ZOO Digital Group plc

2009

ANNUAL REPORT

Technology Solutions

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

Media Adaptation Tool
ZOO'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.

Templated Authoring System
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'.

Menu 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

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.

Media Adaptation
Services provided to the entertainment industry to address the adaptation of creative designs for print, DVD, Blu-ray Disc, websites and video content for production of variants for multiple languages, territories and digital formats.

A Year in brief

For the year ended 31 March 2009

Financial Highlights

- Revenue up 100% to £6.6m (2008: £3.3m)
- Operating profit £0.5m (2008: loss of £1.9m)
- Maiden full year EBITDA profit of £1.3m (2008: loss of £1.4m), including £1.4m from favourable exchange translation
- Profit before tax of £0.2m (2008: loss of £1.9m)
- Basic earnings per share were 0.95p compared to a loss of 15.7p in 2008
- Cash at year end of £1.0m (2008: £0.7m) and a new £0.5m overdraft secured
- Cash from operations of £1.0m (2008: cash outflow of £1.9m)
- Encouraging start to current year with a strong pipeline of work

Operational Highlights

- Strong organic growth with major Hollywood film studios
- Greater depth in relationships has allowed ZOO to offer a broader spread of revenue enhancing services
- Key Hollywood studio now processes 80% of new DVD products using ZOO's software
- Benefited from a change in consumer habits caused by the global recession, leading to a need for studios to reduce production costs and the time taken to release a film on DVD

Stuart Green, CEO of ZOO Digital, commented:

"These are good results and demonstrate that our focus on providing quality products and service to our major customers, the Hollywood studios, is bearing fruit. There is an increasing focus among our customers on efficiencies and cost savings and I am confident that we will continue to grow profitability in 2009."

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Chairman and Chief Executive's Statement

The year to 31 March 2009 showed a strong performance by ZOO and represents a fulfilment of our stated business development strategy which will continue to drive our growth in the future. The execution of this strategy has enabled the Company to report a doubling in revenues year-on-year and its first ever full year EBITDA profit: £1.3m compared to a loss of £1.4m for 2008. With profitability comes a much more stable footing in the development of ZOO, enabling the continued investment in our product set and a broadening of the scope of our operations, giving us confidence in our continued growth.

This improvement was driven largely by significant organic growth from our existing major customers, the Hollywood film studios, where our primary focus on penetrating deeper and broader into their operations has continued to prove successful. We have made good progress within the film studios by increasing both the number of business units utilising our products and services and the revenues from each business unit. As these customers are increasingly focused on reducing production costs and maximising efficiencies, our products and service offerings, which reduce time to market for our customers' products while delivering significant cost savings, are increasingly attractive. This is a trend that we expect to continue for the foreseeable future.

Financial review

Sales for the year showed a significant improvement, increasing 100% to £6.6m (2008: £3.3m). Particularly strong growth resulted from the increased usage of our products by our existing customers together with adoption by additional studio business units.

EBITDA profit of £1.3m reflected a £2.7m improvement over the prior year (2008: loss of £1.4m). This progress was partially flattered by gains on exchange translation of £1.4m but, nonetheless, the underlying result demonstrated a significant accomplishment.

Operating profit was significantly higher than last year at £0.5m (2008: loss of £1.9m). After finance costs and an exceptional write-off of intangibles, this resulted in a profit before tax for the year of £0.2m (2008: loss of £1.9m). The Group has significant tax losses brought forward and therefore is not required to make any payment for corporation tax for the year ended 31 March 2009. This is expected to remain the case for the foreseeable future.

Basic earnings per share were 0.95p compared to a loss of 15.7p in 2008.

Our continued focus on cash management has been an important factor in our significant improvement in performance. Net cash generated from operating activities was £1.0m compared to a net cash outflow of £1.9m for the corresponding period last year, leading to cash at the year end of £1.0m compared with £0.7m in 2008. In addition, we have recently put in place a new banking relationship with the Royal Bank of Scotland which gives us access to an overdraft facility of £0.5m.

Market Overview

As stated at the time of our Trading Update on 8 April 2009, current trends within the industry remain undoubtedly positive for our business model. The challenges within the home entertainment market continue and these largely relate to the wider pressures on consumer spending. As a result the film studios are looking at more efficient methods of production, reducing the associated spend and shortening the time to market of their products. Through the Group's ability to develop and deploy automation solutions and workflow optimisations, ZOO is able to save its customers a considerable amount of time and money.

The number of new products being developed by film studios for Blu-ray is still rising and we believe, despite the current economic conditions, that this will continue and give rise to greater opportunities to provide services for this platform. In addition, as our customers continue to search for higher efficiency and lower costs so our service offering becomes increasingly compelling.

Operational Review

The Group has delivered a particularly strong performance this year and it is pleasing to see the efforts and investment beginning to achieve positive results. Our relationships with the major Hollywood and other film studios are continuing to strengthen.

Production and Creative Services

Our production and creative services division, formerly referred to as Scope Seven which we acquired in August 2007, has seen significant growth in revenue. Our work with one major studio has now expanded across four key business units of Technical Services, Home Entertainment, Television and Theatrical whilst positive discussions are being undertaken with a number of other business units and studios. The services provided by this division are differentiated in the market by the application of our unique software which is not available through other service vendors. Many of the services we offer are more attractive in terms of pricing and turn-around times compared with our competitors.

Media Adaptation

The Group's **Media Adaptation Tool**, which automates the process of producing printed materials including product packaging, posters and marketing materials, saw revenues increase by 224%. The tool has been enhanced for our key customers who are driving this product into wider areas of their operations. This capability is particularly relevant to the film studios and home entertainment markets where original programmes are created and then adapted for many languages and territories. We are witnessing an increasing need by our customers to expand this capability into other areas such as programme titles and credits which are often regionalised for international markets. Our sophisticated product continues to offer significant competitive advantages over the conventional approaches employed within the market and we have identified a number of further applications for it in video production and website development.

Video Title Authoring

The Group's **Templated Authoring System**, which provides automated authoring of video-based content for industry standard formats, saw revenues increase 212% as our customers commissioned additional templates and significantly increased the volume of DVD titles processed by our system.

Revenues from licensing of this system scale in proportion to the number of titles that it is used to process. The product's resilience and continued refinement is now proving hugely successful in the provision of production services for major Hollywood studios and has resulted in a key customer processing 80% of its new products using the system. The patent-protected methods on which this system is based are available exclusively through ZOO, a fact that has enabled us to continue to win business from a number of incumbent vendors.

Menu Regionalisation

Our **Menu Regionalisation Tool** which automates the process of creating multi language variants of home entertainment titles had another strong year and produced record revenues. The benefits of this tool are becoming more apparent to customers as they look to distribute content to new international markets in an effort to increase sales. We expect significant growth in our menu production services in the current year as well as in our licensing fees for this tool which scale in proportion to the number of menus that it is used to process.

Interactive DVD

The decline in the interactive DVD market has continued and we do not envisage any significant new products to be developed by British or European publishers in the current year. As a consequence, for the year ahead we expect almost all related revenues to be denominated in US dollars. Our technology continues to be used to create interactive DVD titles for US-based publishers but we anticipate revenues in this category to be lower than the equivalent period last year. However, we expect that the growth in our core business will more than offset the diminishing interactive DVD revenues.

New Product Development

Much progress has been made in the development of new technologies to support our services for Blu-ray title production, video localization and web based content. These are growing areas of our customers' operations so it is important that ZOO is able to participate in this market.

We continue to innovate and are working on a number of new products that provide automation and workflow optimisation solutions which we expect to announce in the period ahead.

