ZOO

ZOO Digital Group plc

Annual Report and Accounts 2011

Stock Code: ZOO

Smarter Workflows for Global Media

Welcome
to ZOO Digital Group plc

Creating media for global distribution is a labour-intensive, time-consuming process for most companies. ZOO's software enables businesses to create and deliver media to the global marketplace more rapidly and efficiently than ever before.

ZOO is a provider of software for managing collaborative workflows that involve regionalising and authoring creative content to companies across multiple sectors. We work with film studios, videogame companies, music publishers, toy companies and book publishers to simplify the production of creative media. Our customers enjoy reduced time to market, higher quality and lower costs. We do this by designing innovative, patent-protected software and providing flexible solutions that combine licensing with value-added services to meet the diverse needs of customers of all sizes across multiple industries. Our software is used to create localised iTunes, DVD, Blu-ray, eBooks, product packaging and marketing campaigns for some of the best known brands in the world.

Why ZOO?

- We create open, collaborative relationships with our customers which build trust and generate repeat business
- Our proposition is clearly differentiated in the market, based on our innovative software
- We focus on addressing the urgency of our customers to improve the efficiency of their operations
- Our technology has high barriers to entry, being built on patent-protected software created over many years
- Our business model is highly scalable, enabling us to grow without significantly adding to the cost base
- Our strategy of partnering in new markets brings significant potential with only modest levels of investment

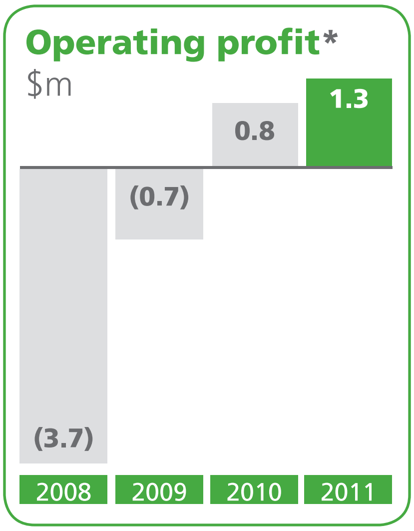
Operational Highlights

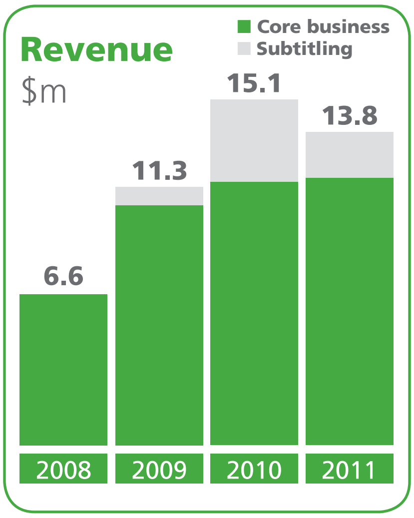
- Major Hollywood studio adopted automated toolset for Apple's iTunes® Extras
- Secured Warner Home Video International for new automated style guide production system
- eBook and music industries identified as further areas for growth

Financial Highlights

- Revenues of $14m (2010: $15m) reflect change in sales mix to higher margin services
- Adjusted EBITDA of $2.3m (2010: $1.6m)*
- Adjusted operating profit of $1.3m (2010: $0.8m)*
- Year-end cash balance $0.6m (2010: $1.2m)

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





Post-period end highlights

- First significant contract through MPS relationship with leading videogame publisher
- Global Digital Media Xchange licenses automated Blu-Ray and Electronic Sell Through ("EST") production solutions
- Successfully completed a share placing of $2.8m to provide working capital to fund growth, particularly in the area of eBooks
- $5.6m convertible loan note instrument resolved with 50 per cent converting into equity and 50 per cent rolling into a loan note extension for two years

Contents

New website now online:
www.zoodigital.com

Group at a Glance

ZOO Digital Group plc provides software and related services that support the authoring, re-purposing and distribution of creative media. ZOO's products form an integrated suite of web-based and desktop applications for audio/visual content and printed materials, adapting these media for different languages, formats and delivery mechanisms.

By centralising editorial and approval processes via secure web-based platforms, ZOO's proprietary patented software helps customers to increase their speed of production, reduce costs and protect their brand integrity. ZOO's services enable quicker and more cost effective processes across a wide range of applications and formats, including packaging, printed materials, DVD, Blu-ray Disc, video on demand, electronic sell-through (EST), broadcast, music and electronic books.

The Group's largest customers include major Hollywood studios, for which the production, marketing and distribution of titles in numerous formats across many geographies and languages has previously been a lengthy, costly and largely manual process. Increasingly the Group's software is benefiting a variety of companies across sectors where the development of media products, printing, packaging and marketing involves complex processes in multiple countries and languages, particularly where brand integrity is of core importance.

One Stop to Global

ZOO offers comprehensive solutions for global companies like film and television studios, music producers, book and games publishers and corporate clients who produce creative media for global distribution.

The Industries We Serve

Following an initial period of exclusively targeting the entertainment industry with solutions for video content, our product set has since been expanded to address a much wider scope of creative media types and requirements. We are now building our customer base in a number of diverse industries as described on the following page. In each case, depending on the needs of the customer, we either license our technology or provide an outsourced service to customers with our operators utilising our software. Either way the customer will reap the benefits of our wealth of experience and dramatically reduce their production costs, meaning that those previously uneconomic products become viable and can now be introduced into product streams.

Home Entertainment

The home entertainment industry is going through a period of significant change. Consumers have come to expect to have choice in the way in which they watch movies and other video materials — in the living room, on the personal computer and on the move. The DVD format is in decline as consumers scale back the building of their personal collections, while the latest packaged media format — Blu-ray Disc — and a range of Electronic Sell Through (EST) platforms such as iTunes are taking off. This industry transition causes all studios to examine costs very carefully and find ways of doing more for less.

We help our customers cut outsourcing costs. We offer something different from the traditional service provided by other vendors; our tools automate the costly repetitive tasks involved in production. These tools remove the need for expensive and error-prone manual production resulting in fully compliant output that requires significantly less quality control.

We help our customers to decrease their time to market. We have been at the sharp end of the entertainment industry's demand for 'day-and-date' releases for the past few years and have developed tools and services to help our customers co-ordinate their workflows, speed up localization and drastically cut the time taken to create products — whether they are EST, DVD or Blu-ray – as well as the associated promotional material.

Our products manage complexity for our customers. Creation of home entertainment products is complex work — there are many parties whose work must be co-ordinated; everyone is under time pressure; there is a high reliance on human labour; it is easy to make mistakes; every aspect of these products must be checked and verified; the cost of ensuring that products meet the stringent quality expectations of modern consumers is high. Our technology manages complex workflows to bring structure and enforce adherence to standards – we can achieve high quality results very cost effectively.

Publishing

There is a seismic shift taking place in the publishing industry as businesses seek to exploit the rapidly expanding eBook market. While the conversion of a novel for electronic sale is a relatively straightforward process, the production of rich media genres, such as picture books, comics, graphic novels, recipe books, travel guides and encyclopaedias is a different matter altogether.

We automate the preparation of media-rich eBooks. Working with us, traditional publishers are able to adapt existing titles for sale electronically at a lower cost and more quickly than by partnering with traditional service vendors.

We can streamline the translation of books into other languages. Although the eBook market is currently established in the US and UK, it is expected that other countries will follow suit and when they do we are well placed to assist in the management of workflows for localisation.

We support all popular eReader platforms. We take a platform agnostic position – by working with us book publishers are assured that their titles can be produced through our automated process for all required eReader devices, including the iPad, Kindle, Nook and Sony Reader.

Music

iTunes LP offers a unique and interactive experience with Apple's iTunes platform. A consumer who purchases an album with iTunes LP receives the songs from the album, plus special features such as lyrics, photos, videos, credits, and more.

The added value provided by these bonus materials should make titles more attractive for purchase, and provide an incentive for publishers to package their products using the iTunes LP format. But this is a complex and costly process.

Our software can create iTunes LP packages quickly and easily. We are able to repurpose designs and files created previously for other platforms to enable efficient production of titles.

We enable music publishers to create products in-house. We have developed software so that these complex titles can be created without requiring technical specialists. The result is an easy to use product that can be used to create engaging, content-rich LPs using the publisher's internal staff and reducing costs.

Our software manages localisation. Adapting digital music products so that they may be published in other languages is a painless process using our software, enabling international product versions to be created quickly and easily.

Video games

When video games are distributed around the world, having a fast, efficient method for producing and managing localized versions of manuals, packaging and marketing material is a must. In this industry product packaging often requires text in multiple languages to be integrated into a single layout. This is a challenging design requirement with a correspondingly onerous approvals process.

Our software manages complex approvals workflows. For any single territory, multiple approvers are typically required to ensure that all aspects of the artwork fulfil the needs of the business. These include legal, corporate branding, product marketing, regulatory and other requirements. The integration of multiple languages brings an added level of complexity to the process. Our collaboration software enables these complex workflows to be managed efficiently, reducing time-to-market.

Our software creates print-ready artwork. The output from our systems is data files that can be delivered directly to a printer and streamlining the pre-media process.

Our Products

Smarter Workflows for Global Media

Creative media plays an ever increasing role in the operations of all global organisations. For some, creative media is the lifeblood of the business — the product itself, particularly for producers and publishers of film and video, video games, music and books. For others it is a means to an end to entice customers to buy consumer and professional products — used in the design of packaging and marketing materials.

As businesses strive to reach global audiences, creative media must be produced in the local languages of customers all around the world, often as part of simultaneous product releases in many territories. Across many industries there is a drive to create more products, more quickly, in more languages and at lower cost. This often requires a Herculean effort by many collaborating groups — suppliers, distributors, licensees, territory offices, legal departments, translators — involving complex workflows with plenty of opportunity for human error.

ZOO provides a Media Collaboration Platform to support creative media preparation and publication enabling diverse groups of individuals to work together efficiently via the internet.

Each ZOO tool brings customer value in its own right yet all work together to offer a smart end-to-end workflow for global media. The tools on the following page are components of ZOO's Media Collaboration Platform.

Use your phone's bar code app and go directly to the relevant page on our website

http://www.zoodigital.com/annualreport2011

Translation Management System

The TMS helps our clients manage global projects with complex media workflows and thousands of translations. This system incorporates a number of modules designed to support international media production workflows, including a graphical display of a project's progress, a dictionary of standard translations, as well as the capability to 'learn phrases' as they are used in specific contexts. This eradicates the need for duplication, providing ZOO's clients with significant cost savings, alongside improved brand consistency and control.

Blu-ray Authoring System

BDX is the only Blu-ray authoring system that combines flexible template-driven authoring with a visual menu editor. This means that Blu-ray discs can be made more quickly, with reduced need for QC, and without the need for programming skills. This can dramatically reduce costs.

Everyone in the home entertainment industry knows that Blu-ray production is complex, expensive to author and test, and the work involved is error-prone, repetitive and requires highly skilled staff. It is also difficult to scale up when work increases.

