Digital Group plc

Annual Report 2008

ZOO Digital Group plc is a group of companies offering innovative technology and services to a high profile, primarily Hollywood studio, client base.

Technology Solutions

ZOOtech has developed a suite of intelligent tools for the digital media production industry.

Media Adaptation Tool

Released in March 2008, ZOOtech's Media Adaptation Tool (MAT) creates a media production workflow that automates the localization and adaptation tasks currently performed by highly skilled prepress operators and graphic artists.

TAS is an automated software package for the efficient creation of titles for DVD-Video and other platforms. It makes costly and laborious projects quick and easy by defining the structure of the DVD as a configurable 'template'.

The **Regionalization Tool** automates the previously manual process of creating DVD menu assets in alternative languages and has been shown in independent customer benchmarks to reduce time and labour cost by 75 to 90%.

DVD-EXTRA STUDIO enables the creation of DVD-Video titles that transform the humble DVD player from a passive playback device into an interactive multimedia platform.

Services

Scope Seven is a media production and design company providing world class creative and technical services to select companies in the entertainment and games industries.

High definition Blu-ray and standard definition DVD production

Services provided in the entertainment sector include menu design, creation of bonus materials, video and audio compression, standard definition DVD and Blu-ray authoring.

DVD Games

DVD game production for toy companies, DVD game publishers and Hollywood Studios producing award-winning DVD games for all ages.

Interactive Television

Production of video clip games for delivery on Digital Video Recorders for the North American market. We are the preferred developer of video clip games for one of the largest pay television providers in the world.

ZOO Digital Group plc is a group of companies providing innovative technology and services designed to maximise the value of digital media assets. Our unique solutions help our clients maximise the revenue generation from their content, including feature films and episodic TV programmes, and to globalise their assets at the push of a button.

Through our software and services divisions in the UK and Los Angeles we provide efficient collaboration solutions and highly competitive services for digital media production.

Contents

YEAR IN BRIEF

Operational highlights

- 15 year contract signed with a major Hollywood studio
- Adoption of ZOO's tools by Sony Pictures
- Significant US presence created through acquisition of Scope Seven
- Exposure to new markets following launch of the Media Adaptation Tool, which enables the automated regionalization and size adaptation of print, packaging and marketing materials, already generating significant new revenue streams

Financial highlights

- Announcement of proposed fundraising by way of a placing of ordinary shares to raise £512,000 before expenses to augment working capital
- Turnover, excluding Scope Seven, increased by 28% to £1.9 million (2007: £1.5 million)
- Loss before interest, tax, depreciation and amortisation increased to £1.4 million (2007: £0.9 million) due to planned investment
- Encouraging start to the new financial year with technology licensing sales up significantly compared to the same period last year
- The Group has generated a trading profit for the first five months of the new financial year

Stuart Green, CEO of ZOO Digital Group plc said "The past year has been one of transition and we are pleased with the progress we have made. Through the acquisition of Scope Seven we have created a compelling offering for US markets, combining technology with service and increasing our resources and presence close to our core studio customers in Hollywood. This has been a key factor in the winning of a 15 year contract and in the wider adoption of ZOO's tools."

CHAIRMAN'S STATEMENT

for the year ended 31 March 2008

Introduction

I am pleased to report a year of significant progress for ZOO during which the focus of the Board has been on transitioning the business to allow us to maximise the return on the technological investments of the past few years. We have continued to focus on Hollywood-based organisations and determined that growth would be accelerated through the broadening of the service component of our offering. We have achieved this through the acquisition of Scope Seven and are now able to combine our technology solutions with efficient production services and deliver a compelling and clearly differentiated proposition to our customers.

We have broadened our portfolio of products and services with the launch of the Media Adaptation Tool which is already delivering significant additional revenue streams in the form of consulting, implementation and production services as well as technology licensing fees. This forms part of our strategy to build revenues through a wide and robust mix of value-added services.

I am particularly delighted with a significant software licensing and services contract that we completed with a major Hollywood studio that provides commitments over the 15 year term of the agreement. This is one example of how our business proposition to help customers improve productivity and reduce their costs is becoming increasingly attractive in the current challenging economic climate.

Financial review

Our financial results reflected planned investment and the costs of integrating Scope Seven. Loss before interest, tax, depreciation and amortisation was £1.37 million (2007: £940,000).

Revenues from Scope Seven initially fell short of expectations as the business transitioned from serving studios via GDMX, an intermediary, to pursuing instead direct relationships. For the future, this transition is advantageous to ZOO as the GDMX relationship restricted us from dealing directly with several studios and we have since been able to replace the revenues with business from a broader base of clients. By the end of the year, revenue had recovered to the level anticipated at the time of the acquisition.

I am pleased to report a like for like increase in turnover of 28% to £1.9 million for the technology licensing (2007: £1.5 million). The loss for the year from the technology division was reduced to £191,000 (2007: £322,000).

The cash balance has reduced during the year ended 31 March 2008 from £2.0 million to £675,000. We have undertaken a restructuring of the business to ensure that we remain efficient and we continue to operate rigorous cost controls. Recent months' sales have shown increases to existing customers as well as the provision of products and services to new customers. In addition, since the majority of ZOO's revenues are paid in US dollars, we have benefited from the recent exchange rate movements. We are pleased to report the Group has generated a trading profit for the first five months of the new financial year with sales and costs being in line with our plans. To strengthen the balance sheet we have announced a proposal to raise additional funds from our existing major shareholders through a placing of ordinary shares as described below.

The results for the 12 months ended 31 March 2008 are reported under IFRS for the first time. Overall moving from UK GAAP to IFRS has had no significant impact on the reported results in the current period. It had a significant impact on the results for last year through the changes in revenue recognition and the treatment of goodwill. In total the loss for the year ended 31 March 2007 was reduced by £819,000. An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position, income statement and cash flows is set out in note 35.

Proposed placing of new ordinary shares

We are announcing this week a proposal for a capital raising by way of the placing ("Placing") of 3,413,333 new ordinary shares of 15p each in the capital of ZOO ("Placing Shares") at a placing price of 15p per Placing Share to raise approximately £512,000 before expenses which will be used to augment ZOO's working capital requirements. This placing price represents a premium of 25% over the closing middle market price of 12p per ordinary share as at 3 September 2008 being the last business day before the date of the announcement of the Placing.

I am delighted to report that our CEO, Stuart Green, and two of our major shareholders, Herald Investment Management Limited and South Yorkshire Investment Fund, have demonstrated their support of the Group by committing to subscribe to the Placing. Stuart Green is subscribing for 1,333,333 of the Placing Shares which will take his shareholding from 15.9% to 19.6%, Herald Investment Management Limited is subscribing for 1,800,000 of the Placing Shares taking its corresponding shareholding from 10.0% to 16.8% and South Yorkshire Investment Fund is subscribing for 280,000 of the Placing Shares which keeps its shareholding at 8.4%.

The directors of ZOO have decided that it is not in the best interests of ZOO and its shareholders as a whole to offer all shareholders the opportunity to subscribe for the Placing Shares, due to the time and additional costs involved with making an open offer to shareholders.

The participation of both Stuart Green as a director of ZOO and Herald Investment Management Limited as a substantial shareholder in the Placing are deemed to be related party transactions under the AIM Rules. Accordingly ZOO's directors (other than Stuart Green), consider, having consulted with KBC Peel Hunt Ltd, ZOO's nominated adviser, that the terms of the Placing are fair and reasonable insofar as ZOO's shareholders are concerned.

Due to the size of the issue of the Placing Shares relative to ZOO's existing authority to allot securities otherwise than on a pre-emptive basis, the issue of the Placing Shares is conditional upon the passing of the resolutions numbered 6 and 7 ("Resolutions") contained in the notice of the eighth annual general meeting of ZOO which is to be held at 11am on Monday 6 October 2008 ("AGM").

The directors of ZOO believe that the Placing is in the best interests of ZOO and its shareholders as a whole. Accordingly, your directors recommend that shareholders vote in favour of the Resolutions, as they intend to do in respect of their own beneficial and connected shareholdings, which amount to 17,913,088 ordinary shares representing 46.4 per cent. of the issued share capital of ZOO, and all of the directors (or their connected persons) of ZOO have signed irrevocable undertakings to do so.

If the Resolutions are passed at the AGM, it is expected that the Placing Shares will be admitted to trading on AIM on 7 October 2008. The Placing Shares will, when issued, rank pari passu in all respects with the existing ordinary shares of ZOO including the right to receive dividends and distributions declared following the admission to trading on AIM on 7 October 2008.

CHAIRMAN'S STATEMENT

for the year ended 31 March 2008

Articles of Association

It is proposed in resolution 10 of the notice of AGM to amend ZOO's articles of association ("Articles") in order to update ZOO's Articles primarily to take account of changes in English company law brought about by the Companies Act 2006 ("2006 Act").

The 2006 Act is being implemented in stages: some of its provisions are already in force, further provisions are to be implemented on 1 October 2008 and the remaining provisions are proposed to be implemented on 1 October 2009. The proposed amendments to the Articles are intended to reflect provisions of the 2006 Act that are already in force and those that will be in force from 1 October 2008. Therefore, the proposed amendments to the Articles will, if approved, take effect from 1 October 2008.

Due to the phased nature of implementation of the 2006 Act, it is likely that further changes to ZOO's Articles will be proposed at a later annual general meeting.

The principal changes introduced by the proposed amendments to the Articles are summarised in the Appendix to the Notice of the AGM. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the 2006 Act have not been noted in the Appendix.

Trading Overview

The acquisition of Scope Seven has proved very positive in terms of the Group's strategic position. This business is now fully integrated into the Group with both Scope Seven and ZOOtech benefiting from the experience, knowledge and client base of the other. We are now able to offer our clients the choice of licensing our software tools or using our software-enabled service facility. The direct relationships we have been able to establish with a number of major Hollywood studios have enabled us to perform a greater range of work. Particularly encouraging is the speed with which work has built up with new clients and the very high standards of work quality that we consistently deliver. Following the adoption of Blu-ray as the industry format for next generation home video the Group is well positioned to benefit from the increase in titles being produced for this platform through the unique software solutions that we have been developing.

