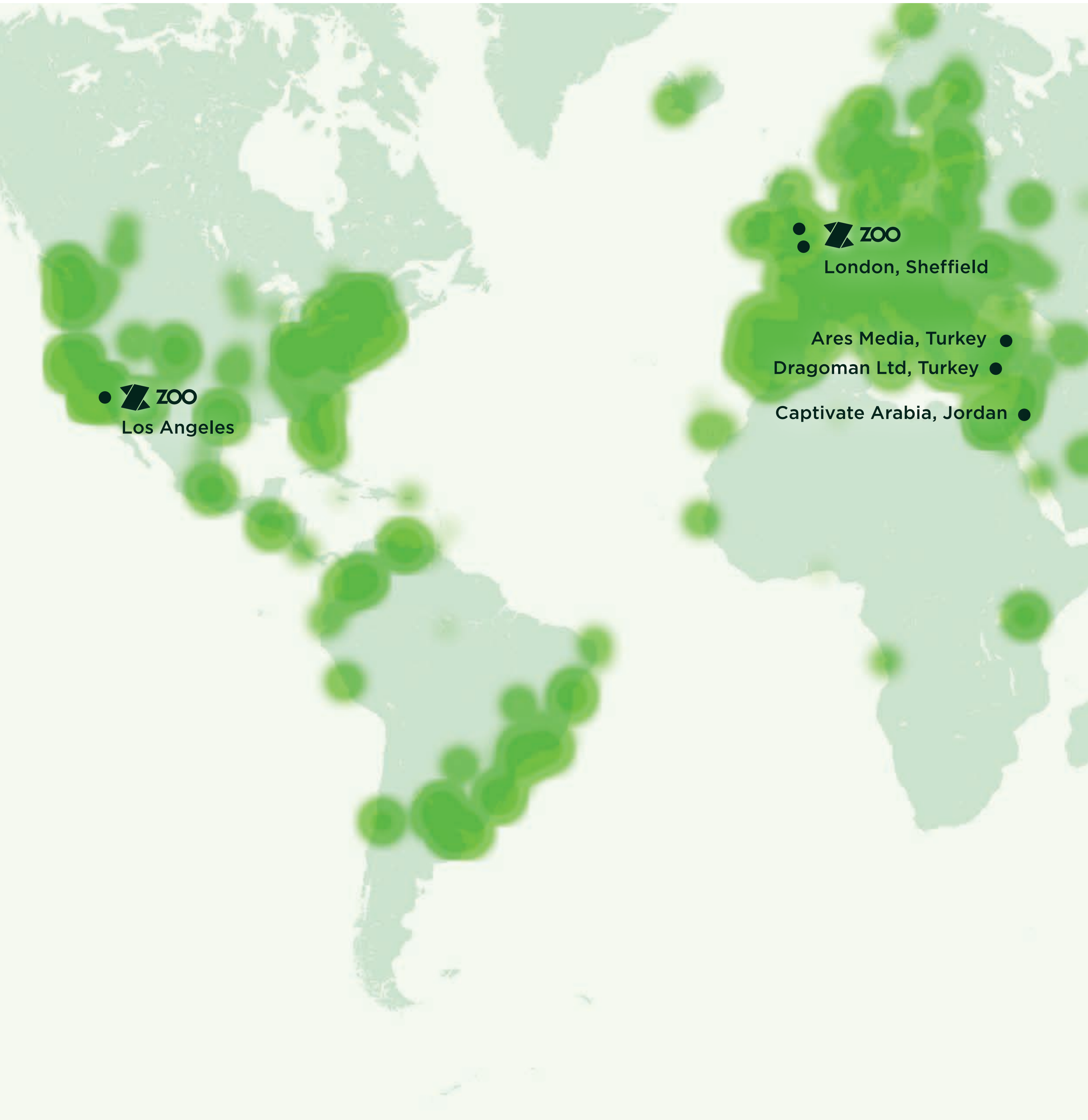


Reaching Audiences Everywhere
Powered by the cloud

ZOO Digital
Annual Report 2017–2018

Cloud-powered subtitling, dubbing and distribution for the global TV and movie industry.

Contents

Investment Summary

- Operating in a large and growing market
- A defensible position with barriers to entry
- Strong long-term client relationships with a spread of Hollywood clients
- Good margins and cash generation
- Strong and strategic management team

ZOO's year in review: Growth and expansion

ZOO named as organic growth leader in global localisation services industry (Nimdzi, April 2018)

The entertainment industry's first cloud-based dubbing service is launched and wins two industry awards at key trade shows NAB 2017, Las Vegas and IBC 2017, Amsterdam

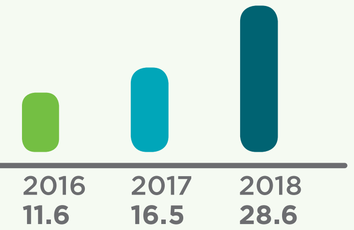
New partnerships formed with affiliate language service providers in Dubai, Turkey, Jordan, Mexico, Korea and Taiwan

Innovate UK, the government-funded agency, backs dubbing research project with £820,000 grant

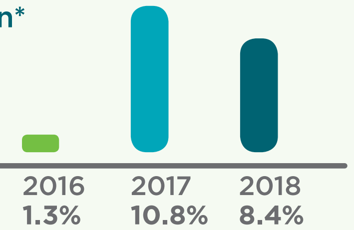
Raul Aldana, Dubbing Director, appointed after a 20-year track record at Disney

Financial KPIs

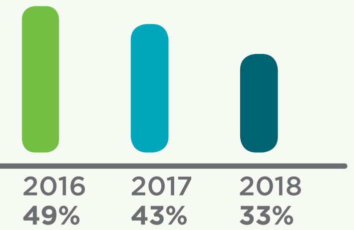
Revenue $'million



EBITDA margin*

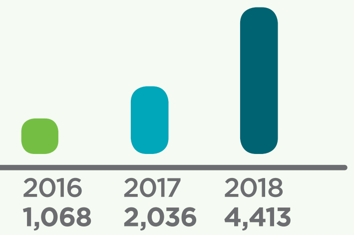


Operating expenses as a % of revenue

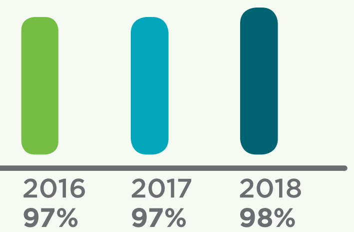


Operational KPIs

Number of freelancers†



Retained sales‡



* Adjusted for share-based payments
† The number of active freelance workers in ZOO's systems who are engaged directly
‡ Proportion of client revenues retained from one year to the next after stripping out sales to one client with which the Group discontinued services in 2016 following its acquisition by a competitor. Without this adjustment, retained sales were 2016: 98%, 2017: 97%, 2018: 93%.

Who we are

ZOO Digital provides cloud-powered localisation services including subtitling, dubbing and digital distribution services for some of the world's most sought-after TV shows and films – in all languages and for all online formats.

What sets us apart in the entertainment industry is innovation and the use of the cloud to power our services. From the Americas to Asia Pacific, ZOO technology connects our teams around the world – to help the biggest names in TV and film reach audiences everywhere. It enables faster delivery, increased security and scalability of our services.

We have an R&D team in the UK dedicated to developing new technologies to refine our services and respond efficiently to the challenges our clients face in the fast-moving world of digital entertainment.

ZOO CLOUD PLATFORMS

3
offices: London, Los Angeles, Sheffield

205
staff

8
affiliate partners
across 10 locations in Asia and the Middle East

4,413
freelancers: translators, dubbing directors, voice artists and audio mixing engineers

83
languages offered as part of ZOO's subtitling and dubbing services

580,000
minutes of subtitling per month

The EMEA spend on media localisation was $2 billion in 2016, growing at over 10% per year

What is localisation?

The worldwide localisation services industry is worth around $50 billion per year. Media localisation for the TV and film industry, is a niche, high value segment. When content is prepared for global release, it is adapted for different languages, regions and cultures. This is far more complex than the literal translation of user manuals, as the spoken dialogue needs to take into account idioms, cultural references and humour. The two approaches taken are subtitling, which presents text on-screen, and dubbing, where the voices of the screen actors are replaced.

KEY SERVICES

- **Subtitling:** A written, on-screen translation of the dialogue in other languages
- **Dubbing:** An audio translation of the dialogue in other languages
- **Captioning:** A written, onscreen description of the dialogue and other sounds for the deaf and hard of hearing
- **Digital packaging:** Preparing TV and movie content in the right formats for major online retailers such as Netflix, iTunes and Amazon

ZOO and Innovation in Action: **How We're Disrupting Dubbing**

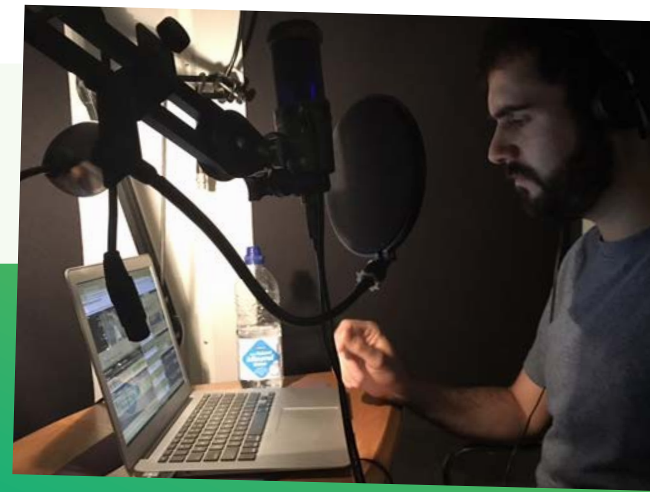
This year we launched the entertainment industry's first cloud dubbing service.

This was in response to a number of challenges TV and movie content holders were having with the traditional dubbing process when preparing video for release around the world.

Traditional dubbing recording session

- Bricks-and-mortar operation
- Central recording location
- Live room/control room
- Recording engineer
- Digital Audio Workstation
- Dubbing director

Traditional versus the new way of dubbing



ZOO dubbing recording session

- Any suitable recording space
- Web browser, microphone, internet connection
- Distributed operation
- No recording engineer or complex audio workstation
- Self-directed, or dubbing director via video link

Cloud dubbing is powered by ZOOdubs, our own dubbing platform. This acts like an online recording studio and we've used it to record in-territory in all key dubbing languages for our entertainment industry clients.

Greater choice and flexibility: Projects have been coordinated and mixed from LA and London. ZOOdubs has meant that we've been able to work with a far wider pool of in territory voice artists and dubbing directors, each one of whom has been carefully vetted and selected. They've been using ZOOdubs to record in the cloud, using a combination of dubbing studios and controlled recording environments. This has given our clients the flexibility to choose how they want recordings to take place according to budget.

Improved creative control: ZOOdubs has also enabled the dubbing director of each cloud dubbing project language to carry out auditions and recordings from one location while directing voice actors live in the cloud during recording sessions located elsewhere. It means they can direct sessions online from anywhere in the world.

Efficient practices: To avoid expensive callbacks to record missed lines, ZOOdubs has replaced hard copy scripts and spreadsheets by automatically monitoring the recording process and tracking progress. Assets have been stored, watermarked and streamed in the cloud using the latest security protocols.

SUCCESSES IN DUBBING TV CONTENT

- Recorded in all key dubbing languages significantly more efficiently than traditional dubbing
- Delivered completed dubbed audio streams much more quickly than traditional providers
- Clients confirm that the quality of projects is indistinguishable from traditional approaches
- Enabled content holders to monetise content that had been cost-prohibitive to distribute around the world
- Opened up new revenue streams for customers as different genres of TV content are dubbed and packaging for the first time

ZOO at a Glance
What sets us apart

ZOO TECHNOLOGY:
STREAMLINED, SECURE, SCALABLE.

Our services are powered by our own cutting-edge cloud software, hosted using Amazon Web Services (AWS). We use cloud technology to automate certain processes, passing on significant benefits to our clients including streamlined, secure and scalable services.

ZOO R&D:
25 IN-HOUSE SPECIALISTS DEDICATED TO INNOVATION

We have a dedicated in-house team of 25 specialists located at ZOO's headquarters in Sheffield. We have a deep understanding of the media localisation industry and the challenges our clients face. As a service provider we're building innovative, ground-breaking products to support our service offering which helps solve our client's challenges The team's role is to use technology and innovation to respond to our clients' localisation challenges, such as decreasing budgets and shortening release windows for TV and movie content.

ZOO'S CLIENTS:
HOLLYWOOD STUDIOS, GLOBAL BROADCASTERS AND MAJOR ONLINE RETAILERS

We're an approved supplier to many of the largest buyers of TV and movie content in the industry, including the major Hollywood studios.

DIGITAL DISTRIBUTORS:
DELIVERING ENTERTAINMENT CONTENT TO CONSUMERS WORLDWIDE

Having established a track record for consistent quality and reliability, ZOO is one of the few service providers approved as a global delivery partner to deliver content to the platforms of leading streaming and transactional services including Netflix, iTunes and Amazon.

ZOO CLOUD PLATFORMS

ZOO'S CLIENT SERVICES TEAM:
LOS ANGELES, LONDON AND SHEFFIELD

We have a 25-strong client services team in our Los Angeles, London and Sheffield offices. No-fuss, strong client relationships and faster turnaround than our competitors usually lead to repeat business.

ZOO'S PRODUCTION TEAM:
ENSURE HOLLYWOOD-APPROVED QUALITY

From quality control and preparation of language scripts to the recruitment of freelancers, our 70-strong production team provides an in-house resource to make sure we meet the stringent quality standards set by Hollywood.

ZOO'S FREELANCE NETWORK:
A COMMUNITY CONNECTED IN THE CLOUD

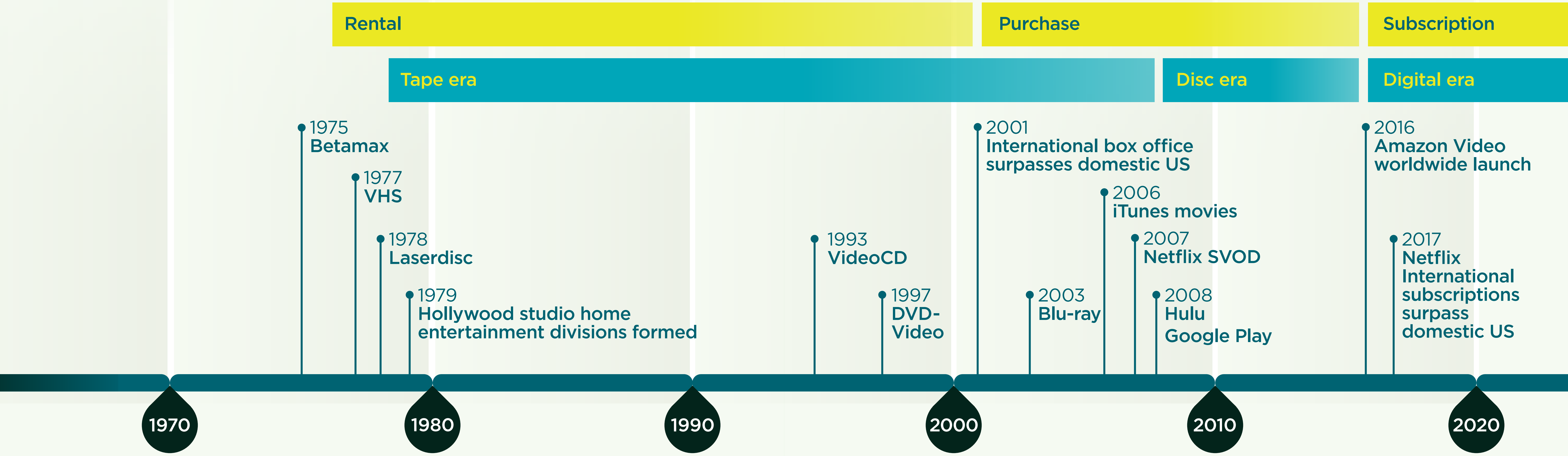
Unlike many of our competitors, ZOO's linguistic resource is fulfilled through a global community of freelancers, giving us practically unlimited capacity without incurring infrastructure costs. The network includes translators, voice actors, dubbing directors, quality control operators and audio mixing engineers. Many of them work from their homes using ZOO's technology, needing little more than a laptop and internet connection.