ZOO eBook Builder

ZEB is an eBook editing tool which combines full support for fixed-layout epub files with the ability to quickly regionalise a title for many different territories. This means that graphically rich books can be easily converted into eBooks and made ready for multiple territories with reduced need for QC and without the need to manually create the epub files.

Templated Authoring System

For movie/TV content providers, TAS is the only professional DVD authoring solution that offers a flexible templated workflow. This de-skills the creation of a DVD title, so creating titles is quicker and cheaper. Because TAS is systematic about the way in which titles are prepared, it ensures all technical requirements are rigorously adhered to. This means titles are produced right-first-time, reducing the labour needed for QC.

TAS enables cost effective in-sourcing of functions that previously required specialists. Because TAS simplifies the process of authoring a DVD and removes much of the repetition. In depth knowledge of the DVD specification is not required to create a disc and fewer errors occur during authoring. This reduces the cost of authoring and testing of a DVD title and operators within studios can undertake DVD authoring in-house without needing to outsource to a specialist.

Media Adaptation Tool

For anyone with an international market, MAT is the only automated tool which creates single and multi-lingual variants of printed and digital materials in multiple languages and sizes. MAT's flexible automation brings significant timesaving benefits, reduces the number of errors and encourages consistency in output designed for multiple territories.

MAT also links to other ZOO tools in the production workflow. This means that translations are requested, received and applied automatically (in conjunction with the TMS). It also means all digital media menus (such as for DVD/Blu-ray/iTunes LPs) are already formatted for ZOO authoring systems (TAS/BDX/ICE).

MAT automates the tedious and error-prone parts of the production process for printed materials so that designs can be created more quickly and with fewer errors. It scans domestic documents, copies text to the ZOO Translation Management System ready for translation. Then MAT finds and uses supplied translations to create regionalized variants of the same document so operators no longer have to repeatedly copy and paste. Text expansion after translation is already accounted for and the MAT operator has direct control over automatic text resizing and adjustments to put in finishing touches on the localized versions to get them just right.

Not only does MAT regionalize and resize printed materials, but digital products too. Entertainment products such as Blu-ray menus can be easily created and regionalized using the same process, and because everything is automated, the vast numbers of files produced are all consistently and logically named, filed and ready for authoring.

Interactive Content Editor

ZOO's Interactive Content Editor (ICE) allows movie and music studios to produce cost-effective value-added content for consumers interested in enhanced features and additional content with their digital media downloads. iTunes® Extras and iTunes LPs deliver a richer product to film and music fans and quantifiable benefits to the publishers.

ICE is designed to allow movie and music producers to create enhanced iTunes movies and albums in the form of iTunes Extras and iTunes LP that often use assets designed for other media. This could include DVD/BD packaging, album cover art or CD-audio packaging. Content such as still images, music videos, director's commentary, deleted scenes, album credits and lyrics are repurposed and used to create an engaging, content-rich product.

ICE eliminates time-consuming hand programming while also automating the production of all the images by generating constituent elements for buttons, backgrounds, etc. ICE can efficiently produce the same features and effects found in almost all of today's iTunes Extras and iTunes LP titles in a matter of minutes. Automated creation of language versions are also a feature.

Chairman's Statement

"ZOO's products and services are highly relevant to companies in all industries where there is a need to maintain the quality and brand integrity of creative digital content."

△ Roger D Jeynes
Chairman

"The progress we have made this year in winning new customers for our software tools outside the filmed entertainment sector, and in extending our relationships with existing customers, stems directly from the quality and commitment of our staff in the US and the UK."

The Board is pleased to report another year of progress in which ZOO has performed in line with market expectations. The group increased its operating profit[1] to $1.3m (compared with $821k in 2010), and EBITDA rose to $2.3m (from $1.6m in 2010), despite a decline in revenue to $14m (from $15m in 2010). The decline in revenue arose from two primary causes: a short-term slowdown in projects from our largest customer during a major organisation change there, and a reduction in the amount of low margin subtitling work which has traditionally been subcontracted to a third party vendor. Cash generation was also affected by this temporary slowdown in orders, and our year end cash balance was $0.6m.

During the year ZOO has made significant progress in reducing its dependence on the filmed entertainment industry. Although extending and deepening our customer relationships in this large industry remains vital to our business, the alliance with MPS, announced last year, has now yielded its first significant customer contracts outside the sector. In addition, our software and service platforms have shown themselves to be ideally suited to the management and electronic delivery of a wide range of creative media content, such as music, video game materials and, most significantly, eBooks. The Chief Executive's operational review provides more details of these exciting developments for the group.

Shareholders will be aware that in September 2006 the Company issued a five-year convertible loan note of $5.6m (£3.54m) to be either redeemed or converted into shares prior to October 2011. I am pleased to report that we have reached agreement with the loan note holders for 50 per cent of this loan to be converted into shares and for the balance of 50 per cent to remain in the loan note instrument with the maturity date extending to 31 October 2013 and the coupon changing to 7.5 per cent. I am also pleased to report a successful placing which will raise $2.8m to be used as working capital for the group to support expansion of the business in new markets, particularly eBooks.

[1] Operating profit and EBITDA are stated before exceptional impairment.

Some of our clients

Ian Stewart, Non-Executive director of the company, announced his decision to step down from the board of directors with effect from 31 December 2010 to concentrate on his other business interests. The board would like to thank Ian, who had been with ZOO since inception, for his dedication and commitment to the group, and he takes with him our very best wishes for the future.

ZOO's products and services are highly relevant to companies in all industries where there is a need to maintain the quality and brand integrity of creative digital content. ZOO's customers are therefore typically large, multi-national organisations whose brands are recognised internationally and whose names signify a level of quality that the companies need to protect. The progress we have made this year in winning new customers for our software tools outside the filmed entertainment sector, and in extending our relationships with existing customers, stems directly from the quality and commitment of our staff in the US and the UK; the board is therefore confident in the future success of the group.

Roger D Jeynes
Chairman

Chief Executive's Statement

"We are continually looking to broaden our client base whilst also striving to deepen the relationships with existing customers and increase the scope of work that we are doing for them."

△ Dr Stuart A Green
Chief Executive

Summary

- Global Digital Media Xchange has licensed automation production solutions for Blu-ray and Electronic Sell Through platforms
- Launched new toolset for Apple's iTunes® Extras
- Our Media collaboration solutions now include the eBook builder
- Raised $2.8m of additional working capital to accelerate development in the eBook market

Operational review

I am pleased with the performance of the group in what has been a difficult environment for the filmed entertainment industry.

Filmed entertainment

The home entertainment market in particular has been through a turbulent period over the last 12 months, with upheaval and cost cutting measures taking place at many of the major Hollywood studios which, in turn, led to some order distortion for ZOO, specifically from our major customer. However, we were very pleased to note that the shortfall in orders has substantially recovered. Furthermore, we believe that the pressure that the studios are under to maximise sales and eliminate costs provides an ever greater advantage for the group. One of the most important ways for a studio to maximise sales of a new release, especially blockbuster titles, is to distribute the product into as many territories as possible simultaneously. By doing so, the loss of revenue through counterfeit products and illegal copying are dramatically reduced and the integrity and quality of the production is maintained. This very need to accelerate distribution globally in the shortest time frame possible makes our toolsets even more compelling.

We are continually looking to broaden our client base whilst also striving to deepen the relationships with existing customers and increase the scope of work that we are doing for them. We were, therefore, pleased to be able to announce that Global Digital Media Xchange, a wholly-owned subsidiary of Warner Bros. Entertainment, has licensed our automation production solutions for Blu-Ray and Electronic Sell Through platforms.

Electronic Sell Through ("EST") Market

The electronic delivery of digital products represents possibly the most significant shift in consumers' media purchasing in recent times and we believe that this creates an excellent opportunity for ZOO. In September we announced that we had launched a new toolset that allowed existing content for the filmed entertainment industry to be made available through Apple's iTunes® Extras platform. Our tools enable content owners to adapt additional features such as movie and chapter selection along with special features such as movie stills, deleted scenes, exclusive interviews, and behind-the-scenes footage. These additional features have long been associated with DVD and more recently with Blu-ray Disc productions but the costs associated with traditional production methods have proved prohibitive for sales on iTunes and other Electronic Sell Through platforms. ZOO's toolset enables this production at significantly lower costs and the initial response from clients has been extremely positive.

A similar opportunity exists within the music industry. Traditional album formats often include extra features such as the ability to view lyrics, liner notes, band photos and performance videos. ZOO has created an Interactive Content Editor to enable the efficient preparation of iTunes LPs, enabling publishers to sell such content through Apple's iTunes LP platform and incorporate many of the extra features associated with traditional formats. Initial customers include a number of music publishers in the US, UK and France. According to Strategy Analytics, digital music revenues in 2012 will reach US$2.8bn and surpass physical sales for the first time.

"Our team has built an excellent product platform, reputation and customer relationships that I believe place us in a strong position to grow the business significantly."

An even greater opportunity in the field of EST, and one of the most exciting developments in the past year, has presented itself with the electronic book, or eBook, market. The success of the overall eBook market has been spectacular and well publicised. According to a recent report from Futuresource Consulting, in 2010 the eBook market grew by more than 200% to a value of more than US$900m.

As a result of ZOO's success with the iTunes platform we have augmented our Media Collaboration solutions to include an eBook Builder which provides an efficient and cost-effective way for publishers to repurpose traditional books for sale online. This new tool works in conjunction with ZOO's software for managing collaborative workflows, adapting materials into multiple languages, and providing storage and distribution of content for multiple eBook vendors. Another great advantage in using ZOO's toolset for eBook production is that it maintains the formatting qualities and standards of a physical production thereby enhancing the enjoyment of reading it electronically. For example, where pictures or illustrations are used to accompany text to illustrate a point in a physical book, current practices for converting this into an electronic version have proved complicated and many of the resulting eBooks created by third parties have been produced with layout errors. Whilst this may not be of particular relevance to pure text books, it makes a huge difference where such features are integral to the genre of the book, which makes our tools particularly applicable to picture books, comics, travel guides, cookery books and reference publications.

MPS

At this stage last year we announced that we had agreed a strategic relationship with John Henry Holdings Inc., a subsidiary of Multi Packaging Solutions, Inc. ("MPS"), a US headquartered value-added print-based packaging solutions company. I am pleased to report that we have made significant progress through this in the past 12 months and the potential new business opportunities available to us are extremely exciting.

Indeed, in June this year we were able to announce the first significant contract win through this relationship with a leading international videogame publisher. We have already begun work with the publisher in the regionalisation of the interactive game group's packaging materials for multiple territories and languages.

We believe that this will be just the first in many relationships to come through MPS and are currently in discussions with a number of impressive organisations to help them with the production of packaging, marketing and other printed materials in a wide range of geographies, and I look forward to providing further updates in the coming year.

