



ZOO

Digital Group plc

ANNUAL REPORT 2007

ZOO DIGITAL GROUP PLC

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ZOO DIGITAL GROUP PLC
YEAR IN BRIEF
YEAR ENDED 31 MARCH 2007

Highlights

- Successful placing and acquisition of the assets of Scope Seven Inc.
- Group turnover reduced in line with expectations following restructure to £3.75m (2006: £9.16m).
- Significant reduction in loss before Interest, Tax, Depreciation and Amortisation to £1.42m (2006: £3.61m restated).
- Retained Loss after loss on disposal of discontinued operations and goodwill amortisation reduced to £1.88m (2006: £8.49m restated).
- ZOOtech completed the development of the revolutionary software tool, Templated Authoring System (TAS).
- ZOOtech signs first major contract for TAS.
- ZOOtech signs a major contract for the Menu Regionalisation Tool with SDI Media, the World's leading provider of subtitle and dubbing services to the entertainment industry.
- 17 patents granted to date out of a total of over 60 patents applied for.
- Group restructured with sale of Interactive DVD production business.
- Successful share placing and Loan note issue raising £4.2 million gross.

ZOO DIGITAL GROUP PLC
CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT
YEAR ENDED 31 MARCH 2007

Introduction

We are pleased to report a period of significant progress for the Group and increased focus on its unique productivity solutions for interactive DVD and digital media production. In these areas the Group has leading positions in growing markets: for interactive DVD we provide the market-leading technology for title production, and for digital media production we supply a growing range of innovative software-based solutions that deliver remarkable benefits to content producers. We now offer services as key components of our proposition alongside the licensing of our proprietary technologies, giving customers the flexibility to choose to insource or outsource. This broader and more flexible offering will, we believe, enable us to accelerate sales and business growth.

In September 2006 we completed a fundraising of £4.2 million before expenses to underpin the Group's business plan and provide working capital. Shortly thereafter we disposed of the assets of ZOO Interactive Video Limited (ZIV), our consumer interactive DVD product development business, to focus on our business to business solutions.

To accelerate the implementation of the Group's broader strategy we have today announced a further fundraising to fund the acquisition of the assets of a Los Angeles based facility that will become the Group's service provider for the strategically important Hollywood market. We believe that the prospects for the Group under its new structure are exciting and look forward to a period of rapid growth as we capitalise on our range of innovative software products and services.

Financial Review

Following the reorganisation of the Group, turnover for the year to 31 March 2007 fell, in line with expectations, to £3.75 million (2006: £9.16 million). The loss before interest, tax, depreciation and amortisation was reduced significantly to £1.42 million (2006: £3.61 million as restated).

As at 31 March 2007 the Group had net current assets of £1.94 million (2006: net current liabilities £415,000) including a bank balance of £2.03 million (2006: overdraft of £317,000)

ZOOtech Ltd. ("ZOOtech")

The past 12 months have been a period of continuing growth for ZOOtech during which a major new product – the Templated Authoring System – was released to the market and a contract for its adoption was announced with a major Hollywood studio.

ZOOtech's products were designed at the outset for use by professionals in the digital media production market, and the company has been targeting the various facilities that provide studios with production services for DVD title creation. ZOOtech's products employ innovative algorithms that automate processes that have been traditionally performed manually, and centralise functions that are normally performed by multiple operators. The benefits these products bring include significant reductions in production time and greater reliability, which in turn lead to savings in cost and shorter time to market.

To strengthen the Group's proposition the Board has identified that broadening its proprietary technology licensing offering to incorporate certain production services will provide a more appealing solution for studios and rights holders. The inclusion of these services as a key component of its offer will enable ZOOtech to offer a complete service and thereby reduce the lead time in the sales process.

ZOOtech now offers a DVD-Video testing service which has been engaged by a number of customers and which complements well its unique software products. The service has been adopted by a major Hollywood studio for which ZOOtech is now instrumental in ensuring the high standards of quality that are expected for worldwide DVD-Video products.

ZOO DIGITAL GROUP PLC
CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT
YEAR ENDED 31 MARCH 2007

ZOOtech has begun to establish exclusive relationships with certain production facilities in key territories through which the benefits afforded by its software are delivered to studios and video publishers. A recent strengthening of the commercial team has enabled ZOOtech to identify potential affiliated partner organisations in worldwide territories. We expect to have appointed affiliates in the USA, Europe, Australia and Asia within a few months.

The financial statements show a reduction in turnover for the ZOOtech business which is due to the difference in how the revenue has been earned from the contract for the regionalisation tool. In October 2005 we announced that we had signed a contract with a major Hollywood studio for the use of our Regionalisation tool. In that first year we received a one off fee of \$1.25 million for the usage of the tool. We are pleased to report that the tool is now fully integrated into the systems within the studio and is used for the production of the majority of their regionalised menus and the contract has changed such that we are paid on a usage basis. We are pleased with this contract as it gives us a recurring revenue stream for the future. The impact on the financial statements for the year to March 2007 is that the revenue is reduced as the usage fees did not begin until the final quarter of the financial year. If the revenues had been received on a usage basis from the start of this contract we would have shown an increase in turnover from the previous year.

ZOOtech continues to identify significant opportunities in the field of digital media production to apply its existing technologies and develop new products and services that offer substantial benefits to its customers. The company continues to invest heavily in research and development to provide long term revenue and profit growth potential for the group.

ZOOtech's product development and licensing initiatives are now focused in two distinct areas: Interactive DVD, for which it licenses its DVD-EXTRA STUDIO technology for title production, and Digital Media Technologies, for which it provides innovative software tools to enable the efficient production of digital media including DVD products and the constituent elements that make up such products.

We continue to be active in protecting our intellectual property and now have 17 granted patents that relate to the proprietary algorithms used in our products. Our software product development team continues to innovate with the creation of new products as well as adaptation of existing software and intellectual property for new applications in current and adjacent markets. We anticipate further announcements in the coming year as we deploy new products and further adaptations that will increase the Group's revenue earning potential.

Acquisition and Fundraising

To accelerate the broadening of its offering by including premium production services, the Group has today announced its intent to acquire certain assets of Scope Seven Inc. ("Scope Seven"), a leading independent supplier of compression and authoring services to Hollywood studios and the DVD production market, located in Los Angeles, California.

Scope Seven is a privately held media production and design company providing world class creative and technical services to select companies in the entertainment, games and education industries. Scope Seven has been a customer of ZOOtech since 2004 when it licensed the DVD-EXTRA STUDIO product and has since become one of the leading suppliers of iDVD production services in North America. Through its affiliation with Global Digital Media Xchange Inc. (GDMX), a Time Warner company, and other studios, Scope Seven has created thousands of DVD titles since the inception of the DVD format. Its customers include Warner Home Video, 20th Century Fox, New Line Entertainment and the BBC amongst many others.

Following the acquisition Scope Seven will become the exclusive provider of services based on a number of ZOOtech's products into the lucrative Hollywood market. Initial market testing undertaken by the Group amongst Hollywood studios and other video publishers indicates strongly that the combination of ZOOtech's technologies and Scope Seven's service offering will enable sales opportunities to be converted more quickly than has previously been possible.

ZOO DIGITAL GROUP PLC
CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT
YEAR ENDED 31 MARCH 2007

To fund the acquisition, the Group has also announced today a fundraising by a placing of shares. The proceeds of the placing will be used to fund the acquisition and to provide working capital facilities for the new Scope Seven division.

Interactive DVD

Following the disposal of ZIV, the Group's interest in the Interactive DVD market is now focused around the licensing of its DVD-EXTRA STUDIO technology. This is a professional software product that is used by multimedia developers, compression and authoring facilities and post production companies to create sophisticated iDVD products. ZOOtech receives revenues in the form of per-disc royalties and project-related fees.

Of the approximately 150 iDVD titles in the UK market at Christmas 2006 around half were produced using DVD-EXTRA STUDIO. ZOOtech has around 100 customers, including both developers and publishers, in the iDVD market.