ZOO'S GLOBAL LANGUAGE PARTNERS:
PROVIDING IN-TERRITORY POINTS OF PRESENCE

To support expansion in key territories, particularly in emerging markets in Asia and the Middle East, ZOO operates partnerships with a number of affiliates. These are local organisations, with expertise in language services and post production for the TV and film industry, who are trained to use our technology to ensure Hollywood-approved service provision.

A Changing Marketplace

Home Entertainment



THE MAIN PLATFORM FOR HOME ENTERTAINMENT:
Tape (1979 to 2008), then disc (2008 to 2016) and now digital (2016 onwards)

THE COMMERCIAL MODEL FOR MONETISING HOME ENTERTAINMENT CONTENT:
Rental (1977 to 2001), purchase/sell-through (2001 to 2016), subscription (2016 onwards)

LOCALISATION:
Through most of the tape era, films were localised for international release in a handful of languages. The number of languages increased significantly when DVD became popular, but most film and TV content was localised into fewer than 20 languages.

In the digital era, due to the absence of barriers to entry, content can now be delivered into 200 countries, significantly increasing demand for more languages.

ZOO Timeline

Investment in R&D over 10+ years provides the foundations for long-term profitable growth

2001
May
ZOO Digital Group plc admitted to AIM

2006
Feb
Dr Stuart Green appointed CEO

Sep
Helen Gilder appointed CFO

Sep
Business plan to focus on home entertainment

2007
Mar
Launch of DVD automation system

Jul
Acquisition of Scope Seven LLC

2008
Mar
Launch of marketing localisation system

Apr
Secured 15-year deal with Disney

2009
Apr
finnCap appointed as Nomad and broker

Jul
Gordon Doran appointed Commercial Director

Sep
Launch of Translation Management System

2010
Mar
Launch of Blu-ray automation system

Apr
Roger Jeynes appointed Chairman

Sep
Launch of iTunes automation system

2012
Sep
Launch of ZOOsubs

2013
Apr
Launch of ZOOcore

2015
Apr
Appointed Apple iTunes Delivery Partner

2016
Jun
Appointed Netflix Preferred Vendor

Nov
Launch of Affiliate Partner Network

2017
Jan
Named one of top 10 innovators in entertainment

Apr
Launch of ZOOdubs

Sep
Appointed Amazon Global Delivery Partner

Oct
Mickey Kalifa appointed NED

Oct
Capital Markets Day

2018
Apr
Progressive Equity Research initiates coverage

Jul
Appointed Netflix Preferred Fulfillment Partner

Jul
Phill Blundell appointed CFO

Roadmap

Client challenges

Studios and production companies work predominantly with distributors who localise through vendors in territory. **(Highly fragmented localisation market.)**

More subtitle languages. Preference to work with multilingual subtitle vendors. Dubbing still done by in-territory vendors.

Further language expansion. Shorter time to market. Greater demand for dubbing. More diversity in voice talent. Digital packaging.

TODAY

Integrated localisation (subs and dubs) and media fulfilment. Greater volumes. Faster time to market. More dubbing languages.

Tape era

Disc era

Digital era

1979

2008

2016

Technology roadmap

Pre-ZOO:
Workstation-based subtitling software. Projects managed by spreadsheet and email.

ZOOsubs

ZOOcore

ZOOecho

ZOOvault

ZOOhive

ZOOdubs

ZOOscripts

Security.

Integrated services.

Dubbing automation.

Machine learning.

Collaborative casting.

Growth Strategy and Progress

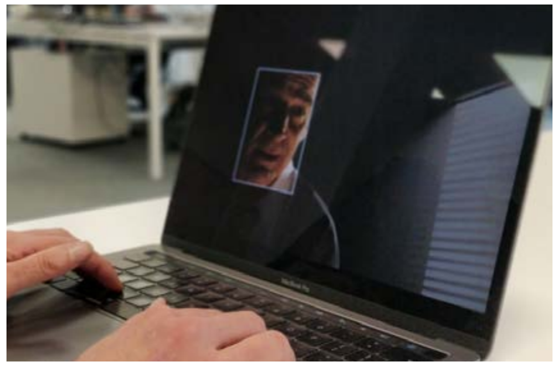
1. STRATEGY:

INNOVATE – BY CREATING VALUE-ADDING CLOUD SOFTWARE TECHNOLOGY

To deliver significant competitive advantage by making operations more efficient, ensuring consistently high quality and developing service capabilities specific to the needs of major clients.

Progress

- Launch of industry's first cloud-based dubbing platform and availability of service
- Won TV Technology Best of Show award at NAB 2017
- Launched ZOOscripts and ZOO's cloud-powered scripting service at IBC 2017
- Won IABM Design and Innovation Award at IBC 2017
- Secured grant funding from Innovate UK to pursue a program of research in machine learning in collaboration with University of Sheffield
- Released digital distribution planner
- Developed facial recognition capability for content security
- Developed media differencing capability for version control



2. STRATEGY:

SCALE – THROUGH A FREELANCE NETWORK

For creative and skilled roles, identify, recruit, train and retain freelance workers for a cost-efficient scalable resource across all languages.

Progress

- Started to add voice actors, dubbing directors and audio mixing engineers to the network
- More than doubled number of freelancers from 2,036 to 4,413
- Appointed Raul Aldana, formerly Disney's creative head for Latin American Spanish, as Creative Director and Producer to accelerate on-boarding of Latin American talent

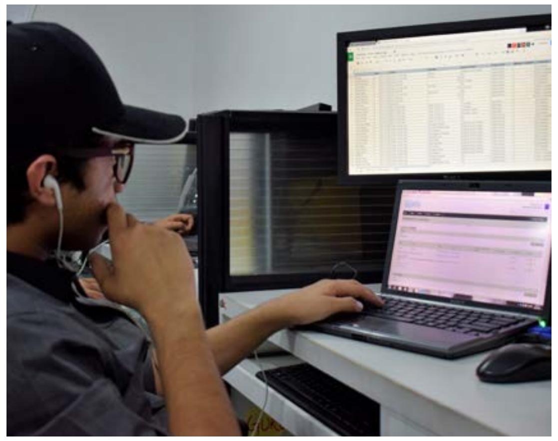
3. STRATEGY:

AFFILIATES – PROVIDE IN-TERRITORY POINTS OF PRESENCE

Appoint partners and provide access to ZOO software to establish a presence for ZOO in key countries, particularly emerging markets.

Progress

- Added WhatSub Pro in South Korea
- Added Bossdom in Taiwan
- Added Studio Ares in Turkey
- Added Dragoman in Turkey
- Added Captivate Arabia in Jordan
- Extended relationship with Olive Digital in UAE



4. STRATEGY:

PARTNERSHIPS – SECURE PREFERRED PARTNER STATUS WITH LEADING BUYERS

Work with the leading global buyers of subtitling, dubbing and distribution services in order to establish ZOO as a preferred partner.

Progress

- Approved vendor status with five Hollywood studios
- Maintained status as iTunes delivery partner
- Increased number of partnerships with global streaming video service providers to two

Clients

ZOO counts major Hollywood studios, broadcasters and global brands among its clients

Why Clients Choose ZOO

Reliable quality – We provide reliable, high-quality services powered by innovative technology and our dedicated global team.

Efficient production – 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.

Chairman's Statement

The Board is very pleased with the excellent progress made by the company in the execution of its strategy to become one of the leading providers of software-driven localisation services for movie, TV and video content around the world.

A 73% increase in revenues to $28.6 million from some of the world's largest entertainment content creators and distributors has been accompanied by investments in innovative new service offerings, international expansion, and translation capacity, resulting in an increase of EBITDA before share-based payments to $2.4 million (2017: $1.8 million).

With strong underlying market drivers in its favour, demand for ZOO's subtitling services has constituted the largest part of its revenue growth, and the board is confident in the long-term revenue and profit opportunity from this segment. However, 2017-18 also saw the introduction of ZOO's new dubbing service, and initial customer acceptance of this exceeded expectations. This opens up a significant new axis of growth for the company, since it finds customers valuing the ability to deliver a 'one-stop shop' for all localisation and digital packaging services worldwide. We therefore plan to make further investments in both dubbing and subtitling offerings to capitalise on ZOO's position as a preferred vendor to many of the leading names in an industry undergoing unprecedented growth and upheaval.

We are also delighted that ZOO was able to strengthen its balance sheet early in the financial year, thanks to the investment of £2.6 million in new equity by existing and new shareholders and the conversion of £1.1 million of existing debt into equity. Combined with the cash generation from operations, this has put the company in a very strong position to exploit the large market opportunity which is described in more detail in the Strategic Report.

The board is conscious of the need to develop the company's governance and management structures to cope with the demands of a larger listed entity, so was pleased to welcome Mickey Kalifa as a non-executive director in October 2017. Mickey is a chartered accountant with nearly 30 years' experience across the technology, media and gaming sectors. He was appointed Chief Executive Officer (CEO) of the betPawa Group in May 2018. Previously he spent eight years with Sportech PLC, latterly as Chief Financial Officer (CFO), where he led a transformation in the company's financial strength and played a prominent role in driving Sportech's global expansion. The board has also decided to adopt the new QCA Corporate Governance Code with immediate effect, rather than wait until the date next year when the changes to AIM rules would have required the adoption of such a formal governance code.

Our long-serving Chief Financial Officer, Helen Gilder, decided to resign for personal reasons early in 2018 and, as separately announced today, I am pleased to welcome Phill Blundell as Helen's replacement, who starts work for us during July 2018. Phill joins ZOO with a strong pedigree in senior finance and operational roles within UK technology companies, including dotdigital Group plc, Eagle Eye Solutions Group plc and Intelligent Environments. He has over 20 years' experience building strong software businesses through product innovation and global strategic partnerships. Phillip qualified as a chartered accountant with Coopers & Lybrand, now part of PwC. The board warmly thanks Helen for her many years of loyal service and wishes her every success for the future.

The progress achieved by ZOO has resulted from a lot of sustained hard work by ZOO's staff and the patient support of our stakeholders. However, the board believes it represents just the start of an exciting period for ZOO: it can combine the power of cloud computing with its deep understanding and experience of the industry to create a highly valuable company which provides localisation and digital packaging services to many of the world's leading creators and distributors of film and TV entertainment. Following the fundraising at the start of the year, and with strong cash generation during it, the business enters the new year on a solid financial footing and with confidence in its future success.

Roger D Jeynes
Chairman
ZOO Digital Group plc

STRATEGIC REPORT

Year Ended 31 March 2018

The directors present the Strategic Report for the year ended 31 March 2018.

Operational Review

Introduction

I am pleased to report that the year saw the continuation of the considerable progress achieved in the prior period. Revenue for the year increased by 73% to $28.6 million (2017: $16.5 million), and earnings before interest, tax, depreciation and amortisation (EBITDA) adjusted for share-based payments grew by 35% to $2.4 million (2017: $1.8 million). The successful launch of our dubbing service at the end of the first half of the year was a major milestone, adding a powerful second arm to our growth strategy, and provides us with the opportunity to become a 'one-stop shop' for localisation services, although having a short-term downward impact on profit margins.

Strategy

ZOO's services allow TV and movie content to be subtitled and dubbed in any language and prepared for sale with all major online retailers as well as on optical disc formats. ZOO's strategy is to develop and employ innovative, proprietary cloud-based software technology to deliver localisation services to entertainment content owners that will enable them to capitalise on the growing consumer demand for digital content. ZOO's software enables the company to collaborate with a worldwide network of thousands of freelance workers, such as translators, voice actors and dubbing directors, and to significantly reduce the human capital requirements of service fulfilment, enabling the company to scale its capacity efficiently as demand increases.

ZOO's innovative use of technology enables content owners to distribute their products to additional territories at a faster speed to market and lower cost than has previously been possible, and with a consistently high level of quality. The clear benefits delivered by the company's differentiated proposition have driven significant organic growth in sales, leading to ZOO being named in March 2018 as the organic growth leader in global localisation services by language services market research specialist Nimdzi.

Market Opportunity

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. It is now easier for content owners to reach a much wider audience through digital rather than physical products as the supply chain is simplified.

Consequently, content has become commercially available in more and more geographies, and as the territorial reach increases so too does the need for subtitling and dubbing into additional languages. A TV series that was previously translated into fewer than ten major European languages will now potentially be translated into 30 or more global languages, which increases the scope of work for ZOO.

The global home entertainment market reached circa $48bn in 2017, with digital distribution accounting for 66% of that spend. Since 2012 around 200 over-the-top (OTT) platforms providing streamed and downloadable content have emerged, with the number of subscribers to streaming services globally reaching 447 million in 2017. Investment by OTT operators in new original content reached $13bn in 2017, with growth expected to continue as providers commit to increased future spending.

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 are all combining to drive a growing demand for high quality and scalable content localisation services. ZOO's technology is a powerful differentiator and we believe it provides us with the means to capitalise on the long-term growth opportunity within the TV and film entertainment market.

Key drivers

The bulk of the growth in the year came from localisation services, of which subtitling remains a key tenet. The volume of work on physical products, namely DVD and Blu-ray, continued its expected gradual decline in the year while the main driver of growth was undoubtedly the preparation of content for sale through digital platforms.

Operational review

The principal focus of the group has been on the continuing progress of localisation services delivered through our proprietary cloud-based platforms, ZOOsubs and ZOOdubs, for the provision of subtitling and dubbing services respectively.

Another year of strong subtitling revenue growth

We are delighted to report on another successful year of growth for our subtitling services, with revenues almost doubling over the period. Following ongoing investment in research and development and building a pipeline for ZOOsubs, it has been reassuring to witness continued growth in its adoption and demand from customers, both existing and new. As well as helping to reduce seasonality within the business, it has enhanced ZOO's reputation for innovation within the marketplace and driven strong revenue growth. Enhancements to the platform delivered over the period have enabled freelance translators who work on ZOO projects to operate more efficiently and productively, for example, by reducing the administrative overhead of processing purchase orders and raising invoices. Since many of our translators undertake work for other localisation service providers, these enhancements benefit ZOO by making our ecosystem attractive to this community, helping us to retain and grow our network of translators.