Placing of shares

We have raised approximately $2.8m of capital through a placing of shares to provide working capital that we intend to use to support the acceleration of the business in new markets. I have personally subscribed $160,000 to the placing, demonstrating my confidence in the future. We plan to use these funds for the following purposes:

- Put in place the infrastructure needed to establish ZOO as an eBook aggregator
- Support the recruitment of additional R&D staff to accelerate eBook and EST software development
- Enlargement of the production team to provide a range of eBook services
- Recruit new sales and marketing staff to support eBook business development

Convertible loan note

We have reached agreement with the holders of the $5.6m convertible loan note, which was issued in 2006 and was due to mature in October 2011. The loan note holders have agreed to convert 50 per cent of the outstanding amount into equity at 40p with the balance remaining in the convertible loan note instrument which has been extended for a further period of two years with a coupon of 7.5 per cent and a conversion price of 48p.

Staff

It continues to be an honour to work with such a talented team of professionals in both our UK-based R&D centre and our US-based production services facility. In all areas of the business our success hinges on the talents, creativity and dedication of our staff who continue to excel in delivering innovative technology and first class customer services. We strive to provide a great place to work to attract and retain our key talent. On behalf of the board I would like to extend my thanks to all staff for their contributions over the past year and I look forward to working together in the year ahead.

Outlook

Our team has built an excellent product platform, reputation and customer relationships that I believe place us in a strong position to grow the business significantly. We have many exciting opportunities ahead of us and I look forward to the future with confidence.

Dr Stuart A Green
Chief Executive Officer

Financial Review

"With a significant increase in operating profit, ZOO has made a great deal of progress over the past year and I share the board's optimism for the future."

△ Helen P Gilder
Group Finance Director

Summary

- ▷ Significant increase in operating profit in the year despite a reduction in turnover
- ▷ Raised $2.8m working capital to accelerate work in new markets
- ▷ Reduction of loan note significantly strengthens the balance sheet

The year ended 31 March 2011 was an exciting one with the business expanding into new areas.

Results for the year

We are pleased to report a significant increase in operating profit in the year despite a reduction in turnover. The operating profit reported for the year is $1.3m compared to the previous year's $0.8m, which was prior to an exceptional impairment charge.

The revenue for the period reduced to $13.8m (2010: $15.1m) due to the short term impact of reorganisations that took place within our largest customer and also the change in the invoicing of certain low margin subtitling work. There was one line of outsourced work which we have previously managed on behalf of a major client from which we have earned a small margin to cover administration. This work declined during the year and we took the decision to extricate ourselves from the invoicing process, which in the future will occur directly between the supplier and customer. The Board felt that, although this would have an impact on the reported turnover, it would enable us to report clearer financial results as they would not be distorted by non-core, low margin work.

In the year ended 31 March 2011 the reported revenue included $2.0m of this outsourced revenue; the amount in the prior year was $3.6m. Now that we have stepped out of the invoicing it is expected that the amount in the year ended 31 March 2012 will be minimal. It can be seen that once the impact of the outsourced work is removed the core business would report a turnover of $11.8m which shows a small increase from $11.5m in the prior year.

The overheads of the business have reduced slightly since the previous year. On the face of the Consolidated Statement of Comprehensive Income (CSoCI) the operating expenses show a decrease from $11.5m to $10.2m but the comparative number includes an exceptional impairment charge. Once this is removed the other operating costs show a decrease from $10.5m to $10.2m. The overheads are primarily staff related costs.

We have continued to take advantage of grant funding and throughout the year the total amount of cash received from grants was $0.3m (2010: $0.6m). The amount recognised in the CSoCI was $0.1m (2010: $0.2m). The amounts differ because some of the grant funding covers capital expenditure and therefore is not recognised in the CSoCI. We still have grant-supported projects on-going with almost $0.9m of funding still available at the end of the financial year (2010: $0.7m).

We have a total of around $28m of accumulated tax losses and consequently do not expect to pay taxes in the UK or the US in the immediate future. Now that the group is profitable and we anticipate profits in the foreseeable future it is appropriate that some of these losses are recognised as a deferred tax asset. Consequently, in the year we have recognised a $0.5m deferred tax asset.

Convertible loan note maturity

Our Consolidated Statement of Financial Position as at 31 March 2011 includes the reporting of a liability of $5.6m which relates to the £3.54m convertible loan note instrument which was issued in 2006 and is due to mature in October 2011. I am pleased to confirm that we have reached agreement with the loan note holders to convert 50 per cent of this loan into equity and for the remaining 50 per cent to remain as a loan note instrument for a further two years. The new loan note instrument will carry a coupon of 7.5 per cent, a conversion price of 48p and is now due to mature on 31 October 2013.

At the same time as resolving the loan note maturity we have successfully agreed a share placing which has raised $2.8m (£1.7m) working capital to support the acceleration of the business in new markets, particularly eBooks.

Following this placing the Consolidated Statement of Financial Position is significantly strengthened with net assets of around $9m.

Cash flow

The year has seen a reduction in cash generated from operating activities compared to the previous year through the impact of the reorganisation within a key customer and the investment in new areas of business. Operating cash generation was $0.9m compared to $2.1m in 2010. Overall, cash reduced by $0.6m in the year, leaving a cash balance at 31 March 2011 of $0.6m (2010: $1.2m).

The Board is focused on maximising the efficiency of cash management and we closely monitor our cash predictions. The placing mentioned above will provide additional working capital to give us the ability to accelerate the expansion into new markets such as eBooks, where we can see many opportunities. The working capital is supplemented by a $0.8m bank overdraft facility which gives a buffer for the peaks and troughs of cash flow throughout the trading year.

Summary

With a significant increase in operating profit, ZOO has made a great deal of progress over the past year and I share the board's optimism for the future. With an exciting period ahead as we penetrate new markets, we will manage the growth to ensure that we maximise profitability and efficiently manage working capital. I look forward to reporting on progress in the future.

Helen P Gilder
Group Finance Director

Professional tools for the eBooks market

"The Electronic Sell Through market is clearly one of the most exciting developments in recent history for all forms of media sales, and we're delighted to be playing an increasing role. The incredible growth in the electronic books market has been well documented of late and we believe that there are also substantial opportunities within the music industry."

Stuart Green
Chief Executive Officer

Board of Directors

1. Roger D Jeynes
Chairman (aged 58)

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 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 46)

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 almost 30 patents in the fields of image processing and digital media processing.

3. Helen P Gilder
Group Finance Director (aged 44)

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

4. Gordon Doran
Commercial Director (aged 44)

Gordon has held senior positions in sales and marketing roles for a variety of companies in the software industry since the early 1990s, both in the UK and US. Most recently he was Chief Operating Officer for Mediostream Inc., a consumer DVD software developer, and joined ZOO in 2005 to establish a North American division. In his role as President he is responsible for all ZOO's North America operations and has been pivotal in establishing relationships with a number of large US entertainment companies. Gordon became the Commercial Director in 2009.

5. James A Livingston
Non-Executive Director (aged 30)

James is a senior 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.

Senior Management

1.

2.

1. Duncan A Wain

Chief Operating Officer (aged 48)

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 Bachelors 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. Philip M Corio

Chief Technical Officer (aged 44)

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.

Advisers

Company Secretary and Registered Office
Helen P Gilder
ZOO Digital Group plc
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Solicitors
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Finers Stephens Innocent LLP
179 Great Portland Street
London
W1W 5LS

Directors' Report

The directors present their report on the affairs of the group, together with the financial statements and auditor's report, for the year ended 31 March 2011.

Principal activities
The principal activity of the group for the year under review was to provide productivity software tools and services for digital content authoring, video post-production and localisation for entertainment and packaging markets and to continue with on-going 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 6 to 9.

The audited financial statements for the year ended 31 March 2011 are set out on pages 23 to 60. The directors do not recommend the payment of a dividend for the year.

Research and development
The group undertakes research and development into software solutions for media transformation. The aim of the software developed is to improve efficiencies, therefore reducing time and costs of producing 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 10 June 2011 36,155 shares were issued following the exercise of employee share options.

On 14 June 2011 the group entered into an agreement to extend the lease on its US offices. The lease has been extended to December 2016. The total commitment of the five year period is $2.6m.

On 10 August 2011 the company announced that agreement had been reached with the holders of the $5.6m convertible loan note to convert 50% of their holding into shares at a price of 40p and for the balance of 50% to remain within the loan note instrument for a further two years at a coupon of 7.5% and a conversion price of 48p. The loan note conversion into equity results in the issue of 4,426,250 shares and the placing results in a further 4,252,500 shares.

Dr Stuart A Green held a $549,000 (2010: $519,000) interest in 6% unsecured convertible loan stock at 31 March 2011. The underlying value of the interest in the convertible loan stock is £342,000. As a result of the above agreement, 50% of this loan stock has been converted into shares.

On 10 August 2011 it was further announced that there has been a successful placing of shares raising $2.8m at a price of 40p in order to fund working capital in areas of growth. Stuart A Green, CEO, agreed to subscribe $160,000 to the placing.

On 16 August 2011 99,500 shares were issued following the exercise of employee share options.

Directors
The directors who served during the year were as follows:

Roger D Jeynes[1]	Non-Executive Chairman
Dr Christopher HB Honeyborne[2]	Non-Executive Chairman
Dr Stuart A Green	Chief Executive Officer
Helen P Gilder	Group Finance Director
Gordon Doran	Commercial Director
James A Livingston	Non-Executive Director
Ian C Stewart[3]	Non-Executive Director

(1) Appointed 28 April 2010.
(2) Retired 28 April 2010.
(3) Retired 31 December 2010.

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 2011 are disclosed in the Directors' Remuneration report. In accordance with the company's Articles of Association Helen Gilder and James Livingston retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' indemnities

The group has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 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 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 2011 were equivalent to 76 days (2010: 101 days) purchases, based on the average daily amount invoiced by suppliers during the year. The group has agreed with one significant creditor extended payment terms.

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.

		2011	2010
Revenue	$000	**13,757**	15,056 ↓
Adjusted EBITDA*	$000	**2,267**	1,594 ↑
Debtor days	days	**32**	33 ↓
Overdue debtors	$000	**303**	156 ↑

* EBITDA before exceptional impairment.

Principal risks and uncertainties

Company law requires the group to report on princpal 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 28 patents granted and 15 pending. These are integral to the business in the protection of our unique technologies.

Operational risks

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

Loss of the group's key customer

Client relationships are crucial to the group and the strength of them are 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. In the current financial year the group has used forward foreign exchange contracts to mitigate the risk of fluctuations in the pound sterling and US dollars exchange rate.

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

Directors' Report

Financial instruments

During the financial year the group entered into some forward exchange contracts to sell US dollars for pound sterling. There were no forward exchange contracts outstanding at 31 March 2011 (2010: nil). Further description of the forward foreign exchange contracts is given in note 28 to the accounts. 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 298,232 shares (2010: 473,500), this represents 1% of the group's share capital. The total cost of the purchase was $124,374 (2010: $71,823). Also during the year 164,850 ordinary shares with a nominal value of 15p were disposed of (2010: 451,683). 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 185,717 (2010:475,153).

