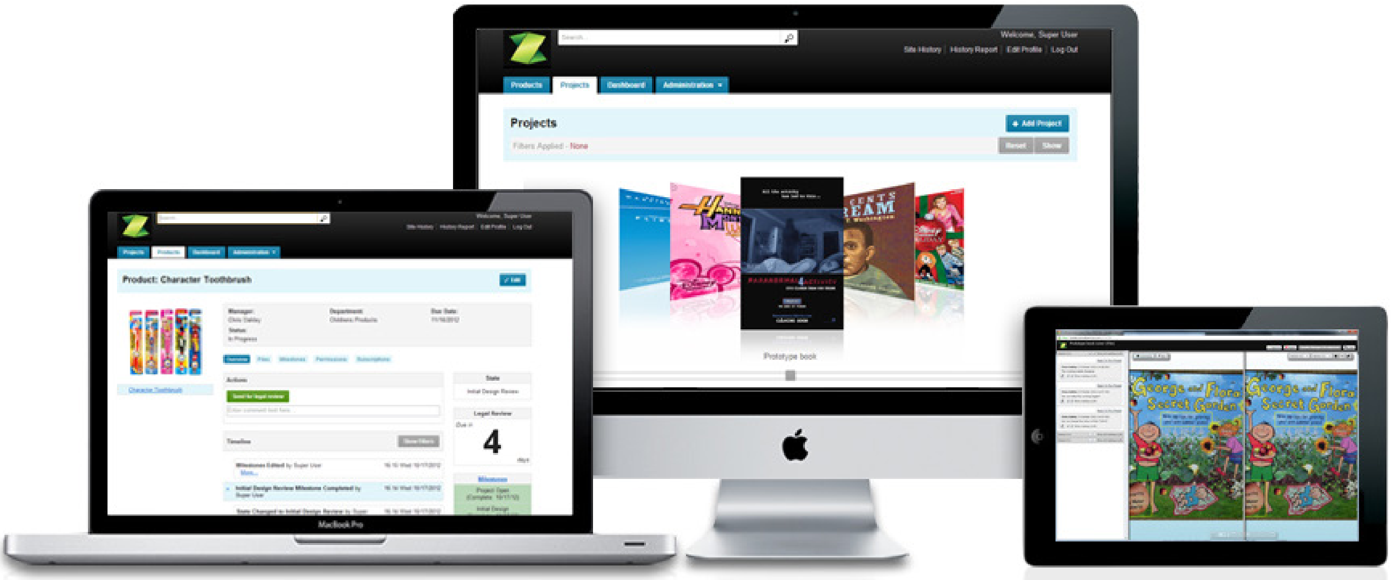
ZOO Digital Group plc

Annual Report and Accounts 2013

Stock Code: ZOO



Smarter Workflows for Creative Media

Welcome
to ZOO Digital Group plc

ZOO is a provider of workflow solutions for the creative media industries. We work with organisations including film studios, post production facilities and book publishers to simplify their production of creative materials.

Our customers enjoy reduced time to market, higher quality and lower costs. We do this by delivering innovative, patent-protected software as a service and providing flexible solutions that combine licensing with value-added services to meet the diverse needs of customers of all sizes across the creative media industries. Our software is used to create localised entertainment products, packaging and marketing campaigns for some of the best known brands in the world.

Operational Highlights

- Continued profitability at EBITDA level
- Completion of restructuring initiatives to realign cost base with revenue pipeline
- Diversified product offering and accelerated licensing of Software-as-a-Service proposition
- Early positive success in new industries outside traditional home entertainment market
- ZOOsubs has already begun to be used within two of the six major film studios and agreements with a third are expected to be formalised shortly

Key Financials

REVENUE $10.4m (2012: $11.2m)	**ADJUSTED EBITDA** $0.7m* (2012: $0.5m)*
ADJUSTED OPERATING LOSS ($0.9m)* (2012 : $0.7m)*	**YEAR END CASH BALANCE** $1.0m (2012: $1.2m)

* Adjusted EBITDA and operating loss are stated before share based payments of $0.1m (2012: $0.3m).

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www.zoodigital.com
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www.zoosubs.com
www.zoopubs.com

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Group at a Glance

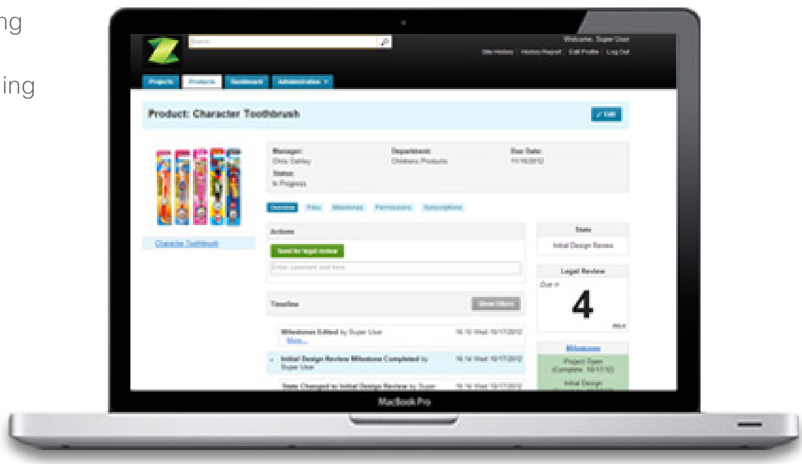
ZOO Digital Group plc provides a range of software enabled services that support the workflows associated with the design, development and distribution of creative media.

By centralising review and approval processes via secure Cloud-based platforms, ZOO's proprietary patented software helps customers to increase their speed of production, reduce costs and protect brand integrity. ZOO's services enable quicker and more cost effective processes across a range of applications, formats and markets.

Smarter Workflows for Creative Media

The group's largest customers include major Hollywood studios, for which the production, marketing and distribution of film and video properties in numerous formats across many geographies and languages has previously been a lengthy, costly and largely manual process. Our services empower our clients to operate with greater control, to a higher quality and at a lower cost.

Increasingly the group's propositions are 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, and efficient collaboration becomes a significant challenge.



Our Services

Workflow Solutions for the Creative Media Industries

ZOO provides Cloud-based services to support creative media preparation and publication, enabling diverse groups of individuals to collaborate efficiently via the internet.

While we may think of creative media in the form of consumer products and content, such as film and video, videogames, music and books, it now plays an ever increasing role in the operations of most B2B and B2C organisations. The preparation of product packaging and marketing materials involves the design, production, review, approval and localization of creative media and is undertaken by commercial organizations across all sectors, both large and small.

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 across many territories. In many industries there is a drive to create more products, faster, in a greater number of languages and at lower cost. This often requires a huge effort by many collaborating groups – suppliers, distributors, licensees, territory offices, legal departments, translators – involving complex workflows with plenty of opportunity for human error.

At ZOO we help our clients to manage their businesses better by licensing and tailoring a range of software-based services that increase productivity, reduce waste and improve management information. These services are built on cloud-based systems and desktop software appropriate to each circumstance, and provide the capabilities of workflow management and process automation.

Our Services

Our propositions are centred on three principal platforms:

ZOOcore – providing configurable workflow management designed to enhance the performance of businesses that originate creative media;

ZOOsubs – a cloud software platform and service for the film and video industry to support efficient localization of programs; and

ZOOpubs – a suite of workflow and productivity tools to support publishers in the preparation of digital books.

Our revenues are derived from two primary sources. Firstly, we generate recurring income from our software solutions in the form of Software as a Service licensing fees. For some of our propositions these are charged on a per-user per-month basis, and in other cases they are charged based on the volume of materials processed by the tools. Secondly, we offer media production services to our clients for activities related to the use of our software solutions. This hybrid approach enables us to tailor our offerings to suit the particular needs and circumstances of each client.

ZOOcore

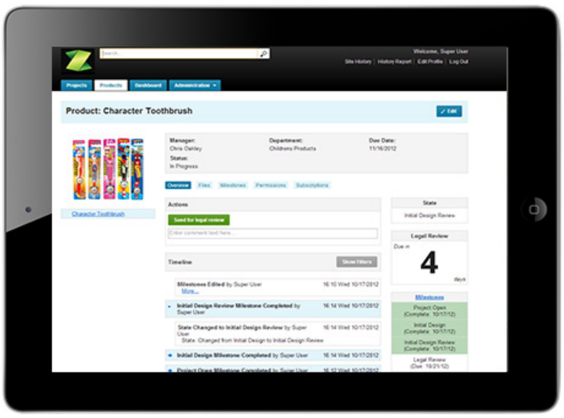
In the fast pace of today's markets, keeping on top of things is becoming increasingly challenging. Within businesses of many types the world over, managers are expending more and more time and energy checking on progress (of both internal staff and external partners, vendors and suppliers), re-scheduling work and managing run-away review cycles. Reporting status and progress to senior management and clients is increasingly onerous due to rapidly evolving schedules and can be a drain on resources. The tools employed in businesses today for managing people and deliverables are often very limited in how they help – frequently being based on generic software such as spread sheets and email.