Successful launch of the industry's first cloud-based dubbing service

In April 2017 we launched the industry's first cloud-based dubbing service, powered by our new ZOOdubs platform, at the National Association of Broadcasters (NAB) show in Las Vegas, where it was awarded TV Technology's 'Best in Show' accolade. Two further awards have subsequently followed: an IABM award for Design and Innovation at the International Broadcast Convention in Amsterdam and a Broadcast and Media Award at NAB 2018.

Our software provides a systematic and truly multilingual solution for dubbing services which significantly reduces the need for dedicated facilities, expensive high-tech equipment and the associated technical operators. As such it has been imperative to ensure an exceptional quality of service and we were delighted that the first projects, delivered in nine different languages, received extremely positive feedback from the client who was particularly impressed with the quality and speed of completion.

Helped by our success in subtitling, our dubbing service has quickly developed strong levels of interest given that it addresses a more complex and costly requirement for content owners. Within a short space of time we have won projects from significant industry players and are now delivering hundreds of hours of dubbing on a monthly basis. Even within our first month of delivering the service we were completing more dubbing each month than most mature and established dubbing facilities, due to the scalability of our distributed cloud computing approach.

Two main approaches to dubbing are widely used in the entertainment industry. Voiceover, sometimes referred to as 'UN-style', is the simpler approach used in some countries and for certain types of content, and is a style that does not usually convey the richness of what is being said by the screen actors. With this method, dubbed voices are not synchronised with the lip movements of the screen actors. The second approach is known as 'lip-sync' dubbing in which voice actors aim to recreate a similar performance to those on screen, delivering lines that match as closely as possible the lip movements. This style is popular in more countries than voiceover and is costlier to produce. While our initial projects were for voiceover, we have subsequently developed ZOOdubs to deliver both styles, meaning we are in a position to complete any dubbing project in any language, subject to having access to voice actors and directors, giving us the capability to address a significant market opportunity.

We have been cautious to build out demand for ZOOdubs at the right pace, with rigorous testing, high levels of verification and relatively high levels of human involvement during the software's nascence. The foundations are being laid now to build a scalable technological and service capability to satisfy client demand so that the operational gearing of the business will be seen in future periods. The experience that we have gained from ZOOsubs, through early adoption to its current rate of growth in both volumes and margin contribution, gives us confidence that ZOOdubs will follow a similar path.

Strong growth in localisation services

Our localisation services, which include subtitling and dubbing, grew by 149% to $21.4 million (2017: $8.6 million). This is due to ongoing strong growth of subtitling together with the introduction of dubbing, where the contribution was mainly in the second half. In the first half an average of 28 hours of dubbing was processed through ZOOdubs per month. This increased to an average of 79 hours per month in the second half, and in the two months following the period under review has increased further to an average of 154 hours per month.

There has been additional recruitment of talent and the group now has a network of over 5,000 freelance workers, including translators and voice actors, who are able to collaborate efficiently with us on projects to satisfy an ever growing pipeline of demand.

Further innovation

In the traditional entertainment localisation ecosystem, subtitling and dubbing assignments have followed two detached work streams from the point of inception, and in the case of dubbing, across different in-territory studios, which tends to lead to a duplication of work and inconsistencies in translation across the two independently crafted approaches. A recent innovation of ZOO is a scripting service powered by a new cloud-based platform, ZOOscripts, which is a cornerstone capability that will enable the company to process combined subtitling and dubbing assignments consistently, providing our customers with further efficiency and greater control.

A significant challenge when dubbing newly produced titles arises due to the need to have localised versions available across multiple languages on the day of release. This necessitates beginning the dubbing process with a preliminary edit of the content which is subject to change before the programme is finalised. In practice, the production company may deliver a number of such preliminary versions for localisation before final release, each of which may differ from its predecessor through the addition of new dialogue. Therefore, rigorous version control is essential to ensure that the process operates efficiently, with voice actors being recalled to record new dialogue but only where necessary, and for quality assurance of the final delivery. We have addressed this requirement through the development of a sophisticated version control capability that is integral to our production systems, involving the analysis of video and audio to identify automatically the changes that occur between successive versions of the content. This enables us to turn around each iteration of such a project quickly and accurately.

The security of client content is paramount to ZOO's operations, and we have continued to enhance our cloud software with further features to enable even greater levels of protection. This includes a new capability to prepare video content through the use of facial recognition in order to 'spoil' the material without detriment to the localisation process.

With the significant number of digital distribution channels now available, together with the availability of consumer services in over 200 countries, it is becoming increasingly challenging for content owners to estimate the costs of distribution and determine the return on investment of a particular strategy. ZOO has developed a scenario planner to assist clients with this dilemma, enabling language choices to be evaluated and localisation costs estimated quickly and accurately.

With all of these new innovations 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 services into its client base as well as attracting additional new clients. We also anticipate some uplift in digital packaging, as an increasing number of customers turn to us for a broadening array of services, and we expect a growing preference amongst buyers to work with partners that are able to deliver an end-to-end solution for localisation and digital packaging.

In the year ahead, we plan to continue investment in the development of our cloud-based platforms to further enhance the production services we offer, and to integrate our platforms with a number of third party technologies to streamline our end-to-end service offering. This should deliver improved operational efficiencies, with benefits that we will be able to pass on to our clients, leading to greater differentiation and competitive advantage for our services. More recently we have begun a research collaboration with the Speech and Hearing Research Group in the Department of Computer Science at the University of Sheffield. This project will focus on machine learning and the application of speech technologies which we believe will lead to further disruptive innovation within the ecosystem that we are developing.

Expansion of our freelance network

We have been pleased with progress in our programme to select, train and engage freelance translators, dubbing directors, voice actors and audio mixers in order to ensure that talent is available to scale sufficiently to meet the growing levels of demand in both our dubbing and subtitling offerings, helping us to be more effective and efficient than our competitors. Our freelance network has now increased to over 5,000 members, growing from around 4,400 at the end of the year under review (2017: 2,000), including members from across multiple territories and languages, and its continued expansion will remain a focus for the year ahead.

Growth of the customer base

One of the company's main assets is the quality and breadth of its customer base. Following the launch of its first cloud services in 2009, the group has expanded its customer base to include major Hollywood studios, the BBC, Apple and many more. It was granted Netflix preferred vendor status in 2016 and has recently been named a Netflix Preferred Fulfilment Partner. Historically, ZOO has been reliant on revenue from one large customer, which once accounted for over 80% of revenue. Due to the expansion of our customer base and overall increased workflow, client concentration has decreased in recent years, with the top two customers representing 34% and 24% in the year under review. Importantly, both these customers have indicated their intention to increase their activities with ZOO.

The consistently high quality of services we provide is indicated by the proportion of client revenues that we retain from one year to the next: after stripping out sales to one client with which the group discontinued services in 2016 following its acquisition by a competitor, the proportion of client business in the 2017 fiscal year that continued into the period under review was 98% (2017: 97%).

Affiliate network

Our affiliates provide us with additional capacity to meet client demand as well as access to skilled linguists, dubbing directors and voice actors in the territories in which they deliver services to their own networks of clients. During the year, the group has been successful in adding new affiliates in emerging markets, bringing the growing network to a current total of eight across ten locations. The new additions are Studio Ares in Turkey, Bossdom in Taiwan, WhatSub Pro in South Korea, Dragoman in Turkey, Captivate Arabia in Jordan and Olive Digital in UAE.

More recently, we have strengthened our relationship with Kantana Group in Thailand and Vietnam, one of Thailand's oldest and largest film studios, to support our expansion of dubbing services in the region. Staff at Kantana have been trained in our cloud-powered software and will shortly be using ZOOdubs to work on in-territory dubbing projects. Meanwhile, Kantana is helping ZOO to build capacity, increase the local dubbing talent pool and identify suitable in-territory traditional and alternative recording environments in Asia.

We are seeing an increasing number of traditional dubbing studios approaching us, which bodes well for future growth. We look forward to building out this network further and working closely with our chosen partners.

Investment in people and operations

We continue to invest in the expansion of our teams to support further growth. Through the year we enlarged the R&D team to accelerate development and assist in the roll-out of our dubbing service. In March 2018 we appointed a new Creative Director and Producer to oversee dubbing projects in Latin America: Raul Aldana has joined the team to continue to grow ZOO's in-territory localisation network and bring the very best talent to the cloud dubbing platform. Raul brings a wealth of experience to the role, having worked as Disney's creative head for Latin American Spanish for the last 20 years.

More recently, we have appointed a new Head of Operations and Business Development, Asia to lead localisation and distribution services in the region. Norie Negishi has joined ZOO to help grow capacity in Asia as we expand our cloud dubbing services in the region. Norie joins ZOO with a 20-year track record with the Walt Disney Company in Asia Pacific, including working as Executive Director of Operations for Disney Character Voices International.

In the year ahead, we will add select resource in our operations to ensure we have the structure to support the increase in volumes of activity.

Another important operational development in the year was that our new Sheffield facility received security accreditation from the Content Delivery & Security Association. This is in addition to our US office's existing accreditation under the Motion Picture Association of America Content Security Program, both of which are key endorsements required by some of our existing and target clients.

Fundraise

On 18 April 2017, a placing was announced to raise £2.6 million of additional funds whilst at the same time converting £1.1 million of debt into equity, strengthening the balance sheet. The funds are being used to accelerate organic growth and the benefits are already being seen. The placing also presented the opportunity to welcome new institutions to the register of shareholders.

Outlook

This has been another extremely successful year for the group, delivering considerable revenue growth while expanding our offering. It is clear that we are operating in a market which is right for our approach, where our technological innovation can facilitate greater scalability for all industry players.

ZOO is increasingly viewed as a significant player in the media localisation market, and with the introduction of dubbing we have achieved a key milestone on our journey towards becoming a one-stop shop for all media localisation services across all languages. Through the development of our innovative technology, we are facilitating the ongoing disruption and growth of the digital entertainment market and we will continue to invest in innovation, quality and security to ensure we remain at the forefront of our industry.

Our sales pipeline continues to grow across our offerings, both from existing and new customers, giving us confidence in achieving ongoing organic growth. With a strengthened balance sheet, enlarged commercial team and augmented offering, we look to the future with confidence.

Financial Review

The strong growth that was reported last year continued into the period ended 31 March 2018. We are pleased to report that sales have increased 73% to $28.6 million (2017: $16.5 million) with EBITDA adjusted for share-based payments up to $2.4 million (2017: $1.8 million). The reported turnover for the second half was $15.9 million compared to $12.7 million in the first, which underlines the reduction in seasonality of the business. The reported operating profit for the year was $0.6m (2017: $0.5m) and the reported loss before tax was $5.0m (2017: profit $0.5m) following a non-cash charge for the fair value movement on an embedded derivative brought about due to the rising share price.

Due to the group's origins as a software company, gross profit has previously been calculated as revenue less only external costs of sale, being the cost of translators and other freelance workers who provide linguistic services to us. Some other variable costs, including those associated with internal staff employed to deliver client projects, have been previously reported as central overheads. As the proportion of our revenues from delivery of services is now growing rapidly, it is becoming increasingly difficult to infer our operational gearing from gross profit reported on that basis. For that reason we have decided to classify all variable costs as costs of sales, leading to a lower reported gross profit margin, but which we believe is more representative of the dynamics of the business going forward. It bears clarifying that, as a result of this recategorisation of costs, we would expect that central overheads should increase at a more modest rate in line with the growth of the business and the costs of underlying infrastructure required to support it.

The prior full year period has been restated in the consolidated statement of comprehensive income and is set out below for comparison purposes. This change is presentational only and represents a change in accounting policy with no impact on current or prior year loss/profit.

We have also sought to add further clarity to the financial statements by adapting the segmental analysis of revenues. In previous reports the segmental reporting was based on the operating divisions, when UK sales were primarily related to software licensing whereas US sales were from service provision. As the company has grown over recent periods, an increasing proportion of service sales are invoiced from a UK subsidiary. Consequently, this segmental reporting has become less appropriate for providing an understanding of the constitution of sales. Going forward we will report revenue analysis using the following three segments in line with the internal reporting and management of the business.

1. Localisation – this is the fastest growing segment of company revenues and is made up of subtitling, captioning and dubbing. Localisation grew very strongly, by 149% to $21.4 million (2017: $8.6 million), due to subtitling sales almost doubling over the corresponding prior period, combined with the commencement of sales from dubbing services that were introduced at the end of the first half.
2. Digital packaging – previously referred to as 'Digital Distribution', this segment consists of sales for all service lines, excluding localisation, that are required for the delivery of video-based entertainment content to distribution channels, including to OTT operators and for delivery on optical disc formats. These services include compression and encoding of video and audio materials, preparation of metadata, assembly of digital packages and authoring of DVD and Blu-ray formats. During the period under review, sales in this segment fell to $5.2 million (2017: $5.8 million), primarily due to the ongoing slow global decline in demand for DVD and Blu-ray.
3. Software licensing – this segment consists of sales generated directly from the provision of our proprietary software which, during the period under review, consisted predominantly of recurring revenue from legacy products and declined slightly to $1.9 million (2017: $2.0 million).

It has been particularly pleasing to see the commercialisation of new dubbing services, made possible by our innovative cloud software platforms, start so strongly and delivering a meaningful contribution to our localisation segment in the second half of the year.

The much higher billing amounts for dubbing projects compared to those for subtitling may lead to a significant shift in client concentration in future periods, dependent on the timing of the adoption of this new service line by existing and new clients. We have, during the year under review, continued to diversify our client base and significantly reduce revenue concentration, such that the revenue contribution from our largest client reduced to 34% of sales in 2018 (2017: 44%), with the second largest accounting for 24%.

The initial period of delivering services using the new ZOOdubs platform has followed a similar pattern to the one we observed five years ago with the deployment of ZOOsubs: our imperative to provide clients with services of the highest quality has led to higher costs from extensive verification and quality control while the software is being refined. We fully expect these margins to improve as the software is proven and new features continue to be added. In contrast, our subtitling services and the associated cloud software have, over a period of five years, been proven, enhanced and continually refined and are now delivering strong contribution margins. From the segmental analysis it can be seen that the contribution margin for localisation has increased to 31% (2017: 27%), and has the potential to improve further as our dubbing proposition matures.

The second largest segment is digital packaging, where the blended contribution margin during the period has reduced to 60% (2017: 69%), primarily due to the decline in demand for DVD and Blu-ray titles.

The different gross margins achieved in the three revenue segments, combined with the changing sales mix including strong growth in localisation, has led to an overall blended gross profit margin of 35% (2017: 45%).