Sales and Marketing

Our sales pipeline with our major customers strengthened though the year, with growth achieved across a number of different areas and penetration into an increasing number of business units including television networks and home entertainment. Through the broadening of the scope and service levels, the Group secured significantly greater production work and this has resulted in larger billings. The Group's technology is being used more widely across the industry and ZOO is adapting its products for different end markets from video titles through to printed materials, from standard definition DVD through to Blu-ray Disc and from TV production through to internet download.

Our commercial efforts continue to be focused on securing new business in other divisions of our existing studio customers, which can often be accomplished more quickly than acquiring new clients, as well as growing the customer base.

Board Changes

On 15 June 2009, we were pleased to announce the appointment to the Board of James Livingston as non-executive director in place of Matt Taylor. We would like to thank Matt for the contribution he has made during the past three years during which significant progress has been made. James is a portfolio manager at Foresight Group, working with a number of other SMEs at Board level. He has a first class degree from Cambridge University and has represented Great Britain in the World Rowing Championships. We look forward to working with James through the next exciting episode of ZOO's growth.

Staff

We would like to take this opportunity to thank all our staff. Our product development team continues to innovate and work on a number of new technologies and product enhancements that will further enhance ZOO's competitiveness and profitability. Our production services teams continue to embrace the challenges presented by the significant growth in our pipeline of work and provide excellent services to our customers. The major developments achieved throughout the year would not have been possible without everyone's commitment and drive.

Outlook

Current trends within the industry are undoubtedly positive for our business model. Film studios are looking at more efficient methods of production, reducing the associated spend and increasing the speed to market of their products. ZOO's technology helps them to achieve these goals and therefore our products and services are in strong demand.

Based on continued strong demand for ZOO's products and services, the Board remains very positive about the opportunities for the Group and believes that 2009 will be another year of growth for our core business. Revenues are now almost all denominated in US dollars and trading in the current year has started well, with turnover improved over the same period in the previous year and profits significantly higher when compared on a fixed currency basis. We look forward to a successful outcome for the year as a whole and providing a further update to the market at the time of our AGM on 16 September 2009.

Dr C H B Honeyborne
Chairman

Dr S A Green
Chief Executive Officer

Directors

Dr Christopher H B Honeyborne
Chairman (aged 68)

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 is responsible for securing over 20 patents granted and 25 patents applied for in the fields of image processing and digital media production.

Helen P Gilder
Group Finance Director (aged 42)

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 the Group Finance Director in 2006.

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 organically and by 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 was reversed into an AIM listed business in 2001 to form 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.

James A Livingston
Non-Executive Director (aged 28)

James is a portfolio manager at Foresight Group, a leading UK investment manager. He works closely with the boards of a number of SME UK companies as non-executive director of two and board observer of a further six companies. He was a strategy Consultant at Deloitte where he advised businesses in the healthcare, public sector and technology sectors. He has a first class degree in Natural Sciences and Management from Cambridge University and holds the CIMA advanced Diploma in Management Accounting. James has represented Great Britain at the Rowing World Championships and rowed for Cambridge in the Boat race.

Senior Management

For the year ended 31 March 2009

Gordon Doran
President

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

Duncan A Wain
Chief Operating Officer

Duncan joined ZOO following the acquisition of the assets of Scope Seven Inc. in August 2007. He co-founded Scope Seven in 1997 where he was responsible for operations and revenues from post-production, compression and authoring services provided to US entertainment companies. He is an accomplished executive in the Hollywood post production industry and through an affiliate relationship he established with GDMX, a division of Warner Bros., has worked with many studios including Warner Home Video., 20th Century Fox, HBO and the BBC. In his role as COO of ZOO Duncan is responsible for all production operations and for growing service revenues with studio clients. Duncan sits on the New Media Council of the Producers Guild of America, an industry group that serves to represent the interests of professionals responsible for the art, craft and science of production in the entertainment industry.

Simon L S Clark
Senior Vice President and Chief Marketing Officer

Simon has worked in the pre-press industry since 1986 and has experience of setting up and rapidly growing businesses in a wide variety of geographical locations, for which he has developed customer relationships throughout Europe, Japan, Australia and the US. In 1998 Simon led the management buy-out of TM, a UK-based print and pre-press service provider. In 2001 TM was acquired by AGI Media Inc. where Simon was appointed to the role of Senior Vice President of Creative Services based in the Los Angeles headquarters. Simon joined ZOO in 2006 to spearhead our business development in what is now referred to as the pre-media industry.

Philip M Corio
Chief Technical Officer

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

Directors' Report

For the year ended 31 March 2009

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 2009.

Principal activities

The principal activity of the group for the year under review was to provide productivity tools and services for video postproduction, pre-media 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 and Chief Executive's statement set out on pages 2 to 3. The audited financial statements for the year ended 31 March 2009 are set out on pages 10 to 51. The directors do not recommend the payment of a dividend for the year.

Research and development

The group undertakes research and development into software solutions for media transformation. The aim of the software developed is to improve efficiencies, therefore reducing time and costs of producing DVDs, Blu-ray Discs and printed media.

Charitable and political contributions

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

EMPLOYEES

Employee consultation

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

Disabled employees

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

Post balance sheet events

On 9 April 2009 the Group purchased 473,500 of its own shares through ZOO Employee Share Trust Limited. The cost of the purchase was £48,939.

Directors

The directors who served during the year were as follows:

Dr Christopher H B Honeyborne	Chairman
Dr Stuart A Green	Chief Executive Officer
Helen P Gilder	Group Finance Director
James A Livingston (1)	Non-Executive Director
Matthew P Taylor (2)	Non-Executive Director
Ian C Stewart	Non-Executive Director

(1) *Appointed 12 June 2009*
(2) *Retired 12 June 2009*

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 2009 are disclosed in note 12. In accordance with the company's Articles of Association Helen Gilder and James Livingston 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 2009 were equivalent to 58 days (2008: 55 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.

– Employee satisfaction is monitored through monthly surveys, enabling management to act on emerging trends.

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 the LA operations and 97% 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 20 patents granted and 25 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 a diverse number of contacts 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 ZOO Digital Inc (formerly 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 these currencies.

Further information on the financial risks is given in note 33 to the accounts.

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

No shares were disposed of during the year. The maximum number of own shares held in the year was 1,653. See also post balance sheet events.

Substantial shareholdings

On 15 May 2009, 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
Dr S A Green	19.60%	4,179,835
Funds managed and advised by Foresight Group	17.79%	3,794,689
Herald Investment Trust plc	16.83%	3,590,100
South Yorkshire Investment Capital Fund	8.36%	1,782,564
Mr I C Stewart	7.86%	1,675,365
Williams de Broe	4.26%	908,706

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
19 June 2009

Corporate Governance Report

For the year ended 31 March 2009

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

Board Committees

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

The Audit Committee was chaired by Matthew Taylor up until his resignation from the board on 12 June 2009 and since been chaired by James Livingston. The committee 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 and meets at least once per year.

Internal Control

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

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

Going Concern

After making enquires and taking into account the Group' 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
19 June 2009

Independent Auditors' Report

For the year ended 31 March 2009

We have audited the group and parent company financial statements ('the financial statements') of ZOO Digital Group plc for the year ended 31 March 2009 which comprise the consolidated income statement and the consolidated and company balance sheets, cash flow statements and statements of recognised income and expense 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.

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 and chief executive'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 2009 and of its profit 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 2009;

- 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.

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 2009 and of its profit for the year then ended.