In the past year we have agreed licensing terms with a number of companies in the education sector, including Scholastic Inc. and Robinette Resources Inc. Scholastic have used DVD-EXTRA STUDIO to create a range of new interactive DVD titles including "Clifford Phonics" and two games based on the popular "I Spy" series which are adaptations of existing CD-ROM products. Robinette has been using DVD-EXTRA STUDIO to create at least 26 new titles for the award-winning "Know It All" interactive DVD education series. This represents a significant move in the US K-12 education market.

Recently the Group announced a licence agreement with Mattel where DVD-EXTRA STUDIO will be used to create several high-profile DVD games, including "High School Musical 2 DVD Board Game" and "1 vs. 100 DVD Game". DVD-EXTRA STUDIO enables the development of complex interactivity in order to produce game-play true to each property at the highest possible levels of quality and compatibility. The product also provides the ability to localise game titles cost-effectively and was used on the production of the German, Italian, Spanish and French versions of Mattel's original High School Musical DVD Board Game.

We were delighted to announce recently a licence agreement with Dicientia, Scandinavia's leading all-inclusive supplier of digital media. Dicientia has licensed DVD-EXTRA STUDIO to develop a series of interactive games that will be distributed in Sweden, Denmark, Norway, Finland and Germany.

The Interactive DVD group within ZOOtech is continuing to pursue licensing agreements for iDVD products primarily in the UK, USA and Central Europe. The decisions taken by our customers to adopt DVD-EXTRA STUDIO for production of such titles hinge on the unique benefits the product offers for ease of creation of sophisticated interactive content and the efficiency of adapting titles for multiple territories and languages.

Digital Media Technologies

The majority of ZOOtech's research and development efforts in the past year have been focused around the adaptation and enhancement of existing and creation of new technologies for digital media production. These technologies provide remarkable benefits by simplifying hitherto complex and costly processes, enabling shorter time to market for video products and more cost effective production.

The Menu Regionalisation Tool continues to be used within a major Hollywood studio for the production of all of its menus for worldwide DVD release, and we announced that this licence agreement had been renewed for a further year. More recently we announced that SDI Media, the world's leading provider of subtitling and language dubbing services to the entertainment industry, has licensed the Menu Regionalisation Tool and will be offering services based on the use of the tool to its clients which include many of the world's leading media and entertainment groups including Hollywood studios, international broadcasters and interactive game publishers. We are looking forward to working closely with SDI in the future as they deploy the technology on behalf of their existing and future customers.

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We completed the first release of our unique Templated Authoring System (TAS) and announced a first licensing deal to a major Hollywood studio where it is now being used for the production of a substantial proportion of the studio's worldwide DVD title releases. With this new automated software solution customers are able to realise significant efficiencies in the creation of titles for DVD-Video and other platforms. The product simplifies the DVD development process which can now be undertaken without the need for highly trained operators. TAS has been designed to accommodate current and future video-based technologies. By defining templates for different platforms, alternative versions of the titles – such as HD DVD, Blu-ray Disc, Video on Demand and Download to Own – can be quickly and easily created using the same system but different asset data.

We have been in discussions with a number of leading studios and video publishers concerning the adoption of TAS as the basis of future video title production and anticipate a number of significant new customers in the near future.

ZOO Interactive Video Ltd. (“ZIV”)

The ZIV division was established in 2003 as ZOO's consumer product development team with a focus on the creation of interactive DVD (“iDVD”) titles using the Group's DVD-EXTRA STUDIO technology. Through its partnerships with leading publishers including Universal Pictures and 2Entertain Ltd, ZIV's efforts have been responsible for the establishment of the interactive DVD category at retail which, over the Christmas 2006 period, resulted in around 150 titles published into the UK market alone. Of these ZIV developed the award winning “Who Wants to be a Millionaire? 4” – the latest iDVD edition in the best selling franchise which has sold over a million copies in the UK alone. Other ZIV titles produced for Christmas 2006 included “Telly Addicts 2”, “A Question of Sport”, “Smash Hits”, “Time Tunnel” and “TMF starDANCER”.

With such a sizeable array of titles in the market, ZIV succeeded in establishing the iDVD category at retail and the Board concluded that it was no longer imperative to maintain the division. Consequently, in October 2006 the decision was taken to discontinue the acquisition of intellectual property rights for the creation of iDVD products and to divest the Group of the ZIV division. Andy Scrivener, previously Chief Operating Officer, resigned his position on the Board with effect from 3 October 2006 and established his own independent iDVD development business with the full support of the Group. Eleven staff transferred from ZOO to this new company together with some associated licences for a deferred consideration of £200,000 payable to ZOO in March 2008. All current and future revenues relating to products created prior to October 2006 are retained by the Group.

The Board would like to thank Andy for his contribution to the business and for his pioneering work to establish a viable and growing interactive DVD market in the UK. We have subsequently welcomed him as a new licensee and have been working closely with him in his new venture where DVD-EXTRA STUDIO is being used under a commercial licence to create new products, including further editions in the “Who Wants to be a Millionaire?” franchise.

ZOO now has a wide range of customers using DVD-EXTRA STUDIO and our focus is on development of our unique video production technologies where significant opportunities exist, rather than development of consumer products. As a consequence of the disposal of the ZIV business the Group has focused on providing market-leading professional products and services to support those customers from which ZOOtech earns royalties and fees.

People

The quality of our staff and management is key to the continuing success and growth of the Group. We employ a multi-disciplinary team of highly talented individuals who have been responsible for the innovations and product developments that we expect to yield significant revenues and profits in the years ahead. Our excellent commercial team continues to make good progress in developing relationships with studios and other customers across multiple territories. We experience low staff turnover and offer share-based incentives to management and staff to ensure that rewards are linked to the success of the Group.

ZOO DIGITAL GROUP PLC
CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT
YEAR ENDED 31 MARCH 2007

We are delighted to be augmenting the team with the management and staff of Scope Seven, who have established an excellent reputation in the industry for first class services. We look forward to working with the team in the exciting period ahead as we broaden our offering to augment our revolutionary technologies with first class services, and strengthen relationships with studio clients.

On behalf of the Directors we would like to thank all staff for their continuing dedication and support for the business.

Outlook

The Board remains confident about the prospects for the Group and we look forward to an exciting year and continued development of the business. The acquisition of Scope Seven will provide a platform for us to increase our penetration of the Hollywood market at a pace that is significantly faster than has been possible with a pure technology licensing proposition.

We believe that ZOO offers an attractive opportunity for investors and anticipate further growth in our interactive DVD division in the coming year as well as a substantial increase in revenues due to our Digital Media Technologies and Scope Seven divisions as we consolidate our position regarding existing products and launch a number of new products and services.

The business continues to attract new customers and the international affiliates that we are in the process of appointing will play an increasingly important role in securing relationships with key multi-national companies. Our product plans are well founded; we undertake market testing in relation to each new product and base our developments on the requirements provided by existing and prospective customers. We anticipate that ZOO's technologies will play an increasingly significant role in the digital media production market.

Christopher H B Honeyborne
Chairman

Stuart A Green
CEO

30 July 2007

ZOO DIGITAL GROUP PLC

DIRECTORS' REPORT

YEAR ENDED 31 MARCH 2007

The directors present their report on the affairs of the group, together with the financial statements and auditors' report, for the year ended 31 March 2007.

Principal activities

The principal activity of the group for the year under review was to provide productivity tools for video post-production and interactive markets and continue with ongoing research and development in those areas.

Business review

A review of the development of the business together with an indication of future developments is included in the Chairman and Chief Executive's statement set out on pages 2 to 6.

Results and dividends

The audited financial statements for the year ended 31 March 2007 are set out on pages 14 to 39. The directors do not recommend the payment of a dividend for the year.

