoring station, back office information centre or corporate ERP system can securely receive from and transmit data to any device. Vianet provides the SIM, data and a single bill to cover all communications. The tariff is customised to reflect the needs of the business and high volume users can benefit from pooled data charges. For the manager, a secure web-based asset register identifies all devices and also provides real time traffic monitoring.

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Chairman's Statement

Sales were slightly higher than market estimates, more than doubling on an annualised basis with pro-rata losses marginally higher. Net cash balances at the year end were slightly in excess of £1.0 million and, as a result of continuing management focus on overheads and ceasing hardware development, headcount has been reduced from a high of 33 to the current 20. The increased loss includes one-off costs relating to streamlining the Company's workforce, as it moves from the development phase to implementation, and includes provisions against stock superseded by the release of our new hardware platform. The Company's like for like overhead cost was consequently reduced by 20% to approximately £160,000 per month.

Progress has been made in many areas and despite winning a number of new customers we remain frustrated at the pace of progress with the larger users who are in evaluation mode. In common with many in the FMCG sector, one of those users has recently undergone a change of ownership and others have had significant re-organisations which have impacted their budgetary and implementation decisions for telemetry. However, we and our key investors and customers remain confident that our business model, which has been enhanced by the introduction of our Machine to Machine ("M2M") platform, using the experience gained in recent years, has positive user support and is of material commercial value to large end-users.

The timescale from initial trialling to commercial roll-out by new customers is tending to accelerate as the market moves from the evaluation phase to implementation. Most initial contracts with potential large users are now drawn up after a few months of evaluation and for some smaller volume users formalities have been completed in days.

Our primary focus has been meeting the increasing demands of our major customers and prospects and building relationships with them. We continue to review our structure in recognition of the imperative to maintain a tight grip on overheads in order to conserve our cash resources. During the year we disengaged from Alcatel's sales and marketing support and made savings with the move to a new state of the art hosting service in early 2006.

During the year and subsequent to the year-end the following developments took place:

2005

- GSK increased its base of **vOpen** systems to 1,300;
- Selecta, Compass Group's global snack and catering company and the largest independent vending operator in Europe, which ran extensive trials and created a Selecta standard using Vianet's telemetry solutions, has in recent months come under new management which has called for a fresh assessment of its telemetry strategy and invited Vianet to contribute to the process;
- Under our 5,000 unit framework agreement with MEI, a former subsidiary of Mars Incorporated, MEI delivered its first call-off schedule and then encountered some significant delay due to being acquired by a private equity group. We anticipate that business will resume as normal later in 2006;
- While securing firm commitments to volume orders from global brands remains a slow process, there was a discernible increase in take-up in 2005, with new customers in the UK and Europe choosing Vianet as their telemetry solutions partner.

Chairman's Statement

2006 and beyond

- Services and installations to GSK are being extended to include new business applications for their customers and administrative support for their own internal users;
- Vodafone and another major mobile network operator are committed to roll-out Vianet telemetry solutions to sell their products and services for cash and with Chip & Pin enabled credit cards in the vending and retail channels;
- There are a number of M2M bids outstanding directly and through partners offering Vianet's platform as a tool for wireless enabled data aggregation and consolidation in European markets – the bid volumes vary from 500 to 50,000 connections.

Partnerships

Vodafone is our preferred mobile telephony partner and we have entered into a volume purchase and mutual preferment agreement for our respective services to the vending industry in the UK. In addition to leveraging our joint service offerings to global customers Vianet is working with Vodafone to develop other commercial opportunities such as the Quickphone vending project and others where we have a mutual major account relationship.

Other mobile networks in Europe are bidding competitively for the SIM connections and data content of our major prospects.

After field testing, our specialist electronics manufacturing partner successfully processed the first volume build of 2,000 units of our latest *vitel* telemetry unit. Responding to the demand for cashless payment Vianet and its partners are now able to provide "Chip and Pin" credit card and debit card verification to the vending and retail industries based on this unit.

The expanding influence of cashless payment and Chip & Pin security has opened up a number of key new relationships for Vianet with compatible technology and service partners such as Thales, Ingenico and DataCash who are working with us to bundle services for the major corporations seeking to expand their services to vending and retail end-users.

Financial and Funding

The loss after tax for the year ended 31 December 2005 was £2,228,077 on sales of £679,746 (15 months to 31 December 2004 £2,312,261 loss, on sales of £376,878). Interest income was £41,004 (2004: £73,221). The resultant loss per share was 1.4p (2004: 1.9p). The comparative results have been extracted from the audited accounts for the 15 month period to 31 December 2004.

The Company's net cash balances stood at approximately £1.0 million at 31 December 2005. The Board is mindful that its existing cash resources are inadequate and continue to inhibit the Board's room for manoeuvre in the context of the scale and development of the market opportunities which are opening up. Consequently, as announced on 9 May 2006, the Board used its statutory authority to place, on a non-pre-emptive basis, 10% of the Company's issued equity, 18.6m shares at 5 pence per share generating approximately £900,000 net of expenses, with some of our existing major investors and management.

Chairman's Statement

Financial and Funding (continued)

We have a number of very large operators and brands committed in principle to Vianet, but still subject to contract, where the potential roll-out volumes for any one would help secure monthly breakeven this year. While our current sales and financial projections, together with the proceeds of the Placing announced on 9 May 2006, indicate that our cash resources are expected to be sufficient through 2006 and 2007, the timing of these major orders could vary the break-even point. During this period the Directors anticipate moving into profit on a monthly basis.

The Directors do not recommend the payment of a dividend.

Management and Staff

The Vianet team deserves praise for its continued commitment and effort.

Our staff lives with the frustration of long lead times in decision making in major corporations and yet responds admirably to the pressure to produce high added value propositions in a very aggressive market sector. The acceptance of our product and service offerings within the FMCG industry is very encouraging and while progress is comparatively slow we remain actively engaged with almost all our original target accounts. Recognising the weaker than anticipated performance in sales in 2005, we reduced headcount across the business and salary deferrals or sacrifices were taken by almost all staff and management from January 2006, further reducing our burn rate.

In view of the demands of his other business commitments Clive Moffatt, a non-executive director since January 2004, has indicated that he will not seek re-election to the Board at this year's Annual General Meeting. We are actively seeking directors with experience and talents relevant to the Company's needs. John Thomson left the Company in October.