Substantial shareholdings

At 18 August 2011, 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 S A Green	17.5%	4,179,835
Funds managed and advised by Foresight Group	15.9%	3,794,689
Herald Investment Trust plc	15.1%	3,590,102
John Henry Holdings Inc.	9.0%	2,148,642
JM Finn & Co	8.2%	1,966,712
Mr I C Stewart	7.2%	1,705,365
South Yorkshire Investment Capital Fund	5.8%	1,382,562

Disclosure of information to auditor

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditor in connection with preparing its report and to establish that the company's auditor is aware of that information.

By order of the Board

Helen P Gilder
Director and Secretary
18 August 2011

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 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 judgments 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;
- 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.

The names and functions of all the directors are stated on page 12.

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 and three executive directors. From the start of the financial year to 31 December 2010 the board also included two non-executive directors. Following the retirement of Ian Stewart on 31 December 2010 this reduced to one non-executive director.

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

Board Committees

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

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

The Remuneration Committee is chaired by Roger Jeynes and meets at least once per year.

Corporate Governance Report

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 at least the next twelve months and, for this reason, they continue to adopt the going concern basis in preparing the financial statements.

By order of the Board

Helen P Gilder
Director and Secretary
18 August 2011

Directors' Remuneration Report

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 2011 the Remuneration Committee consisted of all the non-executive directors. The committee was chaired by Ian Stewart until his retirement from the board on 31 December 2010 and was thereafter chaired by Roger Jeynes. Christopher Honeyborne was a member of the committee until his retirement from the board on 28 April 2010 and James Livingston was a member throughout the year.

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 was paid as an employee until his retirement on 31 December 2010 and Christopher Honeyborne was remunerated by fees invoiced from Brockhill Limited. James Livingston was remunerated by fees invoiced from Foresight Group. Roger Jeynes was remunerated by fees invoiced by Charborough Capital Limited.

Directors' remuneration

Directors' remuneration for the year to 31 March 2011 is:

	Salary $000	Bonus $000	Benefits $000	Pension $000	**2011 Total $000**	2010 Total $000
Dr Stuart A Green	214	65	3	—	**282**	263
Helen P Gilder	149	43	3	16	**211**	199
Gordon Doran*	220	74	16	—	**310**	214
Roger D Jeynes†	36	—	—	—	**36**	—
James A Livingston‡	33	—	—	—	**33**	27
Ian C Stewart§	17	—	—	—	**17**	24
Dr Christopher HB Honeyborne^	3	—	—	—	**3**	32
Matthew P Taylor¶	—	—	—	—	**—**	7
	672	182	22	16	**892**	766

* Gordon Doran was appointed as a director on 28 July 2009.

† Roger Jeynes was appointed on 28 April 2010.

‡ James Livingston was appointed on 12 June 2009.

§ Ian Stewart retired on 31 December 2010.

^ Dr Christopher HB Honeyborne retired on 28 April 2010.

¶ Matthew Taylor retired on 12 June 2009.

Directors' Remuneration Report

Directors' remuneration paid in pound sterling for the year to 31 March 2011 is:

	Salary £000	Bonus £000	Benefits £000	Pension £000	**2011 Total £000**	2010 Total £000
Dr Stuart A Green	138	40	2	—	**180**	166
Helen P Gilder	96	27	2	10	**135**	125
Roger D Jeynes	23	—	—	—	**23**	—
James A Livingston	22	—	—	—	**22**	17
Ian C Stewart	11	—	—	—	**11**	15
Dr Christopher H B Honeyborne	2	—	—	—	**2**	20
Matthew P Taylor	—	—	—	—	**—**	4
	292	67	4	10	**373**	347

Gordon Doran is remunerated in US Dollars.

At 31 March 2011 $45,000 was owing to Dr Stuart Green (2010:$59,000) and $36,000 (2010: $30,000) was due to Helen Gilder in respect of their services performed as directors. The balance owing to Brockhill Limited at 31 March 2011 was $nil (2010: $nil). The balance owing to Foresight Group at 31 March 2011 was $18,000 (2010: $16,000).The balance owing to Charborough Capital Limited at 31 March 2011 was $8,000 (2010: $nil).

Two directors (2010: 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:

	2011 $000	2010 $000
Emoluments	**310**	257
Money purchase pension contributions	**—**	6
	310	263

The highest paid director did not exercise any share options, but received 1,500 shares in the year as part of the group's share incentive scheme.

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 2010	Granted during the year	Exercised during the year	Surrendered during the year	**31 March 2011**	Exercise price	Date from which exercisable	Expiry date
Roger D Jeynes	—	30,000	—	—	**30,000**	$0.65†	Jun 11	Jun 20
Dr Stuart A Green	175,000	—	—	—	**175,000**	$0.21*	Sep 09	Oct 18
Helen P Gilder	450,000	—	—	—	**450,000**	$0.21*	Sep 09	Oct 18
Helen P Gilder	100,000	—	—	—	**100,000**	$0.21*	Oct 09	Oct 18
Gordon Doran	450,000	—	—	—	**450,000**	$0.21*	Sep 09	Oct 18
Gordon Doran	100,000	—	—	—	**100,000**	$0.21*	Oct 09	Oct 18
Ian C Stewart‡	30,000	—	(30,000)	—	**—**	$0.21*	Sep 09	Oct 18
Dr Christopher H B Honeyborne	30,000	—	—	(30,000)	**—**	$0.21*	Sep 09	Oct 18
	1,335,000	30,000	(30,000)	(30,000)	**1,305,000**			

† The underlying exercise price of the share options is £0.43.

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

‡ Ian Stewart exercised all his share options on his retirement as allowed by the rules of the scheme.

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

The charge to profit or loss in respect of directors' share options amounted to $18,000 (2010: $54,000).

The market price of the ordinary shares at 31 March 2011 was 81 cents (50.5p) and the range during the year was 111 cents (70.9p) (high) to 37 cents (25p) (low).

Service contracts

The service contracts and letters of appointment of the directors include the terms in the table below. All the directors are on rolling director appointments and offer themselves for re-election by rotation in accordance with the company's Articles of Association. Upon termination of their service agreement, executive directors are entitled to salary equivalent to their notice period.

Name of director	Date of appointment	Notice period
Executive directors		
Dr Stuart A Green	28 January 2000	12 months
Helen P Gilder	29 September 2006	6 months
Gordon Doran	28 July 2009	12 months
Non-executive directors		
Roger D Jeynes	28 April 2010	—
James A Livingston	12 June 2009	—

Dr Christopher H B Honeyborne retired on 28 April 2010 and Ian C Stewart retired on 31 December 2010.

Directors' interests

The directors who held office at 31 March 2011 had the following interests, including any interests of a "connected person", in the 15p ordinary shares of ZOO Digital Group plc:

Name of director		2011 Beneficial	2010 Beneficial
Roger D Jeynes	Appointed 28 April 2010	**20,000**	—
Dr Stuart A Green		**4,179,835**	4,179,835
Helen P Gilder		**56,019**	46,843
Gordon Doran		**—**	—
James A Livingston		**—**	—

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

Dr Stuart A Green held a $549,000 (2010: $519,000) interest in 6% unsecured convertible loan stock at 31 March 2011. The underlying value of the interest in the convertible loan stock is £342,000. On 10 August 2011 the company announced that agreement had been reached with the holders of the $5.6m convertible loan note to convert 50% of their holding into shares at a price of 40p and for the balance of 50% to remain within the loan note instrument for a further two years at a coupon of 7.5% and a conversion price of 48p. The loan note conversion into equity results in the issue of 4,426,250 shares and the placing results in a further 4,252,500 shares. As a result, 50% of Dr Stuart A Green's loan stock has been converted into shares.

On 10 August 2011 it was further announced that there has been a successful placing of shares raising $2.8m at a price of 40p in order to fund working capital in areas of growth. Stuart A Green, CEO, agreed to subscribe $160,000 to the placing.

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.

No other changes took place in the interests of directors between 31 March 2011 and 18 August 2011.

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

We have audited the financial statements of ZOO Digital Group plc for the year ended 31 March 2011 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statement of Financial Position, the Consolidated and Parent Company Statement of Changes in Equity, the Consolidated and Parent Company Statement 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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 matters 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, 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 auditor
18 August 2011
Sheffield, UK

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2011

	Note	2011 $000	2010 $000
Revenue	5	**13,757**	15,056
Cost of sales		**(2,388)**	(3,769)
Gross profit		**11,369**	11,287
Other operating income	6	**135**	177
Operating expenses	8	**(10,158)**	(11,503)
Operating profit/(loss)		**1,346**	(39)
Analysed as:			
Operating profit/(loss) before exceptional impairment		**1,346**	821
Exceptional impairment	8	**—**	(860)
		1,346	(39)
Finance income	7	**—**	1
Exchange loss on borrowings	7	**(300)**	(290)
Finance cost	7	**(535)**	(540)
Total finance cost		**(835)**	(830)
Profit/(loss) before taxation		**511**	(868)
Tax on profit/(loss)	11	**484**	(4)
Profit/(loss) for the year attributable to equity holders of the parent		**995**	(872)
Other comprehensive income:			
Total Comprehensive income		**995**	(872)
Comprehensive income attributable to equity holders of the parent		**995**	(872)
		cents	cents
Profit/(loss) per share	13		
basic		**4.29**	(4.09)
diluted		**2.84**	(4.09)

The notes on pages 30 to 59 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 $853,000 (2010: $897,000).

Consolidated Statement of Financial Position

as at 31 March 2011

	Note	2011 $000	2010 $000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**549**	558
Intangible assets	16	**8,480**	6,903
Deferred income tax assets	17	**486**	—
		9,515	7,461
Current assets			
Inventories	18	**80**	365
Trade and other receivables	19	**3,016**	2,667
Cash and cash equivalents	20	**600**	1,221
		3,696	4,253
Total assets		**13,211**	11,714
LIABILITIES			
Current liabilities			
Trade and other payables	23	**(3,319)**	(4,763)
Borrowings	22	**(5,709)**	(169)
		(9,028)	(4,932)
Non-current liabilities			
Borrowings	22	**(191)**	(5,138)
Total liabilities		**(9,219)**	(10,070)
Net assets		**3,992**	1,644
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	21	**5,127**	4,573
Share premium reserve		**33,626**	32,899
Other reserves		**12,293**	12,293
Share option reserve		**278**	267
Warrant reserve		**190**	50
Convertible loan note reserve		**380**	380
Foreign exchange translation reserve		**(992)**	(992)
Accumulated losses		**(46,782)**	(47,822)
		4,120	1,648
Interest in own shares		**(128)**	(4)
Attributable to equity holders		**3,992**	1,644

The notes on pages 30 to 59 are an integral part of these consolidated financial statements.