A new tool in our portfolio, the Media Adaptation Tool, was released in March 2008. This tool, which offers our customers the opportunity to automate the regionalisation and size adaptation of any print artwork, is already generating significant revenues and opens up new markets and business sectors for ZOO's products and services. Its availability was a key factor in securing the long term contract with a major Hollywood studio. The contract also covers ZOOtech's existing products which are considered to be proven solutions and are used in the production of the vast majority of the studio's DVD titles. The contract is for a period of 15 years with break points every five years. Our Templated Authoring System has been adopted by Sony Pictures and is under evaluation by other studios.

The UK interactive DVD market has declined in the past twelve months, confirming our decision two years ago to dispose of the Group's publishing activity in this market. However, we have enjoyed a growth in interactive DVD production work in the USA from customers that include major toy companies who have increased their publishing activity. Scope Seven is regarded as a leading production services supplier in this market and we have secured the position of preferred vendor with a number of these major customers.

Staff

As a Board, we recognise that it is the dedication, quality and enthusiasm of ZOO's employees that underpins the success of the Group. We do not underestimate the skills and talents that our people bring, and on behalf of the Board, I would like to thank the Group's management and staff for their hard work and commitment throughout the year.

Outlook

The Group has excellent technology, delivers highly regarded services and enjoys strong relationships with major Hollywood studios. From this base we intend to build a strong and profitable business.

Our patented technologies and innovative ideas give our clients potential for significant cost savings and greater speed to market. We continue to work closely with our clients to develop future tools and we have a number of new products in the pipeline. We are very excited by the opportunities around the Blu-ray platform and continue to invest in research and development.

The current financial year has started well with technology sales showing a significant increase over the same period in the previous year. Scope Seven continues to build its client base. As a Group we have been pleased to achieve a trading profit for the first five months of the new financial year. We will update the market further on current trading at ZOO's AGM on 6 October 2008.

Dr C H B Honeyborne
Chairman

COMPANY INFORMATION

Registered office
The Tower
2 Furnival Square
Sheffield
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Company number
3858881

Directors

Dr CHB Honeyborne
Chairman

Dr SA Green
Chief Executive Officer

HP Gilder
Group Finance Director
and Company Secretary

MP Taylor
Non-Executive Director

IC Stewart
Non-Executive Director

Bankers
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Solicitors
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DIRECTORS' REPORT

for the year ended 31 March 2008

The directors present their report on the affairs of the group, together with the financial statements and auditors' report, for the year ended 31 March 2008.

Principal activities

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

Review of the Business and Future Developments

A review of the development of the business together with an indication of future developments is included in the Chairman's statement set out on pages 3 to 4.
The audited financial statements for the year ended 31 March 2008 are set out on pages 10 to 51. The directors do not recommend the payment of a dividend for the year.

Charitable and political contributions

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

Employees

Employee consultation

The group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved through formal and informal meetings.

Disabled employees

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

Post balance sheet events

On 10 April 2008 the group announced that it had secured a material contract to deliver software automation products, including its recently launched Media Adaptation Tool (MAT), to a major Hollywood studio. The contract has a fifteen year term, with five year break points and will provide a minimum income of $15 million over the fifteen years.

A separate announcement has been made this week announcing that the Group has conditionally placed 3,413,333 new ordinary shares at a placing price of 15p per share to raise approximately £512,000.

Directors

The directors who served during the year were as follows:

Dr Christopher H B Honeyborne	Non-Executive Chairman
Dr Stuart A Green	Chief Executive Officer
Helen P Gilder	Group Finance Director
Matthew P Taylor	Non-Executive Director
Ian C Stewart	Non-Executive Director

Details of the interests in the shares of the company at the beginning (or subsequent date of appointment) and end of the financial year of those directors who held office at 31 March 2008 are disclosed in note 12. In accordance with the company's Articles of Association Stuart Green and Christopher Honeyborne retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' indemnities

The group has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985.The company has purchased and maintains directors' and officers' insurance cover against certain legal liabilities and costs for claims in connection with any act or omission by such director and officers in the execution of their duties.

Policy and practice on payment of creditors

The company's policy, which is also applied by the group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the company at 31 March 2008 were equivalent to 55 days (2007: 46 days) purchases, based on the average daily amount invoiced by suppliers during the year.

Key performance indicators

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

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

Principle risks and uncertainties

Changes in company law require the Company to report on principle risks and uncertainties facing the business, which the directors believe to be as follows:

International business

The Group is domiciled in the UK, but has operations in LA and 90% of its revenues coming from overseas customers. As with most small yet international businesses our risks are around managing the cash flow and exchange rate fluctuations. We continue to focus closely on conservative cash management and monitor currency transactions taking proactive actions when appropriate.

Technology conservation

We continue with our aggressive patent protection policy, with 22 patents granted and 34 pending. These are integral to the business in the protection of our unique technologies.

Operational risks

The main operational risks are delays in the production of technology products and adoption of technology tools by customers. The production risk is managed by ensuring very tightly controlled schedules, thoroughly planning staff time and allowing time for contingencies.

Loss of the Group's key customers

Client relationships are crucial to the Group and the strength of them is key to its continued success. The Group mitigates this risk by working closely with the customer and obtaining long term contractual agreements for supply of technology and services.

Financial Risks

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

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

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

Financial instruments

The company does not actively use financial instruments as part of its financial risk management. It is exposed to the usual credit risk and cash flow risk associated with selling on credit and manages this through credit control procedures.

Disposal of Interest in Own Shares

During the year the company disposed of some of its interest in its own shares held in connection with the employee benefit trust. The nominal value of these shares was 15p. 48,499 shares were transferred into the company's share incentive plan. These shares represent 0.3% of the companies called up share capital. The maximum number of own shares held in the year was 50,152.

Substantial shareholdings

On 07 August 2008, the company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the company:

Name of holder	Percentage held	Number
Funds managed and advised by Foresight Group	21.18%	3,794,689
Dr S A Green	15.89%	2,846,502
Herald Investment Trust plc	9.99%	1,790,100
Mr I C Stewart	9.35%	1,675,365
South Yorkshire Investment Capital Fund	8.39%	1,502,562
William de Broe	5.07%	908,560
Waterhouse securities	3.93%	704,565

Disclosure of information to auditors

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

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

Auditors

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

By order of the Board

Helen Gilder
Director and Secretary

Wednesday, September 03, 2008

CORPORATE GOVERNANCE REPORT

for the year ended 31 March 2008

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have, as required by the AIM Rules of the London Stock Exchange, prepared the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and have also elected to prepare the company financial statements in accordance with those standards. The financial statements are required to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Compliance with the Combined Code

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

Board of Directors

Throughout the year the board consisted of the non-executive chairman, two non-executive directors and two executive directors.

The Board meets each month to consider those matters which are required to be brought to it for decision, which ensures that it maintains full and effective control over appropriate strategic, financial, operational and compliance issues. Directors receive an information pack before each board meeting which contains background information on such matters.

Board Committees

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

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

The Remuneration committee is chaired by Ian Stewart.

Internal Control

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

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

Going Concern

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

By order of the Board

Helen Gilder
Director and Secretary

Wednesday, September 03, 2008

INDEPENDENT AUDITORS' REPORT

for the year ended 31 March 2008

We have audited the group and parent company financial statements ('the financial statements') of ZOO Digital Group plc for the year ended 31 March 2008 which comprise the consolidated income statement and the consolidated and company balance sheets, cash flow statements and statements of changes in equity and the related notes. The financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union are set out in the statement of directors' responsibilities.
Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).
We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information in the directors' report includes that specific information presented in the operating and financial review that is cross referenced from the business review section of the directors' report.
In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.
We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the directors' report, the chairman's statement and the corporate governance report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion
In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 March 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and
- the information given in the directors' report is consistent with the financial statements.

Separate opinion in relation to IFRSs

As explained in Note 2 to the group financial statements the group, in addition to complying with IFRSs as adopted by the European Union, has also complied with IFRSs as issued by the International Accounting Standards Board.

In our opinion the group financial statements give a true and fair view, in accordance with IFRSs, of the state of the group's affairs as at 31 March 2008 and of its loss for the year then ended.

PKF (UK) LLP
Registered Auditors

Wednesday, September 03, 2008
Sheffield, UK

CONSOLIDATED INCOME STATEMENT

for the year ended 31 March 2008

	Note	**2008 £000**	2007 £000
Revenue	5	**3,264**	4,206
Cost of Sales		**(27)**	(1,404)
Gross Profit		**3,237**	2,802
Other operating income	6	**100**	117
Other operating expenses		**(4,711)**	(3,857)
Loss before interest, tax, depreciation and amortisation		**(1,374)**	(938)
Restructuring costs		**-**	(94)
Depreciation		**(152)**	(127)
Amortisation and impairment		**(227)**	(83)
Exceptional items	17	**(175)**	310
Total operating expenses	9	**(5,265)**	(3,851)
Operating Loss		**(1,928)**	(932)
Finance income	7	**72**	53
Finance cost	8	**(327)**	(185)
Loss before taxation		**(2,183)**	(1,064)
Tax on loss	13	**135**	-
Loss for the year		**(2,048)**	(1,064)
Continuing operations		**(1,837)**	(1,338)
Discontinued operations	16	**(211)**	274
Loss for the year		**(2,048)**	(1,064)
Attributable to equity holders of the parent		**(2,048)**	(1,064)

Loss per share

- basic	**(15.72p)**	(20.89p)
- diluted	**(15.72p)**	(20.89p)

Loss per share - continuing operations

- basic	**(14.1p)**	(26.27p)
- diluted	**(14.1p)**	(26.27p)

The notes on pages 16 to 51 are an integral part of these consolidated financial statements.

The company has elected to take the exemption under section 230 of the Companies Act 1985 to not present the parent company profit and loss account.

