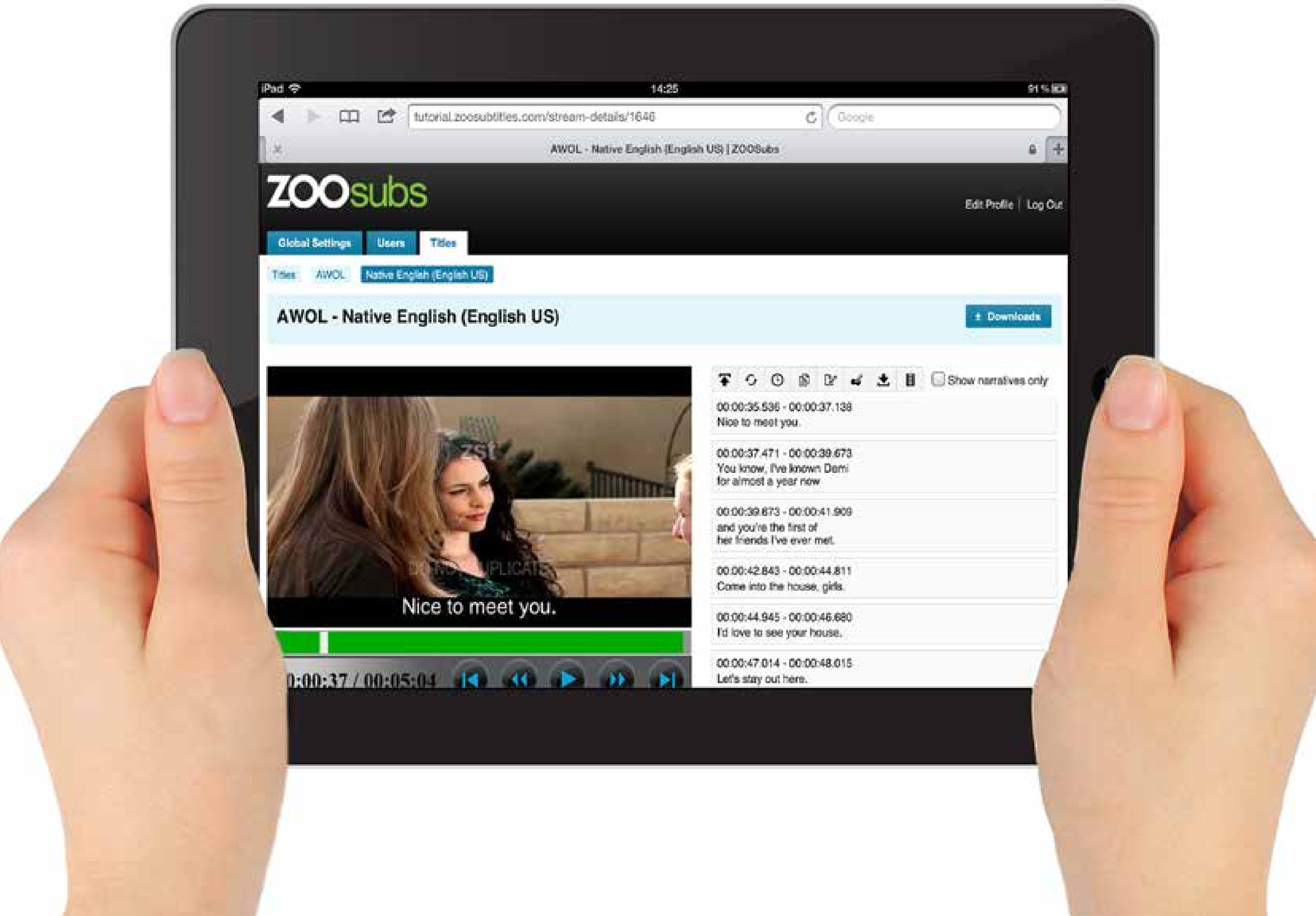
ZOO Digital Group plc
Annual Report and Accounts 2012
Stock code: ZOO

Smarter Workflows for Global Media



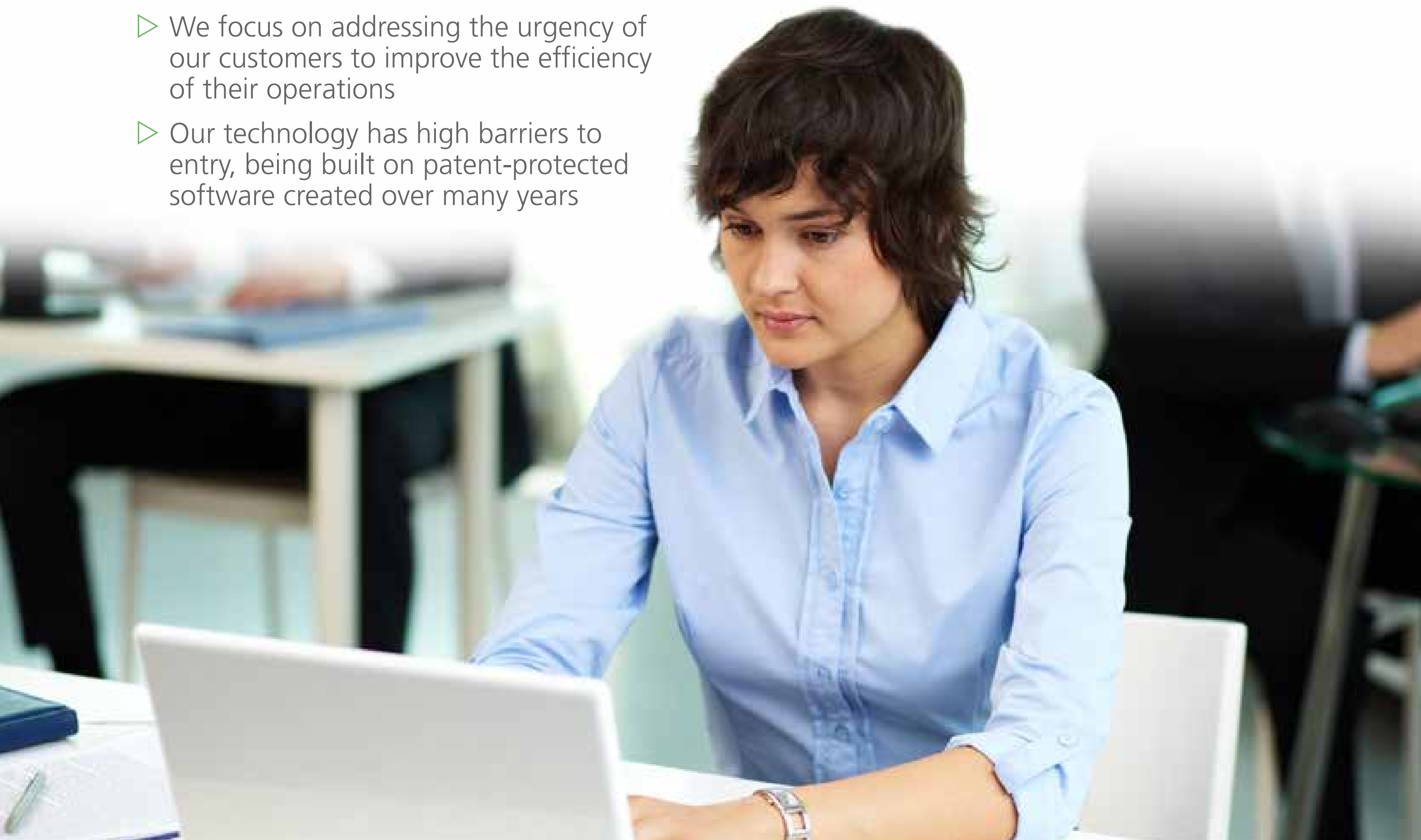
Welcome to ZOO Digital Group plc

Creating media for global distribution is a complex, labour-intensive and time-consuming process. ZOO's media collaboration and production solutions enable businesses to create and deliver content to the global marketplace more rapidly and efficiently than ever before.

ZOO is a provider of workflow solutions for the creative media industries. We work with organisations including film studios, videogame developers, music publishers, toy companies and book publishers to simplify the production of creative materials. Our customers enjoy reduced time to market, higher quality and lower costs. We do this by delivering innovative, patent-protected software as a service and providing flexible solutions that combine licensing with value-added services to meet the diverse needs of customers of all sizes across the creative media industries. Our software is used to create localised iTunes, DVD, Blu-ray, eBooks, product packaging and marketing campaigns for some of the best known brands in the world.

Why ZOO?

- We create open, collaborative relationships with our customers that build trust and generate repeat business
- Our proposition is clearly differentiated in the market, based on our innovative software
- We focus on addressing the urgency of our customers to improve the efficiency of their operations
- Our technology has high barriers to entry, being built on patent-protected software created over many years
- Our business model is highly scalable, enabling us to grow without significantly adding to the cost base
- Our strategy of partnering in new markets brings significant potential with only modest levels of investment



Key Financials

REVENUE $11.2m (2011: $13.8m)	ADJUSTED EBITDA $0.5m* (2011: $2.5m)*
ADJUSTED OPERATING LOSS ($0.7m)* (2011: profit $1.5m)*	YEAR-END CASH BALANCE $1.2m (2011: $0.6m)

* Adjusted EBITDA and operating loss are stated before share based payments of $0.3m (2011: $0.2m).

Operational Highlights

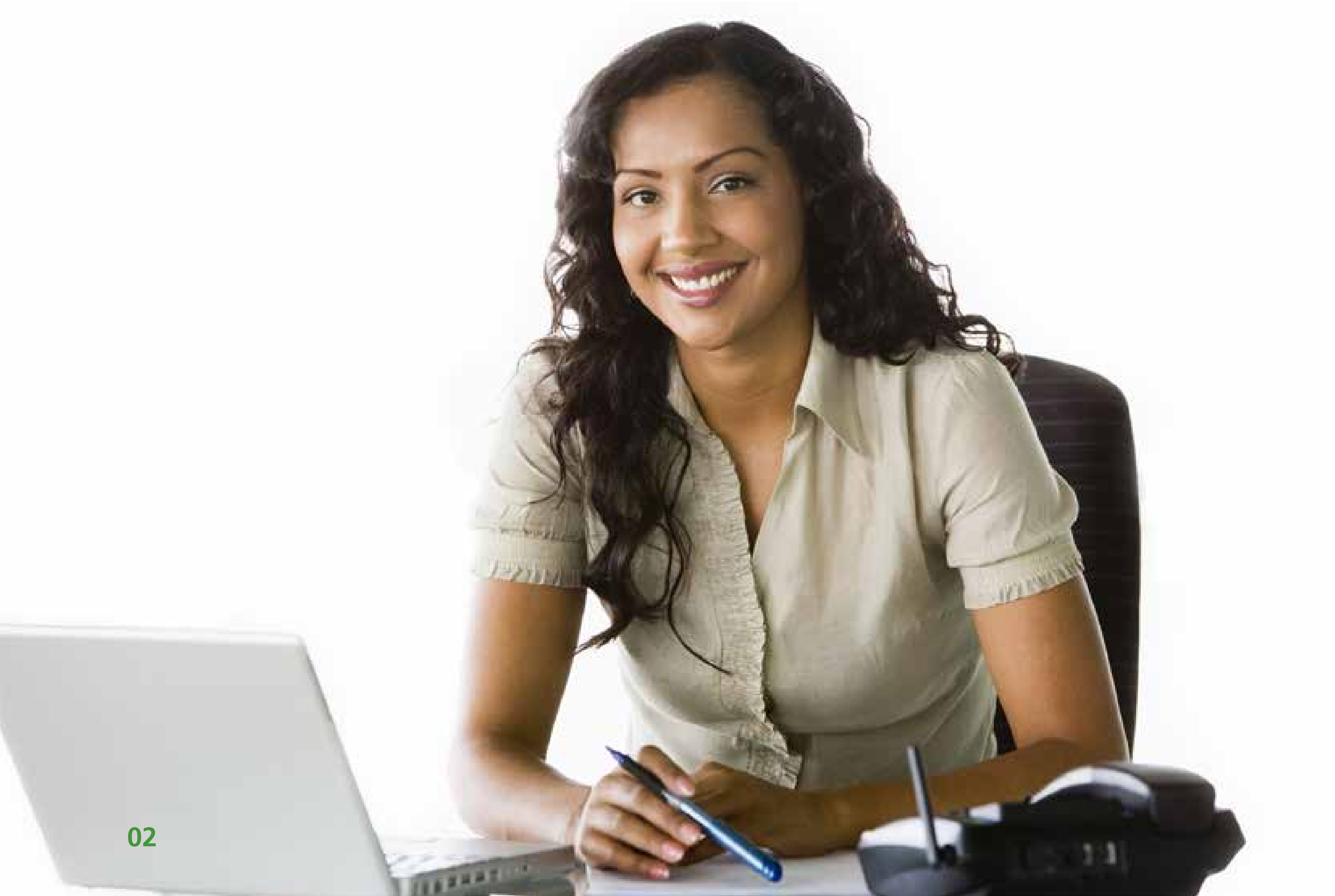
- Profitable second half of the year following a particularly challenging first half
- Further progress in eBooks and Electronic Sell Through ("EST") markets
- ZOO Subtitling tool developed to meet customer needs
- Increasing demand for workflow management installations

Contents

Group at a Glance

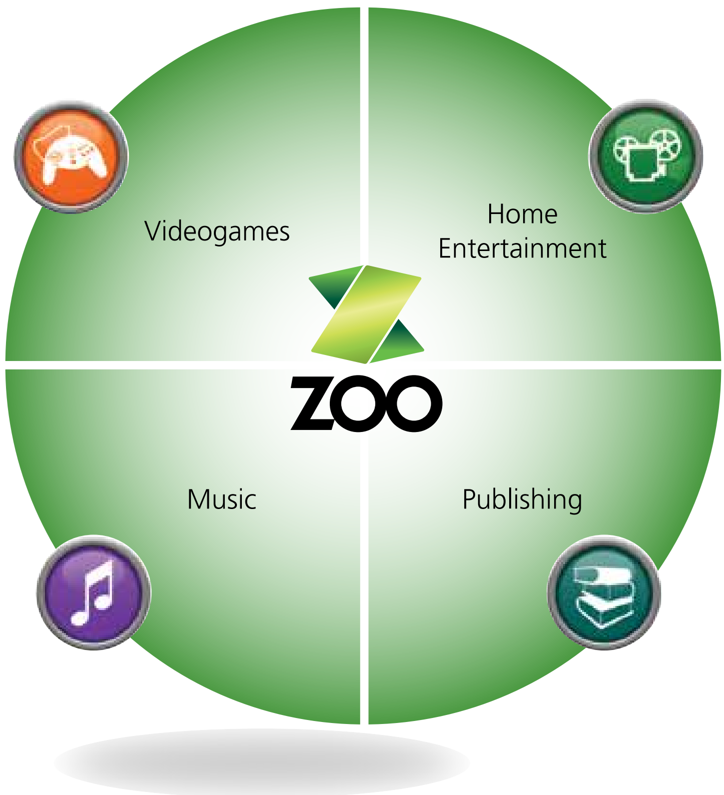
ZOO Digital Group plc provides software and related services that support the workflows associated with authoring, re-purposing and distribution of creative media. ZOO's products form an integrated suite of Cloud-based and desktop applications for audio/visual content and printed materials, adapting these media for different languages, formats and delivery mechanisms.