Directors

The directors who served during the year were as follows:

Dr Christopher H B Honeyborne	Non-Executive Chairman	
Dr Stuart A Green	Chief Executive Officer	
Helen P Gilder	Group Finance Director	Appointed 29 September 2006
Matthew P Taylor	Non-Executive Director	Appointed 29 September 2006
Ian C Stewart	Non-Executive Director	
M John Barnes	Non-Executive Chairman	Resigned 27 September 2006
Robert G Deri	Chief Financial Officer	Resigned 16 January 2007
Andrew Scrivener	Chief Operating Officer	Resigned 03 October 2006

Details of the interests in the shares of the company at the beginning (or subsequent date of appointment) and end of the financial year of those directors who held office at 31 March 2007 are disclosed in note 8. In accordance with the company's Articles of Association Helen Gilder, Matthew Taylor and Ian Stewart retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election.

Dr Christopher H B Honeyborne – Chairman (aged 66)

Christopher spent 24 years in investment banking, gaining experience in a variety of senior roles with Lazard Brothers, Banque Paribas Group and Bank of N.T. Butterfield & Son. Since then, Christopher has held a number of high-profile non-executive directorships, including Yorkshire Water plc, Birse Group plc and Gremlin Group plc and is now Non-Executive Chairman of Dyson Group plc and a Non-Executive Director of Bede plc and Matica plc, as well as of a number of unquoted companies.

Christopher has been a non-executive director since 2000 and became Chairman on 27 September 2006.

Dr Stuart A Green – Chief Executive Officer (aged 42)

Stuart brings more than 15 years of experience of team building and executive management in the software industry to his role as CEO. Prior to his appointment as CEO Stuart was Chief Technical Officer, where he was responsible for determining the technology strategy and expanding the core intellectual property of the company. Previously he founded Kazoo3D plc and prior to that was co-founder of LightWork Design Limited where he served as Technical Director with responsibility for implementing LightWork Design Limited's technical development strategy. Stuart received a Ph.D. in Computer Science from the University of Bristol in 1989 for his research into computer systems for advanced computer graphics. He has 17 patents granted and patents applied for in the fields of image processing and digital media production.

ZOO DIGITAL GROUP PLC
DIRECTORS' REPORT
YEAR ENDED 31 MARCH 2007

Helen P Gilder – Group Finance Director (aged 40)

Helen began her employment with ZOO in 2000 and was appointed as Group Finance Director in September 2006. Prior to that she was Finance Director of Torex Medical Limited, a highly acquisitive company, specialising in IT systems for the health service. Helen qualified as a Chartered Accountant with PKF in 1991.

Matthew P Taylor – Non-Executive Director (aged 43)

Matt is a senior partner in Foresight Venture Partners, a leading UK manager of technology investment funds. He has 15 years' experience of investing in and advising smaller companies. He is currently a non-executive director of five companies.

Ian Stewart – Non-Executive Director (aged 53)

Ian founded Gremlin Interactive Limited, a developer and publisher of computer games for consumers, in 1984. He grew that company through organic growth and strategic acquisition until July 1997 when it floated on the London Stock Exchange as Gremlin Group plc. Infogrames SA acquired Gremlin Group plc for £25 million in May 1999 and Ian founded The ZOO Media Corporation Limited in October 1999.

Supplier payment policy

The company's policy, which is also applied by the group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the company at 31 March 2007 were equivalent to 46 days (2006: 40 days) purchases, based on the average daily amount invoiced by suppliers during the year.

Charitable and political contributions

During the year the group made no charitable or political donations.

Substantial shareholdings

On 30 June 2007, the company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the company:

Name of holder	Percentage held	Number
Mr I C Stewart	14.80%	875,365
Herald Investment Trust plc	9.98%	590,100
Funds managed and advised by Foresight Venture Partners	6.94%	410,254
Dr S A Green	3.49%	206,502
Baronsmead VCT plc	3.45%	203,805
Man Financial	3.20%	189,096

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation

The group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved through formal and informal meetings. All full-time employees, following the successful completion of their probation become entitled to share options in the company.

ZOO DIGITAL GROUP PLC

DIRECTORS' REPORT

YEAR ENDED 31 MARCH 2007

Disclosure of information to auditors

So far as each of the directors is aware at the time the report is approved:

- there is no relevant information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Key Performance Indicators

In addition to the monthly management accounts and information that are produced and monitored against the company's plan and the previous year's performance, the Board uses Key Performance Indicators (KPI's) in the management of the key risks of the business and as a measure of the business efficiencies of the company. The KPI's cover the following:

- Sales performance is measured against budget and the latest expectations which are updated monthly.
- Debtors are monitored by reviewing trends in debtor days and tracking the level of debt becoming overdue by 30 days or more.
- Costs and overheads are monitored against budget and against current needs.

Financial Risks

The main financial risks faced by the Group are foreign currency risk and liquidity risk. The directors regularly review and agree policies for managing these risks.

Foreign currency risk is managed by matching payments and receipts in foreign currency to minimise exposure. The results of ZOOtech Inc are reported in US dollars and the results of ZOOtech SARL are reported in the Euro. As a result, the Group's balance sheet can be affected by movements in these currencies.

Liquidity risk is managed by preparing regular forecasts and tightly controlling the working capital requirements of the Group.

The main operational risks are delays in the production of technology products and adoption of technology tools by customers.

The production risk is managed by ensuring very tightly controlled schedules, thoroughly planning staff time and allowing time for contingencies.

The sales risk is managed by maintaining close relationships with customers and potential customers and monitoring their expectations to ensure they are aligned with those of the company.

The main competitive risk is alternative technology being created by an alternative company. This is managed by the group's aggressive patent protection policy and maintenance of patent insurance to strengthen the ability to fight any patent breaches.

Financial instruments

The company does not actively use financial instruments as part of its financial risk management. It is exposed to the usual credit risk and cash flow risk associated with selling on credit and manages this through credit control procedures. The nature of its financial instruments means that they are not subject to price risk or liquidity risk. In September 2006 the company issued Unsecured Convertible loan stock to the value of £3,541,000, which carries a fixed interest rate of 6%.

Disposal of Interest in Own Shares

During the year the company disposed of some of its interest in its own shares held in connection with the employee benefit trust. The nominal value of these shares was 15p. 7,902 shares were sold to employees of the group for a consideration of £17,000.

ZOO DIGITAL GROUP PLC
DIRECTORS' REPORT
YEAR ENDED 31 MARCH 2007

Auditors

A resolution for the reappointment of PKF (UK) LLP will be proposed at the forthcoming annual general meeting.

By Order of the Board

Helen Gilder
Director and Secretary

30 July 2007

ZOO DIGITAL GROUP PLC
STATEMENT OF DIRECTORS' RESPONSIBILITIES
YEAR ENDED 31 MARCH 2007

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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS
ZOO DIGITAL GROUP PLC
YEAR ENDED 31 MARCH 2007

We have audited the group and parent company financial statements ('the financial statements') of ZOO Digital Group plc for the year ended 31 March 2007 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes. The financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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.

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).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information in the directors' report includes that specific information presented in the chairman and chief executive's statement that is cross referenced from the business review section of the directors' report.

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

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the directors' report and the chairman and chief executive's statement. 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 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS
ZOO DIGITAL GROUP PLC
YEAR ENDED 31 MARCH 2007

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 March 2007 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and
- the information given in the directors' report is consistent with the financial statements.