Operational fixed costs have increased to $7.7 million (2017: $5.6 million) as we continue to build up the business. Our sales team has been expanded to provide us with the means to develop business opportunities with a greater number of clients; the total number of accounts invoiced in the period increased to 158 (2017: 145). The R&D team has been enlarged through the addition of new staff, enabling us to accelerate the development and roll-out of our cloud software platforms, ensuring that we maintain our competitive advantage in the market. Staff additions and other enhancements in our operations, including in relation to provision of high levels of security, have led to an increase in IT expenditure in the period. The improved performance of the business has led to us paying a bonus to all staff, including executive members of the board, recognising the significant contributions that made such performance possible. We have also increased our expenditure on marketing, primarily through exhibiting at a greater number of international trade shows and other events that provide a cost-effective way to reach existing and prospective clients.

The post balance sheet event mentioned in the financial review for the period to March 2017, consisting of an equity fundraising, the conversion of debt into equity and extending the maturity of the conversion of remaining loan notes, has led to a significant strengthening of the balance sheet. Whilst we continue to have access to a facility of up to $2.5 million in the US and a further £250,000 overdraft in the UK, we have no borrowings outstanding with the associated providers, and the only debt on the balance sheet is the residual £2.54 million convertible loan note. This instrument pays a coupon of 7.5%, has a conversion price of 48 pence and its term now ends in October 2020. For so long as the share mid-price trades above this amount, as it has since mid-December 2017, it would be reasonable to expect that holders will choose to convert their holdings into equity prior to the end of the term rather than request repayment.

A further consequence of a convertible loan note denominated in pounds sterling, whilst our financial statements are denominated in US dollars, is that the consolidated statement of comprehensive income includes an exchange adjustment on borrowings due to the conversion of the value of the debt on 31 March. In the period under review, the strengthening of pound sterling relative to US dollar led to an exchange loss of $0.5 million, while in the equivalent prior year period the statement showed a gain of $0.6 million, giving rise to a year on year variance of $1.1 million. However, since the loan note can reasonably be expected to convert into equity rather than be repaid, we do not expect an exchange profit or loss to crystalise. In addition, the conversion of £1.1 million of the loan note in May 2017 has resulted in a charge to the consolidated statement of comprehensive income of $0.1 million (2017: nil).

Due to the fact that the remaining loan note is convertible, compounded by its denomination in pounds sterling while the group's reporting currency is US dollars, the instrument needs to be treated as an embedded derivative for accounting purposes. Movements in the share price of the company can therefore have a considerable, non-cash effect on reported profit or loss before taxation as these embedded derivatives are linked to the company's share price performance. ZOO's share price at the close of business on 31 March 2017 was 10p, which contrasts sharply with its price of 97.5p at close of business on 29 March 2018 (being the last business day before the year end date). Consequently, the statement of comprehensive income includes a charge after EBITDA of $4.7 million and the long-term borrowings reported on the statement of financial position are increased by $4.7 million. The long-term borrowings reported on the statement of financial position show a total of $8.8 million which is made up from $3.6 million for the convertible loan note, which is expected to convert into equity, $4.7 million for the non-cash embedded derivative movement and $0.5 million for finance lease liabilities. Only the latter item is expected to have any cash impact.

These non-cash accounting entries have a material impact on profit/loss before tax where the reported figure for the year to March 2018 is a loss of $5.0 million (2017: $0.5 million profit). After adjusting for share-based payments, the exchange gain/loss on borrowings, the charge for the conversion of loan into equity and the charge for the embedded derivative, profit before tax was $0.5 million (2017: loss of $0.1 million). None of these adjustments have any cash implication.

The statement of financial position shows trade and other receivables have increased significantly over the prior year period to $7.4 million (2017: $3.8 million) and up 4% on the half year end position (September 2017: $7.1 million). This figure includes debtors together with a contribution for work in progress, sales accruals and other items. The much higher volume of projects that we are processing has led not only to a significant increase in these assets: despite a much enlarged debtor book, this is being converted into cash in the normal course of business and, as of the date of this report, 93% of year end debtors have since been paid.

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 over 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 focusses 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 focussing 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 are US dollars 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 financing facilities in both the UK and US.

By order of the board

Helen P Gilder

Director and Secretary
29 June 2018

Corporate Governance Statement

All members of the board believe strongly in the value and importance of good corporate governance and in our accountability to all of ZOO's stakeholders, including shareholders, staff, clients, our growing network of freelance workers and other suppliers. In the statement below, we explain our approach to governance, and how the board and its committees operate.

Changes to AIM rules on 30 March 2018 require AIM companies to apply a recognised corporate governance code by 28 September 2018. Although ZOO is not yet obliged to comply with the new requirements of AIM Rule 26, I am pleased to report that the board has decided to disclose information in accordance with these earlier than has been mandated.

The corporate governance framework which the group operates, including board leadership and effectiveness, board remuneration, and internal control is based upon practices which the board believes are proportional to the size, risks, complexity and operations of the business and is reflective of the group's values. Of the two widely recognised formal codes, we have therefore decided to adhere to the Quoted Companies Alliance's (QCA) Corporate Governance Code for small and mid-size quoted companies (revised in April 2018 to meet the new requirements of AIM Rule 26).

The QCA Code is constructed around ten broad principles and a set of disclosures. The QCA has stated what it considers to be appropriate arrangements for growing companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures. We have considered how we apply each principle to the extent that the board judges these to be appropriate in the circumstances, and below we provide an explanation of the approach taken in relation to each. The board considers that it does not depart from any of the principles of the QCA Code.

Board composition and compliance

The QCA Code requires that the boards of AIM companies have an appropriate balance between executive and non-executive directors of which at least two should be independent. During the period under review we have strengthened the board and have consequently satisfied this requirement since October 2017 following the appointment of Mickey Kalifa as an independent non-executive director. Mickey is a chartered accountant with nearly 30 years' experience across the technology, media and gaming sectors. He is CEO of betPawa Group Holdings, and was formerly CFO of Sportech PLC. Mickey brings strong experience in our sector, having held positions in some of the world's largest media and technology companies, including Liberty Global, Sky, Time Warner, Disney and Young & Rubicam, as well as having played an executive role with a technology company listed on the AIM market. On his appointment, Mickey has assumed the role of chair of the Audit Committee and member of the Remuneration Committee. He joins me as the group's second independent non-executive director.

On 14 February 2018 Helen Gilder, CFO of the group, announced her intention to leave the company. The board considers that the size of the group does not justify the establishment of a formal nominations committee, and consequently all of the directors have played an active part in the search for a replacement CFO, and are pleased to be joined by Phillip Blundell who joins in the role in July 2018.

Board evaluation

For many years we have supported the QCA Code's principle to review regularly the effectiveness of the board's performance as a unit, as well as that of its committees and individual directors. I led the most recent review in August 2017, prior to Mickey's appointment, and a number of refinements in working practices were identified as a result of this exercise and have since been adopted. We will be considering the use of external facilitators in future board evaluations.

Shareholder engagement

We have made significant efforts to ensure effective engagement with both institutional and private shareholders. In addition to the usual roadshows following the release of full year and interim results, each of which was expanded to include a greater number of existing and potential new investors, we have actively promoted our AGM as a forum to present to and meet with investors, delivered our first capital markets event in October 2017, and presented at an investor exhibition and conference. The company has also instigated a periodic shareholder newsletter, to which investors can subscribe via email, to provide investors with an easy to access source of information on operational activities taking place within the group.

The board is aware that following the introduction of the Markets in Financial Instruments Directive II (MiFID II) regulations at the start of 2018, private investor access to research on public companies has been restricted. In response to this, in April 2018 post the year end, the board commissioned Progressive Equity Research to produce and provide private investors with independent research on the group.

The board has ultimate responsibility for reviewing and approving the Annual Report and Accounts and it has considered and endorsed the arrangements for their preparation, under the guidance of its audit committee. The directors confirm that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

The following paragraphs set out ZOO's compliance with the ten principles of the QCA Code.

Establish a strategy and business model which promote long-term value for shareholders

The purpose of the group is encapsulated in the expression of its mission, which is to provide services for fast and cost-effective localisation and digital distribution of TV and movie content through the power of our world-class cloud technology. Our business model is to provide media localisation and digital packaging services to content owners and distributors. Our strategy is to deliver these through a combination of proprietary software technology that acts as a competitive differentiator, and a large global network of linguistic professionals engaged on a freelance basis. This will deliver a profitable and highly-valued business and competitive advantages over other providers of similar services, leading to faster turnaround of projects, to a consistently high quality at an attractive price point.

The key challenges we face include:

- Maintaining consistently high levels of quality – very high standards are now expected by the digital distributors who influence much of the localisation that is commissioned by industry players. We have implemented automated testing wherever possible, and our system-driven workflow management ensures that manual linguistic quality control is engaged as necessary. In the case of dubbing operations, we have developed software to analyse the acoustic performance of recording environments to ensure they meet minimum specifications.
- Ensuring security of client assets – the safekeeping of materials is of paramount importance. Our production facility in Los Angeles is audited for security annually by the Motion Picture Association of America, and similarly the Sheffield facility by the Content Delivery & Security Association. Features to prevent the copying of assets and provide effective deterrents are implemented throughout our proprietary software and systems.
- Delivering continuous availability – a failure in the group's systems could lead to an inability to deliver services. This is addressed by operating redundant systems across multiple availability zones, a comprehensive disaster recovery programme and assigning staff from both UK and US facilities on each project.
- Operating a large freelancer network – the group's capacity for processing orders is dependent, in part, on the network of freelance workers. The cloud software is enhanced on an ongoing basis to make the group's systems increasingly attractive to freelance workers. Financial processes are designed to ensure that all freelancers are paid on time. A process of peer review is implemented in the group's production systems to ensure that all work undertaken by freelancers is independently checked and verified and its quality is assured.
- Recruiting and retaining suitable staff – the group's ability to execute its strategy is dependent on the skills and abilities of its staff. We undertake ongoing initiatives to foster good staff engagement and ensure that remuneration packages are competitive in the market.

We believe we have the right strategy and service in place to deliver strong growth in sales over the medium to long term. We expect the gross profit of our localisation segment to improve in future periods as our dubbing service and software mature, which will result in improving EBITDA margins or provide us with scope for additional investment in new services. This will enable us to deliver sustainable shareholder value.

Seek to understand and meet shareholder needs and expectations

Responsibility for investor relations rests with the CEO, supported by the CFO. During the period under review the following activities were pursued to develop a good understanding of the needs and expectations of all constituents of the group's shareholder base:

Date	Description	Participants	Comments
Apr 17	Presentations to institutional investors regarding fundraising	RJ, SG, HG	Successfully completed a fundraising
May 17	EGM	RJ, SG, HG	To approve the fundraising; attended by private investors
Jun 17	Preliminary results roadshow	RJ, SG, HG	
Jul 17	Various analyst and shareholder meetings	SG, HG	Initiated coverage in morning newsflash by an analyst
Aug 17	Various shareholder meetings	SG	
Sep 17	Media and shareholder meetings	SG	
Sep 17	AGM	RJ, SG, HG	Actively invited shareholders to attend; provided presentations and software demonstrations
Oct 17	Shareholder site visits and meetings	SG, HG	
Oct 17	Capital Markets Day	RJ, SG, HG, GD	The group's first capital markets event to which analysts and fund managers were invited
Nov 17	Interim results roadshow	RJ, SG, HG	Extended to institutions in Edinburgh
Nov 17	Interim results private investor meeting and video	SG	Video disseminated via piworld to private investors and available on piworld website
Nov 17	Various media, analyst and shareholder meetings	SG, HG	
Dec 17	Shareholder site visit and meetings	SG, HG	
Jan 18	Various analyst and shareholder meetings	SG, HG	
Jan 18	Growth and Innovation Forum	SG, HG	Investor show and conference
Mar 18	Various media, analyst and investor meetings	SG	

Key: RJ: Roger Jeynes; SG: Stuart Green; HG: Helen Gilder; GD: Gordon Doran

Highlighted rows indicate private shareholder activities

The group is committed to communicating openly with its shareholders to ensure that its strategy and performance are clearly understood. We communicate with shareholders through the Annual Report and Accounts, full-year and half-year announcements, trading updates and the annual general meeting (AGM), and we encourage shareholders' participation in face-to-face meetings. A range of corporate information (including all ZOO announcements) is also available to shareholders, investors and the public on our website.

Private shareholders: The AGM is the principal forum for dialogue with private shareholders, and we encourage all shareholders to attend and participate. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. The chairs of the board and all committees, together with all other directors whenever possible, attend the AGM and are available to answer questions raised by shareholders. Shareholders vote on each resolution, by way of a poll. For each resolution we announce the number of votes received for, against and withheld and subsequently publish them on our website.

Institutional shareholders: The directors actively seek to build a mutual understanding of objectives with institutional shareholders. Our CEO and CFO make presentations to institutional shareholders and analysts immediately following the release of the full-year and half-year results. We communicate with institutional investors frequently through a combination of formal meetings, participation at investor conferences, roadshows and informal briefings with management. The majority of meetings with shareholders and potential investors are arranged by the broking team within the group's nominated advisor. Following meetings, the broker provides anonymised feedback to the board from all fund managers met, from which sentiments, expectations and intentions may be gleaned.

In addition, we review analysts' notes to achieve a wide understanding of investors' views. This information is considered by the board and has contributed to the preparation of the group's investor relations strategy which was approved in March 2018.

Since the period end, the group has engaged with Progressive Equity Research from which it has commissioned the preparation of research that can be made available to all shareholders, and with a provider of corporate access services to reach wealth managers and private client investment managers.

Take into account wider stakeholder and social responsibilities and their implications for long-term success

Stakeholder	Reason for engagement	How we engage
Staff – our ability to fulfil client services and develop and enhance the cloud software platforms on which they depend relies on having talented and motivated staff.	Good two-way communication with staff is a key requirement for high levels of engagement, fostering a culture of innovation.	Monthly staff briefings. Invitation to staff to ask questions of management that are answered in the briefings. Annual engagement survey. These have provided insights that have led to enhancement of management practices and staff incentives.
Clients – our success and competitive advantage are dependent upon fulfilling client requirements, particularly in relation to quality of service, its speed of delivery and security.	Understanding current and emerging requirements of clients enables us to develop new and enhanced services, together with software to support the fulfilment of those services.	Seek feedback on services and software systems. Obtain fulfilment metrics employed by clients to measure performance. Obtain requests for new services and service enhancements. These have led to the group securing approved vendor status with a number of large media organisations.
Suppliers – a key supplier group is our network of freelancers who fulfil linguistic services.	Freelance workers will provide similar services to other organisations, including our competitors, so we must ensure they are available to us and accommodating.	We optimise our systems to simplify the work of freelancers as much as possible, including in relation to administration of projects. We operate systems to ensure that supplier invoices are processed and paid promptly. These have led to a large, growing and supportive freelancer network.
Shareholders – as a public company we must provide transparent, easy-to-understand and balanced information to ensure support and confidence.	Meeting regulatory requirements and understanding shareholder sentiments on the business, its prospects and performance of management.	Regulatory news releases. Keeping the investor relations section of the website up to date. Periodic investor newsletters. Participation at investor events. Publish videos of investor presentations and interviews. Annual and half-year reports and presentations. AGM. Capital markets events. We believe we successfully engage with our shareholders: over the past 12 months this engagement has led to support for the group, increased liquidity of trading and higher valuation.
Industry bodies – the services we provide must meet certain requirements.	The views of certain industry groups, including the Motion Picture Association of America(MPAA) and the Content Delivery & Security Association (CDSA) are influential in the way the group is perceived by certain clients.	Membership of MPAA and CDSA and participation in security programs. Annual audit of security. These have resulted in audit reports that have led to certain clients commencing engagement.
Communities – what we do impacts communities in the places where we operate and elsewhere.	It is important to be perceived as a reputable business that makes a positive contribution to local economies and is attractive as an employer and partner.	Multiple activities to support fundraising for local charities and good causes. Participation in apprenticeship and other schemes to support and provide opportunities to young people. Three directors are trustees of registered charities. These have led to an improved profile for the group in the local areas of its major operations.