Prospects

Vianet made progress in 2005, but we remain disappointed and frustrated that real volume sales have yet to materialise. However, we are now seeing an encouraging trend of shortening evaluation periods by new customers following initial take-up by global brand leaders such as GSK, Vodafone, MEI, and Selecta. The key account negotiations with FMCG brand owners in respect of the original Vianet vending proposition are largely proceeding but with a year's longer lead-time than we had anticipated. As was first flagged last April, the Company is moving its business model beyond vending into retail generally and is now experiencing interest in using its core platform technology to service high volume requirements in M2M for applications such as asset-tracking and wireless data aggregation.

Vianet has a strong solution which addresses the wireless telemetry, payment and management information needs of major corporate users. Almost all of our key and target accounts continue to work with us to build their business cases for the remote management of their assets, goods, staff and service to customers. This continuing positive response from the market gives us confidence for the future.

Ian J Orrock
Chairman

18 May 2006

Advisers

| | |
|------------------------------|--|
| Company Registration Number: | SC 204140 |
| Registered Office: | Buchan House Carnegie Campus Dunfermline Fife KY11 8PL |
| Directors: | Ian J Orrock (Chairman and Chief Executive) Alastair J Kerr (Finance Director) Brian W C McGhee (Non-Executive Director) Clive I Moffatt (Non-Executive Director) |
| Audit Committee: | Brian W C McGhee (Non-Executive Director) Clive I Moffatt (Non-Executive Director) |
| Remuneration Committee: | Brian W C McGhee (Non-Executive Director) Clive I Moffatt (Non-Executive Director) |
| Secretary: | Alastair J Kerr |
| Nominated Adviser | Brewin Dolphin Securities Limited 7 Drumsheugh Gardens Edinburgh, EH3 7QH |
| Nominated Broker: | Bell Lawrie (a trading division of Brewin Dolphin Securities Limited) 48 St.Vincent Street Glasgow, G2 5TS |
| Bankers: | Bank of Scotland New Uberior House 11 Earl Grey Street Edinburgh, EH3 9BN |
| Solicitors: | Dundas & Wilson CS LLP 191 West George Street Glasgow, G2 2LD |
| Auditors: | PricewaterhouseCoopers LLP Chartered Accountants Kintyre House 209 West George Street Glasgow, G2 2LW |
| Registrars: | Capita IRG plc Bourne House 34 Beckenham Road Beckenham Kent, BR3 4TU |
| Websites | www.vianet.co.uk www.vopen.com |

Board of Directors

The Board currently comprises two executive Directors and two non-executive Directors.

Ian Jackson Orrock, Chairman and Chief Executive (aged 59)

Ian was responsible for Vianet's original recovery plan and for devising and implementing the new strategy for the Company. He has previously held senior, chief executive and chairman positions in major international and public companies in the electronics and telecom sectors. He has a business degree and is a member of a number of professional institutes. He is also a director of August Equity Trust Plc and a number of private companies.

Alastair James Kerr, Finance Director (aged 42)

Alastair has a background in the financial management of high technology and business information corporations, having worked for Dun and Bradstreet Europe Limited for 11 years and previously for Hewlett Packard Limited. He holds a BA in accountancy and computer science and is a qualified chartered management accountant.

Brian William Craighead McGhee, Senior Independent Non-Executive Director (aged 57)

Brian is a former partner of Arthur Andersen who has extensive experience of working with listed companies. Since 1996 he has undertaken a range of executive and non-executive directorships in both the public and private sectors, with experience in electronics, property investment and development, hotels, leisure and entertainment, construction services and retailing.

Clive Moffatt, Independent Non-Executive Director (aged 57)

Clive has over 30 years experience in international marketing and communications. A former Treasury economist, he was consultant with the Economist Intelligence Unit, financial editor at the BBC and business editor of the Investors Chronicle before joining Guinness Peat Group plc as director of marketing. As CEO he then spearheaded the expansion over eight years of a media services subsidiary of TVS plc. Since 1988, he has been Senior Partner of Moffatt Associates, a leading research and business strategy consultancy based in London.

The Directors present their report together with financial statements for the year ended 31 December 2005.

Change of accounting reference date

During 2004 the Company changed the accounting reference date from 30 September to 31 December. Accordingly, the financial statements are for the year ended 31 December 2005 and the comparatives represent the 15 months ended 31 December 2004.

Principal activities

The principal activity of the Group is the provision of remote monitoring equipment and related applications and services to the vending and retail industries and adjacent markets.

Business review and future developments

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

There was a loss for the period after taxation amounting to £2,228,077 (2004 : £2,312,261). In view of the loss the Directors do not recommend payment of a dividend and the loss is transferred from reserves.

Directors

The membership of the Board is set out below. All Directors below served throughout the period.

The interests of the Directors and their families in the shares of the company as at 31 December 2004 or the date of appointment to the Board if later and 31 December 2005 were as follows:

| Directors | 31 December | 31 December |
|------------------|--------------------|--------------------|
| | 2005 | 2004 |
| | Ordinary | Ordinary |
| | 5p shares | 5p shares |
| Ian J Orrock* | 3,215,766 | 2,855,766 |
| Alastair J Kerr | 560,000 | 450,000 |
| Brian W C McGhee | 332,692 | 232,692 |
| Clive I Moffatt | 0 | 0 |

* Since the end of the period Ian J Orrock's interest in the shares of the Company has increased by 1,000,000 to 4,215,766 following his participation in a placing of shares as detailed in note 28.

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

Ian J Orrock will retire by rotation at the next AGM and offer himself for re-election.
Clive I Moffatt will retire at the next AGM and will not offer himself for re-election.

Details of Directors' options are disclosed in Note 5.

Share Capital

On 23 March 2005, the Company issued a further 6,434,260 new ordinary shares at a price of 8 pence per share under the approved Directors' Placing authority.

On 16 June 2005, the shareholders ratified the issue of a further 47,221,498 new ordinary shares at a price of 5 pence per share.

Also on 16 June 2005, the authorised share capital was increased from 200 million ordinary shares of 5 pence each to 300 million shares of 5 pence each.

On 9 May 2006, the Company announced a placing for cash, on a non pre-emptive basis under the Directors' existing authority, of 18,612,744 new ordinary shares at a price of 5 pence per share to raise approximately £900,000 net of expenses.

Directors' responsibilities for the financial statements

United Kingdom company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group, and of the profit or loss of the Group for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently.
- make judgements and estimates that are reasonable and prudent.
- state whether applicable accounting standards 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 maintaining proper accounting records, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are also responsible for ensuring that the Directors' Report and other information included in the annual report is prepared in accordance with Companies Law in the United Kingdom.

Financial risk management

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

Credit risk

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

Liquidity risk

The Company actively maintains sufficient cash balances to ensure that the Company has available funds for operations. The Company finances its operations principally from equity.