By centralising editorial and approval processes via secure Cloud-based platforms, ZOO's proprietary patented software helps customers to increase their speed of production, reduce costs and protect brand integrity. ZOO's services enable quicker and more cost effective processes across a wide range of applications and formats, including packaging, printed materials, DVD, Blu-ray Disc, video on demand, electronic sell-through (EST), broadcast, music and electronic books.



Smarter Workflows for Global Media

The group's largest customers include major Hollywood studios, for which the production, marketing and distribution of film and video properties in numerous formats across many geographies and languages has previously been a lengthy, costly and largely manual process. Increasingly the group's propositions are benefiting a variety of companies across sectors where the development of media products, printing, packaging and marketing involves complex processes in multiple countries and languages, particularly where brand integrity is of core importance.



Group at a Glance continued

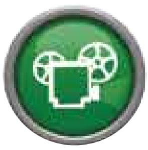
One stop to Global

ZOO offers comprehensive solutions for global companies like film and television studios, music producers, book and games publishers and corporate clients who produce creative media for global distribution.

The Industries We Serve

ZOO's propositions are targeted at companies across the creative media industries. We are now building our customer base in a number of diverse segments as described below. In each case, depending on the needs of the customer, we deliver software as a service and/or provide an outsourced production capability. Either way the customer will reap the benefits of our wealth of experience and dramatically reduce their production costs.

Home Entertainment



The home entertainment industry continues to go through a period of significant change. Consumers have come to expect choice in the way in which they watch movies and episodic programming — in the living room, on the personal computer and on the move. The DVD format is in decline as consumers scale back the building of their personal collections, while the latest packaged media format — Blu-ray Disc — and a range of Electronic Sell Through (EST) platforms such as iTunes are taking off. This industry transition causes all studios to examine costs very carefully and find ways of doing more for less.

We help our customers cut outsourcing costs. We offer something different from the traditional service provided by other vendors; our tools automate costly repetitive tasks involved in production. These tools remove the need for expensive and error-prone manual production resulting in fully compliant output that requires significantly less manual testing.

We help our customers to decrease their time to market. We have been at the sharp end of the entertainment industry's demand for 'day-and-date' releases for the past few years and have developed tools and services to help our customers co-ordinate their workflows, speed up localisation and drastically cut the time taken to create products — whether they are EST, DVD or Blu-ray — as well as the associated promotional materials.

Our products manage complexity for our customers. Creation of home entertainment products is complex work — there are many parties whose work must be co-ordinated under intense time pressure; there is a high reliance on human labour where it is easy to make mistakes; every aspect of these products must be checked and verified yet the cost of ensuring that products meet the stringent quality expectations of modern consumers is high. Our technology manages complex workflows to bring structure and enforce adherence to standards — we can achieve high quality results very cost effectively.

Publishing

There is a seismic shift taking place in the publishing industry as businesses seek to exploit the rapid growth in sales of eReader and tablet devices. While the conversion of a novel for electronic sale is a relatively straightforward process, the production of rich media genres, such as picture books, comics, graphic novels, recipe books, travel guides and encyclopaedias is a different matter altogether.

We automate the preparation of media-rich eBooks. Working with us, traditional publishers are able to adapt existing titles for sale electronically at a lower cost and more quickly than by partnering with traditional service vendors. We provide a range of services to enhance titles through the sensitive use of interactive features, such as animated graphics, activities and read-along.

We can streamline the translation of books into other languages. Although the eBook market is currently established in the US and UK, it is expected that other countries will follow suit and when they do we are well placed to assist in the management of workflows for localisation.

We support all popular eReader platforms. We take a platform agnostic position — by working with us book publishers are assured that their titles can be produced through our automated process for all required eReader devices, including the iPad, Kindle, Nook and Sony Reader.

Music

iTunes LP offers a unique and interactive experience with Apple's Electronic Sell Through platform. iTunes LPs incorporate all of the songs for a music album, plus special features such as lyrics, photos, videos, credits, and more.

The added value provided by these bonus materials is intended to make titles more attractive for purchase, and provide an incentive for publishers to package their products using the iTunes LP format. But this is a complex and costly process.

Our software can create iTunes LP packages quickly and easily. We are able to repurpose designs and files created previously for other platforms to enable efficient production of titles, and prepare the essential meta-data needed for submitting the materials to Apple.

We enable music publishers to create products in-house. We have developed software so that these complex titles can be created without requiring technical specialists. The result is an easy to use product for creating engaging, content-rich LPs using the publisher's internal staff at lower cost than outsourcing.

Our software manages localisation. Adapting digital music products so that they may be published in other languages is a painless process using our software, enabling international product versions to be created quickly and easily.

Videogames

When videogames are distributed around the world, having a fast, efficient method for producing and managing localised versions of manuals, packaging and marketing material is a must. In this industry product packaging often requires text in multiple languages to be integrated into a single layout. This is a challenging design requirement with a correspondingly onerous approvals process.

Our software manages complex approvals workflows. For any single territory, multiple approvers are typically required to ensure that all aspects of the artwork fulfil the needs of the business. These include legal, corporate branding, product marketing, regulatory and other requirements. The integration of multiple languages brings an added level of complexity to the process. Our collaboration software enables these complex workflows to be managed efficiently, reducing time-to-market.

Our software creates print-ready artwork. The output from our systems is data files that can be delivered directly to a printer thereby streamlining the pre-media process.

Our Products

Workflow Solutions for the Creative Media Industries

ZOO provides Cloud-based services to support creative media preparation and publication enabling diverse groups of individuals to work together efficiently via the internet.

Creative media plays an ever increasing role in the operations of all global organisations. For some, creative media is the lifeblood of the business — the product itself, particularly for producers and publishers of film and video, videogames, music and books. For others it is a means to an end to entice customers to buy consumer and professional products — used in the design of packaging and marketing materials.

As businesses strive to reach global audiences, creative media must be produced in the local languages of customers all around the world, often as part of simultaneous product releases across many territories. Across many industries there is a drive to create more products, more quickly, in more languages and at lower cost. This often requires a Herculean effort by many collaborating groups — suppliers, distributors, licensees, territory offices, legal departments, translators — involving complex workflows with plenty of opportunity for human error.

Each ZOO tool brings customer value in its own right yet all work together to offer a smart end-to-end workflow for global media.

New Product

ZOO Subtitle Tool
ZOOsubs is a Cloud-based collaboration platform that enables media companies to originate, translate, review, approve and reformat subtitles for broadcast and home entertainment. Global distribution of episodic TV content and feature films will often require localised materials including subtitles to be produced in a short time window, involving distributed teams located all around the world. Using ZOOsubs a content producer can take control of the localisation workflow, minimise the administrative overhead and prepare subtitle packages cost effectively for multiple commercial platforms.

Market Integration Matrix

	Products						
	Platform		Bespoke/Specialist				
MARKETS	MAT	TMS	ICE	BDX	TAS	ZEB	ZOOsubs
Home entertainment							
Publishing							
Music							
Video games							

MAT	Media adaptation tool	TAS	Template authoring system
TMS	Translation management system	ZEB	ZOO eBook builder
ICE	Interactive content editor	ZOOsubs	New subtitle tool
BDX	Blu-ray authoring system		

Translation Management System

The TMS helps our clients manage global projects with complex media workflows and thousands of translations. This system incorporates a number of configurable modules designed to support international media production workflows, including a graphical display of a project's progress, a dictionary of standard translations, as well as the capability to 'learn phrases' as they are used in specific contexts. This eradicates the need for duplication, providing ZOO's clients with significant cost savings, alongside improved brand consistency and control.

Blu-ray Authoring System

BDX is the only Blu-ray authoring system that combines flexible template-driven authoring with a visual menu editor. This means that Blu-ray discs can be made more quickly, with reduced need for QC, and without the need for programming skills. This can dramatically reduce costs.

Everyone in the home entertainment industry knows that Blu-ray production is complex, expensive to author and test, and the work involved is error-prone, repetitive and requires highly skilled staff. It is also difficult to scale up when work increases. ZOO's tools help publishers to bring new Blu-ray titles to market easily, quickly and cost-effectively.

ZOO eBook Builder

ZEB is an eBook conversion tool that combines full support for fixed-layout files with the ability to add interactive features and to quickly regionalise a title for many different territories. This means that graphically rich books can be converted easily for electronic publishing and made ready for multiple territories with reduced need for QC and without the need to manually create individual data files.

Templated Authoring System

For movie/TV content providers, TAS is the only professional DVD authoring solution that offers a flexible templated workflow. This significantly lowers the skill level required to author DVD titles, so creating titles is quicker and cheaper. Because TAS is systematic about the way in which titles are prepared, it ensures rigorous adherence to all technical requirements. This means titles are produced right-first-time, reducing the labour needed for QC.

TAS enables cost effective in-sourcing of functions that previously required specialists, simplifying the process of authoring a DVD and removing much repetitive manual work. Operators do not require in-depth knowledge of the DVD specification and fewer errors occur during authoring. This reduces the cost of authoring and testing of a DVD title and operators within studios can undertake DVD authoring in-house without needing to outsource to a specialist.

Media Adaptation Tool

For anyone with an international market, MAT provides an automated tool that creates single and multi-lingual variants of printed and digital materials in multiple languages and sizes. MAT's flexible automation brings significant timesaving benefits, reduces the number of errors and encourages consistency in output designed for multiple territories.

MAT integrates closely with ZOO's workflow management solutions so that following requests for translations, localised text will be received and applied automatically. In addition all digital media menus (such as for DVD/Blu-ray/iTunes LPs) are formatted appropriately for ZOO authoring systems (TAS/BDX/ICE).

MAT automates the tedious and error-prone parts of the production process for printed materials so that designs can be created more quickly and with fewer errors. It scans domestic documents, copies text to the ZOO Translation Management System ready for translation. Then MAT finds and uses supplied translations to create regionalised variants of the same document so operators no longer have to repeatedly copy and paste. Text formatting of translations is applied using powerful rule-based controls whilst giving operators direct control over text resizing and adjustments to put in finishing touches on the localised versions to get them just right.

In addition to printed materials, MAT can be used to resize and reformat digital products too. Entertainment assets such as Blu-ray menus can be created easily and regionalised using the same process, and because everything is automated, the vast numbers of files produced are all consistently and logically named, filed and ready for authoring.

Interactive Content Editor

ZOO's Interactive Content Editor (ICE) allows film and music studios to enhance their products cost-effectively using value-added content made available via digital media downloads. iTunes Extras℠ and iTunes LPs℠ deliver a richer product to film and music fans and quantifiable benefits to the publishers.

ICE is designed to allow content producers to create enhanced iTunes movies and albums in the form of iTunes Extras and iTunes LP that often use assets designed for other media. This could include DVD/BD packaging, album cover art or CD-audio packaging. Content such as still images, music videos, director's commentary, deleted scenes, album credits and lyrics are repurposed and used to create an engaging, content-rich product.

ICE eliminates time-consuming manual programming while also automating the production of images by generating constituent elements for buttons, backgrounds, etc. ICE can produce the same features and effects found in almost all of today's iTunes Extras and iTunes LP titles in a matter of minutes. Automated creation of language versions are also a feature.

Our Business
Our Performance
Our Governance
Our Financials

Chairman's Statement

"ZOO's products and services remain highly relevant to companies in all industries where there is a need to maintain the quality and brand integrity of creative media content.."

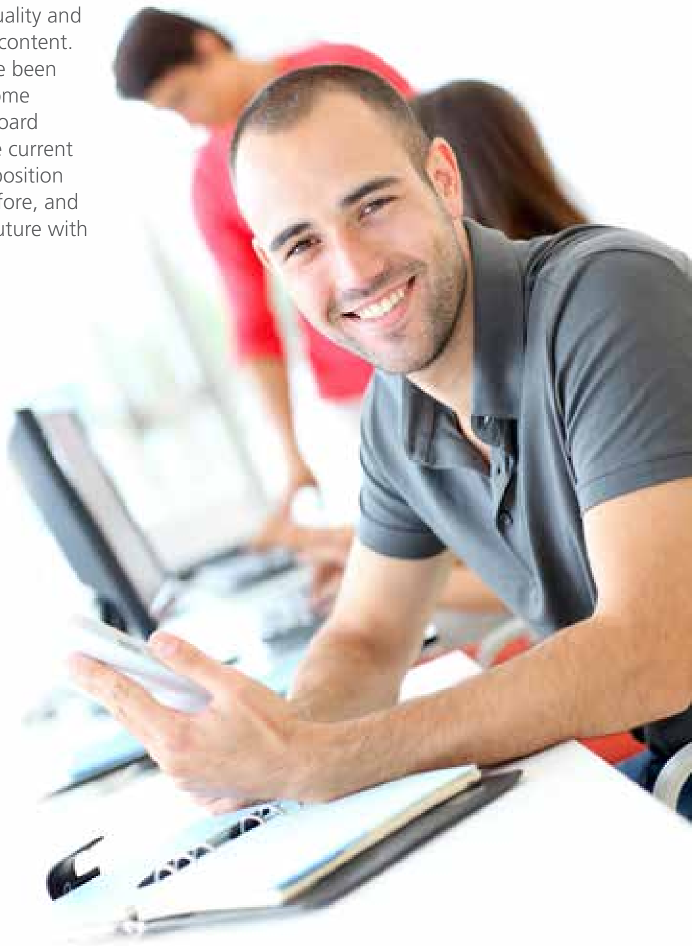
As highlighted at the time of our interim results, the turmoil and changing dynamics within the home entertainment industry resulted in a difficult first half of the year for ZOO. Although the market remains volatile, management initiatives taken earlier in the year, and the continued diversification of our product set, enabled us to perform profitably and in line with expectations in the second half of the year. As such, revenues for the full year to 31 March 2012 were $11.2 million (2011: $13.8 million) with an adjusted* operating loss of $0.7 million (2011: operating profit of $1.5 million). Support from shareholders and loan note holders during the year enabled the strengthening of the group's balance sheet, and the cash balance at year end was $1.2m.

Whilst the performance in the first half was clearly disappointing, the board of ZOO believes that we have come through this year more resilient and with a stronger range of product suites and tools to offer our customers. What has been particularly pleasing is that customers using our workflow management tools in one area of their business have specifically asked us to apply our expertise in other fields. This underlines the quality of our products and service levels, and provides us with the opportunity to increase our business with existing customers and develop new opportunities with a proven demand. We have, for example introduced our own software product for subtitling, addressing a very large opportunity which has previously been sub-contracted to third party service providers.

ZOO's products and services remain highly relevant to companies in all industries where there is a need to maintain the quality and brand integrity of creative media content. Our financial results this year have been impacted by the turmoil in the home entertainment industry, but the board believes that we have entered the current year with a more compelling proposition and stronger product set than before, and therefore continues to view the future with cautious optimism.

Roger D Jeynes
Chairman

*Operating profit is stated before the charge for share based payments



Chief Executive's Statement

"The improvement that we saw in the second half of the year has continued into the current financial year and we believe that we have a better diversity and suite of products than at any time previously."

Operational review

After a particularly challenging first half of the year, trading for the second half of the year was profitable and in line with the board's expectations.