The loss for the parent company for the year was £47,000 (2007: £629,000)

CONSOLIDATED BALANCE SHEET

as at 31 March 2008

	Note	**2008 £000**	2007 £000
ASSETS			
Non-Current Assets			
Intangible assets	19	**4,042**	2,357
Property, plant and equipment	18	**567**	142
		4,609	2,499
Current Assets			
Inventories	20	**188**	-
Trade receivables and other receivables	21	**1,238**	1,764
Current tax assets		**90**	53
Cash and cash equivalents		**675**	2,026
		2,191	3,843
Total Assets		**6,800**	6,342
LIABILITIES			
Current Liabilities			
Trade payables and other payables	27	**(1,621)**	(2,336)
Borrowings	26	**(270)**	-
		(1,891)	(2,336)
Non-current Liabilities			
Borrowings	26	**(3,275)**	(3,013)
		(3,275)	(3,013)
Total Liabilities		**(5,166)**	(5,349)
Net Assets		**1,634**	993
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	23	**2,687**	887
Share premium account	23	**23,030**	22,102
Other reserves	25	**8,598**	8,598
Share option reserve	25	**54**	326
Convertible loan note reserve	25	**266**	266
Foreign exchange translation	25	**56**	82
Profit and loss account	24	**(33,055)**	(31,192)
		1,636	1,069
Interest in own shares	23	**(2)**	(76)
Attributable to equity holders		**1,634**	993

The notes on pages 16 to 51 are an integral part of these consolidated financial statements.

The financial statements on pages 10 to 51 were authorised for issue by the Board of Directors on 3 September 2008 and were signed on its behalf.

Stuart A Green
Chief Executive

Helen P Gilder
Group Finance Director

COMPANY BALANCE SHEET

as at 31 March 2008

	Note	**2008 £000**	2007 £000
ASSETS			
Non-Current Assets			
Intangible assets	19	**1,597**	1,605
Property, plant and equipment	18	**40**	95
Investment in subsidiary undertakings	31	**6,785**	6,785
		8,422	8,485
Current Assets			
Trade receivables and other receivables	21	**10,522**	6,354
Cash and cash equivalents		**334**	1,851
		10,856	8,205
Total Assets		**19,278**	16,690
LIABILITIES			
Current Liabilities			
Trade payables and other payables	27	**(485)**	(660)
		(485)	(660)
Non-current Liabilities			
Financial liabilities - borrowings	26	**(9,894)**	(9,798)
		(9,894)	(9,798)
Total Liabilities		**(10,379)**	(10,458)
Net Assets		**8,899**	6,232
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	23	**2,687**	887
Share premium account	23	**23,030**	22,102
Other reserves	25	**7,393**	7,393
Share option reserve	25	**54**	326
Convertible loan note reserve	25	**266**	266
Profit and loss account	24	**(24,529)**	(24,666)
		8,901	6,308
Interest in own shares	23	**(2)**	(76)
Attributable to equity holders		**8,899**	6,232

The notes on pages 16 to 51 are an integral part of these consolidated financial statements.

The financial statements on pages 10 to 51 were authorised for issue by the Board of Directors on 3 September 2008 and were signed on its behalf.

Stuart A Green
Chief Executive

Helen P Gilder
Group Finance Director

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2008

	Note	**2008 £000**	2007 £000
Cash flows from operating activities			
Operating Loss for the year		**(1,928)**	(932)
Finance income	7	**72**	53
Depreciation	18	**152**	127
Amortisation & Impairment	19	**227**	83
Share based payments	11	**(87)**	(49)
Disposal of own shares	23	**74**	14
Disposal of intangible assets	19	**7**	-
Disposal of property, plant and equipment	18	**53**	-
Changes in working capital:			
Inventories	20	**(188)**	48
Trade and other receivables	21	**566**	682
Trade and other payables	27	**(975)**	(1,239)
Cash flow from operations		**(2,027)**	(1,213)
Tax received		**98**	-
Net cash flow from operating activities		**(1,929)**	(1,213)
Investing Activities			
Acquisition of subsidiary	29	**(1,536)**	-
Purchase of intangible assets	19	**(310)**	(379)
Purchase of property, plant and equipment	18	**(2)**	19
Net cash flow from investing activities		**(1,848)**	(360)
Cash flows from financing activities			
Repayment of borrowings	26	**(10)**	-
Finance cost	8	**(232)**	(129)
Share and convertible loan issues	23	**(272)**	(398)
Issue of Share capital	23	**3,000**	820
Issue of Convertible loan stock	25	**-**	3,541
Net cashflow from financing		**2,486**	3,834
Net decrease in cash and cash equivalents		**(1,291)**	2,261
Cash and cash equivalents at the beginning of the year		**2,026**	(317)
Exchange (loss)/gain on cash and cash equivalents		**(60)**	82
Cash and cash equivalents at the end of the year	22	**675**	2,026

The notes on pages 16 to 51 are an integral part of these consolidated financial statements.

COMPANY CASH FLOW STATEMENT

for the year ended 31 March 2008

	Note	**2008** **£000**	2007 £000
Cash flows from operating activities			
Operating profit/ (loss) for the year		**193**	**(515)**
Finance income		**63**	40
Depreciation	18	**32**	49
Amortisation & Impairment	19	**8**	11
Share based payments	11	**(87)**	(49)
Disposal of own shares	23	**74**	14
Disposal of intangible assets	19	**-**	-
Disposal of property, plant and equipment	18	**52**	-
Changes in working capital:			
Inventories	20	**-**	-
Trade and other receivables	21	**(4,168)**	(1,567)
Trade and other payables	27	**(175)**	40
Cash flow from operations		**(4,008)**	(1,977)
Tax received/(paid)		**-**	-
Net cash flow from operating activities		**(4,008)**	(1,977)
Investing Activities			
Sale of property, plant and equipment		**-**	-
Sale of subsidiary undertakings		**-**	-
Acquisition of subsidiary	29	**-**	-
Purchase of intangible assets	19	**-**	(14)
Purchase of property, plant and equipment	18	**(29)**	(5)
Net cash flow from investing activities		**(29)**	(19)
Cash flows from financing activities			
Repayment of borrowings	26	**-**	-
Finance cost		**(208)**	(129)
Share and convertible loan issues	23	**(272)**	(398)
Issue of Share capital	23	**3,000**	820
Issue of Convertible loan stock	25	**-**	3,541
Net cashflow from financing		**2,520**	3,834
Net decrease in cash and cash equivalents		**(1,517)**	1,838
Cash and cash equivalents at the beginning of the year		**1,851**	13
Exchange (loss)/gain on cash and cash equivalents		**-**	-
Cash and cash equivalents at the end of the year	22	**334**	1,851

The notes on pages 16 to 51 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended 31 March 2008

	Note	**2008** **£000**	2007 £000
Exchange difference on the translation of foreign operations	25	**(26)**	82
Net (expense)/ income recognised directly in equity		**(26)**	82
Loss for the financial year		**(2,048)**	(1,064)
Total recognised expense for the year		**(2,074)**	(982)
Attributable to equity holders of the company		**(2,074)**	(982)

COMPANY STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended 31 March 2008

	Note	**2008** **£000**	2007 £000
Loss for the financial year		**(47)**	(629)
Total recognised expense for the year		**(47)**	(629)
Attributable to equity holders of the company		**(47)**	(629)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008

1 General Information

ZOO Digital Group plc ('the company') and its subsidiaries (together 'the Group') provide productivity tools and services for the video post-production and interactive 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 Alternative Investment Market and is incorporated and domiciled in the UK. The address of the registered office is The Tower, 2 Furnival Square, Sheffield.

The registered number of the company is 3858881.

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, and in preparing an opening IFRS balance sheet at 1 April 2006 for the purpose of transition to IFRS.

2.1 Basis of preparation

These financial statements have been prepared for the first time in accordance with IFRS as adopted by the European Union, and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in Note 35.

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 judgements or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed in note 3.

A separate income statement for the parent company has not been presented as permitted by section 230 (4) of the Companies Act 1985.

The directors have prepared trading and cash flow forecasts for the group for the period to 30 September 2009. Recent months sales figures have shown increases in the group's sales to its existing customers, and an encouraging roll out of products to new customers. The forecasts assume, inter alia, that sales of existing products to existing and new customers will continue to increase, and the directors have had informal indications from customers to substantiate a significant proportion of the forecast increased sales.

The directors have considered the consequences if the increase in sales volume is less than the level forecast. With the additional cash resources available from the proposed placing the directors are confident that if the sales volumes do not increase the group can continue to operate without the need for additional funding.

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

2.1.1 Adoption of standards effective during the year ending 31 March 2008

The following standards have been applied by the group from 1 April 2007:

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 (Amendment) Capital Disclosures

The application of IFRS 7 and IAS 1 (Amendment) in the year to 31 March 2008 have not affected the balance sheet or income statement as the standards are concerned with disclosure only.

2.1.2 EU adopted IFRS not yet applied

The following IFRS was available for early adoption but has not yet been applied by the group in these financial statements:

- IFRS 8 Operating Segments for years commencing on or after 1 January 2009.

The application of IFRS 8 in the year ended 31 March 2008 would not have affected the balance sheet or income statement as the standard is concerned only with disclosure.

2.1.3 Exemptions taken on first time adoption of IFRS 1

Business combinations: The group has applied the exemption from retrospectively recalculating goodwill which arose on acquisitions prior to 1 April 2006. This goodwill is included at its deemed cost, being the amount recorded under UK GAAP as at 1 April 2006 following an impairment review.

Share based payment transactions: The group has elected to apply IFRS 2 Share based payments only to awards of equity instruments made after 7 November 2002 that had not vested by 1 April 2006.

2.2 Consolidation

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

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

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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 sterling which is the company's functional and presentation currency.

2.4.2 Transactions and balances

Transactions in foreign currencies are recorded at the rate of exchange at the date 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 income statement.

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 balance sheet date;
- income and expenses for each income statement are translated at the average monthly exchange rate for the month in which the income or expense arose and all resulting exchange rate differences are recognised as a separate component of equity.

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.

In accordance with IFRS 1, the group has applied the exemption from retrospectively recalculating goodwill which arose on acquisitions prior to 1 April 2006. This is included at its deemed cost, being the amount recorded under UK GAAP as at 1 April 2006.