Using our ZOOcore platform we provide computer systems that help our clients to schedule, allocate and control work packages easily, including automatically updating schedules and informing the people involved when deadlines move, work packages change or related tasks overrun. Our systems make it very easy for staff, subcontractors and even clients to see what is required of them and when. They also provide very simple and effective mechanisms for everyone involved to submit and share their work, comments or approvals.

ZOOcore is a new generation of technology that builds on our extensive experience of creating workflow management solutions for clients over the past seven years, and consolidates the software innovations formerly delivered as our Translation Management System and media collaboration toolsets. Experience has taught us that information systems are embraced most readily by organisations when they minimise friction with established and proven working practices and processes. This has led us to architect this new platform such that workflow systems can be configured quickly and easily to match the unique requirements of each business.

We cater for organizations large and small across a number of segments of the creative industries. For medium and large businesses, particularly those that operate across multiple territories, we tailor our Enterprise Edition to align our services exactly with each client's workflows. This allows us to deploy productivity solutions for internal and external workforces incurring the least possible disruption to their working practices. For smaller businesses and work groups, our Team Edition provides an affordable entry point to introduce proactive workflow management capabilities into their organizations.

We have deployed ZOOcore systems for some of the largest global creative media organizations in the world, including Hollywood studios, TV companies and publishers. We enjoy recurring revenues from monthly utilisation of our services which scale with more widespread adoption throughout our clients' organizations.



ZOOsubs

The introduction of DVD technology in 1996 led to an explosion in demand for localized programming all over the world. Subsequently, the now widespread distribution of film and episodic TV content via broadcast, cable and satellite, and more recently via a plethora of online platforms, has resulted in a dramatic growth in localization services for entertainment content and other video programming.

According to the European Commission, the size of the language industry in the EU for subtitling and dubbing was EUR 0.5B annually in 2009. Costing around one tenth of the price of the equivalent dubbed soundtracks, subtitles have become a popular choice for content owners and broadcasters to deliver localized programming quickly and cost-effectively.

Aggressive programming schedules have made it a challenge to produce high quality entertainment subtitles cost-effectively. The completion of new episodes of popular TV series requires a fast turn-around of subtitles to meet broadcasters' air dates; a drive for so-called "day and date release" of feature films (simultaneous launch of movies in multiple countries on the same day) requires finely managed logistics to produce localized materials ready to launch on time in each country.

The proliferation of delivery channels for film and TV programming, including theatrical releases (in cinemas), broadcast, cable, satellite, DVD, Blu-ray Disc, internet streaming, iTunes, Vudu, CinemaNow, Amazon and many others, brings its own particular technical challenges. This results in the need to prepare subtitles in many different technical formats and specifications. So across several languages and platform types, one episode of a TV series may require the preparation of literally hundreds of digital files, each of which must be created, quality assured, managed and delivered on time.

Our ZOOsubs proposition provides a combination of workflow management, automation and translation services to support the localization of film and video materials. Through this cloud-accessible service our clients and their service providers, are able to create native language reference materials, order translations, quality assure, convert, repurpose, store, manage and deliver localized materials. Where our clients wish to outsource the creation of subtitles ZOO can provide a highly efficient complete service empowered by ZOOsubs and ZOOcore.

ZOOsubs software and service is being used by large film studios, content distribution platform operators and global corporations to create and manage subtitles for film and video programs delivered to consumers all around the world.

ZOOpubs

A seismic shift has been taking place in the publishing industry as businesses have sought to exploit the rapid growth in sales of eReader and tablet devices. In 2012, eBook sales in fiction rose 42 per cent over the year, and in the children's and young-adult categories the increase was a remarkable 117 per cent. eBooks now account for 20 per cent of publishers' revenues, up from 15 per cent in 2011.

The electronic publishing opportunity brings with it some significant challenges for this long-established industry due to the volume of new products and versions that are being created, the associated production workflows and the management of digital assets.

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. Adapting page layouts that work well in print to the different profiles of a range of eReader devices is not straightforward. The content must be edited carefully in order to capitalise on the significant investment already made while ensuring that titles are presented to best effect on digital devices.

ZOOpubs is our suite of online and desktop workflow and productivity tools that enable publishers to manage electronic product creation, review and distribution. While outsourcing of eBook production was favoured initially by publishers, there is a growing trend to bring these capabilities in-house to retain ultimate control over design. ZOOpubs acts as a centralised system for managing the conversion process so that internal staff can be employed cost-effectively.

ZOOpubs automates the preparation of media-rich eBooks. Working with us, traditional publishers are able to bring in-house their eBook conversion efforts, thereby retaining greater control and faster turn-around than is typically possible when this work is outsourced to offshore service vendors.

ZOOpubs supports 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.

Our ZOOpubs platform is being used by a number of the world's leading book publishers to support their conversion of digital products.

Some of Our Clients

Apple
HBO
UNIVERSAL MUSIC GROUP
Hasbro
MATTEL
NICKELODEON
SHOWTIME
Parragon
NATIONAL GEOGRAPHIC
LIONSGATE
WARNER HOME VIDEO
EMI
warner | music | group

Chairman's Statement

"We have continued to deliver profitability at the EBITDA level, a result of management's timely action in response to changing market conditions"

△ Roger D Jeynes
Chairman

"We have successfully broadened our addressable market and have seen early take-up in new product areas and with a broader customer base"

The past year has been a difficult one for the business with continuing changes in the home entertainment market causing challenges for our largest customers. Despite these challenges, we have continued to deliver profitability at the EBITDA level, a result of management's timely action in response to changing market conditions. A number of restructuring initiatives in the year have enabled the group to realign its cost base and, more importantly, accelerate its licensing of more stable and scalable Software-as-a-Service (SaaS) propositions which build on our core competency in workflow management and productivity technology for creative industries.

Revenues for the full year to 31 March 2013 were $10.4 million (2012: $11.2 million) with an adjusted* profit before interest, tax, depreciation and amortisation of $0.7 million (2012: $0.5 million). The cash balance at year end was $1.0 million (2012: $1.2 million).

The group's only indebtedness remains a convertible loan note of $2.7m (£1.77m). This loan note is due to mature on 31 October 2013. The board is in advanced stages of discussion with the major loan note holders regarding an extension to the term of this loan. The board are confident, given that the major loan note holders are also major equity holders, that amended terms will be agreed prior to the maturity of the current term.

As a result of our efforts to diversify the core product offering, we have successfully broadened our addressable market and have seen early take-up in new product areas and with a broader customer base. We are encouraged by the positive response from customers and with our pipeline of opportunities. As such we look forward to the year ahead with cautious optimism.

Roger D Jeynes
Chairman

* Adjusted profit is stated before the charge for share based payments.

Chief Executive's Statement

"The investment that has been made in recent years has resulted in a very relevant suite of products and services that are highly scalable and can be delivered as off-the-shelf or tailor made solutions"

△ Dr Stuart A Green
Chief Executive

Operational review

As highlighted at the time of the interims, our primary market of home entertainment continues to be in transition, most notably with a slowdown in the production of DVD and Blu-ray titles. In response, we successfully completed a number of restructuring initiatives in the period to re-align the cost base of the group with current operations and the associated revenue pipeline. Additionally, we expanded and enhanced our propositions to address opportunities in adjacent, platform agnostic markets and we are pleased with the early successes and momentum achieved.

Product development

ZOO's focus on product development has concentrated on three main areas:

ZOOcore

We continue to roll out our recently launched Cloud-based platform, ZOOcore – a new generation workflow and collaboration platform for creative and production businesses. The product, based on our many years of experience in workflow management, was developed in-house and is deployed using Cloud infrastructure. The result is a solution that is truly flexible in terms of delivery and scale, and can be deployed more quickly and widely than before.

Using ZOOcore we are able to deliver solutions that can address the individual workflow needs of customers across all sizes and a range of creative business categories. Not only can we deliver an off-the-shelf, pre-configured management solution for smaller workgroups, but also meet the needs of customers requiring tailor-made workflow solutions that cater for their unique processes. Both approaches enable a shorter time to market for the customer and at a fraction of the cost of bespoke software installations.