Filmed entertainment

As indicated at the time of the Company's interim results, the DVD market had a particularly turbulent start to the year, with a decreased number of titles being released, leading to a decline in the number of titles being processed by ZOO's software tools and by our production services team in Los Angeles. This was especially noticeable in the number of new episodic TV releases on DVD since the summer months. Since the half year, this volume decline has levelled off and the general throughput of titles has stabilised.

Our largest client reacted to the change in title volumes by reducing the number of external suppliers for filmed material production and it is testament to ZOO's product suite and service levels that we have maintained our strong working relationship. Therefore, although the overall volumes of new titles being released are still markedly down on 12 — 18 months ago, the percentage of the overall number of titles adapted using ZOO's workflow systems has increased since the year end.

We have also benefited in the second half from a greater emphasis on adapting titles for Blu-ray. This has mostly been as the result of our large customers looking to make the best use of their past catalogues, rather than new releases, a trend which we expect to continue into the new financial year.

At the time of the interim results we announced that we had already reduced our headcount in the US and restructured our cost base to give a lower fixed overhead, better equipping us to deal with volatility in the market. This process has been largely completed and we are already seeing the benefits coming through.

eBooks and Electronic Sell Through ("EST")

ZOO's eBook Builder has been designed as an efficient and cost effective way for publishers to repurpose traditional books for sale online. This tool works in conjunction with ZOO's software for managing collaborative workflows, adapting materials into multiple languages, and providing storage and distribution of content for multiple eBook vendors. The market has been dominated traditionally by low cost, labour intensive providers adapting pure text literature for electronic sale. The great advantage of ZOO's toolset is that it maintains the formatting qualities and standards of a physical production. This is particularly important where pictures or illustrations are used to accompany text in a book.

Over the course of the year we have continually improved our offering and adapted our tools to meet our customers' needs. We have increased the number of publishers and content providers with whom we work and continued to gain traction in the market. Not surprisingly, the initial focus of publishers and content owners has been to reproduce the much easier, text only publications in order to market test the demand for electronic books before committing to the cost of formatting for the more content rich libraries. With the initial success of the eBook market and the ability to offer additional functions including interactivity, we have reasoned that it is just a matter of time before there is a step change in the volume of works re-formatted. With ZOO's ability to adapt materials to be compatible with all of the operating platforms of the major device manufacturers and with our capability to maintain the quality of reproduction and thereby the readers' experience, we believe that we are well placed to capitalise on this opportunity.

The Company also continues to make further progress with its other EST products for use through Apple's iTunes Extras and iTunes LPs platforms. These are for the conversion of material for electronic sale in both the filmed entertainment and music industries which includes extra material long associated with the traditional formats in both sectors. Sales due to the use of these tools have been steady but, as yet, these Extras and LPs are supported by the Apple platform on desktop computers only. We believe that the catalyst for accelerated growth in this area will be the support for these features on Apple's tablet and phone hardware which we anticipate will become available in due course.

Chief Executive's Statement continued

Subtitling

As a result of demand from our leading customers, ZOO has become increasingly involved in the area of subtitling. In the past this was a service that we have outsourced on behalf of our clients, but the success of our workflow management tools within the major studios led to an opportunity to include this capability as a component of our software suite.

We have therefore created the ZOO Subtitling Tool, a cloud-based Software-as-a-Service workflow solution that supports the preparation, review and approval of subtitles for filmed and TV entertainment. The system is designed to allow the preparation and adaptation of subtitle information across all platforms, i.e. DVD, Blu-ray, EST and broadcast. As well as seeing demand for this software for new filmed material we are also enjoying great interest in its use for the conversion of subtitles from existing materials to other platforms, e.g. from DVD to Blu-ray.

This product set is still in its infancy but as we continue to improve functionality we believe that the opportunity is considerable; a number of the major content owners and distributors have already expressed great interest and have begun to use the software.

Workflow Management

We are increasingly uncovering more and more opportunities to provide software solutions to a wide variety of creative media organisations to support their complex production workflows. One of our great strengths lies in being able to understand the unique challenges of the workflows employed by businesses for creative media production and to devise systems that can bring remarkable new efficiencies.

Since developing the Translation Management System for collaborative preparation of localised materials, such as marketing campaigns and product packaging, we have continued to innovate in this field. As a result we have now assembled a powerful software suite that addresses efficiently many distinct steps common to a wide variety of creative media production workflows, such as project tracking, task management, translation, review and approval.

Our workflow management toolset provides a configurable cloud-based system that can be tailored to suit the unique requirements of any business or team. Each such configuration can be developed and deployed very quickly and easily, giving a solution that teams can begin to work with immediately that will deliver a quick return on investment. This toolset is licensed on a Software-as-a-Service basis, providing our customers with a cost-effective workflow solution whilst generating a recurring and growing revenue stream for ZOO.

We have deployed a number of systems using our toolset for a film studio client and have several more in the pipeline. Our market testing of this proposition indicates a wide appeal amongst creative media companies of many different types — film-makers, TV producers, music studios and book publishers to name a few — that currently lack the tools to provide scalability to their production processes. We find that most businesses are relying on email and file attachments to manage production workflows — an error-prone and cumbersome approach that is difficult to scale. We are optimistic that our proposition can bring considerable benefits to a wide range of businesses and that this represents a significant growth opportunity for the group.

Staff

It continues to be a privilege to work with such a talented team of professionals in both our UK-based R&D centre and our US-based production services facility. In all areas of the business our success hinges on the talents, creativity and dedication of our staff who continue to excel in delivering innovative technology and first class customer services. We strive to provide a great place to work in order to attract and retain our key talent. On behalf of the board I would like to extend my thanks to all our staff for their contributions over the past year and I look forward to working together in the year ahead.

Outlook

The improvement that we saw in the second half of the year has continued into the current financial year and we believe that we have a better diversity and suite of products than at any time previously. However, the overall economy and particularly the markets in which we operate are still hard to predict and, therefore, whilst we enter the new year with confidence we remain alert to general conditions.

Stuart A Green
Chief Executive Officer

Financial Review

"It is good to see a return to profitability in the second half of the year and I am pleased to report that the current year is looking stronger with many opportunities to capitalise upon."

Financial Review

The year ended 31 March 2012 was challenging. As reported previously, the entertainment industry has experienced a shift away from DVD purchase towards rental and to newer formats such as Blu-ray and electronic downloads. We had anticipated this change and had planned accordingly. However, the studios experienced a faster than expected consumer shift which affected, in particular, DVD TV content, which resulted in a reduction in revenue for the year. We acted promptly and reduced our fixed costs but the results for the year were impacted.

Results for the year

The revenue reported for the year was $11.2m compared to $13.8m in the prior year. As explained last year we took action to remove ourselves from a non-core arrangement whereby we were outsourcing certain work to a third party and receiving a very low margin. We ceased this arrangement although it took a while to work through, resulting in $0.8m revenue in respect of outsourced services in the year to 31 March 2012 compared to $2.0m in the prior year. Should this non-core revenue be removed, the underlying revenue for the business would have been $10.4m this year compared to $11.8m last year.

The turnover of $5.3m generated in the second half of the year compares favourably against that in the first half at $5.9m since the seasonality of the business generally dictates a much stronger first half.

The gross profit earned this year was $9.3m compared to $11.4m in the prior year which represents a margin unchanged across both years. Management has actively pursued opportunities to reduce costs throughout the business, including switching from a fixed cost model to outsourcing wherever practical.

During the year the business has diversified both in terms of product sets and customers. Whilst the absolute level of turnover derived from one major customer (that still accounts for a significant portion of our revenues) has decreased, revenue from customers other than that major customer has increased by 30 per cent on the previous year and the number of unique customers has increased by 86 per cent from 37 to 69.

Overhead costs are broadly unchanged with the reported total for the year at $10.5m compared to $10.2m in the prior year. The major contributor to this number, being staff costs, is reduced from $6.5m to $6.2m but this saving is outweighed by an increase in the amortisation charge from $0.5m to $0.9m.

The group generated an operating loss, adjusted for share based payments, of $0.7m compared to a profit of $1.5m in the prior year. At the interim stage we announced an adjusted operating loss of $0.9m for the first half. I am pleased to confirm that we have returned to profit, with $0.2m, in the seasonally weaker second half of the year.

We have continued to take advantage of grant funding throughout the year and the total amount of cash received from grants was $0.2m (2011: $0.3m). We still have grant-supported projects on-going with $0.8m of funding still available at the end of the financial year (2011: $0.9m).

The group has significant tax losses available for use against future profits. At 31 March 2012 there were around $31m of tax losses. Consequently we do not expect to pay tax in either the UK or the US for the foreseeable future.

Convertible loan note

During the year we arranged to extend, by issuing amended loan notes, the maturity date of half of our issued convertible loan notes with the other half converting into equity. The amended loan note, totalling $2.8m (£1.77m), carries a coupon of 7.5 per cent, a conversion price of 48p and matures in October 2013. The partial conversion of this loan note has led to a reduction in the liability on the balance sheet and a reduction in the interest exposure.

The partial loan note conversion was at a price of 40p, a discount to the originally agreed price of 48.75p, and consequently we are required under International Financial Reporting Standards (IFRS) to make a fair value adjustment which impacts our Consolidated Statement of Comprehensive Income (CSoCI). Therefore, a loss of $0.5m is reported within the finance section of the CSoCI. This has neither an impact on cashflows nor on trading performance, and is merely an accounting entry necessitated by the IFRS standard.

Cash flow

The group generated cash of $0.8m from operating activities compared to $0.9m in the prior year and the net increase in the cash balance in the year was $0.6m bringing the balance at 31 March 2012 to $1.2m compared to $0.6m in the prior year.

Summary

The year to 31 March 2012 was a difficult one from a financial perspective. We made good progress in terms of expanding the offering into new areas and customers and were disappointed that the overall result was not as good as we originally planned. It is good to see a return to profitability in the second half of the year and I am pleased to report that the current year is looking stronger with many opportunities to capitalise upon. I concur with the board's cautious optimism for the year ahead.

Helen P Gilder
Group Finance Director

Directors and Advisers

Board of Directors

Roger D Jeynes — Chairman (aged 59)

Roger has over 20 years experience in the technology sector, encompassing senior sales, marketing and general management roles in the UK, Italy and the USA with IBM, Pyramid Technology, and EMC Corporation. From 1997 to 2006 he was Chief Operating Officer at AIM-listed technology merchant bank Interregnum Plc through which he served on the boards of more than a dozen technology companies. He is currently a non-executive director of Downing Distribution VCT1 plc (DDV1.L), Keycom plc, mxData Limited and Charborough Capital Limited, and is Professor of Management Practice in the Lord Ashcroft International Business School of Anglia Ruskin University.

Dr Stuart A Green — Chief Executive Officer (aged 47)

Stuart brings over 20 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 the co-founder of LightWork Design Limited where he served as Technical Director. Stuart received a Ph.D in Computer Science from the University of Bristol in 1989 for his research into multiprocessor systems for advance computer graphics. He is responsible for securing almost 30 patents in the fields of image processing and digital media processing.

Helen P Gilder — Group Finance Director (aged 45)

Helen has been employed within the technical and services industry for over fifteen years. After qualifying as a Chartered Accountant with PKF in 1991 she moved into a more commercially focussed role. Her extensive managerial and transaction experience came through her role as Finance Director within a highly acquisitive listed IT company. She joined ZOO to assist with the initial float in 2000 as Group Financial Controller and has gathered an invaluable knowledge of the companies in the group. She became the Group Finance Director in 2006.

Gordon Doran — Commercial Director (aged 45)

Gordon has held senior positions in sales and marketing roles for a variety of companies in the software industry since the early 1990s, both in the UK and US. Most recently he was Chief Operating Officer for Mediostream Inc., a consumer DVD software developer, and joined ZOO in 2005 to establish a North American division. In his role as President he is responsible for all ZOO's North America operations and has been pivotal in establishing relationships with a number of large US entertainment companies. Gordon became the Commercial Director in 2009.

James A Livingston — Non-Executive Director (aged 31)

James is an Investment Director at Foresight Group, a leading UK asset manager. He works closely with the boards of a number of UK SME companies as non-executive director. Prior to Foresight James was a strategy consultant at Deloitte where he advised businesses in the healthcare, public sector and technology sectors. He has a first class degree in Natural Sciences and Management from Cambridge University and holds the CIMA Advanced Diploma in Management Accounting. James has represented Great Britain at the Rowing World Championships and rowed for Cambridge in the Boat Race.

Senior Management

Duncan A Wain — Chief Operating Officer (aged 49)

Duncan joined ZOO following the acquisition of the assets of Scope Seven Inc. in August 2007. He co-founded Scope Seven in 1997 where he was responsible for operations and revenues from post-production, compression and authoring services provided to US entertainment companies. He is an accomplished executive in the Hollywood post production industry and has worked with many studios including Warner Home Video, Disney, 20th Century Fox, HBO, Lionsgate, New Line and the BBC. In his role as COO of ZOO Duncan is responsible for all production operations and for growing service revenues with studio clients. Duncan earned a Bachelor's Degree in Business at Loyola Marymount University and is currently a member of New Media Council of the Producers Guild of America, an industry group that serves to represent the interests of professionals responsible for the art, craft and science of production in the entertainment industry.

Philip M Corio — Chief Technical Officer (aged 45)

Phil has worked in the pre-press industry since 1985, most recently with AGI Media Inc., Los Angeles where he was Production Director working on the creation of marketing materials and special packaging for the entertainment industry. Phil joined ZOO in 2006 and has been instrumental in establishing the company's product and service offerings for the pre-media marketplace. In his role as Chief Technical Officer, Phil is responsible for providing direction for ZOO's product development efforts to differentiate the company's service offerings for the entertainment industry.

Advisers

Company Secretary and Registered Office
Helen P Gilder
ZOO Digital Group plc
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Company no.
3858881

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Surrey GU9 7LL

Solicitors
DLA Piper UK LLP
1 St Paul's Place
Sheffield S1 2JX

Directors' Report

The directors present their report on the affairs of the group, together with the financial statements and auditor's report, for the year ended 31 March 2012.

Principal activities

The principal activity of the group for the year under review was to provide productivity software tools and services for digital content authoring, video post-production and localisation for entertainment, publishing and packaging markets and to continue with on-going research and development in those areas.

Review of the Business and Future Developments

A review of the development of the business together with an indication of future developments is included in the Chairman's and Chief Executive's statements set out on pages 8 to 10.

The audited financial statements for the year ended 31 March 2012 are set out on pages 21 to 55. The directors do not recommend the payment of a dividend for the year.

Research and development

The group undertakes research and development into software solutions for media transformation. The aim of the software developed is to improve efficiencies, therefore reducing time and costs of producing physical and digital products.

Charitable and political contributions

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

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, questionnaires and regular feedback.

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.

Directors

The directors who served during the year were as follows:

Roger D Jeynes	Non-Executive Chairman
Dr Stuart A Green	Chief Executive Officer
Helen P Gilder	Group Finance Director
Gordon Doran	Commercial Director
James A Livingston	Non-Executive Director

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 2012 are disclosed in the Directors' Remuneration report. In accordance with the company's Articles of Association Roger Jeynes and Gordon Doran retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' indemnities

The group has granted an indemnity to one or more of its directors against liability in respect of any proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. The company has purchased and maintains directors' and officers' insurance cover against certain legal liabilities and costs for claims in connection with any act or omission by such director and officers in the execution of their duties.