30 July 2007
Sheffield, UK

PKF (UK) LLP
Registered Auditors

ZOO DIGITAL GROUP PLC
CONSOLIDATED PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 MARCH 2007

	Notes	2007 £'000	Restated 2006 £'000
Turnover			
Continuing operations		1,399	1,696
Discontinued operations		2,350	7,468
		<hr/>	<hr/>
Cost of sales	2 1	3,749 (1,404)	9,164 (6,183)
		<hr/>	<hr/>
Gross profit			
Other operating income	5	117	-
Other operating expenses - other	6	(3,883)	(6,589)
		<hr/>	<hr/>
Loss before interest, tax, depreciation and amortisation		(1,421)	(3,608)
		<hr/>	<hr/>
- depreciation		(144)	(173)
- amortisation of intangible fixed assets		(402)	(682)
		<hr/>	<hr/>
Total operating expenses	6	(4,429)	(7,444)
		<hr/>	<hr/>
Operating loss			
Continuing operations		(1,876)	(1,798)
Discontinued operations		(91)	(2,665)
		<hr/>	<hr/>
		(1,967)	(4,463)
		<hr/>	<hr/>
Profit/(loss) on disposal of discontinued operation	6	310	(3,698)
Group restructuring	6	(94)	-
Other interest receivable and similar income	3	53	25
Amounts written off investment	26	-	(240)
Interest payable and similar charges	4	(185)	(109)
		<hr/>	<hr/>
Loss on ordinary activities before taxation		(1,883)	(8,485)
Tax on loss on ordinary activities	9	-	-
		<hr/>	<hr/>
Loss for the financial year	24	(1,883)	(8,485)
		<hr/>	<hr/>
Loss per share			
Basic	12	(36.97p)	(206.00p)
Diluted	12	(36.97p)	(206.00p)
		<hr/>	<hr/>
Loss per share – continuing operations			
Basic	12	(39.43p)	(51.52p)
Diluted	12	(39.43p)	(51.52p)
		<hr/>	<hr/>

The accompanying notes are an integral part of this consolidated profit and loss account

ZOO DIGITAL GROUP PLC
CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
YEAR ENDED 31 MARCH 2007

	2007 £'000	Restated 2006 £'000
Loss for the financial year	(1,883)	(8,485)
Exchange difference on the re-translation of net assets of subsidiary undertakings	81	-
	<hr/>	<hr/>
Total recognised gains and losses relating to the year	(1,802)	(8,485)
	<hr/> <hr/>	<hr/> <hr/>

ZOO DIGITAL GROUP PLC
CONSOLIDATED BALANCE SHEET
YEAR ENDED 31 MARCH 2007

	Notes	2007 £'000	Restated 2006 £'000
Fixed assets			
Intangible assets	13	1,993	2,007
Tangible assets	14	170	342
		<hr/>	<hr/>
		2,163	2,349
		<hr/>	<hr/>
Current assets			
Stock	16	-	48
Debtors	17	1,817	2,499
Cash at Bank and in hand		2,026	-
		<hr/>	<hr/>
		3,843	2,547
Creditors: Amounts falling due within one year	18	(1,903)	(2,962)
		<hr/>	<hr/>
Net current assets/(liabilities)		1,940	(415)
		<hr/>	<hr/>
Total assets less current liabilities		4,103	1,934
		<hr/>	<hr/>
Creditors: Amounts falling due after one year	19	(3,013)	-
		<hr/>	<hr/>
Net assets		1,090	1,934
		<hr/>	<hr/>
Capital and reserves			
Called-up share capital	22	887	635
Share premium account	24	22,102	21,648
Other reserves	24	8,598	8,598
Share option reserve	24	326	418
Convertible loan note reserve	24	266	-
Profit and loss account	24	(31,013)	(29,276)
		<hr/>	<hr/>
Shareholders' funds (all equity)	25	1,166	2,023
Interest in own shares		(76)	(89)
		<hr/>	<hr/>
		1,090	1,934
		<hr/>	<hr/>

The financial statements on pages 14 to 39 were approved and authorised for issue by the board of directors on 30 July 2007 and signed on its behalf by:

Stuart A Green

The accompanying notes are an integral part of this consolidated balance sheet.

ZOO DIGITAL GROUP PLC
COMPANY BALANCE SHEET
YEAR ENDED 31 MARCH 2007

	Notes	2007 £'000	Restated 2006 £'000
Fixed assets			
Intangible assets	13	1,259	1,595
Tangible assets	14	105	145
Investments	15	6,785	6,785
		<hr/>	<hr/>
		8,149	8,525
Current assets			
Debtors	17	6,354	4,787
Cash at bank and in hand		1,851	13
		<hr/>	<hr/>
		8,205	4,800
Creditors: Amounts falling due within one year	18	(660)	(637)
		<hr/>	<hr/>
Net current assets		7,545	4,163
		<hr/>	<hr/>
Total assets less current liabilities		15,694	12,688
		<hr/>	<hr/>
Creditors: Amounts falling due after more than one year	19	(9,798)	(6,785)
		<hr/>	<hr/>
Net assets		5,896	5,903
		<hr/>	<hr/>
Capital and reserves			
Called-up share capital	22	887	635
Share premium account	24	22,102	21,648
Other reserves	24	7,393	7,393
Share option reserve	24	326	418
Convertible loan note reserve	24	266	-
Profit and loss account	24	(25,002)	(24,102)
		<hr/>	<hr/>
Shareholders' funds (all equity)		5,972	5,992
Interest in own shares		(76)	(89)
		<hr/>	<hr/>
		5,896	5,903
		<hr/>	<hr/>

The financial statements on pages 14 to 39 were approved and authorised for issue by the board of directors on 30 July 2007 and signed on its behalf by:

Stuart A Green

The accompanying notes are an integral part of this balance sheet.

ZOO DIGITAL GROUP PLC
CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31 MARCH 2007

	Notes	2007 £'000	Restated 2006 £'000
Net cash outflow from operating activities	26	(875)	(2,004)
Exceptional items	31	(338)	(35)
Returns on investments and servicing of finance	27	(474)	(251)
Capital expenditure and financial investment	28	(412)	(470)
		<hr/>	<hr/>
Cash outflow before financing		(2,099)	(2,760)
Financing	29	4,361	3,172
		<hr/>	<hr/>
Increase in cash in the year		2,262	412
		<hr/> <hr/>	<hr/> <hr/>
Reconciliation of net cash flow to movement in net (debt)/funds			
Increase in cash in year	30	2,262	412
Cash inflow from increase in debt and lease financing	30	(3,013)	-
		<hr/>	<hr/>
Change in net (debt)/funds resulting from cash flows		(751)	412
Net debt at 1 April 2006		(317)	(729)
Foreign exchange translation adjustment		81	-
		<hr/>	<hr/>
Net debt at 31 March 2007	30	(987)	(317)
		<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of this consolidated cash flow statement.

ZOO DIGITAL GROUP PLC
STATEMENT OF ACCOUNTING POLICIES
YEAR ENDED 31 MARCH 2007

The principal accounting policies are summarised below. They have all been applied consistently throughout the year.

Basis of accounting

The financial statements have been prepared under the historical cost convention as modified by fair value accounting for share options, and in accordance with applicable accounting standards.

Basis of preparation

The consolidated financial statements incorporate the financial statements of the company and its' subsidiary undertakings, which are drawn up to 31 March 2007. In accordance with the exemption given under Section 230 of the Companies Act 1985 the company has not presented its own profit and loss account.

International Financial Reporting Standards ('IFRS') were set to replace United Kingdom Generally Accepted Accounting Practice ('UK GAAP') for EU regulated markets for consolidated reporting in 2005. However, on 7 October 2004 the London Stock Exchange announced that, following changes to existing AIM rules, AIM groups can continue until financial periods commencing on or after 1 January 2007 to report in either UK GAAP or IFRS. These statements have been prepared under UK GAAP. The company will report under IFRS from 1 April 2007.

The directors have prepared profit and cash flow forecasts for the three year period to 31 March 2010.

The assumptions used in the preparation of the forecasts include increased sales levels of existing products to both new and existing customers and sales of new products (presently under development) to both new and existing customers.

The forecasts show an increase in sales and the directors have considered the consequences if the increase in sales volume is less than the level forecast. The directors are confident that in this eventuality, and based upon only modest sales increases arising from existing customers, alternative steps could be taken to ensure that the group can continue to operate without the need for additional funding.

The directors have assumed that the fundraising exercise in connection with the proposed acquisition of certain assets of Scope Seven Inc (referred to in note 35) will raise sufficient funds to ensure no negative cash flow effect.

Based on the above, the directors consider that the group can continue its operations for the foreseeable future, and the financial statements have therefore been prepared on a going concern basis.

Intangible assets – goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is 10 years. Provision is made for any impairment. Following a provision for impairment the original cost less the impairment provision is written off over the remaining useful economic life of the asset.

Intangible assets – patent costs

Patent costs are stated at cost, net of amortisation and any provision for impairment. Amortisation is charged on a straight line basis over the useful economic life of the assets, which is 10 years.

