ZOO

ZOO Digital Group plc

Annual Report & Accounts
Year Ended 31 March 2017

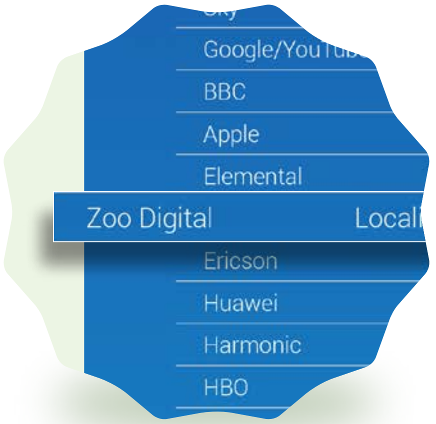
Cloud-powered localisation services

for the global TV and film industry

ZOO Digital highlights 2016-2017

ZOO creates global network with eight international supplier partnerships

ZOO achieves Netflix Preferred Vendor status



ZOO named as Top 10 Innovator by TV Connect and featured on BBC News

ZOO welcomes three new members to business development team

ZOO launches the entertainment industry's first cloud-based dubbing platform

Welcome to ZOO Digital Group plc

Services to showcase, localise and distribute TV and movie content

We enable Hollywood studios, global broadcasters, online retailers and independent distributors to reach audiences worldwide. To do this we take original video programmes and translate them into more than 50 foreign languages by subtitling and voice dubbing, and then process the digital materials to meet the technical delivery requirements of a growing number of online video services.

We combine our own world-class cloud technology with talented client teams in the UK and US, some of the most gifted in-territory translators in the industry and an expanding network of trusted local partners to deliver world-beating services for global clients.

Things change quickly in the world of entertainment. We help our clients stay ahead of the ever-changing game by challenging the status quo, innovating and reimagining the way things are done. We are continuously developing new approaches to help our clients deliver their TV and movie content in any language, on any platform, anywhere in the world.

Contents

Highlights

Operational Highlights

- Large increase in revenue and client numbers, with dependency on the single largest client reduced to 44% of total despite an increase in that client's spend with ZOO
- Increasing volume of over the top (OTT) consumption reducing seasonal weighting
- Approved vendor status for a number of large content creators and key digital platforms
- Critical acclaim for new product launches which should lead to additional revenue streams

Key Financials

- Revenue increased by 42% to $16.5 million (2016: $11.6 million)
- EBITDA showed a significant improvement to $1.8 million (2016: $0.2 million)
- Profit before tax of $0.5 million (2016: loss of $1.5 million)

Post Period End

- Placing and subscription raising £2.58 million with new and existing institutional shareholders
- £1.1 million of debt capitalised
- Extension of the maturity date of the remaining convertible loan note

Year in Review

Q1

- National Association of Broadcasters (NAB) 2016 trade show in Las Vegas where we launched ZOOscreen – our new secure video distribution service and technology
- Started to offer a metadata creation and localisation service and technology
- Launched ZOOvault – our new digital packaging and distribution service
- The number of subtitles we have created and manage for our clients passed the 100 million milestone
- Mazin Al-Jumaili joins the team as Director of Business Development, UK and Europe
- Appointed as a preferred vendor for one of the industry's largest digital distributors

Q2

- Became an approved aggregator for hoopla – a major US online library lender
- Formed strategic partnership with Honeycomb to revolutionise subtitling for TV advertising
- Won a 'one to watch' accolade at the International Broadcasting Convention – Europe's largest entertainment industry trade event
- Began offering a compliance editing service to meet broadcaster and distributor content requirements in emerging markets

Q3

- Launched our Global Affiliate Programme – a network of partners giving ZOO an international presence, with initial partnerships in Egypt, Dubai, India, Pakistan, Thailand, China and Vietnam

Q4

- Hit 150 million subtitles created and managed for our clients
- ZOO named one of the top 10 innovators of 2016 in the entertainment industry
- Relocated HQ to a new secure facility to provide capacity for expanding business
- Appointed Tony Ferkranus as new VP of Sales for the Americas

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ZOO at a Glance

ZOO is a leading provider of services and technology to the entertainment industry.

The home entertainment market has been radically transformed over recent years as consumers have shifted from buying physical media – DVDs and Blu-ray discs – to online digital services. The industry has returned to a period of strong growth brought about by the enlarged reach of these many distribution channels into a far greater number of territories.

ZOO's propositions are focused on this market. The value of entertainment localisation – adapting content for foreign language viewers – has recently been estimated at $2 billion in Europe, Middle East and Africa alone, growing at a rate of 8–10% per annum.[1]

ZOO is differentiated in the market with a clear competitive advantage due to its proprietary suite of cloud software technology, bringing operational efficiencies and scalability for ZOO and many unique benefits to clients and partners.

Why companies choose ZOO Digital

- **Reliable quality** – We provide reliable, high quality services powered by innovative technology and our dedicated global team.
- **Efficient production** – Our smart platforms and automated processes drive production efficiencies to complete projects faster.
- **Reduced costs** – We use technology to streamline processes, increase productivity and save our clients time and money.
- **Simple global collaboration** – Our cloud-based platforms make it simple for global teams to collaborate, share and review information.
- **Scalable services** – Our scalable, flexible services are ideally suited to meet the evolving demands of global content distributors.
- **Global coverage** – Our services cover all global distribution formats, and we are approved to deliver directly to the leading digital service providers.

Our clients and partners

We have been trusted by major Hollywood studios and global brands to deliver global content services for over 10 years.

- **Content producers** – Owners and licensors of video entertainment content, particularly feature films and TV series, including major Hollywood studios and production companies.
- **Online retailers** – Providers of consumer video services operating all around the world, including Subscription Video on Demand, where consumers usually pay monthly subscriptions to stream content to their TVs and mobile devices, and Electronic Sell Through where consumers pay a one-off fee to purchase their own copies of programmes.
- **Intermediaries** – Businesses providing a wider range of production services, usually to content producers, where we act as an outsource partner for localisation and digital distribution. These include content aggregators and post-production facilities.
- **Affiliates** – International in-territory providers of services to the entertainment industry where we receive licensing income in return for access to our cloud software technology.

Our routes to market

Our direct sales team, operating out of our offices in the US and UK, focuses primarily on major media content owners and distributors. Our role as an aggregator and preferred partner for several digital services provides us with an efficient route to a greater number of medium and small content owners. Through our expanding network of Global Affiliates, we can service clients worldwide, with a current emphasis on emerging markets in Asia and the Middle East.

[1] Source: Media & Entertainment Services Alliance Europe, June 2017.

Chairman's Statement

Roger D Jeynes
Chairman

The Board is very pleased with the progress that continues to be made by the Group. The large increase in revenue, significant expansion of the client base and improvement in profitability described in this report are very tangible signs of the transformation that has been accomplished by management during the last few years.

ZOO is now positioned as one of the most innovative providers of software-driven localisation services to the major producers and distributors of TV and movie content around the world. Demand for our services is growing rapidly, driven by the increase in digital entertainment content, the expansion of distribution channels, and disruptive innovation in the sector by vendors such as Amazon, Hulu, Apple and Google. The board is therefore delighted with the support provided by our stakeholders post year end in May 2017 which has enabled the Group to reduce significantly its debt and increase its cash resources, thereby equipping us to capitalise on this exciting growth opportunity.

Roger D Jeynes
Chairman

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Strategic Report

Year ended 31 March 2017

The directors present the Strategic Report for the year ended 31 March 2017.

Operational review

Introduction

I am pleased to be able to report that the year under review was one of considerable progress for ZOO, both from a financial and an operational perspective. Revenue for the year increased by 42% to $16.5 million (2016: $11.6 million) and earnings before interest, tax, depreciation and amortisation (EBITDA) showed a significant improvement to $1.8 million (2016: $0.2 million). The group pleasingly returned to profit at the pre-tax level of $0.5 million from a loss of $1.5 million in the prior year.

This follows on from the success of winning new clients in the previous year and is the result of those wins starting to have an effect on both the top and bottom lines. As previously mentioned, the group's client list now includes all of the six major Hollywood studios as well as other leading producers of feature film and episodic TV programmes in North America and Europe. Whilst our largest client increased its total spend with ZOO during the year, it reduced as a percentage of total sales to 44% (2016: 60%), a trend that the directors would expect to continue given the current sales momentum with a more diverse client base. This is due to increased revenues from other existing clients and a growth of 25% in the number of clients invoiced during the year.

Key drivers

The bulk of the growth came from localisation services, of which subtitling remains a key tenet. ZOO's services are delivered using its innovative cloud technology and allow TV and movie content to be subtitled in any language and prepared for sale with all major online retailers as well as on optical disc. The volume of work on physical products, namely DVD and Blu-ray, increased in the year but the main driver was undoubtedly the growth in content for sale through digital platforms now widely available from a growing number of 'Over-The-Top' (OTT) providers. This follows Apple's selection of ZOO in February 2016 as an iTunes aggregation service provider for TV series and, in May 2016, the award of approved vendor status by another of the largest online entertainment retailers in the industry.

The transition towards digital consumption of entertainment has been the greatest single change to the industry in modern times and now that this form of delivery has been widely welcomed and adopted by the mass market it is difficult to envisage such a cultural change again any time soon. There are several advantages for ZOO in this regard. Firstly, it is easier for content owners to reach a much wider audience through digital rather than physical products as the supply chain is much simplified. Consequently, content has become commercially available in more and more geographies and as the territorial reach increases so does the need for subtitling into additional languages. A TV series that was previously translated into fewer than 10 major European languages will now potentially be translated into 50 or more, which increases the scope of work for ZOO. A second benefit has been the dilution of seasonal weighting in the business. Preparation of products for physical distribution is typically geared towards release at specific times in the calendar when retailers experience increased footfall and gifting seasons such as Thanksgiving and Christmas. This means that content owners place the majority of orders during the summer months, and therefore sales for ZOO have in the past been weighted more towards the first half of the year than the second. Our experience in the year under review, where revenues in the second half of the financial year were stronger than in the first, is in part a reflection of the fact that digital consumption continues at a similar pace throughout the calendar year and there is therefore reduced seasonal fluctuation in the demand for our services.

Investment in products and people

The improved financial performance is the result of investments made in previous years in the group's proprietary technology platforms. This focus on R&D has continued with further resources for the continued development of existing platforms and investment in two new propositions: ZOOdubs and ZOOscreen.

With a strategic approach that parallels that of our subtitling platform, ZOOdubs is designed to improve the dubbing workflow for TV and movie content owners by accelerating time-to-market, enhancing quality and enabling greater affordability in the creation of localised materials that are essential for fulfilling regional consumer expectations across the world. Officially launched at the National Association of Broadcasters (NAB) event in the USA in 2017, ZOOdubs was awarded a 'best of show' accolade. Although not planned to be formally released for revenue generation until late 2017, the level of interest shown from clients and prospects at NAB was highly encouraging and market data reaffirms the board's belief in its potential to lead to significant revenues. According to research in June 2017 from the Media & Entertainment Services Alliance (MESA) Europe, the total Europe, the Middle East and Africa market in 2016 for entertainment localisation (subtitling, captioning and dubbing) was estimated at around $2 billion, with 70% of that attributable to dubbing services. The market value is forecast to grow by 8–10% per annum, primarily due to two factors:

- the overall growth in OTT consumption (streaming video on demand and download services); and
- the increase in geographical expansion.