Embed effective risk management, considering both opportunities and threats, throughout the organisation

The CFO has prepared a risk register for the group that identifies key risks in the areas of corporate strategy, financial, clients, staff, environmental and the investment community. All members of the board are provided with a copy of the register. The register is reviewed periodically and is updated as and when necessary.

Within the scope of the annual audit, specific financial risks are evaluated in detail, including in relation to foreign currency, interest rates, liquidity and credit.

Staff are reminded on a monthly basis to report, anonymously or otherwise, any security risks or threat they perceive in the operations of the business. On receipt of any such notification, a security incident team is assembled to assess and take remedial action as appropriate in the circumstances.

Staff are reminded on a monthly basis that they should seek approval from the CFO if they, or their families, plan to trade in the group's equities.

Maintain the board as a well-functioning, balanced team led by the chair

The members of the board have a collective responsibility and legal obligation to promote the interests of the group, and are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the chair of the board.

The board consists of five directors of which three are executive and two are independent non-executives, one of whom was appointed during the period. The board is supported by two committees: audit and remuneration. The board does not consider that it is of a size at present to require a separate nominations committee, and all members of the board are involved in the appointment of new directors. The board intends to appoint additional non-executive directors as its business expands.

Non-executive directors are required to attend 10-12 board and board committee meetings per year (in Sheffield, London or Los Angeles) and to be available at other times as required for face-to-face and telephone meetings with the executive team and investors.

Meetings held during the period under review and the attendance of directors is summarised below:

	Board meetings*		Audit Committee		Remuneration Committee	
	Possible	Attended	Possible	Attended	Possible	Attended
Executive directors						
Dr Stuart A Green	10	10	–	–	–	–
Helen P Gilder	10	10	–	–	–	–
Gordon Doran	10	10	–	–	–	–
Non-executive directors						
Roger D Jeynes	10	10	2	2	2	2
Mickey Kalifa (appointed 5 October 2017)	5	4	1	1	1	1

* There was one further meeting called and held by conference call for the sole purpose of approving the interim results announcement

The board has a schedule of regular business, financial and operational matters, and each board committee has compiled a schedule of work to ensure that all areas for which the board has responsibility are addressed and reviewed during the course of the year. The chairman is responsible for ensuring that, to inform decision-making, directors receive accurate, sufficient and timely information. The company secretary compiles the board and committee papers which are circulated to directors prior to meetings. The company secretary provides minutes of each meeting and every director is aware of the right to have any concerns minuted and to seek independent advice at the group's expense where appropriate.

Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

All five members of the board bring relevant sector experience in media and technology, all have at least nine years of public markets experience and two members are chartered accountants. One director is female and four are male. The board believes that its blend of relevant experience, skills and personal qualities and capabilities is sufficient to enable it to successfully execute its strategy. Directors attend seminars and other regulatory and trade events to ensure that their knowledge remains current.

Roger D Jeynes, Independent Chairman

Term of office: Appointed as Chairman on 28 April 2010; Chair of the Remuneration Committee and a member of the Audit Committee.

Background and suitability for the role: Roger has had a long executive career in the technology and corporate finance sectors, including sales and general management roles with large corporations in Europe and the USA. More recently he has held non-executive roles with a number of listed and venture-backed technology companies as well as with several fully listed investment trusts. He therefore brings long experience of governance and public markets, and is able to empathise with the sometimes differing views of investors and executive directors.

Roger is an FCA approved person for controlled functions CF30: Customer (FCA register ref. no. RDJ01021).

Current external appointments: Non-executive director of Downing THREE VCT plc, Development Bank of Wales plc, mxData Ltd and Charborough Capital Limited, and trustee of a charity, The Lloyd Reason Foundation.

Time commitment: one to two days per month.

Mickey Kalifa, Independent Non-Executive Director

Term of office: Joined as Non-Executive Director on 5 October 2017; Chair of the Audit Committee and member of the Remuneration Committee.

Background and suitability for the role: Mickey is a chartered accountant and finance professional with nearly 30 years' experience across the technology, media and gaming sectors. Mickey was appointed CEO of the betPawa Group in May 2018, a privately held, online sports betting business. Previously he was CFO of Sportech PLC. where he led a transformation in the company's financial strength and played a prominent role in driving Sportech's global expansion. He brings a combination of financial expertise, knowledge of public markets as well as a wide range of sector experience gained from a career spent in the technology, media and gaming sectors with some of the world's largest media and technology companies, including Liberty Global, BSkyB plc, Time Warner, Disney and Young & Rubicam.

Time commitment: one to two days per month.

Dr Stuart A Green, CEO

Term of office: A co-founder from the group's inception in 2001, originally in the role of Chief Technical Officer, and appointed CEO on 1 February 2006.

Background and suitability for the role: Stuart brings over 25 years of experience of team building and executive management in the software industry to his role as CEO. Stuart established ZOO's business strategy and difference in the marketplace by using software technology to deliver disruptive innovation. With a PhD in Computer Science he brings expertise in software technology, a track record of innovation having secured 30 software patents, experience of leading innovative technology businesses as a result of having co-founded and sold three private software companies, and experience of capital markets gained from 18 years as a main board director of AIM-quoted companies.

Current external appointments: Trustee of registered charity Friends of the Rowan School.

Time commitment: full time.

Helen P Gilder, CFO and Company Secretary

Term of office: Appointed as Group Financial Controller in 2001 and became CFO and Company Secretary on 29 September 2006.

Background and suitability for the role: Helen assisted with the flotation in 2000 of Kazoo3D plc which was subsequently merged with a private company and re-admitted to AIM as ZOO Digital Group plc in 2001. A qualified Chartered Accountant since 1991 with 26 years' experience in industry, Helen brings financial expertise and sector experience, having worked in the technology and services industry since 1993 where she gained managerial and transaction experience in finance director roles, and 12 years as CFO and company secretary with an AIM-quoted business.

Current external appointments: Trustee of registered charity Asperger's Children and Carers Together.

Time commitment: 80% time.

Gordon Doran, Commercial Director

Term of office: Originally engaged as a commercial consultant in 2005 to establish the group's US operations and appointed Commercial Director on 28 July 2009.

Background and suitability for the role: Gordon has spent his career in commercial roles with technology businesses in the UK and USA. As Commercial Director and President of ZOO's US operation, Gordon is responsible for all global operations and has been pivotal in establishing relationships with a number of large US entertainment companies including the 'Big Six' Hollywood studios. Based on the West Coast of the USA, Gordon brings significant experience of sales and marketing in the software industry since the early 1990s, having held senior positions in a number of companies, including as COO for MedioStream Inc., and capital markets experience as a main board director for nine years.

Current external appointments: None

Time commitment: full time.

Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

A board evaluation process led by the chairman took place August 2017. All then current directors began by completing questionnaires about the effectiveness of the board and a self-assessment of their own contributions which were returned to the chairman. The chairman then reviewed this information and used it as the basis for an individual discussion with each director, followed by a collective discussion with the board.

The review considers effectiveness in a number of areas including general supervision and oversight, business risks and trends, succession and related matters, communications, ethics and compliance, corporate governance and individual contribution.

A number of refinements in working practices were identified as a result of this exercise and have since been adopted.

We will be considering the use of external facilitators in future board evaluations.

As the business expands, the executive directors will be challenged to identify potential internal candidates who could potentially occupy board positions, and set out development plans for these individuals.

Promote a corporate culture that is based on ethical values and behaviours

Our long-term growth is underpinned by our five core values, which were defined following a staff consultation process in 2009. They are:

1. We place our **customers first**, putting ourselves in their shoes to understand the current and future needs of those who use our products and services, and always striving to exceed their expectations.
2. We have an enduring **positive attitude** that stems from being self-motivated, adaptable and agile and feeling fully empowered to make a difference, speaking out with ideas and suggestions to make things better.
3. We are **team players** who recognise that ZOO is a company worth much more than the sum of its parts, we are passionate about communicating with colleagues and with our customers and are committed to learning from one another.
4. We are committed to **innovation** in what we do and how we do it, and to working smarter rather than harder to reduce costs, increase efficiency and make lives easier by being creative, pragmatic and different.
5. We **respect** one another and are courteous, honest and straightforward in all our dealings, we honour diversity, individuality and personal differences, and are committed to conducting our business with the highest personal, professional and ethical standards.

The culture of the group is characterised by these values which are communicated regularly to staff through internal communications and forums. A staff recognition programme operates on an ongoing basis by which any employee can nominate any of his/her colleagues for a contribution that is in keeping with the five core values. All nominees are recognised at company-wide staff briefings that take place monthly at the Sheffield and Los Angeles offices, presented by executive directors and senior managers. The core values are communicated to prospective employees in the group's recruitment programmes and are considered as part of the selection process.

The board believes that a culture that is based on the five core values is a competitive advantage and consistent with fulfilment of the group's mission and execution of its strategy.

The culture is monitored through the use of a widely-used satisfaction and engagement survey that is operated on an annual basis and to which all permanent staff are invited to contribute. The board reviews the findings of the survey and determines whether any action is required.

Maintain governance structures and processes that are fit for purpose and support good decision-making by the board

The **Board** provides strategic leadership for the group and operates within the scope of a robust corporate governance framework. Its purpose is to ensure the delivery of long-term shareholder value, which involves setting the culture, values and practices that operate throughout the business, and defining the strategic goals that the group implements in its business plans. The board defines a series of matters reserved for its decision and has approved terms of reference for its audit and remuneration committees to which certain responsibilities are delegated. The chair of each committee reports to the board on the activities of that committee.

The **Audit Committee** monitors the integrity of financial statements, oversees risk management and control, monitors the effectiveness of the internal audit function and reviews external auditor independence.

The **Remuneration Committee** sets and reviews the compensation of executive directors including the setting of targets and performance frameworks for cash- and share-based awards.

The **Executive Board**, consisting of the executive directors, operates as a management committee, chaired by the CEO, which reviews operational matters and performance of the business, and is responsible for significant management decisions while delegating other operational matters to individual managers within the business.

The **Chairman** has overall responsibility for corporate governance and in promoting high standards throughout the group. He leads and chairs the board, ensuring that committees are properly structured and operate with appropriate terms of reference, ensures that performance of individual directors, the board and its committees are reviewed on a regular basis, leads in the development of strategy and setting objectives, and oversees communication between the group and its shareholders.

The **CEO** provides coherent leadership and management of the group, leads the development of objectives, strategies and performance standards as agreed by the board, monitors, reviews and manages key risks and strategies with the board, ensures that the assets of the group are maintained and safeguarded, leads on investor relations activities to ensure communications and the group's standing with shareholders and financial institutions is maintained, and ensures that the board is aware of the views and opinions of employees on relevant matters.

The **Executive Directors** are responsible for implementing and delivering the strategy and operational decisions agreed by the board, making operational and financial decisions required in the day-to-day operation of the group, providing executive leadership to managers, championing the group's core values and promoting talent management.

The **Independent Non-Executive Directors** contribute independent thinking and judgement through the application of their external experience and knowledge, scrutinise the performance of management, provide constructive challenge to the executive directors and ensure that the group is operating within the governance and risk framework approved by the board.

The **Company Secretary** is responsible for providing clear and timely information flow to the board and its committees and supports the board on matters of corporate governance and risk.

The matters reserved for the board are:

- Setting long-term objectives and commercial strategy.
- Approving annual operating and capital expenditure budgets.
- Changing the share capital or corporate structure of the group.
- Approving half-year and full-year results and reports.
- Approving dividend policy and the declaration of dividends.
- Approving major investments, disposals, capital projects or contracts.
- Approving resolutions to be put to general meetings of shareholders and the associated documents or circulars.
- Approving changes to the board structure.

The board has approved the adoption of the QCA Code as its governance framework against which this statement has been prepared and will monitor the suitability of this code on an annual basis and revise its governance framework as appropriate as the group evolves.

Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

In addition to the investor relations activities described above, the following audit and remuneration committee reports are provided.

Audit Committee Report

During the year, the Audit Committee has continued to focus on the effectiveness of the controls throughout the group. The Audit Committee consists of Mickey Kalifa, Chair, and Roger D Jeynes. The committee met twice, and the external auditor and CFO were invited to attend these meetings. Consideration was 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 committee also met with the auditors with no executives present.

Remuneration Committee Report

The remit of the Remuneration Committee is to determine the framework, policy and level of remuneration, and to make recommendations to the board on the remuneration of executive directors. In addition, the committee oversees the creation and implementation of all-employee share plans. The Remuneration Committee consists of Roger D Jeynes, chair, and Mickey Kalifa. The committee met twice.

In setting remuneration packages the committee ensured that individual compensation levels, and total board compensation, were comparable with those of other AIM-listed companies.

During the period under review the Remuneration Committee has granted options over ordinary shares in the company to executive directors and employees of the company of which a proportion were to replace certain options previously issued under the ZOO Digital Group plc EMI scheme and the ZOO Digital Group plc USA Unapproved scheme.

In granting these options, the Remuneration Committee's objective was to attract, motivate and retain key staff over the long term, designed to incentivise delivery of the company's growth objectives.

At the same time that this grant of options was made, the company cancelled certain previous options granted to the executive directors in 2008. Options have been granted to directors and key management personnel to replace those options that have been cancelled. The 2008 options, which were fully vested and were without performance conditions, were due to lapse in September 2018 and therefore have been replaced by options that were vested in September 2017, subject to certain performance conditions. Large shareholders were consulted before the issuance of major option awards.

By order of the board

Roger D Jeynes
Chairman

Advisers

Company Secretary and Registered Office

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Registrar

Share Registrars Limited
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Solicitors

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

Directors' Report

The directors present their report on the affairs of the group, together with the financial statements and the independent auditor's report, for the year ended 31 March 2018.

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 localised 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 19 to 26.

The audited financial statements for the year ended 31 March 2018 are set out on pages 46 to 78. 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 for 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
Mickey Kalifa*	Non-Executive Director

*appointed 5 October 2017

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 2018 are disclosed in the Directors' Remuneration Report. In accordance with the company's articles of association, Gordon Doran retires by rotation and Mickey Kalifa, who has been appointed since the last Annual General Meeting, retires at the next Annual General Meeting and, being eligible, both 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.

Substantial shareholdings

At 29 June 2018, 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
Dr Stuart A Green*	15.62%	11,524,002
Canaccord Genuity Group Inc (Hargreave Hale Ltd)	13.61%	10,043,029
Herald Investment Trust plc	12.96%	9,563,496
Old Mutual plc	6.22%	4,591,303
Kinderhook Partners LLC	3.12%	2,298,642

*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 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 32.