Policy and practice on payment of creditors

The group's policy 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 group at 31 March 2012 were equivalent to 84 days (2011: 76 days) purchases, based on the average daily amount invoiced by suppliers during the year. The group has agreed with one significant creditor extended payment terms.

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 (KPIs) in the management of the key risks of the business and as a measure of the business efficiencies of the company. The KPIs 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.
- Employee satisfaction is monitored through monthly surveys, enabling management to act on emerging trends.

		2012	2011
Revenue	$000	11,186	13,757 ↓
Adjusted EBITDA*	$000	517	2,463 ↓
Debtor days	days	30	32 ↓
Overdue debtors	$000	514	303 ↑

*EBITDA before share based payments

Principal risks and uncertainties

Company law requires the group to report on principle risks and uncertainties facing the business, which the directors believe to be as follows:

International business

The group is domiciled in the UK, but has the LA operations and 97 per cent of its revenues coming from overseas customers. As with most small yet international businesses the group's risks are around managing the cash flow and exchange rate fluctuations. The group continues to focus closely on conservative cash management and monitor currency transactions taking proactive actions when appropriate.

Technology conservation

The group continues with an aggressive patent protection policy, with 31 patents granted and 8 pending. These are integral to the business in the protection of our unique technologies.

Operational risks

The main operational risks are delays in the production of technology products, adoption of technology tools by customers and location of the main production facility within an earthquake zone. The production risk is managed by ensuring very tightly controlled schedules and data back-up procedures, thoroughly planning staff time and allowing time for contingencies.

Loss of the group's key customer

Client relationships are crucial to the group and the strength of them are key to its continued success. The group mitigates this risk by a diverse number of contacts working closely with the customer across different business units and obtaining long term contractual agreements for supply of technology and services.

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. From 1 April 2009 the functional currency and presentation currency of the company has changed to US dollars. The majority of the group's transactions are undertaken in US dollars, however, the Consolidated Statement of Financial Position can be affected by movements between pound sterling and US dollars as the parent company and UK subsidiaries have some pound sterling debtors and creditors. No forward foreign exchange contracts were used during the year ended 31 March 2012, however in the financial year ending 31 March 2011 the group used forward foreign exchange contracts to mitigate the risk of fluctuations in the pound sterling and US dollars exchange rate.

Further information on the financial risks is given in note 26 to the accounts.

Financial instruments

No forward exchange contracts outstanding at 31 March 2012 (2011: nil). Further description of the forward foreign exchange contracts is given in note 26 to the accounts. The group is also exposed to the usual credit risk and cash flow risk associated with selling on credit and manages this through credit control procedures.

Purchase and disposal of Interest in Own Shares

During the year the group purchased 274,200 shares (2011: 298,232), this represents 1 per cent of the group's share capital. The total cost of the purchase was $67,593 (2011: $124,374). Also during the year 132,760 ordinary shares with a nominal value of 15p were disposed of (2011: 164,850). No consideration was received for the disposal as these shares were transferred to the group's share incentive plan or distributed as a staff bonus. The maximum number of own ordinary shares, with a nominal value of 15p, held in the year was 298,289 (2011:185,717).

Substantial shareholdings

At 10 July 2012, the company had been notified, in accordance with sections 791 to 825 of the Companies Act 2006, of the following interests in the ordinary share capital of the company:

Name of holder	Percentage held	Number
Herald Investment Trust plc	20.1%	6,551,352
Funds managed and advised by Foresight Group	20.1%	6,550,499
Dr S A Green	14.9%	4,857,335
JM Finn & Co	9.5%	3,112,962
John Henry Holdings Inc.	6.6%	2,148,642
South Yorkshire Investment Capital Fund	6.0%	1,945,064
Williams De Broe	5.4%	1,762,302

Disclosure of information to auditor

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditor in connection with preparing its report and to establish that the company's auditor is aware of that information.

By order of the board

Helen P Gilder
Director and Secretary
10 July 2012

Corporate Governance Report

Directors' responsibilities statement

The directors are responsible for preparing the directors' 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, as required by the AIM Rules of the London Stock Exchange, elected to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and also elected to prepare the parent company financial statements in accordance with those standards. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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;
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and 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.

The names and functions of all the directors are stated on page 12 to 13.

Compliance with the UK Corporate Governance Code

Under the rules of AIM (The Alternative Investment Market of the London Stock Exchange) the company is not required to comply with the UK Corporate Governance Code as annexed to the Listing Rules of the Financial Services Authority. Nethertheless, the company has taken steps to comply with provisions set out in Section 1 of the Code so far as is practical given the size of the group and the nature of its operations. The directors consider the group insufficiently large to warrant the need or cost of for an internal audit function.

Board of Directors

Throughout the year the board consisted of the non-executive chairman, three executive directors and one non-executive director.

The board meets formally at least eleven times a year to consider those matters which are required to be brought to it for decision, which ensures that it maintains full and effective control over appropriate strategic, financial, operational and compliance issues. Directors receive an information pack before each board meeting which contains background information on such matters. Additional meetings are held to review and approve special matters if necessary.

Board Committees

There are two committees to deal with remuneration and audit. They are comprised solely of the non-executive directors with certain executive directors attending by invitation when required.

The Audit Committee was chaired by James Livingston. The committee meets at least twice a year. The group's external auditor is invited to attend these meetings. Consideration is given to the auditor's pre- and post-audit reports and these provide opportunities to review the accounting policies, internal control and the financial information contained in the Annual and Interim Reports.

The Remuneration Committee is chaired by Roger Jeynes and meets at least once per year.

Internal Control

The board is ultimately responsible for the group's system of internal control and for reviewing its effectiveness.

A comprehensive budgetary process is completed once a year and is reviewed and approved by the board. The group's results are compared to the budget and prior year and are reported to the board on a monthly basis.

Going Concern

After making enquires and taking into account the group's cash resources as detailed in note 2.1, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for at least the next twelve months and, for this reason, they continue to adopt the going concern basis in preparing the financial statements.

By order of the board

Helen P Gilder

Director and Secretary

10 July 2012

Directors' Remuneration Report

Directors' remuneration report

As an AIM listed company, ZOO Digital Group plc is not required to comply with the principles and regulations of the Directors' Remuneration Report Regulations 2002. However, management consider it good practice to comply so far as is appropriate for a company of its size and nature.

The Remuneration Committee

During the year ended 31 March 2012 the Remuneration Committee consisted of both non-executive directors. The committee was chaired by Roger Jeynes.

The Remuneration Committee is responsible for determining the Executive Directors' remuneration packages, including bonuses, share options and other incentive schemes.

Executive directors

The committee aims to ensure compensation is fair and reasonable and that it motivates the executive directors on both the short and long-term.

The remuneration packages include:

- Basic salary
- Defined contribution to personal pension plans
- Private medical insurance
- Discretionary bonus

Non-executive directors

The board determines the remuneration package of the non-executive directors. Ian Stewart was paid as an employee until his retirement on 31 December 2010 and Christopher Honeyborne was remunerated by fees invoiced from Brockhill Limited. James Livingston was remunerated by fees invoiced from Foresight Group. Roger Jeynes was remunerated by fees invoiced by Charborough Capital Limited.

Directors' remuneration

Directors' remuneration for the year to 31 March 2012 is:

	Salary $000	Bonus $000	Benefits $000	Pension $000	2012 Total $000	2011 Total $000
Dr Stuart A Green	229	—	3	7	239	282
Helen P Gilder	165	—	3	2	170	211
Gordon Doran	232	81	16	—	329	310
Roger D Jeynes†	40	—	—	—	40	36
James A Livingston	36	—	—	—	36	33
Ian C Stewart*	—	—	—	—	—	17
Dr Christopher H B Honeyborne‡	—	—	—	—	—	3
	702	81	22	9	814	892

† Roger Jeynes was appointed on 28 April 2010.
* Ian Stewart retired on 31 December 2010.
‡ Dr Christopher H B Honeyborne retired on 28 April 2010.

Directors' remuneration paid in pound sterling for the year to 31 March 2012 is:

	Salary £000	Bonus £000	Benefits £000	Pension £000	2012 Total £000	2011 Total £000
Dr Stuart A Green	143	—	2	4	149	180
Helen P Gilder	103	—	2	1	106	135
Roger D Jeynes	25	—	—	—	25	23
James A Livingston	23	—	—	—	23	22
Ian C Stewart	—	—	—	—	—	11
Dr Christopher H B Honeyborne	—	—	—	—	—	2
	294	—	4	5	303	373

Gordon Doran is remunerated in US Dollars.

Directors' Remuneration Report continued

At 31 March 2012 no amounts were due to Dr Stuart Green (2011:$45,000) and Helen Gilder (2011: $36,000) in respect of their services performed as directors. The balance owing to Foresight Group at 31 March 2012 was $48,000 (2011: $18,000).The balance owing to Charborough Capital Limited at 31 March 2012 was $17,000 (2011:$8,000). The balance owing to Brockhill Limited at 31 March 2012 was $nil (2011: $nil).

Two directors (2011: two) serving during the year have been members of money purchase pension schemes into which the company contributes.

The highest paid director received emoluments and benefits as follows:

	2012 $000	2011 $000
Emoluments	329	310
Money purchase pension contributions	—	—
	329	310

The highest paid director did not exercise any share options, but received 1,400 shares in the year as part of the group's share incentive scheme.

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 2011	Granted during the year	Exercised during the year	Surrendered during the year	31 March 2012	Exercise price	Date from which exercisable	Expiry date
Roger D Jeynes	30,000	—	—	—	30,000	$0.65*	Jun-11	Jun-20
Dr Stuart A Green	175,000	—	—	—	175,000	$0.21†	Sep-09	Oct-18
Helen P Gilder	450,000	—	—	—	450,000	$0.21†	Sep-09	Oct-18
Helen P Gilder	100,000	—	—	—	100,000	$0.21†	Oct-09	Oct-18
Gordon Doran	450,000	—	—	—	450,000	$0.34‡	Sep-09	Oct-18
Gordon Doran	100,000	—	—	—	100,000	$0.34‡	Oct-09	Oct-18
	1,305,000	—	—	—	1,305,000			

† The underlying exercise price of the share options is £0.15.
* The underlying exercise price of the share options is £0.43
‡ Gordon Doran's share options were rebased during the year, with the underlying exercise price now being £0.22.

The exercise of share options is staggered over the exercise period with typically 40 per cent exercisable after the first year and a further 30 per cent in each of the next two years.

The charge to profit or loss in respect of directors' share options amounted to $10,000 (2011: $18,000).

The market price of the ordinary shares at 31 March 2012 was 16 cents (9.75p) and the range during the year was 91 cents (55.5p) (high) to 14 cents (9p) (low).

Service contracts

The service contracts and letters of appointment of the directors include the terms in the table below.

All the directors are on rolling director appointments and offer themselves for re-election by rotation in accordance with the company's Articles of Association.

Upon termination of their service agreement, executive directors are entitled to salary equivalent to their notice period.

Name of director	Date of appointment	Notice period
Executive directors		
Dr Stuart A Green	28 January 2000	12 months
Helen P Gilder	29 September 2006	6 months
Gordon Doran	28 July 2009	12 months
Non-executive directors		
Roger Jeynes	28 April 2010	—
James A Livingston	12 June 2009	—

Dr Christopher H B Honeyborne retired on 28 April 2010 and Ian C Stewart retired on 31 December 2010.

Directors' interests

The directors who held office at 31 March 2012 had the following interests, including any interests of a "connected person", in the 15p ordinary shares of ZOO Digital Group plc:

Name of director	2012 Beneficial	2011 Beneficial
Roger D Jeynes	120,000	20,000
Dr Stuart A Green	4,857,335	4,179,835
Helen P Gilder	56,019	56,019
Gordon Doran	—	—
James A Livingston	4,240	—

Shares are held on behalf of three of the directors in the long term incentive plan.

Dr Stuart A Green held a $274,000 interest in 7.5 per cent unsecured convertible loan stock at 31 March 2012. The underlying value of the interest in the convertible loan stock is £171,000. On 31 March 2011 Dr Stuart A Green held a $549,000 (underlying value £342,000) interest in 6 per cent unsecured convertible loan stock. On 10 August 2011 the company announced that agreement had been reached with the holders of the $5.6m convertible loan note to convert 50 per cent of their holding into shares at a price of 40p and for the balance of 50 per cent to remain within the loan note instrument for a further two years at a coupon of 7.5 per cent and a conversion price of 48p. As a result, 50 per cent of Dr Stuart A Green's loan stock was converted into 427,500 shares.

James Livingston also has a non-beneficial interest in both shares and loan notes as a representative of Foresight Group, manager of the Foresight VCTs, several of which have a direct beneficial interest in ZOO Digital Group plc.

No other transactions have taken place with directors.

No other changes took place in the interests of directors between 31 March 2012 and 10 July 2012.

Independent Auditor's Report to the Members of ZOO Digital Group plc

We have audited the financial statements of ZOO Digital Group plc for the year ended 31 March 2012 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statement of Financial Position, the Consolidated and Parent Company Statement of Changes in Equity, the Consolidated and Parent Company Statement of Cash Flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2012 and of the group's loss for the year then ended;
- The group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Linda Cooper (Senior statutory auditor)
for and on behalf of PKF (UK) LLP, Statutory auditor
10 July 2012
Sheffield, UK

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2012

	Note	2012 $000	2011 $000
Revenue	5	11,186	13,757
Cost of sales		(1,907)	(2,388)
Gross profit		9,279	11,369
Other operating income	6	168	135
Operating expenses	8	(10,471)	(10,158)
Operating (loss)/profit		(1,024)	1,346
Exchange gain/(loss) on borrowings	7	14	(300)
Renegotiation of convertible loan stock	7	(526)	—
Finance cost	7	(430)	(535)
Total finance cost		(942)	(835)
(Loss)/profit before taxation		(1,966)	511
Tax on (loss)/profit	11	(60)	484
(Loss)/profit and total comprehensive income for the year attributable to equity holders of the parent		(2,026)	995

(Loss)/profit per share	13		
basic		(7.01) cents	4.29 cents
diluted		(7.01) cents	2.84 cents

The notes on pages 28 to 55 are an integral part of these consolidated financial statements.

The company has elected to take the exemption under section 408(2) of the Companies Act 2006 to not present the parent company Statement of Comprehensive Income.

The loss for the parent company for the year was $165,000 (2011: Profit $853,000).