ZOOscreen is designed to stream and showcase video materials and screening copies securely and privately to clients, voice actors, prospects and judging panels. This system, which is an essential building block of our dubbing workflow, is currently in trials with major film studios and remains on course to be released in 2017. Although adoption of this platform will require the approval of a number of industry groups and security protocols, client feedback on ZOOscreen has so far been favourable and has confirmed the board's belief that the system fulfils an important requirement in the market.

With both of these new platforms the board believes that the strength of its existing relationships and its increasing reputation as a technological innovator in the industry will help it to cross-sell these services into its client base as well as attracting additional new clients. In February 2017, ZOO was named by the organisers of TVConnect, a leading industry event for the entertainment industry, as one of the top 10 innovators of 2016, alongside major global brands such as Amazon, Sky, Google, BBC and Apple, and was the only company involved in localisation amongst the 25 names recognised.

To support the sales initiative, Tony Ferkranus has been appointed as Vice President of Sales for the Americas to focus on developing ZOO's client base in key territories across the USA, Canada and South America. Tony previously held the same position at both Visual Data Media Services and Deluxe Entertainment.

In the UK, the group moved into new headquarters in Sheffield, primarily to meet the stringent content security standards required by major US studios. It is pleasing to announce that ZOO has been certified as compliant with the Content Protection and Security standard administered by the Content Delivery and Security Association (CDSA) which clears a hurdle to securing further work.

I would like to extend my sincere thanks to all members of the ZOO team in the UK and US for their innovative spirit, can-do attitude and teamwork which have been pivotal to achieving the significant progress that the group has made over the period.

Affiliate partnerships

The affiliate partner network has continued to expand throughout the year and currently consists of 10 partners in emerging markets, with further additions expected to be announced in the coming months. This network has been formed to meet the evolving needs of the entertainment industry, offering global online retailers a local partner in key territories. Each member will benefit from ZOO's cloud computing systems to enable efficient collaboration and provide localisation and digital distribution services. ZOO expects to receive licensing income and access to resources in each territory.

Fundraising and conversion of debt

Post the period end, in May 2017, the group raised £2.6 million of gross proceeds from the placing and subscription of new ordinary shares, whilst also further strengthening the group's balance sheet by capitalising £1.1 million of debt. On behalf of the Board I would like to welcome the new shareholders to the register at an exciting time for ZOO and also thank existing holders for their continued support. The additional funds will enable the group to take on further human resources to meet the demand for its subtitling services, particularly in the field of translation, and progress is already being made on that front.

Outlook and prospects

The improvement experienced through the second half of the year has carried on into the new financial year and the current pipeline of work is considerably stronger than at the corresponding prior period.

The group has a more diverse client base and is becoming increasingly recognised as an innovative provider of vital solutions for an industry in which distribution channels and needs have been fundamentally transformed. With approved vendor status for a number of key digital platforms, ZOO is an obvious choice for content owners looking to maximise their reach.

The group has a stronger balance sheet and the increased funding that it has secured, along with an improved sales team, will enable it to take advantage of the market opportunity. With continuing momentum for the group's existing tools and a number of exciting new solutions to clients' localisation and security needs, the board looks to the current year and beyond with confidence.

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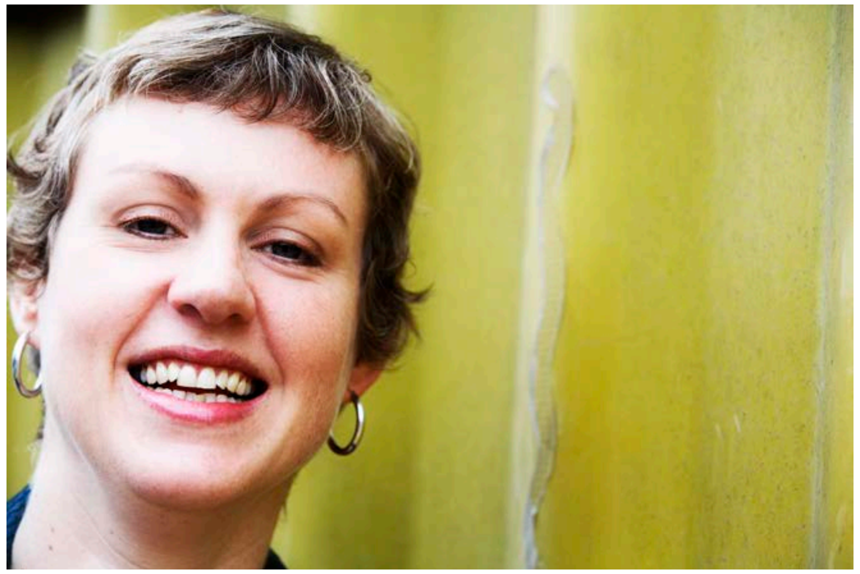
Financial review



Helen Gilder
Director and Secretary

The year ended 31 March 2017 has been a strong and transformational year for ZOO. We are pleased to report a substantial increase in turnover and a very significant increase in EBITDA from $0.2m to $1.8m.

The reported turnover was $16.5m, representing a 42% increase over the prior year (2016: $11.6m). Importantly, we are pleased to note that the second half of the financial year has shown growth, generating turnover of $8.7m compared to $7.8m in the first half of the year. This is a very pleasing result given that historically the business has shown significant seasonality with a much stronger first half.

The gross margin generated was $12.0m compared to $9.2m in the prior year, an increase of 30%. The gross margin achieved was 73%, a reduction from the 79% reported last year due to an increased portion of the turnover being generated from localisation services that incur outsourcing costs of independent translators around the world. The margin achieved on these services is a key metric monitored by management and we continuously make improvements to technology and processes to maximise the margin.

The operating expenses increased by 13% to $10.4m (2016: $9.2m). The largest portion of the costs relates to staffing where investment has been made in strengthening the sales and marketing team and in recruiting staff to coordinate localisation services for the growing client base.

Segmental reporting as disclosed in note 5 is still the approach taken by the board, but increasingly the business is merging into a single segment.

We continue to have very good client relationships and links with our largest client remain strong. Sales to this major Hollywood studio have grown at around 10% per year for the past few years, but with the development of several significant new relationships their proportional contribution is much reduced. The growth in sales from other clients has increased by 90% since the prior year.

The improved financial performance has resulted in cash generation from operations of $1.5m compared to a cash outflow of $0.4m in the prior year. We continue to gain R&D tax credits from HMRC and received a repayment of $0.3m in the year just ended.

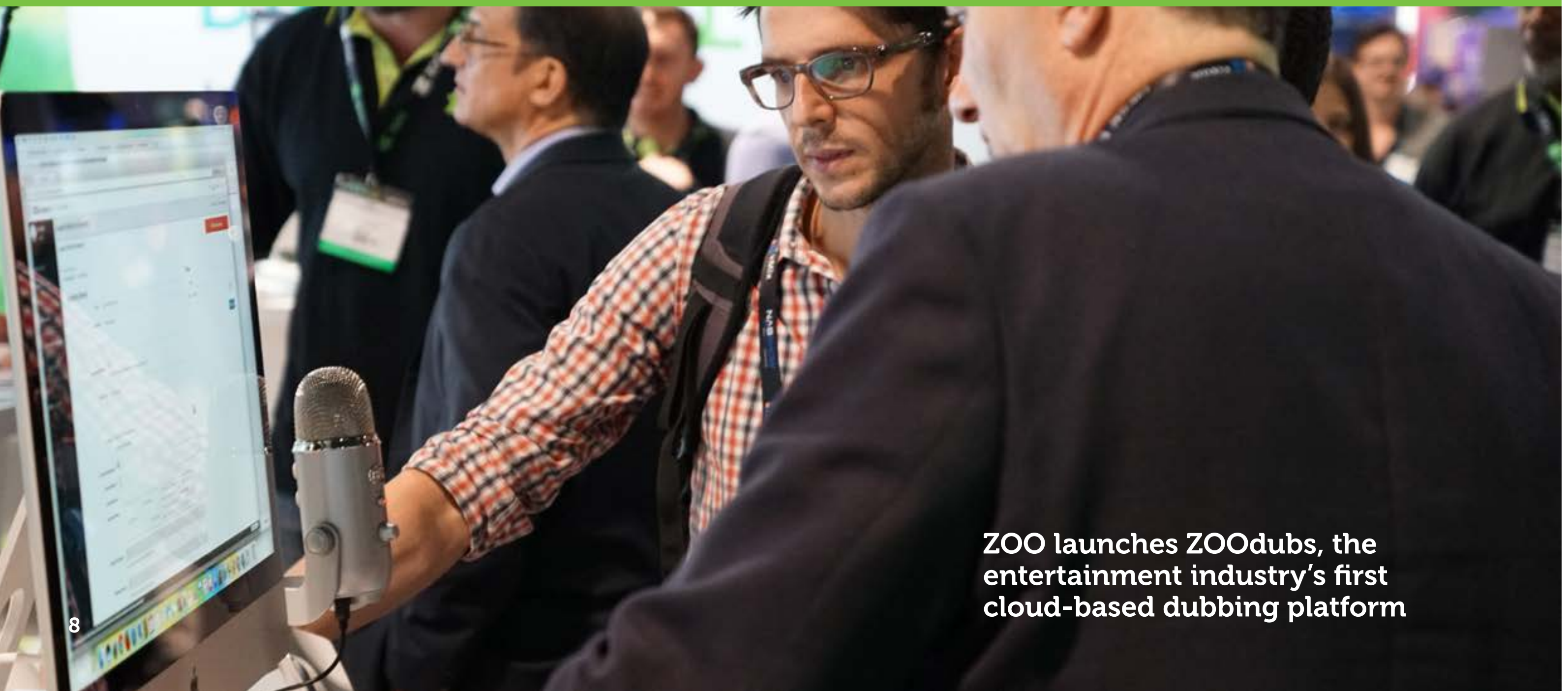
Since the end of the financial year we have been pleased to announce equity fundraising, the conversion of debt into equity and the extension of the maturity of the remaining convertible loan notes. This results in a significantly strengthened balance sheet. The unaudited pro forma statement of net assets below is indicative of the position had the transaction taken place on 31 March 2017.

	Statement of net assets as reported	Pro forma statement of net assets after fundraising (unaudited)
Assets	$000	$000
Non-current assets		
Property, plant and equipment	1,073	1,073
Intangible assets	6,915	6,915
Deferred income tax assets	486	486
	8,474	8,474
Current assets		
Trade and other receivables	3,753	3,753
Cash and cash equivalents	607	3,505
	4,360	7,258
Total assets	12,834	15,732
Liabilities		
Current liabilities		
Trade and other payables	(4,045)	(3,964)
Borrowings	(4,102)	(281)
	(8,147)	(4,245)
Non-current liabilities		
Borrowings	(2,126)	(4,574)
Total liabilities	(10,273)	(8,819)
Net assets	2,561	6,913

The cash balance at the year end was $0.6m compared to $0.3m in the prior year. We have continued to use the invoice finance facilities to fund the working capital with the year end balance being $0.7m (2016: $0.6m). With the post year end cash injection the working capital within the business is much improved and the reliance on invoice financing facilities is reduced.