We are pleased with the early positive feedback, particularly with the application of ZOOcore in business areas outside of our traditional home entertainment market. We have seen steady growth in the number of clients using ZOOcore and several clients that have signed up are expanding their workflows and user numbers covered by their ZOOcore systems.

ZOOsubs

ZOOsubs is the group's proprietary Cloud-based subtitle production and management system. Since its inception, following customer demand, we have continued to enhance the ZOOsubs platform through the addition of several new features, including those to streamline the work of operators in the creation and translation of the subtitles themselves. ZOOsubs therefore now manages the entire process for the creation of subtitles and their use in a variety of geographies and across numerous delivery platforms. Through the use of automation and workflow management, ZOOsubs is a much more cost efficient process than traditional methods and provides greater flexibility for clients.

"Through the use of automation and workflow management, ZOOsubs is a much more cost efficient process than traditional methods and provides greater flexibility for clients"

The ZOOsubs platform and service have attracted a great level of interest following initial testing with customers across various industry sectors. The Board believes that the scope for ZOOsubs is greater than first envisaged and provides an attractively priced solution which enables clients to control the quality and ownership of subtitling in a way previously unavailable in the market.

We are delighted that ZOOsubs has already begun to be used within two of the six major film studios and agreements with a third are expected to be formalised shortly. Initial feedback from other potential clients is also promising. A key area of interest for our clients has been in preparing digital packages for iTunes which must be supplied with multiple subtitle streams. ZOOsubs is being used to repurpose existing subtitle data and to create translations for new languages.

We believe this has the potential to be an area of significant growth this year.

ZOOpubs

ZOOpubs is a suite of tools to support the preparation of digital book products, including an innovative solution for publishers to efficiently and cost effectively repurpose traditional hard copy books for the eBook market. The strength of ZOO's solution is in its ability to maintain formatting qualities and standards of physical production, which is particularly relevant where pictures or illustrations accompany text in a book.

The solution continues to gain traction and during the period, it has been adopted by a number of publishers both large and small. ZOO chaired a panel session at the International Digital Publishing Forum in May 2013 on the topic of "In-Sourcing vs. Outsourcing of eBook Conversion and Production" which we know to be an area of interest for many publishers.

ZOOpubs is widely recognised as the best solution in the market for automated conversion of fixed layout eBooks and with several clients signed up, we are well positioned once market demand grows.

Staff

On behalf of the board I would like to thank all of our staff for their continued contribution and hard work over the past year.

Outlook

The Board believes that through timely intervention and reaction to market dynamics it has been able to restructure the group's cost base and align it with current demand levels.

The investment that has been made in recent years has resulted in a very relevant suite of products and services that are highly scalable and can be delivered as off-the-shelf or tailor made solutions. Importantly, we are also starting to see greater diversity in our customer base, making us less dependent on any single client, a trend which we would expect to continue.

While we are very conscious that the markets in which we operate remain hard to predict, we are confident that our diversified suite has put us in a much stronger position and opened up a range of new opportunities. We enter the new year with confidence but remain alert to general market conditions.

Dr Stuart A Green
Chief Executive Officer

Financial Review

"I am pleased to have begun the new financial year with a significantly lower cost base and a strong portfolio of products"

△ Helen P Gilder
Group Finance Director

Financial review

Having delivered encouraging results in the six months to 30 September 2012, it was disappointing that trading conditions affecting our major client resulted in results below original expectations for the full year.

During the second half of the financial year we experienced a contraction in the production services pipeline. This was predominantly due to the postponement of certain client projects which were expected in the second half of the financial year.

We continue to increase our focus on licensing of workflow management and productivity software and have introduced two major products during the period. Progress has been made in diversifying our revenue streams, although in the year to 31 March 2013, production services contributed the majority of the group's revenue.

Results for the year

The revenue reported for the year was $10.4m compared to $11.2m in the prior year. After adjusting the prior year revenue for $0.8m of non-core low margin outsourced work, underlying turnover has remained at the same level as the prior year.

The gross profit reported shows a significant improvement over the prior year at $9.6m compared to $9.3m. This improvement is due in part to our discontinuation of non-core low margin outsourcing of work. The remainder of this improvement is due to the differing sales mix between the years and by a reduced requirement for contractors.

Other operating costs for the year were $9.3m compared to $9.2m in the prior year. This cost is net of capitalised development costs which have reduced by $0.5m from the prior year which masks the fact that underlying overheads have decreased by $0.4m

Earnings before interest, tax, depreciation and amortisation show a significant improvement with $0.6m in the current year compared to $0.2m in the prior year.

As soon as the shortfall in expected turnover became apparent the board took prompt and decisive action by making a significant reduction in overhead costs. The bulk of these savings were staff-related, which represent the most significant cost within the group, and it is expected the annualised saving will be around $2m. The costs of this action is all included within the year to March 2013, given that the action was taken in January 2013, there is no major saving shown in this period. However, the actions leave the group with a significantly lower cost base in the coming financial year.

The group generated an operating loss of $1.1m (2012: $1.0m).

We have continued to take advantage of grant funding throughout the year and the total amount of cash received from grants was $0.6m (2012: $0.3m). We are reaching the end of the current grant-supported projects but will continue to pursue suitable funding opportunities in the period ahead.

The group has significant tax losses available for use against future profits. At 31 March 2013 there were around $32m of tax losses. Consequently we do not expect to pay tax in either the UK or the US for the foreseeable future. We claim under the HM Revenue & Customs Research and Development (R&D) Relief scheme and have received a repayment within the year of $0.1m.

Cash flow

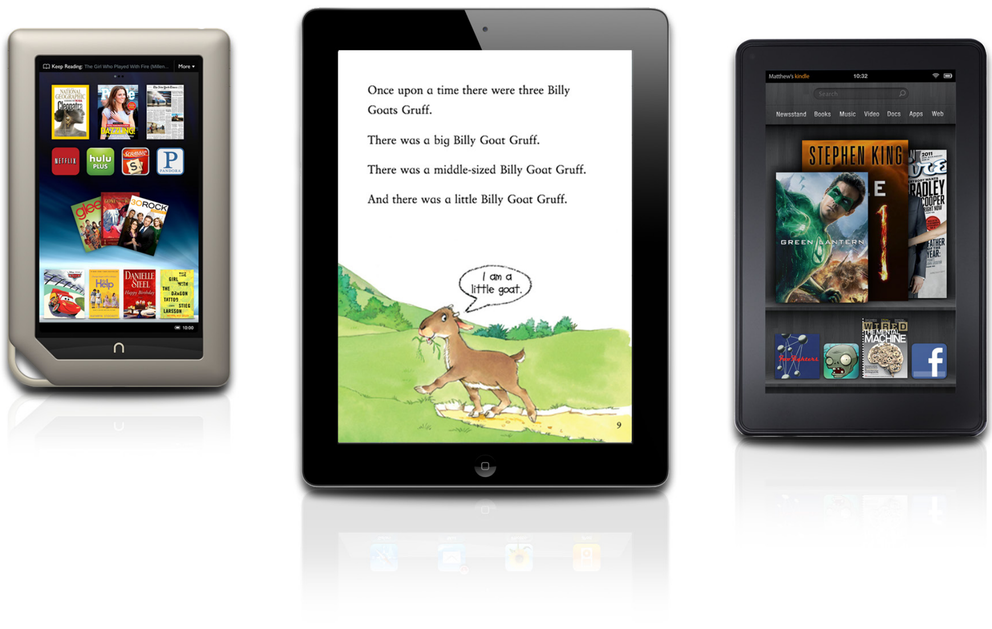
Net cash generated from operating activities in the year was $1.5m compared to $0.7m in the prior year and the cash balance at the end of the year was $1.0m (2012: $1.2m).

Whilst remaining confident in the working capital resources available to us, we have entered into a standby loan arrangement with Sara Green, the wife of Dr. Stuart Green, CEO, for up to $0.3m (£0.2m) to provide headroom, if required, for seasonal dips in our working capital requirements. The loan will attract interest of 5.5% above the base rate set by the Royal Bank of Scotland from time to time and is available to us until 31 March 2014. We are not currently drawing on this facility.

Summary

The current financial year has been difficult for the group but I am pleased to have begun the new financial year with a significantly lower cost base and a strong portfolio of products. There are many opportunities available to us and I look forward to the future with cautious optimism.

Helen P Gilder
Group Finance Director



Directors and Advisors

Board of Directors

Roger D Jeynes
Chairman

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 plc (DDV1.L), Keycom plc, mxData Limited and Charborough Capital Limited, and is Professor of Management Practice in the Lord Ashcroft International Business School of Anglia Ruskin University.