2.5.2 Patent and Trademark Costs

Patent and trademark costs are stated at cost, net of amortisation and any provision for impairment. Patents and trademarks have a finite useful life and amortisation is charged on a straight line basis over the estimated useful economic life (10 years).

2.5.3 Research and Development costs

Research expenditure is charged to the profit and loss account in the period in which it is incurred. Development costs are recognised as an intangible asset if they fulfil the following criteria:

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

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

Development costs recognised as an intangible asset are amortised on a straight line basis over 3 years or the length of any current sales contracts, from the point at which the asset is ready for sale or use.

During the year the company changed its basis of estimate for the amortisation of development costs. If the accounting policy had remained the same as in previous years the amortisation charge for the year would have been £179,976 resulting in a net book value of £407,824.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008

2.5.4 Computer Software

Acquired computer software is shown at historical cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight-line basis over 3 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 Property, plant and equipment

All property, plant and equipment assets are stated at cost less accumulated depreciation. 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 expected 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

2.7 Impairment of assets

The group assesses at each balance sheet 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 balance sheet date and whenever there is an indication of impairment an impairment loss is recognised for the amount by which the asset's carrying value amount exceeds its recoverable amount. Impairment losses are recognised in the income statement.

2.8 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.

Financial instruments are recognised on the balance sheet at fair value when the group becomes a party to the contractual provisions of the instrument.

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

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

2.8.2 Trade receivables

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

2.8.3 Trade payables

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

2.9 Share based payments

The group has applied the exemption available under IFRS 1 and elects to apply IFRS 2 only to awards of equity instruments made after 7 November 2002 that had not vested by 1 April 2006.

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, or when share options are forfeited, cancelled or expire, the corresponding fair value is transferred to the profit and loss account. The group has no legal or constructive obligation to repurchase or settle the options in cash.

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

2.11 Revenue

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

2.11.1 Sales of services

The group sells design, development and other services relating to the DVD production industry. These services are provided either on a time and material basis or as a fixed price contract.

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

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

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

2.11.2 Software usage fees

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

2.11.3 Royalty income

Under IAS 18 royalties are recognised on an accruals basis in accordance with the substance of the relevant agreement. Based on the substance of the contract agreements, revenue is recognised to match with estimated sales. Estimates of expected sales are reviewed at each balance sheet date.

2.12 Inventories

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

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

2.13 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in the income statement 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 other long-term payables. The interest element of the finance cost is charged to the income statement 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.

2.14 Deferred taxation

Deferred tax, including UK corporation tax and foreign tax, is provided in full using the balance sheet 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 balance sheet. Deferred tax assets and liabilities are not recognised if they arise in the following situations; the initial recognition of goodwill; or the initial recognition of assets and liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of recovery or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet 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. It is group's policy to reinvest undistributed profits arising in group companies.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets are reviewed at each balance sheet 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.

2.15 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008

Government grants relating to operating costs are deferred and recognised in the income statement 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 income statement on a straight line basis over the expected lives of the related assets.

2.16 Exceptional items

Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the group's financial performance. Transactions which may give rise to exceptional items are principally gains and losses on disposal of operations or restructuring provisions.

3 Accounting estimates and judgements

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

3.1 Critical accounting estimates and assumptions

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

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

Financial Instruments
Discounted cash flow analysis is used to determine the fair value of financial instruments that are not traded on the open market. Calculations have been based on a subjective pre-tax discount rate of 8%. Had the discount rate used been 1% greater or lower than estimated, then the change in fair value would have been decreased by £109,000, or increased by £115,000 respectively.

3.2 Critical judgements in applying the group's accounting policies

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

4 Segmental reporting

Primary reporting format - Business segments

At 31 March 2008, the group is organised on a worldwide basis into two main business segments:

- Software development and consultancy
- Media production and design

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

The segment results are as follows:

	Software Development		**Media Production**		**Group**	
	2008	2007	**2008**	2007	**2008**	2007
	£000	£000	**£000**	£000	**£000**	£000
Total Revenue	**2,038**	1,781	**1,710**	2,715	**3,748**	4,496
Inter-segment revenue	**(129)**	(290)	**(355)**	-	**(484)**	(290)
Revenue	**1,909**	1,491	**1,355**	2,715	**3,264**	4,206
Segment result	**(191)**	(322)	**(661)**	274	**(852)**	(48)
Unallocated corporate expenses					**(1,076)**	(884)
Operating loss					**(1,928)**	(932)
Finance income					**72**	53
Finance cost					**(327)**	(185)
Loss before taxation					**(2,183)**	(1,064)
Tax on loss					**135**	-
Loss for the year					**(2,048)**	(1,064)

Other segmental information included in the income statement is as follows:

	Software Development		**Media Production**		**Group Operations**	
	2008	2007	**2008**	2007	**2008**	2007
	£000	£000	**£000**	£000	**£000**	£000
Depreciation	**44**	40	**76**	35	**32**	52
Amortisation	**57**	75	**20**	-	**8**	8
Impairment losses	**45**	-	**97**	-	**-**	-
Share based payments	**-**	-	**-**	-	**(87)**	86

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008

4 Segmental reporting continued

Primary reporting format - Business segments

Segment assets consist primarily of property, plant and equipment, intangible assets, trade and other receivables and cash and cash equivalents.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as borrowings.

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

	Software Development		Media Production		Group	
	2008	2007	**2008**	2007	**2008**	2007
	£000	£000	**£000**	£000	**£000**	£000
Assets	**2,801**	1,777	**1,896**	793	**4,697**	2,570
Unallocated corporate assets					**2,103**	3,772
Consolidated total assets					**6,800**	6,342
Liabilities	**546**	632	**1,020**	1,041	**1,566**	1,673
Unallocated corporate liabilities					**3,600**	3,676
Consolidated total liabilities					**5,166**	5,349
Capital Expenditure	**358**	418	**1,301**	-	**29**	5

Secondary reporting format - geographical segments

The Group's operating divisions operate in two principal geographical areas of the world, the UK and the US. During the year the Group closed its subsidiary located within France. All other European operations are run from the UK office.

	Revenue		Assets		Additions to property, plant and equipment, and intangible assets	
	2008	2007	**2008**	2007	**2008**	2007
	£000	£000	**£000**	£000	**£000**	£000
United Kingdom	**328**	2,113	**4,483**	1,906	**381**	421
Other EU Countries	**143**	222	**(202)**	32	**1,307**	-
US	**2,793**	1,871	**(2,647)**	(945)	**-**	2
	3,264	4,206	**1,634**	993	**1,688**	423

Discontinuing operations

In the year ended 31 March 2007, the Group exited its UK-based video publishing activity through the sale of the assets of ZOO Interactive Video Ltd. The results for this activity were therefore reported as discontinued operations. Through the acquisition of Scope Seven in August 2007, the Group was involved in video production services in the year ended 31 March 2008 and for this reason we have re-categorised the exited ZIV business as a continued operation. The segment result is a loss of £661,000 for 2008 as a continuing operation (2007: Profit of £274,000 as a discontinued operation).

During the year the Group closed the French office to concentrate on greater opportunites that exist in the US. These discontinued operations are included within Software Development. The loss for the year of these operations was £211,000 (2007: Profit of £15,000).

5 Revenue

The group's revenue comprises:

	2008	2007
	£000	£000
Software Development	**1,909**	1,491
Media Production	**1,355**	2,715
	3,264	4,206
Continuing operations	**3,264**	1,491
Discontinued operations	**-**	2,715
	3,264	4,206
Revenue from services	**2,456**	752
Royalty income	**808**	3,454
	3,264	4,206

6 Other operating income

	2008	2007
	£000	£000
Government grants	**100**	117

7 Investment income

	2008	2007
	£000	£000
Interest on short term deposits	**72**	53

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008

8 Finance costs

	2008 £000	2007 £000
Interest on bank overdraft	**-**	(32)
Interest on borrowings	**(327)**	(153)
	(327)	(185)

9 Operating loss

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

	2008 £000	2007 £000
Exchange gains or losses	**(43)**	(164)
Staff Costs	**3,035**	2,148
Depreciation	**152**	127
Amortisation of other intangible assets	**90**	83
Impairment losses on other intangible assets	**137**	-
Research and non-capitalised development costs	**797**	748
Operating lease expense	**290**	185
Auditor's remuneration	**78**	79
Restructuring costs	**-**	94
Exceptional items (note 17)	**175**	(310)
Other expenses	**554**	861
Other operating expenses	**5,265**	3,851

10 Auditor's remuneration

	2008 £000	2007 £000
Fees payable to group's auditor for the audit of the group's annual financial statements	**21**	23
The audit of the group's subsidiaries, pursuant to legislation	**24**	6
Other services pursuant to legislation	**-**	3
Tax services	**24**	20
Services in relation to corporate finance transactions	**-**	25
All other services	**9**	2
	78	79

11 Staff costs

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

	2008 No.	2007 No.
Product design	**67**	46
Sales and marketing	**9**	9
Administration	**13**	12
	89	67

Their aggregate remuneration comprised:

	2008 £000	2007 £000
Wages and salaries	**2,606**	1,717
Social security costs	**458**	276
Other pension costs	**58**	69
Share based payments	**(87)**	86
	3,035	2,148

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

12 Directors' remuneration, interests and transactions

Aggregate remuneration

Directors' remuneration comprised:

	Salary £000	**Benefits £000**	**Pension £000**	**2008 Total £000**	2007 Total £000
Dr Stuart A Green	**115**	**1**	**6**	**122**	122
Helen P Gilder (1)	**85**	**1**	**4**	**90**	44
Ian C Stewart	**15**	**-**	**-**	**15**	67
Robert G Deri (2)	**-**	**-**	**-**	**-**	175
Andrew Scrivener (3)	**-**	**-**	**-**	**-**	46
M John Barnes (4)	**-**	**-**	**-**	**-**	8
	215	**2**	**10**	**227**	462

(1) Appointed 29 September 2006. (2) Resigned 16 January 2007. (3) Resigned 03 October 2006. (4) Resigned 27 September 2006.

In addition to the above, £20,000 (2007: £12,000) was paid to Brockhill Limited under agreements to provide the group with the services of Dr Christopher H B Honeyborne. £20,000 (2007: £10,000) was paid to Foresight Group for the services of Matthew P Taylor.