ZOO DIGITAL GROUP PLC
STATEMENT OF ACCOUNTING POLICIES
YEAR ENDED 31 MARCH 2007

Intangible assets – research and development

Research expenditure is charged to the profit and loss account in the period in which it is incurred. Development costs that relate to clearly defined projects which are technically feasible and commercially viable, are capitalised and amortised on a straight line basis over 3 years provided that recoverability can be assessed with reasonable certainty. Other development costs are charged to the profit and loss account in the period in which they are incurred.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all such fixed assets at rates calculated to write off the cost of each asset less estimated residual value, on a straight-line basis, over its expected useful life, as follows:

Leasehold improvements	5 years
Computers	between 2 and 3 years
Office equipment, fixtures and fittings	between 2 and 5 years

Investments

Except as stated below, fixed asset investments are shown at cost less provision for impairment.

In the company balance sheet, for investments in subsidiaries acquired for consideration including the issue of shares, cost is measured by reference to the market value of the shares on the date of the transaction.

Share based payment transactions

The company follows FRS 20 ('Share based payments'), to account for share-based payments using the fair value based method with respect to all share-based payments to directors, employees and non-employees. FRS 20 requires the company to expense share options granted to directors, employees and non-employees in the period over which the share-based payment vests. A corresponding increase to the share option reserve under shareholder's funds is recognised. When share options are exercised, or when share options are forfeited, cancelled or expire, the corresponding fair value is transferred to the profit and loss account.

In accordance with the provisions of FRS 20, no expense is recorded in respect of options granted prior to 7 November 2002.

This represents a change in accounting policy, details of which are given in note 24.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

As required by FRS 19 "Deferred Tax", full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation, except for those timing differences in respect of which the standard specifies that deferred tax should not be recognised.

ZOO DIGITAL GROUP PLC
STATEMENT OF ACCOUNTING POLICIES
YEAR ENDED 31 MARCH 2007

Turnover

Turnover represents royalty income and other sales at invoice value less trade discounts allowed and excluding VAT.

Turnover attributable to the use of software products is credited to the profit and loss account in line with the usage of these products.

Guaranteed royalties falling due under contracts for products under development at the period-end are credited to the profit and loss account to the extent that the company's contractual obligations have been fulfilled and attributable product development costs incurred are charged in the same period. Royalties in relation to future periods are treated as deferred income.

Pension costs and other post retirement benefits

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Profit and losses of overseas subsidiary undertakings are translated into sterling at average rates for the year. The net assets of overseas subsidiaries are translated at rates ruling at the balance sheet date.

Differences arising from the translation of investments in overseas subsidiary undertakings and any related loans are dealt with through reserves

Operating leases

Rentals under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes all direct costs incurred and attributable production overheads. Net realisable value is based on estimated selling price allowing for all further costs of completion and disposal.

Product development expenditure is carried forward to the extent that it is considered to be recoverable. The amount carried forward is written off on release over the expected sales life of each product.

Government grants

Government grants in respect of capital expenditure are treated as deferred credits, a proportion of which is transferred to revenue annually over the life of the asset. Government grants in respect of revenue expenditure are recognised in the profit and loss account so as to match them with the expenditure towards which they are intended to contribute.

Convertible loan notes

The convertible loan notes are accounted for in accordance with FRS 25 'Financial Instruments: disclosure and presentation' and split between debt and equity based upon the market rate of similar loans not carrying conversion options.

ZOO DIGITAL GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2007

1. DISCONTINUED ACTIVITIES

	2007			Restated 2006		
	Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Cost of sales	116	1,288	1,404	38	6,145	6,183
Total operating expenses	3,276	1,153	4,429	3,456	3,988	7,444
Other operating income	(117)	-	(117)	-	-	-
	3,159	1,153	4,312	3,456	3,988	7,444

The discontinued activity relates to the disposal of the interactive DVD production division.

2. SEGMENT INFORMATION

Divisional:

	Holding Company £'000	Games Production and Distribution £'000	DVD Technology £'000	Total £'000
Turnover				
31 March 2007				
Gross turnover	-	2,350	1,689	4,039
Inter company sales	-	-	(290)	(290)
	-	2,350	1,399	3,749
31 March 2006				
Gross turnover	-	7,468	1,913	9,381
Inter company sales	-	-	(217)	(217)
	-	7,468	1,696	9,164
Operating loss				
31 March 2007	(1,357)	(91)	(519)	(1,967)
31 March 2006	(2,135)	(1,522)	(806)	(4,463)
Net assets				
31 March 2007	5,927	(99)	(4,738)	1,090
31 March 2006	10,013	(4,449)	(3,630)	1,934

ZOO DIGITAL GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2007

2. SEGMENT INFORMATION (continued)

Geographical:

	United Kingdom £'000	Europe £'000	Other £'000	Total £'000
Turnover (by destination)				
31 March 2007	1,926	128	1,695	3,749
31 March 2006	3,720	2,762	2,682	9,164
Net assets				
31 March 2007	2,403	(945)	(368)	1,090
31 March 2006	1,934	-	-	1,934

The turnover for the year is generated entirely from the UK.

3. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2007 £'000	2006 £'000
Bank interest	53	25

4. INTEREST PAYABLE AND SIMILAR CHARGES

Bank interest	(32)	(109)
Convertible loan note interest	(153)	-
	(185)	(109)

5. OTHER OPERATING INCOME

Government Grants	117	-
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ZOO DIGITAL GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2007

6. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activities before taxation is stated after charging/(crediting):

	2007	Restated
	£'000	2006
		£'000
Depreciation and amounts written off tangible fixed assets		
- owned by the company	144	173
Amortisation of intangible assets	402	682
Operating lease rentals		
- plant and machinery	-	4
- property rent	185	200
Auditors' remuneration		
- for audit services	29	28
- fees for other services		
- other services pursuant to legislation	3	-
- services relating to taxation	20	9
- services in relation to corporate finance transactions	25	-
- all other services	2	1
Research and development	748	804
Exchange gains	(164)	(63)
Share based payments – share options	86	236
	<hr/>	<hr/>
Other operating expenses comprise:		
- other expenses	3,883	6,589
- depreciation	144	173
- amortisation of intangible assets	402	682
	<hr/>	<hr/>
Other operating expenses	4,429	7,444
	<hr/>	<hr/>
(Profit)/Loss on disposal of discontinued operation comprises:		
- (profit)/loss on disposal of games publishing business	(271)	2,737
- loss on disposal of iDVD production business	25	-
- credit in respect of lapsed share options	(64)	-
- disposal of goodwill	-	961
	<hr/>	<hr/>
	(310)	3,698
	<hr/>	<hr/>
Group restructuring		
- redundancy costs	165	-
- credit in respect of lapsed share options	(71)	-
	<hr/>	<hr/>
	94	-
	<hr/>	<hr/>

The profit on the disposal of the games publishing business is an adjustment to overprovided expenses included in the previous year's loss on the sale.

The group restructuring costs have arisen as a direct consequence of the disposal of the games publishing and iDVD production businesses.

ZOO DIGITAL GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2007

7. STAFF COSTS

The average number of employees (including executive directors) was:

	2007	2006
	Number	Number
Product design	46	83
Sales and marketing	9	20
Administration	12	19
	<hr/>	<hr/>
	67	122
	<hr/>	<hr/>

Their aggregate remuneration comprised:

	2007	2006
	£'000	£'000
Wages and salaries	1,743	3,723
Social security costs	276	454
Other pension costs (see note 33)	69	108
	<hr/>	<hr/>
	2,088	4,285
	<hr/> <hr/>	<hr/> <hr/>

The holding company does not bear any payroll costs.