Dr Stuart A Green
Chief Executive Officer

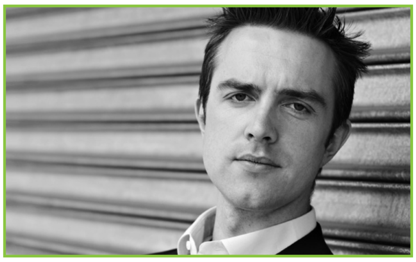
Stuart brings over 20 years of experience of team building and executive management in the software industry to his role as CEO. Prior to his appointment as CEO Stuart was Chief Technical Officer, where he was responsible for determining the technology strategy and expanding the core intellectual property 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.

Helen P Gilder
Group Finance Director

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.

Gordon Doran
Commercial Director

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.



James A Livingston
Non-Executive Director

James is an Investment Director at Foresight Group, a leading UK asset manager. He works closely with the boards of a number of UK SME companies as non-executive director. 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

Duncan A Wain
Chief Operating Officer

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

Philip M Corio
Chief Technical Officer

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

Advisers

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Surrey
GU9 7LL

Directors' Report

The directors present their report on the affairs of the group, together with the financial statements and the independent auditor's report, for the year ended 31 March 2013.

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, publishing and packaging markets and to continue with on-going research and development in those areas. The principal activity of the company was to act as a holding company for its trading subsidiaries.

Review of the business and future developments

A review of the development of the business together with an indication of future developments is included in the Chairman's and Chief Executive's statements set out on pages 11-13.

The audited financial statements for the year ended 31 March 2013 are set out on pages 28 to 64. 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 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.

Directors

The directors who served during the year were as follows:

Roger D Jeynes	Non-Executive Chairman
Dr Stuart A Green	Chief Executive Officer
Helen P Gilder	Group Finance Director
Gordon Doran	Commercial Director
James A Livingston	Non-Executive Director

Details of the interests in the shares of the company at the beginning or subsequent date of appointment and end of the financial year of those directors who held office at 31 March 2013 are disclosed in the Directors' Remuneration report. In accordance with the company's Articles of Association Stuart Green 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 any proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. The company has purchased and maintains directors' and officers' insurance cover against certain legal liabilities and costs for claims in connection with any act or omission by such 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 company at 31 March 2013 were equivalent to 59 days (2012: 46 days) purchases, based on the average daily amount invoiced by suppliers during the year. Trade creditors of the group at 31 March 2013 were equivalent to 68 days (2012: 84 days) purchases.

Key performance indicators

In addition to the monthly management accounts and information that are produced and monitored against the group's plan and the previous year's performance, the board uses Key Performance Indicators (KPIs) in the management of the key risks of the business and as a measure of the business efficiencies of the group. The KPIs 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.
- Costs and overheads are monitored against budget and against current needs.
- Employee satisfaction is monitored through regular surveys, enabling management to act on emerging trends.

		2013	2012
Revenue	$000	**10,363**	11,186 ↓
Adjusted EBITDA*	$000	**749**	517 ↑
Debtor days	days	**53**	30 ↑
Overdue debtors	$000	**518**	195 ↑
Employee satisfaction	%	**95**	96 ↓

* EBITDA before share based payments

Principal risks and uncertainties

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

International business

The group is domiciled in the UK, but has US operations and 96% 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 a patent protection policy, with 31 patents granted and 7 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, adoption of technology tools by customers and location of the main production facility within an earthquake zone. The production risk is managed by ensuring very tightly controlled schedules and data back-up procedures, 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.

The functional currency and presentation currency of the company is US dollars as the majority of the group's transactions are undertaken in US dollars, however, the Consolidated Statement of Financial Position can be affected by movements between pound sterling and US dollars as the parent company and UK subsidiaries have some pound sterling debtors and creditors. Foreign currency risk is managed by matching payments and receipts in foreign currency to minimise exposure. Further information on the financial risks is given in note 26 to the accounts.

The group is exposed to the usual credit risk and cash flow risk associated with selling on credit and manages this through credit control procedures. The group regularly monitors cash flows and cash resources and now has the ability to draw down funds from the loan provided by Sara Green.

Directors' Report

Purchase and disposal of interest in own Shares

During the year the group purchased 48,600 shares (2012: 274,200), this represents 0.1% of the group's share capital. The total cost of the purchase was $13,548 (2012: $67,593). Also during the year 278,420 ordinary shares with a nominal value of 15p were disposed of (2012: 132,760). 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, held in the year was 321,689 (2012: 298,289).

Substantial shareholdings

At 6 August 2013, 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
Funds managed and advised by Foresight Group	20.7%	6,743,299
Herald Investment Trust plc	19.4%	6,350,685
Dr S A Green*	14.9%	4,857,335
John Henry Holdings Inc.	6.6%	2,148,642
JM Finn & Co	6.2%	2,019,890
South Yorkshire Investment Capital Fund	5.6%	1,837,914
Investec Wealth & Investment Capital Fund	3.7%	1,215,569

*Shareholdings of directors include any interests of a "connected person".

Change of auditor

The group periodically reviews all suppliers of goods and services and the provision of audit and tax services is no exception to this. Following the consideration of a number of proposals from different audit firms the current auditor was chosen.

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 group's auditor in connection with preparing its report and to establish that the auditor is aware of that information.

By order of the board

Helen P Gilder
Director and Secretary
6 August 2013

Corporate Governance Statement

Directors' responsibilities statement

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

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

In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting 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 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 16.

Compliance with the UK Corporate Governance Code

Under the rules of AIM (The Alternative Investment Market of the London Stock Exchange) the company is not required to comply with the UK Corporate Governance Code 2012. The company is committed to high standards of corporate governance and the board recognises the value of the code and has regard to its requirements as far as practicable and appropriate for a company of its size and nature. The directors consider the group insufficiently large to warrant the need or cost of for an internal audit function.

Board of Directors

Throughout the year the board consisted of the non-executive chairman, three executive directors and 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 was 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 both the Annual and Interim Reports.

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

Corporate Governance Statement

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 as detailed in note 2.1, 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
6 August 2013

Directors' Remuneration Report

Directors' remuneration report

The Directors' remuneration report is presented as a voluntary disclosure in order to aid the understanding of the financial statements.

The Remuneration Committee

During the year ended 31 March 2013 the Remuneration Committee consisted of both non-executive directors. The committee was chaired by Roger Jeynes.

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

Executive directors

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

The remuneration packages include:

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

Non-executive directors

James Livingston was remunerated by fees invoiced from Foresight Group. Roger Jeynes is paid as an employee for his board services and was remunerated for consultancy fees through Charborough Capital Limited.

Directors' remuneration

Directors' remuneration for the year to 31 March 2013 is:

	Salary $000	Bonus $000	Benefits $000	Pension $000	2013 Total $000	2012 Total $000
Dr Stuart A Green	219	-	3	11	**233**	239
Helen P Gilder	161	-	3	10	**174**	170
Gordon Doran	200	92	19	-	**311**	329
Roger D Jeynes	41	-	-	-	**41**	40
James A Livingston	37	-	-	-	**37**	36
	658	92	25	21	**796**	814

Directors' Remuneration Report

Directors' remuneration paid in pound sterling for the year to 31 March 2013 is:

	Salary £000	Bonus £000	Benefits £000	Pension £000	2013 Total £000	2012 Total £000
Dr Stuart A Green	137	-	2	7	146	149
Helen P Gilder	102	-	2	6	110	106
Roger D Jeynes	26	-	-	-	26	25
James A Livingston	24	-	-	-	24	23
	289	-	4	13	306	303

Gordon Doran is remunerated in US Dollars.

The balance owing to Foresight Group at 31 March 2013 was $25,000 (2012: $48,000).The balance owing to Charborough Capital Limited at 31 March 2013 was $9,000 (2012: $17,000).

Two directors (2012: 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:

	2013 $000	2012 $000
Emoluments	311	329
Money purchase pension contributions	-	-
	311	329

The highest paid director did not exercise any share options, but was granted 150,000 options during the year and also received 2,800 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 2012	Granted during the year	Exercised during the year	Surrendered during the year	31 March 2013	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
Dr Stuart A Green	-	150,000	-	-	**150,000**	$0.23****	Jul-13	Jul-22
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
Helen P Gilder	-	150,000	-	-	**150,000**	$0.23****	Jul-13	Jul-22
Gordon Doran	450,000	-	-	-	**450,000**	$0.34***	Sep-09	Oct-18
Gordon Doran	100,000	-	-	-	**100,000**	$0.34***	Oct-09	Oct-18
Gordon Doran	-	150,000	-	-	**150,000**	$0.23****	Jul-13	Jul-22
	1,305,000	450,000	-	-	**1,755,000**			

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

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

*** The underlying exercise price of the share options is £0.22.

****The underlying exercise price of the share options is £0.15 and they have a vesting condition that the company's share price must be £0.40 or higher on twenty consecutive business days prior to exercise.

