ZOO DIGITAL GROUP PLC

Annual Report 2010

ZOO

Welcome to ZOO DIGITAL GROUP PLC

We live at a time where everyday products are made for and sold to global audiences, and where efficiency is a word on every CEO's lips. Companies around the world and in practically every sector are repurposing creative media to suit the languages and customs of local audiences, yet this is a complex and costly process.

At ZOO we are helping global organisations to save millions every year using our workflow automation systems. In the entertainment industry we have helped major Hollywood studios to prepare worldwide video products in a fraction of the time using far fewer people.

Our media collaboration platform and productivity software has been proven in some of the world's most demanding organisations. We are now poised to grow the business in entertainment and other markets.

Why ZOO?

- A capital growth strategy to deliver scalable software and software-led services
- Products licensed as Software-as-a-Service and priced according to throughput giving a high proportion of recurring revenues
- Established and proven with large film studios where there are opportunities to cross-sell to additional business units
- Identified new product opportunities that will enable additional revenues to be generated from existing customers
- Significant opportunities for existing products with other players in the entertainment market
- Working with partners to deliver existing products into new markets such as pharmaceuticals and cosmetics

Contents

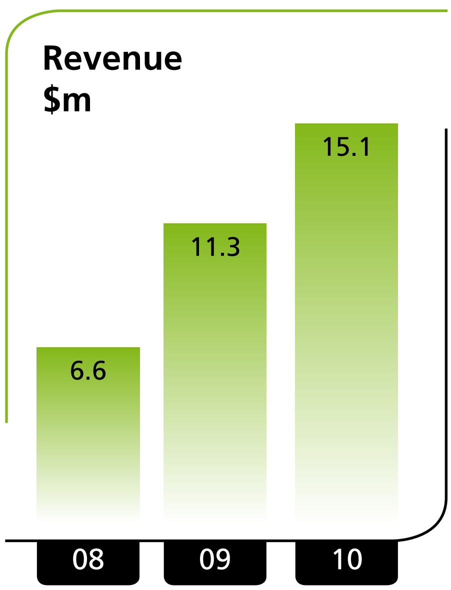
Highlights

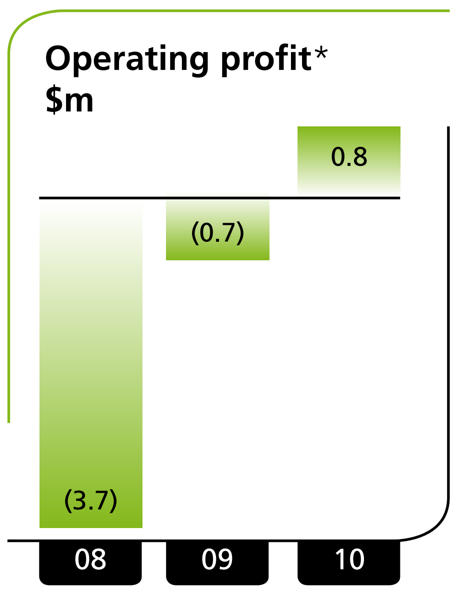
Financial Highlights

- Revenue up 33 per cent to $15.1m (2009: $11.3m)
- Adjusted EBITDA of $1.6m (2009: Loss $0.1m)*
- Adjusted operating profit of $0.8m (2009: Loss $0.7m)*
- Cash generated from operating activities $2.1m (2009: $1.4m)
- Year end cash balance $1.2m (2009: $1.4m)
- Payment of final deferred consideration for Scope Seven acquisition and repayment of SYIF loan
- No debt other than Convertible Unsecured Loan Stock for £3.54m ($5.1m) at 6 per cent redeemable Q4 2011 held by major shareholders
- Change in reporting currency to US$ reduces reporting inconsistencies for future years

Operational Highlights

- Continuing strong organic growth with existing major Hollywood studio where now engaged with four separate business units
- Secured first engagement with a second major Hollywood studio and a further mid-sized studio
- Completed assignments for a number of other media companies
- Expanded product offering in the areas of web-based collaboration and Blu-ray production and secured first customers
- Further value driven from existing toolset
- Post-period end announcement of proposed strategic investment of $1.2m and partnership with Multi Packaging Solutions, Inc, a value-added print-based packaging solutions company enabling expansion of ZOO's business into new markets





* Adjusted EBITDA and operating profit/(loss) before exchange gains on intercompany transactions and exceptional impairment.

Group at a Glance

Smarter Workflows for Global Media

At ZOO we enable global organisations to develop, process and deploy creative media content. Using our innovative workflow optimisation software we deliver significant efficiency gains, benefiting our customers with savings of time and cost.

Creating media for global distribution is a labour-intensive, time-consuming process for most companies. Our software efficiently automates complex production tasks. Our project management software links the many pieces together and takes care of the management of the process. We license our proprietary software to businesses that need to adapt their media for different formats and languages. Our software is used by film studios and TV content makers to prepare their products for international sale and licensing.

For businesses that don't have an in-house technical capability, we offer full implementation, creative and production services that use our own software to deliver rapid, accurate results at a very competitive price.

We specialise in a number of areas, from the authoring of physical and digital video products for DVD-Video, Blu-ray Disc and Electronic Sell-Through formats, to the translation and production of video menus, website artwork, and even an entire range of printed marketing materials. Our online systems are used to manage our customers' projects from start to finish.

For businesses that are looking to either outsource the management and distribution of digital media globally, or for those wishing to enhance an in-house operation with our software, we can offer a solution developed and proven in some of the world's most demanding marketplaces, including leading Hollywood studios.

Our software is priced to reflect the benefit it brings to our customers. Our online systems are licensed as Software-as-a-Service while our production tools are priced according to throughput. This provides us with recurring revenue streams and ensures that our interests are perfectly aligned with those of our customers.

Software

ZOO provides a comprehensive suite of web-based software and desktop tools to support digital media production. ZOO's **Media Collaboration Platform** provides web-based services enabling users of different disciplines and across worldwide locations to work efficiently together, such as graphic designers, production artists, translators, video disc authors and QC operators.

A number of desktop tools are included in the suite to perform specific functions, such as video product authoring and automated quality control, and these are integrated with the Media Collaboration Platform. Together, our web-based software and desktop tools work closely together to deliver enhanced efficiencies for our customers.

Media Adaptation Tool

MAT provides a production workflow for artwork such as product packaging and posters, automating the localisation process traditionally performed by highly skilled pre-press operators and graphic artists.

Templated Authoring System

TAS is a workflow automation system for the efficient creation of physical and digital video-based products such as DVDs, Blu-ray Discs and Electronic Sell-Through platforms. It makes a costly and laborious process quick and easy.

Menu Regionalisation Tool

MRT automates the previously manual process of creating menu assets for physical and digital video products in multiple languages and has been shown in independent customer benchmarks to reduce time by up to 90 per cent.

Translation Management System

TMS is an important component of the **Media Collaboration Platform** that allows clients to manage global projects with complex media workflows and thousands of translations.

Services

We provide a range of value-added services to support our software licensing proposition. Our services include the following:

Authoring and Compression

We provide a turn-key solution for media publishers from designing disc menus to authoring and compressing video for physical and digital video platforms, including DVD, Blu-ray Disc, video on demand and a host of Electronic Sell-Through platforms.

Video and Post-Production

We operate an in-house video and post-production facility. We provide complete support for materials like bonus features, electronic press kits, trailers and TV spots.

Localisation

When our customers are synchronising physical and electronic video products and marketing material for a single, global release, localisation cannot be an afterthought. Producing materials that work in every region and language is a complex undertaking at which ZOO excels.

Creative

Our creative team includes designers, animators, visual effects artists and editors who specialise in the unique needs of global media producers and marketers.

Consulting

Our consulting team helps clients implement centralised workflows for localising media releases and marketing materials. We bring all of our creative, production and technological expertise to bear on the challenge of building efficient, effective global strategies for our customers.

ZOO's Role in the Studio Workflow

Chairman's Statement

"The board is pleased to report a strong performance ahead of market expectations for ZOO during the last financial year."

The board is pleased to report a strong performance ahead of market expectations for ZOO during the last financial year. Our revenues increased by 33 per cent to $15.1m (2009: $11.3m), we achieved an operating profit (before exchange gain on intercompany transactions and exceptional impairment) of $821,000 (2009: loss of $745,000), and our cash generation improved to $2.1m (2009: $1.4m). Since nearly all of our revenue and over 70 per cent of our costs are now incurred in US dollars, the board decided that ZOO's functional and presentational currency should be changed from pound sterling to US dollars. This change in reporting currency has introduced some inevitable complications in the comparisons between this year's results and last year's, but we believe that it is in the best long-term interests of shareholders to report in this way. Notwithstanding the reporting currency, we regularly review our currency hedging position to mitigate the risk of exchange rate movements, although it is not economic to completely eliminate such risk.

The Hollywood studios and other large media companies are looking for better ways to create, manage and distribute their content, while developments such as the adoption of High Definition TV and video, 3D, and web-based distribution of video, present them with particular challenges. ZOO's innovative range of software and services, combined with our expert knowledge of the sector, have helped our customers automate and improve their workflow, and positioned us at the heart of their businesses. A range of licensing, Software-as-a-Service (SaaS), and pay-per-use business models helps us develop long-lasting relationships with, and recurring revenues from, our customers.

During the year we continued to deepen our relationship with our largest Hollywood customer, extending the number, type and geographic scope of the products and services which we provide to them. We are particularly pleased to be able to announce since the end of the year that another major Hollywood studio has now begun adoption of our technology and services. In a further significant step towards reducing our dependency on a small number of large customers, we announced in June 2010 a partnership with Multi Packaging Solutions Inc (MPS), which offers us an exciting opportunity to apply our existing technology to the management of printing and packaging media for the pharmaceutical and other sectors outside entertainment.

ZOO is now positioned with a highly relevant set of products and services which help businesses deal with and profit from the impact of the digital revolution on the creation, management and distribution of all media. Our team has again shown itself capable of rapid development and delivery of highly innovative products and services, we count some of Hollywood's major studios as our best customers, and are beginning an alliance with MPS to apply our technology outside of the entertainment sector. Therefore I hope that all our shareholders will share my confidence in the future prospects of the group.

Board changes

Gordon Doran was appointed to the main board during the year in recognition of the importance of our Los Angeles based operation to the success of ZOO. Gordon has held senior positions in sales and marketing for a number of software companies in the USA and the UK. He was formerly Chief Operating Officer for Mediostream Inc and joined ZOO in 2005 to establish our North American division. In his role as President he is responsible for all North American operations and has been central to the development of our relationships with a number of large US entertainment companies.

On 28 April 2010 Christopher Honeyborne decided, in line with best practice, that he should stand down from the board after ten years service as a Non-Executive director, of which the last four were as Chairman. ZOO has benefited greatly from Christopher's stewardship and wise counsel, and on behalf of the board I extend my sincere thanks to him for his contribution to the transformation of the group. I was delighted to be appointed as successor to Christopher, and look forward to working with the board to help build substantial and sustainable value for our shareholders.

Roger D Jeynes
Chairman

Chief Executive's Statement

Introduction

At ZOO we design innovative computer software to enable our customers to become more efficient. Our customers are global organisations that develop, process and deploy creative media content used in digital and physical products, most usually video and digital images that are repurposed for different formats and languages.

We are helping leading Hollywood film studios to take their movies to market in different packages – physical discs as well as digital downloads. TV programme makers have used our software to prepare their content for licensing to networks all around the world. Film distributors are producing co-ordinated marketing campaigns for blockbuster releases in as many as 60 different languages. The chances are that if you go to the cinema or watch movies at home then you will have seen productions where our software has been instrumental in delivering content to audiences all around the world.

That a company in Sheffield should play a significant part of the operations of leading global organisations is unusual. ZOO is no ordinary company. Our success stems from our entrepreneurial spirit and an innovative approach to solving business problems and tackling workflow inefficiencies. We have built a suite of software that redefines the way in which our customers work with their creative media – we automate and centralise activities that are normally done manually by highly skilled operators. We bring significant efficiencies in time and cost to our customers.

ZOO has been transformed since I became CEO in 2006, during which time our new management team has redefined the business proposition, divested non-core assets and focused on delivering profitable revenues based on a clearly differentiated offering. We passionately believe in our winning proposition and that it will demonstrate excellent growth and deliver enhanced shareholder value.

Operational review

We are delighted with the excellent progress we have made over the past year in delivering solid results that have exceeded market expectations.

Organisation

Our corporate headquarters and software product development centre is in Sheffield while our commercial operation and implementation and production services facility is based in Los Angeles. This arrangement gives us cost effective R&D with client services close to our customer base.

During the year we have grown our talented team of software technologists to respond to the numerous new product opportunities that we continue to uncover. Our Sheffield team of around 35 staff is made up mostly of software engineers, quality assurance engineers, product managers and others in supporting roles.

Our facility in Los Angeles accommodates a further 71 staff who are located close to our major customers and provide a range of value-added client services.

"The scalability of the business means that we can add new customers without significantly increasing headcount or cost base."