The financial statements on pages 23 to 59 were approved and authorised for issue by the Board of Directors on 18 August 2011 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 2011

	Note	2011 $000	2010 $000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**85**	232
Intangible assets	16	**2,281**	2,290
Investment in subsidiary undertakings	26	**9,700**	9,700
Deferred income tax assets	17	**92**	—
		12,158	12,222
Current assets			
Trade and other receivables	19	**21,804**	18,353
Cash and cash equivalents	20	**—**	8
		21,804	18,361
Total assets		**33,962**	30,583
LIABILITIES			
Current liabilities			
Trade and other payables	23	**(899)**	(1,070)
Borrowings	22	**(5,555)**	—
Cash and cash equivalents	20	**(719)**	—
		(7,173)	(1,070)
Non-current liabilities			
Borrowings	22	**(9,701)**	(14,755)
Total liabilities		**(16,874)**	(15,825)
Net assets		**17,088**	14,758
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	21	**5,127**	4,573
Share premium reserve		**33,626**	32,899
Other reserves		**10,569**	10,569
Share option reserve		**278**	267
Warrant reserve		**190**	50
Convertible loan note reserve		**380**	380
Foreign exchange translation reserve		**(13)**	(13)
Accumulative losses		**(33,065)**	(33,963)
		17,092	14,762
Interest in own shares		**(4)**	(4)
Attributable to equity holders		**17,088**	14,758

Company registration number: 3858881

The notes on pages 30 to 59 are an integral part of these consolidated financial statements.

The financial statements on pages 23 to 59 were approved and authorised for issue by the Board of Directors on 18 August 2011 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 2011

	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 2009	4,573	32,899	(992)	380	110	38	12,293	(46,950)	(4)
Share-based payments					157	12			
Loss for the year								(872)	
Balance at 31 March 2010	4,573	32,899	(992)	380	267	50	12,293	(47,822)	(4)
Issue of shares	468	779							
Issue costs		(52)							
Share-based payments					69	140			
Exercise of share options	86				(41)			42	
Forfeited share options					(17)			3	
Purchase of own shares									(124)
Profit for the year								995	
Balance at 31 March 2011	**5,127**	**33,626**	**(992)**	**380**	**278**	**190**	**12,293**	**(46,782)**	**(128)**

Company Statement of Changes in Equity

for the year ended 31 March 2011

	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 2009	4,573	32,899	(13)	380	110	38	10,569	(34,860)	(4)
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)
Issue of shares	468	779							
Issue costs		(52)							
Share-based payments					69	140			
Exercise of share options	86				(41)			42	
Forfeited share options					(17)			3	
Profit for the year								853	
Balance at 31 March 2011	**5,127**	**33,626**	**(13)**	**380**	**278**	**190**	**10,569**	**(33,065)**	**(4)**

Consolidated Statement of Cash Flows

for the year ended 31 March 2011

	Note	2011 $000	2010 $000
Cash flows from operating activities			
Operating profit/(loss) for the year		1,346	(39)
Finance income	7	—	1
Depreciation	15	424	419
Amortisation and Impairment	16	497	1,214
Share-based payments	27	196	169
Purchase of own shares		(124)	—
Disposal and derecognition of intangible assets	16	24	1
Disposal of property, plant and equipment	15	—	1
Changes in working capital:			
Decreases/(increases) in inventories	18	285	(365)
Increases in trade and other receivables	19	(349)	(591)
(Decreases)/increases in trade and other payables	23	(1,444)	1,244
Cash flow from operations		855	2,054
Tax paid		(2)	(4)
Net cash flow from operating activities		853	2,050
Investing activities			
Purchase of intangible assets	16	(2,098)	(1,256)
Purchase of property, plant and equipment	15	(415)	(215)
Net cash flow from investing activities		(2,513)	(1,471)
Cash flows from financing activities			
Repayment of borrowings	22	(144)	(521)
Proceeds from borrowings	22	288	120
Finance cost		(386)	(371)
Share issue costs	21	(52)	—
Issue of share capital	21	1,333	—
Net cash flow from financing		1,039	(772)
Net decrease in cash and cash equivalents		(621)	(193)
Cash and cash equivalents at the beginning of the year		1,221	1,414
Cash and cash equivalents at the end of the year	20	600	1,221

The notes on pages 30 to 59 are an integral part of these consolidated financial statements.

Company Statement of Cash Flows

for the year ended 31 March 2011

	Note	2011 $000	2010 $000
Cash flows from operating activities			
Operating profit for the year		**1,555**	1,346
Finance income		**—**	1
Depreciation	15	**150**	13
Amortisation & Impairment	16	**9**	—
Share-based payments	27	**196**	169
Changes in working capital:			
Increases in trade and other receivables	19	**(3,451)**	(1,579)
(Decreases)/increases in trade and other payables	23	**(171)**	191
Cash flow from operations		**(1,712)**	141
Tax paid		**—**	(2)
Net cash flow from operating activities		**(1,712)**	139
Investing activities			
Purchase of property, plant and equipment	15	**(3)**	—
Net cash flow from investing activities		**(3)**	—
Cash flows from financing activities			
Repayment of borrowings	22	**—**	(107)
Finance cost		**(293)**	(34)
Share issue costs	21	**(52)**	—
Issue of share capital	21	**1,333**	—
Net cash flow from financing		**988**	(141)
Net decrease in cash and cash equivalents		**(727)**	(2)
Cash and cash equivalents at the beginning of the year		**8**	10
Cash and cash equivalents at the end of the year	20	**(719)**	8

The notes on pages 30 to 59 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

for the year ended 31 March 2011

1. General Information

ZOO Digital Group plc ('the company') and its subsidiaries (together 'the group') provide productivity tools and services for digital content authoring, video post-production and localisation for entertainment and packaging markets and continue with on-going 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.

In September 2006 the company issued a five year convertible loan note of $5.6m to be either redeemed or converted into shares prior to October 2011. Since the balance sheet date the Board have reached agreement with the loan note holders for 50 per cent of this loan to be converted into shares and for the remaining 50 per cent to stay in the loan note instrument which has been extended for a further a two years with a coupon of 7.5 per cent. A placing of equity shares has raised an additional $2.8m which will be received in September 2011 and will be used as working capital for the group to support expansion of the business in new markets, particularly eBooks.

The results for the year demonstrate growth in profitability and the directors have prepared trading and cash flow forecasts for the group for the period to 31 March 2014 which show further cautious growth in profitability. 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 sales. The directors have considered the consequences if the sales volume is less than the level forecast and they are confident that in this eventuality alternative steps could be taken to ensure that the group can continue to operate without the need for additional funding.

The bank funding facilities are due for renewal in October 2011 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. Summary of significant accounting policies continued

2.1.1 IFRS effective in 2010 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
- IFRS3 Business combinations (Revised)
- IFRS5 (Amendment) Non-current assets held for sale and discontinued operations
- 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
- IFRIC17 Distributions of Non-cash Assets to Owners
- IFRIC18 Transfers of assets from customers

2.1.2 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:

- IFRIC19 Extinguishing financial liabilities with equity instruments

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.

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.

The pound sterling/US dollar exchange rate at 31 March 2011 was 0.6228 (2010: 0.6589).

Notes to the Financial Statements

for the year ended 31 March 2011

2. Summary of significant accounting policies continued

2.4.2 Transactions and balances

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

In order to hedge its exposure to certain foreign currency exchange risks, the group uses forward foreign currency exchange contracts to hedge significant exposure on foreign exchange transactions. This is explained in the financial instruments accounting policy and note 28 to these financial statements. The group does not hedge account for forward foreign currency contracts.

2.4.3 Group companies

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

- assets and liabilities for each entity are translated at the closing rate at the year end date;
- income and expenses for each Statement of Comprehensive Income are translated at the prevailing monthly exchange rate for the month in which the income or expense arose and all resulting exchange rate differences are recognised 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 Consolidated 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 the estimated useful life of three years or the length of any current sales contracts, from the point at which the asset is ready for sale or use.

2. 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 Consolidated Statement of Comprehensive Income on a straight-line basis over its estimated useful life of three years from the date the asset is available for use.

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

Amortisation is included within 'Other operating expenses' in the Consolidated 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 estimated useful life, as follows:

— Leasehold improvements	5 years or over the term of the lease, if shorter
— Computer hardware	between 2 and 3 years
— Office equipment, fixtures and fittings	between 2 and 5 years
— Production equipment	between 2 and 3 years

2.8 Impairment of assets

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

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

The group has used forward foreign exchange contracts in the current financial year to hedge its exposure to currency risk. The group monitors its exposure and adopts forward foreign exchange contracts where it deems appropriate.

Financial instruments are recognised on the Statements of Financial Position at fair value when the group becomes a party to the contractual provisions of the instrument, with movements reflected in the Consolidated Statement of Comprehensive Income

The group does not use hedge accounting for its forward foreign currency contracts and does not use forward foreign currency contracts for speculative purposes.

2.9.1 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Consolidated 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 IAS 32 'Financial Instruments: presentation' and split between debt and equity based upon the market rate of similar loans not carrying conversion options.

Notes to the Financial Statements

for the year ended 31 March 2011

2. Summary of significant accounting policies continued

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 Consolidated Statement of Comprehensive Income.

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 and warrants 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 or warrants that will eventually vest.

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

When share options or warrants are exercised, the company issues new shares. The nominal share value from the proceeds received are credited to share capital and proceeds received above nominal value, net of attributable transaction costs are credited to the share premium when the options or warrants are exercised. When share options or warrants are forfeited, cancelled or expire, the corresponding fair value is transferred to the accumulated losses reserve.

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

2.11 Pension costs and other post-retirement benefits

The Group operates only defined contribution schemes and pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further obligations once the contributions have been paid. The amount charged to the Consolidated Statement of Comprehensive Income in respect of pension costs and other post-retirement benefits is the contributions payable in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the Statements of Financial Position.

2.12 Revenue

Revenue comprises the consideration receivable for services provided, 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 and packaging industries. 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 Consolidated 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 Consolidated Statement of Comprehensive Income in line with the usage of these products.

2. Summary of significant accounting policies continued

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.

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.

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 Consolidated 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 borrowings. The interest element of the finance cost is charged to the Consolidated 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 consolidated and parent company Statement of Financial Position. Deferred tax assets and liabilities are not recognised if they arise in the following situations; the initial recognition of goodwill; or the initial recognition of assets and liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of recovery or settlement of the carrying amount of assets and liabilities, using tax rates enacted or 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 Consolidated Statement of Comprehensive Income over the period necessary to match them with the costs they are intended to compensate.

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

Notes to the Financial Statements

for the year ended 31 March 2011

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 and the discontinuation of activities, including the decisions not to continue certain development projects.

3. Accounting estimates and judgements

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

3.1 Critical accounting estimates and assumptions

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

Goodwill

Goodwill is tested annually for impairment at the 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%. No impairment loss incurred at this discount rate. Had the discount rate used been 1% greater or lower than estimated, there still would be no material impact on impairment.