With a significantly strengthened balance sheet and positive trading we look forward to the period ahead with optimism.

ZOO at a glance...



ZOO launches ZOOdubs, the entertainment industry's first cloud-based dubbing platform

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Key performance indicators

In addition to the monthly management accounts and information that is produced and monitored against the group'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 group. 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.
- Costs and overheads are monitored against budget and against current needs.
- Employee satisfaction is monitored through regular surveys, enabling management to act on emerging trends.
- Quality of our production services is monitored through the use of KPIs measured independently and reported to us by key clients and partners.

		2017	2016
Revenue	$000	**16,488**	11,638
EBITDA	$000	**1,769**	156
Movement in cash and cash equivalents	$000	**293**	(11)
Client concentration	%	**44%**	58%
Debtor days	days	**29**	36
Overdue debtors	$000	**91**	260
Employee satisfaction	%	**86%**	85%
Quality	%	**98%**	99%

Principal risks and uncertainties

Company law requires the group to report on principal 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 US operations, and 95% of its revenues come from overseas clients. 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.

Political uncertainty

The political climates in the UK and US are currently challenging, with recent elections and Brexit negotiations. The directors monitor emerging news and trends and remain alert to any potential impact on the trading of the group.

Technology conservation

The group continues with a patent protection policy, with 32 patents granted. These are integral to the business in the protection of our unique technologies.

Operational risks

The main operational risk is managing any unexpected peaks or troughs in production orders and ensuring that the appropriate levels of resource are available to provide the quality of services expected by our clients. This risk is managed by having a core of highly skilled permanent staff along with a pool of temporary staff that can be brought in at short notice to help at times of high volume. The use of technology helps mitigate this risk by streamlining processes as much as possible and enabling efficient access to a large, global and scalable pool of independent contractors.

Loss of the group's key clients

Client relationships are crucial to the group and the strength of them is key to its continued success. The group mitigates this risk by a diverse number of contacts working closely with the largest client across different business units and obtaining long-term contractual agreements for supply of technology and services. The group focuses on providing high quality services to all clients to ensure an attractive and differentiated offering thereby reducing the likelihood of client loss.

Corporate activity within key clients

Merger and acquisitions within key clients represent a risk as they can disrupt sales. This risk is mitigated by ensuring an awareness of news in the market and focusing on diversifying the client base.

Financial risks

The main financial risks faced by the group are in relation to foreign currency and liquidity. The directors regularly review and agree policies for managing these risks.

The functional currency and presentation currency of the company is US dollar as 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 the US dollar as the parent company and UK subsidiaries have some pound sterling debtors and creditors. Foreign currency risk is managed by matching payments and receipts in foreign currency to minimise exposure. Further information on the financial risks is given in note 25 to the accounts.

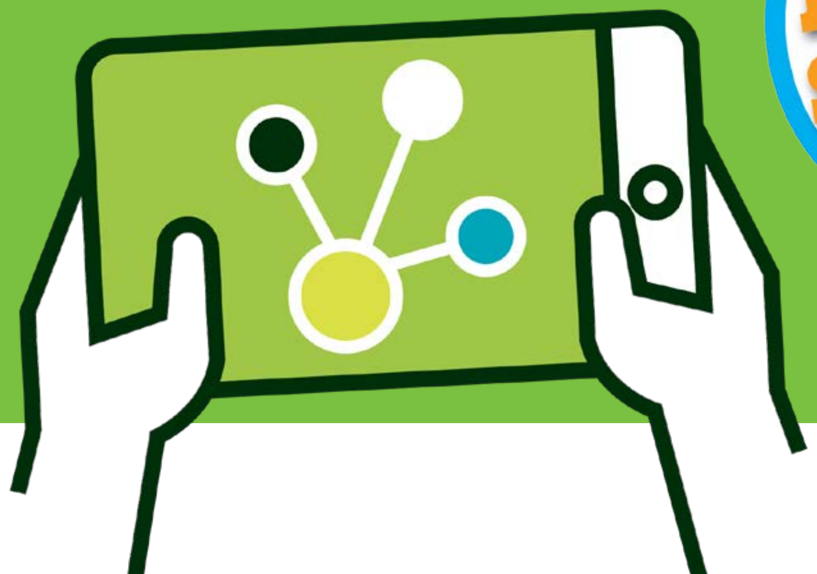
The group is exposed to the usual credit risk and cash flow risk associated with selling on credit and manages this through credit control procedures. The group regularly monitors cash flows and cash resources and has the ability to draw down funds from invoice financing facilities in both the UK and US.

By order of the board

Helen P Gilder
Director and Secretary
26 June 2017

ZOO at a glance...

ZOOdubs wins Best of Show 2017 at NAB, Las Vegas keynote industry event



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Corporate Governance Statement

Compliance with the UK Corporate Governance Code

Under the AIM Rules for Companies the company is not required to comply with the UK Corporate Governance Code 2012. The company is not compliant with the code, but is committed to high standards of corporate governance and the board recognises the value of the code and has regard to its requirements as far as practicable and appropriate for a company of its size and nature. The directors consider the group insufficiently large to warrant the need or cost of an internal audit function.

Board of Directors

The board consisted of the non-executive chairman and three executive directors.

The board meets formally at least 11 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 is chaired by Roger D Jeynes. 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 both the annual and interim reports.

The Remuneration Committee is chaired by Roger D 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.

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.

Going concern

After making enquiries 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 12 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

Directors and Advisers

Board of Directors

Roger D Jeynes – Chairman

Roger's early career included senior technical, marketing and general management roles at IBM, EMC and Pyramid Technology in the UK, Italy and the USA. From 1997 to 2006 he was Chief Operating Officer of the technology merchant bank Interregnum plc, and he has more than 16 years' experience as a non-executive director of LSE-listed Venture Capital Trusts (VCTs) and of AIM-listed and privately held technology companies. He currently serves as an independent non-executive director of Downing Three VCT plc, Finance Wales plc, and mxData Group Limited. He is also a director of Charborough Capital Limited and Visiting Professor of Management Practice at Anglia Ruskin University.

Dr Stuart A Green – Chief Executive Officer

Stuart brings over 25 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 PhD in Computer Science from the University of Bristol in 1989 for his research into multiprocessor systems for advanced computer graphics. He is responsible for securing over 30 patents in the fields of image processing and digital media processing.

Helen P Gilder – Chief Finance Officer

Helen has been employed within the technical and services industry for over 15 years. After qualifying as a Chartered Accountant with PKF in 1991 she moved into a more commercially focused 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 was appointed as a director in 2006.

Gordon Doran – Commercial Director

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.

ZOO at a glance...

ZOO wins award at IBC 2016 major European trade show

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ZOO welcomes three new members to business development team

Directors' Report

The directors present their report on the affairs of the group, together with the financial statements and the independent auditor's report, for the year ended 31 March 2017.

Principal activities

The principal activity of the group for the year under review was to provide a range of services to allow TV and movie content to be subtitled in any language and prepared for sale with all major online retailers and to continue with ongoing research and development of productivity software in those areas. The principal activity of the company was to act as a holding company for its trading subsidiaries.

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 Statement and the Strategic Report set out on pages 4 to 10.

The audited financial statements for the year ended 31 March 2017 are set out on pages 20 to 53. 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 preparation and processing. The aim of the software developed is to improve efficiencies, therefore reducing time and costs of producing physical and digital products.

Political contributions

During the year the group made no political donations.

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	Chief Finance Officer
Gordon Doran	Commercial 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 2017 are disclosed in the Directors' Remuneration Report. In accordance with the company's Articles of Association, Roger D Jeynes and Dr Stuart A Green 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 directors and officers in the execution of their duties.

Financial risk management

The financial risk management is included in the Strategic Report and in note 25.

ZOO at a glance...

ZOO achieves
Netflix Preferred Vendor status

NETFLIX
PREFERRED
VENDOR
TIMED TEXT

Substantial shareholdings

At 26 June 2017, 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
Hargreave Hale Ltd	24.2%	17,778,004
Herald Investment Trust plc	20.0%	14,718,017
Dr S A Green*	15.7%	11,524,002
Ymagis SA	6.8%	5,000,000

*Shareholdings of directors include any interests of a 'connected person'.

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report, 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 (IFRS) as adopted by the European Union and have 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 company and group for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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.

Disclosure of information to auditor

Each of the persons who is a director 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 group's auditor in connection with preparing the report and to establish that the auditor is aware of that information.

By order of the board

HGilder

Helen P Gilder
Director and Secretary

Directors' Remuneration Report

Directors' Remuneration Report

The Directors' Remuneration Report is presented as a voluntary disclosure in order to aid the understanding of the financial statements.

The Remuneration Committee

During the year ended 31 March 2017 the Remuneration Committee was chaired by Roger D 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 in both the short and long term.

The remuneration packages include:

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

Non-executive directors

Roger D Jeynes is paid as an employee for his board services and was also remunerated for consultancy fees through Charborough Capital Limited (see note 23 to the financial statements for further information).

Directors' remuneration

Directors' remuneration for the year to 31 March 2017 is:

						2017	2016
	Salary	**Bonus**	**Benefits**	**Sub total**	**Pension**	**Total**	Total
	$000	**$000**	**$000**	**$000**	**$000**	**$000**	$000
Dr Stuart A Green	**162**	**63**	**-**	**225**	**8**	**233**	193
Helen P Gilder	**113**	**43**	**-**	**156**	**10**	**166**	141
Gordon Doran	**234**	**81**	**23**	**338**	**-**	**338**	308
Roger D Jeynes	**34**	**-**	**-**	**34**	**-**	**34**	39
	543	**187**	**23**	**753**	**18**	**771**	681

Of the above, the following directors were remunerated in pound sterling for the year to 31 March 2017. The pound sterling amounts are shown below:

						2017	2016
	Salary	**Bonus**	**Benefits**	**Sub total**	**Pension**	**Total**	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	£000
Dr Stuart A Green	**123**	**51**	**-**	**174**	**6**	**180**	128
Helen P Gilder	**86**	**35**	**-**	**121**	**8**	**129**	93
Roger D Jeynes	**26**	**-**	**-**	**26**	**-**	**26**	26
	235	**86**	**-**	**321**	**14**	**335**	247

Gordon Doran is remunerated in US dollars.

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The balance owing to Charborough Capital Limited at 31 March 2017 was $35,000 (2016: $27,000).

Two directors (2016: 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:	**2017**	2016
	$000	$000
Emoluments	**338**	308

The highest paid director did not exercise any share options.

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 2016	Granted during the year	Exercised during the year	Surren-dered during the year	31 March 2017	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
Dr Stuart A Green	150,000	-	-	-	**150,000**	$0.23****	Jul-13	Jul-22
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
Helen P Gilder	150,000	-	-	-	**150,000**	$0.23****	Jul-13	Jul-22
Helen P Gilder	250,000	-	-	-	**250,000**	$0.23*	Jan-16	Jan-25
Gordon Doran	450,000	-	-	-	**450,000**	$0.34***	Sep-09	Oct-18
Gordon Doran	100,000	-	-	-	**100,000**	$0.34***	Oct-09	Oct-18
Gordon Doran	150,000	-	-	-	**150,000**	$0.23****	Jul-13	Jul-22
Gordon Doran	250,000	-	-	-	**250,000**	$0.23*	Jan-16	Jan-25
	2,255,000	-	-	-	**2,255,000**			

*The underlying exercise price of the share options is £0.15.
**The underlying exercise price of the share options is £0.43.
***The underlying exercise price of the share options is £0.22.
****The underlying exercise price of the share options is £0.15 and they have a vesting condition that the company's share price must be £0.40 or higher on 20 consecutive business days prior to exercise.