Sales and marketing

Due to the niche nature of our video-based offerings we are able to be highly targeted in our sales efforts, identifying first the organisations that we believe will gain the biggest benefits from the use of our software, and then the key decision makers within those businesses. Our focus to date has been primarily in the filmed entertainment market where we aim to license software and provide related value-added services directly to brand owners.

In contrast, our proposition for automated repurposing of digital imagery has a much broader appeal. Since our entertainment customers create global marketing campaigns for their movies and TV programmes, our initial commercial efforts have been within this market. Over the course of the last year we have deployed these solutions for three major customer groups and now have several hundred users working on product packaging and marketing campaigns at locations around the world.

We believe there is significant potential for our proposition outside the entertainment industry and have begun our search for strategic partners with whom we can work closely to secure new business in other markets. We recently announced a relationship with Multi Packaging Solutions Inc, a US print-based packaging solutions company with customers in healthcare, media, cosmetics and value added consumer markets. We are excited to be working closely with MPS over the coming months to secure new sales in the pharmaceuticals market, providing ZOO with significant growth potential.

Products

During the course of the year we have continued to broaden our product proposition by introducing the first component of our internet accessible Media Collaboration Platform – the Translation Management System (TMS). This is a workflow automation solution that enables multiple operators around the world to collaborate efficiently in the design and delivery of internationalised creative content. Further components of the Media Collaboration Platform are currently under development.

The TMS integrates with our range of desktop productivity applications which we have enhanced further, and also with a number of new tools that we released during the year. These combinations of software are enabling significant savings of time and cost – one of our customers has been able to reduce the time taken to produce complex marketing campaigns by half through the use of the TMS in conjunction with our Media Adaptation Tool.

Our revenues are based on throughput – products are priced according to usage, either as a Software-as-a-Service subscription or on a pay-per-use basis. This gives us solid recurring revenues whilst also aligning our interests with those of our customers — we are motivated to make our products more powerful and easier to use which encourages customers to use them more widely, so increasing our revenues.

We have secured further UK government grant funding to support our R&D efforts, this time in the form of a collaborative project supported by the Technology Strategy Board entitled "Commercialising Motion Picture Archives". We will be working on new technologies in association with UK rights holders and production services companies that we expect will lead to new video-related products in the future.

We launched a new toolset for the preparation of products on Blu-ray Disc and announced that a first major film studio has adopted this for creating international product releases. We believe that Blu-ray Disc represents a significant area of new revenue for ZOO and this new toolset gives us a unique position in a growth market that we intend to exploit.

The first of our workflow automation tools reached a milestone this year — the Menu Regionalisation Tool is used to create regionalised content for home entertainment products and in May we announced that it had been used to create more than 100,000 menus. Like all our products, this tool provides an automated solution that enables significant savings of time and cost. We have a number of further such automation products in the pipeline and continue to be proactive in protecting our intellectual property through patents wherever possible; we have more than 20 patents granted.

Our product suite continues to deliver clear competitive advantages and significant barriers to entry, enabling a differentiated proposition that addresses our customers' needs to reduce time and cost.

Services

Our customers often compliment us on how easy we are to do business with. We set the highest standard for customer relationships and our Los Angeles client-facing team consistently delivers on our customer expectations. The services we offer are closely linked to our product offerings, including implementation and production support, and we have introduced new services in the course of the year to reflect the expanding scope of our software portfolio. Providing these value-added services is our key strategy to help customers transition smoothly from their traditional vendors and move to the progressive and scalable approach we bring.

Chief Executive's Statement

"Our licensing model is based on software utilisation and is levied as a combination of Software-as-a-Service subscription fees and usage fees, giving recurring and highly scalable revenues."

As we have built our reputation and earned the trust of our customers, we have been able in some cases to use services as a way to become involved in new areas of activity. Through first hand experience we build up knowhow that we can then use to design and build new automation tools. These tools provide us with differentiation and the means to pass on cost savings to our customers.

Markets

While our focus to date has been primarily on the filmed entertainment market we are now poised to take our existing products into new areas. The markets that are attractive to us are those that feature global companies producing creative content for many formats and languages. These are often large US companies marketing products and services on a worldwide basis, and spending significant sums in repurposing creative content within the products themselves, or on packaging and marketing campaigns.

The recent global economic changes have led to companies seeking cost saving opportunities more than ever before. Within the filmed entertainment market profit margins are under pressure and we have seen organisation-wide drives to cut costs. Our proposition is therefore ideally placed to address these new customer requirements to make their operations more efficient.

We are in the process of identifying partners to help us explore new markets for our existing products. A first such initiative is with HudsonYards, the premedia division of The CAPS Group, a provider of integrated creative, marketing and production services for advertising agencies, design firms, publishing companies, and corporations worldwide.

The focus of our direct sales and marketing efforts has been the filmed entertainment market. Through a new strategic partnership with Multi Packaging Solutions Inc we plan to make inroads into the pharmaceutical industry.

Entertainment

Our growth has been achieved through a small number of large customers in the entertainment market. While this may seem like a vulnerable position, we believe that it provides a strong platform for further growth since we are usually able to expand our business to several divisions of the same organisation. The major Hollywood studios are quite diverse businesses structured as multiple divisions, yet the need to develop, process and deploy creative media is common to most of these divisions. For our largest studio clients we are now working with four separate divisions, each largely autonomous and seeking ways to save time and cost.

The proliferation of new consumer formats and platforms for delivery of home video over the past few years has led to a challenging economic situation for rights holders since content must now be prepared for multiple delivery formats in order to maximise sales. This leads to a significant increase in costs and time to prepare new products for market, and is further compounded by the complexities of delivering regionalised content into many territories. A growing proportion of content budgets will be spent on publishing across multiple devices and platforms and, based on the experience of the mobile phone industry, publishing costs could easily rise to 50 per cent of total content budgets (source: Analysys Mason). Our proposition perfectly addresses this changing commercial landscape and provides brand owners with a way to reduce the costs of content repurposing across multiple platforms, formats and languages.

We were pleased to announce a software licensing agreement with CBS Home Entertainment, responsible for creating products across all of the CBS Corporation lines of content including current hits, such as NCIS, Dexter and 90210, and classic series from the vast CBS library. In an initiative to internalise production on selected titles, CBS Home Entertainment will use our products to design and produce certain titles in-house at its own facility, rather than outsource all of this work to traditional service providers. Our workflow automation systems enable video titles to be created quickly and easily without requiring specialist knowledge, and therefore can be used effectively by non-specialist operators within the studio.

In June 2010 we announced that a second major Hollywood film studio has adopted a solution using our Media Collaboration Platform. This allows the studio's content from a variety of media to be repurposed and reused across multiple formats, from printed materials to online content and optical discs. We're particularly excited about working with another of the major brands in entertainment and providing a very broad solution that spans most of its formats. In the past, clients have licensed specific software products, but this client intends to use our Media Collaboration Platform in the most comprehensive way across its entire home entertainment business. This is a further validation of ZOO's products and business model.

Everyone is trying to standardise methods of managing content across multiple media and languages. We're at the forefront in this area and are now working with some of the biggest names in entertainment to establish these standards which we believe will be very widely adopted.

Within the entertainment market we are tapping into areas of budgeted spend in activities currently outsourced to traditional service vendors. We estimate that the total addressable market for our current portfolio of products is several hundreds of millions of dollars per year.

Pharmaceutical

In June 2010 we announced an exciting new development for ZOO in the form of a strategic partnership with Multi Packaging Solutions (MPS), a provider of value-added print-based packaging solutions. We already share with MPS a number of film studio customers and we hope that our partnership will help us to grow our business further in this market, but the greatest value we anticipate from this new relationship is the entry it provides to customers in new markets. Together with MPS we have identified the pharmaceutical market as being particularly receptive to our proposition for printed media adaptation, having similar characteristics to those we have seen in our entertainment market customers.

The number of products introduced into international markets by healthcare companies is substantially greater than entertainment products, and therefore the partnership with MPS provides an exciting opportunity for us to scale the ZOO business by taking our existing products into clients of MPS. We look forward to updating the market with our progress in due course.

Strategy

We have identified that there are many areas where creative media is developed by large corporations for international delivery involving work being outsourced to service vendors. In many cases this work, while often highly complex, can be performed in a largely systematic fashion. Our workflow automation software displaces manual labour, thereby delivering the potential for significant savings of time and cost when this software is licensed directly to the brand owners.

Our licensing model is based on software utilisation and is levied as a combination of Software-as-a-Service subscription fees and usage fees, giving recurring and highly scalable revenues.

We develop and nurture open, transparent relationships with our clients and deliver to them first class customer service. This builds trust and fosters close collaborative working relationships that help us to uncover new areas of potential.

Our competitors are usually traditional vendors providing labour-based services who tend to be inflexible and resistant to change. Consequently we have a strong competitive advantage against them and our growth to date has been largely due to winning business from these companies.

People

Our current and future success is made possible only through our excellent people who continue to contribute to the business at the highest level. Our product development team innovates relentlessly and delights our customers with high quality products, and our services and client-facing people succeed in taking our customer relationships to new heights. On behalf of the board I would like to extend my appreciation to all ZOO staff for their positive outlook and commitment to the business.

Outlook

I believe that ZOO is poised for an exciting future and I am confident that we will deliver further profitable growth from our current customers, the entertainment market and in new areas of activity. The significant growth we have delivered to date has been achieved from a small customer base but the scalability of the business means that we can add new customers without significantly increasing headcount or cost base.

We have made great strides in the development of our media platform in the past year and are now poised to scale the business through a wider rollout to new customers, with growth arising from licensing existing products in new markets and new products in existing markets, and delivering value-added services.

We will continue to focus on major film studios and other global players in the entertainment market and are very enthusiastic about the new market openings that our strategic partnership with MPS brings.

Dr Stuart A Green
Chief Executive Officer

Financial Review

The year ended 31 March 2010 was one of great financial progress. The financial position at the end of the year is encouraging for the future.

Reporting currency

Over the recent past an increasing proportion of the group's trading transactions have been denominated in US dollars. In the year ended 31 March 2010 99 per cent of revenue and 71 per cent of costs were denominated in US dollars. Consequently, the directors now consider US dollars to be more representative of the group's operations, and therefore, with effect from 1 April 2009, the group has determined that its functional currency has changed from pound sterling to US dollars, and has elected to change its presentation currency from pound sterling to US dollars.

The change in the functional currency does not in itself have any effect on the comparative figures, but due to the group's outstanding convertible loan notes which are designated in pound sterling, the results now include an exchange loss deriving from currency movement on their principal value during the year; the comparative figures do not include an equivalent figure, since the functional currency at that time was pound sterling.

The effect of changing the presentation currency has been to restate the comparative results by translating the figures in the Consolidated Statement of Comprehensive Income ("CSoCI") at the prevailing exchange rate in the month of transaction, and the figures in the Consolidated Statement of Financial Position at the year end rate. However, the underlying comparative figures have not been reworked as if the functional currency had been the US dollar. The treatment adopted is that required by International Financial Reporting Standards. Consequently, the figures in the CSoCI relating to "exchange gain on intercompany transactions", which arose from translation from US dollars into pound sterling in the prior year, have no comparable figure in the current year.

We are required to show the exchange gains and losses in differing areas of the CSoCI which leads to difficulties in comparing the results for the two years. Neither of the translation adjustments had any affect on the underlying business or on cash. Consequently, we have added a further analysis to the face of the CSoCI to help the reader of the statements to understand the true performance of the business.

Results for the year

The revenue for the period grew by 33 per cent to $15.1m (2009: $11.3m).

The margin earned in 2010 was $11.3m (75 per cent) compared to $9.3m (82 per cent) in 2009. The reduction in the margin is due to the higher inclusion of work which is subcontracted to a third party supplier. The subcontracted work earns a low margin compared to the other work we perform but offers a service required by our customers with minimal risk for ZOO.

The overheads of the business have changed very little since the previous year. On the face of the CSoCI the operating expenses show an increase from $8.4m to $11.5m but this includes the exchange gain on intercompany balances in 2009 and some exceptional impairment charges. Once these are removed the other operating costs show an increase from $10.2m to $10.6m which is just 4 per cent despite the significant increase in trade. The overheads are primarily staff related costs which represent $7.2m of the operating expenses.

"With an increase in turnover of 33 per cent to $15.1m ZOO has made a great deal of progress over the past 12 months and I share the board's optimism for the future."

We have taken advantage of grant funding throughout the period with a total amount of cash being claimed in 2010 of $0.6m (2009: $0.2m). The amount recognised in the CSoCI is $0.2m (2009: $0.1m). The amounts differ because some of the grant funding covers capital expenditure so is not recognised in the CSoCI. We still have grant supported projects ongoing with over $0.7m of funding still available at the end of the financial year.