Financial Instruments

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

Recognition of deferred tax assets

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

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

3.2 Critical judgements in applying the group's accounting policies

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.

4. Segmental reporting

Business segments

At 31 March 2011, 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 of head office operations.

4. Segmental reporting continued

The Segment results are as follows:

	Software Solutions		Media Production		Total	
	2011	2010	**2011**	2010	**2011**	2010
	$000	$000	**$000**	$000	**$000**	$000
Total revenue	**8,134**	7,329	**8,049**	11,458	**16,183**	18,787
Inter-segment revenue	**—**	(205)	**(2,426)**	(3,526)	**(2,426)**	(3,731)
Revenue	**8,134**	7,124	**5,623**	7,932	**13,757**	15,056
Segment result	**2,787**	1,811	**274**	(35)	**3,061**	1,776
Unallocated corporate expense					**(1,715)**	(1,815)
Operating profit/(loss)					**1,346**	(39)
Finance income					**—**	1
Finance cost					**(835)**	(830)
Profit/(loss) before taxation					**511**	(868)
Tax on profit/(loss)					**484**	(4)
Profit/(loss) for the year					**995**	(872)

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

	Software Solutions		Media Production		Group Operations	
	2011	2010	**2011**	2010	**2011**	2010
	$000	$000	**$000**	$000	**$000**	$000
Depreciation	**52**	55	**222**	351	**150**	13
Amortisation	**396**	240	**92**	114	**9**	—
Impairment losses	**—**	91	**—**	769	**—**	—

Segment assets consist primarily of property, plant and equipment, intangible assets, trade and other receivables and cash and cash equivalents. Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as borrowings.

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

	Software Solutions		Media Production		Total	
	2011	2010	**2011**	2010	**2011**	2010
	$000	$000	**$000**	$000	**$000**	$000
Assets	**7,371**	7,259	**2,205**	1,827	**9,576**	9,086
Unallocated corporate assets					**3,635**	2,628
Consolidated total assets					**13,211**	11,714
Liabilities	**1,184**	1,259	**1,616**	2,726	**2,800**	3,985
Unallocated corporate liabilities					**6,419**	6,085
Consolidated total liabilities					**9,219**	10,070
Capital Expenditure	**2,018**	1,158	**492**	313	**2,513**	1,471

Notes to the Financial Statements

for the year ended 31 March 2011

4. Segmental reporting continued

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	
	2011 $000	2010 $000	**2011 $000**	2010 $000	**2011 $000**	2010 $000
United Kingdom	**68**	140	**10,973**	8,144	**2,017**	1,152
US	**13,689**	14,916	**2,238**	3,570	**496**	319
	13,757	15,056	**13,211**	11,714	**2,513**	1,471

5. Revenue

The group's revenue comprises:

	2011 $000	2010 $000
Software Solutions	**8,134**	7,124
Media Production	**5,623**	7,932
	13,757	15,056
Continuing operations	**13,757**	15,056
Discontinued operations	**—**	—
	13,757	15,056
Revenue from services	**7,811**	9,439
Royalty income and software license fees	**5,946**	5,617
	13,757	15,056

Major customers

The group currently has one major customer representing 92% (2010:92%) of the group's revenues. These revenues are generated from both of the group's operating segments. The revenues are as follows:

	2011 $000	2010 $000
Major customer	**12,676**	13,786
Other customers	**1,081**	1,270
	13,757	15,056

6. Other operating income

	2011 $000	2010 $000
Government grants	**119**	177
Sales of own shares	**16**	—
	135	177

7. Finance income and costs

	2011 $000	2010 $000
Finance income:		
Interest on short-term deposits	—	1
Finance income	—	1
Finance costs:		
Interest on bank overdraft	(5)	(25)
Interest on borrowings	(530)	(515)
Exchange losses on borrowings	(300)	(290)
Finance costs	(835)	(830)

8. Operating profit/(loss)

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

	2011 $000	2010 $000
Other exchange gains or losses	(26)	(2)
Staff costs	6,541	7,164
Depreciation	424	419
Amortisation of other intangible assets	497	354
Exceptional impairment losses on other intangible assets (note 14)	—	860
Research and non-capitalised development costs	123	170
Operating lease expense	634	785
Auditor's remuneration	88	77
Other expenses	1,877	1,676
Other operating expenses	10,158	11,503

9. Auditor's remuneration

	2011 $000	2010 $000
Fees payable to group's auditor for the audit of the group's annual financial statements	36	34
The audit of the group's subsidiaries, pursuant to legislation	40	35
Tax services	11	8
All other services	1	—
	88	77

Notes to the Financial Statements

for the year ended 31 March 2011

10. Employees including directors

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

	2011 No.	2010 No.
Product design	**88**	82
Sales and marketing	**6**	7
Administration	**10**	10
	104	99

Their aggregate remuneration comprised:

	2011 $000	2010 $000
Wages and salaries	**5,739**	6,254
Social security costs	**681**	694
Other pension costs	**65**	59
Share-based payments	**56**	157
	6,541	7,164

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

Compensation of key management personnel (including directors)

	2011 $000	2010 $000
Short-term employee benefits	**1,485**	1,571
Post-employment benefits	**16**	13
Share-based payments	**39**	127
	1,540	1,711

Directors' remuneration for the year to 31 March 2011 is:

	Salary $000	Bonus $000	Benefits $000	Pension $000	2011 Total $000	2010 Total $000
Dr Stuart A Green	214	65	3	—	**282**	263
Helen P Gilder	149	43	3	16	**211**	199
Gordon Doran*	220	74	16	—	**310**	214
Roger D Jeynes†	36	—	—	—	**36**	—
James A Livingston‡	33	—	—	—	**33**	27
Ian C Stewart§	17	—	—	—	**17**	24
Dr Christopher HB Honeyborne^	3	—	—	—	**3**	32
Matthew P Taylor¶	—	—	—	—	**—**	7
	672	182	22	16	**892**	766

* Gordon Doran was appointed as a director on 28 July 2009.
† Roger Jeynes was appointed on 28 April 2010.
‡ James Livingston was appointed 12 June 2009.
§ Ian Stewart retired 31 December 2010.
^ Dr Christopher HB Honeyborne retired on 28 April 2010.
¶ Matthew Taylor retired on 12 June 2009.

10. Employees including directors continued

Two directors (2010: 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:

	2011 $000	2010 $000
Emoluments	310	257
Money purchase pension contributions	—	6
	310	263

11. Income tax

	2011 $000	2010 $000
Current tax:		
UK corporation tax		
— Current tax on income for the year	—	—
— Adjustments in respect of prior years	—	(3)
Foreign tax	(2)	(1)
Total current tax	(2)	(4)
Deferred tax:		
— Current year (note 17)	486	—
Total deferred tax	486	—
Tax credited/(charged)	484	(4)

Corporation tax is calculated at 28% (2010: 28%) of the estimated assessable profit for the year.

Tax charge for the year

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

	2011 $000	2010 $000
Profit/(loss) before tax	511	(868)
Tax calculated at standard rate of corporation tax of 28% (2010: 28%)	143	(243)
Depreciation in excess of capital allowances	9	22
Capital allowances in excess of depreciation	(26)	(68)
Disallowable items	25	(48)
Additional R&D expenditure relief	(164)	—
(Profits)/losses carried forward	11	333
Deferred tax (note 17)	486	—
Tax credited/(charged)	484	(4)

Tax losses carried forward

The group has tax losses carried forward of approximately $28m (2010: $28m), of which $1.8m (2010: nil) has been recognised at a rate of 26% as a deferred tax asset for the year. The balance of tax losses remain unrecognised at the balance sheet date.

12. Dividends

There were no dividends paid or proposed.

Notes to the Financial Statements

for the year ended 31 March 2011

13. Profit/(loss) per share

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

	Basic and Diluted	
	2011	2010
	$000	$000
Profit/(loss) for the financial year	995	(872)

Weighted average number of shares for basic & diluted profit/(loss) per share	2011 Number of shares	2010 Number of shares
Basic	23,182,299	21,326,421
Effect of dilutive potential ordinary shares:		
Convertible loan note	7,263,590	7,263,590
Share options	2,915,238	3,134,565
Share warrants	1,719,998	525,000
Diluted	35,081,125	32,249,576

14. Exceptional items

During the year ended 31 March 2010 changes in market expectations led to a management decision not to continue certain development projects acquired through the purchase of Scope Seven LLC. The amount of this impairment was $797,000 and this is included within 'Exceptional impairment losses on other intangible assets', the balance being in respect of cancelled patents (note 16).

This item is considered exceptional by virtue of its size and omission of its disclosure would not give a fair presentation of the group's financial position and performance.

15. Property, plant and equipment

Group	Production equipment $000	Leasehold improve-ments $000	Computer hardware $000	Office equipment, fixtures & fittings $000	Total $000
Cost					
Opening cost at 1 April 2009	264	321	1,325	504	2,414
Additions	19	—	191	5	215
Disposals	—	—	(209)	(51)	(260)
Opening cost at 1 April 2010	283	321	1,307	458	2,369
Additions	26	23	362	4	415
Disposals	(9)	(189)	(284)	(81)	(563)
Closing cost at 31 March 2011	**300**	**155**	**1,385**	**381**	**2,221**
Accumulated depreciation/impairment					
Opening balance at 1 April 2009	91	118	1,059	383	1,651
Depreciation	98	75	200	46	419
Disposals	—	—	(208)	(51)	(259)
Opening balance at 1 April 2010	189	193	1,051	378	1,811
Depreciation	79	78	218	49	424
Disposals	(9)	(189)	(284)	(81)	(563)
Closing balance at 31 March 2011	**259**	**82**	**985**	**346**	**1,672**
Opening carrying value at 1 April 2009	173	203	266	121	763
Opening carrying value at 1 April 2010	94	128	256	80	558
Closing carrying value at 31 March 2011	**41**	**73**	**400**	**35**	**549**

Depreciation expense of $424,000 (2010: $419,000) is included in 'Other operating expenses'.