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

The charge to profit or loss in respect of directors' share options amounted to $5,000 (2016: $14,000).

The market price of the ordinary shares at 31 March 2017 was 13 cents (10p) and the range during the year was 18 cents (12.63p) (high) to 10 cents (8.00p) (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 D Jeynes	28 April 2010	-

Directors' interests

The directors who held office at 31 March 2017 had the following interests, including any interests of a 'connected person', in the 15p ordinary shares of ZOO Digital Group plc:

	2017	2016
Name of director	**Beneficial**	Beneficial
Roger D Jeynes	**120,000**	120,000
Dr Stuart A Green	**4,857,335**	4,857,335
Helen P Gilder	**56,019**	56,019
Gordon Doran	**-**	-

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

The directors also had the following interest in 7.5% unsecured convertible loan stock at 31 March 2017:

	2017	2016
Name of director	**$000**	$000
Roger D Jeynes	**31**	36
Dr Stuart A Green	**769**	874

The underlying values of the convertible loan stock are as follows:

	2017	2016
Name of director	**£000**	£000
Roger D Jeynes	**25**	25
Dr Stuart A Green	**615**	615

At the year end the company had a loan in place from Sara Green, wife of Dr Stuart A Green, of £600,000 (2016: £600,000) with an interest rate of 10%. The US dollar value of this loan at 31 March 2017 was $750,600 (2016: $901,000). On 4 May 2017 the full amount of this loan was converted into equity at a price of 9p per ordinary share. This had the impact of removing the liability for the company and increasing the equity holding of Dr Stuart A Green and his connected parties by 6,666,667 shares bringing his total holding to 11,524,002 ordinary shares.

On 4 May 2017 Roger D Jeynes subscribed to 222,222 ordinary shares at 9p per share bringing his total holding to 342,222.

No other transactions have taken place with directors.

Aside from the transactions referred to above no other changes took place in the interests of directors between 31 March 2017 and 26 June 2017.

ZOO at a glance...

ZOO creates global network with eight international supplier partnerships

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 2017 which comprise the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of changes in equity, the consolidated and company statements 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 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 set out on page 15, 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

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and 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, based on the work undertaken in the course of this audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Strategic Report and Directors' Report have been prepared in accordance with the applicable legal requirements.

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

In the light of the knowledge and understanding of the group and parent company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and Directors' Report.

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.

Paul Houghton
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
SHEFFIELD
26 June 2017

Consolidated Statement of Comprehensive Income
for the year ended 31 March 2017

	Note	2017 $000	2016 $000
Revenue	5	**16,488**	11,638
Cost of sales		**(4,483)**	(2,399)
Gross profit		**12,005**	9,239
Other operating income	6	**196**	115
Other operating expenses		**(10,432)**	(9,198)
Profit before interest, tax, depreciation and amortisation		**1,769**	156
Depreciation		**(259)**	(181)
Amortisation		**(1,008)**	(1,078)
Total operating expenses	8	**(11,699)**	(10,457)
Operating profit/(loss)		**502**	(1,103)
Exchange gain on borrowings	7	**624**	206
Finance cost	7	**(591)**	(559)
Total finance income/(cost)		**33**	(353)
Profit/(loss) before taxation		**535**	(1,456)
Tax credit	11	**256**	669
Profit/(loss) and total comprehensive income for the year attributable to equity holders of the parent		**791**	(787)
Profit/(loss) per share	13		
Basic		**2.42 cents**	(2.41) cents
Diluted		**2.42 cents**	(2.41) cents

The notes on pages 27 to 53 are an integral part of these consolidated financial statements.

ZOO at a glance...

ZOO and Honeycomb partner to provide subtitling service for TV adverts

Honeycomb

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Consolidated Statement of Financial Position
As At 31 March 2017

	Note	2017 $000	2016 $000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**1,073**	433
Intangible assets	15	**6,915**	7,382
Deferred income tax assets	16	**486**	486
		8,474	8,301
Current assets			
Trade and other receivables	17	**3,753**	2,531
Cash and cash equivalents	18	**607**	314
		4,360	2,845
Total assets		**12,834**	11,146
LIABILITIES			
Current liabilities			
Trade and other payables	21	**(4,045)**	(3,096)
Borrowings	20	**(4,102)**	(142)
		(8,147)	(3,238)
Non-current liabilities			
Borrowings	20	**(2,126)**	(6,142)
Total liabilities		**(10,273)**	(9,380)
Net assets		**2,561**	1,766
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	19	**7,236**	7,236
Share premium reserve		**37,007**	37,014
Other reserves		**12,320**	12,320
Share option reserve		**328**	317
Convertible loan note reserve		**42**	42
Foreign exchange translation reserve		**(992)**	(992)
Accumulated losses		**(53,360)**	(54,151)
		2,581	1,786
Interest in own shares		**(20)**	(20)
Attributable to equity holders		**2,561**	1,766

The notes on pages 27 to 53 are an integral part of these consolidated financial statements.

The financial statements on pages 20 to 53 were approved and authorised for issue by the board of directors on 26 June 2017 and were signed on its behalf.

Dr Stuart A Green
Chief Executive Officer

Helen P Gilder
Chief Finance Officer

Company Statement of Financial Position
as at 31 March 2017

	Note	2017 $000	2016 $000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**311**	23
Intangible assets	15	**2,281**	2,281
Investment in subsidiary undertakings	23	**9,700**	9,700
Amounts due from subsidiary undertakings	17	**11,276**	12,429
		23,568	24,433
Current assets			
Trade and other receivables	17	**178**	266
Cash and cash equivalents	18	**57**	47
		235	313
Total assets		**23,803**	24,746
LIABILITIES			
Current liabilities			
Trade and other payables	21	**(2,657)**	(1,776)
Borrowings	20	**(13,571)**	(9,705)
		(16,228)	(11,481)
Non-current liabilities			
Borrowings	20	**(970)**	(5,211)
Total liabilities		**(17,198)**	(16,692)
Net assets		**6,605**	8,054
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	19	**7,236**	7,236
Share premium reserve		**37,007**	37,014
Other reserves		**10,596**	10,596
Share option reserve		**328**	317
Convertible loan note reserve		**42**	42
Foreign exchange translation reserve		**(13)**	(13)
Accumulated losses		**(48,587)**	(47,134)
		6,609	8,058
Interest in own shares		**(4)**	(4)
Attributable to equity holders		**6,605**	8,054

Company registration number: 03858881

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 $1,453,000 (2016: loss of $6,115,000).

The notes on pages 27 to 53 are an integral part of these consolidated financial statements.

The financial statements on pages 20 to 53 were approved and authorised for issue by the board of directors on 26 June 2017 and were signed on its behalf.

Dr Stuart A Green
Chief Executive Officer

Helen P Gilder
Chief Finance Officer

Consolidated Statement of Changes in Equity
for the year ended 31 March 2017

	Ordinary shares	Share premium reserve	Foreign exchange translation reserve	Convertible loan note reserve	Share option reserve	Other reserves	Accumulated losses	Interest in own shares	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000
Balance at 1 April 2015	7,236	37,014	(992)	42	296	12,320	(53,364)	(24)	2,528
Share-based payments					22				22
Purchase of own shares					(1)				(1)
Transactions with owners					21				21
Foreign exchange translation adjustment								4	4
Loss for the year							(787)		(787)
Total comprehensive income for the year							(787)		(787)
Balance at 31 March 2016	**7,236**	**37,014**	**(992)**	**42**	**317**	**12,320**	**(54,151)**	**(20)**	**1,766**
Share based payments					11				11
Issue costs		(7)							(7)
Profit for the year							791		791
Total comprehensive income for the year							791		791
Balance at 31 March 2017	**7,236**	**37,007**	**(992)**	**42**	**328**	**12,320**	**(53,360)**	**(20)**	**2,561**

ZOO at a glance...

ZOO becomes approved aggregator for hoopla digital

Company Statement of Changes in Equity for the year ended 31 March 2017

	Ordinary shares	Share premium reserve	Foreign exchange translation reserve	Convertible loan note reserve	Share option reserve	Other reserves	Accumulated losses	Interest in own shares	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000
Balance at 1 April 2015	7,236	37,014	(13)	42	296	10,596	(41,019)	(4)	14,148
Share-based payments					22				22
Purchase of own shares					(1)				(1)
Transactions with owners					21				21
Loss for the year							(6,115)		(6,115)
Total comprehensive income for the year							(6,115)		(6,115)
Balance at 31 March 2016	**7,236**	**37,014**	**(13)**	**42**	**317**	**10,596**	**(47,134)**	**(4)**	**8,054**
Share-based payments					11				11
Issue costs		(7)							(7)
Loss for the year							(1,453)		(1,453)
Total comprehensive income for the year							(1,453)		(1,453)
Balance at 31 March 2017	**7,236**	**37,007**	**(13)**	**42**	**328**	**10,596**	**(48,587)**	**(4)**	**6,605**

ZOO at a glance...

Companies were asked to name the industry's top disruptors – ZOO was ranked above HBO, Sony, Microsoft and many more

COMPANY	TYPE	TOTAL
Amazon	OTT Service	48
Netflix	OTT Service	41
Sky	PayTV Operator	22
Google/YouTube	Technology Company	21
BBC	Broadcaster	15
Apple	Technology Company	14
Elemental	Technology/Video Processing	10
Zoo Digital	Localisation/Distribution	9
Ericson	Mobile Technology	8
Huawei	Technology	8