Consolidated Statement of Financial Position

as at 31 March 2012

	Note	2012 $000	2011 $000
ASSETS			
Non-current assets			
Property, plant and equipment	14	430	549
Intangible assets	15	9,487	8,480
Deferred income tax assets	16	486	486
		10,403	9,515
Current assets			
Inventories	17	—	80
Trade and other receivables	18	2,365	3,016
Cash and cash equivalents	19	1,234	600
		3,599	3,696
Total assets		14,002	13,211
LIABILITIES			
Current liabilities			
Trade and other payables	22	(2,722)	(3,319)
Borrowings	21	(194)	(5,709)
		(2,916)	(9,028)
Non-current liabilities			
Borrowings	21	(2,939)	(191)
Total liabilities		(5,855)	(9,219)
Net assets		8,147	3,992
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	20	7,236	5,127
Share premium reserve		37,014	33,626
Other reserves		12,293	12,293
Share option reserve		248	278
Warrant reserve		440	190
Convertible loan note reserve		42	380
Foreign exchange translation reserve		(992)	(992)
Accumulated losses		(48,053)	(46,782)
		8,228	4,120
Interest in own shares		(81)	(128)
Attributable to equity holders		8,147	3,992

The notes on pages 28 to 55 are an integral part of these consolidated financial statements.

The financial statements on pages 21 to 55 were approved and authorised for issue by the board of directors on 10 July 2012 and were signed on its behalf.

Stuart A Green
Chief Executive

Helen P Gilder
Group Finance Director

Company Statement of Financial Position

as at 31 March 2012

	Note	2012 $000	2011 $000
ASSETS			
Non-current assets			
Property, plant and equipment	14	1	85
Intangible assets	15	2,281	2,281
Investment in subsidiary undertakings	24	9,700	9,700
Deferred income tax assets	16	92	92
		12,074	12,158
Current assets			
Trade and other receivables	18	24,513	21,804
		24,513	21,804
Total assets		36,587	33,962
LIABILITIES			
Current liabilities			
Trade and other payables	22	(761)	(899)
Borrowings	21	(9,966)	(15,975)
		(10,727)	(16,874)
Non-current liabilities			
Borrowings	21	(2,803)	—
Total liabilities		(13,530)	(16,874)
Net assets		23,057	17,088
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	20	7,236	5,127
Share premium reserve		37,014	33,626
Other reserves		10,569	10,569
Share option reserve		248	278
Warrant reserve		440	190
Convertible loan note reserve		42	380
Foreign exchange translation reserve		(13)	(13)
Accumulative losses		(32,475)	(33,065)
		23,061	17,092
Interest in own shares		(4)	(4)
Attributable to equity holders		23,057	17,088

Company registration number: 3858881

The notes on pages 28 to 55 are an integral part of these consolidated financial statements.

The financial statements on pages 21 to 55 were approved and authorised for issue by the board of directors on 10 July 2012 and were signed on its behalf.

Stuart A Green
Chief Executive

Helen P Gilder
Group Finance Director

Consolidated Statement of Changes in Equity

for the year ended 31 March 2012

	Ordinary shares $000	Share premium reserve $000	Foreign exchange translation reserve $000	Convertible loan note reserve $000	Share option reserve $000	Share warrant reserve $000	Other reserves $000	Accumulated losses $000	Interest in own shares $000
Balance at 1 April 2010	4,573	32,899	(992)	380	267	50	12,293	(47,822)	(4)
Issue of shares	468	779							
Issue costs		(52)							
Share based payments					69	140			
Exercise of share options	86				(41)			42	
Forfeited share options					(17)			3	
Purchase of own shares									(124)
Profit and total comprehensive income for the year								995	
Balance at 31 March 2011	5,127	33,626	(992)	380	278	190	12,293	(46,782)	(128)
Issue of shares	1,017	1,695							
Issue costs		(243)							
Loan note conversion	1,059	1,936		(380)				190	
Fair value adjustments on loan note conversion								507	
Loan note issue				42					
Share based payments					32	250			
Exercise of share options	33				(15)			15	
Forfeited share options					(47)			43	
Purchase of own shares									(68)
Disposal of own shares									115
Loss and total comprehensive income for the year								(2,026)	
Balance at 31 March 2012	**7,236**	**37,014**	**(992)**	**42**	**248**	**440**	**12,293**	**(48,053)**	**(81)**

Company Statement of Changes in Equity

for the year ended 31 March 2012

	Ordinary shares $000	Share premium reserve $000	Foreign exchange translation reserve $000	Convertible loan note reserve $000	Share option reserve $000	Share warrant reserve $000	Other reserves $000	Accumulated losses $000	Interest in own shares $000
Balance at 1 April 2010	4,573	32,899	(13)	380	267	50	10,569	(33,963)	(4)
Issue of shares	468	779							
Issue costs		(52)							
Share based payments					69	140			
Exercise of share options	86				(41)			42	
Forfeited share options					(17)			3	
Profit and total comprehensive income for the year								853	
Balance at 31 March 2011	5,127	33,626	(13)	380	278	190	10,569	(33,065)	(4)
Issue of shares	1,017	1,695							
Issue costs		(243)							
Loan note conversion	1,059	1,936		(380)				190	
Fair value adjustments on loan note conversion								507	
Loan note issue				42					
Share based payments					32	250			
Exercise of share options	33				(15)			15	
Forfeited share options					(47)			43	
Profit and total comprehensive income for the year								(165)	
Balance at 31 March 2012	**7,236**	**37,014**	**(13)**	**42**	**248**	**440**	**10,569**	**(32,475)**	**(4)**

Our Business
Our Performance
Our Governance
Our Financials

Consolidated Statement of Cash Flows

for the year ended 31 March 2012

	Note	2012 $000	2011 $000
Cash flows from operating activities			
Operating (loss)/profit for the year		(1,024)	1,346
Depreciation	14	393	424
Amortisation & impairment	15	867	497
Share based payments	25	278	196
Purchase of own shares		(68)	(124)
Disposal of own shares		115	—
Disposal and de-recognition of intangible assets	15	68	24
Changes in working capital:			
Decreases in inventories	17	80	285
Decreases/(increases) in trade and other receivables	18	651	(349)
(Decreases)/increases in trade and other payables	22	(597)	1,444
Cash flow from operations		763	855
Tax paid		(60)	(2)
Net cash flow from operating activities		703	853
Investing activities			
Purchase of intangible assets	15	(1,942)	(2,098)
Purchase of property, plant and equipment	14	(274)	(415)
Net cash flow from investing activities		(2,216)	(2,513)
Cash flows from financing activities			
Repayment of borrowings	21	(202)	(144)
Proceeds from borrowings	21	187	288
Finance cost		(340)	(386)
Share and convertible loan issue costs	20	(243)	(52)
Issue of share capital	20	2,745	1,333
Net cash flow from financing		2,147	1,039
Net increase/(decrease) in cash and cash equivalents		634	(621)
Cash and cash equivalents at the beginning of the year		600	1,221
Cash and cash equivalents at the end of the year	19	1,234	600

The notes on pages 28 to 55 are an integral part of these consolidated financial statements.

Company Statement of Cash Flows

for the year ended 31 March 2012

	Note	2012 $000	2011 $000
Cash flows from operating activities			
Operating profit for the year		716	1,555
Depreciation	14	86	150
Amortisation & impairment	15	—	9
Share based payments	25	278	196
Changes in working capital:			
Increases in trade and other receivables	18	(2,709)	(3,451)
Decreases in trade and other payables	22	(138)	(171)
Cash flow from operations		(1,767)	(1,712)
Tax paid		—	—
Net cash flow from operating activities		(1,767)	(1,712)
Investing activities			
Purchase of property, plant and equipment	14	(2)	(3)
Net cash flow from investing activities		(2)	(3)
Cash flows from financing activities			
Repayment of borrowings	21	—	—
Finance cost		(279)	(293)
Share and convertible loan issue costs	20	(243)	(52)
Issue of share capital	20	2,745	1,333
Net cash flow from financing		2,223	988
Net increase/(decrease) in cash and cash equivalents		454	(727)
Cash and cash equivalents at the beginning of the year		(719)	8
Cash and cash equivalents at the end of the year	19	(265)	(719)

The notes on pages 28 to 55 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

for the year ended 31 March 2012

1. General Information

ZOO Digital Group plc ('the company') and its subsidiaries (together 'the group') provide productivity tools and services for digital content authoring, video post-production and localisation for entertainment, publishing and packaging markets and continue with on-going research and development in those areas. The group has operations in both the UK and US.

The company is a public limited company which is listed on the Alternative Investment Market of London Stock Exchange and is incorporated and domiciled in the UK. The address of the registered office is The Tower, 2 Furnival Square, Sheffield.

The registered number of the company is 3858881.

The consolidated financial statements are presented in US dollars, the currency of the primary economic environment in which the company operates (note 2.4).

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These financial statements have been prepared in accordance with IFRS as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts in the financial statements. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed in note 3.

A separate Statement of Comprehensive Income for the parent company has not been presented as permitted by section 408 (2) of the Companies Act 2006.

The directors have prepared trading and cash flow forecasts for the group for the period to 31 March 2015 which show a recovery from the current position and cautious growth in profitability. In line with industry practice in this sector the directors have had informal indications from major and other customers to substantiate a significant proportion of the forecast sales. The directors have considered the consequences if the sales volume is less than the level forecast and they are confident that in this eventuality alternative steps could be taken to ensure that the group has access to sufficient funding to continue to operate. Whilst the forecasts prepared do not indicate a cash requirement, should the need arise a major shareholder has confirmed that they will provide financial support to the group up to a maximum of $500,000 to ensure that the company and its subsidiaries are able to meet their liabilities as they fall due over the twelve months from the date of approval of these financial statements.

The directors believe the assumptions used in preparing the trading and cash flow forecasts to be realistic, and consequently that the group will continue in operational existence for the foreseeable future. The financial statements have therefore been prepared on a going concern basis.

2.1.1 IFRS effective in 2011 but not relevant

The following standards and interpretations were mandatory for the current accounting period, but are not relevant to the operations of the group.

- IFRS 1 (Amendment) First time adoption of IFRS
- IFRS 2 (Amendment) Share based payments
- IFRS 3 Business combinations (Revised)
- IFRS 5 (Amendment) Non-current assets held for sale and discontinued operations
- IFRS 7 (Amendment) Financial instruments: Disclosures
- IAS 1 and IAS 32 (Amendment) Presentation of financial statement and Financial instruments: Presentation
- IAS 23 (Amendment) Borrowing costs
- IAS 27 (Amendment) Consolidated and separate financial statements
- IAS 39 and IFRS 7 (Amendment) Reclassification of financial instruments
- IAS 39 and IFRIC 9 (Amendment) Financial instruments: Recognition and measurement, and Reassessment of embedded derivatives
- IFRIC 13 Customer loyalty programmes
- IFRIC 16 Hedges of a net investment in a foreign operation
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 18 Transfers of assets from customers

2. Summary of significant accounting policies continued

2.1.2 Standards and interpretations issued but not yet applied

Any standards and interpretations that have been issued but are not yet effective, and that are available for early application, have not been applied by the group in these financial statements. Application of the majority of these Standards and Interpretations is not expected to have a material effect on the financial statements in the future.

The standards that are expected to have a material effect on the financial statements in the future are:

- IFRIC 19 Extinguishing financial liabilities with equity instruments

In accordance with the transitional provisions these standards will be prospectively applied and changes in accounting policy resulting from their application will have no impact on the opening balances in future financial statements.

2.2 Consolidation

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies so as to obtain benefit from their activities. Subsidiaries are fully consolidated from the date on which control is transferred until the date that control ceases.

The consolidated financial statements of ZOO Digital Group plc include the results of the company and its subsidiaries. Subsidiary accounting policies are amended where necessary to ensure consistency within the group and intra group transactions are eliminated on consolidation.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting regularly reviewed by the group's chief operating decision maker to make decisions about resource allocation to the segments and to assess their performance.

2.4 Foreign currency translation

2.4.1 Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in US dollars which is the company's functional and presentation currency.

The pound sterling/US dollar exchange rate at 31 March 2012 was 0.6245 (2011: 0.6228).

2.4.2 Transactions and balances

Transactions in foreign currencies are recorded at the prevailing rate of exchange in the month of the transaction. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the year end exchange rates are recognised in the profit/(loss) for the year in the Consolidated Statement of Comprehensive Income.

In order to hedge its exposure to certain foreign currency exchange risks, the group uses forward foreign currency exchange contracts to hedge significant exposure on foreign exchange transactions. This is explained in the financial instruments accounting policy and note 26 to these financial statements. The group does not hedge account for forward foreign currency contracts.

2.4.3 Group companies

The results and financial position of all group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each entity are translated at the closing rate at the year end date;
- income and expenses for each Statement of Comprehensive Income are translated at the prevailing monthly exchange rate for the month in which the income or expense arose and all resulting exchange rate differences are recognised with the foreign exchange translation reserve.

Notes to the Financial Statements

for the year ended 31 March 2012

2. Summary of significant accounting policies continued

2.5 Intangible assets

2.5.1 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 reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2.5.2 Patent and Trademark costs

Patent and trademark costs are stated at cost, net of amortisation and any provision for impairment. Patents and trademarks have a finite useful life and amortisation is charged on a straight line basis over the estimated useful economic life which is assessed to be ten years.

2.5.3 Research and Development costs

Research expenditure is charged to the Consolidated Statement of Comprehensive Income in the period in which it is incurred. Development costs are recognised as an intangible asset if they fulfil the following criteria:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Development costs recognised as an intangible asset are amortised on a straight line basis over the estimated useful life of three years or the length of any current sales contracts, from the point at which the asset is ready for sale or use.

2.5.4 Computer Software

Acquired computer software is shown at historical cost less accumulated amortisation and impairment losses. Amortisation is charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over its estimated useful life of three years from the date the asset is available for use.

Costs that are directly associated with the development of identifiable and unique software products controlled by the group, and are expected to generate economic benefits exceeding costs beyond one year, are recognised as development costs within intangible assets. See note 2.5.3 Research and Development costs.

Amortisation is included within 'Other operating expenses' in the Consolidated Statement of Comprehensive Income.

2.6 Investments in subsidiary undertakings

In the company, investments in subsidiary undertakings are carried at cost less any impairment. The investments are reviewed on an annual basis to test for any indication of impairment. The investments are eliminated on consolidation.

2.7 Property, plant and equipment

All property, plant and equipment assets are stated at cost less accumulated depreciation and impairment. Depreciation is provided on all such assets at rates calculated to write off the cost of each asset less estimated residual value, on a straight-line basis, over its estimated useful life, as follows:

— Leasehold improvements	5 years or over the term of the lease, if shorter
— Computer hardware	between 2 and 3 years
— Office equipment, fixtures and fittings	between 2 and 5 years
— Production equipment	between 2 and 3 years

2. Summary of significant accounting policies continued

2.8 Impairment of assets

The group assesses at each year end date whether there is any indication that any of its assets have been impaired. If such indication exists, the asset's recoverable amount is estimated and compared to its carrying value.

For goodwill, intangible assets that have an indefinite life and intangible assets not yet available for use, the recoverable amount is estimated at each year end date and whenever there is an indication of impairment an impairment loss is recognised for the amount by which the asset's carrying value amount exceeds its recoverable amount. Impairment losses are recognised in the Consolidated Statement of Comprehensive Income within 'Other operating expenses'.

2.9 Financial Instruments

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

The group monitors its exposure and adopts forward foreign exchange contracts where it deems appropriate to hedge its exposure to currency risk.

Financial instruments are recognised on the Statements of Financial Position at fair value when the group becomes a party to the contractual provisions of the instrument, with movements reflected in the Consolidated Statement of Comprehensive Income

The group does not use hedge accounting for its forward foreign currency contracts and does not use forward foreign currency contracts for speculative purposes.