Interest rate cash flow risk

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

Substantial shareholders

As of 15 May 2006 the Directors were aware of the following interests of 3% or more in the issued ordinary share capital of the Company and had not been notified, pursuant to the provisions of the Companies Act 1985, of any further such interests.

| Name | Shareholding | Percentage |
|--|---------------------|-------------------|
| Mr Michael Underwood | 41,609,503 | 20.71% |
| Liverpool Limited | 25,984,904 | 12.93% |
| Singer & Friedlander Investment Management Limited | 19,760,250 | 9.83% |
| Artemis Fund Managers Limited | 10,000,000 | 4.98% |
| Cantebury Limited | 7,486,340 | 3.73% |

Employee Share Scheme

The Company offers an employee Save As You Earn scheme to which a number of employees are currently contributing.

Payment policy and practice

It is the Company's policy to settle the terms of payment with suppliers when agreeing the terms of the transactions, to ensure that suppliers are aware of these terms and to abide by them. It is Company policy to carry agreed creditors of no more than 30 - 60 days at any financial period end, other than any disputed items. At 31 December 2005, the period of purchases represented by year end trade creditors was 266 days (2004 : 88 days). This was due to high levels of stock procurement in November and December 2005 of £240,400, the equivalent of 208 creditor days.

Research and Development

During the period the Group incurred additional research and development expenditure relating to the development of a software application and database which processes the data received from telemetry units, interfaces with customers and provides them with detailed management reports. In addition the Company has developed a number of specific vending applications which offer complementary benefits to the core product offering.

Post balance sheet events

On 9 May 2006, the Company announced a placing for cash, on a non pre-emptive basis under the Directors' existing authority, of 18,612,744 new ordinary shares at a price of 5p per share to raise approximately £900,000 net of expenses.

Auditors

PricewaterhouseCoopers LLP offer themselves for re-appointment as auditors in accordance with Section 385 of the Companies Act 1985, and a resolution to that effect will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD

Alastair J Kerr
Secretary

18 May 2006

Corporate governance

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

Compliance

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

The roles of Chairman and Chief Executive are both held by Ian J Orrock and therefore the company does not comply with provision A.2.1 of the Code.

The Company has not created a Nomination Committee and therefore does not comply with provision A.4.1 of the Code.

The Company has not yet conducted a comprehensive review of the effectiveness of all internal controls although it considers its internal control procedures to be suitable for the size of company; it therefore does not comply with provision C.2.1 of the Code.

The Board of Directors

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

The Board of Directors consists of four Directors; two executive and two non-executives. The Board of Directors recognises the need to have a clear division of responsibilities to ensure the right balance of authority and accountability. Continuing are Brian W C McGhee as the senior Non-Executive Director, Alastair J Kerr as Executive Director, Clive I Moffatt as Non-Executive Director and Ian J Orrock as Chief Executive. In addition to the role of Chief Executive, Ian J Orrock assumed the role of Chairman following the AGM on 30 January 2004.

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

Relations with shareholders

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

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

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

Relations with shareholders (continued)

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

Standing Committees

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

No Nomination Committee has been established given the small size of the Board. The Remuneration Committee presents its report on pages 13 to 14.

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

Internal control

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

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

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

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

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

Internal control (continued)

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

Going Concern

The Board remains conscious that further delays in securing additional orders could, in the absence of pre-emptive action, threaten the Company's ability to trade. In order to mitigate that threat the Company has, since the end of the period, announced a Directors' Placing under an existing authority which is intended to meet the Company's currently foreseeable funding requirements, including the projected increase in stock and debtors as sales increase.

Directors

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

Policy on Executive Directors' remuneration

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

The Remuneration Committee currently comprises Brian W C McGhee and Clive I Moffatt. It has responsibility for making recommendations to the Board on the Company's general policy on remuneration and also specific packages for individual Directors. It carries out the policy on behalf of the Board and meets at least twice each year.

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

Main Elements of remuneration

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

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

Basic annual salary

Each Executive Director's basic salary is reviewed annually by the Committee. In deciding upon appropriate levels of remuneration the Committee believes that the Company should offer average levels of base pay reflecting individual responsibilities compared to similar jobs in comparable companies. Executive Directors' basic salaries were last reviewed and changed in 2004.

Bonuses

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

Termination payments

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

Share option incentives

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

Save As You Earn scheme

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

Directors' pension arrangements

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

Non-executive Directors

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

Details of Directors' remuneration and share options

This report should be read in conjunction with Note 5 to the financial statements which also forms part of this report. Full details of all elements of the remuneration package and share options of each Director are given in Note 5 to the financial statements. Details of Directors' share interests are given in the Directors' Report.

ON BEHALF OF THE BOARD

Alastair J Kerr
Secretary

18 May 2006

Independent Auditors' report to the members of Vianet Group plc



We have audited the group and parent company financial statements (the "financial statements") of Vianet Group plc for the year ended 31 December 2005 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

Emphasis of matter – going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Company's ability to continue as a going concern. The group incurred a net loss of £2,228,077 during the year ended 31 December, 2005 and had a net cash outflow from operating activities of £2,520,623. The Company's ability to continue as a going concern depends inter alia on the achievement of its business plan projections. The circumstances, explained in Note 1, represent significant uncertainty which may cast doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2005 and of the group's loss and cash flows for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

Glasgow
18 May 2006

Principal Accounting Policies



Basis of preparation

The financial information has been prepared under the historical cost convention, in accordance with applicable United Kingdom accounting standards. A summary of the more important group accounting policies are set out below.

Basis of consolidation

The Group's financial statements consolidate those of the Company and of its subsidiary undertakings drawn up to 31 December 2005 (see note 10).

Profits or losses on intra-group transactions are eliminated in full. On acquisition of a subsidiary, all of the subsidiary's assets and liabilities which exist at the date of acquisition are recorded at their fair values reflecting their condition at that date.

Turnover

Turnover is the total amount receivable by the Group for goods and services supplied, excluding value added tax and trade discounts. Host license payments are recognised in the profit and loss account under turnover evenly over the period to which they relate.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation.

Depreciation is provided on all tangible fixed assets at annual rates calculated to write off the cost of each asset over its expected useful life, as follows:

| | |
|----------------------------------|---------------------|
| Plant and machinery | 25% - 33% per annum |
| Motor vehicles | 33% per annum |
| Computers, fixtures and fittings | 25% - 50% per annum |

Telemetry units are amortised over three years, except contract telemetry units which are amortised over the terms of the contract.

Government grants

Grants received in respect of revenue expenditure are credited to the profit and loss account as the related expenditure is incurred.