8. DIRECTORS' REMUNERATION, INTERESTS AND TRANSACTIONS

Aggregate remuneration

The total amounts for directors' remuneration and other benefits were as follows:

	2007	2006
	£'000	£'000
Emoluments	281	450
Money purchase pension contributions	27	17
Compensation for loss of office	154	-
	<hr/>	<hr/>
	462	467
	<hr/> <hr/>	<hr/> <hr/>

The highest paid director received emoluments and benefits as follows:

Emoluments	116	120
Money purchase pension contributions	6	4
	<hr/>	<hr/>
	122	124
	<hr/> <hr/>	<hr/> <hr/>

ZOO DIGITAL GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2007

8. DIRECTORS' REMUNERATION, INTERESTS AND TRANSACTIONS (continued)

Directors' remuneration comprised:

	Salary £'000	Loss of office £'000	Benefits £'000	Pension £'000	Total £'000	2006 Total £'000
Dr Stuart A Green	115	-	1	6	122	124
Helen P Gilder	42	-	-	2	44	-
Ian C Stewart	6	58	1	2	67	112
Robert G Deri	63	96	1	15	175	120
Andrew Scrivener	44	-	-	2	46	96
M John Barnes	8	-	-	-	8	15
	278	154	3	27	462	467

In addition to the above, **£12,000** (2006: £12,000) was paid to Brockhill Limited under agreements to provide the group with the services of Dr Christopher H B Honeyborne. **£10,000** (2006: £nil) was paid to Foresight Venture Partners for the services of Matthew P Taylor.

Five directors (2006: four) serving during the year have been members of money purchase pension schemes.

Directors' share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the company granted to or held by the directors. Details of the options are as follows:

Name of director	1 April 2006	Appointed Director	Lapsed	31 March 2007	Exercise Price	Date	
						from which exercisable	Expiry date
Dr Christopher H B Honeyborne	267	-	-	267	£63.75	Sep 2001	Mar 2010
Dr Christopher H B Honeyborne	2,667	-	-	2,667	£5.81	*	
Dr Christopher H B Honeyborne	3,333	-	-	3,333	£8.25	Apr 2007	Jul 2014
Dr Stuart A Green	16,667	-	-	16,667	£7.88	Apr 2007	Apr 2014
Dr Stuart A Green	13,333	-	-	13,333	£7.88	Jul 2008	Jul 2015
Helen P Gilder	-	800	-	800	£37.50	Sep 2001	Mar 2010
Helen P Gilder	-	4,000	-	4,000	£5.81	*	
Helen P Gilder	-	4,000	-	4,000	£2.06	Apr 2005	Apr 2013
Helen P Gilder	-	5,333	-	5,333	£7.88	Jul 2008	Jul 2015
Ian C Stewart	16,667	-	(16,667)	-	£7.88	Apr 2007	Apr 2014
Robert G Deri	43,371	-	(43,371)	-	£5.81	*	
Robert G Deri	30,038	-	(30,038)	-	£1.88	Dec 2003	Aug 2013
Robert G Deri	13,333	-	(13,333)	-	Nil	Dec 2003	Aug 2013
Robert G Deri	16,667	-	(16,667)	-	£7.88	Apr 2007	Apr 2014
Andrew Scrivener	16,667	-	(16,667)	-	£7.88	Apr 2007	Apr 2014
M John Barnes	2,667	-	(2,667)	-	£5.81	*	
M John Barnes	3,333	-	(3,333)	-	£8.25	Apr 2007	Jul 2014
Total	179,010	14,133	(142,743)	50,400			

* These share options all became exercisable 19 July 2004, and will lapse on 20 July 2011.

ZOO DIGITAL GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2007

8. DIRECTORS' REMUNERATION, INTERESTS AND TRANSACTIONS (continued)

The share options held by John Barnes, Robert Deri and Andrew Scrivener lapsed during the year following their resignation from the board.

The credit to the profit and loss account in respect of directors' share options amounted to **£76,000** (2006: charge £123,000)

The market price of the ordinary shares at 31 March 2007 was **20.5p** and the range during the period was 20.5p to 25.5p.

Directors' interests

The directors who held office at 31 March 2007 had the following interests, including family interests, in the 15p ordinary shares of ZOO Digital Group plc:

Name of director	2007 Beneficial	Restated* 2006 Beneficial
Dr Christopher H B Honeyborne	1,333	1,333
Dr Stuart A Green	206,502	132,533
Helen P Gilder	226	-
Ian C Stewart	875,365	813,829
Matthew P Taylor	-	-
	<hr/>	<hr/>

* Restated due to share consolidation

The directors also had the following interest in 6% unsecured convertible loan stock at 31 March 2007:

	£'000
Dr Christopher H B Honeyborne	4
Dr Stuart A Green	342
Helen P Gilder	-
Ian C Stewart	270
Matthew P Taylor	-
	<hr/>

No changes took place in the interests of directors between 31 March 2007 and 30 June 2007.

Matthew Taylor has a non beneficial interest in both shares and loan notes as a partner within Foresight Venture Partners.

No other transactions have taken place with directors aside from those disclosed in this note 8 or note 34.

9. TAX ON LOSS ON ORDINARY ACTIVITIES

(a) Analysis of credit in the period

	2007 £'000	2006 £'000
UK corporation tax		
Current tax on income for the period	-	-
Adjustments in respect of prior periods	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>

ZOO DIGITAL GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2007

9. TAX ON LOSS ON ORDINARY ACTIVITIES (continued)

(b) Factors affecting tax credit for year

The tax assessed for the year can be reconciled to the standard rate of corporation tax in the UK as follows:

	2007	Restated
	£'000	2006
		£'000
Loss on ordinary activities before tax	(1,939)	(8,485)
Loss on ordinary activities multiplied by standard rate of corporation tax of 30%	(582)	(2,546)
Depreciation in excess of capital allowances	143	105
Disallowable items	(4)	445
Losses carried forward	443	1,996
Current tax credit for the year	-	-

The effect of the profit on disposal of discontinued operations has been to decrease the tax losses carried forward by approximately £270,000 (2006: £2,900,000). The effect of the group restructuring has been to increase tax losses by approximately £165,000.

(c) Factors that may affect future tax charges

The group has tax losses carried forward of approximately **£19,000,000** (2006: £18,590,000).

10. LOSS ATTRIBUTABLE TO ZOO DIGITAL GROUP PLC

The loss for the year dealt with in the financial statements of the parent company, ZOO Digital Group plc, was £965,000 (2006: £6,126,000 restated). As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the parent company.

11. DIVIDENDS

There were no dividends paid or proposed.

12. LOSS PER SHARE

The calculations of loss per share are based on the following losses and numbers of shares.

	Basic and Diluted	
	2007	Restated
	£'000	2006
		£'000
Loss/(Profit) for the financial year		
Continuing operations	2,008	2,122
Discontinued operations	(125)	6,363
	1,883	8,485

ZOO DIGITAL GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2007

12. LOSS PER SHARE (continued)

	2007 Number of shares	2006 Number of shares
Weighted average number of shares for basic & diluted loss per share	5,092,801	4,118,939

The weighted average number of shares in issue at 31 March 2006 has been restated following the share consolidation.

No adjustment has been made for 'in the money' share options as this would decrease the loss per share, which is not dilutive. No adjustment has been made for 'out of the money' share options based on the assumption that shareholders would not exercise these options.