The balance owing to Brockhill Limited at 31 March 2008 was £3,000 (2007: £1,000). The balance owing to Foresight Group at 31 March 2008 was £6,000 (2007: £13,000).

Two directors (2007: five) serving during the year have been members of money purchase pension schemes.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008

12 Directors' remuneration, interests and transactions continued

	2008	2007
	£000	£000
The highest paid director received emoluments and benefits as follows:		
Emoluments	**116**	116
Money purchase pension contributions	**6**	6
	122	122

The highest paid director did not exercise any share options or received or was due any shares in the year. As at 31 March 2008 no amounts, in respect of services performed as a director, were due.

Compensation of key management personnel (including directors)

	2008	2007
	£000	£000
Short-term employee benefits	**475**	387
Post-employment benefits	**10**	27
Termination benefits	**215**	154
Share based payments	**(43)**	88
	657	656

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 2007	Granted during the year	Surrendered during the year	31 March 2008	Exercise price	Date from which exercisable	Expiry date
Dr Christopher H B Honeyborne	267	-	(267)	**-**	£63.75	Sep-01	Mar-10
Dr Christopher H B Honeyborne	2,667	-	(2,667)	**-**	£5.81	Jul-04	Jul-11
Dr Christopher H B Honeyborne	3,333	-	(3,333)	**-**	£8.25	Apr-07	Jul-14
Dr Christopher H B Honeyborne	-	30,000	-	**30,000**	£0.27	*	Aug-17
Dr Stuart A Green	16,667	-	(16,667)	**-**	£7.88	Apr-07	Apr-14
Dr Stuart A Green	13,333	-	(13,333)	**-**	£7.88	Jul-08	Jul-15
Dr Stuart A Green	-	175,000	-	**175,000**	£0.27	*	Aug-17
Helen P Gilder	800	-	(800)	**-**	£37.50	Sep-01	Mar-10
Helen P Gilder	4,000	-	(4,000)	**-**	£5.81	Jul-04	Jul-11
Helen P Gilder	4,000	-	(4,000)	**-**	£2.06	Apr-05	Apr-13
Helen P Gilder	5,333	-	(5,333)	**-**	£7.88	Jul-08	Jul-15
Helen P Gilder	-	450,000	-	**450,000**	£0.27	*	Aug-17
Ian C Stewart	-	30,000	-	**30,000**	£0.27	*	Aug-17
	50,400	**685,000**	**(50,400)**	**685,000**			

*These directors' share options are conditionally exercisable from 31 August 2008 and the percentage of shares that can be exercised is staggered. The exercise 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.

The credit to the profit and loss account in respect of directors' share options amounted to £53,000 (2007: credit £76,000). These credits are due to the surrendering of unexercised share options.

The market price of the ordinary shares at 31 March 2008 was 17.1p and the range during the year was 50.0p (high) to 15.0p (low).

Directors' interests

The directors who held office at 31 March 2008 had the following interests, including family interests, in the 15p ordinary shares of ZOO Digital Group plc:

Name of director	2008 Beneficial	2007 Beneficial
Dr Christopher H B Honeyborne	**1,333**	1,333
Dr Stuart A Green	**2,746,502**	206,502
Helen P Gilder	**226**	226
Ian C Stewart	**1,675,365**	875,365
Matthew P Taylor	**-**	-

The directors also had the following interest in 6% unsecured convertible loan stock at 31 March 2008:

	£000
Dr Christopher H B Honeyborne	**4**
Dr Stuart A Green	**342**
Helen P Gilder	**-**
Ian C Stewart	**270**
Matthew P Taylor	**-**

On 10 April 2008 Dr Stuart A Green purchased an additional 100,000 shares. As a consequence, Dr Green's shareholding in the Company, including family interests, is 2,846,502 shares representing 15.89% of the existing share capital of the Company.

Dr Stuart A Green has also committed to subscribe to a further 1,333,333 shares which will take his shareholding from 15.9% to 19.6%

No other changes took place in the interests of directors between 31 March 2008 and 03 September 2008.

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

No other transactions have taken place with directors aside from those disclosed in this note 12.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008

13 Income tax expense

13.1 Current tax:

	2008	2007
	£000	£000
UK corporation tax		
- Current tax on income for the year	-	-
- Adjustments in respect of prior years	-	-
Foreign tax	-	-
	-	-

Corporation tax is calculated at 30% (2007:30%) of the estimated assessable profit for the year.

13.2 Tax charge for the year

The tax charge for the year can be reconciled to the profit for the year as follows:

	2008	2007
	£000	£000
Profit before tax	(2,183)	(1,064)
Tax calculated at standard rate of corporation tax of 30%	(655)	(319)
Depreciation in excess of capital allowances	179	143
Disallowable items	262	(4)
Losses carried forward	214	180
Foreign tax charged at lower rates the UK standard rate	-	-
Research and development tax credit	135	-
Tax Credit	135	-

13.3 Tax losses carried forward

The group has tax losses carried forward of approximately £16,000,000 (2007: £16,000,000).

13.4 Current tax assets

	Group		Company	
	2008	2007	2008	2007
	£000	£000	£000	£000
Research and development tax credit	90	53	-	-

14 Dividends

There were no dividends paid or proposed.

15 Loss per share

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

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

	Basic and Diluted	
	2008	2007
	£000	£000
Continued operations	**1,837**	1,338
Discontinued operations	**211**	(274)
Loss for the financial year	**2,048**	1,064

	2008	2007
	Number of shares	Number of shares
Weighted average number of shares for basic & diluted loss per share	**13,030,659**	5,092,801

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

	2008	2007
Basic	**1.62p**	(5.38)p
Diluted	**1.62p**	(5.38)p

16 Discontinued operations

16.1 Income statement

	2008	2007
	£000	£000
Revenue	**-**	2,715
Expenses	**(211)**	(2,441)
Loss/(profit) before tax of discontinued operations	**(211)**	274
Income tax expense	**-**	-
(Loss)/profit after tax of discontinued operations	**(211)**	274

16.2 Cash flow movements

	2008	2007
	£000	£000
Operating	**5**	(239)
Investing	**-**	89
Financing	**-**	-
	5	(150)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008

16 Discontinued operations continued

16.3 Analysis of assets and liabilities

	2008 £000	2007 £000
Property, plant and equipment	-	-
Goodwill	-	-
Other Intangible assets	-	-
Inventory	-	-
Other current assets	12	1,093
	12	1,093
Other current liabilities	(214)	(5,889)
Current - provisions	-	-
	(214)	(5,889)

17 Exceptional items

On the 3 October 2006 the group disposed of the trade and assets of its interactive DVD production business for a consideration of £200,000. The profit on disposal of the operation was £310,000. In March 2008 the company, to which the trade and assets were sold, went into liquidation with £175,000 of the consideration still outstanding. The group is in discussions with the liquidators to recover the amounts due, however a provision has been made for full write off of the outstanding amount.

18 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 2006	-	12	676	371	1,059
Additions	-	-	32	1	33
Disposals	-	-	(97)	(21)	(118)
Acquired through business combination	-	-	-	-	-
Opening cost at 1 April 2007	-	12	611	351	974
Additions	55	2	63	33	153
Disposals	-	(12)	-	(125)	(137)
Acquired through business combination	11	222	149	95	477
Closing cost at 31 March 2008	**66**	**224**	**823**	**354**	**1,467**
Accumulated depreciation/ impairment					
Opening balance at 1 April 2006	-	11	525	228	764
Depreciation	-	1	77	49	127
Disposals	-	-	(44)	(15)	(59)
Impairment loss	-	-	-	-	-
Opening balance at 1 April 2007	-	12	558	262	832
Depreciation	11	30	77	34	152
Disposals	-	(12)	-	(72)	(84)
Impairment loss	-	-	-	-	-
Closing balance at 31 March 2008	**11**	**30**	**635**	**224**	**900**
Opening carrying value at 1 April 2006	-	1	151	143	295
Opening carrying value at 1 April 2007	-	-	53	89	142
Closing carrying value at 31 March 2008	**55**	**194**	**188**	**130**	**567**

Depreciation expense of £152,000 (2007: £127,000) is included in 'Other operating expenses'.

Property, plant and equipment for the group includes the following amounts where the group is a lessee under a finance lease at 31 March 2008:

	Production Equipment	Computer hardware	Office equipment, fixtures & fittings	Total
	£000	£000	£000	£000
Cost - capitalised finance leases	39	104	70	213
Accumulated depreciation	(1)	(20)	(9)	(30)
Net book value	**38**	**84**	**61**	**183**

There were no assets held under finance leases at 31 March 2007.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008

18 Property, plant and equipment continued

Company	**Leasehold improvements**	**Computer hardware**	**Office equipment, fixtures & fittings**	**Total**
	£000	**£000**	**£000**	**£000**
Cost				
Opening cost at 1 April 2006	12	272	317	601
Additions	-	5	-	5
Disposals	-	-	-	-
Acquired through business combination	-	-	-	-
Opening cost at 1 April 2007	12	277	317	606
Additions	-	-	29	29
Disposals	(12)	-	(125)	(137)
Acquired through business combination	-	-	-	-
Closing cost at 31 March 2008	**-**	**277**	**221**	**498**
Accumulated depreciation/ impairment				
Opening balance at 1 April 2006	11	248	203	462
Depreciation	1	14	34	49
Disposals	-	-	-	-
Impairment loss	-	-	-	-
Opening balance at 1 April 2007	12	262	237	511
Depreciation	-	11	21	32
Disposals	(12)	-	(73)	(85)
Impairment loss	-	-	-	-
Closing balance at 31 March 2008	**-**	**273**	**185**	**458**
Opening carrying value at 1 April 2006	1	24	114	139
Opening carrying value at 1 April 2007	-	15	80	95
Closing carrying value at 31 March 2008	-	**4**	**36**	**40**

There were no assets held under finance leases.