2.9.1 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Consolidated Statement of Comprehensive Income over the period of the borrowings using the effective interest rate method.

The convertible loan notes are accounted for in accordance with IAS 32 'Financial Instruments: presentation' and split between debt and equity based upon the market rate of similar loans not carrying conversion options.

2.9.2 Trade receivables

Trade receivables are stated at their amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts. They are recognised on the trade date of the related transactions. Subsequent recoveries of amounts previously written off are credited to the Consolidated Statement of Comprehensive Income.

2.9.3 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held with banks.

2.9.4 Trade payables

Trade payables are stated at their amortised cost. They are recognised on the trade date of the related transactions.

2.10 Share based payments

Options and warrants are measured at fair value at grant date using the binomial model. The fair value is expensed on a straight line basis over the vesting period, based on an estimate of the number of options or warrants that will eventually vest.

Under the group's share option scheme, share options are granted to directors and selected employees and under the share warrant schemes, warrants are granted to selected customers. The options and warrants are expensed in the period over which the share based payment vests. A corresponding increase to the share option reserve or share warrant reserve under shareholder's funds is recognised.

When share options or warrants are exercised, the company issues new shares. The nominal share value from the proceeds received are credited to share capital and proceeds received above nominal value, net of attributable transaction costs are credited to the share premium when the options or warrants are exercised. When share options or warrants are forfeited, cancelled or expire, the corresponding fair value is transferred to the accumulated losses reserve.

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

Notes to the Financial Statements

for the year ended 31 March 2012

2. Summary of significant accounting policies continued

2.11 Pension costs and other post-retirement benefits

The group operates only defined contribution schemes and pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further obligations once the contributions have been paid. The amount charged to the Consolidated Statement of Comprehensive Income 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 Statements of Financial Position.

2.12 Revenue

Revenue comprises the consideration receivable for services provided, software usage fees and royalty income. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the group.

2.12.1 Sales of services

The group sells design, development and other services relating to the media production, publishing and packaging industries. These services are provided on a time and material basis, on a piecemeal basis or as a fixed price contract.

Revenue from time and material contracts is recognised as labour hours and direct expenses are incurred, at the contracted rates.

Piecemeal revenue is recognised based on standard rates using parameters based on the size and complexity of the individual projects.

Revenue from fixed price contracts is recognised in accordance with the substance of the contract as services are performed by the group and accepted by the customer.

If circumstances arise that may change the original estimates of revenue and costs or extent of progress toward completion, estimates are revised. These revisions resulting in increases or decreases in the estimated revenues and costs are reflected in the Consolidated Statement of Comprehensive Income in the period in which the circumstances that give rise to the revision become known to management.

2.12.2 Software license fees

Revenue attributable to the use of software products is credited to the Consolidated Statement of Comprehensive Income in line with the usage of these products.

2.12.3 Royalty income

Under IAS18 royalties are recognised on an accruals basis in accordance with the substance of the relevant agreement. Based on the substance of the contract agreements, revenue is recognised to match with estimated sales. Estimates of expected sales are reviewed at each year end date.

2.13 Inventories

Inventories 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.

2.14 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in the Consolidated Statement of Comprehensive Income on a straight line basis over the term of the lease.

Leases of equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the Consolidated Statement of Comprehensive Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

2. Summary of significant accounting policies continued

2.15 Deferred taxation

Deferred tax, including UK corporation tax and foreign tax, is provided in full using the Statement of Financial Position liability method. Deferred tax is the future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities shown on the consolidated and parent company Statement of Financial Position. Deferred tax assets and liabilities are not recognised if they arise in the following situations; the initial recognition of goodwill; or the initial recognition of assets and liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of recovery or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the year end date.

The group does not recognise deferred tax liabilities, or deferred tax assets, on temporary differences associated with investments in subsidiaries, joint ventures and associates as it is not considered probable that the temporary differences will reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets are reviewed at each year end date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

2.16 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Government grants relating to operating costs are deferred and recognised in the Consolidated Statement of Comprehensive Income over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to property, plant and equipment are credited to the cost of the asset and released to the Consolidated Statement of Comprehensive Income on a straight line basis over the expected lives of the related assets.

2.17 Exceptional items

Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the group's financial performance. The transactions giving rise to exceptional items are the gains and losses on disposal of operations and the discontinuation of activities, including the decisions not to continue certain development projects.

3. Accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Critical accounting estimates and assumptions

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

Goodwill

Goodwill is tested annually for impairment at the year end date. The recoverable amounts of cash generating units have been estimated based on value in use calculations. Value in use calculations have been based on a subjective pre-tax discount rate of 8 per cent. No impairment loss incurred at this discount rate. Had the discount rate used been 1 per cent greater or lower than estimated, there still would be no material impact on impairment.

Financial Instruments

On initial recognition discounted cash flow analysis is used to determine the fair value of financial instruments that are not traded on the open market. The non-traded financial instrument is the convertible loan note. Calculations have been based on a subjective pre-tax discount rate of 8.5 per cent.

Recognition of deferred tax assets

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. Where the temporary differences related to unused tax losses, evidence considered to support the recognition of deferred tax assets include the existence of relevant taxable profits in the current and preceding periods and in the period after the reporting date and expectations of profits in the future. Recognition therefore involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset has been recognised.

Accounting estimates for the useful lives of property, plant and equipment and intangible assets are included within the relevant accounting policies above.

Notes to the Financial Statements

for the year ended 31 March 2012

3. Accounting estimates and judgements continued

3.2 Critical judgements in applying the group's accounting policies

Operating lease commitments

The group has entered into property leases for its Sheffield and Los Angeles offices. As management have determined that the group has not obtained substantially all the risks and rewards of ownership of the property, the lease has been classified as an operating lease and accounted for accordingly.

4. Segmental reporting

Business segments

At 31 March 2012, the group is organised on a worldwide basis into two main business segments:

- Software solutions, including development , consultancy and software sales
- Media production and design

These divisions are the basis on which the group reports its segment information. Other group operations comprise of head office operations.

The Segment results are as follows:

	Software Solutions		Media Production		Total	
	2012 $000	2011 $000	2012 $000	2011 $000	2012 $000	2011 $000
Total revenue	6,962	8,134	7,617	8,049	14,579	16,183
Inter-segment revenue	—	—	(3,393)	(2,426)	(3,393)	(2,426)
Revenue	6,962	8,134	4,224	5,623	11,186	13,757
Segment operating profit/(loss)	1,056	2,787	(433)	274	623	3,061
Unallocated corporate expense					(1,647)	(1,715)
Operating (loss)/profit					(1,024)	1,346
Finance cost					(942)	(835)
(Loss)/profit before taxation					(1,966)	511
Tax on (loss)/profit					(60)	484
(Loss)/profit for the year					(2,026)	995

Other segmental information included in the Consolidated Statement of Comprehensive Income is as follows:

	Software Solutions		Media Production		Group Operations	
	2012 $000	2011 $000	2012 $000	2011 $000	2012 $000	2011 $000
Depreciation	20	52	287	222	86	150
Amortisation	771	396	96	92	—	9

Segment assets consist primarily of property, plant and equipment, intangible assets, trade and other receivables and cash and cash equivalents. Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as borrowings.

4. Segmental reporting continued

Capital expenditure includes additions to property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

	Software Solutions		Media Production		Total	
	2012 $000	2011 $000	2012 $000	2011 $000	2012 $000	2011 $000
Assets	8,687	7,371	1,332	2,205	10,019	9,576
Unallocated corporate assets					3,983	3,635
Consolidated total assets					14,002	13,211
Liabilities	1,116	1,184	1,286	1,616	2,402	2,800
Unallocated corporate liabilities					3,453	6,419
Consolidated total liabilities					5,855	9,219
Capital Expenditure	1,881	2,018	330	492	2,216	2,513

Geographical segments

The group's operating divisions operate in two principal geographical areas of the world, the UK and the US. All European operations are run from the UK office.

	Revenue		Total assets		Additions to property, plant and equipment and intangible assets	
	2012 $000	2011 $000	2012 $000	2011 $000	2012 $000	2011 $000
United Kingdom	323	68	12,653	10,973	1,879	2,017
US	10,863	13,689	1,349	2,238	337	496
	11,186	13,757	14,002	13,211	2,216	2,513

5 Revenue

The group's revenue comprises:

	2012 $000	2011 $000
Software Solutions	6,962	8,134
Media Production	4,224	5,623
	11,186	13,757
Continuing operations	11,186	13,757
Discontinued operations	—	—
	11,186	13,757
Revenue from services	8,532	7,811
Software license fees	2,654	5,946
	11,186	13,757

Major customers

The group currently has one major customer representing 87 per cent (2011: 92 per cent) of the group's revenues. These revenues are generated from both of the group's operating segments. The revenues are as follows:

	2012 $000	2011 $000
Major customer	9,777	12,676
Other customers	1,409	1,081
	11,186	13,757

Notes to the Financial Statements

for the year ended 31 March 2012

6. Other operating income

	2012 $000	2011 $000
Government grants	167	119
Sales of own shares	1	16
	168	135

7. Finance costs

	2012 $000	2011 $000
Finance costs:		
Interest on bank overdraft	23	5
Interest on borrowings	407	530
Renegotiation of convertible loan stock	526	—
Exchange (gains)/losses on borrowings	(14)	300
Finance costs	942	835

8. Operating (loss)/profit

Group operating (loss)/profit for the year is stated after charging/ (crediting) the following:

	2012 $000	2011 $000
Other exchange gains	(14)	(26)
Staff Costs	6,200	6,541
Depreciation	393	424
Amortisation of other intangible assets	867	497
Research and non-capitalised development costs	192	123
Operating lease expense	617	634
Auditor's remuneration	75	88
Other expenses	2,141	1,877
Other operating expenses	10,471	10,158

9. Auditor's remuneration

	2012 $000	2011 $000
Fees payable to company's auditor for the audit of the parent company and consolidated financial statements	37	36
Fees payable to the company's auditor and its associates for other services:		
The audit of the financial statements of the company's subsidiaries pursuant to legislation	26	40
Tax services	11	11
All other services	1	1
	75	88

10. Employees including directors

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

	2012 No.	2011 No.
Product design and service delivery	94	88
Sales and marketing	4	6
Administration	9	10
	107	104

Their aggregate remuneration comprised:

	2012 $000	2011 $000
Wages and salaries	5,383	5,739
Social security costs	727	681
Other pension costs	67	65
Share based payments	23	56
	6,200	6,541

The group pension arrangements are operated through a defined contribution scheme.

Compensation of key management personnel (including directors)

	2012 $000	2011 $000
Short-term employee benefits	1,336	1,649
Post-employment benefits	9	16
Share based payments	14	39
	1,359	1,704

Directors' remuneration for the year to 31 March 2012 is:

	Salary $000	Bonus $000	Benefits $000	Pension $000	2012 Total $000	2011 Total $000
Dr Stuart A Green	229	—	3	7	239	282
Helen P Gilder	165	—	3	2	170	211
Gordon Doran	232	81	16	—	329	310
Roger D Jeynes†	40	—	—	—	40	36
James A Livingston	36	—	—	—	36	33
Ian C Stewart*	—	—	—	—	—	17
Dr Christopher H B Honeyborne‡	—	—	—	—	—	3
	702	81	22	9	814	892

† Roger Jeynes was appointed on 28 April 2010.
* Ian Stewart retired 31 December 2010.
‡ Dr Christopher H B Honeyborne retired on 28 April 2010.

Two directors (2011: two) serving during the year have been members of money purchase pension schemes into which the company contributes.

The highest paid director received emoluments and benefits as follows:

	2012 $000	2011 $000
Emoluments	329	310
Money purchase pension contributions	—	—
	329	310

Notes to the Financial Statements

for the year ended 31 March 2012

11. Income tax

	2012 $000	2011 $000
Current tax:		
UK corporation tax		
— Current tax on income for the year	—	—
— Adjustments in respect of prior years	(2)	—
Foreign tax	(58)	(2)
Total current tax	(60)	(2)
Deferred tax:		
— Current year (note 16)	—	486
Total deferred tax	—	486
Tax (charged)/credited	(60)	484

Corporation tax is calculated at 26 per cent (2011: 28 per cent) of the estimated assessable profit for the year.

Tax charge for the year

The tax charge for the year can be reconciled to the (loss)/profit for the year as follows:

	2012 $000	2011 $000
(Loss)/profit before tax	(1,966)	511
Tax calculated at standard rate of corporation tax of 26 per cent (2010: 28 per cent)	(511)	143
Depreciation in excess of capital allowances	—	9
Capital allowances in excess of depreciation	(97)	(26)
Disallowable items	—	25
Additional R&D expenditure relief	(148)	(164)
(Profits)/Losses carried forward	696	11
Deferred tax (note 16)	—	486
Tax (charged)/credited	(60)	484

Tax losses carried forward

The group has tax losses carried forward of approximately $31m (2011: $28m), of which $1.8m (2011: $1.8m) has been recognised at a rate of 26 per cent as a deferred tax asset for the year. The balance of tax losses remain unrecognised at the balance sheet date.

12. Dividends

There were no dividends paid or proposed.

13. (Loss)/profit per share

Earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	Basic and Diluted	
	2012 $000	2011 $000
(Loss)/profit for the financial year	(2,026)	995

Weighted average number of shares for basic & diluted (loss)/profit per share	2012 Number of shares	2011 Number of shares
Basic	28,901,576	23,182,299
Effect of dilutive potential ordinary shares:		
Convertible loan note	5,241,637	7,263,590
Share options	2,445,535	2,915,238
Share warrants	2,673,642	1,719,998
Diluted	39,262,390	35,081,125

14. Property, plant and equipment

Group	Production Equipment $000	Leasehold improvements $000	Computer hardware $000	Office equipment, fixtures & fittings $000	Total $000
Cost					
Opening cost at 1 April 2010	283	321	1,307	458	2,369
Additions	26	23	362	4	415
Disposals	(9)	(189)	(284)	(81)	(563)
Opening cost at 1 April 2011	300	155	1,385	381	2,221
Additions	104	2	163	5	274
Disposals	—	—	(111)	—	(111)
Closing cost at 31 March 2012	404	157	1,437	386	2,384
Accumulated depreciation/ impairment					
Opening balance at 1 April 2010	189	193	1,051	378	1,811
Depreciation	79	78	218	49	424
Disposals	(9)	(189)	(284)	(81)	(563)
Opening balance at 1 April 2011	259	82	985	346	1,672
Depreciation	65	60	235	33	393
Disposals	—	—	(111)	—	(111)
Closing balance at 31 March 2012	324	142	1,109	379	1,954
Opening carrying value at 1 April 2010	94	128	256	80	558
Opening carrying value at 1 April 2011	41	73	400	35	549
Closing carrying value at 31 March 2012	80	15	328	7	430

Depreciation expense of $393,000 (2011: $424,000) is included in 'Other operating expenses'.