Investments

Investments are included at cost less amounts written off. Profits or losses arising from disposals of fixed asset investments are treated as part of the result from ordinary activities.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Leased assets

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of hire purchase and leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

Research and development

Research and development costs, which consist of external development costs and certain internal costs, are written off in the year in which they are incurred.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All exchange gains and losses are taken to the profit and loss account.

Taxation

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

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

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

Financial instruments

Financial assets are recognised in the balance sheet at the lower of cost and net realisable value. Provision is made for diminution in value where appropriate.

Income and expenditure arising on financial instruments is recognised on the accruals basis and credited or charged to the profit and loss account in the financial period to which it relates.

Defined contribution schemes

The pension costs charged to the profit and loss account represent the amount of the contributions payable to the schemes in respect of the accounting period.

Consolidated Profit and Loss Account for the year ended 31 December 2005

| | | Year ended 31 December 2005 | 15 months ended 31 December 2004 |
|--|------|-----------------------------------|--|
| | Note | £ | £ |
| Turnover | 2 | 679,746 | 376,878 |
| Cost of Sales | | (420,574) | (129,438) |
| | | <hr/> | <hr/> |
| Gross Profit | | 259,172 | 247,440 |
| Administrative Expenses | | (2,596,736) | (2,738,637) |
| | | <hr/> | <hr/> |
| Operating Loss | | (2,337,564) | (2,491,197) |
| Net interest receivable | 4 | 41,004 | 73,221 |
| | | <hr/> | <hr/> |
| Loss on ordinary activities before taxation | | (2,296,560) | (2,417,976) |
| Tax on loss on ordinary activities | 6 | 68,483 | 105,715 |
| | | <hr/> | <hr/> |
| Loss for the financial period | | (2,228,077) | (2,312,261) |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Basic loss per share (pence) | 7 | (1.4p) | (1.9p) |
| | | <hr/> <hr/> | <hr/> <hr/> |

There were no recognised gains or losses other than the loss for the financial period and therefore no separate statement of total recognised gains and losses has been presented.

All amounts are in respect of continuing activities.

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

Consolidated Balance Sheet as at 31 December 2005

| | Note | 31 December 2005 £ | 31 December 2004 £ |
|--|------|--------------------------|--------------------------|
| Fixed Assets | | | |
| Tangible Assets | 9 | 25,780 | 18,796 |
| Current Assets | | | |
| Stocks | 11 | 340,008 | 357,498 |
| Debtors | 12 | 313,157 | 260,148 |
| Cash at bank and in hand | | 1,040,160 | 906,081 |
| | | <hr/> | <hr/> |
| | | 1,693,325 | 1,523,727 |
| Creditors: amounts falling due within one year | 13 | (623,766) | (787,988) |
| | | <hr/> | <hr/> |
| Net current assets | | 1,069,559 | 735,739 |
| | | <hr/> | <hr/> |
| Total assets less current liabilities | | 1,095,339 | 754,535 |
| Creditors: amounts falling due after more than one year | | | |
| Convertible loans | 14 | (200,000) | (200,000) |
| Other | 14 | (34,272) | (65,522) |
| | | <hr/> | <hr/> |
| | | (234,272) | (265,522) |
| | | <hr/> | <hr/> |
| Net assets | | 861,067 | 489,013 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Capital and reserves | | | |
| Called up share capital | 17 | 9,117,049 | 6,434,261 |
| Share premium account | 18 | 4,010,807 | 4,093,464 |
| Other reserves | 18 | 1,077,026 | 1,077,026 |
| Profit and loss account | 18 | (13,343,815) | (11,115,738) |
| | | <hr/> | <hr/> |
| Shareholders' funds | 19 | 861,067 | 489,013 |
| | | <hr/> <hr/> | <hr/> <hr/> |

The financial statements were approved by the Board of Directors on 18 May 2006

Ian J Orrock - Director

Alastair J Kerr - Director

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

Company Balance Sheet as at 31 December 2005

| | Note | 31 December 2005 £ | 31 December 2004 £ |
|--|------|--------------------------|--------------------------|
| Fixed Assets | | | |
| Investments | 10 | 746,766 | 746,766 |
| Current Assets | | | |
| Debtors | | | |
| - amounts falling due within one year | 12 | 16,297 | 25,942 |
| - amounts falling due after more than one year | 12 | 5,884,533 | 5,655,235 |
| Cash at bank and in hand | | 1,003,623 | 860,856 |
| | | <hr/> | <hr/> |
| | | 6,904,453 | 6,542,033 |
| Creditors: amounts falling due within one year | 13 | (75,498) | (85,127) |
| | | <hr/> | <hr/> |
| Net current assets | | 6,828,955 | 6,456,906 |
| | | <hr/> | <hr/> |
| Total assets less current liabilities | | 7,575,721 | 7,203,672 |
| | | <hr/> | <hr/> |
| Creditors: amounts falling due after more than one year | 14 | (200,000) | (200,000) |
| | | <hr/> | <hr/> |
| Net assets | | 7,375,721 | 7,003,672 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Capital and reserves | | | |
| Called up share capital | 17 | 9,117,049 | 6,434,261 |
| Share premium account | 18 | 4,010,807 | 4,093,464 |
| Profit and loss account | 18 | (5,752,135) | (3,524,053) |
| | | <hr/> | <hr/> |
| Shareholders' funds | | 7,375,721 | 7,003,672 |
| | | <hr/> <hr/> | <hr/> <hr/> |

The financial statements were approved by the Board of Directors on 18 May 2006

Ian J Orrock - Director

Alastair J Kerr - Director

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

Consolidated Cash Flow Statement for the year ended 31 December 2005

| | Note | Year ended 31 December 2005 £ | 15 months ended 31 December 2004 £ |
|---|------|--|---|
| Net cash outflow from operating activities | 20 | (2,520,623) | (2,666,748) |
| Returns on investments and servicing of finance | | | |
| Interest paid | | (5,128) | (15,050) |
| Interest received | | 46,132 | 89,119 |
| Finance lease, hire purchase and other interest paid | | 0 | (848) |
| | | <hr/> | <hr/> |
| Net cash inflow from returns on investments and servicing of finance | 4 | 41,004 | 73,221 |
| Taxation | | | |
| Corporation tax recovered | | 68,723 | 81,851 |
| | | <hr/> | <hr/> |
| Capital expenditure and financial investment | | | |
| Purchase of tangible fixed assets | | (23,906) | (21,371) |
| Sale of tangible fixed assets | | 0 | 3,235 |
| | | <hr/> | <hr/> |
| Net cash outflow on capital expenditure and financial investment | 9 | (23,906) | (18,136) |
| Net cash outflow before use of liquid resources and financing | | (2,434,802) | (2,529,812) |
| Management of liquid resources | | | |
| Decrease/(increase) in deposits | | 802,694 | (683,352) |
| Financing | | | |
| Issue of shares | | 2,600,131 | 3,533,308 |
| Capital element of finance lease and hire purchase contracts | | 0 | (1,651) |
| Repayment of bank loans | | (31,250) | (239,062) |
| | | <hr/> | <hr/> |
| Net cash inflow from financing | | 2,568,881 | 3,292,595 |
| Increase in cash | 21 | <hr/> 936,773 <hr/> | <hr/> 79,431 <hr/> |