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 $20,000 (2012: $10,000).

The market price of the ordinary shares at 31 March 2013 was 13 cents (8.25p) and the range during the year was 34 cents (21p) (high) to 12 cents (7.75p) (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	—

Directors' Remuneration Report

Directors' interests

The directors who held office at 31 March 2013 had the following interests, including any interests of a "connected person", in the 15p ordinary shares of ZOO Digital Group plc:

Name of director	2013 Beneficial	2012 Beneficial
Roger D Jeynes	120,000	120,000
Dr Stuart A Green	4,857,335	4,857,335
Helen P Gilder	56,019	56,019
Gordon Doran	-	-
James A Livingston	4,240	4,240

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

Sara Green, wife of Dr Stuart A Green held a $274,000 interest in 7.5% unsecured convertible loan stock at 31 March 2013. The underlying value of the interest in the convertible loan stock is £171,000.

During the year ended 31 March 2013 Sara Green, wife of Dr Stuart A Green, made a loan to the company of $79,000 with an interest rate of 6%. The underlying value of the loan was £50,000 and it was fully repaid before 31 March 2013.

James Livingston also 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 2013 and 6 August 2013.

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 2013 which comprise the consolidated and parent company statement of financial position, the consolidated statement of comprehensive income, the consolidated and parent company statements of cash flows, the consolidated and parent company statements of changes in equity 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 set out in page 21, 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at:

www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2013 and of the group's loss for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

Paul Houghton (Senior Statutory Auditor)
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
SHEFFIELD
6 August 2013

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2013

	Note	2013 $000	2012 $000
Revenue	5	**10,363**	11,186
Cost of sales		**(745)**	(1,907)
Gross Profit		**9,618**	9,279
Other operating income	6	**293**	168
Other operating expenses		**(9,278)**	(9,211)
Profit before interest, tax, depreciation and amortisation		**633**	236
Depreciation		**(260)**	(393)
Amortisation and impairment		**(1,425)**	(867)
Total operating expenses	8	**(10,963)**	(10,471)
Operating loss		**(1,052)**	(1,024)
Exchange gain on borrowings	7	**142**	14
Renegotiation of convertible loan note	7	**-**	(526)
Finance cost	7	**(286)**	(430)
Total finance cost		**(144)**	(942)
Loss before taxation		**(1,196)**	(1,966)
Tax on loss	11	**106**	(60)
Loss and total comprehensive income for the year attributable to equity holders of the parent		**(1,090)**	(2,026)
Loss per share	13		
- basic		**(3.34) cents**	(7.01) cents
- diluted		**(3.34) cents**	(7.01) cents

The notes on pages 35 to 64 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 loss for the parent company for the year was $8,531,000 (2012: $165,000).

Consolidated Statement of Financial Position

as at 31 March 2013

	Note	2013 $000	2012 $000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**419**	430
Intangible assets	15	**9,260**	9,487
Deferred income tax assets	16	**486**	486
		10,165	10,403
Current assets			
Trade and other receivables	18	**2,103**	2,365
Cash and cash equivalents	19	**960**	1,234
		3,063	3,599
Total assets		**13,228**	14,002
LIABILITIES			
Current liabilities			
Trade and other payables	22	**(3,014)**	(2,722)
Borrowings	21	**(2,864)**	(194)
		(5,878)	(2,916)
Non-current liabilities			
Borrowings	21	**(115)**	(2,939)
Total liabilities		**(5,993)**	(5,855)
Net assets		**7,235**	8,147
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	20	**7,236**	7,236
Share premium reserve		**37,014**	37,014
Other reserves		**12,293**	12,293
Share option reserve		**276**	248
Warrant reserve		**523**	440
Convertible loan note reserve		**42**	42
Foreign exchange translation reserve		**(992)**	(992)
Accumulated losses		**(49,138)**	(48,053)
		7,254	8,228
Interest in own shares		**(19)**	(81)
Attributable to equity holders		**7,235**	8,147

The notes on pages 35 to 64 are an integral part of these consolidated financial statements.
The financial statements on pages 28 to 64 were approved and authorised for issue by the board of directors on 6 August 2013 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 2013

	Note	2013 $000	2012 $000
ASSETS			
Non-Current Assets			
Property, plant and equipment	14	2	1
Intangible assets	15	2,281	2,281
Investment in subsidiary undertakings	24	9,700	9,700
Amounts due from subsidiary undertakings	18	15,226	-
Deferred income tax assets	16	-	92
		27,209	12,074
Current assets			
Trade and other receivables	18	270	24,513
Cash and cash equivalents	19	3	-
		273	24,513
Total assets		27,482	36,587
LIABILITIES			
Current liabilities			
Trade and other payables	22	(458)	(761)
Borrowings	21	(12,382)	(9,966)
		(12,840)	(10,727)
Non-current liabilities			
Borrowings	21	-	(2,803)
Total liabilities		(12,840)	(13,530)
Net assets		14,642	23,057
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	20	7,236	7,236
Share premium reserve		37,014	37,014
Other reserves		10,569	10,569
Share option reserve		276	248
Warrant reserve		523	440
Convertible loan note reserve		42	42
Foreign exchange translation reserve		(13)	(13)
Accumulative losses		(41,001)	(32,475)
		14,646	23,061
Interest in own shares		(4)	(4)
Attributable to equity holders		14,642	23,057

Company registration number: 3858881

The notes on pages 35 to 64 are an integral part of these consolidated financial statements. The financial statements on pages 28 to 64 were approved and authorised for issue by the board of directors on 6 August 2013 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 2013

	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	Total $000
Balance at 1 April 2011	5,127	33,626	(992)	380	278	190	12,293	(46,782)	(128)	3,992
Issue of shares	1,017	1,695								2,712
Issue costs		(243)								(243)
Loan note conversion	1,059	1,936		(380)				190		2,805
Fair value adjustments on loan note conversion								507		507
Loan note issue				42						42
Share based payments					32	250				282
Exercise of share options	33				(15)			15		33
Forfeited share options					(47)			43		(4)
Purchase of own shares									(68)	(68)
Disposal of own shares									115	115
Transactions with owners	2,109	3,388	-	(338)	(30)	250	-	755	47	6,181
Loss for the year								(2,026)	-	(2,026)
Total comprehensive income for the year	-	-	-	-	-	-	-	(2,026)	-	(2,026)
Balance at 31 March 2012	7,236	37,014	(992)	42	248	440	12,293	(48,053)	(81)	8,147
Share based payments					37	83				120
Forfeited share options					(9)			5		(4)
Purchase of own shares									(13)	(13)
Disposal of own shares									75	75
Transactions with owners	-	-	-	-	28	83	-	5	62	178
Loss for the year								(1,090)		(1,090)
Total comprehensive income for the year	-	-	-	-	-	-	-	(1,090)	-	(1,090)
Balance at 31 March 2013	**7,236**	**37,014**	**(992)**	**42**	**276**	**523**	**12,293**	**(49,138)**	**(19)**	**7,235**

Company Statement of Changes in Equity

for the year ended 31 March 2013

	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	Total $000
Balance at 1 April 2011	5,127	33,626	(13)	380	278	190	10,569	(33,065)	(4)	17,088
Issue of shares	1,017	1,695								2,712
Issue costs		(243)								(243)
Loan note conversion	1,059	1,936		(380)				190		2,805
Fair value adjustments on loan note conversion								507		507
Loan note issue				42						42
Share based payments					32	250				282
Exercise of share options	33				(15)			15		33
Forfeited share options					(47)			43		(4)
Transactions with owners	2,109	3,388	-	(338)	(30)	250	-	755	-	6,134
Loss for the year								(165)		(165)
Total comprehensive income for the year	-	-	-	-	-	-	-	(165)	-	(165)
Balance at 31 March 2012	7,236	37,014	(13)	42	248	440	10,569	(32,475)	(4)	23,057
Share based payments					37	83				120
Forfeited share options					(9)			5		(4)
Transactions with owners	-	-	-	-	28	83	-	5	-	116
Loss for the year								(8,531)		(8,531)
Total comprehensive income for the year	-	-	-	-	-	-	-	(8,531)	-	(8,531)
Balance at 31 March 2013	**7,236**	**37,014**	**(13)**	**42**	**276**	**523**	**10,569**	**(41,001)**	**(4)**	**14,642**