19 Intangible assets

Group	Goodwill	Development Costs	Patents and trademarks	Computer Software	Total
	£000	£000	£000	£000	£000
Cost					
Opening cost at 1 April 2006	10,423	528	231	119	11,301
Additions	-	334	54	2	390
Disposals	-	(316)	-	(16)	(332)
Acquired through business combination	-	-	-	-	-
Opening cost at 1 April 2007	10,423	546	285	105	11,359
Additions	-	214	54	42	310
Disposals	-	(11)	-	-	(11)
Exchange differences	19	15	-	-	34
Acquired through business combination	842	688	-	45	1,575
Closing cost at 31 March 2008	**11,284**	**1,452**	**339**	**192**	**13,267**
Accumulated amortisation/ impairment					
Opening balance at 1 April 2006	8,828	316	31	72	9,247
Amortisation	-	71	(5)	17	83
Disposals	-	(316)	-	(12)	(328)
Impairment loss	-	-	-	-	-
Opening balance at 1 April 2007	8,828	71	26	77	9,002
Amortisation	-	50	6	34	90
Disposals	-	(4)	-	-	(4)
Impairment loss	-	92	45	-	137
Closing balance at 31 March 2008	**8,828**	**209**	**77**	**111**	**9,225**
Opening carrying value at 1 April 2006	1,595	212	200	47	2,054
Opening carrying value at 1 April 2007	1,595	475	259	28	2,357
Closing carrying value at 31 March 2008	**2,456**	**1,243**	**262**	**81**	**4,042**

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 14 years.

During the year the company changed its basis of estimate for the amortisation of development costs. If the accounting policy had remained the same as in previous years the amortisation charge for the year would have been £179,976 resulting in a net book value of £407,824.

Following the decision by management not to renew or pursue some of the group's patent applications, £45,000 (2007: £nil) of previously capitalised patent costs was found to be impaired.

Changes in market expectations led to a management decision not to continue certain development projects. Capitalised costs relating to these projects were considered to be impaired. The amount of impairment was £92,000 (2007:£nil).

Amortisation and impairment costs are included within 'Amortisation and impairment' in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008

19 **Intangible assets** continued

Computer software includes the following amounts where the group is a lessee under a finance lease at 31 March 2008:

	Computer Software £000
Cost - capitalised finance leases	38
Accumulated amortisation	(7)
Net book value	**31**

There were no assets held under finance leases at 31 March 2007.

Company	**Goodwill £000**	**Computer Software £000**	**Total £000**
Cost			
Opening cost at 1 April 2006	7,667	24	7,691
Additions	-	14	14
Disposals	-	-	-
Acquired through business combination	-	-	-
Opening cost at 1 April 2007	7,667	38	7,705
Additions	-	-	-
Disposals	-	-	-
Acquired through business combination	-	-	-
Closing cost at 31 March 2008	**7,667**	**38**	**7,705**
Accumulated amortisation/ impairment			
Opening balance at 1 April 2006	6,072	17	6,089
Amortisation	-	11	11
Disposals	-	-	-
Impairment loss	-	-	-
Opening balance at 1 April 2007	6,072	28	6,100
Amortisation	-	8	8
Disposals	-	-	-
Impairment loss	-	-	-
Closing balance at 31 March 2008	**6,072**	**36**	**6,108**
Opening carrying value at 1 April 2006	1,595	7	1,602
Opening carrying value at 1 April 2007	1,595	10	1,605
Closing carrying value at 31 March 2008	**1,595**	**2**	**1,597**

Impairment tests for goodwill

Goodwill is subject to annual impairment testing, or more frequently if there are indications that goodwill might be impaired.The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. The calculations use pre-tax cashflow projections which are based on financial budgets approved by management covering a five-year period. Management determined the budgets based on past performance and its expectations of market development.

Goodwill is allocated to the group's cash-generating units (CGUs) identified according to the business segment. Goodwill is allocated as follows:

	Software Development		Media Production		Group	
	2008	2007	**2008**	2007	**2008**	2007
	£000	£000	**£000**	£000	**£000**	£000
	1,595	1,595	**861**	-	**2,456**	1,595

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

Key assumptions

Discount rate

The discount rate used was 8%.

Cash flow growth rates

The cash flow growth rates are derived from forecast sales growth taking into consideration past experience of operating margins achieved in each cash generating unit.

Sensitivities

The group's impairment review is sensitive to changes in the key assumptions. Based on a sensitivity analysis a change of 5% in any one of the assumptions will not not cause any impairment of the group's CGUs.

20 Inventories

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Products in the course of development	**188**	-	**-**	-

There was no cost of inventories recognised as an expense within 'cost of sales' during the year (2007:£48,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008

21 Trade receivables and other receivables

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Trade receivables	**826**	895	**2**	20
Less: provision for impairment of trade receivables	**(71)**	(323)	**-**	-
Trade receivables - net	**755**	572	**2**	20
Amounts owed by subsidiary undertakings	**-**	-	**10,389**	6,112
Royalty advances	**-**	23	**-**	-
VAT	**6**	-	**18**	18
Other debtors	**76**	58	**1**	1
Prepayments and accrued income	**401**	1,111	**112**	203
	1,238	1,764	**10,522**	6,354

The fair values of trade and other receivables equals their carrying amount.

As of the 31 March 2008, trade receivables of £321,000 (2007: £405,000) were overdue. The ageing analysis of these trade receivables is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Less than 3 months	**207**	185	**-**	7
3 to 6 months	**73**	153	**1**	3
7 to 12 months	**35**	65	**-**	-
Over 12 months	**6**	2	**-**	-
	321	405	**1**	10

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

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Pounds	**271**	1,342	**10,175**	6,354
US Dollars	**943**	383	**347**	-
Euros	**24**	39	**-**	-
	1,238	1,764	**10,522**	6,354

Provision for impairment of trade receivables:

	Group 2008 £000
At 1 April 2007	**323**
Provision for receivables impairment	**27**
Receivables written off in the year as uncollectible	**(246)**
Unused amounts reversed	**(33)**
At 31 March 2008	**71**

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, Royalty advances, Other debtors and cash and cash equivalents. The group does not hold any collateral as security.

22 Notes to the cash flow statement

22.1 Significant non-cash transactions

During the year the group acquired property, plant and equipment with a cost of £153,000 of which £46,000 was acquired by the means of finance leases. This does not include assets acquired as part of the acquisition of Scope Seven LLC as stated in note 29.

22.2 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 balance sheet amounts.

	Group		Company	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Cash on hand and balances with banks	**675**	2,026	**334**	1,851

23 Share capital and premium

	2008 £000	2007 £000
Authorised		
26,666,667 ordinary shares of 15p each	**4,000**	
(2007: 14,666,667 ordinary shares of 15p each)		2,200
Allotted, called-up and fully paid		
17,913,089 ordinary shares of 15p each	**2,687**	
(2007: 5,913,088 ordinary shares of 15p)		887
Reconciliation of the number of shares outstanding:		
Opening balance	**5,913,089**	4,231,038
Shares issued	**12,000,000**	1,682,051
Closing balance	**17,913,089**	5,913,089

On 28 August 2007 12,000,000 ordinary shares of 15p were issued for consideration of £3,000,000.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008

23 Share capital and premium continued

Group and Company	Ordinary shares £000	Share Premium £000
Balance at 1 April 2006	635	21,648
Issue of shares	252	568
Issue costs	-	(114)
Balance at 31 March 2007	887	22,102
Issue of shares	1,800	1,200
Issue costs	-	(272)
Balance at 31 March 2008	**2,687**	**23,030**

Interest in own shares	£000
Balance at 1 April 2006	(89)
Disposal of own shares	13
Balance at 31 March 2007	(76)
Disposal of own shares	74
Balance at 31 March 2008	**(2)**

24 Retained earnings

Group	Retained earnings £000
Balance at 1 April 2006	(30,193)
Issue costs	22
Loss for the year	(1,064)
Share based payments	43
Balance at 31 March 2007	(31,192)
Forfeited Share options	185
Loss for the year	(2,048)
Balance at 31 March 2008	**(33,055)**

Company	Retained earnings £000
Balance at 1 April 2006	(24,102)
Issue costs	22
Loss for the year	(629)
Share based payments	43
Balance at 31 March 2007	(24,666)
Forfeited Share options	185
Loss for the year	(48)
Balance at 31 March 2008	**(24,529)**

25 Other reserves

Group	Translation reserve	Convertible loan reserve	Share option reserve	Other reserves	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2006	-	-	418	8,598	9,016
Issue of convertible loan stock	-	266	-	-	266
Share based payments	-	-	(92)	-	(92)
Foreign exchange translation adjustment	82	-	-	-	82
Balance at 31 March 2007	82	266	326	8,598	9,272
Forfeited Share options	-	-	(326)	-	(326)
Share based payments	-	-	54	-	54
Foreign exchange translation adjustment	(26)	-	-	-	(26)
Balance at 31 March 2008	**56**	**266**	**54**	**8,598**	**8,974**

Company	Convertible loan reserve	Share option reserve	Other reserves	Total
	£000	£000	£000	£000
Balance at 1 April 2006	-	418	7,393	7,811
Issue of convertible loan stock	266	-	-	266
Share based payments	-	(92)	-	(92)
Balance at 31 March 2007	266	326	7,393	7,985
Forfeited Share options	-	(326)	-	(326)
Share based payments	-	54	-	54
Balance at 31 March 2008	**266**	**54**	**7,393**	**7,713**

26 Borrowings

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Non-current				
Amounts owed to subsidiary undertakings	**-**	-	**6,786**	6,785
6% Unsecured convertible loan stock	**3,108**	3,013	**3,108**	3,013
Promissory note - Scenewise Inc.	**121**	-	**-**	-
Finance lease liabilities	**46**	-	**-**	-
	3,275	3,013	**9,894**	9,798
Current				
Promissory note - Scenewise Inc.	**165**	-	**-**	-
Finance lease liabilities	**105**	-	**-**	-
	270	-	**-**	-
Total borrowings	**3,545**	3,013	**9,894**	9,798

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008

26 Borrowings continued

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

The convertible loan stock has been accounted for in accordance with IAS 32 (Financial instruments:Presentation) and split between debt and equity based upon the market rate of similar loan stock not carrying conversion options, estimated to be 8%.