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

At 31 March 2011	Production equipment $000	Computer hardware $000	Office equipment, fixtures & fittings $000	Total $000
Cost — capitalised finance leases	**145**	**449**	**100**	**694**
Accumulated depreciation	**(123)**	**(146)**	**(83)**	**(352)**
Net book value	**22**	**303**	**17**	**342**

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

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

Notes to the Financial Statements

for the year ended 31 March 2011

15. Property, plant and equipment continued

Company	Leasehold improvements $000	Computer hardware $000	Office equipment, fixtures & fittings $000	Total $000
Cost				
Opening cost at 1 April 2009	—	396	318	714
Additions	128	29	54	211
Opening cost at 1 April 2010	128	425	372	925
Additions	—	—	3	3
Closing cost at 31 March 2011	**128**	**425**	**375**	**928**
Accumulated depreciation/impairment				
Opening balance at 1 April 2009	—	396	284	680
Depreciation	—	—	13	13
Opening balance at 1 April 2010	—	396	297	693
Depreciation	73	29	48	150
Closing balance at 31 March 2011	**73**	**425**	**345**	**843**
Opening carrying value at 1 April 2009	—	—	34	34
Opening carrying value at 1 April 2010	128	29	75	232
Closing carrying value at 31 March 2011	**55**	**—**	**30**	**85**

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

At 31 March 2011	Computer hardware $000	Office equipment, fixtures & fittings $000	Total $000
Cost — capitalised finance leases	—	**100**	**100**
Accumulated depreciation	—	**(83)**	**(83)**
Net book value	**—**	**17**	**17**

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

16. Intangible assets

Group	Goodwill $000	Development costs $000	Patents and trademarks $000	Computer software $000	Total $000
Cost					
Opening cost at 1 April 2009	16,610	3,350	593	388	20,941
Additions	—	1,035	102	119	1,256
Disposals	—	—	—	(34)	(34)
Opening cost at 1 April 2010	16,610	4,385	695	473	22,163
Additions	—	1,911	92	95	2,098
Disposals	—	(28)	-	(72)	(100)
Derecognise	—	—	(233)	—	(233)
Closing cost at 31 March 2011	**16,610**	**6,268**	**554**	**496**	**23,928**
Accumulated amortisation/impairment					
Opening balance at 1 April 2009	12,620	1,049	172	238	14,079
Amortisation	—	222	20	112	354
Impairment loss (note 8)	—	797	63	—	860
Disposals	—	—	—	(33)	(33)
Opening balance at 1 April 2010	12,620	2,068	255	317	15,260
Amortisation	—	355	29	113	497
Disposals	—	(28)	—	(70)	(98)
Derecognise	—	—	(211)	-	(211)
Closing balance at 31 March 2011	**12,620**	**2,395**	**73**	**360**	**15,448**
Opening carrying value at 1 April 2009	3,990	2,301	421	150	6,862
Opening carrying value at 1 April 2010	3,990	2,317	440	156	6,903
Closing carrying value at 31 March 2011	**3,990**	**3,873**	**481**	**136**	**8,480**

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 11 years.

Following the decision by management not to renew or pursue some of the company's patent applications, $232,575 of previously capitalised patents costs were derecognised during the year. Of these costs $210,804 was fully impaired.

During the year ended 31 March 2010 changes in market expectations led to a management decision not to continue certain development projects acquired through the purchase of Scope Seven LLC. The amount of impairment was $797,000.

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

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

	2011 $000	2010 $000
Cost — capitalised finance leases	**77**	133
Accumulated amortisation	**(55)**	(50)
Net book value	**22**	83

Notes to the Financial Statements

for the year ended 31 March 2011

16. Intangible assets continued

Company	Goodwill $000	Computer software $000	Total $000
Cost			
Opening cost at 1 April 2009	10,960	57	11,017
Additions	—	8	8
Opening cost at 1 April 2010	10,960	65	11,025
Additions	—	—	—
Closing cost at 31 March 2011	**10,960**	**65**	**11,025**
Accumulated amortisation/impairment			
Opening balance at 1 April 2009	8,679	56	8,735
Amortisation	—	—	—
Opening balance at 1 April 2010	8,679	56	8,735
Amortisation	—	9	9
Closing balance at 31 March 2011	**8,679**	**65**	**8,744**
Opening carrying value at 1 April 2009	2,281	1	2,282
Opening carrying value at 1 April 2010	2,281	9	2,290
Closing carrying value at 31 March 2011	**2,281**	**—**	**2,281**

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

	2011 $000	2010 $000
Cost — capitalised finance leases	—	54
Accumulated amortisation	—	(47)
Net book value	**—**	7

There were no assets held under finance leases at 31 March 2011.

16. Intangible assets continued

Impairment tests for goodwill

Goodwill is subject to annual impairment testing, or more frequently if there are indications that goodwill might be impaired. Goodwill is allocated to the group's cash generating units (CGUs) identified according to the business segment. The aggregation of assets for identifying the cash generating units has not changed since the prior year.

The recoverable amount of a CGU is its value in use. In calculating the value in use the group used a discount rate of 8% (2010: 8%). The carrying amount of goodwill is allocated as follows:

	Software Solutions		Media Production		Group	
	2011	2010	**2011**	2010	**2011**	2010
	$000	$000	**$000**	$000	**$000**	$000
	2,281	2,281	**1,709**	1,709	**3,990**	3,990

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

Management has based its pre-tax cash flow projections on financial budgets approved by management covering a three year period. Cash flows after the three year period have been extrapolated based on estimated growth rates disclosed below. Management determined the budgets on past performance and its expectations of market development.

	Software Solutions	Media Production
Discount rate	8%	8%
Growth rate	10%	10%

17. Deferred income tax

	Group		Company	
	2011	2010	**2011**	2010
	$000	$000	**$000**	$000
Deferred tax assets comprise:				
Unused tax losses	**486**	—	**92**	—

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

	Group		Company	
	2011	2010	**2011**	2010
	$000	$000	**$000**	$000
At 1 April	**—**	—	**—**	—
Credited to the statement of comprehensive income	**486**	—	**92**	—
At 31 March	**486**	—	**92**	—

Tax losses carried forward

The group has tax losses carried forward of approximately $28m (2010: $28m), of which $1.8m (2010: nil) has been recognised at a rate of 26% as a deferred tax asset for the year. The balance of tax losses remain unrecognised at the balance sheet date.

18. Inventories

	Group	
	2011	2010
	$000	$000
Products in the course of development	**80**	365

During the year ended 31 March 2011 $365,000 was recognised as an expense within 'cost of sales'.

Notes to the Financial Statements

for the year ended 31 March 2011

19. Trade and other receivables

	Group		Company	
	2011	2010	**2011**	2010
	$000	$000	**$000**	$000
Trade receivables	**1,436**	2,247	**1**	1
Less: provision for impairment of trade receivables	**(6)**	(65)	**(1)**	(1)
Trade receivables — net	**1,430**	2,182	**—**	—
Amounts owed by subsidiary undertakings	**—**	—	**21,583**	18,193
VAT	**31**	22	**—**	—
Other debtors	**278**	234	**—**	3
Prepayments and accrued income	**1,277**	229	**221**	157
	3,016	2,667	**21,804**	18,353

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

As of 31 March 2011, trade receivables of $303,000 (2010: $156,000) were overdue. The ageing analysis of these trade receivables is as follows:

	Group		Company	
	2011	2010	**2011**	2010
	$000	$000	**$000**	$000
Less than 3 months	**146**	129	**—**	—
3 to 6 months	**50**	25	**—**	—
7 to 12 months	**96**	1	**—**	—
Over 12 months	**11**	1	**1**	1
	303	156	**1**	1

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

	Group		Company	
	2011	2010	**2011**	2010
	$000	$000	**$000**	$000
Pound sterling	**443**	200	**221**	160
US Dollar	**2,570**	2,465	**21,583**	18,193
Euros	**3**	2	**—**	—
	3,016	2,667	**21,804**	18,353

Provision for impairment of trade receivables:

	Group	
	2011	2010
	$000	$000
At 1 April	**65**	117
Provision for receivables impairment	**—**	5
Receivables written off in the year as uncollectible	**(59)**	(47)
Unused amounts reversed	**—**	(10)
At 31 March	**6**	65

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

19. Trade and other receivables continued

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 $510,000 (2010:$334,000) of which $288,000 (2010: $120,000) 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 consolidated and parent company statement of financial position amounts.

	Group		Company	
	2011	2010	**2011**	2010
	$000	$000	**$000**	$000
Cash on hand and balances with banks	**600**	1,221	**(719)**	8

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

21. Share capital and reserves

Called up share capital

	2011	2010
	$000	$000
Allotted, called-up and fully paid		
23,846,255 ordinary shares of 15p each	**5,127**	4,573
Reconciliation of the number of shares outstanding:		
Opening balance	**21,326,421**	21,326,421
Shares issued	**2,148,642**	—
Share options exercised	**371,192**	—
Closing balance	**23,846,255**	21,326,421

During the year the group purchased 298,232 (2010: 473,500) of its own shares through ZOO Employee Share Trust Limited at an average price of $0.42 (24.1p) per share. The total cost of the purchase was $124,374 (2010: $71,823).

On 25 June 2010 the company allotted and issued 2,148,642 new ordinary shares of $0.23 (15p) each in the company, at a subscription price of $0.60 (40p) per share.

Transactions after the reporting period are shown in note 25.

Notes to the Financial Statements

for the year ended 31 March 2011

21. Share capital and reserves continued

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.
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 Ltd in 2001.

22. Borrowings

	Group		Company	
	2011	2010	**2011**	2010
	$000	$000	**$000**	$000
Non-current				
Amounts owed to subsidiary undertakings	**—**	—	**9,701**	9,701
6% Unsecured convertible loan note stock	**—**	5,054	**—**	5,054
Finance lease liabilities	**191**	84	**—**	—
	191	5,138	**9,701**	14,755
Current				
6% Unsecured convertible loan note stock	**5,555**	—	**5,555**	—
Finance lease liabilities	**154**	169	**—**	—
	5,709	169	**5,555**	—
Total borrowings	**5,900**	5,307	**15,256**	14,755

On 27 September 2006 the Group issued $5,062,000 6% Unsecured convertible loan note stock which matures 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 convertible loan stock has been accounted for in accordance with IAS 32 (Financial instruments: Presentation) and split between debt and equity based upon the market rate of similar loan stock not carrying conversion options, estimated to be 8%. The fair value of the convertible loan note is considered to be the carrying value.

Following the agreement with the loan note holders in August 2011 to extend 50 per cent of the loan note instrument for a further two years, 50 per cent of the liability, currently shown in the Current borrowings, in the Statement of Financial position will move into Non-current liabilities. The remaining 50 per cent will convert into equity.

22. Borrowings continued

Finance lease liabilities

Finance lease liabilities are payable as follows:

At 31 March 2011	Future minimum lease payments $000	Interest $000	Present value of minimum lease payments $000
Less than one year	187	(33)	154
Between one and five years	209	(18)	191
More than five years	—	—	—
	396	(51)	345

At 31 March 2010	Restated Future minimum lease payments $000	Restated Interest $000	Restated Present value of minimum lease payments $000
Less than one year	179	(24)	155
Between one and five years	108	(10)	98
More than five years	—	—	—
	287	(34)	253

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

The year ended 31 March 2010 has been restated to show interest and present value separately.

23. Trade and other payables

	Group		Company	
	2011 $000	2010 $000	**2011 $000**	2010 $000
Trade creditors	**1,013**	1,894	**301**	207
Amounts owed to subsidiary undertakings	**—**	—	**38**	13
VAT	**—**	—	**33**	—
Accrued expenses	**2,306**	2,869	**527**	850
	3,319	4,763	**899**	1,070

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

Notes to the Financial Statements

for the year ended 31 March 2011

24. Commitments

Capital commitments

The group had no capital commitments at the 31 March 2011.