In both 2009 and 2010 we have taken exceptional impairment charges on the write down of intangible assets from the purchase of Scope Seven LLC which took place in 2007. In 2010 the charge is $0.9m and in 2009 it was $0.6m. The assets impaired are software products that were developed by Scope Seven prior to our acquisition. These developments were not significant in our decision to acquire the company but were an integral part of the assets on offer. We have looked at deriving value from them and have concluded that, although there is potential future value, our commercial team is best employed on the ZOO developed products which show a higher potential reward. Consequently, the Board has made the decision that the assets should be fully impaired. Following these impairment charges there are no further intangible assets arising from the acquisition aside from the goodwill on the transaction itself. The goodwill retains its value as Scope Seven is providing a valuable service for ZOO and our clients and is generating profitability for the group. The impairment of the intangibles has no impact on the trading operations and expectations. There are no significant impairments required on the core assets developed by the ZOO team.

An analysis of the result has been added to the CSoCI to help the reader to form a balanced view on the financial statements. On this analysis we have highlighted the exchange gain which arose in 2009 when we were reporting in pound sterling and the exceptional impairment charges. Removing these enables the reader to understand better the underlying performance of the business. This analysis shows that ZOO achieved an operating profit for the year of $0.8m (2009: loss $0.7m) before these exceptional items.

Cash flow and financial strength

The net cash generated from operating activities increased considerably in the year with a result of $2.1m compared to $1.4m in 2009.

The cash balance at 31 March 2010 was $1.2m (2009: $1.4m).

During the year the remaining balance of $0.2m of loan notes issued on the acquisition of Scope Seven were repaid leaving the group with no debt other than the £3.54m ($5.1m) convertible loan note. The convertible loan note matures in October 2011 and the board's expectation is that this will convert to equity. Aside from this instrument, some leases for asset funding and the usual trade payables, ZOO has no debt.

In addition to the cash within the business we have an on demand overdraft facility available for an amount of £0.5m (equivalent to $0.8m at the year end exchange rate) which gives a buffer for the peaks and troughs of cash flow throughout the trading year.

Foreign currency

With a change of reporting currency to US dollars and changes in the business over the past three years to match revenue and costs in US dollars the currency exposure has reduced. From a trading perspective the foreign currency exposure is on the overheads denominated in pound sterling, primarily head office and product development costs.

Within the trading business the currency exposure is controlled by monitoring exchange rates and planning transactions to take advantage of any changes. Since the year end, we have entered forward exchange contracts to cover a portion of the expenditure we anticipate in pound sterling.

The CSoCI shows an exchange loss of $0.3m on the translation of the convertible loan note. This is required under IFRS and the only way we could mitigate reporting this loss is to enter a forward exchange contract to cover the loan note liability. Since the liability is still some distance away and the expectation is for the loan note to convert into equity, we have chosen not to take out a forward exchange contract. There would be no business benefits in such an action, merely an improvement to the reported position.

Taxation

Within the group ZOO has accumulated tax losses of $28m and consequently does not expect to pay taxes in the UK or the US for several years. In the UK the group actively claims for R&D tax credits although the claims are limited since many projects are supported by grants so ineligible for tax credits.

Summary

With an increase in turnover of 33 per cent to $15.1m ZOO has made a great deal of progress over the past 12 months and I share the Board's optimism for the future. With a change of reporting currency to US dollars the financial reporting will be clearer in future years as we will not have the unusual entries arising from the change in reporting currency. We will continue to closely monitor the costs of the business and with no bank debts we are well placed for growth.

Helen P Gilder
Group Finance Director

Board of Directors

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1. Roger D Jeynes

Chairman (aged 57)

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

2. Dr Stuart A Green

Chief Executive Officer (aged 44)

Stuart brings over 20 years of experience of team building and executive management in the software industry to his role as CEO. Prior to his appointment as CEO Stuart was Chief Technical Officer, where he was responsible for determining the technology strategy and expanding the core intellectual property of the company. Previously he founded Kazoo3D plc and prior to that was the co-founder of LightWork Design Limited where he served as Technical Director. Stuart received a Ph.D in Computer Science from the University of Bristol in 1989 for his research into multiprocessor systems for advance computer graphics. He is responsible for securing over 20 patents in the fields of image processing and digital media processing.

3. Helen P Gilder

Group Finance Director (aged 43)

Helen has been employed within the technical and services industry for over 15 years. After qualifying as a Chartered Accountant with PKF in 1991 she moved into a more commercially focused role. Her extensive managerial and transaction experience came through her role as Finance Director within a highly acquisitive listed IT company. She joined ZOO to assist with the initial float in 2000 as Group Financial Controller and has gathered an invaluable knowledge of the companies in the group. She became the Group Finance Director in 2006.

4. Ian C Stewart

Non-Executive Director (aged 56)

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 he floated it 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. Ian is an honorary Doctor of Sheffield Hallam University and is an angel investor in a number of businesses.

5. James A Livingston

Non-Executive Director (aged 29)

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

6. Gordon Doran

Commercial Director (aged 43)

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 was responsible for all ZOO's North America operations and has been pivotal in establishing relationships with a number of large US entertainment companies. Gordon became the Commercial Director in 2009.

Senior Management

1. Duncan A Wain
Chief Operating Officer (aged 47)

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

2. Simon LS Clark
Senior Vice President and Chief Marketing Officer (aged 46)

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.

3. Philip M Corio
Chief Technical Officer (aged 43)

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.

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Directors' Report

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 2010.

Principal activities

The principal activity of the group for the year under review was to provide productivity software tools and services for video post-production, 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's and Chief Executive's statements set out on pages 4 to 9.

The audited financial statements for the year ended 31 March 2010 are set out on pages 23 to 63. The directors do not recommend the payment of a dividend for the year.

Change in functional and presentation currency

Over the recent past an increasing proportion of the group's trading transactions have been denominated in US dollars. The directors now consider US dollars to be more representative of the group's operations, and as a consequence with effect from 1 April 2009 the group has determined that its functional currency has changed from pound sterling to US dollars, and has elected to change its presentation currency from pound sterling to US dollars.

The effect of the change in the functional currency has been to commence using the US dollar as the functional currency from 1 April 2009. This change does not in itself have any effect on the comparative figures, but since the convertible loan notes are designated in pound sterling, the results now include an exchange loss on the principle value of the loan notes deriving from currency movement during the year; the comparative figures do not include an equivalent figure, since the functional currency at that time was pound sterling.

The effect of changing the presentation currency has been to restate the comparative figures by translating the figures in the Consolidated Statement of Comprehensive Income ("CSoCI") at the average rate for the year, and the figures in the Consolidated Statement of Financial Position at the year end rate. However, the underlying comparative figures have not been reworked as if the functional currency had been the US dollar. The treatment adopted is that required by International Financial Reporting Standards. Consequently, the figures in the CSoCI relating to "exchange gain on intercompany transactions", which arose from translation from US dollars into pound sterling, have no comparable figure in the current year.

The directors recognise that the effect shown in the previous paragraph is non-recurring, whilst there will continue to be currency movements on the convertible loan notes. The directors recognise that the combined effect of these items may make it difficult for the reader of these financial statements to get a clear picture of the underlying trading and operational performance over the last two years. Consequently the CSoCI includes an analysis of operating profit/(loss).

Research and development

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

Charitable and political contributions

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

Employees

Employee consultation

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

Disabled employees

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

Events after the reporting period

On 15 April 2010 160,000 shares were issued following the exercise of employee share options. On the same day the group purchased 160,000 of its own shares through ZOO Employee Share Trust Limited at an average price of $0.51 (33p) per share. The total cost of the purchase was $81,660 (£52,800).

On 25 June 2010 the company entered into an agreement, which is subject in part to the approval of the company's shareholders, with Multi Packaging Solutions, Inc. Multi Packaging Solutions, Inc will make a strategic investment of $1.2m (£0.8m) in the company. This comprises the allotment and issue of 2,148,642 new ordinary shares of $0.23 (15p) each in the company, at a subscription price of $0.60 (40p) per share. It also comprises, subject to the approval of the company's shareholders, a proposed issuance of warrants to subscribe for up to a maximum aggregate number of 2,148,642 new ordinary shares of 15 pence each in the company at a subscription price of $0.75 (50p) per share.

Directors

The directors who served during the year were as follows:

Dr Christopher HB Honeyborne(1)	Non-Executive Chairman
Dr Stuart A Green	Chief Executive Officer
Helen P Gilder	Group Finance Director
Gordon Doran(2)	Commercial Director
James A Livingston(3)	Non-Executive Director
Matthew P Taylor(4)	Non-Executive Director
Ian C Stewart	Non-Executive Director

(1) Retired 28 April 2010
(2) Appointed 28 July 2009
(3) Appointed 12 June 2009
(4) Retired 12 June 2009

Roger Jeynes was appointed on 28 April 2010, and takes up the appointment of Chairman.

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 2010 are disclosed in the Directors' Remuneration report. In accordance with the company's Articles of Association Stuart Green, Ian Stewart and Roger Jeynes 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 2006. The company has purchased and maintains directors' and officers' insurance cover against certain legal liabilities and costs for claims in connection with any act or omission by such director and officers in the execution of their duties.

Policy and practice on payment of creditors

The group's policy, 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 group at 31 March 2010 were equivalent to 101 days (2009: 65 days) purchases, based on the average daily amount invoiced by suppliers during the year. During the year ended 31 March 2010 the group entered into an agreement with a supplier to settle the supplier's invoices on receipt of payment, from the group's customer, for which the services were performed.

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.

		2010	2009	
Revenue	$000	**15,056**	11,336	↑
Adjusted EBITDA*	$000	**1,592**	(327)	↑
Debtor days	days	**33**	33	—
Overdue debtors	$000	**156**	505	↓
Employee satisfaction		**76%**	72%	↑

* Adjusted EBITDA before exchange gain on intercompany transactions and exceptional impairment.

Principal risks and uncertainties

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

International business

The group is domiciled in the UK, but has the LA operations and 99% of its revenues coming from overseas customers. As with most small yet international businesses the group's risks are around managing the cash flow and exchange rate fluctuations. The group continues to focus closely on conservative cash management and monitor currency transactions taking proactive actions when appropriate.

Technology conservation

The group continues with an aggressive patent protection policy, with 22 patents granted and 19 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.

Directors' Report

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 across different business units and obtaining long-term contractual agreements for supply of technology and services.

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

Foreign currency risk is managed by matching payments and receipts in foreign currency to minimise exposure. From 1 April 2009 the functional currency and presentation currency of the group has changed to US dollars. The majority of the group's transactions are undertaken in US dollars, however, the Consolidated Statement of Financial Position can be affected by movements between pound sterling and US dollars as the parent company and UK subsidiaries have some pound sterling debtors and creditors.

Further information on the financial risks is given in note 28 to the accounts.

Financial instruments
The group has not actively used financial instruments as part of its financial risk management, however after 31 March 2010 has entered into some forward exchange contracts to sell US dollars for pound sterling. The group is also exposed to the usual credit risk and cash flow risk associated with selling on credit and manages this through credit control procedures.

Purchase and disposal of interest in own shares
During the year the group purchased 473,500 shares (2009: nil). The total cost of the purchase was $71,823 (£48,939). Also during the year 451,686 ordinary shares with a nominal value of 15p were disposed of (2009: nil). No consideration was received for the disposal as these shares were transferred to the group's share incentive plan or distributed as a staff bonus. The maximum number of own ordinary shares, with a nominal value of 15p, held in the year was 475,153 (2009:1,653). Further dealings in own shares are disclosed in note 25, events after the reporting period.

Substantial shareholdings
On 1 April 2010, the company had been notified, in accordance with sections 791 to 825 of the Companies Act 2006, of the following interests in the ordinary share capital of the company:

Name of holder	Percentage held	Number
Dr SA Green	19.60%	4,179,835
Funds managed and advised by Foresight Group	17.79%	3,794,689
Herald Investment Trust plc	16.83%	3,590,102
South Yorkshire Investment Capital Fund	8.36%	1,782,564
Mr IC Stewart	7.86%	1,675,365
Williams De Broë	4.09%	872,706

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 P Gilder
Director and Secretary
25 June 2010

Corporate Governance Report

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have, as required by the AIM Rules of the London Stock Exchange, elected to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and have also elected to prepare the parent company financial statements in accordance with those standards. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

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

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

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. From 28 July 2009 the board consisted Non-Executive chairman, two Non-Executive directors and three Executive directors following the appointment of Gordon Doran.

The Board meets formally at least 11 times a year to consider those matters which are required to be brought to it for decision, which ensures that it maintains full and effective control over appropriate strategic, financial, operational and compliance issues. Directors receive an information pack before each board meeting which contains background information on such matters. Additional meetings are held to review and approve special matters if necessary.

Board committees

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

The Audit Committee was chaired by Matthew Taylor up until his resignation from the board on 12 June 2009 and has since been chaired by James Livingston. The committee meets at least twice a year. The group'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's cash resources, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the next 12 months and, for this reason, they continue to adopt the going concern basis in preparing the financial statements.