Consolidated Statement of Cash Flows

for the year ended 31 March 2013

	Note	2013 $000	2012 $000
Cash flows from operating activities			
Operating loss for the year		**(1,052)**	(1,024)
Depreciation	14	**260**	393
Amortisation & impairment	15	**1,425**	867
Share based payments		**116**	278
Purchase of own shares		**(13)**	(68)
Disposal of own shares		**75**	115
Disposal and de-recognition of intangible assets		**15**	68
Disposal of property, plant and equipment		**3**	-
Changes in working capital:			
Decreases in inventories		**-**	80
Decreases in trade and other receivables		**262**	651
Increases/ (decreases) in trade and other payables		**292**	(597)
Cash flow from operations		**1,383**	763
Tax received/ (paid)		**106**	(60)
Net cash flow from operating activities		**1,489**	703
Investing activities			
Purchase of intangible assets	15	**(1,213)**	(1,942)
Purchase of property, plant and equipment	14	**(252)**	(274)
Net cash flow from investing activities		**(1,465)**	(2,216)
Cash flows from financing activities			
Repayment of borrowings		**(336)**	(202)
Proceeds from borrowings		**304**	187
Finance cost		**(266)**	(340)
Share and convertible loan issue costs		**-**	(243)
Issue of share capital		**-**	2,745
Net cashflow from financing		**(298)**	2,147
Net (decrease)/ increase in cash and cash equivalents		**(274)**	634
Cash and cash equivalents at the beginning of the year		**1,234**	600
Cash and cash equivalents at the end of the year	19	**960**	1,234

The notes on pages 35 to 64 are an integral part of these consolidated financial statements.

Company Statement of Cash Flows

for the year ended 31 March 2013

	Note	2013 $000	2012 $000
Cash flows from operating activities			
Operating (loss)/ profit for the year		**(8,347)**	716
Depreciation	14	**1**	86
Share based payments		**116**	278
Changes in working capital:			
Decreases/ (increases) in trade and other receivables		**9,017**	(2,709)
Decreases in trade and other payables		**(303)**	(138)
Cash flow from operations		**484**	(1,767)
Tax paid		**-**	-
Net cash flow from operating activities		**484**	(1,767)
Investing activities			
Purchase of property, plant and equipment	14	**(2)**	(2)
Net cash flow from investing activities		**(2)**	(2)
Cash flows from financing activities			
Proceeds from borrowings		**79**	-
Repayment of borrowings		**(79)**	-
Finance cost		**(214)**	(279)
Share and convertible loan issue costs		**-**	(243)
Issue of share capital		**-**	2,745
Net cash flow from financing		**(214)**	2,223
Net increase in cash and cash equivalents		**268**	454
Cash and cash equivalents at the beginning of the year		**(265)**	(719)
Cash and cash equivalents at the end of the year	19	**3**	(265)

The notes on pages 35 to 64 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

for the year ended 31 March 2013

1. General Information

ZOO Digital Group plc ('the company') and its subsidiaries (together 'the group') provide productivity tools and services for digital content authoring, video post-production and localisation for entertainment, publishing and packaging markets and continue with 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 AIM market of the London Stock Exchange 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).

2. Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

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

The directors have prepared trading and cash flow forecasts for the group for the period to 31 March 2016 which show a recovery from the current position and cautious growth in profitability. In line with industry practice in this sector the directors have had informal indications from major and smaller 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 has access to sufficient funding to continue to operate. Whilst the forecasts prepared do not indicate a cash requirement, should the need arise Sara Green, the wife of Dr. Stuart Green, CEO of the company,has confirmed that she will provide financial support to the group up to a maximum of $320,000 (£200,000). This facility is available until 31 March 2014.

The $2,681,000 (£1,770,500) convertible loan note is currently due to mature on 31 October 2013. The directors are in advanced stages of discussion with the major loan note holders regarding an extension to the term of this loan. The directors are confident, given that the major loan note holders are also major equity holders, that amended terms will be agreed prior to the maturity of the current term.

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

Notes to the Financial Statements

for the year ended 31 March 2013

2.1.1 New IFRS 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. Standards that will have an impact on the financial statements are listed below. These will affect presentation only.

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

- IFRS 9 Financial Instruments (effective 1 January 2015)
- IFRS 10 Consolidated Financial Instruments (effective 1 January 2013)

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 obtained until the date that control ceases.

The consolidated financial statements of ZOO Digital Group plc include the results of the company and its subsidiaries. Subsidiary accounting policies are amended where necessary to ensure consistency within the group and 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 functional currency of the company's subsidiaries is US dollars, therefore the majority of transactions between the company and its subsidiaries and the company's revenue and receivables are denominated in US dollars.

The pound sterling/US dollar exchange rate at 31 March 2013 was 0.6577 (2012: 0.6245).

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.

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

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

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

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

Notes to the Financial Statements

for the year ended 31 March 2013

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 profit or loss on a straight-line basis over its estimated useful life of three years from the date the asset is available for use.

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

2.6 Investments in subsidiary undertakings

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

2.7 Property, plant and equipment

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

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

2.8 Impairment of assets

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

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

2.9 Financial instruments

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

The group monitors its exposure and adopts forward foreign exchange contracts where it deems appropriate and where commercially viable to hedge its exposure to currency risk.

Financial instruments are recognised 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 profit or loss. The group does not use hedge accounting for its forward foreign currency contracts and does not use forward foreign currency contracts for speculative purposes.

2.9.1 Borrowings

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

2. Summary of significant accounting policies continued

The convertible loan notes were initially accounted for in accordance with IAS 32 'Financial Instruments: presentation' and split between debt and equity based upon the market rate of similar loans not carrying conversion options. Substantial modifications to the convertible loan notes have been accounted for under IAS 39 'Financial Instruments: Recognition and measurement'.

2.9.2 Trade receivables

Trade receivables are amounts due from customers for provision of services in the ordinary course of business. They are recognised initially at their fair value and subsequently at their amortised cost using the effective interest rate method, less provision for impairment.

2.9.3 Cash and cash equivalents

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

2.9.4 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recorded initially at fair value and subsequently measured at their amortised cost using the effective interest rate method.

2.10 Share based payments

Options 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, publishing and packaging industries. These services are provided on a time and material basis, on a piecemeal basis or as a fixed price contract.

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

Piecemeal revenue is recognised based on standard rates using parameters based on the size and complexity of the individual projects.

Notes to the Financial Statements

for the year ended 31 March 2013

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 profit or loss 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. The measure of usage of the products varies over the software products. The usage is either based on the volume of work performed using the products or the numbers of users registered to use the software over a period of time.

2.13 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease.

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

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

2.14 Deferred taxation

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

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

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

2.15 Government grants

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

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

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

3. Accounting estimates and judgements

Estimates and 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 pre-tax discount rate of 12%. No impairment loss is incurred at this discount rate. Had the discount rate used been 1% greater or lower than estimated, there still would be no material impact on impairment.

Financial Instruments

On initial recognition discounted cash flow analysis is used to determine the fair value of financial instruments that are not traded on the open market. The non-traded financial instrument is the convertible loan note. Calculations have been based on a pre-tax discount rate of 8.5%.

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.

Functional currency of the company

The functional currency of the company's largest subsidiaries is US dollars. Therefore, as the majority of transactions between the company and these subsidiaries and the company's revenue and receivables are denominated in US dollars management have determined that the company's functional and presentation currency is US dollars.

4. Segmental reporting

Operating segments

At 31 March 2013, the group is organised on a worldwide basis into two main operating segments:

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

Revenue arising from licensing and use by external customers of the group's software tools is included within software solutions. Services provided by the group's staff, either using the group's tools or by more traditional methods, is included within the media production category.