PKF (UK) LLP
Registered Auditors

19 June 2009
Sheffield, UK

Consolidated Income Statement

For the year ended 31 March 2009

	Note	2009 £000	2008 £000
Revenue	5	**6,567**	3,264
Cost of Sales		**(1,276)**	(27)
Gross Profit		**5,291**	3,237
Other operating income	6	**79**	100
Other operating expenses		**(4,046)**	(4,711)
Profit/(Loss) before interest, tax, depreciation and amortisation		**1,324**	(1,374)
Depreciation		**(248)**	(152)
Amortisation and impairment		**(563)**	(227)
Exceptional items	17	**35**	(175)
Total operating expenses	9	**(4,822)**	(5,265)
Operating Profit/(Loss)		**548**	(1,928)
Finance income	7	**8**	72
Finance cost	8	**(345)**	(327)
Profit/(Loss) before taxation		**211**	(2,183)
Tax on profit/(loss)	13	**(26)**	135
Profit/(Loss) for the year		**185**	(2,048)
Continuing operations		**185**	(1,837)
Discontinued operations	16		(211)
Profit/(Loss) for the year		**185**	(2,048)
Attributable to equity holders of the parent		**185**	(2,048)
Profit/(Loss) per share	15		
- basic		**0.95p**	(15.72p)
- diluted		**0.62p**	(15.72p)

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 profit for the parent company for the year was £300,000 (2008: Loss £47,000)

Consolidated Balance Sheet

as at 31 March 2009

	Note	2009 £000	2008 £000
ASSETS			
Non-Current Assets			
Property, plant and equipment	18	**528**	567
Intangible assets	19	**4,806**	4,042
		5,334	4,609
Current Assets			
Inventories	20	**-**	188
Trade and other receivables	21	**1,452**	1,238
Current tax assets	13	**-**	90
Cash and cash equivalents	22	**989**	675
		2,441	2,191
Total Assets		**7,775**	6,800
LIABILITIES			
Current Liabilities			
Trade and other payables	27	**(2,461)**	(1,621)
Borrowings	26	**(366)**	(270)
		(2,827)	(1,891)
Non-current Liabilities			
Borrowings	26	**(3,306)**	(3,275)
Total Liabilities		**(6,133)**	(5,166)
Net Assets		**1,642**	1,634
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	23	**3,199**	2,687
Share premium account	23	**23,012**	23,030
Other reserves	25	**8,598**	8,598
Share option reserve	25	**77**	54
Warrant reserve	25	**27**	-
Convertible loan note reserve	25	**266**	266
Foreign exchange translation reserve	25	**(694)**	56
Accumulated losses	24	**(32,841)**	(33,055)
		1,644	1,636
Interest in own shares	23	**(2)**	(2)
Attributable to equity holders		**1,642**	1,634

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 19 June 2009 and were signed on its behalf.

Stuart A Green
Chief Executive

Helen P Gilder
Group Finance Director

Company Balance Sheet

as at 31 March 2009

	Note	2009 £000	Restated 2008 £000
ASSETS			
Non-Current Assets			
Property, plant and equipment	18	**24**	40
Intangible assets	19	**1,596**	1,597
Investment in subsidiary undertakings	30	**6,785**	6,785
		8,405	8,422
Current Assets			
Trade and other receivables	21	**11,857**	10,329
Cash and cash equivalents	22	**7**	334
		11,864	10,663
Total Assets		**20,269**	19,085
LIABILITIES			
Current Liabilities			
Trade and other payables	27	**(615)**	(485)
Borrowings	26	**(75)**	-
		(690)	(485)
Non-current Liabilities			
Borrowings	26	**(10,000)**	(9,894)
Total Liabilities		**(10,690)**	(10,379)
Net Assets		**9,579**	8,706
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	23	**3,199**	2,687
Share premium account	23	**23,012**	23,030
Other reserves	25	**7,393**	7,393
Share option reserve	25	**77**	54
Warrant reserve	25	**27**	-
Convertible loan note reserve	25	**266**	266
Accumulated losses	24	**(24,393)**	(24,722)
		9,581	8,708
Interest in own shares	23	**(2)**	(2)
Attributable to equity holders		**9,579**	8,706

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 19 June 2009 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 2009

	Note	2009 £000	2008 £000
Cash flows from operating activities			
Operating profit/(loss) for the year		**548**	(1,928)
Finance income	7	**8**	72
Depreciation	18	**248**	152
Amortisation & Impairment	19	**563**	227
Share based payments	31	**79**	(87)
Disposal of own shares	23	**-**	74
Disposal of intangible assets	19	**-**	7
Disposal of property, plant and equipment	18	**4**	53
Exchange gain on foreign operations		**(1,408)**	-
Changes in working capital:			
Inventories	20	**188**	(188)
Trade and other receivables	21	**19**	566
Trade and other payables	27	**682**	(975)
Cash flow from operations		**931**	(2,027)
Tax received		**64**	98
Net cash flow from operating activities		**995**	(1,929)
Investing Activities			
Acquisition of subsidiary		**-**	(1,536)
Purchase of intangible assets	19	**(643)**	(310)
Purchase of property, plant and equipment	18	**(89)**	(2)
Net cash flow from investing activities		**(732)**	(1,848)
Cash flows from financing activities			
Repayment of borrowings	26	**(318)**	(10)
Proceeds from borrowings	26	**75**	-
Finance cost		**(250)**	(232)
Share and convertible loan issue costs	23	**(18)**	(272)
Issue of Share capital	23	**512**	3,000
Net cashflow from financing		**1**	2,486
Net increase/(decrease) in cash and cash equivalents		**264**	(1,291)
Cash and cash equivalents at the beginning of the year		**675**	2,026
Exchange (loss)/gain on cash and cash equivalents		**50**	(60)
Cash and cash equivalents at the end of the year	22	**989**	675

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 2009

	Note	2009 £000	2008 £000
Cash flows from operating activities			
Operating profit for the year		**597**	193
Finance income		**7**	63
Depreciation	18	**16**	32
Amortisation & Impairment	19	**3**	8
Share based payments	31	**79**	(87)
Disposal of own shares	23	**-**	74
Disposal of property, plant and equipment	18	**-**	52
Changes in working capital:			
Trade and other receivables	21	**(1,528)**	(4,168)
Trade and other payables	27	**130**	(175)
Cash flow from operations		**(696)**	(4,008)
Tax received/(paid)		**-**	-
Net cash flow from operating activities		**(696)**	(4,008)
Investing Activities			
Purchase of intangible assets	19	**(2)**	-
Purchase of property, plant and equipment	18	**-**	(29)
Net cash flow from investing activities		**(2)**	(29)
Cash flows from financing activities			
Proceeds from borrowings	26	**75**	-
Finance cost		**(198)**	(208)
Share and convertible loan issue costs	23	**(18)**	(272)
Issue of Share capital	23	**512**	3,000
Net cashflow from financing		**371**	2,520
Net decrease in cash and cash equivalents		**(327)**	(1,517)
Cash and cash equivalents at the beginning of the year		**334**	1,851
Exchange (loss)/gain on cash and cash equivalents		**-**	-
Cash and cash equivalents at the end of the year	22	**7**	334

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 2009

	2009 £000	2008 £000
Exchange difference on the translation of foreign operations	(750)	(26)
Net expense recognised directly in equity	**(750)**	(26)
Proft/(loss) for the financial year	185	(2,048)
Total recognised expense for the year	**(565)**	(2,074)
Attributable to equity holders of the company	**(565)**	(2,074)

Company Statement of Recognised Income and Expense

For the year ended 31 March 2009

	2009 £000	Restated 2008 £000
Profit/(loss) for the financial year	300	(47)
Write off amount owed by subsidiary undertaking	-	(193)
Total recognised income/(expense) for the year	**300**	(240)
Attributable to equity holders of the company	**300**	(240)

Notes to the Financial Statements

For the year ended 31 March 2009

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, pre-media 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.