By order of the board

Helen P Gilder
Director and Secretary
25 June 2010

Directors' Remuneration Report

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

The Remuneration Committee

During the year ended 31 March 2010, the Remuneration Committee consisted of the following Non-Executive directors:
Ian Stewart (Chairman)
Christopher Honeyborne
James Livingston (Appointed 12 June 2009)
Matthew Taylor (Retired 12 June 2009)

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

Executive directors

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

The remuneration packages include:

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

Non-Executive directors

The Board determines the remuneration package of the Non-Executive directors. Ian Stewart is paid as an employee and Christopher Honeyborne was remunerated by fees invoiced from Brockhill Limited. Matthew Taylor (prior to 12 June 2009) and James Livingston (subsequently to 12 June 2009) were remunerated by fees invoiced from the Foresight Group.

Directors' remuneration

Directors' remuneration for the year to 31 March 2010 is:

	Salary $000	Bonus $000	Benefits $000	Pension $000	**2010 Total $000**	2009 Total $000
Dr Stuart A Green	196	59	2	6	**263**	211
Helen P Gilder	142	48	2	7	**199**	156
Gordon Doran*	149	55	10	—	**214**	—
Dr Christopher HB Honeyborne†	32	—	—	—	**32**	35
Roger D Jeynes‡	—	—	—	—	**—**	—
Ian C Stewart	24	—	—	—	**24**	26
Matthew P Taylor§	7	—	—	—	**7**	36
James A Livingston^	27	—	—	—	**27**	—
	577	162	14	13	**766**	464

* Gordon Doran was appointed as a director on 28 July 2009.
† Christopher Honeyborne retired on 28 April 2010.
‡ Roger Jeynes was appointed on 28 April 2010.
§ Matthew Taylor retired on 12 June 2009.
^ James Livingston was appointed on 12 June 2009.

Directors' remuneration paid in pound sterling for the year to 31 March 2010 is:

	Salary £000	Bonus £000	Benefits £000	Pension £000	**2010 Total £000**	2009 Total £000
Dr Stuart A Green	123	37	2	4	**166**	122
Helen P Gilder	89	30	2	4	**125**	90
Dr Christopher HB Honeyborne	20	—	—	—	**20**	20
Roger D Jeynes	—	—	—	—	**—**	—
Ian C Stewart	15	—	—	—	**15**	15
Matthew P Taylor	4	—	—	—	**4**	21
James A Livingston	17	—	—	—	**17**	—
	268	67	4	8	**347**	268

Gordon Doran is remunerated in US dollars.

The balance owing to Brockhill Limited at 31 March 2010 was $nil (2009: $nil). The balance owing to Foresight Group at 31 March 2010 was $16,000 (2009: $11,000).

Two directors (2009: 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:

	2010 $000	2009 $000
Emoluments	**257**	201
Money purchase pension contributions	**6**	10
	263	211

The highest paid director did not exercise any share options or received or was due any shares in the year. As at 31 March 2010 $59,000 (2009: $nil) was due in respect of services performed as a director.

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 2009	Granted during the year	Surrendered during the year	**31 March 2010**	Exercise price*	Date from which exercisable	Expiry date
Dr Christopher HB Honeyborne	30,000	—	—	**30,000**	$0.21	Sept 09	Oct 18
Dr Stuart A Green	175,000	—	—	**175,000**	$0.21	Sept 09	Oct 18
Helen P Gilder	450,000	—	—	**450,000**	$0.21	Sept 09	Oct 18
Helen P Gilder	100,000	—	—	**100,000**	$0.21	Oct 09	Oct 18
Gordon Doran	450,000	—	—	**450,000**	$0.21	Sept 09	Oct 18
Gordon Doran	100,000	—	—	**100,000**	$0.21	Oct 09	Oct 18
Ian C Stewart	30,000	—	—	**30,000**	$0.21	Sept 09	Oct 18
	1,335,000	—	—	**1,335,000**			

* The underlying exercise price of the share options is £0.15.

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

Directors' Remuneration Report

The charge to the statement of consolidated income in respect of directors' share options amounted to $54,000 (2009: $30,000).

The market price of the ordinary shares at 31 March 2010 was 38 cents (25p) and the range during the year was 55 cents (33.5p) (high) to 12 cents (8.0p) (low).

Service contracts

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

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

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

Name of director	Date of appointment	Notice period
Executive directors		
Dr Stuart A Green	28 January 2000	12 months
Helen P Gilder	29 September 2006	6 months
Gordon Doran	28 July 2009	12 months
Non-Executive directors		
Dr Christopher HB Honeyborne	8 March 2000	*
Roger D Jeynes	28 April 2010	—
Ian C Stewart	14 May 2001	—
James A Livingston	12 June 2009	—

* Dr CHB Honeyborne retired on 28 April 2010.

Directors' interests

The directors who held office at 31 March 2010 had the following interests, including any interests of a "connected person", in the 15p ordinary shares of ZOO Digital Group plc:

Name of director		**2010 Beneficial**	2009 Beneficial
Dr Christopher HB Honeyborne	Retired 28 April 2010	**1,333**	1,333
Roger D Jeynes	Appointed 28 April 2010	**—**	—
Dr Stuart A Green		**4,179,835**	4,179,835
Helen P Gilder		**46,843**	226
Gordon Doran	Appointed 28 July 2009	**—**	—
Ian C Stewart		**1,675,365**	1,675,365
James A Livingston	Appointed 12 June 2009	**—**	—
Matthew P Taylor	Retired 12 June 2009	**—**	—

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

The directors also had the following interest in 6 per cent unsecured convertible loan stock at 31 March 2010:

Name of director		**2010 $000**	2009 $000
Dr Christopher HB Honeyborne	Retired 28 April 2010	**6**	6
Roger D Jeynes	Appointed 28 April 2010	**—**	—
Dr Stuart A Green		**519**	489
Helen P Gilder		**—**	—
Gordon Doran	Appointed 28 July 2009	**—**	—
Ian C Stewart		**—**	386
James A Livingston	Appointed 12 June 2009	**—**	—
Matthew P Taylor	Resigned 12 June 2009	**—**	—

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

	2010 £000	2009 £000
Dr Christopher HB Honeyborne	**4**	4
Dr Stuart A Green	**342**	342
Ian C Stewart	**—**	270

No changes took place in the interests of directors between 31 March 2010 and 25 June 2010.

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.

Independent Auditors' Report to the members of ZOO Digital Group plc

We have audited the financial statements of ZOO Digital Group plc for the year ended 31 March 2010 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Cash Flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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

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

Scope of the audit

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2010 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Linda Cooper (Senior statutory auditor)
for and on behalf of PKF (UK) LLP, Statutory auditors
Sheffield
UK
25 June 2010

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2010

	Note	2010 $000	2009 $000
Revenue	5	**15,056**	11,336
Cost of sales		**(3,769)**	(2,085)
Gross profit		**11,287**	9,251
Other operating income	6	**177**	136
Operating expenses	9	**(11,503)**	(8,423)
Operating (loss)/profit		**(39)**	964
Analysed as:			
Operating (loss)/profit before exceptional exchange gain on intercompany transactions and exceptional impairment		**821**	(745)
Exceptional exchange gain on intercompany transactions	9	**—**	2,293
Exceptional impairment	9	**(860)**	(584)
		(39)	964
Finance income	7	**1**	15
Exchange loss on borrowings	8	**(290)**	—
Finance cost	8	**(540)**	(599)
Total finance cost		**(830)**	(599)
(Loss)/profit before taxation		**(868)**	380
Tax on (loss)/profit	12	**(4)**	(36)
(Loss)/profit for the year attributable to equity holders of the parent		**(872)**	344
Other comprehensive income:			
Exchange difference on the change of presentation currency and on the translation of foreign operations		**—**	(2,231)
Other comprehensive income for the year, net of tax		**—**	(2,231)
Total comprehensive income		**(872)**	(1,887)
Comprehensive income attributable to equity holders of the parent		**(872)**	(1,887)
		cents	cents
(Loss)/profit per share	14		
basic		**(4.09)**	1.76
diluted		**(4.09)**	1.15

The notes on pages 30 to 63 are an integral part of these consolidated financial statements.

The company has elected to take the exemption under section 408(2) of the Companies Act 2006 to not present the parent company statement of comprehensive income.

The profit for the parent company for the year was $897,000 (2009: $441,000).

Consolidated Statement of Financial Position

as at 31 March 2010

	Note	2010 $000	2009 $000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**558**	763
Intangible assets	17	**6,903**	6,862
		7,461	7,625
Current assets			
Inventories	18	**365**	—
Trade and other receivables	19	**2,667**	2,076
Cash and cash equivalents	20	**1,221**	1,414
		4,253	3,490
Total assets		**11,714**	11,115
LIABILITIES			
Current liabilities			
Trade and other payables	23	**(4,763)**	(3,519)
Borrowings	22	**(169)**	(523)
		(4,932)	(4,042)
Non-current liabilities			
Borrowings	22	**(5,138)**	(4,726)
Total liabilities		**(10,070)**	(8,768)
Net assets		**1,644**	2,347
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	21	**4,573**	4,573
Share premium reserve		**32,899**	32,899
Other reserves		**12,293**	12,293
Share option reserve		**267**	110
Warrant reserve		**50**	38
Convertible loan note reserve		**380**	380
Foreign exchange translation reserve		**(992)**	(992)
Accumulated losses		**(47,822)**	(46,950)
		1,648	2,351
Interest in own shares		**(4)**	(4)
Attributable to equity holders		**1,644**	2,347

The notes on pages 30 to 63 are an integral part of these consolidated financial statements.

The financial statements on pages 23 to 63 were authorised for issue by the board of directors on 25 June 2010 and were signed on its behalf.

Stuart A Green
Chief Executive

Helen P Gilder
Group Finance Director

Company Statement of Financial Position

as at 31 March 2010

	Note	2010 $000	2009 $000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**232**	34
Intangible assets	17	**2,290**	2,282
Investment in subsidiary undertakings	26	**9,700**	9,700
		12,222	12,016
Current assets			
Trade and other receivables	19	**18,353**	16,950
Cash and cash equivalents	20	**8**	10
		18,361	16,960
Total assets		**30,583**	28,976
LIABILITIES			
Current liabilities			
Trade and other payables	23	**(1,070)**	(881)
Borrowings	22	**—**	(107)
		(1,070)	(988)
Non-current liabilities			
Borrowings	22	**(14,755)**	(14,296)
Total liabilities		**(15,825)**	(15,284)
Net assets		**14,758**	13,692
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	21	**4,573**	4,573
Share premium reserve		**32,899**	32,899
Other reserves		**10,569**	10,569
Share option reserve		**267**	110
Warrant reserve		**50**	38
Convertible loan note reserve		**380**	380
Foreign exchange translation reserve		**(13)**	(13)
Accumulative losses		**(33,963)**	(34,860)
		14,762	13,696
Interest in own shares		**(4)**	(4)
Attributable to equity holders		**14,758**	13,692

Company registration number: 3858881

The notes on pages 30 to 63 are an integral part of these consolidated financial statements.

The financial statements on pages 23 to 63 were authorised for issue by the board of directors on 25 June 2010 and were signed on its behalf.

Stuart A Green
Chief Executive

Helen P Gilder
Group Finance Director

Consolidated Statement of Changes in Equity

for the year ended 31 March 2010

	Ordinary shares $000	Share premium reserve $000	Foreign exchange translation reserve $000	Convertible loan note reserve $000	Share option reserve $000	Share warrant reserve $000	Other reserves $000	Accumulated losses $000	Interest in own shares $000
Balance at 1 April 2008	5,336	45,735	111	528	107		17,075	(65,643)	(4)
Issue of shares	896								
Issue costs		(31)							
Foreign exchange translation adjustment	(1,659)	(12,805)	(1,103)	(148)	(20)	(10)	(4,782)	18,297	
Share-based payments					120	48			
Forfeited Share options					(97)			52	
Profit for the year								344	
Balance at 31 March 2009	4,573	32,899	(992)	380	110	38	12,293	(46,950)	(4)
Share-based payments					157	12			
Profit for the year								(872)	
Balance at 31 March 2010	**4,573**	**32,899**	**(992)**	**380**	**267**	**50**	**12,293**	**(47,822)**	**(4)**

Company Statement of Changes in Equity

for the year ended 31 March 2010

	Ordinary shares $000	Share premium reserve $000	Foreign exchange translation reserve $000	Convertible loan note reserve $000	Share option reserve $000	Share warrant reserve $000	Other reserves $000	Accumu-lated losses $000	Interest in own shares $000
Balance at 1 April 2008	5,336	45,735	—	528	107		14,682	(49,095)	(4)
Issue of shares	896								
Issue costs		(31)							
Foreign exchange translation adjustment	(1,659)	(12,805)	(13)	(148)	(20)	(10)	(4,113)	13,742	
Share-based payments					120	48			
Forfeited Share options					(97)			52	
Profit for the year								441	
Balance at 31 March 2009	4,573	32,899	(13)	380	110	38	10,569	(34,860)	(4)
adjustment									
Share-based payments					157	12			
Profit for the year								897	
Balance at 31 March 2010	**4,573**	**32,899**	**(13)**	**380**	**267**	**50**	**10,569**	**(33,963)**	**(4)**

Consolidated Statement of Cash Flows

for the year ended 31 March 2010

	Note	2010 $000	2009 $000
Cash flows from operating activities			
Operating profit/(loss) for the year		**(39)**	964
Finance income	7	**1**	15
Depreciation	16	**419**	429
Amortisation and Impairment	17	**1,214**	821
Share-based payments	27	**169**	119
Disposal of intangible assets	17	**1**	—
Disposal of property, plant and equipment	16	**1**	5
Exchange gain on foreign operations		**—**	(2,384)
Changes in working capital:			
(Increases)/decreases in inventories	18	**(365)**	291
(Increases)/decreases in trade and other receivables	19	**(591)**	(52)
Increases/(decreases) in trade and other payables	23	**1,244**	1,099
Cash flow from operations		**2,054**	1,307
Tax (paid)/received		**(4)**	132
Net cash flow from operating activities		**2,050**	1,439
Investing activities			
Purchase of intangible assets	17	**(1,256)**	(1,044)
Purchase of property, plant and equipment	16	**(215)**	(148)
Net cash flow from investing activities		**(1,471)**	(1,192)
Cash flows from financing activities			
Repayment of borrowings	22	**(521)**	(541)
Proceeds from borrowings	22	**120**	116
Finance cost		**(371)**	(436)
Share and convertible loan note issue costs	21	**—**	(31)
Issue of Share capital	21	**—**	896
Net cash flow from financing		**(772)**	4
Net increase/(decrease) in cash and cash equivalents		**(193)**	251
Cash and cash equivalents at the beginning of the year		**1,414**	1,340
Exchange (loss)/gain on cash and cash equivalents		**—**	(177)
Cash and cash equivalents at the end of the year	20	**1,221**	1,414

The notes on pages 30 to 63 are an integral part of these consolidated financial statements.