Notes to the Financial Statements

for the year ended 31 March 2013

These divisions are the basis on which the group reports its segment information. Other group operations comprise of head office operations. The Segment results are as follows:

	Software Solutions		Media Production		Total	
	2013	2012	**2013**	2012	**2013**	2012
	$000	$000	**$000**	$000	**$000**	$000
Total Revenue	**4,734**	6,962	**7,689**	7,617	**12,423**	14,579
Inter-segment revenue	**-**	-	**(2,060)**	(3,393)	**(2,060)**	(3,393)
Revenue	**4,734**	6,962	**5,629**	4,224	**10,363**	11,186
Segment operating profit/ (loss)	**(664)**	1,056	**1,066**	(433)	**402**	623
Unallocated corporate expenses					**(1,454)**	(1,647)
Operating loss					**(1,052)**	(1,024)
Finance cost					**(144)**	(942)
Loss before taxation					**(1,196)**	(1,966)
Tax on loss					**106**	(60)
Loss for the year					**(1,090)**	(2,026)

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

	Software Solutions		Media Production		Group Operations		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
	$000	$000	**$000**	$000	**$000**	$000	**$000**	$000
Depreciation	**15**	20	**244**	287	**1**	86	**260**	393
Amortisation	**1,181**	771	**65**	96	**-**	-	**1,246**	867
Impairment losses	**179**	-	**-**	-	**-**	-	**179**	-

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	
	2013	2012	**2013**	2012	**2013**	2012
	$000	$000	**$000**	$000	**$000**	$000
Assets	**6,894**	8,687	**2,105**	1,332	**8,999**	10,019
Unallocated corporate assets					**4,229**	3,983
Consolidated total assets					**13,228**	14,002
Liabilities	**1,597**	1,116	**1,206**	1,286	**2,803**	2,402
Unallocated corporate liabilities					**3,190**	3,453
Consolidated total liabilities					**5,993**	5,855
Capital Expenditure	**1,197**	1,886	**268**	330	**1,465**	2,216

4. Segmental reporting continued

Geographical areas

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

	Revenue		Total Assets		Non-current assets	
	2013	2012	2013	2012	2013	2012
	$000	$000	$000	$000	$000	$000
United Kingdom (domicile)	392	323	10,596	12,167	9,208	9,402
US	9,971	10,863	2,146	1,349	471	515
	10,363	11,186	12,742	13,516	9,679	9,917

5. Revenue

The group's revenue comprises:

	2013	2012
	$000	$000
Software Solutions	4,734	6,962
Media Production	5,629	4,224
	10,363	11,186
Continuing operations	10,363	11,186
Discontinued operations	-	-
	10,363	11,186
Revenue from services	8,226	8,532
Software licence fees	2,137	2,654
	10,363	11,186

Major customers

The group currently has one major customer representing 87% (2012: 87%) of the group's revenues. These revenues are generated from both of the group's operating segments. The revenues are as follows:

	2013	2012
	$000	$000
Major customer	9,049	9,777
Other customers	1,314	1,409
	10,363	11,186

6. Other operating income

	2013	2012
	$000	$000
Government grants	293	168

Notes to the Financial Statements

for the year ended 31 March 2013

7. Finance costs

	2013 $000	2012 $000
Finance costs:		
Interest on bank overdraft	2	23
Interest on borrowings	284	407
Renegotiation of convertible loan stock (see note 21)	-	526
Exchange gains on borrowings	(142)	(14)
Finance costs	**144**	942

8. Operating loss

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

	2013 $000	2012 $000
Other exchange gains	(20)	(14)
Staff costs	7,788	8,136
Capitalised staff costs	(1,465)	(1,936)
Depreciation	260	393
Amortisation of other intangible assets	1,246	867
Impairment losses on other intangible assets	179	-
Research and non-capitalised development costs	154	192
Operating lease expense	622	617
Auditor's remuneration	68	75
Other expenses	2,131	2,141
Other operating expenses	**10,963**	10,471

9. Auditor's remuneration

	2013 $000	2012 $000
Fees payable to company's auditor for the audit of the parent company and consolidated financial statements	28	37
Fees payable to the company's auditor and its associates for other services:		
The audit of the financial statements of the company's subsidiaries pursuant to legislation	19	26
Tax services	19	11
All other services	2	1
	68	75

10. Employees including directors

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

	2013 No.	2012 No.
Product design and service delivery	**84**	94
Sales and marketing	**3**	4
Administration	**11**	9
	98	107

Their aggregate remuneration comprised:

	2013 $000	2012 $000
Wages and salaries	**6,868**	7,319
Social security costs	**639**	727
Other pension costs	**87**	67
Termination costs	**161**	-
Share based payments	**33**	23
	7,788	8,136

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

Compensation of key management personnel (including directors)

	2013 $000	2012 $000
Short-term employee benefits	**1,340**	1,336
Post-employment benefits	**21**	9
Share based payments	**24**	14
	1,385	1,359

This includes all directors and senior management listed on pages 16 and 17.
Directors' remuneration for the year to 31 March 2013 is:

	Salary $000	Bonus $000	Benefits $000	Pension $000	2013 Total $000	2012 Total $000
Dr Stuart A Green	219	-	3	11	**233**	239
Helen P Gilder	161	-	3	10	**174**	170
Gordon Doran	200	92	19	-	**311**	329
Roger D Jeynes	41	-	-	-	**41**	40
James A Livingston	37	-	-	-	**37**	36
	658	92	25	21	**796**	814

Two directors (2012: two) serving during the year have been members of money purchase pension schemes into which the

Notes to the Financial Statements

for the year ended 31 March 2013

company contributes.

10. Employees including directors continued

The highest paid director received emoluments and benefits as follows:

	2013	2012
	$000	$000
Emoluments	311	329
Money purchase pension contributions	-	-
	311	329

11. Income tax

	2013	2012
	$000	$000
Current tax:		
UK corporation tax		
- Adjustments in respect of prior years	-	(2)
- Research and development tax credit	120	-
Foreign tax	(14)	(58)
Total current tax	106	(60)
Total deferred tax	-	-
Tax credited/(charged)	106	(60)

Corporation tax is calculated at 24% (2012: 26%) of the estimated assessable profit for the year.

Tax charge for the year

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

	2013	2012
	$000	$000
Loss before tax	(1,196)	(1,966)
Tax calculated at standard rate of corporation tax of 24% (2012 : 26%)	(287)	(511)
Capital allowances in excess of depreciation	(26)	(97)
Disallowable items	17	-
Additional R&D expenditure relief	(145)	(148)
R&D Tax credit	(120)	-
Losses carried forward	667	696
Tax credited/(charged)	106	(60)

Tax losses carried forward

The group has tax losses carried forward of approximately $32m (2012: $31m), of which $2m (2012: $1.8m) has been recognised at a rate of 23% as a deferred tax asset for the year. The balance of tax losses remain unrecognised at the balance sheet date due to the uncertainty in timing of future profits.

12. Dividends

There were no dividends paid or proposed.

13. Loss per share

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

	Basic and Diluted	
	2013	2012
	$000	$000
Loss for the financial year	**(1,090)**	(2,026)

	2013	2012
Weighted average number of shares for basic & diluted loss per share	**Number of shares**	Number of shares
Basic	**32,660,660**	28,901,576
Effect of dilutive potential ordinary shares:		
Convertible loan note	**3,688,542**	5,241,637
Share options	**2,634,342**	2,445,535
Share warrants	**2,673,642**	2,673,642
Diluted	**41,657,186**	39,262,390

The basic and diluted earnings per share are the same due to the group being loss making and the average share price during the period being lower than the conversion price or exercise prices of the convertible loan note and share options and warrants.

Notes to the Financial Statements

for the year ended 31 March 2013

14. Property, plant and equipment

Group	Production Equipment $000	Leasehold improvements $000	Computer hardware $000	Office equipment, fixtures & fittings $000	Total $000
Cost					
Opening cost at 1 April 2011	300	155	1,385	381	2,221
Additions	104	2	163	5	274
Disposals	-	-	(111)	-	(111)
Opening cost at 1 April 2012	404	157	1,437	386	2,384
Additions	58	110	57	27	252
Disposals	-	(106)	(205)	(236)	(547)
Closing cost at 31 March 2013	**462**	**161**	**1,289**	**177**	**2,089**
Accumulated depreciation/ impairment					
Opening balance at 1 April 2011	259	82	985	346	1,672
Depreciation	65	60	235	33	393
Disposals	-	-	(111)	-	(111)
Opening balance at 1 April 2012	324	142	1,109	379	1,954
Depreciation	49	17	188	6	260
Disposals	-	(106)	(205)	(233)	(544)
Closing cost at 31 March 2013	**373**	**53**	**1,092**	**152**	**1,670**
Opening carrying value at 1 April 2011	41	73	400	35	549
Opening carrying value at 1 April 2012	80	15	328	7	430
Closing carrying value at 31 March 2013	**89**	**108**	**197**	**25**	**419**

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

At 31 March 2013	Production Equipment $000	Leasehold improvements $000	Computer hardware $000	Office equipment, fixtures & fittings $000	Total $000
Cost - capitalised finance leases	131	92	408	26	657
Accumulated depreciation	(55)	(11)	(282)	(3)	(351)
Net book value	**76**	**81**	**126**	**23**	**306**

At 31 March 2012	Production Equipment $000	Leasehold improvements $000	Computer hardware $000	Office equipment, fixtures & fittings $000	Total $000
Cost - capitalised finance leases	101	-	470	-	571
Accumulated depreciation	(41)	-	(261)	-	(302)
Net book value	60	-	209	-	269

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

Company	Leasehold improvements $000	Computer hardware $000	Office equipment, fixtures & fittings $000	Total $000
Cost				
Opening cost at 1 April 2011	128	425	375	928
Additions	-	-	2	2
Opening cost at 1 April 2012	128	425	377	930
Additions	-	2	-	2
Disposals	(106)	(188)	(233)	(527)
Closing cost at 31 March 2013	**22**	**239**	**144**	**405**
Accumulated depreciation/ impairment				
Opening balance at 1 April 2011	73	425	345	843
Depreciation	55	-	31	86
Opening balance at 1 April 2012	128	425	376	929
Depreciation	-	-	1	1
Disposals	(106)	(188)	(233)	(527)
Closing balance at 31 March 2013	**22**	**237**	**144**	**403**
Opening carrying value at 1 April 2011	55	-	30	85
Opening carrying value at 1 April 2012	-	-	1	1
Closing carrying value at 31 March 2013	**-**	**2**	**-**	**2**

There were no assets under finance lease 31 March 2013 or 31 March 2012.