The Profit/(loss) per share on discontinued activities is as follows:

	2007	2006
Basic	2.45p	(154.48p)
Diluted	2.45p	(154.48p)

13. INTANGIBLE FIXED ASSETS

Group	Goodwill £'000	Development costs £'000	Patents £'000	Total £'000
Cost				
At 1 April 2006	10,423	528	231	11,182
Additions	-	334	54	388
Disposals	-	(316)	-	(316)
At 31 March 2007	10,423	546	285	11,254
Amortisation				
At 1 April 2006	8,828	316	31	9,175
Charge for the year	336	71	(5)	402
Disposals	-	(316)	-	(316)
At 31 March 2007	9,164	71	26	9,261
Net book value				
At 31 March 2007	1,259	475	259	1,993
At 31 March 2006	1,595	212	200	2,007

ZOO DIGITAL GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2007

13. INTANGIBLE FIXED ASSETS (continued)

Company	Goodwill £'000
Cost	
At 1 April 2006 and 31 March 2007	7,667
	<hr/>
Amortisation	
At 1 April 2006	6,072
Charge for the year	336
	<hr/>
At 31 March 2007	6,408
	<hr/> <hr/>
Net book value	
At 31 March 2007	1,259
	<hr/>
At 31 March 2006	1,595
	<hr/> <hr/>

14. TANGIBLE FIXED ASSETS

Group	Leasehold Improvements £'000	Computers £'000	Office equipment, fixtures & fittings £'000	Total £'000
Cost				
At 1 April 2006	12	795	371	1,178
Additions	-	34	1	35
Disposals	-	(105)	(21)	(126)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2007	12	724	351	1,087
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Depreciation				
At 1 April 2006	11	597	228	836
Charge for the period	1	94	49	144
Eliminated on disposal	-	(48)	(15)	(63)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2007	12	643	262	917
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value				
At 31 March 2007	-	81	89	170
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2006	1	198	143	342
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

ZOO DIGITAL GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2007

14. TANGIBLE FIXED ASSETS (continued)

Company	Leasehold Improvements £'000	Computers £'000	Office equipment, fixtures & fittings £'000	Total £'000
Cost				
At 1 April 2006	12	296	317	625
Additions	-	20	-	20
At 31 March 2007	12	316	317	645
Depreciation				
At 1 April 2006	11	266	203	480
Charge for the year	1	25	34	60
At 31 March 2007	12	291	237	540
Net book value				
At 31 March 2007	-	25	80	105
At 31 March 2006	1	30	114	145

15. FIXED ASSET INVESTMENTS

The parent company has investments in the following subsidiary undertakings:

Subsidiary undertakings	Country of incorporation	Principal activity	Holding	%
ZOOtech Limited	UK	Technology development	2 ordinary shares	100
ZOO Interactive Video Limited	UK	Development of interactive DVDs	100 ordinary shares	100
The ZOO Media Corporation Limited	UK	Dormant	95,714 ordinary shares	100
ZOOtech Inc.	USA	Sale & distribution technology products	10,000 shares of common stock	100
ZOO Employee Share Trust Limited	UK	Employee share scheme	2 ordinary shares	100
ZOOtech SARL	France	Sale & distribution technology products	€5,000 of share capital	100

ZOO DIGITAL GROUP PLC
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15. FIXED ASSETS INVESTMENTS (continued)

Subsidiary undertakings	Company £'000
Cost	
At 1 April 2006 and 31 March 2007	8,252
Provision for impairment	
At 1 April 2006 and 31 March 2007	1,467
Net book value	
At 31 March 2007	6,785
At 31 March 2006	6,785

16. STOCK

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Products in the course of development	-	48	-	-

17. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Trade debtors	572	1,242	20	-
Amounts owed by subsidiary undertakings	-	-	6,112	4,566
VAT	-	40	18	20
Other debtors	134	472	1	-
Prepayments and accrued income	1,111	745	203	201
	1,817	2,499	6,354	4,787

18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Bank overdraft	-	317	-	-
Trade creditors	539	808	271	297
Other taxation and social security	114	215	92	102
Accruals and deferred income	1,246	1,616	293	232
Accrued pension contributions	4	6	4	6
	1,903	2,962	660	637

19. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

Amounts owed to subsidiary undertakings	-	-	6,785	6,785
6% Unsecured convertible loan stock	3,013	-	3,013	-
	3,013	-	9,798	6,785

ZOO DIGITAL GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
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19. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

On 27 September 2006 the Group issued £3,541,000 6% Unsecured convertible loan stock which is redeemable on 31 October 2011. The loan stock holder is entitled, at any time after the first anniversary, to convert all or part of the loan stock into fully paid ordinary shares on the basis of 1 Ordinary share for every 48.75p of principal amount of loan stock. The company can force conversion if the mean average closing bid price of an ordinary share, as shown in the daily official list of the London Stock Exchange for at least 30 consecutive days is equal to or exceeds £9.00 on or before the third anniversary or £11.25 after the third anniversary.

The convertible loan stock has been accounted for in accordance with FRS 25 ('Financial Instruments: disclosure and presentation') and split between debt and equity based upon the market rate of similar loan stock not carrying conversion options, estimated to be 8%.

20. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group's financial instruments comprise cash and liquid resources, a long term convertible loan and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

Foreign Currency Risk

The main risks arising from the Group's financial instruments are from foreign currency risk. The Group has two overseas subsidiaries operating in the USA and France. Sales are invoiced in local currencies to eliminate the currency exposure of local costs incurred.

Interest Rate Risk

In September 2006 the Group issued £3,541,000 Unsecured convertible redeemable loan stock, redeemable on 31 October 2011. The loan carries a fixed interest rate of 6%. The group considers the interest rate risk to be minimal.

Liquidity Risk

The group reduces its liquidity risk through management of bank accounts, trade debtors and trade creditors and through thorough controls on expenditure.

Credit Risk

The credit risk of carrying trade debtors on the balance sheet is reduced through credit control procedures.

21. PROVISIONS FOR LIABILITIES AND CHARGES

The amounts unprovided at the year-end are as follows:

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Deferred tax asset:				
- Accelerated capital allowances	121	50	103	52
- Short term timing differences	-	7	-	9
- Tax losses carried forward	5,728	5,577	3,091	3,029
	5,849	5,634	3,194	3,090
	5,849	5,634	3,194	3,090

ZOO DIGITAL GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
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22. CALLED-UP SHARE CAPITAL

	2007	2006
	£'000	£'000
Authorised 14,666,667 ordinary shares of 15p each (2006: 400,000,000 ordinary shares of 0.2p each)	2,200	800
Allotted, called-up and fully-paid 5,913,088 ordinary shares of 15p each (2006: 317,327,828 ordinary shares of 0.2p each)	887	635

On 28 September 2006 the authorised Share capital was increased from 400,000,000 ordinary shares to 650,000,000 ordinary shares. Also on 28 September 2006 126,153,846 ordinary shares of 0.2p were issued for consideration of £820,000.

Share consolidation

A share consolidation was performed on 24 October 2006 in the ratio of 1 new share for every 75 shares held.

Share options

Options have been granted under the following option schemes to subscribe for ordinary shares of the company. As at 31 March 2007 the following options were outstanding:

		Outstanding at 1 April 2006 No.	Forfeited during the year No.	Outstanding at 31 March 2007 No.
Kazoo3D plc employee share option scheme*				
March 2010	£37.50	2,008	-	2,008
Kazoo3D plc unapproved employee share option scheme*				
March 2010 - July 2015	£7.88 - £63.75	4,425	-	4,425
Kazoo3D plc cross-over share option scheme*				
March 2010	£37.50	13,880	-	13,880
ZOO Digital Group plc rollover share option scheme				
December 2010	£0.01	40,701	-	40,701
ZOO Digital Group plc Enterprise Management Incentive scheme*				
July 2011 – July 2015	Nil - £10.13	194,586	(89,718)	104,868
ZOO Digital Group plc Unapproved share option scheme*				
July 2011 – July 2015	Nil - £7.88	133,443	(96,808)	36,635
		389,043	(186,526)	202,517

*Under these schemes the percentage of shares that can be exercised is staggered over the exercise period with typically 40% exercisable within the first two years and a further 30% in each of the next two years.

ZOO DIGITAL GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
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23. SHARE BASED PAYMENTS

The credit recognised for share-based payments in respect of employee services received during the year to 31 March 2007 is £49,000 (2006: £236,000 expense). The credit is due to exceptional restructuring of the group.

In arriving at the fair value, each option grant has been valued separately using the binomial model and the resulting fair value is expensed over the vesting period. This applies to all schemes.