Company Statement of Cash Flows

for the year ended 31 March 2010

	Note	2010 $000	2009 $000
Cash flows from operating activities			
Operating profit for the year		**1,346**	958
Finance income		**1**	12
Depreciation	16	**13**	27
Amortisation and Impairment	17	**—**	5
Share-based payments	27	**169**	119
Exchange (gain)/loss		**—**	(79)
Changes in working capital:			
(Increases)/decreases in trade and other receivables	19	**(1,579)**	(2,523)
Increases/(decreases) in trade and other payables	23	**191**	145
Cash flow from operations		**141**	(1,336)
Tax received/(paid)		**(2)**	—
Net cash flow from operating activities		**139**	(1,336)
Investing activities			
Purchase of intangible assets	17	**—**	(1)
Purchase of property, plant and equipment	16	**—**	—
Net cash flow from investing activities		**—**	(1)
Cash flows from financing activities			
Proceeds from borrowings	22	**—**	116
Repayment of borrowings	22	**(107)**	
Finance cost		**(34)**	(344)
Share and convertible loan note issue costs	21	**—**	(31)
Issue of Share capital	21	**—**	896
Net cash flow from financing		**(141)**	637
Net decrease in cash and cash equivalents		**(2)**	(700)
Cash and cash equivalents at the beginning of the year		**10**	663
Exchange (loss)/gain on cash and cash equivalents		**—**	47
Cash and cash equivalents at the end of the year	20	**8**	10

The notes on pages 30 to 63 are an integral part of these consolidated financial statements.

Notes to the Financial Statements
for the year ended 31 March 2010

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.

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

2. Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

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

The directors have prepared trading and cash flow forecasts for the group for the period to 31 March 2013. Recent months sales figures have shown increases in the group's sales of new and existing products 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. In line with industry practice in this sector the directors have had informal indications from major and other customers to substantiate a significant proportion of the forecast 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 bank funding facilities are due for renewal in October 2010 and the directors have no reason to believe that this will not be renewed.

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

2.1.1 Adoption of standards effective in 2009

The following standards have been applied by the group from 1 April 2009:

- IFRS8 Operating segments
- IAS1 (Revised) Presentation of financial statements

IFRS8 — replaced IAS14 and requires entities whose debt or equity instruments are traded on a public market to adopt the 'management approach' to reporting the financial performance and position of its operating segments. Information to be reported is what management (specifically the Chief operating decision maker ('CODM')) uses internally for evaluating performance and deciding how to allocate resources to operating segments. There is no longer a requirement to make disclosure based on primary and secondary reporting formats, nor is there a requirement to distinguish between business and geographical segments.

2. Summary of significant accounting policies continued

Despite these changes application of the new standard has not significantly impacted the way management reports segmental information. Management believes that under the new standard the reporting segments continue to be based on the two main operating divisions of: Software solutions and Media production, as this is the basis on which the group is organised and managed.

It is also management's opinion that the allocation of goodwill to cash-generating units based on reportable segments has not been significantly changed and therefore no further impairment charges against goodwill are necessary.

IAS1 — The revised standard has changed the way the group's primary financial statements have been presented. The revision required information to be aggregated on the basis of shared characteristics and introduced a 'Statement of Comprehensive Income' to enable readers to analyse changes in an entity's equity resulting from transactions with owners separately from 'non-owner' changes. The revisions included changes in the titles of the primary statements to reflect their function more clearly (for example, the balance sheet is renamed a 'Statement of Financial Position'). The new titles are not mandatory but have been adopted by the group. Comparative information has been represented so that it also is in conformity with the revised standard.

2.1.2 IFRS effective in 2009 but not relevant

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

- IFRS1 (Amendment) First time adoption of IFRS
- IFRS2 (Amendment) Share-based payments
- IFRS7 (Amendment) Financial instruments: Disclosures
- IAS1 and IAS32 (Amendment) Presentation of financial statement and Financial instruments: Presentation
- IAS23 (Amendment) Borrowing costs
- IAS27 (Amendment) Consolidated and separate financial statements
- IAS39 and IFRS7 (Amendment) Reclassification of financial instruments
- IAS39 and IFRIC9 (Amendment) Financial instruments: Recognition and measurement, and Reassessment of embedded derivatives
- IFRIC13 Customer loyalty programmes
- IFRIC16 Hedges of a net investment in a foreign operation

2.1.3 Standards and interpretations issued but not yet applied

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

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

- IAS27 (Amendment) Consolidated and separate financial statements
- IFRS3 (Amendment) Business Combinations

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

IAS27 (Amendment) — The amendment introduced guidance on accounting for changes in non-controlling interests (currently 'minority interests') where there is no effect on control. The amended IAS27 states that such transactions should be accounted for as equity transactions, and that any difference between the amount which the non-controlling interests will be adjusted by and the consideration paid or received should be recognised directly in equity.

Notes to the Financial Statements
for the year ended 31 March 2010

2. Summary of significant accounting policies continued

IFRS3 (Revised) — There have been some significant changes to IFRS3 that will impact on the way that business combinations will be accounted for by the group. These changes will be accounted for prospectively and only affect acquisitions made in the future financial years. The main changes brought about by the revision are:

- The inclusion of an accounting policy option to account for non-controlling interests (currently 'minority interests');
- Amendments to the calculation of goodwill;
- Accounting for acquisitions in stages;
- Requirement to immediately expense acquisition costs;
- Accounting for contingent liabilities; and
- Recognition and measurement of certain assets and liabilities.

2.2 Consolidation

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

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

2.3 Segment reporting

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

2.4 Foreign currency translation

2.4.1 Functional and presentation currency

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

2.4.2 Change in functional and presentation currency

Over the recent past an increasing proportion of the group's trading transactions have been denominated in US dollars. The directors now consider US dollars to be more representative of the group's operations, and as a consequence with effect from 1 April 2009 the group has determined that its functional currency has changed from pound sterling to US dollars, and has elected to change its presentation currency from pound sterling to US dollars.

The effect of the change in the functional currency has been to commence using the US dollar as the functional currency from 1 April 2009. This change does not in itself have any effect on the comparative figures, but since the convertible loan notes are designated in pound sterling, the results now include an exchange loss on the principle value of the loan notes deriving from currency movement during the year; the comparative figures do not include an equivalent figure, since the functional currency at that time was pound sterling.

The effect of changing the presentation currency has been to restate the comparative figures by translating the figures in the Consolidated Statement of Comprehensive Income ("CSoCI") at the prevailing exchange rate in the month of transaction, and the figures in the Consolidated Statement of Financial Position at the year end rate. However, the underlying comparative figures have not been reworked as if the functional currency had been the US dollar. The treatment adopted is that required by IFRS. Consequently, the figures in the Consolidated Statement of Comprehensive Income relating to "exchange gain on intercompany transactions", which arose from translation from US dollars into pound sterling, have no comparable figure in the current year.

The pound sterling/US dollar exchange rate at 31 March 2010 was 0.6589 (2009: 0.6995).

2. Summary of significant accounting policies continued

2.4.3 Transactions and balances

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

2.4.4 Group companies

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

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

2.5 Intangible assets

2.5.1 Goodwill

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

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

2.5.2 Patent and trademark costs

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

2.5.3 Research and development costs

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

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

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

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

Notes to the Financial Statements

for the year ended 31 March 2010

2. Summary of significant accounting policies continued

2.5.4 Computer software

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

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

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

2.6 Investments in subsidiary undertakings

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

2.7 Property, plant and equipment

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

Leasehold improvements	five years or over the term of the lease, if shorter
Computer hardware	between two and three years
Office equipment, fixtures and fittings	between two and five years
Production equipment	between two and five years

2.8 Impairment of assets

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

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

2.9 Financial instruments

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

Financial instruments are recognised on the Statement of Financial Position 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 Statement of Comprehensive Income over the period of the borrowings using the effective interest rate method.

The convertible loan notes are accounted for in accordance with IAS32 '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 Statement of Comprehensive Income.

2. Summary of significant accounting policies continued

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 Statement of Comprehensive Income in respect of pension costs and other post-retirement benefits is the contributions payable in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the Statement of Financial Position.

2.12 Revenue

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

2.12.1 Sales of services

The group sells design, development and other services relating to the media production 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 the Statement of Comprehensive Income in the period in which the circumstances that give rise to the revision become known to management.

2.12.2 Software license fees

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

2.12.3 Royalty income

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

Notes to the Financial Statements

for the year ended 31 March 2010

2. Summary of significant accounting policies continued

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 Statement of Comprehensive Income on a straight-line basis over the term of the lease.

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

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

2.15 Deferred taxation

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

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

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

2.16 Government grants

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

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

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

2. Summary of significant accounting policies continued

2.17 Exceptional items

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

3. Accounting estimates and judgements

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

3.1 Critical accounting estimates and assumptions

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

Goodwill

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

Financial Instruments

Discounted cash flow analysis is used to determine the fair value of financial instruments that are not traded on the open market. The non-traded financial instrument is the convertible loan note. Calculations have been based on a subjective pre-tax discount rate of 8 per cent. Had the discount rate used been 1% greater or lower than estimated, the fair value would have been decreased by $155,000, or increased by $165,000 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 2010

4. Segmental reporting

Business segments

At 31 March 2010, the group is organised on a worldwide basis into two main business segments:

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

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

The Segment results are as follows:

	Software Solutions		Media Production		Total	
	2010	2009	**2010**	2009	**2010**	2009
	$000	$000	**$000**	$000	**$000**	$000
Total revenue	**7,329**	6,329	**11,458**	7,585	**18,787**	13,914
Inter-segment revenue	**(205)**	(149)	**(3,526)**	(2,429)	**(3,731)**	(2,578)
Revenue	**7,124**	6,180	**7,932**	5,156	**15,056**	11,336
Segment result	**1,811**	3,159	**(35)**	(823)	**1,776**	2,336
Unallocated corporate expense					**(1,815)**	(1,372)
Operating (loss)/profit					**(39)**	964
Finance income					**1**	15
Finance cost					**(830)**	(599)
(Loss)/profit before taxation					**(868)**	380
Tax on (loss)/profit					**(4)**	(36)
(Loss)/profit for the year					**(872)**	344

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

	Software Solutions		Media Production		Group Operations	
	2010	2009	**2010**	2009	**2010**	2009
	$000	$000	**$000**	$000	**$000**	$000
Depreciation	**55**	63	**351**	339	**13**	27
Amortisation	**240**	143	**114**	89	**—**	5
Impairment losses	**91**	51	**769**	533	**—**	—

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.