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 its report and to establish that the auditor is aware of that information.

By order of the board

Helen P Gilder
Director and Secretary

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 2018 the Remuneration Committee consisted of both non-executive directors and 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). Mickey Kalifa is paid as an employee.

Directors' remuneration

Directors' remuneration for the year to 31 March 2018 is:

	Salary $000	Bonus $000	Benefits $000	Sub total $000	Pension $000	2018 Total $000	2017 Total $000
Dr Stuart A Green	**175**	**238**	**-**	**413**	**8**	**421**	233
Helen P Gilder	**120**	**162**	**-**	**282**	**10**	**292**	166
Gordon Doran	**194**	**155**	**23**	**372**	**-**	**372**	338
Roger D Jeynes	**34**	**-**	**-**	**34**	**-**	**34**	34
Mickey Kalifa*	**15**	**-**	**-**	**15**	**-**	**15**	-
	538	**555**	**23**	**1,116**	**18**	**1,134**	771

Of the above, the following directors were remunerated in pounds sterling for the year to 31 March 2018. The pound sterling amounts are shown below:

	Salary £000	Bonus £000	Sub total £000	Pension £000	2018 Total £000	2017 Total £000
Dr Stuart A Green	**132**	**167**	**299**	**6**	**305**	180
Helen P Gilder	**91**	**114**	**205**	**8**	**213**	129
Roger D Jeynes	**26**	**-**	**26**	**-**	**26**	26
Mickey Kalifa*	**11**	**-**	**11**	**-**	**11**	-
	260	**281**	**541**	**14**	**555**	335

Gordon Doran is remunerated in US dollars.

*Appointed 5 October 2017

The balance owing to Charborough Capital Limited at 31 March 2018 was $4,100 (2017: $35,000).

Two directors (2017: 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:	2018 $000	2017 $000
Emoluments	**350**	338

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 2017	Granted during the year	Exercised during the year	Surrend-ered during the year	31 March 2018	Exercise price ($)	Exercise price (£)	Date from which exercis-able	Expiry date
Roger D Jeynes	30,000	-	-	-	**30,000**	$0.65	43.00p	Jun-11	Jun-20
Stuart A Green	175,000	-	-	175,000	**-**	$0.21	15.00p	Sep-09	Oct-18
Stuart A Green	150,000	-	-	-	**150,000**	$0.23	15.00p*	Jul-13	Jul-22
Stuart A Green	-	175,000	-	-	**175,000**	$0.20	15.25p**	Sep-17	Aug-27
Helen P Gilder	450,000	-	-	450,000	**-**	$0.21	15.00p	Sep-09	Oct-18
Helen P Gilder	100,000	-	-	100,000	**-**	$0.21	15.00p	Oct-09	Oct-18
Helen P Gilder	150,000	-	40,000	-	**110,000**	$0.23	15.00p*	Jul-13	Jul-22
Helen P Gilder	250,000	-	-	-	**250,000**	$0.23	15.00p	Jan-16	Jan-25
Helen P Gilder	-	1,500,000	-	382,000	**1,118,000**	$0.20	15.25p**	Sep-17	Aug-27
Gordon Doran	450,000	-	-	450,000	**-**	$0.34	22.00p	Sep-09	Oct-18
Gordon Doran	100,000	-	-	100,000	**-**	$0.34	22.00p	Oct-09	Oct-18
Gordon Doran	150,000	-	-	-	**150,000**	$0.23	15.00p*	Jul-13	Jul-22
Gordon Doran	250,000	-	-	-	**250,000**	$0.23	15.00p	Jan-16	Jan-25
Gordon Doran	-	1,500,000	-	-	**1,500,000**	$0.20	15.25p**	Sep-17	Aug-27
Gordon Doran	-	1,000,000	-	-	**1,000,000**	$0.20	15.25p***	Aug-18	Aug-27
Mickey Kalifa	-	30,000	-	-	**30,000**	$0.49	37.50p	Oct-18	Oct-27
	2,255,000	**4,205,000**	**40,000**	**1,657,000**	**4,763,000**				

* The 2012 issue of share options has a vesting condition that the company's share price must be £0.40 or higher on 20 consecutive business days prior to exercise.

** The 2017 issue of share options has a vesting condition that the company's share price must be £0.20 or higher for 3 months immediately prior to exercise.

*** The 1,000,000 share options issued to Gordon Doran in 2017 have a vesting condition relating to the profitability of the group.

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 $105,000 (2017: $5,000).

The market price of the ordinary shares at 31 March 2018 was 137 cents (97.5p) and the range during the year was 142 cents (101.5p) (high) to 12 cents (9.25p) (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	-
Mickey Kalifa	5 October 2017	-

Directors' interests

The directors who held office at 31 March 2018 had the following interests, including any interests of a 'connected person', in the 1p ordinary shares of ZOO Digital Group plc:

	2018	2017
Name of director	**Beneficial**	Beneficial
Roger D Jeynes	**342,222**	120,000
Dr Stuart A Green	**11,524,002**	4,857,335
Helen P Gilder	**56,019**	56,019
Gordon Doran	**-**	-
Mickey Kalifa	**50,000**	-

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 2018:

	2018	2017
Name of director	**$000**	$000
Roger D Jeynes	**35**	31
Dr Stuart A Green	**865**	769

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

	2018	2017
Name of director	**£000**	£000
Roger D Jeynes	**25**	25
Dr Stuart A Green	**615**	615

At the start of the period under review the company had a loan in place from Sara Green, wife of Dr Stuart A Green, of £600,000 with an interest rate of 10%. 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.

On 5 October 2017 Mickey Kalifa purchased 50,00 ordinary shares at 39p per share bringing his total holding to 50,000.

On 7 March 2018 Helen P Gilder exercised share options over 40,000 shares and, together with her husband Matthew Gilder, sold 40,000 shares at a price of 73.26p each.

No other transactions have taken place with directors.

No changes took place in the interests of directors between 31 March 2018 and 29 June 2018.

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

OPINION

Our opinion on the financial statements is unmodified

We have audited the financial statements of ZOO Digital Group plc (the 'parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2018 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Company Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Overall materiality: $118,000, which represents 4% of the Group's preliminary adjusted earnings before interest, tax, depreciation and amortisation

Key audit matter identified as Revenue recognition

Full scope audits were performed on all UK entities. A combination of full scope and targeted procedures were performed on US entities.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter – Group	How the matter was addressed in the audit – Group
Revenue recognition	
Revenue is a major driver of the business and under ISA (UK) 240 there is a presumed risk of fraud in revenue recognition that could result in material misstatements. We therefore identified revenue recognition as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Assessing whether the revenue recognition policy is in accordance with International Accounting Standard (IAS) 18 Revenue; • Testing whether a sample of revenue transactions had been accounted for in accordance with the accounting policy; • Testing a sample of revenue transactions and agreeing to corroborating documentation; and • Agreeing a sample of revenue transactions to customer payments, remittances and evidence of performance of the service. The Group's accounting policy on revenue recognition is shown in note 2.12 to the financial statements and related disclosures are included in note 5. **Key observations** Based on our audit work, we are satisfied that revenue is accounted for in accordance with the Group's accounting policies and IAS 18 Revenue.

We did not identify any key audit matters relating to the audit of the financial statements of the parent Company.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality Measure	Group	Parent Company
Financial statements as a whole	$118,000 which is 4% of the Group's preliminary adjusted earnings before interest, tax, depreciation and amortisation. This benchmark is considered the most appropriate because, whilst the Group is focused on delivering a profit, it has incurred disproportionate interest and amortisation charges during the year. Materiality for the current year is in line with the level that we determined for the year ended 31 March 2017.	$79,000 which is 2% of total assets, capped at component materiality which is 90% of group materiality. This benchmark is considered the most appropriate because the Company is a holding company. Materiality for the current year is in line with the level that we determined for the year ended 31 March 2017.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	$7,700 has been used for directors' remuneration and related party transactions.	$7,700 has been used for directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	$4,400 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	$3,950 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

- Our audit approach was a risk-based approach founded on a thorough understanding of the Group's business, its environment and risk profile and in particular included:
- evaluation by the Group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality. For example, significance as a percentage of the Group's total assets, revenues and EBITDA or significance based on qualitative factors, such as specific uses or concerns over specific components;
- a full scope statutory audit in relation to the parent Company and to all other UK-based Group entities;
- a combination of full scope and targeted procedures were performed on US entities;
- there has been no change in the overview of the scope of the current year audit from the scope of that of the prior year;
- 100% of Group revenue was subjected to full scope procedures;
- all audit work was performed by the Group audit team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the audit:

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

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

In the light of the knowledge and understanding of the Group and the parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 37, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Donna Steel
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Sheffield
29 June 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2018

	Note	2018 $000	2017 Restated $000
Revenue	5	**28,551**	16,488
Cost of sales		**(18,486)**	(9,077)
Gross profit		**10,065**	7,411
Other operating income	6	**-**	196
Other operating expenses	8	**(9,426)**	(7,105)
Operating profit		**639**	502
Analysed as:			
EBITDA before share-based payments		**2,396**	1,780
Share-based payments		**(276)**	(11)
Depreciation	8	**(450)**	(259)
Amortisation	8	**(1,031)**	(1,008)
		639	502
Exchange (loss)/gain on borrowings	7	**(456)**	624
Conversion of loan into equity	7	**(115)**	-
Fair value movement on embedded derivative	7	**(4,666)**	-
Finance cost	7	**(411)**	(591)
Total finance (cost)/income		**(5,648)**	33
(Loss)/profit before taxation		**(5,009)**	535
Tax credit	11	**253**	256
(Loss)/profit and total comprehensive income for the year attributable to equity holders of the parent		**(4,756)**	791
Profit/(loss) per share	13		
Basic		(6.81) cents	2.42 cents
Diluted		(6.81) cents	2.42 cents

The notes on pages 51 to 77 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March 2018

	Note	2018 $000	2017 $000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**889**	1,073
Intangible assets	15	**6,541**	6,915
Deferred income tax assets	16	**486**	486
		7,916	8,474
Current assets			
Trade and other receivables	17	**7,412**	3,753
Cash and cash equivalents	18	**2,409**	607
		9,821	4,360
Total assets		**17,737**	12,834
LIABILITIES			
Current liabilities			
Trade and other payables	21	**(6,106)**	(4,045)
Borrowings	20	**(226)**	(4,102)
		(6,332)	(8,147)
Non-current liabilities			
Borrowings	20	**(4,084)**	(2,126)
Separable embedded derivative	20	**(4,666)**	-
Total liabilities		**(15,082)**	(10,273)
Net assets		**2,655**	2,561
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	19	**1,010**	7,236
Share premium reserve		**41,003**	37,007
Foreign exchange translation reserve		**(992)**	(992)
Convertible loan note reserve		**42**	42
Share option reserve		**688**	328
Capital redemption reserve		**6,753**	-
Other reserves		**12,320**	12,320
Accumulated losses		**(58,116)**	(53,360)
		2,708	2,581
Interest in own shares		**(53)**	(20)
Attributable to equity holders		**2,655**	2,561

The notes on pages 51 to 77 are an integral part of these consolidated financial statements.

The financial statements on pages 45 to 77 were approved and authorised for issue by the board of directors on 29 June 2018 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 2018

	Note	2018 $000	2017 $000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**283**	311
Intangible assets	15	**2,284**	2,281
Investment in subsidiary undertakings	23	**9,700**	9,700
Amounts due from subsidiary undertakings	17	**14,912**	11,276
		27,179	23,568
Current assets			
Trade and other receivables	17	**328**	178
Cash and cash equivalents	18	**201**	57
		529	235
Total assets		**27,708**	23,803
LIABILITIES			
Current liabilities			
Trade and other payables	21	**(3,392)**	(2,657)
Borrowings	20	**(9,755)**	(13,571)
		(13,147)	(16,228)
Non-current liabilities			
Borrowings	20	**(3,746)**	(970)
Separable embedded derivative	20	**(4,666)**	-
Total liabilities		**(21,559)**	(17,198)
Net assets		**6,149**	6,605
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	19	**1,010**	7,236
Share premium reserve		**41,003**	37,007
Foreign exchange translation reserve		**(13)**	(13)
Convertible loan note reserve		**42**	42
Share option reserve		**688**	328
Capital redemption reserve		**6,753**	-
Other reserves		**10,596**	10,596
Accumulated losses		**(53,926)**	(48,587)
		6,153	6,609
Interest in own shares		**(4)**	(4)
Attributable to equity holders		**6,149**	6,605

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 or Statement of Cash Flows.

The loss for the parent company for the year was $5,341,000 (2017: loss of $1,453,000).

The notes on pages 51 to 77 are an integral part of these consolidated financial statements.

The financial statements on pages 45 to 77 were approved and authorised for issue by the board of directors on 29 June 2018 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 2018

	Ordinary shares	Share premium reserve	Foreign exchange translation reserve	Convertible loan note reserve	Share option reserve	Capital redemption reserve	Other reserves	Accumulated losses	Interest in own shares	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Balance at 1 April 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**
Deferred shares	(6,753)	3,881	-	-	-	6,753	-	-	-	3,881
Loan note conversion	-	115	-	-	-	-	-	-	-	115
Share-based payments	-	-	-	-	360	-	-	-	-	360
Purchase of own shares	-	-	-	-	-	-	-	-	(33)	(33)
Issue of ordinary shares	527	-	-	-	-	-	-	-	-	527
Loss for the year	-	-	-	-	-	-	-	(4,756)	-	(4,756)
Total comprehensive income for the year	-	-	-	-	-	-	-	(4,756)	-	(4,756)
Balance at 31 March 2018	1,010	41,003	(992)	42	688	6,753	12,320	(58,116)	(53)	2,655

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2018

	Ordinary shares	Share premium reserve	Foreign exchange translation reserve	Convertible loan note reserve	Share option reserve	Capital redemption reserve	Other reserves	Accumulated losses	Interest in own shares	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Balance at 1 April 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**
Deferred shares	(6,753)	3,881	-	-	-	6,753	-	-	-	3,881
Loan note conversion	-	115	-	-	-	-	-	-	-	115
Share-based payments	-	-	-	-	360	-	-	-	-	360
Issue of ordinary shares	527	-	-	-	-	-	-	-	-	527
Loss for the year	-	-	-	-	-	-	-	(5,339)	-	(5,339)
Total comprehensive income for the year	-	-	-	-	-	-	-	(5,339)	-	(5,339)
Balance at 31 March 2018	**1,010**	**41,003**	**(13)**	**42**	**688**	**6,753**	**10,596**	**(53,926)**	**(4)**	**6,149**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 March 2018

	Note	2018 $000	2017 $000
Cash flows from operating activities			
Operating profit for the year		**639**	502
Depreciation	14	**450**	259
Amortisation and impairment	15	**1,031**	1,008
Share-based payments		**360**	11
Purchase of own shares		**(33)**	-
Disposal of property, plant and equipment	14	**-**	1
Changes in working capital:			
Increases in trade and other receivables		**(3,659)**	(1,222)
Increases in trade and other payables		**2,061**	949
Cash flow from operations		**849**	1,508
Tax received		**253**	256
Net cash inflow from operating activities		**1,102**	1,764
Investing activities			
Purchase of intangible assets	15	**(657)**	(541)
Purchase of property, plant and equipment	14, 18	**(266)**	(168)
Net cash outflow from investing activities		**(923)**	(709)
Cash flows from financing activities			
Repayment of borrowings		**(927)**	(164)
Finance cost		**(437)**	(591)
Issue of share capital		**2,987**	-
Share and convertible loan issue costs		**-**	(7)
Net cash inflow/(outflow) from financing		**1,623**	(762)
Net increase in cash and cash equivalents		**1,802**	293
Cash and cash equivalents at the beginning of the year		**607**	314
Cash and cash equivalents at the end of the year	18	**2,409**	607

The notes on pages 51 to 77 are an integral part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2018

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 S1 4LW.