Volatility has been estimated by taking the historical volatility in the company's share price over a three year period. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The following table lists the range assumptions used in the model:

Expected Volatility (%)	74.4 - 80.3
Risk-free Interest rate(%)	4.05 - 5.19
Expected life of option (years)	5
Weighted average exercise price (pence)	639.0 - 787.5
Expected dividends	none

24. RESERVES

Group	Share premium account £'000	Other reserves £'000	Share option reserve £'000	Convertible loan note reserve £'000	Profit & loss account £'000	Total £'000
At 1 April 2006	21,648	8,598	-	-	(28,858)	1,388
Prior year adjustment	-	-	418	-	(418)	-
1 April 2006 restated	21,648	8,598	418	-	(29,276)	1,388
Issue of shares	568	-	-	-	-	568
Issue of convertible loan stock	-	-	-	266	-	266
Issue costs	(114)	-	-	-	22	(92)
Loss for the year	-	-	-	-	(1,883)	(1,883)
Share based payments	-	-	(92)	-	43	(49)
Foreign exchange translation adjustment	-	-	-	-	81	81
At 31 March 2007	22,102	8,598	326	266	(31,013)	279
Company						
At 1 April 2006	21,648	7,393	-	-	(23,684)	5,357
Prior year adjustment	-	-	418	-	(418)	-
1 April 2006 restated	21,648	7,393	418	-	(24,102)	5,357
Issue of shares	568	-	-	-	-	568
Issue of convertible loan stock	-	-	-	266	-	266
Issue costs	(114)	-	-	-	22	(92)
Loss for the period	-	-	-	-	(965)	(965)
Share based payments	-	-	(92)	-	43	(49)
At 31 March 2007	22,102	7,393	326	266	(25,002)	5,085

ZOO DIGITAL GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
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24. RESERVES (continued)

Other reserves comprise the merger reserve arising on the acquisition of The ZOO Media Corporation Limited and market value of options granted in connection with that acquisition.

During the year the company has adopted FRS 20 ('Share based payments') to account for share based payments using the fair value based method with respect to all share based payments to directors, employees and non-employees.

A prior period adjustment has been made to reflect this change of accounting policy, the effect of which has been to increase other operating costs in the prior year by £236,000 and to transfer £418,000 from the profit and loss reserve to a share option reserve.

The effect of the change in accounting policy on the current year has been to decrease costs and reserves by £49,000.

Due to the group restructuring a number of share options have been surrendered reducing the number of share options in issue during the year. A proportion of the share options surrendered had vested before the employees' leaving dates and therefore a transfer has been made between the share option reserve and the profit and loss reserve.

25. RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

	2007	Restated
	£'000	2006
		£'000
Loss for the financial year	(1,883)	(8,485)
New shares issued	820	3,172
Issue costs	(92)	(167)
Convertible loan stock issued	266	-
Share based payments	(49)	236
Currency translation adjustment	81	-
	<hr/>	<hr/>
Net deduction from shareholders' funds	(857)	(5,244)
Opening shareholders' funds	2,023	7,267
	<hr/>	<hr/>
Closing shareholders' funds	1,166	2,023
Interest in own shares	(76)	(89)
	<hr/>	<hr/>
	1,090	1,934
	<hr/> <hr/>	<hr/> <hr/>

ZOO DIGITAL GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2007

26. RECONCILIATION OF OPERATING LOSS TO OPERATING CASH FLOWS

	2007	2006
	£'000	£'000
Operating loss	(1,967)	(4,463)
Depreciation charges	144	173
Decrease in stock	80	281
Decrease in debtors	1,121	1,359
Decrease in creditors	(754)	(272)
Amortisation of intangible fixed assets	402	682
Disposal of own shares	13	-
Share based payments	86	236
	<hr/>	<hr/>
Net cash outflow from operating activities	(875)	(2,004)
	<hr/> <hr/>	<hr/> <hr/>

27. RETURNS ON INVESTMENT AND SERVICING OF FINANCE

Interest received	53	25
Interest paid on bank overdraft	(32)	(109)
Interest paid on convertible loan	(97)	-
Share and convertible loan issue costs	(398)	(167)
	<hr/>	<hr/>
Net cash outflow	(474)	(251)
	<hr/> <hr/>	<hr/> <hr/>

28. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

Purchase of intangible fixed assets	(388)	(299)
Purchase of tangible fixed assets	(35)	(171)
Receipts from sales of fixed assets	11	-
	<hr/>	<hr/>
Net cash outflow	(412)	(470)
	<hr/> <hr/>	<hr/> <hr/>

29. FINANCING

Issue of share capital	820	3,172
Issue of Convertible loan stock	3,541	-
	<hr/>	<hr/>
Net cash inflow	4,361	3,172
	<hr/> <hr/>	<hr/> <hr/>

ZOO DIGITAL GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2007

30. ANALYSIS OF CHANGES IN DEBT

	At 1 April 2006 £'000	Cash flows £'000	Exchange movements £'000	At 31 March 2007 £'000
Bank overdraft	(317)	317	-	-
Cash at bank and in hand	-	1,945	81	2,026
	(317)	2,262	81	2,026
Debt due after more than one year	-	(3,013)	-	(3,013)
	(317)	(751)	81	(987)

31. EXCEPTIONAL ITEMS

On the 3 October 2006 the group disposed of the trade and assets of its interactive DVD production business. No cashflow has resulted from this transaction as the consideration of £200,000 has been deferred.

Exceptional items in the cashflow relate to costs incurred in relation to the closure of the Interactive DVD business £173,000 and costs incurred in relation to the group restructuring £165,000.

32. FINANCIAL COMMITMENTS

Annual commitments under non-cancellable operating leases are as follows:

	Land and Buildings		Other	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Group				
Expiry date				
- within one year	-	-	-	-
- between two and five years	160	200	-	-
	160	200	-	-
Company				
Expiry date				
- within one year			-	-
- between two and five years			160	160
			160	160

Included in commitments expiring between two and five years is an amount of £160,000 (2006: £200,000) due within the next year in respect of a lease for land and buildings. Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

ZOO DIGITAL GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
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33. PENSION ARRANGEMENTS

The company makes payment of contributions into certain employees' personal pension schemes for which the pension cost charge for the period amounted to £69,000 (2006: £108,000).

34. RELATED PARTY TRANSACTIONS

On 3 October 2006, following the resignation by Andrew Scrivener as a director, the Group disposed of the assets of its Interactive DVD production business to ZOO Interactive Entertainment Limited, a company which Mr Scrivener is a director and shareholder for the consideration of £200,000.

During the year the group purchased goods and services in the ordinary course of business from ZOO Interactive Entertainment Limited at a cost of £22,000. At 31 March 2007 the balance owed to ZOO Interactive Entertainment Limited was £nil. Services were also provided to ZOO Interactive Entertainment Limited in the normal course of business amounting to £7,000. At 31 March 2007 the balance owed by ZOO Interactive Entertainment Limited was £1,000.

During the year the group also provided goods and services to ZOO Digital Publishing Limited, of which Ian C Stewart became a director on 1 November 2006, amounting to £166,000. No goods or services were purchased from ZOO Digital Publishing Limited during the year. At 31 March 2007 the balance owed by ZOO Digital Publishing Limited was £60,000.

35. POST-BALANCE SHEET EVENTS

On 30 July 2007 the group announced the proposed acquisition of certain assets of Scope Seven Inc, a leading independent supplier of compression and authoring services to Hollywood studios. Consideration of \$2.8 million is payable upon completion, a further \$600,000 is payable over the following three years and a maximum further consideration of \$1.5 million could become payable over the next three years in the form of an earn out. An equity placing will take place to fund the acquisition and provide working capital for the new entity.

ZOO DIGITAL GROUP PLC

COMPANY INFORMATION

Directors	Dr Christopher H B Honeyborne (Chairman) Dr Stuart A Green (Chief Executive Officer) Helen P Gilder (Group Finance Director) Matthew P Taylor (Non-Executive Director) Ian C Stewart (Non-Executive Director)
Company Secretary	Helen P Gilder
Registered Office	20 Furnival Street, Sheffield, S1 4QT
Website Address	www.zoodigitalgroup.com
Nominated Adviser and Broker	KBC Peel Hunt Ltd 4 th Floor 111 Old Broad Street London EC2N 1PH
Auditors	PKF (UK) LLP Knowle House 4 Norfolk Park Road Sheffield S2 3QE
Solicitors to the Company	DLA Piper UK LLP 1 St Paul's Place Sheffield S1 2JX
Bankers	Bank of Scotland 7 Leopold Street Sheffield S1 2FF
Registrars	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA

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