2.1 *Basis of preparation*

These financial statements have been prepared in accordance with IFRS as adopted by the European Union, and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts in the financial statements. The areas involving a higher degree of 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 31 March 2012. 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. The directors are confident that in this eventuality alternative steps could be taken to ensure that 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 *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 2009 would not have affected the balance sheet or income statement as the standard is concerned only with disclosure.

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 prevailing rate of exchange in the month of the transaction. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the year end exchange rates are recognised in the 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 prevailing monthly

exchange rate for the month in which the income or expense arose and all resulting exchange rate differences are recognised with the foreign exchange translation reserve.

2.5 Intangible assets

2.5.1 Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

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

2.5.2 Patent and Trademark costs

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

2.5.3 Research and Development costs

Research expenditure is charged to the income statement 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.

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 Investments in subsidiary undertakings

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

2.7 Property, plant and equipment

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

2.8 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.

2.9 Financial Instruments

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

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

2.9.1 Borrowings

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

Notes to the Financial Statements

For the year ended 31 March 2009

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

2.9.2 Trade receivables

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

2.9.3 Cash and cash equivalents

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

2.9.4 Trade payables

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

2.10 Share based payments

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

2.11 Pension costs and other post retirement benefits

The Group operates only defined contribution schemes and pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further obligations once the contributions have been paid. The amount charged to the income statement 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.

2.12 Revenue

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

2.12.1 Sales of services

The group sells design, development and other services relating to the 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.

2.12.2 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.

2.12.3 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.

2.13 Inventories

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

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.

2.14 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in the 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.

2.15 *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.

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.

2.16 *Government grants*

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

Government grants relating to operating costs are deferred and recognised in the 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.

2.17 *Exceptional items*

Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the group's financial performance. 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 material 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, the 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 property leases for its Sheffield and Los Angeles offices. As management have determined that the group has not obtained substantially all the risks and rewards of ownership of the property, the lease has been classified as an operating lease and accounted for accordingly.

Notes to the Financial Statements

For the year ended 31 March 2009

4. *Segmental reporting*

Primary reporting format - Business segments

At 31 March 2009, the group is organised on a worldwide basis into two main business segments:

- Software solutions, through 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 Solutions		Media Production		Total	
	2009	2008	**2009**	2008	**2009**	2008
	£000	£000	**£000**	£000	**£000**	£000
Total Revenue	**3,675**	2,038	**4,384**	1,710	**8,059**	3,748
Inter-segment revenue	**(82)**	(129)	**(1,410)**	(355)	**(1,492)**	(484)
Revenue	**3,593**	1,909	**2,974**	1,355	**6,567**	3,264
Segment result	**1,889**	(191)	**(552)**	(661)	**1,337**	(852)
Unallocated corporate expenses					**(789)**	(1,076)
Operating proft/(loss)					**548**	(1,928)
Finance income					**8**	72
Finance cost					**(345)**	(327)
Profit/(loss) before taxation					**211**	(2,183)
Tax on profit/(loss)					**(26)**	135
Profit/(loss) for the year					**185**	(2,048)

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

	Software Solutions		Media Production		Group Operations	
	2009	2008	**2009**	2008	**2009**	2008
	£000	£000	**£000**	£000	**£000**	£000
Depreciation	**36**	44	**196**	76	**16**	32
Amortisation	**97**	57	**53**	20	**3**	8
Impairment losses	**36**	45	**374**	97	**-**	-

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

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

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

	Software Solutions		Media Production		Total	
	2009	2008	**2009**	2008	**2009**	2008
	£000	£000	**£000**	£000	**£000**	£000
Assets	**4,347**	2,801	**1,901**	1,896	**6,248**	4,697
Unallocated corporate assets					**1,527**	2,103
Consolidated total assets					**7,775**	6,800
Liabilities	**1,223**	546	**1,192**	1,020	**2,415**	1,566
Unallocated corporate liabilities					**3,718**	3,600
Consolidated total liabilities					**6,133**	5,166
Capital Expenditure	**688**	358	**190**	1,301	**879**	1,688

Secondary reporting format - geographical segments

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

	Revenue		Total Assets		Additions to property, plant and equipment and intangible assets	
	2009	2008	**2009**	2008	**2009**	2008
	£000	£000	**£000**	£000	**£000**	£000
United Kingdom	**298**	471	**5,033**	4,620	**676**	381
US	**6,269**	2,793	**2,742**	2,180	**203**	1,307
	6,567	3,264	**7,775**	6,800	**879**	1,688

Discontinuing operations

Following the acquisition of Scope Seven LLC in August 2007 the group re-categorised the previously exited video production services as a continued operation. There have been no trading activities for discontinued operations during the year.

Notes to the Financial Statements

For the year ended 31 March 2009

5. *Revenue*

The group's revenue comprises:	2009	2008
	£000	£000
Software Solutions	3,593	1,909
Media Production	2,974	1,355
	6,567	3,264

Continuing operations	6,567	3,264
Discontinued operations	-	-
	6,567	3,264

Revenue from services	5,948	2,456
Royalty income	619	808
	6,567	3,264

6. *Other operating income*

	2009	2008
	£000	£000
Government grants	79	100

7. *Investment income*

	2009	2008
	£000	£000
Interest on short term deposits	8	72

8. *Finance costs*

	2009 £000	2008 £000
Interest on borrowings	**(345)**	(327)

9. *Operating profit/(loss)*

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

	2009 £000	2008 £000
Exchange gains or losses	**(1,575)**	(43)
Staff Costs	**3,878**	3,035
Depreciation	**248**	152
Amortisation of other intangible assets	**152**	90
Impairment losses on other intangible assets	**411**	137
Research and non-capitalised development costs	**729**	797
Operating lease expense	**379**	290
Auditor's remuneration	**50**	78
Exceptional items (note 17)	**(35)**	175
Other expenses	**585**	554
Other operating expenses	**4,822**	5,265

10. *Auditor's remuneration*

	2009 £000	2008 £000
Fees payable to group's auditor for the audit of the group's annual financial statements	**19**	21
The audit of the group's subsidiaries, pursuant to legislation	**23**	24
Tax services	**3**	24
All other services	**5**	9
	50	78

Notes to the Financial Statements

For the year ended 31 March 2009

11. *Staff costs*

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

	2009 No.	2008 No.
Product design	74	67
Sales and marketing	9	9
Administration	13	13
	96	89

Their aggregate remuneration comprised:

	2009 £000	2008 £000
Wages and salaries	3,148	2,606
Social security costs	650	458
Other pension costs	45	58
Share based payments	35	(87)
	3,878	3,035

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	2009 Total £000	2008 Total £000
Dr Stuart A Green	115	1	6	122	122
Helen P Gilder	85	1	4	90	90
Ian C Stewart	15	-	-	15	15
	215	2	10	227	227

In addition to the above, £20,000 (2008: £20,000) was paid to Brockhill Limited under agreements to provide the group with the services of Dr Christopher H B Honeyborne. £21,000 (2008: £20,000) was paid to Foresight Group for the services of Matthew P Taylor.

The balance owing to Brockhill Limited at 31 March 2009 was £nil (2008: £3,000). The balance owing to Foresight Group at 31 March 2009 was £8,000 (2008: £6,000).

Two directors (2008: two) serving during the year have been members of money purchase pension schemes into which the company contributes.

The highest paid director received emoluments and benefits as follows:	**2009 £000**	2008 £000
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 2009 no amounts, in respect of services performed as a director, were due.