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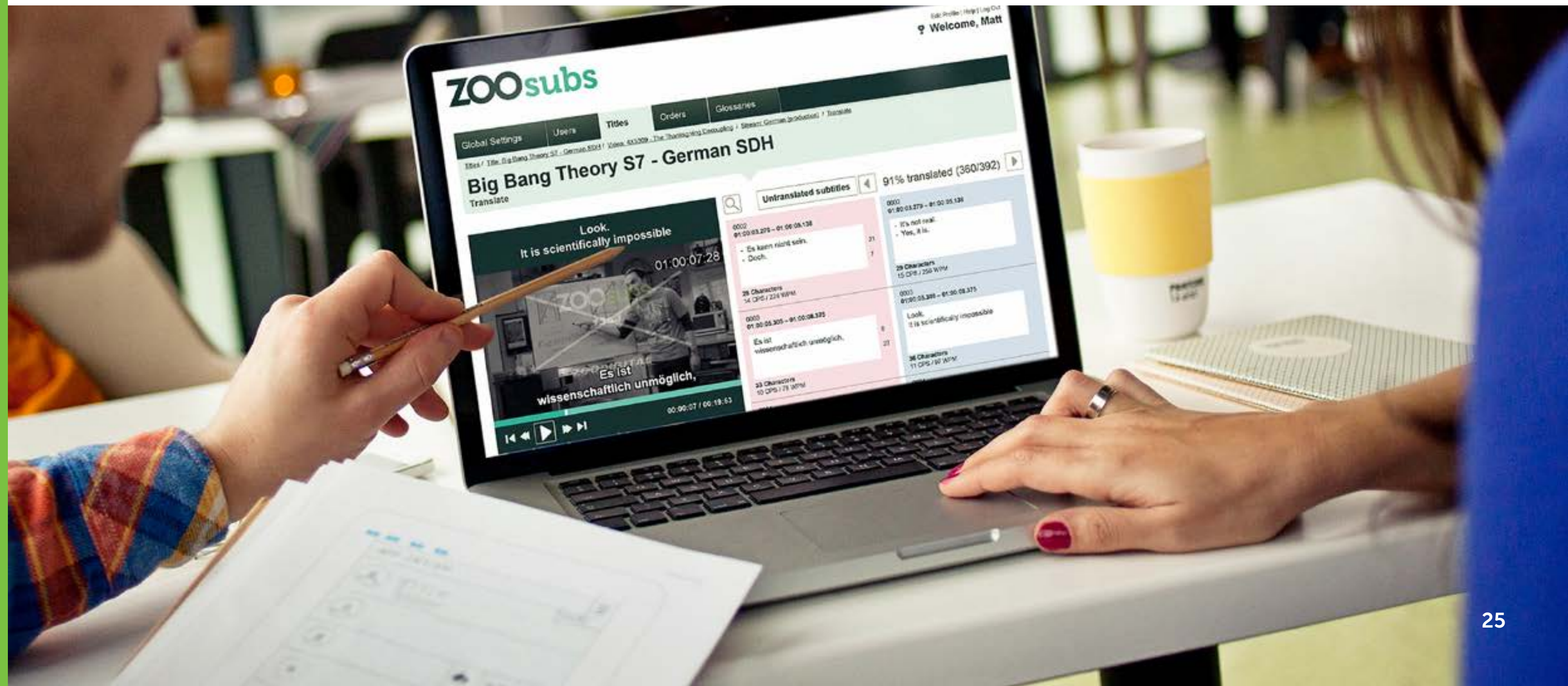
Consolidated Statement of Cash Flows for the year ended 31 March 2017

	Note	2017 $000	2016 $000
Cash flows from operating activities			
Operating profit/(loss) for the year		**502**	(1,103)
Depreciation	14	**259**	181
Amortisation and impairment	15	**1,008**	1,078
Share based payments		**11**	21
Purchase of own shares		**-**	-
Disposal of property, plant and equipment	14	**1**	-
Changes in working capital:			
Increases in trade and other receivables		**(1,222)**	(613)
Increases in trade and other payables		**949**	65
Cash flow from operations		**1,508**	(371)
Tax received		**256**	669
Net cash inflow from operating activities		**1,764**	298
Investing activities			
Purchase of intangible assets	15	**(541)**	(493)
Purchase of property, plant and equipment	14, 18	**(168)**	(32)
Net cash outflow from investing activities		**(709)**	(525)
Cash flows from financing activities			
Repayment of borrowings		**(164)**	(145)
Proceeds from borrowings		**-**	710
Finance cost		**(591)**	(349)
Share and convertible loan issue costs		**(7)**	-
Net cash (out)/inflow from financing		**(762)**	216
Net increase/(decrease) in cash and cash equivalents		**293**	(11)
Cash and cash equivalents at the beginning of the year		**314**	325
Cash and cash equivalents at the end of the year	18	**607**	314

The notes on pages 27 to 53 are an integral part of these consolidated financial statements.



Company Statement of Cash Flows
for the year ended 31 March 2017

	Note	2017 $000	2016 $000
Cash flows from operating activities			
Operating loss for the year		**(247)**	(95)
Depreciation	14	**31**	11
Share based payments		**11**	21
Disposal of property, plant and equipment	14	**1**	-
Changes in working capital:			
Increases in trade and other receivables		**(115)**	(606)
Increases in trade and other payables		**881**	1,099
Cash flow from operations		**562**	430
Net cash flow from operating activities		**562**	430
Investing activities			
Purchase of property, plant and equipment	14	**(43)**	-
Net cash flow from investing activities		**(43)**	-
Cash flows from financing activities			
Proceeds from borrowings		**-**	710
Repayment of borrowings		**(28)**	(925)
Finance cost		**(474)**	(183)
Share and convertible loan issue costs		**(7)**	-
Net cash flow from financing		**(509)**	(398)
Net increase in cash and cash equivalents		**10**	32
Cash and cash equivalents at the beginning of the year		**47**	15
Cash and cash equivalents at the end of the year	18	**57**	47

The notes on pages 27 to 53 are an integral part of these consolidated financial statements.

Notes to the Financial Statements
for the year ended 31 March 2017

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 ongoing 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 AIM market of the London Stock Exchange and is incorporated and domiciled in the UK. The address of the registered office is 7th Floor, City Gate, 8 St Mary's Gate, Sheffield.

The registered number of the company is 03858881.

The consolidated financial statements are presented in US dollars, the currency of the primary economic environment in which the company operates (note 2.4.1).

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 affect 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 2020 which show a continuation of the growth in profitability. In line with industry practice in this sector the directors have had informal indications from major and smaller clients 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. The group has invoice financing arrangements in place for sales made by both the UK and US subsidiaries. The facility with Crestmark Bank provides invoice financing of up to $2.5m against US client invoices raised by ZOO Digital Production LLC. This facility is in place until 7 July 2018. The facility with Santander Bank provides an invoice financing facility for certain sales invoices raised by ZOO Digital Limited. The maximum facility is £500,000 and it is committed until February 2018. Both facilities have the option to continue for an additional year.

The convertible unsecured loan notes totalling £3.1m were due to mature on 31 October 2017. This liability has been shown on the Consolidated Statement of Financial Position as a current liability but on 4 May 2017 it was agreed that £0.5m of this loan be converted into equity and the remaining £2.6m be extended to mature on 31 October 2020. The US dollar value of the £3.1m loan notes at 31 March 2017 was $3.8m (2016: $4.3m).

On 13 December 2013 Sara Green, the wife of Dr Stuart A Green, CEO of the company, provided financial support to the company with a loan of £0.6m. The full amount of this loan remained outstanding at 31 March 2017 but on 4 May 2017 the full amount was converted into equity. The US dollar value of the loan at 31 March 2017 was $0.8m (2016: $0.9m).

On 4 May 2017 the directors announced a successful equity placing which resulted in the receipt of £2.6m cash. This equates to $3.3m at the exchange rate on the date of the transaction.

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.

New and revised standards that are effective for annual periods beginning on or after 1 April 2017

A number of new and revised standards are effective for annual periods beginning on or after 1 April 2017. Information on these new standards is presented below.

IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28

IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IFRS 12 'Disclosure of Interests in Other Entities', IAS 27 (Revised) 'Separate Financial Statements' and IAS 28 (Revised) 'Investments in Associates and Joint Ventures' form a comprehensive package dealing with group issues and off-balance sheet activity.

In order to determine whether a reporting entity has control over another entity in which it has invested, the following three elements must always be present:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect the amount of the investor's returns.
- a joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (ie joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement.
- a joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (ie joint ventures) have rights to the net assets of the arrangement.

IFRS 12 establishes disclosure objectives according to which an entity discloses:

- significant judgements and assumptions (and changes) made by the reporting entity in determining whether it controls another entity;
- the interest that the non-controlling interests have in the group's activities;
- the effect of restrictions on the reporting entity's ability to access and use assets or settle liabilities of consolidated entities;
- the nature of, and changes in, the risks associated with the reporting entity's interests in consolidated structured entities, joint arrangements, associates and unconsolidated structured entities.

The changes made to IAS 27 (Revised) 'Separate Financial Statements' and IAS 28 (Revised) 'Investments in Associates and Joint Ventures' are consequential changes arising from the publication of the new IFRSs. The main change is that IAS 27 (Revised) will now solely address separate financial statements, the requirements for which are substantially unchanged from the previous version of the Standard. The requirements on how to apply equity accounting are unchanged from the previous version of the Standard.

The application of IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 applies prospectively for annual periods on or after 1 April 2017 and did not have a material impact on the financial statements.

2.1.1 Standards and interpretations in issue at 31 March 2017 but not yet effective

The following standards and interpretations of relevance to the group have been issued, but are not yet effective and have not been adopted by the group:

IFRS 15 Revenue from Contracts with Customers (effective 1 January 2017)
IFRS 9 Financial Instruments (effective 1 January 2018)
IFRS 16 Leases (effective 1 January 2019)

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the group

Management anticipates that all of the relevant pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the group's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the group's financial statements.

The group have yet to finalise their assessment of the impact that these standards and interpretations will have on the financial statements.

Other standards and interpretations in issue but not yet effective are not considered to have any relevance to the group.

2.2 Consolidation

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is obtained 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 intragroup 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 functional currency of the company's subsidiaries is US dollars, therefore the majority of transactions between the company and its subsidiaries and the company's revenue and receivables are denominated in US dollars.

The US dollar/pound sterling exchange rate at 31 March 2017 was 0.799 (2016: 0.704).

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.

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 in other comprehensive income with the foreign exchange translation reserve.

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 to profit or loss on a straight line basis over the estimated useful economic life which is assessed to be 10 years.

2.5.3 Research and development costs

Research expenditure is charged to profit or loss 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 in profit or loss 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 profit or loss 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.

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 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

2.8 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 profit or loss.

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 and where commercially viable 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 profit or loss. 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 profit or loss over the period of the borrowings using the effective interest rate method.

The convertible loan notes were initially 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. Substantial modifications to the convertible loan notes have been accounted for under IAS 39 'Financial Instruments: Recognition and Measurement'. Upon modification the convertible loan notes were derecognised and a new convertible loan note recognised.

Amounts due in respect of invoice financing are separately disclosed as current and non-current liabilities. The group can use these facilities to draw down the value of certain sales invoices. The management and collections of trade receivables remains with the group.

2.9.2 Trade receivables

Trade receivables are amounts due from clients for provision of services in the ordinary course of business. They are recognised initially at their fair value and subsequently at their amortised cost using the effective interest rate method, less provision for impairment.

2.9.3 Cash and cash equivalents

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

2.9.4 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recorded initially at fair value and subsequently measured at their amortised cost using the effective interest rate method.

2.10 Share-based payments

Options 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 that will eventually vest.

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

When share options are exercised, 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 are exercised. When share options 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.

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 and software licence fees. 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 at the contracted rates as labour hours and direct expenses are incurred.

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 client.

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 profit or loss in the period in which the circumstances that give rise to the revision become known to management.

2.12.2 Software licence 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. The measure of usage of the products varies over the software products. The usage is either based on the volume of work performed using the products or the numbers of users registered to use the software over a period of time.

2.12.3 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 profit or loss 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 profit or loss 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.

2.13 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

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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 substantively 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 is 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.

2.14 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.

3. Accounting estimates and judgements

Estimates and judgements 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 pre-tax discount rate of 10%. No impairment loss is incurred at this discount rate. Had the discount rate used been 1% 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 pre-tax discount rate of 8.5%.

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 includes 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.

3.2 Critical judgements in applying the group's accounting policies

Functional currency of the company

The functional currency of the company's largest subsidiaries is US dollars. Therefore, as the majority of transactions between the company and these subsidiaries and the company's revenue and receivables are denominated in US dollars, management have determined that the company's functional and presentation currency is US dollars.