4. Segmental reporting continued

	Software Solutions		Media Production		Total	
	2010	2009	**2010**	2009	**2010**	2009
	$000	$000	**$000**	$000	**$000**	$000
Assets	**7,259**	6,214	**1,827**	2,717	**9,086**	8,931
Unallocated corporate assets					**2,628**	2,184
Consolidated total assets					**11,714**	11,115
Liabilities	**1,259**	1,749	**2,726**	1,704	**3,985**	3,453
Unallocated corporate liabilities					**6,085**	5,315
Consolidated total liabilities					**10,070**	8,768
Capital expenditure	**1,158**	1,203	**313**	336	**1,471**	1,539

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	
	2010	2009	**2010**	2009	**2010**	2009
	$000	$000	**$000**	$000	**$000**	$000
United Kingdom	**140**	330	**8,144**	7,195	**1,152**	1,182
US	**14,916**	11,006	**3,570**	3,920	**319**	357
	15,056	11,336	**11,714**	11,115	**1,471**	1,539

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for the year ended 31 March 2010

5. Revenue

The group's revenue comprises:

	2010	2009
	$000	$000
Software Solutions	**7,124**	6,180
Media Production	**7,932**	5,156
	15,056	11,336
Continuing operations	**15,056**	11,336
Discontinued operations	**—**	—
	15,056	11,336
Revenue from services	**9,439**	10,313
Royalty income and software license fees	**5,617**	1,023
	15,056	11,336

Major customers

The group currently has one major customer representing 92 per cent (2009: 71 per cent) of the group's revenues. These revenues are generated from both of the group's operating segments. The revenues are as follows:

	2010	2009
	$000	$000
Major customer	**13,786**	8,039
Other customers	**1,270**	3,297
	15,056	11,336

6. Other operating income

	2010	2009
	$000	$000
Government grants	**177**	136

7. Investment income

	2010	2009
	$000	$000
Interest on short-term deposits	**1**	15

8. Finance costs

	2010	2009
	$000	$000
Interest on bank overdraft	**(25)**	—
Interest on borrowings	**(515)**	(599)
Exchange losses on borrowings	**(290)**	—
	(830)	(599)

9. Operating (loss)/profit

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

	2010 $000	2009 $000
Exceptional exchange gains or losses on intercompany transactions (note 15)	—	(2,293)
Other exchange gains or losses	(2)	(196)
Staff costs	7,164	6,682
Depreciation	419	429
Amortisation of other intangible assets	354	237
Exceptional impairment losses on other intangible assets (note 15)	860	584
Research and non-capitalised development costs	170	394
Operating lease expense	785	649
Auditors' remuneration	77	79
Exceptional gain on disposal of operations (note 15)	—	(52)
Other expenses	1,676	1,910
Other operating expenses	**11,503**	8,423

10. Auditors' remuneration

	2010 $000	2009 $000
Fees payable to group's auditors for the audit of the group's annual financial statements	34	37
The audit of the group's subsidiaries, pursuant to legislation	35	33
Tax services	8	7
All other services	—	2
	77	79

11. Employees including directors

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

	2010 No.	2009 No.
Product design	82	74
Sales and marketing	7	9
Administration	10	13
	99	96

Notes to the Financial Statements

for the year ended 31 March 2010

11. Employees including directors continued

Their aggregate remuneration comprised:

	2010 $000	2009 $000
Wages and salaries	**6,254**	5,448
Social security costs	**694**	1,110
Other pension costs	**59**	80
Share-based payments	**157**	44
	7,164	6,682

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

Compensation of key management personnel (including directors)

	2010 $000	2009 $000
Short-term employee benefits	**1,571**	1,329
Post-employment benefits	**13**	17
Share-based payments	**127**	96
	1,711	1,442

Directors' remuneration for the year to 31 March 2010 is:

	Salary $000	Bonus $000	Benefits $000	Pension $000	2010 Total $000	2009 Total $000
Dr Stuart A Green	**196**	**59**	**2**	**6**	**263**	211
Helen P Gilder	**142**	**48**	**2**	**7**	**199**	156
Gordon Doran*	**149**	**55**	**10**	**—**	**214**	—
Dr Christopher HB Honeyborne†	**32**	**—**	**—**	**—**	**32**	35
Roger D Jeynes‡	**—**	**—**	**—**	**—**	**—**	—
Ian C Stewart	**24**	**—**	**—**	**—**	**24**	26
Matthew P Taylor§	**7**	**—**	**—**	**—**	**7**	36
James A Livingston^	**27**	**—**	**—**	**—**	**27**	—
	577	**162**	**14**	**13**	**766**	464

* Gordon Doran was appointed as a director on 28 July 2009.
† Christopher Honeyborne retired on 28 April 2010.
‡ Roger Jeynes was appointed on 28 April 2010.
§ Matthew Taylor retired on 12 June 2009.
^ James Livingston was appointed on 12 June 2009.

Two directors (2009: 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:

	2010 $000	2009 $000
Emoluments	**257**	201
Money purchase pension contributions	**6**	10
	263	211

12. Income tax expense

12.1 Current tax:

	2010 **$000**	2009 $000
UK corporation tax		
— Current tax on income for the year	**—**	—
— Adjustments in respect of prior years	**(3)**	(35)
Foreign tax	**(1)**	(1)
	(4)	(36)

Corporation tax is calculated at 28 per cent (2009: 28 per cent) of the estimated assessable profit for the year.

12.2 Tax charge for the year

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

	2010 **$000**	2009 $000
(Loss)/profit before tax	**(868)**	380
Tax calculated at standard rate of corporation tax of 28 per cent (2009: 28 per cent)		**(243)**
(106)		
Depreciation in excess of capital allowances	**22**	393
Capital allowances in excess of depreciation	**(68)**	—
Disallowable items	**(48)**	(5)
(Profits)/losses carried forward	**333**	(282)
Foreign tax charged at lower rates the UK standard rate	**—**	—
Release of withholding tax	**—**	(36)
Research and development tax credit	**—**	—
Tax charge	**(4)**	(36)

12.3 Tax losses carried forward

The group has tax losses carried forward of approximately $28,000,000 (2009: $28,000,000).

13. Dividends

There were no dividends paid or proposed.

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for the year ended 31 March 2010

14. (Loss)/profit per share

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

	Basic and diluted	
	2010	2009
	$000	$000
(Loss)/profit for the financial year	**(872)**	344

Weighted average number of shares for basic & diluted (loss)/profit per share	**2010 Number of shares**	2009 Number of shares
Basic	**21,326,421**	19,558,970
Effect of dilutive potential ordinary shares:		
Convertible loan note	**7,263,590**	7,263,590
Share options	**3,134,565**	2,619,121
Share warrants	**525,000**	513,493
Diluted	**32,249,576**	29,955,174

15. Exceptional items

Changes in market expectations led to a management decision not to continue certain development projects acquired through the purchase of Scope Seven LLC. Capitalised costs relating to these projects were considered to be impaired. The amount of this impairment was $797,000 (2009: $533,000) and this is included within the 'Exceptional impairment losses on other intangible assets', the balance being in respect of cancelled patents (note 17).

The exchange gain on intercompany transactions in the year ended 31 March 2009 of $2,293,000 arose from translation from US dollars into pound sterling. There is no comparable figure in the current year as the group changed its functional and presentation currency on 1 April 2009 from pound sterling to US dollar.

During the year ended 31 March 2009 the group recovered $52,000 of the $250,000 provided, in March 2008, for the write off of the consideration outstanding from the sale of its UK interactive DVD production business in October 2006.

These items are considered exceptional by virtue of their size and omission of their disclosure would not give a fair presentation of the group's financial position and performance.

16. Property, plant and equipment

Group	Production equipment $000	Leasehold improvements $000	Computer hardware $000	Office equipment, fixtures & fittings $000	Total $000
Cost					
Opening cost at 1 April 2008	132	444	1,636	700	2,912
Additions	144	—	142	—	286
Disposals	(6)	—	(5)	—	(11)
Exchange differences	(6)	(123)	(448)	(196)	(773)
Opening cost at 1 April 2009	264	321	1,325	504	2,414
Additions	19	—	191	5	215
Disposals	—	—	(209)	(51)	(260)
Closing cost at 31 March 2010	**283**	**321**	**1,307**	**458**	**2,369**
Accumulated depreciation/impairment					
Opening balance at 1 April 2008	6	59	1,249	458	1,772
Depreciation	87	91	186	65	429
Disposals	(1)	—	(5)	—	(6)
Exchange differences	(1)	(32)	(371)	(140)	(544)
Opening balance at 1 April 2009	91	118	1,059	383	1,651
Depreciation	98	75	200	46	419
Disposals	—	—	(208)	(51)	(259)
Closing balance at 31 March 2010	**189**	**193**	**1,051**	**378**	**1,811**
Opening carrying value at 1 April 2008	126	385	387	242	1,140
Opening carrying value at 1 April 2009	173	203	266	121	763
Closing carrying value at 31 March 2010	**94**	**128**	**256**	**80**	**558**

Depreciation expense of $419,000 (2009: $429,000) 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 2010	Production equipment $000	Computer hardware $000	Office equipment, fixtures & fittings $000	Total $000
Cost — capitalised finance leases	**249**	**332**	**100**	**681**
Accumulated depreciation	**(78)**	**(158)**	**(60)**	**(296)**
Net book value	**171**	**174**	**40**	**385**

Notes to the Financial Statements

for the year ended 31 March 2010

16. Property, plant and equipment continued

At 31 March 2009	Production equipment $000	Computer hardware $000	Office equipment, fixtures & fittings $000	Total $000
Cost — capitalised finance leases	231	230	100	561
Accumulated depreciation	(77)	(103)	(37)	(217)
Net book value	154	127	63	344

Company	**Leasehold improve-ments $000**	**Computer hardware $000**	**Office equipment, fixtures & fittings $000**	**Total $000**
Cost				
Opening cost at 1 April 2008	—	550	441	991
Exchange differences	—	(154)	(123)	(277)
Opening cost at 1 April 2009	—	396	318	714
Additions	128	29	54	211
Closing cost at 31 March 2010	**128**	**425**	**372**	**925**
Accumulated depreciation/impairment				
Opening balance at 1 April 2008	—	544	370	914
Depreciation	—	6	21	27
Exchange differences	—	(154)	(107)	(261)
Opening balance at 1 April 2009	—	396	284	680
Depreciation	—	—	13	13
Closing balance at 31 March 2010	**—**	**396**	**297**	**693**
Opening carrying value at 1 April 2008	—	6	71	77
Opening carrying value at 1 April 2009	—	—	34	34
Closing carrying value at 31 March 2010	**128**	**29**	**75**	**232**

16. Property, plant and equipment continued

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

At 31 March 2010	Computer hardware $000	Office equipment, fixtures & fittings $000	Total $000
Cost — capitalised finance leases	**149**	**100**	**249**
Accumulated depreciation	**(128)**	**(60)**	**(188)**
Net book value	**21**	**40**	**61**

There were no assets held under finance leases at 31 March 2009.

17. Intangible assets

Group	Goodwill $000	Development costs $000	Patents and trademarks $000	Computer software $000	Total $000
Cost					
Opening cost at 1 April 2008	22,409	2,885	666	401	26,361
Additions	—	1,015	138	96	1,249
Exchange differences	(5,799)	(550)	(211)	(109)	(6,669)
Opening cost at 1 April 2009	16,610	3,350	593	388	20,941
Additions	—	1,035	102	119	1,256
Disposals	—	—	—	(34)	(34)
Closing cost at 31 March 2010	**16,610**	**4,385**	**695**	**473**	**22,163**
Accumulated amortisation/impairment					
Opening balance at 1 April 2008	17,532	416	147	254	18,349
Amortisation	—	157	15	65	237
Impairment loss (note 9)	—	533	51	—	584
Exchange differences	(4,912)	(57)	(41)	(81)	(5,091)
Opening balance at 1 April 2009	12,620	1,049	172	238	14,079
Amortisation	—	222	20	112	354
Disposals	—	—	—	(33)	(33)
Impairment loss (note 9)	—	797	63	—	860
Closing balance at 31 March 2010	**12,620**	**2,068**	**255**	**317**	**15,260**
Opening carrying value at 1 April 2008	4,877	2,469	519	147	8,012
Opening carrying value at 1 April 2009	3,990	2,301	421	150	6,862
Closing carrying value at 31 March 2010	**3,990**	**2,317**	**440**	**156**	**6,903**

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 12 years.

Notes to the Financial Statements

for the year ended 31 March 2010

17. Intangible assets continued

Following the decision by management not to renew or pursue some of the group's patent applications, $63,000 (2009: $51,000) 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 acquired through the purchase of Scope Seven LLC. Capitalised costs relating to these projects were considered to be impaired. The amount of impairment was $797,000 (2009: $533,000).

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

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

	2010 $000	2009 $000
Cost — capitalised finance leases	**133**	133
Accumulated amortisation	**(50)**	(32)
Net book value	**83**	101

Company	**Goodwill $000**	**Computer software $000**	**Total $000**
Cost			
Opening cost at 1 April 2008	15,225	77	15,302
Additions	—	1	1
Exchange differences	(4,265)	(21)	(4,286)
Opening cost at 1 April 2009	10,960	57	11,017
Additions	—	8	8
Closing cost at 31 March 2010	**10,960**	**65**	**11,025**
Accumulated amortisation/impairment			
Opening balance at 1 April 2008	12,057	72	12,129
Amortisation	—	5	5
Exchange differences	(3,378)	(21)	(3,399)
Opening balance at 1 April 2009	8,679	56	8,735
Closing balance at 31 March 2010	**8,679**	**56**	**8,735**
Opening carrying value at 1 April 2008	3,168	5	3,173
Opening carrying value at 1 April 2009	2,281	1	2,282
Closing carrying value at 31 March 2010	**2,281**	**9**	**2,290**

17. Intangible assets continued

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

	2010 $000	2009 $000
Cost — capitalised finance leases	**54**	—
Accumulated amortisation	**(47)**	—
Net book value	**7**	—

There were no assets held under finance leases at 31 March 2009.