The Scenewise Inc. promissory note is repayable in equal quarterly instalments of £30,000 (2007: £nil) until completion of the loan repayments at 31 December 2009. The loan bears a fixed interest rate of 10%. The promissory note arose on the acquisition of Scope Seven LLC.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments
	£000	£000	£000
Less than one year	105	-	105
Between one and five years	46	-	46
More than five years	-	-	-
	151	-	151

There were no assets held under finance leases during the year to 31 March 2007.

27 Trade and other payables

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Trade Creditors	**411**	539	**174**	271
Accrued expenses	**1,210**	1,797	**311**	389
	1,621	2,336	**485**	660

The fair values of trade and other payables equals their carrying amount.

28 Commitments

Capital commitments

The group had no capital commitments at the balance sheet date.

Operating lease commitments

The group has a number of operating leases as a lessee, for equipment and premises under non-cancellable agreements. The lease terms are between 3 and 6 years, and the majority of lease agreements are renewable at the end of the lease period at market rate. The lease expenditure charged to the income statement during the year is disclosed in note 9.The lease expenditure on premises is charged to the income statement on an average annual charge over the life of the lease.

The future minimum lease payments under non-cancellable operating leases are as follows:	**2008**	2007
	£000	£000
Within one year	**4**	160
From one to five years	**95**	-
After five years	**233**	-
	332	160

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

29 Business combinations

On 28 August 2007, the group acquired certain assets of Scope Seven Inc. and formed a new company, Scope Seven LLC. The group holds 100% of the share capital of Scope Seven LLC, a media production and design company operating in the US. The acquired business contributed revenues of £1,153,000 and a net loss of £889,000 to the group for the period 28 August 2007 to 31 March 2008.

Details of net assets acquired and goodwill are as follows:	**£000**
Purchase consideration:	
Cash paid	1,379
Direct costs relating to the acquisition	157
Total purchase consideration	**1,536**
Fair value of net assets acquired	(694)
Goodwill (note 19)	**842**

The goodwill is attributable to the workforce of the acquired business and the significant synergies expected to arise after the group's acquisition of Scope Seven LLC.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008

29 **Business combinations** continued

The assets and liabilities as of 28 August 2007 arising from the acquisition are as follows:

	Fair Value	Acquiree's carrying amount
	£000	£000
Trade receivables	40	40
Property, plant and equipment	477	477
Intangible assets	733	733
Trade payables	(260)	(260)
Long-term debt	(296)	(296)
Net assets acquired	694	694

	£000
Purchase consideration settled in cash	1,536
Cash and cash equivalents in subsidiary acquired	-
Cash outflow on acquisition	1,536

There were no acquisitions in the year ended 31 March 2007.

30 Events after the balance sheet date

On 10 April 2008 the group announced that it had secured a material contract to deliver software automation products including its recently launched Media Adaptation Tool (MAT) to a major Hollywood studio. The contract has a fifteen year term, with five year break points and will provide a minimum income of $15 million over the fifteen years.

A separate announcement has been made this week announcing that the Group has conditionally placed 3,413,333 new ordinary shares at a placing price of 15p per share to raise approximately £512,000.

31 Related parties

Subsidiaries

The parent company has investments in the following subsidiary undertakings:

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

* Scope Seven LLC is indirectly held by ZOO Digital Group plc through ZOOtech Inc.

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

Subsidiary Undertakings	Company	
	2008	2007
	£000	£000
Cost	**8,252**	8,252
Provision for impairment	**1,467**	1,467
Net book value	**6,785**	6,785

Key Management personnel

The details of key management remuneration is disclosed in the Directors' remuneration, interests and transactions (note 12).

No other related party transactions took place during the year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008

32 Share based payments

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:

	2008		2007	
	Options No.	**Weighted average exercise price £**	Options No.	Weighted average exercise price £
Kazoo3D plc employee share option scheme*				
Outstanding at the beginning of the year	**2,008**	**37.50**	2,008	37.50
Surrendered during the year	**(2,008)**	**37.50**	-	-
Outstanding at the end of the year	**-**	**-**	2,008	37.50
Exercisable at the end of the year	**-**	**-**	2,008	37.50
Kazoo3D plc unapproved employee share option scheme*				
Outstanding at the beginning of the year	**4,425**	**16.77**	4,425	16.77
Surrendered during the year	**(4,425)**	**16.77**	-	-
Outstanding at the end of the year	**-**	**-**	4,425	16.77
Exercisable at the end of the year	**-**	**-**	1,092	43.91
Kazoo3D plc cross-over share option scheme*				
Outstanding at the beginning of the year	**13,880**	**37.50**	13,880	37.50
Surrendered during the year	**(13,880)**	**37.50**	-	-
Outstanding at the end of the year	**-**	**-**	13,880	37.50
Exercisable at the end of the year	**-**	**-**	13,880	37.50
ZOO Digital Group plc rollover share option scheme				
Outstanding at the beginning of the year	**40,701**	**0.01**	40,701	0.01
Surrendered during the year	**(40,701)**	**0.01**	-	-
Outstanding at the end of the year	**-**	**-**	40,701	0.01
Exercisable at the end of the year	**-**	**-**	40,701	0.01
ZOO Digital Group plc Enterprise Management Incentive scheme*				
Outstanding at the beginning of the year	**104,868**	**5.95**	194,586	6.23
Forfeited during the year	**-**	**-**	(89,718)	6.55
Surrendered during the year	**(104,868)**	**5.95**	-	-
Outstanding at the end of the year	**-**	**-**	104,868	5.95
Exercisable at the end of the year	**-**	**-**	46,437	3.40
ZOO Digital Group plc Unapproved share option scheme*				
Outstanding at the beginning of the year	**36,635**	**6.96**	133,443	5.00
Forfeited during the year	**-**	**-**	(96,808)	4.26
Surrendered during the year	**(36,635)**	**6.96**	-	-
Outstanding at the end of the year	**-**	**-**	36,635	6.96
Exercisable at the end of the year	**-**	**-**	2,667	5.81

	2008		2007	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
	No.	**£**	No.	£
ZOO Digital Group plc EMI scheme (2007)*				
Outstanding at the beginning of the year	**-**	**-**	-	-
Granted during the year	**422,979**	**0.27**	-	-
Outstanding at the end of the year	**422,979**	**0.27**	-	-
Exercisable at the end of the year	**-**	**-**	-	-
ZOO Digital Group plc Unapproved (2007)*				
Outstanding at the beginning of the year	**-**	**-**	-	-
Granted during the year	**1,842,437**	**0.27**	-	-
Outstanding at the end of the year	**1,842,437**	**0.27**	-	-
Exercisable at the end of the year	**-**	**-**	-	-

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

Out of the 2,265,416 outstanding options (2007: 202,517 options), no options (2007: 106,785) were exercisable. No options were exercised in 2008 or 2007.

All share options outstanding at the end of the year have an expiry date of 30 August 2017 and an exercise price of £0.265.

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:

Expected Volatility (%)	74.4 - 100
Risk-free Interest rate(%)	4.05 – 5.25
Expected life of option (years)	5
Expected dividends	none

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

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

	2008	2007
	£000	£000
Total (credit)/expense recognised from share based payment transactions	**(87)**	86
Share based payment liability	**54**	326

The credit for the year is due to the employees surrendering options during the year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008

33 Financial instruments

The Group's financial instruments comprise cash and liquid resources, a long term convertible loan, a promissory note 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 raise finance for the Group's operations.

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

Market Risk

Foreign currency risk

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

The Group had three overseas subsidiaries operating in the USA and France during the year. The majority of the group's overseas transactions are with the USA, hence exposing it to a currency risk of fluctuations in the US Dollar. At 31 March 2008, if Sterling had weakened/strengthened by 10% against the US Dollar with all other variables held constant, post tax loss for the year would have been £516,000 lower (2007:£143,000) or £423,000 greater (2007:£117,000), mainly as a result of translation of subsidiary undertakings. The increase from 2007 to 2008 is due to the acquisition of Scope Seven LLC, and all its assets and transactions in US Dollars.

Interest rate risk

In September 2006 the Group issued £3,541,000 Unsecured convertible redeemable loan stock, redeemable on 31 October 2011. The loan carries a fixed interest rate of 6%. The group also holds a promissory note repayable in quarterly instalments to Scenewise Inc. The promissory note will be fully repaid on 31 December 2009 and carries an interest rate of 10%. The group considers the interest rate risk on both loans to be minimal as both rates are fixed.

Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its 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 and through controls on expenditure.

The table below analyses the group's financial liabilities which will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cashflows.

At 31 March 2008	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	£000	£000	£000	£000
Borrowings	**270**	**155**	**3,120**	**-**
Trade and other payables	**1,621**	**-**	**-**	**-**

At 31 March 2007	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	£000	£000	£000	£000
Borrowings	-	-	3,013	-
Trade and other payables	2,336	-	-	-

Credit risk

Credit risk arises from cash and cash equivalents and credit exposures on outstanding receivables. The group's main credit risk is on the outstanding trade receivables, this risk is reduced through credit control procedures. An analysis of outstanding receivables is included in note 21.

34 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 balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

	2008	2007
	£000	£000
Total borrowings	**3,545**	3,013
Less cash and cash equivalents	**(675)**	(2,026)
Net Debt	**2,870**	987
Total equity	**1,634**	993
Total capital	**4,504**	1,980
Gearing ratio	**64%**	50%

35 Transition to IFRS

This is the first year that the group has presented its consolidated financial statements under IFRS.

The accounting policies set out in note 2 have been applied in preparing the financial statements for the year ended 31 March 2008, the comparative information presented in these financial statements for the year ended 31 March 2007 and in the preparation of the opening IFRS balance sheet at 1 April 2006.

In preparing its opening IFRS balance sheet, the group has adjusted amounts previously reported in financial statements prepared in accordance with UK GAAP. An explanation of how the transition from UK GAAP to IFRS has affected the group's financial position, financial performance and cash flows is set out in the following notes and tables.