4. Segmental reporting

Operating segments

At 31 March 2017, the group is organised on a worldwide basis into two main operating segments:

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

Revenue arising from licensing and use by external clients of the group's software tools is included within software solutions. Services provided by the group's staff, either using the group's tools or by more traditional methods, is included within the media production category.

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

The segment results are as follows:

	Software solutions		Media production		Total	
	2017	2016	**2017**	2016	**2017**	2016
	$000	$000	**$000**	$000	**$000**	$000
Total revenue	**3,393**	3,270	**14,432**	8,884	**17,825**	12,154
Inter-segment revenue	**-**	-	**(1,337)**	(516)	**(1,337)**	(516)
Revenue	**3,393**	3,270	**13,095**	8,368	**16,488**	11,638
Segment operating profit/(loss)	**(959)**	(474)	**3,044**	805	**2,085**	331
Unallocated corporate expense					**(1,583)**	(1,434)
Operating profit/(loss)					**502**	(1,103)
Finance cost					**33**	(353)
Profit/(loss) before taxation					**535**	(1,456)
Tax on profit/(loss)					**256**	669
Profit/(loss) for the year					**791**	(787)

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

	Software solutions		Media production		Group operations		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	$000	$000	**$000**	$000	**$000**	$000	**$000**	$000
Depreciation	**9**	6	**220**	164	**30**	11	**259**	181
Amortisation	**988**	1,044	**20**	34	**-**	-	**1,008**	1,078
Impairment losses	**-**	-	**-**	-	**-**	-	**-**	-

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.

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	
	2017	2016	**2017**	2016	**2017**	2016
	$000	$000	**$000**	$000	**$000**	$000
Assets	**4,022**	4,077	**3,818**	2,291	**7,840**	6,368
Unallocated corporate assets					**4,508**	4,291
Consolidated total assets					**12,348**	10,659
Liabilities	**1,014**	1,136	**3,321**	2,421	**4,335**	3,557
Unallocated corporate liabilities					**5,938**	5,822
Consolidated total liabilities					**10,273**	9,379
Capital expenditure	**562**	504	**559**	180	**1,121**	684
Unallocated capital expenditure					**320**	2
					1,441	686

Geographical areas

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		Non-current assets	
	2017	2016	**2017**	2016	**2017**	2016
	$000	$000	**$000**	$000	**$000**	$000
United Kingdom (domicile)	**858**	657	**8,510**	8,361	**7,246**	7,394
US	**15,630**	10,981	**3,838**	2,298	**740**	419
	16,488	11,638	**12,348**	10,659	**7,986**	7,813

5. Revenue

The group's revenue comprises:

	2017	2016
	$000	$000
Software solutions	**3,393**	3,270
Media production	**13,095**	8,368
	16,488	11,638
Continuing operations	**16,488**	11,638
Discontinued operations	**-**	-
	16,488	11,638
Revenue from services	**14,720**	9,782
Software licence fees	**1,768**	1,856
	16,488	11,638

Major clients

The group's largest client represented 44% (2016: 58%) of the group's revenues. These revenues are generated from both of the group's operating segments. The revenues are as follows:

	2017 $000	2016 $000
Largest client	7,230	6,773
Other clients	9,258	4,865
	16,488	11,638

6. Other operating income

	2017 $000	2016 $000
Profit on sale of assets	-	1
Landlord contribution	105	-
Grant funding	91	114
	196	115

7. Finance income/costs

	2017 $000	2016 $000
Finance costs:		
Interest on borrowings	591	559
Exchange gain on borrowings	(624)	(206)
Finance income/(costs)	(33)	353

8. Operating profit/loss

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

	2017 $000	2016 $000
Other exchange (gains)/losses	(102)	38
Staff costs	8,007	6,950
Capitalised staff costs	(570)	(560)
Depreciation	259	181
Amortisation of other intangible assets	1,008	1,078
Research and non-capitalised development costs	315	284
Operating lease expense – land and buildings	528	582
Loss on disposal of assets	1	-
Auditor's remuneration	72	72
Other expenses	2,181	1,832
Other operating expenses	11,699	10,457

9. Auditor's remuneration

	2017 $000	2016 $000
Fees payable to the company's auditor for the audit of the parent company and consolidated financial statements	31	38
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	13	14
Tax services	25	18
All other services	3	2
	72	72

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10. Employees including directors

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

	Group		Company	
	2017 No.	2016 No.	2017 No.	2016 No.
Product design and service delivery	102	89	19	22
Sales and marketing	6	4	2	1
Administration	10	10	5	5
	118	103	26	28

Their aggregate remuneration comprised:

	Group		Company	
	2017 $000	2016 $000	2017 $000	2016 $000
Wages and salaries	7,371	6,376	728	506
Social security costs	553	487	60	55
Other pension costs	71	65	30	24
Share-based payments	12	22	3	7
	8,007	6,950	821	592

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

Compensation of key management personnel (including directors)

	Group		Company	
	2017 $000	2016 $000	2017 $000	2016 $000
Short-term employee benefits	1,066	953	450	396
Post-employment benefits	18	16	18	16
Share-based payments	2	17	2	7
	1,086	986	470	419

This includes all directors listed on page 12 and senior management.

Directors' remuneration for the year to 31 March 2017 is:

	Salary $000	Bonus $000	Benefits $000	Pension $000	2017 Total $000	2016 Total $000
Dr Stuart A Green	162	63	-	8	233	193
Helen P Gilder	113	43	-	10	166	141
Gordon Doran	234	81	23	-	338	308
Roger D Jeynes	34	-	-	-	34	39
	543	187	23	18	771	681

Two directors (2016: 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:	2017 $000	2016 $000
Emoluments	338	308

11. Income tax

	2017	2016
	$000	$000
Current tax:		
UK corporation tax		
- Research and development tax credit	**256**	669
Foreign tax	-	-
Total current tax	**256**	669
Total deferred tax	**-**	-
Tax credited	**256**	669

Corporation tax is calculated at 20% (2016: 20%) 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 for the year as follows:

	2017	2016
	$000	$000
Profit/(loss) before tax	**535**	(1,456)
Tax calculated at standard rate of corporation tax of 20% (2016: 20%)	**107**	(291)
Research and development tax credit	**256**	669
Deducted from losses brought forward	**(107)**	291
Tax credited	**256**	669

Tax losses carried forward

The group has tax losses carried forward of approximately $34m (2016: $35m), of which $2.8m (2016: $2.4m) has been recognised at a rate of 17% as a deferred tax asset for the year. The balance of tax losses remains unrecognised at the balance sheet date due to the uncertainty in the timing of future profits.

12. Dividends

There were no dividends paid or proposed.

13. Profit/(loss) per share

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

	Basic and diluted	
	2017	2016
	$000	$000
Profit/(loss) for the financial year	**791**	(787)

	2017	2016
	Number of shares	Number of shares
Weighted average number of shares for basic & diluted profit/(loss) per share		
Basic	**32,660,660**	32,660,660
Effect of dilutive potential ordinary shares:		
Convertible loan note	**6,396,876**	5,654,867
Share options	**3,632,845**	3,518,763
Diluted	**42,690,381**	41,834,290

The basic and diluted earnings per share are the same due to the average share price during the period being lower than the conversion price or exercise prices of the convertible loan note and share options.

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14. Property, plant and equipment

Group	**Production equipment**	**Leasehold improvements**	**Computer hardware**	**Office equipment, fixtures & fittings**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**
Cost					
Opening cost at 1 April 2015	476	165	1,763	180	2,584
Additions	6	-	187	-	193
Opening cost at 1 April 2016	482	165	1,950	180	2,777
Additions	13	307	573	7	900
Disposals	-	-	(253)	(95)	(348)
Closing cost at 31 March 2017	**495**	**472**	**2,270**	**92**	**3,329**
Accumulated depreciation					
Opening balance at 1 April 2015	449	115	1,435	164	2,163
Depreciation	14	19	142	6	181
Opening balance at 1 April 2016	463	134	1,577	170	2,344
Depreciation	16	40	197	6	259
Disposals	-	-	(253)	(94)	(347)
Closing balance at 31 March 2017	**479**	**174**	**1,521**	**82**	**2,256**
Opening carrying value at 1 April 2015	27	50	328	16	421
Opening carrying value at 1 April 2016	19	31	373	10	433
Closing carrying value at 31 March 2017	16	298	749	10	1,073

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

At 31 March 2017	**Production equipment**	**Leasehold improvements**	**Computer hardware**	**Office equipment, fixtures & fittings**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**
Cost-capitalised finance leases	131	369	1,586	26	2,112
Accumulated depreciation	(126)	(100)	(967)	(24)	(1,217)
Net book value	**5**	**269**	**619**	**2**	**895**

At 31 March 2016	**Production equipment**	**Leasehold improvements**	**Computer hardware**	**Office equipment, fixtures & fittings**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**
Cost-capitalised finance leases	131	92	1,131	26	1,380
Accumulated depreciation	(117)	(66)	(814)	(19)	(1,016)
Net book value	**14**	**26**	**317**	**7**	**364**

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

Company	Leasehold improvements	Computer hardware	Office equipment, fixtures & fittings	Total
	$000	$000	$000	$000
Cost				
Opening cost at 1 April 2015	22	277	145	444
Additions	-	-	-	-
Opening cost at 1 April 2016	22	277	145	444
Additions	281	32	7	320
Disposals	-	(197)	(90)	(287)
Closing cost at 31 March 2017	**303**	**112**	**62**	**477**
Accumulated depreciation				
Opening balance at 1 April 2015	22	245	143	410
Depreciation	-	11	-	11
Opening balance at 1 April 2016	22	256	143	421
Depreciation	16	14	1	31
Disposals	-	(197)	(89)	(286)
Closing balance at 31 March 2017	**38**	**73**	**55**	**166**
Opening carrying value at 1 April 2015	-	32	2	34
Opening carrying value at 1 April 2016	-	21	2	23
Closing carrying value at 31 March 2017	**265**	**39**	**7**	**311**

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

At 31 March 2017	Leasehold improvements	Computer hardware	Total
	$000	$000	$000
Cost - capitalised finance leases	277	20	297
Accumulated depreciation	(16)	(13)	(29)
Net book value	**261**	**7**	**268**

At 31 March 2016	Computer hardware	Total
	$000	$000
Cost - capitalised finance leases	20	20
Accumulated depreciation	(9)	(9)
Net book value	**11**	**11**

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15. Intangible assets

Group	Goodwill	Development costs	Patents and trademarks	Computer software	Total
	$000	$000	$000	$000	$000
Cost					
Opening cost at 1 April 2015	16,610	8,854	584	607	26,655
Additions	-	487	6	-	493
Opening cost at 1 April 2016	16,610	9,341	590	607	27,148
Additions	-	523	18	-	541
Disposals	-	-	-	(59)	(59)
Closing cost at 31 March 2017	**16,610**	**9,864**	**608**	**548**	**27,630**
Accumulated amortisation					
Opening balance at 1 April 2015	12,620	5,268	249	551	18,688
Amortisation	-	986	58	34	1,078
Opening balance at 1 April 2016	12,620	6,254	307	585	19,766
Amortisation	-	932	56	20	1,008
Disposals	-	-	-	(59)	(59)
Closing balance at 31 March 2017	**12,620**	**7,186**	**363**	**546**	**20,715**
Opening carrying value at 1 April 2015	3,990	3,586	335	56	7,967
Opening carrying value at 1 April 2016	3,990	3,087	283	22	7,382
Closing carrying value at 31 March 2017	**3,990**	**2,678**	**245**	**2**	**6,915**

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 5 years.