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 cash flow 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		Media Production		Group	
	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000
	2,281	2,281	**1,709**	1,709	**3,990**	3,990

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 per cent in any one of the assumptions will not cause any impairment of the group's CGUs.

Notes to the Financial Statements

for the year ended 31 March 2010

18. Inventories

	Group	
	2010	2009
	$000	$000
Products in the course of development	**365**	—

The group held no inventory at 31 March 2009.

During the year ending 31 March 2009 $230,000 was recognised as an expense within 'cost of sales' and $95,000 was capitalised as an intangible asset under development costs from inventories held at the beginning of the year.

19. Trade and other receivables

	Group		Company	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
Trade receivables	**2,247**	1,729	**1**	1
Less: provision for impairment of trade receivables	**(65)**	(117)	**(1)**	(1)
Trade receivables — net	**2,182**	1,612	**—**	—
Amounts owed by subsidiary undertakings	**—**	—	**18,193**	16,807
VAT	**22**	26	**—**	—
Other debtors	**234**	226	**3**	—
Prepayments and accrued income	**229**	212	**157**	143
	2,667	2,076	**18,353**	16,950

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

As of 31 March 2010, trade receivables of $156,000 (2009: $505,000) were overdue. The ageing analysis of these trade receivables is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
Less than three months	**129**	489	**—**	—
Three to six months	**25**	—	**—**	—
Seven to twelve months	**1**	9	**—**	—
Over twelve months	**1**	7	**1**	1
	156	505	**1**	1

19. Trade and other receivables continued

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

	Group		Company	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
Pound sterling	**200**	292	**160**	15,911
US dollar	**2,465**	1,764	**18,193**	1,039
Euros	**2**	20	**—**	—
	2,667	2,076	**18,353**	16,950

Provision for impairment of trade receivables:

	Group	
	2010	2009
	$000	$000
At 1 April	**117**	140
Provision for receivables impairment	**5**	121
Receivables written off in the year as uncollectible	**(47)**	(128)
Unused amounts reversed	**(10)**	—
Exchange differences	**—**	(16)
At 31 March	**65**	117

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

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

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

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

20. Notes to the cash flow statement

20.1 Significant non-cash transactions

During the year the group acquired property, plant and equipment and computer software with a cost of $334,000 (2009: $382,000) of which $120,000 (2009: $274,000) was acquired by the means of finance leases.

20.2 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 statement of financial position amounts.

	Group		Company	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
Cash on hand and balances with banks	**1,221**	1,414	**8**	10

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

Notes to the Financial Statements

for the year ended 31 March 2010

21. Share capital and reserves

Share capital

Group and Company	2010 $000	2009 $000
Authorised		
26,666,667 ordinary shares of 15p each	**5,719**	5,719
Allotted, called-up and fully paid		
21,326,421 ordinary shares of 15p each	**4,573**	4,573
Reconciliation of the number of shares outstanding:		
Opening balance	**21,326,421**	17,913,089
Shares issued	**—**	3,413,332
Closing balance	**21,326,421**	21,326,421

On 6 October 2008 3,413,332 15p ordinary shares were issued at a price of 15p for total consideration of $732,000 (£512,000).

On 9 April 2009 the group purchased 473,500 of its own shares through ZOO Employee Share Trust Limited at an average price of $0.15 (10.3p) per share. The total cost of the purchase was $71,823 (£48,939).

Transactions after the reporting period are shown in note 25.

Reserves

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

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

22. Borrowings

	Group		Company	
	2010	2009	**2010**	2009
	$000	$000	**$000**	$000
Non-current				
Amounts owed to subsidiary undertakings	**—**	—	**9,701**	9,701
6% Unsecured convertible loan note stock	**5,054**	4,595	**5,054**	4,595
Finance lease liabilities	**84**	131	**—**	—
	5,138	4,726	**14,755**	14,296
Current				
Promissory note — Scenewise Inc	**—**	246	**—**	—
South Yorkshire Investment fund loan	**—**	107	**—**	107
Finance lease liabilities	**169**	170	**—**	—
	169	523	**—**	107
Total borrowings	**5,307**	5,249	**14,755**	14,403

On 27 September 2006 the Group issued $5,062,000 6% Unsecured convertible loan note stock which is redeemable on 31 October 2011. The underlying value of the loan stock is £3,541,000. 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 $0.6969 (£0.4875) 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 $12.87 (£9.00) on or before the third anniversary or $16.08 (£11.25) after the third anniversary.

The convertible loan stock has been accounted for in accordance with IAS32 (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 note is considered to be the carrying value.

The final instalment of Scenewise Inc promissory note was repaid in December 2009. The loan carried a fixed interest rate of 10 per cent. The promissory note arose on the acquisition of Scope Seven LLC. The South Yorkshire Investment fund loan was fully repaid on 15 May 2009. The loan carried a fixed interest rate of 12 per cent. The fair values of the promissory note and the short-term loan are considered to be their book values.

Notes to the Financial Statements

for the year ended 31 March 2010

22. Borrowings continued

Finance lease liabilities

Finance lease liabilities are payable as follows:

At 31 March 2010	Future minimum lease payments $000	Interest $000	Present value of minimum lease payments $000
Less than one year	**169**	**—**	**169**
Between one and five years	**84**	**—**	**84**
More than five years	**—**	**—**	**—**
	253	**—**	**253**

At 31 March 2009	Future minimum lease payments $000	Interest $000	Present value of minimum lease payments $000
Less than one year	170	—	170
Between one and five years	131	—	131
More than five years	—	—	—
	301	—	301

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

23. Trade and other payables

	Group		Company	
	2010 $000	2009 $000	**2010 $000**	2009 $000
Trade creditors	**1,894**	761	**207**	241
Amounts owed to subsidiary undertakings	**—**	—	**13**	—
Accrued expenses	**2,869**	2,758	**850**	640
	4,763	3,519	**1,070**	881

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

24. Commitments

Capital commitments

The group had no capital commitments at the 31 March 2010.

Operating lease commitments

The group has a number of operating leases, as a lessee, for equipment and premises under non-cancellable agreements. The lease terms are between three and six 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 Statement of Comprehensive Income during the year is disclosed in note 9. The lease expenditure on premises is charged to the Statement of Comprehensive Income on an average annual charge over the life of the lease.

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

	2010 $000	2009 $000
Within one year	**552**	486
From one to five years	**380**	1,015
After five years	**—**	—
	932	1,501

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

25. Events after the reporting period

On 15 April 2010 160,000 shares were issued following the exercise of employee share options.

On 15 April 2010 the group purchased 160,000 of its own shares through ZOO Employee Share Trust Limited at an average price of $0.51 (33p) per share. The total cost of the purchase was $81,660 (£52,800).

Since the year end the group has entered into four foreign exchange contracts to sell US dollars and purchase pound sterling on specific dates in the six months following the year end.

On 25 June 2010 the company entered into an agreement, which is subject in part to the approval of the company's shareholders, with Multi Packaging Solutions, Inc. Multi Packaging Solutions, Inc will make a strategic investment of $1.2m (£0.8m) in the company. This comprises the allotment and issue of 2,148,642 new ordinary shares of $0.23 (15p) each in the company, at a subscription price of $0.60 (40p) per share. It also comprises, subject to the approval of the company's shareholders, a proposed issuance of warrants to subscribe for up to a maximum aggregate number of 2,148,642 new ordinary shares of 15 pence each in the company at a subscription price of $0.75 (50p) per share.

Notes to the Financial Statements

for the year ended 31 March 2010

26. Related parties

Subsidiaries

The parent company has investments in the following subsidiary undertakings:

Subsidiary undertakings	Country of incorporation	Principle activity	Holding	%
ZOO Digital 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
ZOOtech Limited	UK	Dormant	95,714 ordinary shares	100
ZOO Digital 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	
	2010	2009
	$000	$000
Cost	**11,797**	11,797
Provision for impairment	**2,097**	2,097
Net book value	**9,700**	9,700

On 31 March 2010 the group ceased the activities of Scope Seven Limited and transferred the trade and assets into ZOO Digital Group plc.

Key Management personnel

The details of key management remuneration is disclosed in note 11, Employees including directors.

26. Related parties continued

Related party transactions

	Company 2010 $000	Company 2009 $000
Sales of services to subsidiaries:		
Administration services	**3,441**	2,369

Amounts owed by subsidiary undertakings

	Company 2010 $000	Company 2009 $000
ZOO Digital Limited	**14,097**	14,984
Scope Seven Limited	**—**	796
Scope Seven LLC	**3,816**	492
ZOO Digital Inc	**280**	535
	18,193	16,807

Amounts owed to subsidiary undertakings

	Company 2010 $000	Company 2009 $000
ZOO Employee Share Trust Limited	**13**	—

Notes to the Financial Statements

for the year ended 31 March 2010

27. 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:

	2010 Options No.	**2010 Weighted average exercise price $**	2009 Options No.	2009 Weighted average exercise price $
ZOO Digital Group plc EMI scheme (2007)*				
Outstanding at the beginning of the year	**—**	**—**	422,979	0.39
Granted during the year	**—**	**—**	—	—
Surrendered during the year	**—**	**—**	(422,979)	0.39
Outstanding at the end of the year	**—**	**—**	—	—
Exercisable at the end of the year	**—**	**—**	—	—
ZOO Digital Group plc Unapproved (2007)*				
Outstanding at the beginning of the year	**—**	**—**	1,842,437	0.39
Granted during the year	**—**	**—**	—	—
Surrendered during the year	**—**	**—**	(1,842,437)	0.39
Outstanding at the end of the year	**—**	**—**	—	—
Exercisable at the end of the year	**—**	**—**	—	—
ZOO Digital Group plc EMI scheme (2008)†				
Outstanding at the beginning of the year	**995,647**	**0.21**	—	—
Granted during the year	**—**	**—**	995,647	0.21
Outstanding at the end of the year	**995,647**	**0.21**	995,647	0.21
Exercisable at the end of the year	**398,259**	**0.21**	—	—
ZOO Digital Group plc Unapproved (2008)†				
Outstanding at the beginning of the year	**2,138,918**	**0.21**	—	—
Granted during the year	**—**	**—**	2,138,918	0.21
Outstanding at the end of the year	**2,138,918**	**0.21**	2,138,918	0.21
Exercisable at the end of the year	**855,567**	**0.21**	—	—

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

* The underlying weighted average exercise price for 2007 shares under option at 31 March 2010 was 26.5p (2009: 26.5p).
† The underlying weighted average exercise price for 2008 shares under option at 31 March 2010 was 15p (2009: 15p).

27. Share-based payments continued

Out of the 3,134,565 outstanding options (2009: 3,134,565 options), 1,253,826 were exercisable (2009: nil). No options were exercised during the years ended 31 March 2010 or 31 March 2009. On 15 April 2010 160,000 options were exercised.

During the year ended 31 March 2009 2,265,416 were surrendered as they were deemed to be 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 $0.21 (15p).

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:

	2010 Options No.	**2010** Weighted average exercise price $	2009 Options No.	2009 Weighted average exercise price $
Share warrants				
Outstanding at the beginning of the year	**525,000**	**0.21**	—	—
Granted during the year	**—**	**—**	525,000	0.21
Outstanding at the end of the year	**525,000**	**0.21**	525,000	0.21
Exercisable at the end of the year	**250,000**	**0.21**	125,000	0.21

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 (2009: 525,000), 250,000 were exercisable (2009: 125,000). No warrants were exercised since grant.

All share warrants outstanding at the end of the year have an expiry date of 15 August 2013 and an exercise price of $0.21 (15p).

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

Notes to the Financial Statements

for the year ended 31 March 2010

27. Share-based payments continued

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.

	2010 $000	2009 $000
Total expense/(credit) recognised from share option transactions	**157**	71
Total expense/(credit) recognised from share warrant transactions	**12**	48
Share-based payment liability	**317**	148

28. Financial instruments

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

It is, and has been throughout the year under review, the group's policy that no trading in financial instruments shall be undertaken, however following the year end the group entered into four forward exchange contracts.

Categories of financial instruments

	Group		Company	
	2010 $000	2009 $000	**2010 $000**	2009 $000
Current financial assets				
Trade receivables (note 19)	**2,182**	1,612	**—**	—
Amounts owed by subsidiary undertakings (note 19)	**—**	—	**18,193**	16,807
Cash at bank and in hand (note 20)	**1,221**	1,414	**8**	10
	3,403	3,026	**18,201**	16,817

	Group		Company	
	2010 $000	2009 $000	**2010 $000**	2009 $000
Current financial liabilities				
Finance lease liabilities (note 22)	**169**	170	**—**	—
Promissory note — Scenewise Inc (note 22)	**—**	246	**—**	—
South Yorkshire Investment fund loan (note 22)	**—**	107	**—**	107
Trade and other payables (note 23)	**4,763**	3,519	**1,070**	881
Total current financial liabilities	**4,932**	4,042	**1,070**	988
Non-current financial liabilities				
Finance lease liabilities (note 22)	**84**	131	**—**	—
Amounts owed to subsidiary undertakings (note 22)	**—**	—	**9,701**	9,701
6 per cent Unsecured convertible loan note stock (note 22)	**5,054**	4,595	**5,054**	4,595
Total non-current financial liabilities	**5,138**	4,726	**14,755**	14,296
Total financial liabilities	**10,070**	8,768	**15,825**	15,284

28. Financial instruments continued

Market Risk

Foreign currency risk

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

Over the recent past an increasing proportion of the group's trading transactions have been in US dollars. The majority of group's revenue and costs are now denominated in US dollars. The directors now consider US dollars to be more representative of the group's operations, and as a consequence with effect from 1 April 2009 the group has determined that its functional currency has changed from pound sterling to US dollars, and has elected to change its presentation currency from pound sterling to US dollars.