35.1 Notes to reconciliation between UK GAAP and IFRS

IAS 18 – Revenue

Previously the Group recognised non refundable royalty advances when they became contracted and billable to the client. Under IAS 18 royalties need to be recognised on an accruals basis in accordance with the substance of the relevant agreement. Based on the substance of the contract agreements, revenue is recognised to match with estimated sales. Estimates of expected sales are reviewed at each balance sheet date. The following adjustments have been applied retrospectively resulting in a net increase in revenue of £457,000 in the year ended 31 March 2007.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008

35 Transition to IFRS continued

IAS 38 – Intangible Assets

IAS 38 requires computer software, not integral to the operation of computers, to be reported under Intangible assets. Previously Computer software was reported under Computers within Tangible fixed assets. The adjustment has resulted in a straight reclassification of assets the changes being: £47,000 at 1 April 2006 and £21,000 at 31 March 2007.

IAS 19 – Employee Benefits

Under IAS 19 the Group is required to recognise in full the liabilities generated when the total of employees' cumulative paid holiday earned exceeds the total of cumulative paid holiday taken. Under UK GAAP the Group did not recognise this liability.

This change in accounting policy has been applied from the 1 April 2006 balance sheet. This has resulted in a charge for the year to 31 March 2007 of £26,000. This is due to the timing of the holiday year and the financial period ends.

IFRS 2 – Share based payments

For the year ending 31 March 2007 the Group adopted FRS20 the UK GAAP equivalent to IFRS 2, therefore no transitional adjustments are required in relation to Share based payments and the accounting policy remains as it was in the Annual report and accounts for the year ended 31 March 2007.

IFRS 3 – Business Combinations

IFRS 1 permits various optional exemptions. The Group has taken advantage of the exemption of applying IFRS 3 Business combinations, retrospectively to business combinations that took place prior to the transitional date. The investments held on the balance sheet at the transitional date remain at their previous UK GAAP carrying value at the date of transition.

IFRS 3 – Goodwill

Previously, the goodwill arising on acquisition was amortised over a 10 year period. Goodwill is now reviewed annually for impairment.

IAS 21 – The effects of changes in foreign exchange rates

The Group has taken advantage of the exemption in IFRS 1, which allows the cumulative translation differences to be set to zero at the date of transition for all subsidiaries. The Group has therefore not identified cumulative translation differences prior to the date of transition.

For translation difference occurring after the transition date, these are reported as a separate element within equity.

Cash flow statement

Although there is no effect on the underlying cash generation and expenditures of the group, there have been some presentational changes on the transition from UK GAAP to IFRS. The cash flow statement under IFRS shows the movement in cash and cash equivalents. The format of the cash flow statement has changed to show cash flows analysed between operating, investing and financial activities.

35.2 Reconciliation of equity as at 31 March 2006

	UK GAAP	Software Intangible Assets IAS 38	Goodwill IFRS3	Employee Benefits IAS 19	Revenue Recognition IAS 18	IFRS
	£000	£000	£000	£000	£000	£000
ASSETS						
Non-current assets						
Goodwill	**1,595**					**1,595**
Other Intangible assets	**412**	47				**459**
Property, plant and equipment	**342**	(47)				**295**
	2,349	-	-	-	-	**2,349**
Current assets						
Inventories	**48**					**48**
Trade receivables and other receivables	**2,499**					**2,499**
	2,547	-	-	-	-	**2,547**
Total assets	**4,896**	-	-	-	-	**4,896**
LIABILITIES						
Current Liabilities						
Trade payables and other payables	**(2,646)**			(48)	(868)	**(3,562)**
Short-term borrowings and overdraft	**(317)**					**(317)**
	(2,963)	-	-	(48)	(868)	**(3,879)**
Non-current liabilities						
Borrowings	**-**					**-**
	-	-	-	-	-	**-**
Total Liabilities	**(2,963)**	-	-	(48)	(868)	**(3,879)**
Net Assets	**1,933**	-	-	(48)	(868)	**1,017**
EQUITY						
Equity attributable to equity holders of the parent						
Share capital	**635**					**635**
Share premium account	**21,648**					**21,648**
Other reserves	**8,598**					**8,598**
Share option reserve	**418**					**418**
Retained earnings	**(29,277)**			(48)	(868)	**(30,193)**
	2,022	-	-	(48)	(868)	**1,106**
Interest in own shares	**(89)**					**(89)**
Attributable to equity holders	**1,933**	-	-	(48)	(868)	**1,017**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2008

35 Transition to IFRS continued

35.3 Reconciliation of equity as at 31 March 2007

	UK GAAP £000	Software Intangible Assets IAS 38 £000	Goodwill IFRS3 £000	Employee Benefits IAS 19 £000	Revenue Recognition IAS 18 £000	IFRS £000
ASSETS						
Non-current assets						
Goodwill	**1,259**		336			**1,595**
Other Intangible assets	**734**	21				**755**
Property, plant and equipment	**170**	(21)				**149**
	2,163	-	336	-	-	**2,499**
Current assets						
Trade payables and other payables	**1,817**					**1,817**
Cash and cash equivalents	**2,026**					**2,026**
	3,843	-	-	-	-	**3,843**
Total assets	**6,006**	-	336	-	-	**6,342**
LIABILITIES						
Current Liabilities						
Trade payables and other payables	**(1,903)**			(22)	(411)	**(2,336)**
	(1,903)	-	-	(22)	(411)	**(2,336)**
Non-current liabilities						
Borrowings	**(3,013)**					**(3,013)**
	(3,013)	-	-	-	-	**(3,013)**
Total Liabilities	**(4,916)**	-	-	(22)	(411)	**(5,349)**
Net Assets	**1,090**	-	336	(22)	(411)	**993**
EQUITY						
Equity attributable to equity holders of the parent						
Share capital	**887**					**887**
Share premium account	**22,102**					**22,102**
Other reserves	**8,598**					**8,598**
Share option reserve	**326**					**326**
Convertible loan note reserve	**266**					**266**
Foreign exchange translation	**82**					**82**
Retained earnings	**(31,095)**		336	(22)	(411)	**(31,192)**
	1,166	**-**	**336**	**(22)**	**(411)**	**1,069**
Interest in own shares	**(76)**					**(76)**
Attributable to equity holders	**1,090**	**-**	**336**	**(22)**	**(411)**	**993**

35.4 Reconcilation of profit for the year ended 31 March 2007

	UK GAAP	Software Intangible Assets IAS 38	Goodwill IFRS3	Employee Benefits IAS 19	Revenue Recognition IAS 18	IFRS
	£000	£000	£000	£000	£000	£000
Revenue	**3,749**	-	-	-	457	**4,206**
Cost of Sales	**(1,404)**					**(1,404)**
Gross profit	**2,345**	-	-	-	457	**2,802**
Other operating income	**117**					**117**
Other operating expenses	**(3,883)**			26		**(3,857)**
Restructuring costs	**(94)**					**(94)**
Depreciation	**(144)**	17				**(127)**
Amortisation of intangible assets	**(402)**	(17)	336			**(83)**
Exceptional items	**310**					**310**
Total operating expenses	**(4,213)**	-	336	26	-	**(3,851)**
Operating loss	**(1,751)**	-	336	26	457	**(932)**
Finance income	**53**					**53**
Finance costs	**(185)**					**(185)**
Loss before taxation	**(1,883)**	-	336	26	457	**(1,064)**
Taxation	**-**					**-**
Loss for the year	**(1,883)**	-	336	26	457	**(1,064)**
Continuing operations	**(1,792)**		336	26	92	**(1,338)**
Discontinued operations	**(91)**				365	**274**
Loss for the year	**(1,883)**	-	336	26	457	**(1,064)**

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Directors

Dr Christopher H B Honeyborne

Dr Stuart A Green

Helen P Gilder

Matthew P Taylor

Ian C Stewart

Dr Christopher H B Honeyborne
- Chairman (aged 67)
Christopher spent 24 years in investment banking, gaining experience in a variety of senior roles with Lazard Brothers, Banque Paribas Group and Bank of N.T. Butterfield & Son. Since then, Christopher has held a number of high-profile non-executive directorships, including Yorkshire Water plc, Birse Group plc and Gremlin Group plc. He is the Non-Executive Chairman of Dyson Group plc and a non-executive director of Matica plc, as well as of a number of unquoted companies.

Dr Stuart A Green
- Chief Executive Officer (aged 43)
Stuart brings many years of experience of team building and executive management in the software industry to his role as CEO. Prior to his appointment as CEO Stuart was Chief Technical Officer, where he was responsible for determining the technology strategy and expanding the core intellectual property of the company. Previously he founded Kazoo3D plc and prior to that was co-founder of LightWork Design Limited where he served as Technical Director with responsibility for implementing LightWork Design Limited's technical development strategy. Stuart received a Ph.D. in Computer Science from the University of Bristol in 1989 for his research into computer systems for advanced computer graphics. He has 17 patents granted and patents applied for in the fields of image processing and digital media production.

Helen P Gilder
- Group Finance Director (aged 41)
Helen has been employed within the technical and services industry for almost fifteen years. After qualifying as a Chartered Accountant with PKF in 1991 she moved into a more commercially focussed role. Her extensive managerial and transaction experience came through her role as Finance Director within a highly acquisitive listed IT company. She joined ZOO to assist with the initial float in 2000 as Group Financial Controller and has gathered an invaluable knowledge of the companies in the group. She became Group Finance Director in 2006.

Matthew P Taylor
- Non-Executive Director (aged 44)
Matt is a senior partner in Foresight Group, a leading UK manager of technology investment funds. He has 15 years' experience of investing in and advising smaller companies. He is currently a non-executive director of five companies.

Ian C Stewart
- Non-Executive Director (aged 55)
Ian founded Gremlin Interactive Limited, a developer and publisher of computer games for consumers, in 1984. He grew that company through organic growth and strategic acquisition until 1997 when it floated on the London Stock Exchange as Gremlin Group plc. Infogrames SA acquired Gremlin Group plc in 1999 at which point Ian founded The ZOO Media Corporation Limited, which then became ZOO Digital Group plc in 2001 through a reverse takeover. He was Chief Executive of the group until 2006, when he became a non-executive director. Ian is an honorary Doctor of Sheffield Hallam University and is an angel investor in a number of businesses.

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