Operating lease commitments

The group has a number of operating leases, as a lessee, for equipment and premises under non-cancellable agreements. The lease terms are between 3 and 6 years, and the majority of lease agreements are renewable at the end of the lease period at market rate. The lease expenditure charged to the Consolidated Statement of Comprehensive Income during the year is disclosed in note 8. The lease expenditure on premises is charged to the Consolidated 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:

	2011 $000	2010 $000
Within one year	488	552
From one to five years	185	380
After five years	—	—
	673	932

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

25. Events after the reporting period

On 10 June 2011 36,155 shares were issued following the exercise of employee share options.

On 14 June 2011 the group entered into an agreement to extend the lease on its US offices. The lease has been extended to December 2016. The total commitment of the five year period is $2.6m.

On 10 August 2011 the company announced that agreement had been reached with the holders of the $5.6m convertible loan note to convert 50% of their holding into shares at a price of 40p and for the balance of 50% to remain within the loan note instrument for a further two years at a coupon of 7.5% and a conversion price of 48p. The loan note conversion into equity results in the issue of 4,426,250 shares and the placing results in a further 4,252,500 shares.

Dr Stuart A Green held a $549,000 (2010: $519,000) interest in 6% unsecured convertible loan stock at 31 March 2011. The underlying value of the interest in the convertible loan stock is £342,000. As a result of the above agreement, 50% of this loan stock has been converted into shares.

On 10 August 2011 it was further announced that there has been a successful placing of shares raising $2.8m at a price of 40p in order to fund working capital in areas of growth. Stuart A Green, CEO, agreed to subscribe $160,000 to the placing.

On 16 August 2011 99,500 shares were issued following the exercise of employee share options.

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	Dormant	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 2011 $000	Company 2010 $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 10, Employees including directors.

Related Party Transactions

	Company 2011 $000	Company 2010 $000
Sales of services to subsidiaries:		
Administration services	**2,975**	3,441

Notes to the Financial Statements

for the year ended 31 March 2011

26. Related parties continued

Amounts owed by subsidiary undertakings

	Company 2011 $000	Company 2010 $000
ZOO Digital Limited	**16,068**	14,097
Scope Seven LLC	**5,426**	3,816
ZOO Digital Inc.	**89**	280
	21,583	18,193

Amounts owed to subsidiary undertakings

	Company 2011 $000	Company 2010 $000
ZOO Employee Share Trust Limited	**38**	13

27. Share-based payments

Employee share option schemes

Share options have been granted under the following schemes to subscribe for ordinary shares of the company. Movements in the number of options, under each of the schemes, and their related weighted average exercise price are as follows:

ZOO Digital Group plc EMI scheme	2011 Options No.	2011 Weighted average exercise price $	2010 Options No.	2010 Weighted average exercise price $
Outstanding at the beginning of the year	**995,647**	**0.21**	995,647	0.21
Granted during the year	**47,334**	**0.76**	—	—
Exercised during the year	**(60,366)**	**0.21**	—	—
Surrendered during the year	**—**	**—**	—	—
Outstanding at the end of the year	**982,615**	**0.24**	995,647	0.21
Exercisable at the end of the year	**696,953**	**0.21**	398,259	0.21

The underlying weighted average exercise price for the share under option at 31 March 2011 was 17p (2010:15p)

ZOO Digital Group plc Unapproved	2011 Options No.	2011 Weighted average exercise price $	2010 Options No.	2010 Weighted average exercise price $
Outstanding at the beginning of the year	**2,138,918**	**0.21**	2,138,918	0.21
Granted during the year	**45,000**	**0.69**	—	—
Exercised during the year	**(310,826)**	**0.21**	—	—
Surrendered during the year	**(172,140)**	**0.21**	—	—
Outstanding at the end of the year	**1,700,952**	**0.22**	2,138,918	0.21
Exercisable at the end of the year	**1,395,820**	**0.21**	855,567	0.21

The underlying weighted average exercise price for the share under option at 31 March 2011 was 17p (2010:15p).

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

27. Share-based payments continued

Out of the 2,683,567 outstanding options (2010: 3,134,565 options), 2,092,773 were exercisable (2010: 1,253,826). 371,192 were exercised during the year ended 31 March 2011 (2010: nil).

Share options outstanding at the end of the year have the following expiry dates and exercise prices

Scheme	Options No.	Expiry date	Exercise price $	Exercise price £
ZOO Digital Group plc EMI scheme	935,281	13 Oct 2018	0.21	0.15
ZOO Digital Group plc EMI scheme	47,334	30 Nov 2020	0.76	0.535
ZOO Digital Group plc Unapproved	1,655,952	13 Oct 2018	0.21	0.15
ZOO Digital Group plc Unapproved	30,000	27 Jun 2020	0.65	0.43
ZOO Digital Group plc Unapproved	15,000	30 Nov 2020	0.76	0.535
Outstanding at the end of the year	**2,683,567**			

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:

	2008	Jun 2010	Dec 2010
Expected Volatility (%)	100	73	76
Risk-free Interest rate (%)	4.49	2.65	2.13
Expected life of option (years)	5	5	5
Expected dividends	none	none	none

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

Share warrants

Share warrants have been granted under the following schemes to subscribe for ordinary shares of the company.

Scheme 1

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.

	2011		2010	
Share Warrants	**Options No.**	**Weighted average exercise price $**	Options No.	Weighted average exercise price $
Outstanding at the beginning of the year	**525,000**	**0.21**	525,000	0.21
Granted during the year	**—**	**—**	—	—
Outstanding at the end of the year	**525,000**	**0.21**	525,000	0.21
Exercisable at the end of the year	**375,000**	**0.21**	250,000	0.21

Out of the 525,000 outstanding warrants (2010: 525,000), 375,000 were exercisable (2010: 250,000). No warrants have been exercised since grant. The 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).

Notes to the Financial Statements

for the year ended 31 March 2011

27. Share-based payments continued

Scheme 2

Under this scheme the percentage of shares that can be exercised is staggered over the exercise period based on a minimum level of new sales generated in any 12 month rolling period through the Warrant holder.

Share Warrants	2011 Options No.	2011 Weighted average exercise price $	2010 Options No.	2010 Weighted average exercise price $
Outstanding at the beginning of the year	—	—	—	—
Granted during the year	2,148,642	0.77	—	—
Outstanding at the end of the year	2,148,642	0.77	—	—
Exercisable at the end of the year	—	—	—	—

Out of the 2,148,642 outstanding warrants (2010: nil), no warrants were exercisable at the 31 March 2011 (2010: nil). No warrants have been exercised in 2011 or 2010. The share warrants outstanding at the end of the year have an expiry date of 31 July 2013 and an exercise price of $0.77 (50p)

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:

	Scheme 1	Scheme 2
Expected Volatility (%)	100	71
Risk-free Interest rate (%)	4.00	0.67
Expected life of option (years)	2	1.50
Expected dividends	None	None

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

Share-based payments have had the following impact on the group's profit/ (loss) for the year:

	2011 $000	2010 $000
Total expense/recognised from share option transactions	56	157
Total expense/recognised from share warrant transactions	140	12

Share-based payment liability appears in the statement of financial position under:

	2011 $000	2010 $000
Share option reserve	278	267
Warrant reserve	190	50

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.

Categories of financial instruments

	Group		Company	
	2011	2010	**2011**	2010
	$000	$000	**$000**	$000
Loans and receivables				
Trade and other receivables excluding pre-payments[1] (note 19)	**2,673**	2,182	**—**	—
Amounts owed by subsidiary undertakings (note 19)	**—**	—	**21,583**	18,193
Cash and cash equivalents	**600**	1,221	**(719)**	8
Total	**3,273**	3,403	**20,864**	18,201

	Group		Company	
	2011	2010	**2011**	2010
	$000	$000	**$000**	$000
Other financial liabilities at amortised cost				
Finance lease liabilities (note 22)	**345**	253	**—**	—
Amounts owed to subsidiary undertakings (note 22)	**—**	—	**9,701**	9,701
6% Unsecured convertible loan stock	**5,555**	5,054	**5,555**	5,054
Trade and other payables (note 23)	**3,319**	4,763	**899**	1,070
Total	**9,219**	10,070	**16,155**	15,825

[1] Pre-payments are excluded from the trade and other receivables balance, as this analysis is required only for financial instruments

Market Risk

Foreign currency risk

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

The group includes subsidiaries operating in both the UK and USA. The majority of the group' 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 2011 there was less volatility in the pound sterling/US Dollar rate than in the previous years with the rate peaking at 0.7023 and falling to a low of 0.6097, with an average rate of 0.6424. If the US Dollar had remained at its highest level throughout the full year the group would have shown a post-tax profit of $514,000 (2010: Loss $230,000), if US Dollar had been at its lowest level throughout the full year the group would have shown a post-tax loss of $863,000 (2010: Loss $1.3m) and if the US Dollar had remained at the average rate throughout the year the post-tax loss would have been $334,000 (2010: Loss $894,000).

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.

To mitigate the exposure to fluctuations in pound sterling/US dollar exchange rate the group entered into four forward foreign currency exchange contracts during the year to the value of $750,000 (2010: nil). No forward exchange contracts were outstanding at 31 March 2011 (2010: nil). The group does not apply hedge accounting to its financial statements, and therefore accounts for contracts at their fair value at the balance sheet date.

Notes to the Financial Statements

for the year ended 31 March 2011

28. Financial instruments continued

At 31 March 2011 the aggregate amount of profit during the year from the forward currency exchange contracts was $18,000 (2010: nil).

The pound sterling/US dollar exchange rate at the 31 March 2011 was 0.6228 (2010: 06589)

Interest rate risk

In September 2006 the company issued $5,062,000 (£3,541,000) Unsecured convertible redeemable loan stock, which matures on 31 October 2011. The loan carries a fixed interest rate of 6%. The group and company consider the interest rate risk on the loan to be minimal as the rate is fixed. The company also has access to an overdraft facility of $800,000 through its bank, which carries an interest rate of 2.75% over the bank's base rate.

Liquidity risk

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

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 2011**	**Less than 1 year $000**	**Between 1 and 2 years $000**	**Between 2 and 5 years $000**	**Over 5 years $000**
Borrowings	**5,555**	**—**	**—**	**—**
Finance lease liabilities	**154**	**134**	**57**	**—**
Trade and other payables	**3,319**	**—**	**—**	**—**

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	154	66	33	—
Trade and other payables	4,763	—	—	—

Company **At 31 March 2011**	**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	**5,555**	**—**	**—**	**—**
Trade and other payables	**899**	**—**	**—**	**—**

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	—	—	—

28. Financial instruments continued

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.

	2011	2010
	$000	$000
Total borrowings	**5,900**	5,307
Less cash and cash equivalents	**(600)**	(1,221)
Net Debt	**5,300**	4,086
Total equity	**3,992**	1,644
Total capital	**9,292**	5,730
Gearing ratio	**57%**	71%

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