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

Notes to the Financial Statements for the year ended 31 December 2005

1. Fundamental uncertainty of the going concern basis of accounting

The Directors have considered business plan projections, including cash flow forecasts, prepared for the years ending 31 December 2006 and 31 December 2007, and the adequacy of existing funds to meet the projected cash requirements of the Company. The business plan projections show that, with the placing of 18,612,744 shares to raise £0.9m on 9 May 2006, the Group will have sufficient working capital for at least a twelve month period.

The financial information has been prepared on the going concern basis, which assumes that the company and its subsidiaries will continue in operational existence for the foreseeable future. The validity of this assumption depends inter alia on the achievement of the business plan projections and the raising of funds through the Directors' placing.

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

Whilst there is at present uncertainty as to the outcome of the matters described above, the Directors believe that it is appropriate for the financial statements to be prepared on a going concern basis. The auditors have previously referred to the appropriateness of the going concern basis of accounting in their report on the financial statements for the 15 months ended 31 December 2004 and in their interim review report as at 30 June 2005.

2. Turnover

The turnover is attributable to one continuing activity carried out principally in the United Kingdom, that of provision of remote monitoring and related services to the vending industry.

The geographical analysis of turnover, by destination, is given below:

| | Year ended 31 December 2005 £ | 15 months ended 31 December 2004 £ |
|----------------|--|---|
| United Kingdom | 303,440 | 93,700 |
| Belgium | 307,650 | 219,636 |
| France | 5,729 | - |
| Switzerland | 49,187 | 63,542 |
| US | 13,740 | - |
| | 679,746 | 376,878 |

3. Loss on ordinary activities before taxation

The loss on ordinary activities is stated after charging / (crediting):

| | Year ended 31 December 2005 £ | 15 months ended 31 December 2004 £ |
|--|--|---|
| Auditor's remuneration: | | |
| - Audit Services | 21,709 | 23,262 |
| - Non-audit services | | |
| Tax compliance | 21,169 | 8,270 |
| Tax advisory | 3,550 | 3,935 |
| Other | 3,610 | 3,175 |
| Depreciation and amortisation: | | |
| - Tangible fixed assets owned | 16,922 | 25,210 |
| - Tangible fixed assets held under finance lease and hire purchase contracts | - | 3,617 |
| Hire of plant and machinery | - | 1,705 |
| Research & development expenditure | 56,231 | 55,309 |
| Operating lease rentals - land and buildings and other | 109,819 | 86,811 |
| Profit on sale of fixed assets | - | (1,235) |
| Government Grants | - | 2,757 |

In addition to fees for non-audit services shown above the auditors received £79,000 in respect of their role as reporting accountants for the share issue during the year. These amounts have been charged to the share premium account.

4. Net interest receivable

| | Year ended 31 December 2005 £ | 15 months ended 31 December 2004 £ |
|--|--|---|
| Interest on bank loans and overdrafts | 5,128 | 15,050 |
| Finance charges on finance lease and hire purchase contracts | 0 | 848 |
| Other interest receivable and similar income | (46,132) | (89,119) |
| | <u>(41,004)</u> | <u>(73,221)</u> |

5. Directors and employees

Staff costs during the period were as follows:

| | Year ended 31 December 2005 £ | 15 months ended 31 December 2004 £ |
|-----------------------|--|---|
| Wages and salaries | 1,140,725 | 1,241,397 |
| Social security costs | 133,789 | 140,959 |
| Pension costs | Note 25 86,331 | 99,465 |
| | <u>1,360,845</u> | <u>1,481,821</u> |

The average monthly number of employees of the group during the period was as follows:

| | Year ended 31 December 2005 number | 15 months ended 31 December 2004 number |
|-------------------------------|---|--|
| Management and administration | 7 | 5 |
| Engineering | 15 | 14 |
| Sales and customer support | 8 | 7 |
| | <u>30</u> | <u>26</u> |

Remuneration in respect of directors was as follows:

| | Year ended 31 December 2005 £ | 15 months ended 31 December 2004 £ |
|----------------------|--|---|
| Aggregate emoluments | 335,001 | 459,724 |
| Directors' fees | 37,500 | 48,250 |
| | <u>372,501</u> | <u>507,974</u> |

5. Directors and employees (continued)

The emoluments of the individual Directors were as follows:

| | Basic salary & fees £ | Benefits £ | Bonus £ | Pension contributions £ | Total for year ended 31 December 2005 £ | Total for 15 months ended 31 December 2004 £ |
|--------------|--------------------------|---------------|------------|----------------------------|--|---|
| I J Orrock | 123,812 | 1,043 | - | 34,644 | 159,499 | 240,802 |
| A J Kerr | 71,700 | 698 | - | 6,360 | 78,758 | 102,393 |
| J M May | - | - | - | - | - | 7,000 |
| J S Thomson | 88,323 | 247 | - | 8,173 | 96,743 | 116,529 |
| C I Moffat | 20,000 | - | - | - | 20,000 | 20,000 |
| B W C McGhee | 17,500 | - | - | - | 17,500 | 21,250 |
| | <u>321,335</u> | <u>1,988</u> | <u>-</u> | <u>49,177</u> | <u>372,500</u> | <u>507,974</u> |

The emoluments of I J Orrock include payments of £15,462 made to a company in which he has a controlling interest.

J S Thomson ceased to be a Director on 25 October 2005.

J M May ceased to be a Director on 30 January 2004.

The pension contributions in respect of two (2004 : two) Directors were to an Executive Pension Plan and one Director to his own personal pension plan (2004 : one). The number of Directors to whom benefits are accruing under money purchase pension schemes as at the year end is one (2004 : two). The Directors' fees paid to Brian W C McGhee and Clive I Moffatt were paid to the trading entities of Craighead McGhee and Moffatt Associates respectively.