No patent applications were derecognised during the year (2016: nil).

No intangible assets were impaired during the year (2016: nil).

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

	2017	2016
	$000	$000
Cost - capitalised finance leases	**127**	127
Accumulated amortisation	**(127)**	(112)
Net book value	**-**	15

Company	Goodwill	Computer software	Total
	$000	**$000**	**$000**
Cost			
Opening cost at 1 April 2015 and 1 April 2016	10,960	49	11,009
Disposals	-	(39)	(39)
Closing cost at 31 March 2017	**10,960**	**10**	**10,970**
Accumulated amortisation/impairment			
Opening balance at 1 April 2015 and 1 April 2016	8,679	49	8,728
Disposals	-	(39)	(39)
Closing balance at 31 March 2017	**8,679**	**10**	**8,689**
Opening carrying value at 1 April 2015	2,281	-	2,281
Opening carrying value at 1 April 2016	2,281	-	2,281
Closing carrying value at 31 March 2017	**2,281**	**-**	**2,281**

There were no assets held under finance leases at 31 March 2017 and 31 March 2016.

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 operating segment. The aggregation of assets for identifying the cash generating units has not changed since the prior year.

The recoverable amount of a CGU has been determined based on its value in use. In calculating the value in use the group used a pre-tax discount rate of 10% (2016: 12%). The carrying amount of goodwill is allocated as follows:

Software solutions		Media production		Group	
2017	2016	**2017**	2016	**2017**	2016
$000	$000	**$000**	$000	**$000**	$000
2,281	2,281	**1,709**	1,709	**3,990**	3,990

Within the company the goodwill is the software solutions portion.

Following the impairment tests, goodwill was considered not to be impaired in either the group or the company.

Management has based its pre-tax cash flow projections on financial budgets approved by management covering the next financial period. These are based on its expectations of prices, volumes and margin obtained from its current products and services and products and services development. Cash flows after this period have been extrapolated based on estimated growth rates and discount rates disclosed below for each segment over the next five years.

	Software solutions	Media production
Discount rate	10%	10%
Growth rate	3%	3%

Management has based the growth rate of 3% on its expectations of prices, volumes and margin obtained from its current products and services and products and services under development. Current estimates from clients and market trends would support a higher growth rate but management have adopted a cautious assumption when assessing any potential impairment. The pre-tax discount rate of 10% is what management considers to be its cost of obtaining funds.

If sector growth assumption rates were applied at 3% and a discount rate of 10% was applied, the software solutions segment and the media production segment would require no impairment.
If sector growth assumption rates were applied at 0% and a discount rate of 10% was applied, the software solutions segment and the media production segment would require no impairment.
If sector growth assumption rates were applied at 0% and a discount rate of 15% was applied, the software solutions segment and the media production segment would require no impairment.

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16. Deferred income tax

	Group		Company	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
Deferred tax assets comprise:				
Unused tax losses	**486**	486	**-**	-

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

	Group		Company	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
At 31 March 2016 and 31 March 2017	**486**	486	**-**	-

Tax losses carried forward

The group has tax losses carried forward of approximately $34m (2016: $35m), of which $2.8m (2016: $2.4m) has been recognised at a rate of 17% as a deferred tax asset for the year. The balance of tax losses remains unrecognised at the balance sheet date due to the uncertainty of the timing of future profits.

17. Trade and other receivables

	Group		Company	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
Trade receivables	**2,679**	1,771	**-**	-
Less: provision for impairment of trade receivables	**(24)**	(12)	**-**	-
Trade receivables - net	**2,655**	1,759	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**11,307**	12,464
VAT	**11**	-	**11**	-
Other debtors	**122**	84	**44**	-
Prepayments and accrued income	**965**	688	**92**	231
	3,753	2,531	**11,454**	12,695
Less non-current portion: amounts owed by subsidiary undertakings	**-**	-	**(11,276)**	(12,429)
Current portion	**3,753**	2,531	**178**	266

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

As of 31 March 2017, trade receivables of $91,000 (2016: $260,000) were overdue. The ageing analysis of these trade receivables is as follows:

	Group	
	2017	2016
	$000	$000
Less than 3 months	**56**	204
3 to 6 months	**43**	1
7 to 12 months	**(1)**	3
Over 12 months	**(7)**	52
	91	260

There were no trade receivables outstanding in the company at 31 March 2017 or 31 March 2016.

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

	Group		Company	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
Pound sterling	**537**	403	**136**	231
US dollar	**3,093**	2,128	**11,318**	12,464
Euro	**123**	-	**-**	-
	3,753	2,531	**11,454**	12,695

Provision for impairment of trade receivables:

	Group	
	2017	2016
	$000	$000
At 1 April	**12**	47
Provision for receivables impairment	**24**	(35)
Receivables written off in the year	**(12)**	-
At 31 March	**24**	12

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 unprovided 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.

18. Notes to the cash flow statement

18.1 Significant non-cash transactions

During the year the group acquired property, plant and equipment and computer software with a cost of $900,000 (2016: $193,000) of which $732,000 (2016: $161,000) was acquired by the means of finance leases.

18.2 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		Company	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
Cash on hand and balances with banks	**607**	314	**57**	47

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

19. Share capital and reserves

Called up share capital

	2017	2016
	$000	$000
Allotted, called up and fully paid		
32,660,660 (2064: 32,660,660) ordinary shares of 15p each	**7,236**	7,236

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	2017	2016
Reconciliation of the number of shares outstanding:		
Opening balance and closing balance	**32,660,660**	32,660,660

During the year the group purchased nil (2016: 23,152) of its own shares through ZOO Employee Share Trust Limited. The total cost of the purchase was $0 (2016: $2,000).

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.
Accumulated losses	Cumulative net losses recognised in profit or loss.
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 clients.
Other reserves	Created as part of the reverse takeover between Kazoo3D plc and ZOO Media Corporation Ltd in 2001.

20. Borrowings

	Group		Company	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
Non-current				
7.5% unsecured convertible loan note stock	**-**	4,301	**-**	4,301
Connected person loan	**751**	901	**751**	901
Other bank borrowings	**654**	637	**-**	-
Finance lease liabilities	**721**	303	**219**	9
	2,126	6,142	**970**	5,211
Current				
7.5% unsecured convertible loan note stock	**3,821**	-	**3,821**	-
Amounts owed to subsidiary undertakings	**-**	-	**9,701**	9,701
Finance lease liabilities	**281**	142	**49**	4
	4,102	142	**13,571**	9,705
Total borrowings	**6,228**	6,284	**14,541**	14,916

Since December 2015 the group has had a total of £3,070,500 in unsecured convertible loan notes in place. The loan notes pay a coupon of 7.5% and were due to mature on 31 October 2017. 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 £0.48 of principal amount of loan stock. The US dollar value of the £3,070,500 loan notes at 31 March 2017 was $3,821,000 (2016: $4,301,000).

Subsequent to the year end, on 4 May 2017, £500,000 of the convertible loan stock was converted into equity and the remaining £2,570,500 had its maturity extended to 31 October 2020. The coupon and conversion terms remain unchanged.

The restructured convertible loan stock has been accounted for in accordance with IAS 39 (Financial instruments: Recognition and Measurement). The fair value of the convertible loan note is not considered to be materially different to the carrying value.

The group has an arrangement with Crestmark Bank to provide an invoice financing facility of up to $2.5m against US client invoices raised by ZOO Digital Production LLC. This facility will be in place until 7 July 2018 with an option to extend. Interest is payable on a monthly basis and is charged for each day on the outstanding balance with an interest rate of 5% above the LIBOR rate with a minimum interest rate of 5.25%. An administration fee of 0.20% is due on the face value of each invoice submitted and a discount fee of 0.15% for each 15 day period for any invoice outstanding after a period of 30 days. The principle outstanding at 31 March 2017 was $640,000 (2016: $625,000). This funding is secured against the US trade receivables of ZOO Digital Production LLC.

The group has an agreement in place with Santander Bank to provide an invoice financing facility of up to £500,000 against certain clients' invoices raised by ZOO Digital Limited. This is an annually renewable facility. The group can draw on funding from the bank up to the lower of 75% of its applicable UK company trade receivables and £500,000. The principle outstanding at 31 March 2017 was $14,000 (2016: $12,000). This funding is secured as a floating charge over the assets of the UK companies.

On 13 December 2013 Sara Green, wife of Dr Stuart A Green, made a loan to the company of £600,000 with an interest rate of 10%. The full amount of this loan remained outstanding at 31 March 2017. Subsequent to the year end, on 4 May 2017, the full amount was converted into equity. The US dollar value of the loan at 31 March 2017 was $751,000 (2016: $901,000). This loan is secured as a floating charge over the assets of the group.

Finance lease liabilities

Finance lease liabilities are payable as follows:

At 31 March 2017	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
	$000	**$000**	**$000**
Less than one year	369	(88)	281
Between one and five years	861	(139)	722
More than five years	-	-	-
	1,230	**(227)**	**1,003**

At 31 March 2016	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
	$000	**$000**	**$000**
Less than one year	176	(34)	142
Between one and five years	354	(51)	303
More than five years	-	-	-
	530	(85)	445

The lease periods of the finance leases range from three to five years, with options to purchase the asset at the end of the term. Finance lease liabilities are secured against the leased assets.

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21. Trade and other payables

	Group		**Company**	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
Trade creditors	**1,367**	1,040	**240**	241
Amounts owed to subsidiary undertaking	**-**	-	**1,562**	1,169
Social security and other taxes	**179**	254	**71**	116
Accrued expenses	**2,499**	1,802	**784**	250
	4,045	3,096	**2,657**	1,776

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

22. Commitments

Capital commitments

The group had no capital commitments at 31 March 2017.

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 three and five years, and the majority of lease agreements are renewable at the end of the lease period at market rate. The lease expenditure charged to profit or loss during the year is disclosed in note 8. The lease expenditure on premises is charged to profit or loss on a straight line basis over the life of the lease.

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

	2017	2016
	$000	$000
Within one year	**452**	444
From one to five years	**2,428**	-
	2,880	444

The group does not sublease any of its leased premises.

23. 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	USA	Media production	100 shares of common stock	100*
ZOO Employee Share Trust Limited	UK	Employee share scheme	2 ordinary shares	100
ZOO Digital Production 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.

Subsidiary undertakings

	Company	
	2017	2016
	$000	$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 are disclosed in note 10.

Roger D Jeynes is paid as an employee for his board services and is remunerated for consultancy fees through Charborough Capital Limited. The balance owing to Charborough Capital Limited at 31 March 2017 was $35,000 (2016: $27,000).

Related party transactions

	Company	
	2017	2016
	$000	$000
Sales of services to subsidiaries:		
Administration services	**1,736**	1,704
Interest paid on loans:		
Sara Green	**140**	161
Roger D Jeynes	**3**	3

The gross interest payable to Sara Green at 31 March 2017 is $163,000 (2016: $91,000). The gross interest payable to Roger D Jeynes at 31 March 2017 is $5,000 (2016: $3,000).