Compensation of key management personnel (including directors)

	2009 £000	2008 £000
Short-term employee benefits	**734**	475
Post-employment benefits	**10**	10
Share based payments	**58**	(43)
	802	442

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 2008**	Granted during the year	**Surrendered during the year**	31 March 2009	**Exercise price**	Date from which exercisable	**Expiry date**
Dr Christopher H B Honeyborne	30,000	-	(30,000)	**-**	£0.27	Aug-08	Oct-18
Dr Christopher H B Honeyborne	-	30,000	-	**30,000**	£0.15	Sep-09	Oct-18
Dr Stuart A Green	175,000	-	(175,000)	**-**	£0.27	Aug-08	Oct-18
Dr Stuart A Green	-	175,000	-	**175,000**	£0.15	Sep-09	Oct-18
Helen P Gilder	450,000	-	(450,000)	**-**	£0.27	Aug-08	Oct-18
Helen P Gilder	-	450,000	-	**450,000**	£0.15	Sep-09	Oct-18
Helen P Gilder	-	100,000	-	**100,000**	£0.15	Oct-09	Oct-18
Ian C Stewart	30,000	-	(30,000)	**-**	£0.27	Aug-08	Oct-18
Ian C Stewart	-	30,000	-	**30,000**	£0.15	Sep-09	Oct-18
	685,000	785,000	**(685,000)**	785,000			

12. *Directors' remuneration, interests and transactions continued*

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

The charge to the profit and loss account in respect of directors' share options amounted to £18,000 (2008: credit £53,000). The credit in 2008 was due to the surrendering of unexercised share options.

The market price of the ordinary shares at 31 March 2009 was 7.1p and the range during the year was 19.75p (high) to 4.0p (low).

Directors' interests

The directors who held office at 31 March 2009 had the following interests, including family interests, in the 15p ordinary shares of ZOO Digital Group plc:

Name of director		**2009 Beneficial**	2008 Beneficial
Dr Christopher H B Honeyborne		**1,333**	1,333
Dr Stuart A Green		**4,179,835**	2,746,502
Helen P Gilder		**226**	226
Ian C Stewart		**1,675,365**	1,675,365
Matthew P Taylor	Resigned 12 June 2009	**-**	-
James A Livingston	Appointed 12 June 2009	**-**	-

The directors also had the following interest in 6% unsecured convertible loan stock at 31 March 2009:

		2009 £000	2008 £000
Dr Christopher H B Honeyborne		**4**	4
Dr Stuart A Green		**342**	342
Helen P Gilder		**-**	-
Ian C Stewart		**270**	270
Matthew P Taylor	Resigned 12 June 2009	**-**	-
James A Livingston	Appointed 12 June 2009	**-**	-

No changes took place in the interests of directors between 31 March 2009 and 19 June 2008.

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

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

13. *Income tax expense*

13.1 Current tax:

	2009	2008
	£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 28% (2008:30%) 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:

	2009	2008
	£000	£000
Profit before tax	**211**	(2,183)
Tax calculated at standard rate of corporation tax of 28% (2008:30%)	**59**	(655)
Depreciation in excess of capital allowances	**234**	179
Disallowable items	**(3)**	262
(Profits)/losses carried forward	**(290)**	214
Foreign tax charged at lower rates the UK standard rate	**-**	-
Release of withholding tax	**(26)**	-
Research and development tax credit	**-**	135
Tax (charge) / credit	**(26)**	135

13.3 Tax losses carried forward

The group has tax losses carried forward of approximately £18,000,000 (2008: £16,000,000).

13.2 Current tax assets

	Group		Company	
	2009	2008	**2009**	2008
	£000	£000	**£000**	£000
Research and development tax credit	-	90	-	-

Notes to the Financial Statements

For the year ended 31 March 2009

14. *Dividends*

There were no dividends paid or proposed.

15. *Profit/(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 was made in 2008 for 'in money' share options as this would have decreased the loss per share, which is not dilutive. No adjustment was made in 2008 for 'out of the money' share options based on the assumption that optionholders would not exercise these options.

	Basic and Diluted	
	2009	2008
	£000	£000
Continued operations	**233**	(1,837)
Discontinued operations	**-**	(211)
Profit/(Loss) for the financial year	**233**	(2,048)

	2009	2008
	Number of shares	Number of shares
Weighted average number of shares for basic & diluted profit/(loss) per share		
Basic	**19,558,970**	13,030,659
Diluted	**29,955,174**	13,030,659

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

	2009	2008
Basic	**0.00p**	(1.62p)
Diluted	**0.00p**	(1.62p)

16. *Discontinued operations*

Following the acquisition of Scope Seven LLC in August 2007 the group re-categorised the previously exited video production services as a continued operation. There have been no trading activities for discontinued operations during the year.

16.1 Income statement

	2009	2008
	£000	£000
Revenue	-	-
Expenses	-	(211)
Loss before tax of discontinued operations	-	(211)
Income tax expense	-	-
Loss after tax of discontinued operations	-	(211)

16.2 Cash flow movements

	2009 £000	2008 £000
Operating	-	5
Investing	-	-
Financing	-	-
	-	5

16.3 Analysis of assets and liabilities

	2009 £000	2008 £000
Property, plant and equipment	-	-
Goodwill	-	-
Other Intangible assets	-	-
Inventory	-	-
Other current assets	-	12
	-	12
Other current liabilities	-	(214)
Current - provisions	-	-
	-	(214)

17. Exceptional items

In March 2008 the group provided for the write off of £175,000 of the consideration outstanding from the sale of its UK interactive DVD production business in October 2006, following the administration of the purchaser. The group remains in discussions with the liquidators and to date has reovered £35,000 of the £175,000.

Notes to the Financial Statements

For the year ended 31 March 2009

18. Property, plant and equipment

Group	Production Equipment	Leasehold improvements	Computer hardware	Office equipment, fixtures & fittings	Total
Cost	**£000**	**£000**	**£000**	**£000**	**£000**
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
Opening cost at 1 April 2008	66	224	823	354	1,467
Additions	75	-	83	-	158
Disposals	(4)	-	(3)	-	(7)
Exchange differences	39	-	16	-	55
Closing cost at 31 March 2009	**176**	**224**	**919**	**354**	**1,673**
Accumulated depreciation/ impairment					
Opening balance at 1 April 2007	-	12	558	262	832
Depreciation	11	30	77	34	152
Disposals	-	(12)	-	(72)	(84)
Opening balance at 1 April 2008	11	30	635	224	900
Depreciation	52	52	107	37	248
Disposals	-	-	(3)	-	(3)
Closing balance at 31 March 2009	**63**	**82**	**739**	**261**	**1,145**
Opening carrying value at 1 April 2007	-	-	53	89	142
Opening carrying value at 1 April 2008	55	194	188	130	567
Closing carrying value at 31 March 2009	**113**	**142**	**180**	**93**	**528**

Depreciation expense of £248,000 (2008: £152,000) 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 2009	Production Equipment	Computer hardware	Office equipment, fixtures & fittings	Total
	£000	**£000**	£000	**£000**
Cost - capitalised finance leases	141	158	70	392
Exchange differences	20	2	-	22
Accumulated depreciation	(48)	(70)	(26)	(144)
Net book value	113	90	44	247

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

Company	Leasehold improvements	Computer hardware	Office equipment, fixtures & fittings	Total
	£000	£000	£000	£000
Cost				
Opening cost at 1 April 2007	12	277	317	606
Additions	-	-	29	29
Disposals	(12)	-	(125)	(137)
Opening cost at 1 April 2008	-	277	221	498
Additions	-	-	-	-
Disposals	-	-	-	-
Closing cost at 31 March 2009	-	277	221	498
Accumulated depreciation/ impairment				
Opening balance at 1 April 2007	12	262	237	511
Depreciation	-	11	21	32
Disposals	(12)	-	(73)	(85)
Opening balance at 1 April 2008	-	273	185	458
Depreciation	-	4	12	16
Disposals	-	-	-	-
Closing balance at 31 March 2009	-	277	197	474
Opening carrying value at 1 April 2007	-	15	80	95
Opening carrying value at 1 April 2008	-	4	36	40
Closing carrying value at 31 March 2009	-	-	24	24

There were no assets held under finance leases.