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

| Share Options | Ordinary share options held | Exercise price per share | Period of Exercise |
|-----------------|-----------------------------|--------------------------|---------------------|
| Alastair J Kerr | 125,000 | 7.00p | 09/07/05 - 08/07/12 |
| | 50,000 | 5.00p | 07/01/06 - 06/01/13 |
| Ian J Orrock | 400,000 | 8.00p | 13/11/04 - 12/11/11 |

5. Directors and employees (continued)

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

| Share Options | Ordinary share options held | Exercise price per share | Period of Exercise |
|---------------|-----------------------------|--------------------------|---------------------|
| Ian J Orrock | 600,000 | 8.00p | 13/11/04 - 12/11/11 |
| | 2,272,010 | 7.00p | 09/07/05 - 08/07/12 |

Options totalling 3,972,549 were granted to two of the executive Directors who served during the period under **individual EMI share option agreements**. Of this total, 3,722,549 lapsed during the period. At 31 December 2005, a total of 4,112,251 unissued shares were subject to outstanding options.

| Share Options | Ordinary share options held | Exercise price per share | Period of Exercise |
|-----------------|-----------------------------|--------------------------|---------------------|
| Alastair J Kerr | 500,000 | 6.00p | 04/12/05 - 03/12/13 |
| | 250,000 | 6.00p | 16/06/07 - 15/06/15 |
| Ian J Orrock | 3,362,251 | 6.00p | 04/12/05 - 03/12/13 |

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

The market price of the shares at 31 December 2005 was 4.00p and the range during the period from 1 January 2005 to 31 December 2005 was 7.85p to 4.00p.

6. Tax on loss on ordinary activities

| | Year ended 31 December 2005 | 15 months ended 31 December 2004 |
|---|-----------------------------------|--|
| Loss on ordinary activities before tax | (2,296,560) | (2,417,976) |
| Current Tax | | |
| UK corporation tax on profits of the period | (59,280) | (59,520) |
| Adjustments in respect of prior periods | (9,203) | (46,195) |
| | <hr/> | <hr/> |
| | (68,483) | (105,715) |
| | <hr/> | <hr/> |

The tax assessed for the period is higher than the standard rate applying in the UK (19%). The differences are explained below:

| | | |
|---|-----------|-----------|
| Profit /(loss) on ordinary activities at UK tax rate (2004 19%) | (436,346) | (459,415) |
| Effect of: | | |
| Expenses not deductible for tax purposes | 1,834 | (300) |
| Deferred tax movement not recognised | 375,232 | 400,195 |
| Adjustment in respect of prior period | (9,203) | (46,195) |
| | <hr/> | <hr/> |
| Total current tax credit | (68,483) | (105,715) |
| | <hr/> | <hr/> |

Unrelieved tax losses of approximately £13.1 million (2004 : £11.2 million) remain available to offset against future taxable profits. The tax recoverable in the period relates to a tax credit for research and development expenditure.

7. Basic loss per share

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

| | Year ended 31 December 2005 | | | 15 months ended 31 December 2004 | | |
|---|--|------------------------------|---|--|------------------------------|--------|
| Earnings attributable to ordinary shareholders | 2004 Weighted average number of shares | Per share amount pence | Earnings attributable to ordinary shareholders | 2003 Weighted average number of shares | Per share amount pence | |
| Basic loss per share | (2,228,077) | 159,454,652 | (1.4p) | (2,312,261) | 119,288,537 | (1.9p) |

There is no dilutive effect on the loss per share and consequently this has not been calculated.

8. Loss for the financial period

The parent company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The parent company's loss for the period was £2,228,082 (2004 : £2,666,790)

9. Tangible fixed assets

| Group | Computers, Plant & Fixtures & Telemetry Machinery Fittings Units | | | Total £ |
|--|--|---------|-------|------------|
| | £ | £ | £ | |
| Cost | | | | |
| At 1 January 2005 | 36,279 | 188,498 | 9,846 | 234,623 |
| Additions | - | 23,906 | - | 23,906 |
| At 31 December 2005 | 36,279 | 212,404 | 9,846 | 258,529 |
| Depreciation | | | | |
| At 1 January 2005 | 33,912 | 172,069 | 9,846 | 215,827 |
| Provided in the period | 1,917 | 15,005 | - | 16,922 |
| At 31 December 2005 | 35,829 | 187,074 | 9,846 | 232,749 |
| Net book amount at 31 December 2005 | 450 | 25,330 | - | 25,780 |
| 31 December 2004 | 2,367 | 16,429 | - | 18,796 |

10. Fixed asset investments

| Company | Shares in group undertakings £ |
|-------------------------|--------------------------------------|
| Cost and net book value | |
| At 31 December 2005 | 746,766 |
| At 31 December 2004 | 746,766 |

At 31 December 2005 the Group held 100% of the equity of the following companies, both of which operate in the United Kingdom:

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

11. Stocks

| | Group 31 December 2005 £ | Group 31 December 2004 £ |
|----------------------------------|-----------------------------------|-----------------------------------|
| Finished goods & component parts | 340,008 | 357,498 |

12. Debtors

| | Group 31 December 2005 £ | Company 31 December 2005 £ | Group 31 December 2004 £ | Company 31 December 2004 £ |
|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|
| Trade Debtors | 133,358 | - | 64,805 | - |
| Amounts due from group undertakings | - | 5,884,533 | - | 5,655,235 |
| Corporation tax recoverable | 59,280 | - | 59,522 | - |
| Other debtors | 70,401 | 6,724 | 64,503 | 17,984 |
| Prepayments and accrued income | 50,118 | 9,573 | 71,318 | 7,958 |
| | <u>313,157</u> | <u>5,900,830</u> | <u>260,148</u> | <u>5,681,177</u> |

The amounts due from group undertakings of £5,884,533 (2004 : £5,655,235) included above are due after more than one year. As disclosed in the basis of preparation note contained in the Principal Accounting Policies, the Directors have reviewed the cash flow forecasts and business plan. As a result of this review, the Directors have concluded that the amount due from group undertakings included above will not be recovered in the short term. It is not anticipated that any of the above balance will be recovered prior to 2008. The Directors, having carried out the assessment of the recoverability of the balance, have made a provision of £5,632,399 against the balance of £11,516,932.