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 effect the application of policies and reported amounts in the financial statements. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed in note 3.

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

The directors have prepared trading and cash flow forecasts for the group for the period to 31 March 2020 which show a continuation of the growth in profitability and cash generation. 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 a facility with Crestmark Bank which 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 2019 with an option to extend. In the UK there is an overdraft facility with a limit of £250,000 in place with HSBC.

The convertible unsecured loan notes totalling £2.5m are in place until 31 October 2020.

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 2018 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 2018)

IFRS 9 'Financial Instruments' (effective 1 January 2018)

IFRS 16 'Leases' (effective 1 January 2019)

IFRS 14 'Regulatory Deferral Accounts' (effective 1 January 2018)

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 directors are finalising the assessments of the impact of the implementation of IFRS 15 and expect these to show that there will be no material impact on the way revenues are recognised across the group.

Other standards and interpretations in issue but not yet effective are not considered to have any relevance to the group other than IFRS 16 'Leases' and IFRS 15 'Revenue from Contracts with Customers'.

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 2018 was 0.710 (2017: 0.799).

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 in the Statement 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 Statement 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.

2.12.4 Deferred taxation

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

2.12.5 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 post-tax discount rate of 8.5%.

The separable embedded derivative fair value is estimated using a quantitative model based on that described by K Tsiveriotis and C Fernandes. This uses option pricing techniques to model the value of the convertible instruments based on parameters such as the credit spread on the company's debt instruments, the volatility and price of the company's shares.

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

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

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 2018, the group is organised on a worldwide basis into three main operating segments:

- Localisation, including subtitling and dubbing along with all associated services.
- Digital packaging.
- Software solutions, including research, development, consultancy and software sales.

These divisions are the basis on which the group reports its segment information and manages the business. Although there is overlap and interconnectivity between the segments, the dynamics and growth prospects differ from one another so it is appropriate that they are separately identified.

The segment results are as follows:

	Localisation		Digital packaging		Software solutions		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	$000	$000	**$000**	$000	**$000**	$000	**$000**	$000
Total revenue	**21,377**	8,608	**5,234**	5,829	**4,208**	2,051	**30,819**	16,488
Intersegment revenue						(2,268)	**(2,268)**	-
Revenue	**21,377**	8,608	**5,234**	5,829	**1,940**	2,051	**28,551**	16,488
Segment contribution	**6,669**	2,327	**3,129**	4,048	**1,856**	1,949	**11,654**	8,324
Unallocated cost of sales							**(1,589)**	(913)
Gross profit							**10,065**	7,411
Unallocated corporate expense							**(9,426)**	(6,909)
Operating profit							**639**	502
Finance cost							**(5,648)**	33
(Loss)/profit before taxation							**(5,009)**	535
Tax on (loss)/profit							**253**	256
(Loss)/profit for the year							**(4,756)**	791

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	
	2018	2017	**2018**	2017	**2018**	2017
	$000	$000	**$000**	$000	**$000**	$000
United Kingdom (domicile)	**1,101**	858	**8,834**	8,510	**6,834**	7,246
US	**27,450**	15,630	**7,566**	3,838	**592**	740
	28,551	16,488	**16,400**	12,348	**7,426**	7,986

5. Revenue

All revenue is derived from continuing operations.

Major clients

The group has two major customers contributing 34% and 24% (2017: 8% and 44%) of the group's revenue respectively. The revenues are as follows:

	2018	2017
	$000	$000
Largest two clients	**16,114**	8,554
Other clients	**12,437**	7,934
	28,551	16,488

6. Other operating income

	2018	2017
	$000	$000
Landlord contribution	**-**	105
Grant funding	**-**	91
Other operating income	**-**	196

7. Finance costs/income

	2018	2017
	$000	$000
Interest on borrowings	**411**	591
Conversion of convertible loan stock	**115**	-
Fair value movement on embedded derivative	**4,666**	-
Exchange loss/(gain) on borrowings	**456**	(624)
Finance costs/(income)	**5,648**	(33)

The fair value movement on the embedded derivative is a non-cash charge based on the valuation of the separate economic items within the convertible loan note agreement which have been classed as embedded derivatives. This is explained more fully in note 20.

8. Operating profit/loss

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

	2018 $000	2017 $000
Other exchange (gains)/losses	**(13)**	(102)
Staff costs	**5,390**	3,651
Capitalised staff costs	**(586)**	(570)
Share-based payment	**276**	11
Depreciation	**450**	259
Amortisation of other intangible assets	**1,031**	1,008
Research and non-capitalised development costs	**301**	315
Operating lease expense – land and buildings	**482**	528
Loss on disposal of assets	**-**	1
Auditor's remuneration	**86**	72
Other expenses	**2,009**	1,933
Other operating expenses	**9,426**	7,105

The 2017 income statement has been restated following the decision by management to include the direct internal costs of sale within cost of sales rather than overheads in order to be more representative of the dynamics of the business going forward. This change of accounting policy has resulted in a total of $4,356,000 of staff costs and $237,000 of other costs being moved from operating costs into cost of sales for the year 2017.

9. Auditor's remuneration

	2018 $000	2017 $000
Fees payable to company's auditor for the audit of the parent company and consolidated financial statements	**39**	31
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	**16**	13
Tax services	**31**	25
All other services	**-**	3
	86	72

10. Employees including directors

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

	Group		Company	
	2018 No.	2017 No.	2018 No.	2017 No.
Product design and service delivery	**152**	102	**30**	19
Sales and marketing	**7**	6	**4**	2
Administration	**14**	10	**6**	5
	173	118	**40**	26

Their aggregate remuneration comprised:

	Group		Company	
	2018 $000	2017 $000	2018 $000	2017 $000
Wages and salaries	**11,171**	7,371	**1,408**	728
Social security costs	**811**	553	**71**	60
Other pension costs	**179**	71	**131**	30
Share-based payments	**276**	12	**182**	3
	12,437	8,007	**1,792**	821

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

Compensation of key management personnel (including directors)

	Group		Company	
	2018 $000	2017 $000	2018 $000	2017 $000
Short-term employee benefits	**1,513**	1,066	**744**	450
Cost of defined benefit scheme pensions	**18**	18	**18**	18
Share-based payments	**143**	2	**105**	2
	1,674	1,086	**867**	470

This includes all directors listed on page 32 and senior management.

Directors' remuneration for the year to 31 March 2018 is:

	Salary $000	Bonus $000	Benefits $000	Pension $000	2018 Total $000	2017 Total $000
Dr Stuart A Green	175	238	-	8	421	233
Helen P Gilder	120	162	-	10	292	166
Gordon Doran	194	155	23	-	372	338
Roger D Jeynes	34	-	-	-	34	34
Mickey Kalifa*	15	-	-	-	15	-
	538	555	23	18	1,134	771

*appointed 5 October 2017

Two directors (2017: 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:	2018 $000	2017 $000
Emoluments	**372**	338

11. Income tax

	2018 $000	2017 $000
Current tax:		
UK corporation tax		
- Research and development tax credit	**332**	256
Foreign tax	**(79)**	-
Total current tax	**253**	**256**
Total deferred tax	**-**	**-**
Tax credited	**253**	**256**

Corporation tax is calculated at 19% (2017: 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:

	2018	2017
	$000	$000
(Loss)/profit before tax	(5,009)	535
Tax calculated at standard rate of corporation tax of 19% (2017: 20%)	(952)	107
Research and development tax credit	253	256
Deducted from losses brought forward	(952)	(107)
Tax credited	253	256

Tax losses carried forward
The group has tax losses carried forward of approximately $43m (2017: $34m), of which $2.8m (2017: $2.8m) 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. (Loss)/profit per share

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

	Basic and diluted	
	2018	2017
	$000	$000
(Loss)/profit for the financial year	(4,756)	791

	2018	2017
	Number of shares	Number of shares
Weighted average number of shares for basic and diluted (loss)/profit per share		
Basic	69,841,166	32,660,660
Effect of dilutive potential ordinary shares:		
Convertible loan note	5,452,241	6,396,876
Share options	5,711,639	3,632,845
Diluted	81,005,046	42,690,381

The 2017 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. The 2018 basic and diluted earnings per share are the same due to the reported loss.

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 2016	482	165	1,950	180	2,777
Additions	13	307	573	7	900
Disposals	-	-	(253)	(95)	(348)
Opening cost at 1 April 2017	495	472	2,270	92	3,329
Additions	8	73	171	14	266
Closing cost at 31 March 2018	**503**	**545**	**2,441**	**106**	**3,595**
Accumulated depreciation					
Opening balance at 1 April 2016	463	134	1,577	170	2,344
Depreciation	16	40	197	6	259
Disposals	-	-	(253)	(94)	(347)
Opening balance at 1 April 2017	479	174	1,521	82	2,256
Depreciation	15	81	348	6	450
Closing balance at 31 March 2018	**494**	**255**	**1,869**	**88**	**2,706**
Opening carrying value at 1 April 2016	19	31	373	10	433
Opening carrying value at 1 April 2017	16	298	749	10	1,073
Closing carrying value at 31 March 2018	9	290	572	18	889

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

At 31 March 2018	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	(131)	(164)	(1,226)	(26)	(1,547)
Net book value	**-**	**205**	**360**	**-**	**565**

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**

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 2016	22	277	145	444
Additions	281	32	7	320
Disposals	-	(197)	(90)	(287)
Opening cost at 1 April 2017	303	112	62	477
Additions	4	51	9	64
Closing cost at 31 March 2018	**307**	**163**	**71**	**541**
Accumulated depreciation				
Opening balance at 1 April 2016	22	256	143	421
Depreciation	16	14	1	31
Disposals	-	(197)	(89)	(286)
Opening balance at 1 April 2017	38	73	55	166
Depreciation	57	31	4	92
Closing balance at 31 March 2018	**95**	**104**	**59**	**258**
Opening carrying value at 1 April 2016	-	21	2	23
Opening carrying value at 1 April 2017	265	39	7	311
Closing carrying value at 31 March 2018	212	59	12	283

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

At 31 March 2018	Leasehold improvements	Computer hardware	Total
	$000	$000	$000
Cost - capitalised finance leases	277	20	297
Accumulated depreciation	(72)	(17)	(89)
Net book value	**205**	**3**	**208**

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**

15. Intangible assets

Group	Goodwill	Development costs	Patents and trademarks	Computer software	Total
	$000	**$000**	**$000**	**$000**	**$000**
Cost					
Opening cost at 1 April 2016	16,610	9,341	590	607	27,148
Additions	-	523	18	-	541
Disposals	-	-	-	(59)	(59)
Opening cost at 1 April 2017	16,610	9,864	608	548	27,630
Additions	-	586	17	54	657
Closing cost at 31 March 2018	**16,610**	**10,450**	**625**	**602**	**28,287**
Accumulated amortisation					
Opening balance at 1 April 2016	12,620	6,254	307	585	19,766
Amortisation	-	932	56	20	1,008
Disposals	-	-	-	(59)	(59)
Opening balance at 1 April 2017	12,620	7,186	363	546	20,715
Amortisation	-	965	54	12	1,031
Closing balance at 31 March 2018	**12,620**	**8,151**	**417**	**558**	**21,746**
Opening carrying value at 1 April 2016	3,990	3,087	283	22	7,382
Opening carrying value at 1 April 2017	3,990	2,678	245	2	6,915
Closing carrying value at 31 March 2018	3,990	2,299	208	44	6,541

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 (2017: nil).
No intangible assets were impaired during the year (2017: nil).
Computer software includes the following amounts where the group is a lessee under finance leases:

	2018	2017
	$000	$000
Cost - capitalised finance leases	**127**	127
Accumulated amortisation	**(127)**	(127)
Net book value	**-**	-

Company	Goodwill	Computer software	Total
	$000	**$000**	**$000**
Cost			
Opening cost at 1 April 2017	10,960	10	10,970
Additions	-	4	4
Closing cost at 31 March 2018	10,960	14	10,974
Accumulated amortisation/impairment			
Opening balance at 1 April 2017	8,679	10	8,639
Amortisation	-	1	1
Closing balance at 31 March 2018	8,679	11	8,670
Opening carrying value at 1 April 2016	2,281	-	2,281
Opening carrying value at 1 April 2017	2,281	-	2,281
Closing carrying value at 31 March 2018	2,281	3	2,284

There were no assets held under finance leases at 31 March 2018 and 31 March 2017.

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% (2017: 10%). The carrying amount of goodwill is allocated as follows:

Software solutions		Media production		Group	
2018	2017	**2018**	2017	**2018**	2017
$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 consider 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.

16. Deferred income tax

	Group		Company	
	2018	2017	**2018**	2017
	$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	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
At 31 March 2017 and 31 March 2018	**486**	486	**-**	-

Tax losses carried forward

The group has tax losses carried forward of approximately $43m (2017: $34m), of which $2.8m (2017: $2.8m) 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 ability to offset against future profits.

17. Trade and other receivables

	Group		Company	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
Trade receivables	**4,801**	2,679	**-**	-
Less: provision for impairment of trade receivables	**(24)**	(24)	**-**	-
Trade receivables – net	**4,777**	2,655	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**14,973**	11,307
VAT	**-**	11	**-**	11
Other debtors	**148**	122	**50**	44
Prepayments and accrued income	**2,487**	965	**217**	92
	7,412	3,753	**15,240**	11,454
Less non-current portion: amounts owed by subsidiary undertakings	**-**	-	**(14,912)**	(11,276)
Current portion	**7,412**	3,753	**328**	178

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

As of 31 March 2018, trade receivables of $395,000 (2017: $91,000) were overdue. The ageing analysis of these trade receivables is as follows:

	Group	
	2018	2017
	$000	$000
Less than 3 months	**172**	56
3 to 6 months	**187**	43
7 to 12 months	**34**	(1)
Over 12 months	**2**	(7)
	395	91

There were no trade receivables outstanding in the company at 31 March 2018 or 31 March 2017.