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For the year ended 31 March 2009

19. Intangible assets

Group Cost	Goodwill £000	Development Costs £000	Patents and trademarks £000	Computer Software £000	Total £000
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
Opening cost at 1 April 2008	11,284	1,452	339	192	13,267
Additions	-	580	80	61	721
Disposals	-	-	-	-	-
Exchange differences	334	266	-	6	606
Closing cost at 31 March 2009	**11,618**	2,298	**419**	259	**14,594**
Accumulated amortisation/ impairment					
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
Opening balance at 1 April 2008	8,828	209	77	111	9,225
Amortisation	-	105	11	36	152
Disposals	-	-	-	-	-
Impairment loss	-	375	36	-	411
Closing balance at 31 March 2009	**8,828**	689	**124**	147	**9,788**
Opening carrying value at 1 April 2007	1,595	475	259	28	2,357
Opening carrying value at 1 April 2008	2,456	1,243	262	81	4,042
Closing carrying value at 31 March 2009	**2,790**	1,609	**295**	112	**4,806**

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 13 years.

Following the decision by management not to renew or pursue some of the group's patent applications, £36,000 (2008: £45,000) 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 £375,000 (2007:£92,000).

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

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

	2009	2008
	£000	£000
Cost - capitalised finance leases	93	38
Accumulated amortisation	(24)	(7)
Net book value	69	31

Company	**Goodwill**	Computer Software	**Total**
	£000	£000	**£000**
Cost			
Opening cost at 1 April 2007	7,667	38	7,705
Additions	-	-	-
Disposals	-	-	-
Opening cost at 1 April 2008	7,667	38	7,705
Additions	-	2	2
Disposals	-	-	-
Closing cost at 31 March 2009	**7,667**	40	**7,707**
Accumulated amortisation/ impairment			
Opening balance at 1 April 2007	6,072	28	6,100
Amortisation	-	8	8
Disposals	-	-	-
Opening balance at 1 April 2008	6,072	36	6,108
Amortisation	-	3	3
Disposals	-	-	-
Closing balance at 31 March 2009	**6,072**	39	**6,111**
Opening carrying value at 1 April 2007	1,595	10	1,605
Opening carrying value at 1 April 2008	1,595	2	1,597
Closing carrying value at 31 March 2009	**1,595**	1	**1,596**

Notes to the Financial Statements

For the year ended 31 March 2009

19. *Intangible assets continued*

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 Solutions		MediaProduction		Group	
2009	2008	**2009**	2008	**2009**	2008
£000	£000	**£000**	£000	**£000**	£000
1,595	1,595	**1,195**	861	**2,790**	2,456

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	
	2009	2008
	£000	£000
Products in the course of development	-	188

£133,000 was recognised as an expense within 'cost of sales' during the year (2008:Nil). £55,000 was capitalised as an intangible asset under development costs. The company held no inventory at 31 March 2009.

21. Trade and other receivables

	Group		Company	
				Restated
	2009	2008	**2009**	2008
	£000	£000	**£000**	£000
Trade receivables	**1,209**	826	**1**	2
Less: provision for impairment of trade receivables	**(82)**	(71)	**(1)**	-
Trade receivables - net	**1,127**	755	**-**	2
Amounts owed by subsidiary undertakings	**-**	-	**11,757**	10,196
VAT	**18**	6	**-**	18
Other debtors	**159**	76	**-**	1
Prepayments and accrued income	**148**	401	**100**	112
	1,452	1,238	**11,857**	10,329

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

As of the 31 March 2009, trade receivables of £353,000 (2008: £321,000) were overdue. The ageing analysis of these trade receivables is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	£000	£000	**£000**	£000
Less than 3 months	**342**	207	**-**	-
3 to 6 months	**-**	73	**-**	1
7 to 12 months	**6**	35	**-**	-
Over 12 months	**5**	6	**1**	-
	353	321	**1**	1

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

	Group		Company	
				Restated
	2009	2008	**2009**	2008
	£000	£000	**£000**	£000
Pounds	**204**	271	**11,130**	9,982
US Dollar	**1,234**	943	**727**	347
Euros	**14**	24	**-**	-
	1,452	1,238	**11,857**	10,329

Notes to the Financial Statements

For the year ended 31 March 2009

21. *Trade and other receivables continued*

Provision for impairment of trade receivables:

	Group 2009 £000	Group 2008 £000
At 1 April	**71**	323
Provision for receivables impairment	**82**	27
Receivables written off in the year as uncollectible	**(71)**	(246)
Unused amounts reversed	**-**	(33)
At 31 March	**82**	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.

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

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

22. *Notes to the cash flow statement*

22.1 Significant non-cash transactions

During the year the group acquired property, plant and equipment and computer software with a cost of £219,000 (2008: £153,000) of which £211,000 (2008: £46,000) was acquired by the means of finance leases. (The 2008 value does not include assets acquired as part of the acquisition of Scope Seven LLC).

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**	
	2009	2008	**2009**	2008
	£000	£000	**£000**	£000
Cash on hand and balances with banks	**989**	675	**7**	334

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

23. Share capital and Share premium

Group and Company	2009	2008
Authorised	£000	£000
26,666,667 ordinary shares of 15p each	**4,000**	4,000
Allotted, called-up and fully paid		
21,326,421 ordinary shares of 15p each (2008: 17,913,089 ordinary shares of 15p)	**3,199**	2,687
Reconciliation of the number of shares outstanding:		
Opening balance	**17,913,089**	5,913,089
Shares issued	**3,413,332**	12,000,000
Closing balance	**21,326,421**	17,913,089

On 6 October 2008 3,413,332 15p ordinary shares were issued at a price of 15p for total consideration of £512,000.

Group and Company	Ordinary shares	Share Premium
	£000	£000
Balance at 1 April 2007	**887**	22,102
Issue of shares	**1,800**	1,200
Issue costs	**-**	(272)
Balance at 31 March 2008	**2,687**	23,030
Issue of shares	**512**	-
Issue costs	**-**	(18)
Balance at 31 March 2009	3,199	**23,012**

Interest in own shares	£000
Balance at 1 April 2007	(76)
Disposal of own shares	74
Balance at 31 March 2008	(2)
Disposal of own shares	-
Balance at 31 March 2009	**(2)**

The Share premium reserve represents the amount subscribed for share capital in excess of the nominal value.

On 9 April 2009 the Group purchased 473,500 of its own shares through ZOO Employee Share Trust Limited at an average price of 10.3p per share. The total cost of the purchase was £48,939.

Notes to the Financial Statements

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24. Accumulated losses

Group	Accumulated losses £000
Balance at 1 April 2007	(31,192)
Forfeited Share options	185
Loss for the year	(2,048)
Balance at 31 March 2008	(33,055)
Forfeited Share options	29
Profit for the year	185
Balance at 31 March 2009	**(32,841)**

Company	Accumulated losses £000
Balance at 1 April 2007	(24,666)
Forfeited Share options	185
Loss for the year (Restated)	(241)
Balance at 31 March 2008 (Restated)	(24,722)
Forfeited Share options	29
Profit for the year	300
Balance at 31 March 2009	**(24,393)**

The accumulative losses are the cumulative net losses recognised in the consolidated income statement for the group or the income statement for the company.