The group includes subsidiaries operating in both the UK and USA. The majority of the group's transactions are denominated in US dollars, however the costs arising from the UK subsidiaries are denominated in pound sterling therefore exposing it to a currency risk of fluctuations in the pound sterling/US dollar exchange rate. During the year ended 31 March 2010 there was less volatility in the pound sterling/US dollar rate than in the previous year with the rate peaking at 0.6945 and falling to a low of 0.5878, with an average rate of 0.6264. If the US dollar had remained at its highest level throughout the full year the group would have shown a post tax loss of $315,000 (2009: Profit $1.4m), if US dollar had been at its lowest level throughout the full year the group would have shown a post tax loss of $1.6m (2009: Loss $1.5m) and if the US dollar had remained at the average rate throughout the year the post tax loss would have been $1.1m (2009: Loss $482,000).

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

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

The pound sterling/US dollar exchange rate at the 31 March 2010 was 0.6589 (2009: 06995).

Interest rate risk

In September 2006 the company issued $5,062,000 (£3,541,000) Unsecured convertible redeemable loan stock, redeemable on 31 October 2011. The loan carries a fixed interest rate of 6 per cent. During the year the group fully repaid the Scenewise Inc promissory note. The balance of the promissory note outstanding at 31 March 2009 was $246,000. During 2009 the company also obtained a $107,000 (£75,000) loan from South Yorkshire investment fund, this loan was fully repaid on 15 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.

Notes to the Financial Statements

for the year ended 31 March 2010

28. Financial instruments continued

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

Group At 31 March 2010	**Less than 1 year $000**	**Between 1 and 2 years $000**	**Between 2 and 5 years $000**	**Over 5 years $000**
Borrowings	**—**	**5,054**	**—**	**—**
Finance lease liabilities	**169**	**68**	**16**	**—**
Trade and other payables	**4,763**	**—**	**—**	**—**

Group At 31 March 2009	Less than 1 year $000	Between 1 and 2 years $000	Between 2 and 5 years $000	Over 5 years $000
Borrowings	353	—	4,595	—
Finance lease liabilities	170	125	6	—
Trade and other payables	3,519	—	—	—

Company At 31 March 2010	**Less than 1 year $000**	**Between 1 and 2 years $000**	**Between 2 and 5 years $000**	**Over 5 years $000**
Amount owed to subsidiary undertakings	**—**	**—**	**—**	**9,701**
Borrowings	**—**	**5,054**	**—**	**—**
Trade and other payables	**1,070**	**—**	**—**	**—**

Company At 31 March 2009	Less than 1 year $000	Between 1 and 2 years $000	Between 2 and 5 years $000	Over 5 years $000
Amount owed to subsidiary undertakings	—	—	—	9,701
Borrowings	107	—	4,595	—
Trade and other payables	881	—	—	—

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 19.

29. Capital management

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

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

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

	2010 $000	2009 $000
Total borrowings	**5,307**	5,249
Less cash and cash equivalents	**(1,221)**	(1,414)
Net debt	**4,086**	3,835
Total equity	**1,644**	2,347
Total capital	**5,730**	6,182
Gearing ratio	**71%**	62%

Notice of Meeting

THE COMPANIES ACT 2006
PUBLIC COMPANY LIMITED BY SHARES
Notice of the Tenth Annual General Meeting of ZOO DIGITAL GROUP plc (THE "COMPANY")
(Registered in England & Wales with registered number 3858881)

NOTICE IS HEREBY GIVEN that the tenth Annual General Meeting of the company will be held at 11.30 am on 9 September 2010 at the offices of finnCap Ltd, 4 Coleman Street, London, EC2R 5TA for the following purposes:

RESOLUTIONS

To consider and, if thought fit, to pass the following resolutions, of which those numbered 1–8, 10 and 12 will be proposed as ordinary resolutions and those numbered 9, 11 and 13 as special resolutions.

Ordinary business

Ordinary resolutions

1. To receive the directors' report and financial statements for the year ended 31 March 2010.

2. To re-elect Stuart Green as a director of the company, having retired by rotation in accordance with the articles of association of the company.

3. To re-elect Ian Stewart as a director of the Company, having retired by rotation in accordance with the articles of association of the company.

4. To reappoint Roger Jeynes, who has been appointed by the board since the last Annual General Meeting, as a director of the company.

5. To reappoint PKF (UK) LLP as auditors of the Company to hold office from the conclusion of the meeting until the next Annual General Meeting of the company.

6. To authorise the directors to fix the remuneration of the auditors.

Special business

Ordinary resolutions

7. That the articles of association of the company be amended by deleting the provision which, by virtue of paragraph 42(2) of Schedule 2 to the Companies Act 2006 (Commencement No. 8, Transitional Provisions and Savings) Order 2008, is treated as a provision of the articles of association of the company setting the maximum amount of shares that may be allotted by the company.

8. That the company may send or supply any documents or information to members by making them available on a website for the purposes of paragraph 10(2) of schedule 5 to the Companies Act 2006 ("**Act**") and otherwise.

Special resolution

9. That the articles of association of the Company be amended by:

   (a) deleting article 3 and replacing it with the following as a new article 3:

   "The share capital of the company at the date of adoption of these Articles is divided into ordinary shares of 15 pence each.";

   (b) adding the following definition into Article 2.1:

   "'electronic form' has the meaning given in section 1168 of the 2006 Act";

   (c) deleting the definition of "in writing" and replacing it with the following definition:

   "'in writing' means the representation or reproduction of words, symbols or other information in a visible form by any method or combination of methods, whether sent or supplied in electronic form or otherwise";

(d) deleting Article 80.1.1 and replacing it with the following as a new article 80.1.1:

"deposited by personal delivery, post, facsimile transmission or by any other electronic form at such place or one of such places (if any) as may be specified for that purpose in, or by way of note to, or in any document accompanying, the notice convening the meeting (or, if no place is so specified, at the transfer office) not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting; or";

(e) deleting Article 153.1 and replacing it with the following as a new article 153.1:

"Any notice or other document (including a share certificate) may be served on or delivered to a member by the company either personally or by sending it by post in a prepaid cover addressed to such member at (or by leaving it addressed to such member at) his registered address or (if he has no registered address within the United Kingdom) at the address, if any, within the United Kingdom supplied by him to the company as his address for the service of notices or by any other electronic form. In the case of a member registered on a branch register, any such notice or other document may be posted either in the United Kingdom or in the territory in which such branch register is maintained";

(f) by adding a new article 153.2.3 as follows:

"sent by any other electronic form, at the time of completion of transmission by the sender."

Ordinary resolution

10. That, pursuant to section 551 of the Act, the directors be and are generally and unconditionally authorised to exercise all powers of the company to allot shares in the company or to grant rights to subscribe for or to convert any security into shares in the company up to a maximum aggregate nominal amount of £1,181,753, provided that (unless previously revoked, varied or renewed) this authority shall expire at the conclusion of the next annual general meeting of the company after the passing of this resolution or on the date falling 12 months after the date of passing of this resolution (whichever is the earlier), save that the company may make an offer or agreement before this authority expires which would or might require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after this authority expires and the directors may allot shares or grant such rights pursuant to any such offer or agreement as if this authority had not expired.

    This authority is in addition to all existing authorities under section 551 of the Act.

Special resolution

11. That, subject to the passing of resolution 10 and pursuant to section 570 of the Act the directors be and are generally empowered to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority granted by resolution 10 in this notice of meeting as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

    (a) in connection with an offer of equity securities (whether by way of a rights issue, open offer or otherwise):

        (i) to holders of ordinary shares in the capital of the company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them; and

        (ii) to holders of other equity securities in the capital of the company, as required by the rights of those securities or, subject to such rights, as the directors otherwise consider necessary,

    but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange; and

Notice of Meeting

(b) otherwise than pursuant to paragraph (a) of this resolution, up to an aggregate nominal amount of £433,276,

and (unless previously revoked, varied or renewed) this power shall expire at the conclusion of the next annual general meeting of the company after the passing of this resolution or on the date following 12 months after the date of passing of this resolution (whichever is the earlier), save that the company may make an offer or agreement before this power expires which would or might require equity securities to be allotted for cash after this power expires and the directors may allot equity securities for cash pursuant to any such offer or agreement as if this power had not expired.

This power is in addition to all existing powers under section 570 of the Act.

Ordinary resolution

12. That, pursuant to section 551 of the Act, the directors be and are generally and unconditionally authorised to exercise all powers of the company to allot shares in the company or to grant rights to subscribe for or to convert any security into shares in the company up to a maximum aggregate nominal amount of £322,296, in connection with the issue by the company of up to a maximum aggregate number of 2,148,642 ordinary shares of 15 pence each in the capital of the company to John Henry Holdings Inc by virtue of the grant of warrants to subscribe for ordinary shares in the capital of the company ("**Warrant**"), the terms of which were summarised in an earlier announcement made by the company (a copy of which is being sent to each of the company's shareholders), provided that (unless previously revoked, varied or renewed) this authority shall expire on 1 August 2013, save that the company may make an offer or agreement before this authority expires which would or might require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after this authority expires and the directors may allot shares or grant such rights pursuant to any such offer or agreement as if this authority had not expired.

    This authority is in addition to the authority granted under resolution 10 above.

Special resolution

13. That, subject to the passing of resolution 12 and pursuant to section 571 of the Act, section 561 of the Act does not apply to the allotment of equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority granted by resolution 12 up to a maximum aggregate nominal amount of £322,296 to John Henry Holdings Inc for the purposes of the Warrant and this resolution shall expire on 1 August 2013 but the company may make an offer or agreement before this resolution expires which would or might require equity securities to be allotted for cash after this resolution expires and the directors may allot equity securities for cash pursuant to any such offer or agreement as if this resolution had not expired.

    This power is in addition to the power granted under resolution 11 above.

By order of the board

Helen P Gilder
Secretary
25 June 2010

Registered office of the Company:
The Tower
2 Furnival Square
Sheffield
S1 4QL

NOTES

Entitlement to attend and vote

1. The right to vote at the meeting is determined by reference to the register of members. Only those shareholders registered in the register of members of the company as at 6.00 pm on 7 September 2010 (or, if the meeting is adjourned, 6.00 pm on the date which is two working days before the date of the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after that time shall be disregarded in determining the rights of any person to attend or vote (and the number of votes they may cast) at the meeting.

Proxies

2. A shareholder is entitled to appoint another person as his or her proxy to exercise all or any of his or her rights to attend and to speak and vote at the meeting. A proxy need not be a shareholder of the company.

   A shareholder may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. Failure to specify the number of shares each proxy appointment relates to or specifying a number which when taken together with the numbers of shares set out in the other proxy appointments is in excess of the number of shares held by the shareholder may result in the proxy appointment being invalid.

   A proxy may only be appointed in accordance with the procedures set out in note 3 below and the notes to the proxy form.

   The appointment of a proxy will not preclude a shareholder from attending and voting in person at the meeting.

3. A form of proxy is enclosed. When appointing more than one proxy, complete a separate proxy form in relation to each appointment. Additional proxy forms may be obtained by contacting the company on +44 (0) 114 241 3700 or the proxy form may be photocopied. State clearly on each proxy form the number of shares in relation to which the proxy is appointed.

   To be valid, a proxy form must be received by post or (during normal business hours only) by hand at the offices of the company's registrar, Share Registrars Limited, Suite E, First Floor, Lion and Lamb Yard, Farnham, Surrey, GU9 7LL no later than 11.30 am on 7 September 2010 (or, if the meeting is adjourned, no later than 48 hours (excluding any part of a day that is not a working day) before the time of any adjourned meeting).

Corporate representatives

4. A shareholder which is a corporation may authorise one or more persons to act as its representative(s) at the meeting. Each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual shareholder, provided that (where there is more than one representative and the vote is otherwise than on a show of hands) they do not do so in relation to the same shares.

Documents available for inspection

5. The following documents will be available for inspection during normal business hours at the registered office of the company from the date of this notice until the time of the meeting. They will also be available for inspection at the place of the meeting from at least 15 minutes before the meeting until it ends.

   5.1 Copies of the service contracts of the Executive directors.

   5.2 Copies of the letters of appointment of the Non-Executive directors.

Biographical details of directors

6. Biographical details of all those directors who are offering themselves for appointment or reappointment at the meeting are set out in the enclosed annual report and accounts.

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