Notes to the Financial Statements

for the year ended 31 March 2012

14. Property, plant and equipment continued

Property, plant and equipment for the group includes the following amounts where the group is a lessee under finance leases:

At 31 March 2012	Production Equipment $000	Computer hardware $000	Office equipment, fixtures & fittings $000	Total $000
Cost — capitalised finance leases	101	470	—	571
Accumulated depreciation	(41)	(261)	—	(302)
Net book value	60	209	—	269

At 31 March 2011	Production Equipment $000	Computer hardware $000	Office equipment, fixtures & fittings $000	Total $000
Cost — capitalised finance leases	145	449	100	694
Accumulated depreciation	(123)	(146)	(83)	(352)
Net book value	22	303	17	342

The group leases various equipment under non-cancellable finance lease agreements. The lease terms are three years.

Company	Leasehold improvements $000	Computer hardware $000	Office equipment, fixtures & fittings $000	Total $000
Cost				
Opening cost at 1 April 2010	128	425	372	925
Additions	—	—	3	3
Opening cost at 1 April 2011	128	425	375	928
Additions	—	—	2	2
Closing cost at 31 March 2012	128	425	377	930
Accumulated depreciation/impairment				
Opening balance at 1 April 2010	—	396	297	693
Depreciation	73	29	48	150
Opening balance at 1 April 2011	73	425	345	843
Depreciation	55	—	31	86
Closing balance at 31 March 2012	128	425	376	929
Opening carrying value at 1 April 2010	128	29	75	232
Opening carrying value at 1 April 2011	55	—	30	85
Closing carrying value at 31 March 2012	—	—	1	1

14. Property, plant and equipment continued

Property, plant and equipment for the company includes the following amounts where a subsidiary company is the lessee under finance leases:

At 31 March 2011	Computer hardware $000	Office equipment, fixtures & fittings $000	Total $000
Cost — capitalised finance leases	—	100	100
Accumulated depreciation	—	(83)	(83)
Net book value	—	17	17

There were no assets under finance leases at 31 March 2012.

15. Intangible assets

Group	Goodwill $000	Development Costs $000	Patents and trademarks $000	Computer Software $000	Total $000
Cost					
Opening cost at 1 April 2010	16,610	4,385	695	473	22,163
Additions	—	1,911	92	95	2,098
Disposals	—	(28)	—	(72)	(100)
Derecognise	—	—	(233)	—	(233)
Opening cost at 1 April 2011	16,610	6,268	554	496	23,928
Additions	—	1,804	43	95	1,942
Disposals	—	(33)	—	(86)	(119)
Derecognise	—	—	(26)	—	(26)
Closing cost at 31 March 2012	16,610	8,039	571	505	25,725
Accumulated amortisation/ impairment					
Opening balance at 1 April 2010	12,620	2,068	255	317	15,260
Amortisation	—	355	29	113	497
Disposals	—	(28)	—	(70)	(98)
Derecognise	—	—	(211)	—	(211)
Opening balance at 1 April 2011	12,620	2,395	73	360	15,448
Amortisation	—	726	38	103	867
Disposals	—	—	—	(77)	(77)
Closing balance at 31 March 2012	12,620	3,121	111	386	16,238
Opening carrying value at 1 April 2010	3,990	2,317	440	156	6,903
Opening carrying value at 1 April 2011	3,990	3,873	481	136	8,480
Closing carrying value at 31 March 2012	3,990	4,918	460	119	9,487

Development costs are internally generated software development costs. All other intangible assets are acquired externally.

The remaining life of the majority of development costs is 10 years.

Following the decision by management not to renew or pursue some of the company's patent applications, $26,090 of previously capitalised patents costs were derecognised of during the year.

Notes to the Financial Statements

for the year ended 31 March 2012

15. Intangible assets continued

Amortisation and impairment costs are included within 'Other operating expenses' in the Consolidated Statement of Comprehensive Income.

Computer software includes the following amounts where the group is a lessee under finance leases:

	2012 $000	2011 $000
Cost — capitalised finance leases	32	77
Accumulated amortisation	(9)	(55)
Net book value	23	22

Company	Goodwill $000	Computer Software $000	Total $000
Cost			
Opening cost at 1 April 2010	10,960	65	11,025
Additions	—	—	—
Opening cost at 1 April 2011	10,960	65	11,025
Additions	—	—	—
Closing cost at 31 March 2012	10,960	65	11,025
Accumulated amortisation/impairment			
Opening balance at 1 April 2010	8,679	56	8,735
Amortisation	—	9	9
Opening balance at 1 April 2011	8,679	65	8,744
Amortisation	—	—	—
Closing balance at 31 March 2012	8,679	65	8,744
Opening carrying value at 1 April 2010	2,281	9	2,290
Opening carrying value at 1 April 2011	2,281	—	2,281
Closing carrying value at 31 March 2012	2,281	—	2,281

There were no assets held under finance leases at 31 March 2012 and 31 March 2011.

Impairment tests for goodwill

Goodwill is subject to annual impairment testing, or more frequently if there are indications that goodwill might be impaired. Goodwill is allocated to the group's cash generating units (CGUs) identified according to the business segment. The aggregation of assets for identifying the cash generating units has not changed since the prior year.

The recoverable amount of a CGU is its value in use. In calculating the value in use the group used a discount rate of 8 per cent (2011:8 per cent). The carrying amount of goodwill is allocated as follows:

Software Solutions		Media Production		Group	
2012 $000	2011 $000	2012 $000	2011 $000	2012 $000	2011 $000
2,281	2,281	1,709	1,709	3,990	3,990

Following the impairment tests, goodwill was considered not to be impaired.

15. Intangible assets continued

Management has based its pre-tax cash flow projections on financial budgets approved by management covering a three year period. Cash flows after the three year period have been extrapolated based on estimated growth rates disclosed below. Management determined the budgets on past performance and its expectations of market development.

	Software Solutions	Media Production
Discount rate	8%	8%
Growth rate	10%	10%

16. Deferred income tax

	Group		Company	
	2012 $000	2011 $000	2012 $000	2011 $000
Deferred tax assets comprise:				
Unused tax losses	486	486	92	92

The gross movement on the deferred income tax account is as follows:

	Group		Company	
	2012 $000	2011 $000	2012 $000	2011 $000
At 1 April	486	—	92	—
Credited to the statement of comprehensive income	—	486	—	92
At 31 March	486	486	92	92

Tax losses carried forward

The group has tax losses carried forward of approximately $31m (2011: $28m), of which $1.8m (2011: $1.8m) has been recognised at a rate of 26 per cent as a deferred tax asset for the year. The balance of tax losses remain unrecognised at the balance sheet date.

17. Inventories

	Group	
	2012 $000	2011 $000
Products in the course of development	—	80

During the year ended 31 March 2012 $80,000 (2011:$365,000) was recognised as an expense within ‘cost of sales’.

Notes to the Financial Statements

for the year ended 31 March 2012

18. Trade and other receivables

	Group		Company	
	2012 $000	2011 $000	2012 $000	2011 $000
Trade receivables	1,599	1,436	—	1
Less: provision for impairment of trade receivables	—	(6)	—	(1)
Trade receivables — net	1,599	1,430	—	—
Amounts owed by subsidiary undertakings	—	—	24,301	21,583
VAT	2	31	—	—
Other debtors	173	278	—	—
Prepayments and accrued income	591	1,277	212	221
	2,365	3,016	24,513	21,804

The fair values of trade and other receivables equal their carrying amounts.

As of 31 March 2012, trade receivables of $514,000 (2011: $303,000) were overdue. The ageing analysis of these trade receivables is as follows:

	Group		Company	
	2012 $000	2011 $000	2012 $000	2011 $000
Less than 3 months	445	146	—	—
3 to 6 months	44	50	—	—
7 to 12 months	21	96	—	—
Over 12 months	4	11	—	1
	514	303	—	1

The carrying amounts of trade and other receivables are denominated in the following currencies:

	Group		Company	
	2012 $000	2011 $000	2012 $000	2011 $000
Pound sterling	386	443	212	221
US Dollar	1,977	2,570	24,301	21,583
Euros	2	3	—	—
	2,365	3,016	24,513	21,804

18. Trade and other receivables continued

Provision for impairment of trade receivables:

	Group 2012 $000	Group 2011 $000
At 1 April	6	65
Provision for receivables impairment	—	—
Receivables written off in the year as uncollectible	(6)	(59)
Unused amounts reversed	—	—
At 31 March	—	6

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables, other debtors and cash and cash equivalents. The group does not hold any collateral as security.

The directors believe that a reasonable provision has been made for outstanding amounts or values impaired and the remaining un-provided amounts are considered to be recoverable.

The amounts owed by the subsidiary undertakings to the parent company, have no payment terms and bear no interest, but they are considered to be recoverable in the future.

19. Notes to the cash flow statement

19.1 Significant non-cash transactions

During the year the group acquired property, plant and equipment and computer software with a cost of $369,000 (2011:$510,000) of which $186,000 (2011: $288,000) was acquired by the means of finance leases.

Following an agreement with the loan note holders in August 2011 to extend 50 per cent of the loan note instrument for a further two years, the loan note was restructured. The loan note issued, as a result of the restructure, on 6 September 2011 was $2,823,000 7.5 per cent Unsecured convertible loan note stock and matures on 31 October 2013. The underlying value of the restructured loan stock was £1,770,500. The remaining 50 per cent of the holding was converted into 4,426,250 ordinary shares, with a value of $2,823,000 (£1,770,500).

19.2 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprise the following consolidated and parent company statement of financial position amounts.

	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
Cash on hand and balances with banks	1,234	600	(265)	(719)

The fair value of the cash and cash equivalents are considered to be at their book value.

Notes to the Financial Statements

for the year ended 31 March 2012

20. Share capital and reserves

Called up share capital

	2012 $000	2011 $000
Allotted, called-up and fully paid		
32,660,660 (2011:23,846,255) ordinary shares of 15p each	7,236	5,127
Reconciliation of the number of shares outstanding:		
Opening balance	23,846,255	21,326,421
Shares issued	4,252,500	2,148,642
Conversion of Loan note	4,426,250	—
Share options exercised	135,655	371,192
Closing balance	32,660,660	23,846,255

During the year the group purchased 274,200 (2011: 298,232) of its own shares through ZOO Employee Share Trust Limited at an average price of $0.25 (16p) per share. The total cost of the purchase was $67,593 (2011: $124,374).

Reserves

The following describes the nature and purpose of each reserve within owner's equity:

Reserve	Description and purpose
Share premium reserve	Represents the amount subscribed for share capital in excess of the nominal value.
Accumulative losses	Cumulative net losses recognised in the Consolidated Statement of Comprehensive Income.
Foreign exchange translation reserve	Cumulative exchange differences resulting from translation of foreign operations into the reporting currency.
Convertible loan note reserve	Represents the equity element of the Convertible loan note.
Share option reserve	Cumulative cost of share options issued to employees.
Share warrant reserve	Cumulative cost of share warrants issued to customers.
Other reserves	Created as part of the reverse takeover between Kazoo3D plc and ZOO Media Corporation Ltd in 2001.

21. Borrowings

	Group		Company	
	2012 $000	2011 $000	2012 $000	2011 $000
Non-current				
7.5% Unsecured convertible loan note stock	2,803	—	2,803	—
Finance lease liabilities	136	191	—	—
	2,939	191	2,803	—
Current				
Bank overdrafts	—	—	265	719
Amounts owed to subsidiary undertakings	—	—	9,701	9,701
6% Unsecured convertible loan note stock	—	5,555	—	5,555
Finance lease liabilities	194	154	—	—
	194	5,709	9,966	15,975
Total borrowings	3,133	5,900	12,769	15,975

21. Borrowings continued

On 27 September 2006 the group issued $5,062,000 6 per cent Unsecured convertible loan note stock which was due to mature on 31 October 2011. The underlying value of the loan stock was £3,541,000. Following an agreement with the loan note holders in August 2011 to extend 50 per cent of the loan note instrument for a further two years, the loan note was restructured. The loan note issued, as a result of the restructure, on 6 September 2011 is $2,823,000 7.5 per cent Unsecured convertible loan note stock and matures on 31 October 2013. The underlying value of the restructured loan stock was £1,770,500.

The loan stock holder is entitled, before the redemption date, to convert all or part of the loan stock into fully paid ordinary shares on the basis of 1 Ordinary share for every $0.7654 (£0.48) of principal amount of loan stock.

The 50 per cent of the Unsecured convertible loan note stock which was not extended converted into 4,426,250 ordinary shares on the basis of 1 ordinary share for every $0.6378 (£0.40) of principle amount of loan stock. This differed from the original conversion terms of 1 ordinary share for every $0.7774 (£0.4875) of principle amount of loan stock. The result of the modified terms was the issue of 794,455 additional shares. The market value of these shares at the time of conversion was $507,000 (£318,000). This loss arising on the increase in the conversion ratio has been debited to the income statement as a finance cost.

The restructured convertible loan stock has been accounted for in accordance with IAS 32 (Financial instruments: Presentation) and split between debt and equity based upon the market rate of similar loan stock not carrying conversion options, estimated to be 8.5 per cent (2006 loan note: 8 per cent). The fair value of the convertible loan note is considered to be the carrying value.

Finance lease liabilities

Finance lease liabilities are payable as follows:

At 31 March 2012	Future minimum lease payments $000	Interest $000	Present value of minimum lease payments $000
Less than one year	229	(35)	194
Between one and five years	139	(10)	129
More than five years	7	—	7
	375	(45)	330

At 31 March 2011	Future minimum lease payments $000	Interest $000	Present value of minimum lease payments $000
Less than one year	187	(33)	154
Between one and five years	209	(18)	191
More than five years	—	—	—
	396	(51)	345

The lease periods of the finance leases range from between 3 and 4 years, with options to purchase the asset at the end of the term.

Notes to the Financial Statements

for the year ended 31 March 2012

22. Trade and other payables

	Group		Company	
	2012 $000	2011 $000	2012 $000	2011 $000
Trade Creditors	935	1,013	299	301
Amounts owed to subsidiary undertakings	—	—	122	38
VAT	—	—	46	33
Accrued expenses	1,787	2,306	294	527
	2,722	3,319	761	899

The fair values of trade and other payables equal their carrying amounts.

23. Commitments

Capital commitments

The group had no capital commitments at the 31 March 2012.

Operating lease commitments

The group has a number of operating leases, as a lessee, for equipment and premises under non-cancellable agreements. The lease terms are between 3 and 6 years, and the majority of lease agreements are renewable at the end of the lease period at market rate. The lease expenditure charged to the Consolidated Statement of Comprehensive Income during the year is disclosed in note 8.The lease expenditure on premises is charged to the Consolidated Statement of Comprehensive Income on an average annual charge over the life of the lease.

The future minimum lease payments under non-cancellable operating leases are as follows:

	2012 $000	2011 $000
Within one year	419	488
From one to five years	2,178	185
After five years	—	—
	2,597	673

The group does not sub-lease any of its leased premises.

24. Related parties

Subsidiaries

The parent company has investments in the following subsidiary undertakings:

Subsidiary undertakings	Country of incorporation	Principal activity	Holding	%
ZOO Digital Limited	UK	Technology development	2 ordinary shares	100
ZOO Digital Inc.	USA	Sale & distribution technology products	10,000 shares of common stock	100
ZOO Digital Production LLC (formerly Scope Seven LLC)	USA	Media production	100 shares of common stock	100*
ZOO Employee Share Trust Limited	UK	Employee share scheme	2 ordinary shares	100
Scope Seven Limited	UK	Dormant	100 ordinary shares	100
ZOOtech Limited	UK	Dormant	95,714 ordinary shares	100

*ZOO Digital Production LLC is indirectly held by ZOO Digital Group plc through ZOO Digital Inc.