13. Creditors: amounts falling due within one year

| | Group 31 December 2005 £ | Company 31 December 2005 £ | Group 31 December 2004 £ | Company 31 December 2004 £ |
|---------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|
| Trade creditors | 359,933 | 19,963 | 244,692 | 42,407 |
| Bank loan | 31,250 | - | 31,250 | - |
| Social security and other taxes | 36,718 | - | 40,235 | - |
| Accruals and deferred income | 195,865 | 55,535 | 439,760 | 42,720 |
| Other creditors | - | - | 32,051 | - |
| | <u>623,766</u> | <u>75,498</u> | <u>787,988</u> | <u>85,127</u> |

14. Creditors: amounts falling due after more than one year

| | Group 31 December 2005 £ | Company 31 December 2005 £ | Group 31 December 2004 £ | Company 31 December 2004 £ |
|-------------------|-----------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|
| Bank loan | 34,272 | - | 65,522 | - |
| Convertible loans | 200,000 | 200,000 | 200,000 | 200,000 |
| | <u>234,272</u> | <u>200,000</u> | <u>265,522</u> | <u>200,000</u> |

14. Creditors: amounts falling due after more than one year (continued)

Borrowings are repayable as follows:

| | Group 31 December 2005 £ | Company 31 December 2005 £ | Group 31 December 2004 £ | Company 31 December 2004 £ |
|--|---|---|---|---|
| Within one year | | | | |
| Bank loan | 31,250 | - | 31,250 | - |
| After one and within two years | | | | |
| Bank loan | 31,250 | - | 31,250 | - |
| Convertible loans | 200,000 | 200,000 | - | - |
| After two and within five years | | | | |
| Bank loan | 3,022 | - | 34,272 | - |
| Convertible loans | - | - | 200,000 | 200,000 |
| | <u>265,522</u> | <u>200,000</u> | <u>296,772</u> | <u>200,000</u> |

The bank loan referred to in Notes 13 and 14 above is secured by a bond and floating charge over the assets of the Group companies. It is repayable in equal monthly instalments of £2,604.

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

15. Provision for liabilities and charges

| Deferred tax | Group 31 December 2005 £ | Group 31 December 2004 £ |
|--|---|---|
| Deferred tax unprovided at the balance sheet date comprises: | | |
| Accelerated capital allowances | (14,576) | (20,929) |
| Short term timing differences | (475) | (475) |
| Losses | (2,497,543) | (2,128,189) |
| | <hr/> | <hr/> |
| | (2,512,594) | (2,149,593) |
| | <hr/> | <hr/> |

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

16. Financial instruments

The Group uses financial instruments, other than derivatives, comprising borrowings, cash, liquid resources and various items such as trade debtors, trade creditors etc that arise directly from its operations. The Group finances its operations by raising finance through equity and bank borrowings. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments be undertaken.

Short terms debtors and creditors

Short term debtors and creditors have been excluded from all the following disclosures.

Interest rate risk

The Group finances its operations principally from equity funding together with the offer of an overdraft facility of up to £200,000 where the interest rate is variable with bank base rate. The bank loan of £65,522 (2004 : £96,772) has an interest rate that varies with bank base rate.

At 31 December 2005 the Group held term deposits of nil (2004 : £700,000).

16. Financial instruments (continued)

The interest rate exposure of the financial liabilities of the group as at 31 December 2005 was:

| | 31 December 2005 £ | 31 December 2004 £ |
|----------------|--------------------------|--------------------------|
| Fixed rates | - | - |
| Floating rates | 65,522 | 96,772 |
| Zero rates | 200,000 | 200,000 |
| | <hr/> 265,522 <hr/> | <hr/> 296,772 <hr/> |

The weighted average period until maturity
for financial liabilities on which no interest is paid is:

| | 31 December 2005 £ | 31 December 2004 £ |
|--|--------------------------|--------------------------|
| | 1.5 years | 2.5 years |
| | <hr/> | <hr/> |

Maturity of financial liabilities

The Group's financial liabilities analysis at 31 December 2005
was as follows:

| | 31 December 2005 £ | 31 December 2004 £ |
|--|--------------------------|--------------------------|
| In less than one year or on demand | | |
| Amounts due to bank | 31,250 | 31,250 |
| In more than one year but less than two years | | |
| Amounts due to bank | 31,250 | 31,250 |
| Amounts due to lenders | 200,000 | - |
| In more than two years but less than five years | | |
| Amounts due to bank | 3,022 | 34,272 |
| Amounts due to lenders | - | 200,000 |
| | <hr/> 265,522 <hr/> | <hr/> 296,772 <hr/> |

Fair Values

Fair values of financial instruments equate to the book value as disclosed in the financial statements. There are no material differences between the fair value of financial instruments and the amount at which they are stated in the accounts. This is due to the fact that they are of short maturity and if payable on demand, the fair value is not materially different from the carrying value.

Borrowing facilities

Vianet Limited drew down a 10-year loan of £250,000, guaranteed to the extent of 85 per cent by the Small Firms Loan Guarantee Scheme in 1998.

17. Share Capital

| | 31 December 2005 £ | 30 December 2004 £ |
|---|--------------------------|--------------------------|
| Authorised: 300,000,000 (2004 : 200,000,000) | 15,000,000 | 10,000,000 |
| Ordinary shares of 5p each (2004 : 5p) | <hr/> | <hr/> |
| Allotted, called up and fully paid: 182,340,979 (2004 : 128,685,221) | 9,117,049 | 6,434,261 |
| Ordinary shares of 5p each (2004 : 5p) | <hr/> | <hr/> |

On 23 March 2005 the Company issued 6,434,260 new ordinary shares of 5p each at a price of 8p per share and the cash consideration received was £0.51 million.

On 16 June 2005 the Company issued 47,221,498 new ordinary shares of 5p each at a price of 5p per share and the cash consideration received was £2.0 million net of expenses.

On 12 May 2006 the Company issued 18,612,744 new ordinary shares of 5p each at a price of 5p per share and the consideration received was £0.9 million net of expenses.

Share Options

Approved 2000 Share Option Scheme

During the period from 1 January 2005 to 31 December 2005, a total of 750,000 options had either lapsed or been cancelled. At 31 December 2005, a total of 3,246,500 unissued shares were subject to outstanding options.

| Date of grant | Exercise Price | Period Exercisable | Total options outstanding |
|---------------|----------------|-----------------------|------------------------------|
| 13/11/01 | 8p | 13/11/04 - 12/11/11 | 400,000 |
| 15/11/01 | 8.5p | 15/11/04 - 14/11/11 | 106,000 |
| 09/07/02 | 7p | 09/07/05 - 08/07/12 | 263,000 |
| 07/01/03 | 5p | 07/01/06 - 06/01/13 | 287,500 |
| 08/01/04 | 7.25p | 08/01/07 - 07/01/14 | 720,000 |
| 09/12/04 | 5.625p | 09/12/07 - 08/12/14 | 1,470,000 |

Since 31 December 2005, a total of 292,500 options have lapsed or been cancelled.