The prior year adjustment was the write off of Intercompany balances from the French operation.

25. Other reserves

Group	Foreign exchange translation reserve	Convertible loan reserve	Share option reserve	Share warrant reserve	Other reserves	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 April 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
Forfeited Share options	-	-	(54)	-	-	(54)
Share based payments	-	-	77	27	-	104
Foreign exchange translation adjustment	(750)	-	-	-	-	(750)
Balance at 31 March 2009	(694)	266	77	27	8,598	8,274

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

Reserve	Description and purpose
Foreign exchange translation reserve	Cumulative exchange differences resulting from translation of foreign operations into the reporting currency.
Convertible Loan reserve	Represents the equity element of the Convertible loan note.
Share option reserve	Cumulative cost of share options issued to employees.
Share warrant reserve	Cumulative cost of share warrants issued to customers.
Other reserves	Created as part of the reverse takeover between Kazoo3D plc and ZOO Media Corporation Ltd in 2001.

Company	Convertible loan reserve	Share option reserve	Share warrant reserve	Other reserves	Total
	£000	£000	£000	£000	£000
Balance at 1 April 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
Forfeited Share options	-	(54)	-	-	(54)
Share based payments	-	77	27	-	104
Balance at 31 March 2009	266	77	27	7,393	7,763

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26. Borrowings

	Group		Company	
	2009	2008	**2009**	2008
Non-current	**£000**	£000	**£000**	£000
Amounts owed to subsidiary undertakings	**-**	-	**6,786**	6,786
6% Unsecured convertible loan stock	**3,214**	3,108	**3,214**	3,108
Promissory note - Scenewise Inc.	**-**	121	**-**	-
Finance lease liabilities	**92**	46	**-**	-
	3,306	3,275	**10,000**	9,894
Current				
Promissory note - Scenewise Inc.	**172**	165	**-**	-
South Yorkshire Investment fund loan	**75**	-	**75**	-
Finance lease liabilities	**119**	105	**-**	-
	366	270	**75**	-
Total borrowings	**3,672**	3,545	**10,075**	9,894

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 fair value of the convertible loan is considered to be the carrying value.

The Scenewise Inc. promissory note is repayable in equal quarterly instalments of $60,000 (2008: $60,000) 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. The South Yorkshire Investment fund loan was fully repaid in full on 15th May 2009. The loan carried a fixed interest rate of 12%. The fair value of the promissory note and the short term loan note are considered to be their book values.

Finance lease liabilities

Finance lease liabilities are payable as follows:

At 31 March 2009	Future minimum lease payments	Interest	Present value of minimum lease payments
	£000	£000	£000
Less than one year	119	-	119
Between one and five years	92	-	92
More than five years	-	-	-
	211	-	211

At 31 March 2008	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

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

27. *Trade and other payables*

	Group		Company	
	2009	2008	2009	2008
	£000	£000	£000	£000
Trade Creditors	532	411	168	174
Accrued expenses	1,929	1,210	447	311
	2,461	1,621	615	485

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

Notes to the Financial Statements

For the year ended 31 March 2009

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:	2009	2008
	£000	£000
Within one year	340	327
From one to five years	710	799
After five years	-	-
	1,050	1,126

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

29. Events after the balance sheet date

On 9 April 2009 the Group purchased 473,500 of its own shares through ZOO Employee Share Trust Limited at an average price of 10.3p per share. The total cost of the purchase was £48,939.

30. Related parties

Subsidiaries

The parent company has investments in the following subsidiary undertakings:

Subsidiary undertakings	Country of incorporation	Principle activity	Holding	%
ZOO Digital Limited (formerly 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

Subsidiary undertakings	Country of incorporation	Principle activity	Holding	%
ZOOtech Limited (formerly The ZOO Media Corporation Limited)	UK	Dormant	95,714 ordinary shares	100
ZOO Digital Inc. (formerly 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 *

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

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

Subsidiary Undertakings	Company	
	2009	2008
	£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).

Notes to the Financial Statements

For the year ended 31 March 2009

30. *Related parties continued*

Related Party Transactions	Company	
	2009	2008
	£000	£000
Sales of services to subsidiaries:		
Administration services	**1,414**	1,279

Amounts owed by subsidiary undertakings	Company	
	2009	2008
	£000	£000
ZOO Digital Limited	**10,482**	9,788
Scope Seven Limited	**557**	–
Scope Seven LLC	**344**	261
ZOO Digital Inc	**344**	147
	11,727	10,196

31. *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:

	2009		**2008**	
	Options	**Weighted average exercise price**	Options	**Weighted average exercise price**
	No.	**£**	No.	£
Kazoo3D plc employee share option scheme*				
Outstanding at the beginning of the year	-	-	**2,008**	37.50
Surrendered during the year	-	-	**(2,008)**	37.50
Outstanding at the end of the year	-	-	-	-
Exercisable at the end of the year	-	-	-	-

	2009		2008	
	Options	Weighted average exercise price	Options	Weighted average exercise price
	No.	£	No.	£
Kazoo3D plc unapproved employee share option scheme*				
Outstanding at the beginning of the year	-	-	4,425	16.77
Surrendered during the year	-	-	(4,425)	16.77
Outstanding at the end of the year	-	-	-	-
Exercisable at the end of the year	-	-	-	-
Kazoo3D plc cross-over share option scheme*				
Outstanding at the beginning of the year	-	-	13,880	37.50
Surrendered during the year	-	-	(13,880)	37.50
Outstanding at the end of the year	-	-	-	-
Exercisable at the end of the year	-	-	-	-
ZOO Digital Group plc rollover share option scheme				
Outstanding at the beginning of the year	-	-	40,701	0.01
Surrendered during the year	-	-	(40,701)	0.01
Outstanding at the end of the year	-	-	-	-
Exercisable at the end of the year	-	-	-	-
ZOO Digital Group plc Enterprise Management Incentive scheme*				
Outstanding at the beginning of the year	-	-	104,868	5.95
Forfeited during the year	-	-	-	-
Surrendered during the year	-	-	(104,868)	5.95
Outstanding at the end of the year	-	-	-	-
Exercisable at the end of the year	-	-	-	-
ZOO Digital Group plc Unapproved share option scheme*				
Outstanding at the beginning of the year	-	-	36,635	6.96
Forfeited during the year	-	-	-	-
Surrendered during the year	-	-	(36,635)	6.96
Outstanding at the end of the year	-	-	-	-
Exercisable at the end of the year	-	-	-	-

31. Share based payments *continued*

	2009		2008	
	Options No.	Weighted average exercise price £	Options No.	Weighted average exercise price £
ZOO Digital Group plc EMI scheme (2007)*				
Outstanding at the beginning of the year	**422,979**	**0.27**	-	-
Granted during the year	-	-	422,979	0.27
Surrendered 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	**1,842,437**	**0.27**	-	-
Granted during the year	-	-	1,842,437	0.27
Surrendered 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	-	-	-	-
ZOO Digital Group plc EMI scheme (2008)*				
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	**995,647**	**0.15**	-	-
Outstanding at the end of the year	**995,647**	**0.15**	-	-
Exercisable at the end of the year	-	-	-	-
ZOO Digital Group plc Unapproved (2008)*				
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	**2,138,918**	**0.15**	-	-
Outstanding at the end of the year	**2,138,918**	**0.15**	-	-
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% after the first year and a further 30% in each of the following two years.

Out of the 3,134,565 outstanding options (2008: 2,265,416 options), no options (2008: nil) were exercisable.
No options were exercised in 2009 or 2008.

During the year 2,265,416 were surrendered as they were deemed underwater and not providing an incentive to employees.
New options were issued to replace the surrendered options.