Sara Green, wife of Dr Stuart A Green, held a $769,000 (2016: $873,000) interest in 7.5% unsecured convertible loan stock at 31 March 2017. The underlying value of the interest in the convertible loan stock is £614,500 (2016: £614,500).

On 29 March 2016 Roger D Jeynes increased his holding in the 7.5% unsecured convertible loan stock by $2,000 to $31,000 (2016: $36,000). The underlying value of the interest in the convertible loan stock is £25,000 (2016: £25,000).

On 13 December 2013 Sara Green, wife of Dr Stuart A Green, made a loan to the company of £600,000 with an interest rate of 10%. The full amount of this loan remained outstanding at 31 March 2017. Subsequent to the year end, on 4 May 2017, the full amount was converted into equity. The US dollar value of the loan at 31 March 2017 was $751,000 (2016: $901,000). This loan was secured as a floating charge over the assets of the group.

Amounts owed by subsidiary undertakings

	Company	
	2017	2016
	$000	$000
ZOO Digital Limited	**4,444**	5,763
ZOO Digital Production LLC	**14,024**	12,504
ZOO Employee Share Trust Limited	**31**	36
	18,499	18,303

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Amounts owed to subsidiary undertakings

	Company	
	2017	2016
	$000	$000
ZOOtech Limited	**9,701**	9,701
ZOO Digital Inc.	**1,169**	771
	10,870	10,472

24. 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:

	2017		2016	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
	No.	**$**	No.	$
ZOO Digital Group plc EMI scheme				
Outstanding at the beginning of the year	**1,636,893**	**0.21**	1,636,893	0.22
Granted during the year	**-**	**-**	45,000	-
Surrendered during the year	**-**	**-**	(15,000)	0.24
Outstanding at the end of the year	**1,666,893**	**0.21**	1,666,893	0.21
Exercisable at the end of the year	**1,315,893**	**0.26**	1,315,893	0.26

The underlying weighted average exercise price for the shares under option at 31 March 2017 was 15p (2016:15p).

ZOO Digital Group plc Unapproved				
Outstanding at the beginning of the year	**1,965,952**	**0.26**	1,740,952	0.26
Granted during the year	**-**	**-**	225,000	0.23
Surrendered during the year	**-**	**-**	-	-
Outstanding at the end of the year	**1,965,952**	**0.26**	1,965,952	0.26
Exercisable at the end of the year	**1,288,952**	**0.25**	1,288,952	0.25

The underlying weighted average exercise price for the shares under option at 31 March 2017 was 17p (2016:15p).

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

Share options granted to key management personnel, including directors, during the year ended 31 March 2013 have a vesting condition that the company's share price must be £0.40 or higher on 20 consecutive business days prior to exercise.

Out of the 3,632,845 outstanding options (2016: 3,632,845 options), 3,257,845 were exercisable (2016: 2,604,845). No share options were exercised during the year ended 31 March 2017 (2016: nil).

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	865,226	**13 Oct 2018**	**0.21**	0.15
ZOO Digital Group plc EMI scheme	40,000	**30 Nov 2020**	**0.23**	0.15
ZOO Digital Group plc EMI scheme	361,667	**11 Jul 2022**	**0.23**	0.15
ZOO Digital Group plc EMI scheme	70,000	**26 Sep 2023**	**0.24**	0.15
ZOO Digital Group plc EMI scheme	285,000	**19 Jan 2025**	**0.23**	0.15
ZOO Digital Group plc EMI scheme	45,000	**17 Sep 2025**	**0.23**	0.15
ZOO Digital Group plc Unapproved	388,452	**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	550,000	**13 Oct 2018**	**0.34**	0.22
ZOO Digital Group plc Unapproved	10,000	**13 Dec 2021**	**0.23**	0.15
ZOO Digital Group plc Unapproved	247,500	**11 Jul 2022**	**0.23**	0.15
ZOO Digital Group plc Unapproved	90,000	**26 Sep 2023**	**0.24**	0.15
ZOO Digital Group plc Unapproved	425,000	**19 Jan 2025**	**0.23**	0.15
ZOO Digital Group plc Unapproved	225,000	**17 Sept 2025**	**0.23**	0.15
Outstanding at the end of the year	**3,632,845**			

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:

	Jun 2010	Dec 2010	Dec 2011	Jul 2012	Sep 2013	Jan 2015	Sep 2015
Expected volatility (%)	73	76	63	83	84	67	61
Risk-free interest rate (%)	2.65	2.13	0.97	0.71	1.52	1.08	1.35
Expected life of option (years)	5	5	5	5	5	5	5
Expected dividends	none	none	none	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-based payments have had the following impact on the group's profit/(loss) for the year:	2017 $000	2016 $000
Total expense recognised from share option transactions	**11**	22

Share-based payment reserve appears in the statement of financial position under:	2017 $000	2016 $000
Share option reserve	**328**	317

25. Financial instruments

The group's financial instruments comprise cash and liquid resources, a 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	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
Loans and receivables				
Trade and other receivables excluding pre-payments and VAT (note 17)	**3,482**	1,875	**-**	-
Amounts owed by subsidiary undertakings (note 17)	**-**	-	**12,663**	12,464
Cash and cash equivalents	**607**	314	**57**	47
Total	**4,089**	2,189	**12,720**	12,511

	Group		Company	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
Other financial liabilities at amortised cost				
Finance lease liabilities (note 20)	**1,002**	445	**268**	13
Amounts owed to subsidiary undertakings (note 20)	**-**	-	**9,701**	9,701
7.5% unsecured convertible loan stock (note 20)	**3,821**	4,301	**3,821**	4,301
Other bank borrowings (note 20)	**654**	637	**-**	-
Connected person loan (note 20)	**751**	901	**751**	901
Trade and other payables excluding payroll taxes (note 21)	**3,866**	2,842	**2,586**	1,660
Total	**10,092**	9,126	**17,128**	16,576

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's 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 2017 there was more volatility in the pound sterling/US dollar rate than in some previous years with the rate peaking at 0.92967 and falling to a low of 0.67445, with an average rate of 0.7676. If the US dollar had remained at its highest level throughout the full year the group would have shown a post-tax profit of $2.6m (2016: loss $0.2m), if US dollar had been at its lowest level throughout the full year the group would have shown a post-tax profit of $0.1m (2016: loss $1.3m) and if the US dollar had remained at the average rate throughout the year the post-tax profit would have been $1.2m (2016: loss $0.8m).

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.

The pound sterling/US dollar exchange rate at 31 March 2017 was 0.799 (2016: 0.704).

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Interest rate risk

Since December 2015 the group has had a total of £3,070,500 in unsecured convertible loan notes in place. The loan notes pay a coupon of 7.5% and were due to mature on 31 October 2017. The US dollar value of the £3,070,500 loan notes at 31 March 2017 was $3,821,000 (2016: $4,301,000). Subsequent to the year end, on 4 May 2017, £500,000 of the convertible loan stock was converted into equity and the remaining £2,570,500 had its maturity extended to 31 October 2020. The coupon and conversion terms remain unchanged. The group and company consider the interest rate risk on the loan to be minimal as the rate is fixed.

The group has an arrangement with Crestmark Bank to provide an invoice financing facility of up to $2.5m against US client invoices raised by ZOO Digital Production LLC. This facility will be in place until 7 July 2018 with an option to extend. Interest is payable on a monthly basis and is charged for each day on the outstanding balance with an interest rate of 5% above the LIBOR rate with a minimum interest rate of 5.25%. An administration fee of 0.20% is due on the face value of each invoice submitted and a discount fee of 0.15% for each 15 day period for any invoice outstanding after a period of 30 days. The principle outstanding at 31 March 2017 was $640,000 (2016: $625,000). The group is subject to interest rate risk on the movement in the LIBOR rate.

The Santander Bank invoice financing facility is in place until February 2018, with an option to extend. It has interest payable on a monthly basis and is charged for each day on the outstanding balance at an interest rate of 2.35% in excess of the UK base rate. The principle outstanding at 31 March 2017 was $14,000 (2016: $12,000). The group is subject to interest rate risk from the movement in the UK base rate.

On 13 December 2013 Sara Green, wife of Dr Stuart A Green, made a loan to the company of £600,000 with an interest rate of 10%. The full amount of this loan remained outstanding at 31 March 2017. Subsequent to the year end, on 4 May 2017, the full amount was converted into equity. The US dollar value of the loan at 31 March 2017 was $751,000 (2016: $901,000). The group and company consider the interest rate risk on the loan to be minimal as the rate is fixed.

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 invoice financing facilities and through controls on expenditure. The majority of convertible loan stock is owned by major shareholders of the company.

The group has an agreement in place with Crestmark Bank to provide an invoice financing facility of up to $2.5m against US clients' invoices. This facility will be in place until July 2018, with the option to extend. The group can draw on funding from the bank up to the lower of 90% of its current US company trade receivables and $2.5m. The principle outstanding at 31 March 2017 was $640,000 (2016: $625,000).

The group has an agreement in place with Santander Bank to provide an invoice financing facility of up to $760,000 (£500,000) against certain clients' invoices raised by ZOO Digital Limited. This facility will be in place until February 2018 with an option to extend. The group can draw on funding from the bank up to the lower of 75% of its applicable UK company trade receivables and £500,000. The principle outstanding at 31 March 2017 was $14,000 (2016: $12,000).

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 March 2017	**$000**	**$000**	**$000**	**$000**
Borrowings	**3,821**	**1,405**	**-**	**-**
Finance lease liabilities	**281**	**-**	**721**	**-**
Trade and other payables	**4,045**	**-**	**-**	**-**
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 March 2016	$000	$000	$000	$000
Borrowings	-	5,839	-	-
Finance lease liabilities	142	-	303	-
Trade and other payables	3,096	-	-	-

Company

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 March 2017	**$000**	**$000**	**$000**	**$000**
Amount owed to subsidiary undertakings	**9,701**	**-**	**-**	**-**
Borrowings	**3,821**	**751**	**-**	**-**
Finance lease liabilities	**49**	**-**	**219**	**-**
Trade and other payables	**2,657**	**-**	**-**	**-**
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 March 2016	$000	$000	$000	$000
Amount owed to subsidiary undertakings	9,701	-	-	-
Borrowings	-	5,202	-	-
Finance lease liabilities	4	-	9	-
Trade and other payables	1,776	-	-	-

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 17.

26. 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.

	2017	2016
	$000	$000
Total borrowings	**6,228**	6,284
Less cash and cash equivalents	**(607)**	(314)
Net debt	**5,621**	5,970
Total equity	**2,561**	1,766
Total capital	**8,182**	7,736
Gearing ratio	**69%**	77%

27. Post balance sheet event

On 18 April 2017 it was announced that the company proposed to raise gross funds of approximately £2.58m ($3.33m) through a placing and subscription comprising the issue of 28,611,111 new ordinary shares at 9p per share. It was further announced that 12,222,223 shares would be issued in return for the conversion of the £600,000 outstanding loan from Sara Green, the wife of Dr Stuart A Green, and the conversion of £500,000 of convertible loan note and that the remaining £2.57m of convertible loan note be extended to mature on 31 October 2020. This transaction was approved in a shareholder meeting held on 4 May 2017.

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Our clients

We have been trusted by major Hollywood studios and global brands to deliver global content services for over 10 years.

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