17. Share Capital (continued)

Unapproved 2000 share option scheme

Options granted under the Unapproved share option scheme are as follows:

| Date of grant | Exercise Price | Period Exercisable | Total options outstanding |
|---------------|----------------|---------------------|---------------------------|
| 13/11/01 | 8p | 13/11/04 - 12/11/11 | 600,000 |
| 09/07/02 | 7p | 09/07/05 - 08/07/12 | 2,272,010 |

EMI Scheme

Options totalling 4,622,549 were granted under a number of individual EMI schemes on 16 June 2005. During the period from 16 June 2005 to 31 December 2005 a total of 4,472,549 options had either lapsed or been cancelled. At 31 December 2005 a total of 5,762,251 unissued shares were subject to outstanding options:

| Date of grant | Exercise Price | Period Exercisable | Total options outstanding |
|---------------|----------------|---------------------|---------------------------|
| 04/12/03 | 6p | 04/12/05 - 03/12/13 | 4,862,251 |
| 16/06/05 | 6p | 16/06/07 - 15/06/15 | 900,000 |

Sharesave Scheme

Options granted under the Sharesave scheme are as follows:

| Date of grant | Exercise Price | Period Exercisable | Total options outstanding |
|---------------|----------------|---------------------|---------------------------|
| 14/11/05 | 5p | 01/12/08 - 31/05/09 | 650,760 |

A total of 387,500 options granted under a separate Sharesave scheme which commenced on 5 August 2002 were outstanding as at 31 December 2005. All options under this previous scheme have since lapsed.

18. Share premium account and reserves

| The Group | Share premium account £ | Other reserves £ | Profit and loss account £ |
|-----------------------------------|--|-----------------------------|--|
| At 1 January 2005 | 4,093,464 | 1,077,026 | (11,115,738) |
| Issue of shares (net of expenses) | (82,657) | - | - |
| Loss for the year | - | - | (2,228,077) |
| At 31 December 2005 | <u>4,010,807</u> | <u>1,077,026</u> | <u>(13,343,815)</u> |

| The Company | Share premium account £ | Profit and loss account £ |
|-----------------------------------|--|--|
| At 1 January 2005 | 4,093,464 | (3,524,053) |
| Issue of shares (net of expenses) | (82,657) | - |
| Loss for the year | - | (2,228,082) |
| At 31 December 2005 | <u>4,010,807</u> | <u>(5,752,135)</u> |

19. Reconciliation of movements in group shareholders' funds

| | Year ended 31 December 2005 £ | Year ended 31 December 2004 £ |
|---|--|--|
| Loss for the financial period | (2,228,077) | (2,312,261) |
| Issue of shares (net of expenses) | 2,600,131 | 3,533,308 |
| Net increase in Shareholders' funds | <u>372,054</u> | <u>1,221,047</u> |
| Shareholders' funds/(deficit) at 1 January 2005 | 489,013 | (732,034) |
| Shareholders' funds at 31 December 2005 | <u>861,067</u> | <u>489,013</u> |

20. Net cash outflow from operating activities

| | Year ended 31 December 2005 £ | 15 months ended 31 December 2004 £ |
|--|--|---|
| Operating loss | (2,337,564) | (2,491,197) |
| Depreciation | 16,922 | 28,827 |
| Profit on sale of fixed assets | - | (1,235) |
| Decrease/(increase) in stock | 17,490 | (287,757) |
| Increase in debtors | (53,249) | (11,141) |
| (Decrease)/Increase in creditors | (164,222) | 95,755 |
| | <hr/> | <hr/> |
| Net cash outflow from operating activities | (2,520,623) | (2,666,748) |
| | <hr/> | <hr/> |

21. Reconciliation of net cash flow to movement in net funds

| | Year ended 31 December 2005 £ | 15 months ended 31 December 2004 £ |
|--|--|---|
| Increase in cash in the period | 936,773 | 79,431 |
| Cash (inflow)/outflow from (decrease)/increase in deposits | (802,694) | 683,352 |
| Cash outflow from long term bank loan | 31,250 | 39,062 |
| Cash outflow from other short term loan | - | 200,000 |
| Cash outflow from finance lease and hire purchase transactions in the period | - | 1,651 |
| | <hr/> | <hr/> |
| Movement in net funds/(debt) in the period | 165,329 | 1,003,496 |
| Net funds/(debt) at 1 January 2005 | 609,309 | (394,187) |
| | <hr/> | <hr/> |
| Net funds at 31 December 2005 | 774,638 | 609,309 |
| | <hr/> | <hr/> |

22. Analysis of changes in net funds / (debt)

| | At 1 January 2005 £ | Cash flow £ | At 31 December 2005 £ |
|--------------------------|---------------------------|----------------|-----------------------------|
| Cash at bank and in hand | 103,387 | 936,773 | 1,040,160 |
| Liquid resources | 802,694 | (802,694) | - |
| | <hr/> | <hr/> | <hr/> |
| | 906,081 | 134,079 | 1,040,160 |
| Short term bank loan | (31,250) | - | (31,250) |
| Long term loan | (65,522) | 31,250 | (34,272) |
| Convertible loan | (200,000) | - | (200,000) |
| | <hr/> | <hr/> | <hr/> |
| | 609,309 | 165,329 | 774,638 |
| | <hr/> | <hr/> | <hr/> |

23. Capital commitments

There were no capital commitments at 31 December 2005.

24. Contingent liabilities

There were no contingent liabilities at 31 December 2005 (31 December 2004 : £nil).

25. Pensions

The Group operates a defined contribution pension scheme for the benefit of the employees. The assets of the scheme are administered by trustees in a fund independent from those of the Group. The pension cost charge, including contributions made on behalf of the Directors, into an Executive Pension Plan, for the year was £86,331 (2004 : £99,465).

26. Leasing commitments

Operating lease payments amounting to £80,809 (2004 : £84,999) are due by the group within one year. The leases on buildings and cars to which these amounts relate expire as follows:

| | Land & Buildings 2005 | Land & Buildings 2004 | Other 2005 | Other 2004 |
|----------------------------|--|--|-----------------------|-----------------------|
| Between one and five years | 69,241 | 69,241 | 11,568 | 15,758 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

27. Related party transactions

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

28. Post balance sheet events

On 9 May 2006, the Company announced a placing for cash, on a non pre-emptive basis under the Directors' existing authority, of 18,612,744 new ordinary shares at a price of 5 pence per share to raise approximately £900,000 net of expense.