All share options outstanding at the end of the year have an expiry date of 13 October 2018 and an exercise price of £0.15.

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 (%)	100
Risk-free Interest rate(%)	4.49
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 warrants have been granted under the following scheme to subscribe for ordinary shares of the company. Movements in the number of warrants and their related weighted average exercise price is as follows:

		2009		2008
	Options	**Weighted average exercise price**	**Options**	**Weighted average exercise price**
	No.	**£**	**No.**	**£**
Share Warrants				
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	525,000	0.15	-	-
Outstanding at the end of the year	525,000	0.15	-	-
Exercisable at the end of the year	-	-	-	-

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

Out of the 525,000 outstanding warrants (2008: nil), 125,000 (2008: nil) were exercisable. No warrants were exercised in 2009 or 2008.

All share warrants outstanding at the end of the year have an expiry date of 15 August 2013 and an exercise price of £0.15.

31. Share based payments *continued*

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

Expected Volatility (%)	**100**
Risk-free Interest rate(%)	**4**
Expected life of option (years)	**2**
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 profit/(loss) for the year:

	2009	2008
	£000	£000
Total expense/(credit) recognised from share option transactions	**52**	(87)
Total expense/(credit) recognised from share warrant transactions	**27**	-
Share based payment liability	**104**	54

The credit for the year ended 31 March 2008 was due to the employees surrendering options during the year.

32. Financial instruments

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

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

Categories of financial instruments

	Group		Company	
	2009	2008	**2009**	2008
	£000	£000	**£000**	£000
Current financial assets				
Trade receivables (note 21)	**1,127**	755	**-**	2
Cash at bank and in hand (note 22)	**989**	675	**7**	334
	2,116	1,430	**7**	336

	Group		Company	
	2009	2008	**2009**	2008
	£000	£000	**£000**	£000
Current financial liabilities				
Finance lease liabilities (note 26)	**119**	105	**-**	-
Promissory note - Scenewise Inc. (note 26)	**172**	165	**-**	-
South Yorkshire Investment fund loan (note 26)	**75**	-	**75**	-
Trade and other payables (note 27)	**2,461**	1,621	**615**	485
Total current financial liabilities	**2,827**	1,891	**690**	485
Non-current financial liabilities				
Finance lease liabilities (note 26)	**92**	46	**-**	-
Promissory note - Scenewise Inc. (note 26)	**-**	121	**-**	-
6% Unsecured convertible loan stock	**3,214**	3,108	**3,214**	3,108
Total non-current financial liabilities	**3,306**	3,275	**3,214**	3,108
Total financial liabilities	**6,133**	5,166	**3,904**	3,593

32. *Financial instruments continued*

Market Risk

Foreign currency risk

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

The Group includes two overseas subsidiaries operating in the USA during the year. The majority of the group's overseas transactions are with the USA and denominated in US dollars, hence exposing it to a currency risk of fluctuations in the US dollar. During the year ended 31 March 2009 there was much volatility in the US dollar with the rate peaking at 2.0038 and falling to a low of 1.3631. If Sterling had remained at its highest level throughout the full year the group would have shown a post tax loss of £2.1million (2008: Loss £2.1m) and if Sterling had been at its lowest level throughout the full year the group would have shown a post tax profit of £1.3million (2008: Loss £396,000). The main impact is on the translation of the intercompany balances between subsidiary undertakings. The company has less transactions denominated in US dollars. The transactions for the company which are in US dollars are with it's overseas subsidiaries.

During the year ending 31 March 2009 due to volatility in the US dollar rate exposure of the group and company was more significant than in previous years.

Interest rate risk

In September 2006 the company 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 of $60,000 to Scenewise Inc. The promissory note, with a current balance of £172,000 (2008:£286,000), will be fully repaid on 31 December 2009 and carries an interest rate of 10%. During the year the company also obtained a loan from South Yorkshire investment fund, this loan was fully repaid on 15th May 2009. The group and company consider the interest rate risk on the loans to be minimal as rates are fixed.

Liquidity risk

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

Group **At 31 March 2009**	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	£000	£000	£000	£000
Borrowings	247	-	3,214	-
Finance lease liabilities	119	88	4	-
Trade and other payables	2,461	-	-	-

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	165	109	3,120	-
Finance lease liabilities	105	46	-	-
Trade and other payables	1,621	-	-	-

Company **At 31 March 2009**	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	£000	**£000**	**£000**	**£000**
Amount owed to subsidiary undertakings	**-**	**-**	**-**	**6,786**
Borrowings	**75**	**-**	**3,214**	**-**
Trade and other payables	**615**	**-**	**-**	**-**

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**
Amount owed to subsidiary undertakings	-	-	-	6,786
Borrowings	-	-	3,108	-
Trade and other payables	485	-	-	-

Credit risk

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

33. 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.

	2009	2008
	£000	£000
Total borrowings	**3,672**	3,545
Less cash and cash equivalents	**(989)**	(675)
Net Debt	**2,683**	2,870
Total equity	**1,642**	1,634
Total capital	**4,325**	4,504
Gearing ratio	**62%**	64%

Group Directory

Head Office

ZOO Digital Group plc

The Tower
2 Furnival Square
Sheffield
S1 4QL
United Kingdom

T: + 44 (0)114 241 3700
F: + 44 (0)114 241 3701

ZOO Employee Share Trust Limited

The Tower
2 Furnival Square
Sheffield
S1 4QL
United Kingdom

T: + 44 (0)114 241 3700
F: + 44 (0)114 241 3701

Software Solutions

ZOO Digital Limited

The Tower
2 Furnival Square
Sheffield
S1 4QL
United Kingdom

T: + 44 (0)114 241 3700
F: + 44 (0)114 241 3701

ZOO Digital Inc.

2201 Park Place
Suite 100
El Segundo
CA 90245
USA

T: +1 310.220.3939
F: +1 310.220.3958

Media Production

Scope Seven LLC

2201 Park Place
Suite 100
El Segundo
CA 90245
USA

T: +1 310.220.3939
F: +1 310.220.3958

Scope Seven Limited

The Tower
2 Furnival Square
Sheffield
S1 4QL
United Kingdom

T: + 44 (0)114 241 3700
F: + 44 (0)114 241 3701

Company Information

Registered office
The Tower
2 Furnival Square
Sheffield
S1 4QL

Company number
3858881

Directors
Dr CHB Honeyborne
Chairman

Dr SA Green
Chief Executive Officer

HP Gilder
Group Finance Director
and Company Secretary

JA Livingston
Non-Executive Director

IC Stewart
Non-Executive Director

Bankers
The Royal Bank of Scotland
1st Floor
1 St Paul's Place
121 Norfolk Street
Sheffield
S1 2JF

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

Auditors
PKF (UK) LLP
2nd Floor
Fountain Precinct
Balm Green
Sheffield
S1 2JA

Nominated advisor and broker
FinnCap
4 Coleman Street
London
EC2R 5TA

Registrar
Share Registrars Ltd
Suite E, First Floor
Lion & Lamb Yard
Farnham
Surrey
GU9 7LL

ZOO Digital Group plc
The Tower
2 Furnival Square
Sheffield
S1 4QL

T: 0114 241 3700
F: 0114 241 3701

www.zoodigital.com

ZOO Digital Group plc • The Tower • 2 Furnival Square • Sheffield • S1 4QL • United Kingdom • **T:** 0114 241 3700 • **F:** 0114 241 3701

ZOO Digital Group plc • 2201 Park Place • Suite 100 • El Segundo • 90245 • USA • **T:** +1 (310) 220-3939 • **F:** +1 (310) 220-3958

www.zoodigital.com