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

	Group		Company	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
Pound sterling	**479**	537	**252**	136
US dollar	**6,707**	3,093	**14,988**	12,674
Euro	**308**	123	**-**	-
	7,494	3,753	**15,240**	12,810

Provision for impairment of trade receivables:

	Group	
	2018	2017
	$000	$000
At 1 April	**24**	12
Provision for receivables impairment	**-**	24
Receivables written off in the year	**-**	(12)
At 31 March	**24**	24

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 $266,000 (2017: $900,000) of which $nil (2017: $732,000) 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	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
Cash on hand and balances with banks	**2,409**	607	**201**	57

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

	2018	2017
	$000	$000
Allotted, called up and fully paid		
73,773,655 (2017: 32,660,660) ordinary shares of 1p (2017: 15p) each	**1,010**	7,236

Reconciliation of the number of ordinary shares outstanding:		
Opening balance	**32,660,660**	32,660,660
Shares issued	**28,611,111**	-
Conversion of unsecured convertible loan note into equity	**5,555,556**	-
Conversion of director's loan into equity	**6,666,667**	-
Share options exercised	**279,661**	-
Closing balance	**73,773,655**	32,660,660

On 4 May 2017 a reorganisation of the share capital took place in which the existing ordinary shares were subdivided to create two classes of shares: ordinary shares with a nominal value of 1p and deferred shares with a nominal value of 14p. The proportion of the issued ordinary share capital held by each shareholder was unchanged by this subdivision, and other than the changed nominal value, the ordinary shares carry equivalent rights to those they replaced. The deferred shares carry no right to vote, attend or speak at any general meeting or any right to a dividend.

On 4 May 2017 the company raised gross funds of approximately $3.33m (£2.58m) through a placing and subscription comprising the issue of 28,611,111 new ordinary shares of $0.01 (1p) each in the company at a subscription price of $0.11 (9p). On the same day a further 12,222,223 ordinary shares were 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 the convertible loan note.

During the year the group purchased 42,576 (2016: nil) of its own shares through ZOO Employee Share Trust Limited. The total cost of the purchase was $20,000 (2017: nil).

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.
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.
Capital redemption reserve	Represents 32,660,660 deferred shares of 14p each created during the share reorganisation on 4 May 2017.
Other reserves	Created as part of the reverse takeover between Kazoo3D plc and ZOO Media Corporation Ltd in 2001.
Accumulated losses	Cumulative net losses recognised in profit or loss.

20. Borrowings

	Group		Company	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
Non-current				
7.5% unsecured convertible loan note stock	**3,581**	-	**3,581**	-
Connected person loan	**-**	751	**-**	751
Other bank borrowings	**1**	654	**-**	-
Finance lease liabilities	**502**	721	**165**	219
	4,084	2,126	**3,746**	970
Separable embedded derivative	**4,666**	-	**4,666**	-
Current				
7.5% unsecured convertible loan note stock	**-**	3,821	**-**	3,821
Amounts owed to subsidiary undertakings	**-**	-	**9,701**	9,701
Finance lease liabilities	**226**	281	**54**	49
	226	4,102	**9,755**	13,571
Total borrowings	**8,976**	6,228	**18,167**	14,541

On 1 April 2015 the group had a total of £3,070,500 in unsecured convertible loan notes in place which were due to mature on 31 October 2017. During the year ended 31 March 2018, £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 loan notes pay a coupon of 7.5% and 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 one ordinary share for every £0.48 of principal amount of loan stock. The US dollar value of the loan notes at 31 March 2018 was $3,581,000 (2017: $3,821,000).

The restructured convertible loan stock has two separate economic components within it: the holder is entitled to convert the loan note into equity at any point and the company is entitled to convert the loan note into equity if the 30 business day trailing average share price is above the level of £2.50 per share. In both instances the conversion is on the basis of one ordinary share for every £0.48 of principal amount of loan stock. In prior years it has been assessed that there is no material value to the resulting embedded derivative, but in the year ended 31 March 2018 there has been a significant increase in the company's share price leading to the appointment of an independent valuation firm to measure the fair value of the two separate economic components as at the balance sheet date. For the year ended 31 March 2018 the valuation of the embedded derivatives resulted in a non-cash charge totalling $4,666,000 (2017: nil) which has an underlying value of £3,581,000.

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 2019 with an option to extend. The structure of this loan arrangement has been renegotiated since the year end to terms which are more favourable with the expectation of a reduced need for lending in the future. The principal outstanding at 31 March 2018 was nil (2017: $640,000). This funding is secured against the US trade receivables of ZOO Digital Production LLC.

Previously the group had 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. The principal outstanding at 31 March 2017 was $14,000. During the year ended 31 March 2018 the group changed its UK banking partner to HSBC who provide an overdraft facility of £250,000. The principal outstanding at 31 March 2018 was nil. Both lines of funding have been 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%. On 4 May 2017, the full amount of this loan was converted into equity. The US dollar value of the loan at 31 March 2018 was nil (2017: $751,000). This loan was secured as a floating charge over the assets of the group.

Finance lease liabilities

Finance lease liabilities are payable as follows:

At 31 March 2018	Future minimum lease payments	Interest	Present value of minimum lease payments
	$000	**$000**	**$000**
Less than one year	**289**	**(63)**	**226**
Between one and five years	**576**	**(74)**	**502**
	865	**(137)**	**728**

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
	1,230	(227)	1,003

The lease periods of the finance leases are between 3 and 5 years, with options to purchase the asset at the end of the term. Finance lease liabilities are secured against the leased assets.

21. Trade and other payables

	Group		Company	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
Trade creditors	**1,957**	1,367	**238**	240
Amounts owed to subsidiary undertaking	**-**	-	**1,937**	1,562
Social security and other taxes	**172**	179	**179**	71
Accrued expenses	**3,977**	2,499	**1,038**	784
	6,106	4,045	**3,392**	2,657

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 2018.

Operating lease commitments

The group has a number of operating leases, as a lessee, for equipment and premises under non-cancellable agreements. The lease terms are between 3 and 5 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:

	2018	2017
	$000	$000
Within one year	**604**	452
From one to five years	**1,817**	2,428
	2,421	2,880

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 and distribution of 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	
	2018	2017
	$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 $5,766 (2017: $35,000).

Related party transactions

	Company	
	2018	2017
	$000	$000
Interest paid on loans:		
Sara Green	**68**	140
Roger D Jeynes	**3**	3

The gross interest payable to Sara Green at 31 March 2018 is $23,000 (2017: $163,000). The gross interest payable to Roger D Jeynes at 31 March 2018 is $1,000 (2017: $5,000).

Sara Green, wife of Dr Stuart A Green, held a $865,000 (2017: $769,000) interest in 7.5% unsecured convertible loan stock at 31 March 2018. The underlying value of the interest in the convertible loan stock is £614,500 (2017: £614,500).

Roger D Jeynes held a $35,000 (2017: $31,000) interest in 7.5% unsecured convertible loan stock at 31 March 2018. The underlying value of the interest in the convertible loan stock is £25,000 (2017: £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%. On 4 May 2017, the full amount of the loan was converted into equity. The US dollar value of the loan at 31 March 2018 was nil (2017: $751,000). This loan was secured as a floating charge over the assets of the group.

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:

	2018		2017	
	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	**1,666,893**	**0.21**	1,666,893	0.21
Granted during the year	**1,870,000**	**0.20**	-	-
Exercised during the year	**(157,661)**	**0.22**	-	-
Surrendered during the year	**(1,127,000)**	**0.22**	-	-
Outstanding at the end of the year	**2,252,232**	**0.21**	1,666,893	0.21
Exercisable at the end of the year	**1,123,082**	**0.22**	1,315,893	0.26

The underlying weighted average exercise price for the shares under option at 31 March 2018 was 15p (2017:15p).

ZOO Digital Group plc Unapproved				
Outstanding at the beginning of the year	**1,965,952**	**0.26**	1,965,952	0.26
Granted during the year	**3,355,000**	**0.20**	-	-
Exercised during the year	**(122,000)**	**0.22**	-	-
Surrendered during the year	**(867,500)**	**0.29**	-	-
Outstanding at the end of the year	**4,331,452**	**0.21**	1,965,952	0.26
Exercisable at the end of the year	**1,756,052**	**0.22**	1,288,952	0.25

The underlying weighted average exercise price for the shares under option at 31 March 2018 was 16p (2017:17p).

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 twenty consecutive business days prior to exercise.

Share options granted to key management personnel, including directors, during the year ended 31 March 2018 have vesting conditions. A total of 3,820,000 share options have a vesting that the company's share price must be £0.20 or higher for a period of at least three months immediately prior to exercise and 1,000,000 share options have a vesting condition related to the profitability of the group.

Out of the 6,583,684 outstanding options (2017: 3,632,845 options), 2,879,134 were exercisable (2017: 3,257,845).

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	67,065	**13 Oct 2018**	**0.21**	0.1500
ZOO Digital Group plc EMI scheme	25,000	**30 Nov 2020**	**0.23**	0.1500
ZOO Digital Group plc EMI scheme	311,667	**11 Jul 2022**	**0.23**	0.1500
ZOO Digital Group plc EMI scheme	55,000	**26 Sep 2023**	**0.24**	0.1500
ZOO Digital Group plc EMI scheme	285,000	**19 Jan 2025**	**0.23**	0.1500
ZOO Digital Group plc EMI scheme	20,500	**17 Sep 2025**	**0.23**	0.1500
ZOO Digital Group plc EMI scheme	1,488,000	**2 Aug 2027**	**0.20**	0.1525
ZOO Digital Group plc Unapproved	8,452	**13 Oct 2018**	**0.21**	0.1500
ZOO Digital Group plc Unapproved	30,000	**27 Jun 2020**	**0.65**	0.4300
ZOO Digital Group plc Unapproved	240,000	**11 Jul 2022**	**0.23**	0.1500
ZOO Digital Group plc Unapproved	55,000	**26 Sep 2023**	**0.24**	0.1500
ZOO Digital Group plc Unapproved	425,000	**19 Jan 2025**	**0.23**	0.1500
ZOO Digital Group plc Unapproved	218,000	**17 Sept 2025**	**0.23**	0.1500
ZOO Digital Group plc Unapproved	3,325,000	**2 Aug 2027**	**0.20**	0.1525
ZOO Digital Group plc Unapproved	30,000	**5 Oct 2027**	**0.49**	0.3800
Outstanding at the end of the year	**6,583,684**			

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:

	Dec 2011	Jul 2012	Sep 2013	Jan 2015	Sep 2015	Aug 2017	Oct 2017
Expected volatility (%)	63	83	84	67	61	57	57
Risk-free interest rate (%)	0.97	0.71	1.52	1.08	1.35	0.55	0.55
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:	**2018**	**2017**
	$000	$000
Total expense recognised from share option transactions	**276**	11

Share-based payment reserve appears in the statement of financial position under:	**2018**	2017
	$000	$000
Share option reserve	**688**	328

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	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
Financial assets				
Loans and receivables				
Trade and other receivables excluding pre-payments and VAT (note 17)	**6,352**	3,482	**-**	-
Amounts owed by subsidiary undertakings (note 17)	**-**	-	**14,973**	12,663
Cash and cash equivalents	**2,409**	607	**201**	57
Total	**8,761**	4,089	**15,174**	12,720

	Group		Company	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
Other financial liabilities at amortised cost				
Finance lease liabilities (note 20)	**728**	1,002	**219**	268
Amounts owed to subsidiary undertakings (note 20)	**-**	-	**9,701**	9,701
7.5% unsecured convertible loan stock (note 20)	**3,581**	3,821	**3,581**	3,821
Other bank borrowings (note 20)	**1**	654	**-**	-
Connected person loan (note 20)	**-**	751	**-**	751
Trade and other payables excluding payroll taxes (note 21)	**5,934**	3,866	**3,213**	2,586
Total	**10,244**	10,094	**16,714**	17,178

	Group		Company	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
Other financial liabilities at fair value				
Separable embedded derivative (note 20)	**4,666**	-	**4,666**	-
Total	**4,666**	-	**4,666**	-

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 pounds sterling, therefore exposing it to a currency risk of fluctuations in the pound sterling/US dollar exchange rate. During the year ended 31 March 2018 there was more volatility in the pound sterling/US dollar rate than in some previous years, with the rate peaking at 0.808 and falling to a low of 0.701, with an average rate of 0.755. If the US dollar had remained at its highest level throughout the full year the group would have shown a post-tax profit of $1.4m (2017: $2.6m), if the US dollar had been at its lowest level throughout the full year the group would have shown a post-tax break-even position (2017: profit $0.1m) and if the US dollar had remained at the average rate throughout the year the post-tax profit would have been $0.7m (2017: $1.2m).

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 pounds 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 pounds sterling. The value of the loan is translated at the year end exchange rate. The foreign currency risk through the convertible loan note has a significant impact on the reporting of exchange variances but it is not expected to have a material commercial risk as the expectation is that the loan will be converted into equity which is also denominated in pounds sterling.

The pound sterling/US dollar exchange rate at 31 March 2018 was 0.710 (2017: 0.799).

Interest rate risk

On 1 April 2015 the group had a total of £3,070,500 in unsecured convertible loan notes in place which were due to mature on 31 October 2017. During the year ended 31 March 2018 £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 loan notes pay a coupon of 7.5%. The US dollar value of the loan notes at 31 March 2018 was $3,581,000 (2017: $3,821,000).

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 has been renegotiated since the year end and is now in place until 7 July 2019 with an option to extend. Interest is payable on a monthly basis at an interest rate linked to LIBOR with a monthly minimum fee. The principal outstanding at 31 March 2018 was nil (2017: $640,000). The group is subject to interest rate risk on the movement in the LIBOR rate.

The HSBC bank overdraft facility has terms linked to the UK base rate but the interest rate risk is minimal due to the reduced need for drawing down upon the facility.

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 was converted into equity during the year ended 31 March 2018. Following this conversion into equity the group and company consider there to be no interest rate risk.

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 an overdraft facility, finance leases and invoicing 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 2019, with the option to extend. The principal outstanding at 31 March 2018 was nil (2016: $640,000).

The group has a £250,000 overdraft facility in place from HSBC Bank for the UK companies. There has been no lending drawn down from this facility to date.

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

Group

At 31 March 2018	**Less than 1 year $000**	**Between 1 and 2 years $000**	**Between 2 and 5 years $000**	**Over 5 years $000**
Borrowings	**-**	**3,582**	**-**	**-**
Finance lease liabilities	**226**	**-**	**502**	**-**
Trade and other payables	**6,106**	**-**	**-**	**-**

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

Company

At 31 March 2018	**Less than 1 year $000**	**Between 1 and 2 years $000**	**Between 2 and 5 years $000**	**Over 5 years $000**
Amount owed to subsidiary undertakings	**9,701**	**-**	**-**	**-**
Borrowings	**-**	**3,581**	**-**	**-**
Finance lease liabilities	**54**	**-**	**165**	**-**
Trade and other payables	**3,392**	**-**	**-**	**-**

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

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.

	2018 $000	2017 $000
Total borrowings	**8,976**	6,228
Less cash and cash equivalents	**(2,409)**	(607)
Net debt	**6,567**	5,621
Total equity	**2,655**	2,561
Total capital	**9,222**	8,182
Gearing ratio	**71%**	69%
Adjusted gearing ratio*	**21%**	69%

*Adjusted for the impact of the non-cash embedded derivative movement.

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Notes

Discover ZOO's global network – teams, partners, translators

A heat map showing the location of ZOO's network of over 4,000 freelancers as well as the locations of ZOO's offices and affiliate partners