Transactions between ZOO Digital Group plc and its subsidiaries, which are related parties, have been eliminated on consolidation.

24. Related parties continued
Subsidiary undertakings

	Company 2012 $000	Company 2011 $000
Cost	11,797	11,797
Provision for impairment	2,097	2,097
Net book value	9,700	9,700

Key Management personnel
The details of key management remuneration is disclosed in note 10, Employees including directors.

Related Party Transactions

	Company 2012 $000	Company 2011 $000
Sales of services to subsidiaries:		
Administration services	2,343	2,975

Amounts owed by subsidiary undertakings

	Company 2012 $000	Company 2011 $000
ZOO Digital Limited	17,544	16,068
Scope Seven LLC	6,757	5,426
ZOO Digital Inc.	—	89
	24,301	21,583

Amounts owed to subsidiary undertakings

	Company 2012 $000	Company 2011 $000
ZOO Digital Inc.	49	—
ZOO Employee Share Trust Limited	73	38
	122	38

Notes to the Financial Statements

for the year ended 31 March 2012

25. Share based payments

Employee share option schemes

Share options have been granted under the following schemes to subscribe for ordinary shares of the company. Movements in the number of options, under each of the schemes, and their related weighted average exercise price are as follows:

ZOO Digital Group plc EMI scheme	2012 Options No.	2012 Weighted average exercise price $	2011 Options No.	2011 Weighted average exercise price $
Outstanding at the beginning of the year	982,615	0.24	995,647	0.21
Granted during the year	47,334	0.23	47,334	0.76
Exercised during the year	(36,155)	0.21	(60,366)	0.21
Surrendered during the year	(47,334)	0.76	—	—
Outstanding at the end of the year	946,460	0.21	982,615	0.24
Exercisable at the end of the year	918,060	0.21	696,953	0.21

The underlying weighted average exercise price for the share under option at 31 March 2012 was 15p (2011:17p).

ZOO Digital Group plc Unapproved	2012 Options No.	2012 Weighted average exercise price $	2011 Options No.	2011 Weighted average exercise price $
Outstanding at the beginning of the year	1,700,952	0.22	2,138,918	0.21
Granted during the year	585,000	0.34	45,000	0.69
Exercised during the year	(99,500)	0.21	(310,826)	0.21
Surrendered during the year	(985,500)	0.22	(172,140)	0.21
Outstanding at the end of the year	1,200,952	0.28	1,700,952	0.22
Exercisable at the end of the year	1,153,952	0.21	1,395,820	0.21

The underlying weighted average exercise price for the share under option at 31 March 2012 was 19p (2011:17p).

Under these schemes the percentage of shares that can be exercised is staggered over the exercise period with typically 40 per cent exercisable after the first year and a further 30 per cent in each of the following two years.

Out of the 2,147,412 outstanding options (2011: 2,683,567 options), 2,072,012 were exercisable (2011: 2,092,773). 135,655 were exercised during the year ended 31 March 2012 (2011: 371,192).

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Scheme	Options No.	Expiry date	Exercise price $	Exercise price £
ZOO Digital Group plc EMI scheme	899,126	13 Oct 2018	0.21	0.15
ZOO Digital Group plc EMI scheme	47,334	30 Nov 2020	0.23	0.15
ZOO Digital Group plc Unapproved	585,952	13 Oct 2018	0.21	0.15
ZOO Digital Group plc Unapproved	30,000	27 Jun 2020	0.65	0.43
ZOO Digital Group plc Unapproved	15,000	30 Nov 2020	0.23	0.15
ZOO Digital Group plc Unapproved	550,000	13 Oct 2018	0.34	0.22
Zoo Digigal Group plc Unapproved	20,000	13 Dec 2021	0.23	0.15
Outstanding at the end of the year	2,147,412			

25. Share based payments continued

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

	2008	Jun 2010	Dec 2010	Dec 2011
Expected Volatility (%)	100	73	76	63
Risk-free Interest rate (%)	4.49	2.65	2.13	0.97
Expected life of option (years)	5	5	5	5
Expected dividends	none	none	none	none

Volatility has been estimated by taking the historical volatility in the company's share price over a three year period up to the date of grant of the options. 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.

Share warrants

Share warrants have been granted under the following schemes to subscribe for ordinary shares of the company.

Scheme 1

Under this scheme the percentage of shares that can be exercised is staggered over the exercise period based on cumulative cash received from the Warrant holder.

	2012		2011	
Share Warrants	Options No.	Weighted average exercise price $	Options No.	Weighted average exercise price $
Outstanding at the beginning and end of the year	525,000	0.21	525,000	0.21
Exercisable at the end of the year	525,000	0.21	375,000	0.21

Out of the 525,000 outstanding warrants (2011: 525,000), 525,000 were exercisable (2011: 375,000). No warrants have been exercised since grant. The share warrants outstanding at the end of the year have an expiry date of 15 August 2013 and an exercise price of $0.21 (15p).

Scheme 2

Under this scheme the percentage of shares that can be exercised is staggered over the exercise period based on a minimum level of new sales generated in any 12 month rolling period through the Warrant holder.

	2012		2011	
Share Warrants	Options No.	Weighted average exercise price $	Options No.	Weighted average exercise price $
Outstanding at the beginning of the year	2,148,642	0.77	—	—
Granted during the year	—	—	2,148,642	0.77
Outstanding at the end of the year	2,148,642	0.77	2,148,642	0.77
Exercisable at the end of the year	—	—	—	—

Out of the 2,148,642 outstanding warrants (2011: 2,148,642), no warrants were exercisable at the 31 March 2012 (2011: nil). No warrants have been exercised in 2012 or 2011. The share warrants outstanding at the end of the year have an expiry date of 31 July 2013 and an exercise price of $0.77 (50p).

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for the year ended 31 March 2012

25. Share based payments continued

In arriving at the fair value, the share warrants have been valued using the binomial model and the resulting fair value is expensed over the vesting period. The following table lists the range of assumptions used in the model:

	Scheme 1	Scheme 2
Expected Volatility (%)	100	71
Risk-free Interest rate (%)	4.00	0.67
Expected life of option (years)	2	1.50
Expected dividends	None	None

Volatility has been estimated by taking the historical volatility in the company's share price over a three year period up to the date of grant of the warrants. 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.

Share based payments have had the following impact on the group's (loss)/profit for the year:

	2012 $000	2011 $000
Total expense/recognised from share option transactions	31	56
Total expense/recognised from share warrant transactions	250	140

Share based payment reserve appears in the statement of financial position under:

	2012 $000	2011 $000
Share option reserve	247	278
Warrant reserve	440	190

26. Financial instruments

The group's financial instruments comprise cash and liquid resources, a long term convertible loan, and various items, such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to provide working capital for the group's operations.

Categories of financial instruments

	Group		Company	
	2012 $000	2011 $000	2012 $000	2011 $000
Loans and receivables				
Trade and other receivables excluding pre-payments[(1)] (note 18)	2,103	2,673	—	—
Amounts owed by subsidiary undertakings (note 18)	—	—	24,301	21,583
Cash and cash equivalents	1,234	600	—	—
Total	3,337	3,273	24,301	21,583

	Group		Company	
	2012 $000	2011 $000	2012 $000	2011 $000
Other financial liabilities at amortised cost				
Finance lease liabilities (note 21)	330	345	—	—
Amounts owed to subsidiary undertakings (note 21)	—	—	9,701	9,701
7.5% (2011:6%) Unsecured convertible loan stock	2,803	5,555	2,803	5,555
Bank overdrafts	—	—	265	719
Trade and other payables (note 22)	2,722	3,319	761	899
Total	5,855	9,219	13,530	16,874

[(1)] Pre-payments are excluded from the trade and other receivables balance, as this analysis is required only for financial instruments

26. Financial instruments continued

Market Risk
Foreign currency risk

The main risks arising from the group's financial instruments are from foreign currency risk.

The group includes subsidiaries operating in both the UK and USA. The majority of the group' transactions are denominated in US dollars, however the costs arising from the UK subsidiaries are denominated in pound sterling therefore exposing it to a currency risk of fluctuations in the pound sterling/US Dollar exchange rate. During the year ended 31 March 2012 there was less volatility in the pound sterling/US Dollar rate than in the previous years with the rate peaking at 0.6536 and falling to a low of 0.5991, with an average rate of 0.6265. If the US Dollar had remained at its highest level throughout the full year the group would have shown a post-tax loss of $1.1m (2011: Loss $165,000), if US Dollar had been at its lowest level throughout the full year the group would have shown a post-tax loss of $1.9m (2011: Loss $1.0m) and if the US Dollar had remained at the average rate throughout the year the post-tax loss would have been $1.5m (2011: Loss $584,000).

Transactions between the company and its subsidiaries are in US Dollars, however the company is exposed to exchange rate fluctuations due to the majority of its costs being denominated in pound sterling and through the revaluation of the company's pound sterling creditors.

The main exposure for the group and the company to fluctuation in the pound sterling/US dollar rate is through the Convertible loan note creditor which is denominated in pound sterling. The value of the loan is translated at the year end exchange rate.

To mitigate the exposure to fluctuations in pound sterling/US dollar exchange rate the group entered into four forward foreign currency exchange contracts during the year ended 31 March 2011 to the value of $750,000. No forward exchange contracts were entered into during the year ended 31 March 2012 and no forward exchange contracts were outstanding at 31 March 2012 (2011: nil). The group does not apply hedge accounting to its financial statements, and therefore accounts for contracts at their fair value at the balance sheet date.

At 31 March 2012 the aggregate amount of profit during the year from the forward currency exchange contracts was nil (2011: $18,000).

The pound sterling/US dollar exchange rate at the 31 March 2012 was 0.6245 (2011: 0.6228).

Interest rate risk

In September 2011 the company restructured the loan note issued in September 2006. Half of the $5,062,000 (£3,541,000) Unsecured convertible redeemable loan stock, which was due to mature on 31 October 2011, was converted into equity. The restructured loan has an outstanding amount of $2,823,000 (£1,770,500) which is due to mature on 31 October 2013 and carries a fixed interest rate of 7.5 per cent. The group and company consider the interest rate risk on the loan to be minimal as the rate is fixed. Until 28 March 2012 the company also had access to an overdraft facility of $800,000 through its bank, which carried an interest rate of 2.75 per cent over the bank's base rate.

Liquidity risk

Liquidity risk is the risk that the group and company will not be able to meet their financial obligations as they fall due. Management monitors rolling forecasts of the group's cash and cash equivalents on the basis of expected cash flows, reducing its liquidity risk through management of bank accounts, trade debtors and trade creditors, by utilising the availability of finance leases and through controls on expenditure. The majority of convertible loan stock is owned by major shareholders of the company.

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for the year ended 31 March 2012

26. Financial instruments continued

The tables below analyse the financial liabilities which will be settled on a net basis into relevant maturity groupings based on the remaining period at the year end to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group At 31 March 2012	Less than 1 year $000	Between 1 and 2 years $000	Between 2 and 5 years $000	Over 5 years $000
Borrowings	—	2,803	—	—
Finance lease liabilities	194	129	7	—
Trade and other payables	2,722	—	—	—

At 31 March 2011	Less than 1 year $000	Between 1 and 2 years $000	Between 2 and 5 years $000	Over 5 years $000
Borrowings	5,555	—	—	—
Finance lease liabilities	154	134	57	—
Trade and other payables	3,319	—	—	—

Company At 31 March 2012	Less than 1 year $000	Between 1 and 2 years $000	Between 2 and 5 years $000	Over 5 years $000
Amount owed to subsidiary undertakings	9,701	—	—	—
Borrowings	—	2,803	—	—
Trade and other payables	761	—	—	—

At 31 March 2011	Less than 1 year $000	Between 1 and 2 years $000	Between 2 and 5 years $000	Over 5 years $000
Amount owed to subsidiary undertakings	9,701	—	—	—
Borrowings	5,555	—	—	—
Trade and other payables	899	—	—	—

Credit risk

Credit risk arises from cash and cash equivalents and credit exposures on outstanding receivables. The group's and company's main credit risks are on the outstanding trade receivables. This risk is reduced through credit control procedures. An analysis of outstanding receivables is included in note 18.

27. Capital management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The group sets the amount of capital in proportion to risk. The group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may return capital to shareholders, issue new shares, or sell assets to reduce debt.

Consistent with others in the industry, the group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the Consolidated Statement of Financial Position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the Consolidated Statement of Financial Position plus net debt.

	2012 $000	2011 $000
Total borrowings	3,133	5,900
Less cash and cash equivalents	(1,234)	(600)
Net Debt	1,899	5,300
Total equity	8,147	3,992
Total capital	10,046	9,292
Gearing ratio	19%	57%

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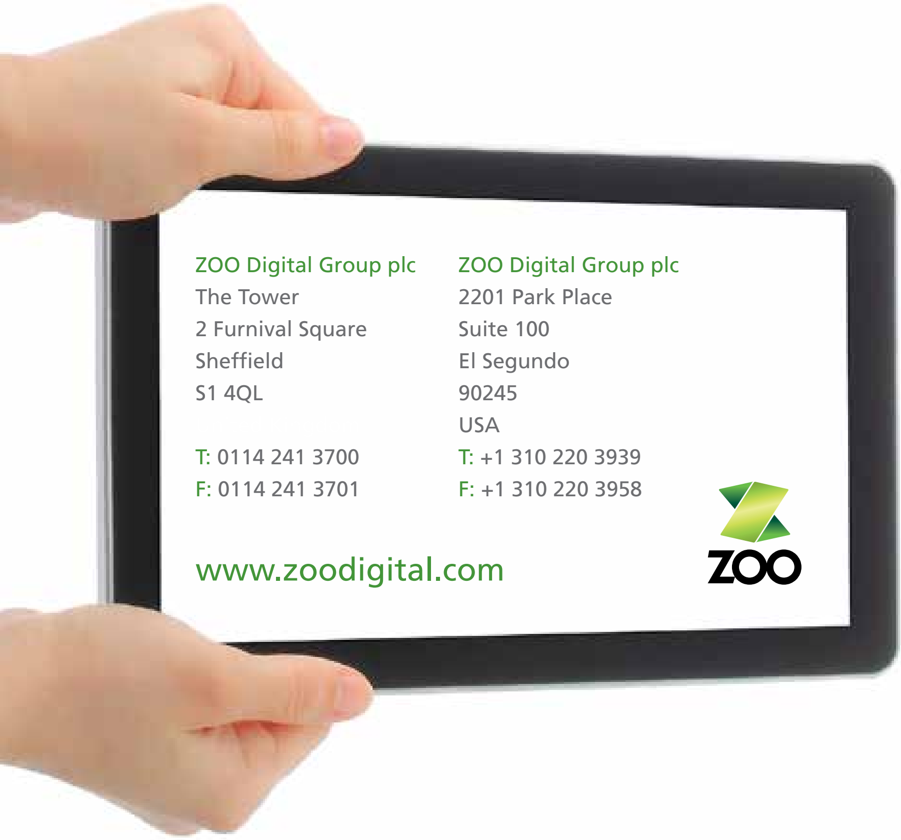
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