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15. Intangible assets

Group	Goodwill $000	Development Costs $000	Patents and trademarks $000	Computer Software $000	Total $000
Cost					
Opening cost at 1 April 2011	16,610	6,268	554	496	23,928
Additions	-	1,804	43	95	1,942
Disposals	-	(33)	-	(86)	(119)
Derecognise	-	-	(26)	-	(26)
Opening cost at 1 April 2012	16,610	8,039	571	505	25,725
Additions	-	1,163	23	27	1,213
Disposals	-	-	-	(16)	(16)
Derecognise	-	(1,587)	(15)	-	(1,602)
Closing cost at 31 March 2013	**16,610**	**7,615**	**579**	**516**	**25,320**
Accumulated amortisation/ impairment					
Opening balance at 1 April 2011	12,620	2,395	73	360	15,448
Amortisation	-	726	38	103	867
Disposals	-	-	-	(77)	(77)
Opening balance at 1 April 2012	12,620	3,121	111	386	16,238
Amortisation	-	1,133	42	71	1,246
Disposals	-	-	-	(16)	(16)
Derecognise	-	(1,587)	-	-	(1,587)
Impairment loss	-	179	-	-	179
Closing balance at 31 March 2013	**12,620**	**2,846**	**153**	**441**	**16,060**
Opening carrying value at 1 April 2011	3,990	3,873	481	136	8,480
Opening carrying value at 1 April 2012	3,990	4,918	460	119	9,487
Closing carrying value at 31 March 2013	3,990	**4,769**	**426**	**75**	**9,260**

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 9 years.

Following the decision by management not to renew or pursue some of the company's patent applications, $15,000 of previously capitalised patents costs were derecognised during the year.

During the year ended 31 March 2013 changes in market expectations led to a management decision not to continue the development of certain projects. These projects are considered to be impaired and the amount of impairment was $179,000. $1,587,000 Development projects acquired with the purchase of ZOO Digital Production LLC (formerly Scope Seven LLC) were derecognised during the year as management consider there are no future economic benefits expected from their use or disposal. These development projects have previously been fully impaired.

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

	2013 $000	2012 $000
Cost - capitalised finance leases	50	32
Accumulated amortisation	(24)	(9)
Net book value	26	23

Company	Goodwill $000	Computer Software $000	Total $000
Cost			
Opening cost at 1 April 2011 and 1 April 2012	10,960	65	11,025
Disposals	-	(16)	(16)
Closing cost at 31 March 2013	**10,960**	**49**	**11,009**
Accumulated amortisation/ impairment			
Opening balance at 1 April 2011 and 1 April 2012	8,679	65	8,744
Disposals	-	(16)	(16)
Closing balance at 31 March 2013	**8,679**	**49**	**8,728**
Opening carrying value at 1 April 2011	2,281	-	2,281
Opening carrying value at 1 April 2012	2,281	-	2,281
Closing carrying value at 31 March 2013	**2,281**	**-**	**2,281**

There were no assets held under finance leases at 31 March 2013 and 31 March 2012.

Impairment tests for goodwill

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

The recoverable amount of a CGU has been determined based on its value in use. In calculating the value in use the group used a discount rate of 12% (2012: 8%). The carrying amount of goodwill is allocated as follows:

Software Solutions		Media Production		Group	
2013 $000	2012 $000	2013 $000	2012 $000	2013 $000	2012 $000
2,281	2,281	1,709	1,709	3,990	3,990

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

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Management has based its pre-tax cash flow projections on financial budgets approved by management covering the next financial period. These are based on its expectations of prices, volumes and margin obtained from its current products and product developments. Cash flows after this period have been extrapolated based on estimated growth rates and discount rates disclosed below for each segment.

	Software Solutions	Media Production
Discount rate	12%	12%
Growth rate	3%	3%

Management has based the growth rate of 3% on its expectations of prices, volumes and margin obtained from its current products and product developments. The pre-tax discount rate of 12% is what management consider to be its cost of obtaining funds.

If sector growth assumption rates were applied at 0% and a discount rate of 12% was applied, both the software solutions and media production segments would require no impairment.

If sector growth assumption rates were applied at 3% and a discount rate of 20% was applied, the software solutions segment would require no impairment, but the media production segment would require an impairment of $20,000.

If sector growth assumption rates were applied at 0% and a discount rate of 20% was applied, the software solutions segment would require no impairment, but the media production segment would require an impairment of $316,000.

16. Deferred income tax

	Group		Company	
	2013	2012	**2013**	2012
Deferred tax assets comprise :	**$000**	$000	**$000**	$000
Unused tax losses	**486**	486	-	92

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

	Group		Company	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
At 1 April	**486**	486	**92**	92
Charged to the statement of comprehensive income	**-**	-	**(92)**	-
At 31 March	**486**	486	**-**	92

Tax losses carried forward

The group has tax losses carried forward of approximately $32m (2012: $31m), of which $2m (2012: $1.8m) has been recognised at a rate of 23% as a deferred tax asset for the year. The balance of tax losses remain unrecognised at the balance sheet date due to the uncertainty of timing of future profits.

17. Inventories

During the year ended 31 March 2013 $nil (2012: $80,000) was recognised as an expense within ‘cost of sales’.

18. Trade and other receivables

	Group		Company	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
Trade receivables	**1,400**	1,599	**-**	-
Less: provision for impairment of trade receivables	**(21)**	-	**-**	-
Trade receivables - net	**1,379**	1,599	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**15,284**	24,301
VAT	**9**	2	**5**	-
Other debtors	**71**	173	**-**	-
Prepayments and accrued income	**644**	591	**207**	212
	2,103	2,365	**15,496**	24,513
Less non-current portion: amounts owed by subsidiary undertakings	**-**	-	**(15,226)**	-
Current portion	**2,103**	2,365	**270**	24,513

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

As of 31 March 2013, trade receivables of $518,000 (2012: $195,000) were overdue. The ageing analysis of these trade receivables is as follows:

	Group	
	2013	2012
	$000	$000
Less than 3 months	**419**	445
3 to 6 months	**305**	44
7 to 12 months	**64**	21
Over 12 months	**4**	4
	792	514

There were no trade receivables outstanding in the company at 31 March 2013 or 31 March 2012.

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

	Group		Company	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
Pound sterling	**246**	386	**270**	212
US Dollar	**1,857**	1,977	**15,226**	24,301
Euros	**-**	2	**-**	-
	2,103	2,365	**15,496**	24,513

Notes to the Financial Statements

for the year ended 31 March 2013

Provision for impairment of trade receivables:

	Group	
	2013	2012
	$000	$000
At 1 April	**-**	6
Provision for receivables impairment	**21**	-
Receivables written off in the year	**-**	(6)
At 31 March	**21**	-

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

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

The directors believe that a reasonable provision has been made for outstanding amounts or values impaired and the remaining un-provided 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.

19 Notes to the cash flow statement

19.1 Significant non-cash transactions

During the year the group acquired property, plant and equipment and computer software with a cost of $279,000 (2012: $369,000) of which $224,000 (2012: $186,000) was acquired by the means of finance leases.

Following an agreement with the loan note holders in August 2011 to extend 50% of the loan note instrument for a further two years, the loan note was restructured. The loan note issued, as a result of the restructure, on 6 September 2011 was $2,823,000 7.5% Unsecured convertible loan note stock and matures on 31 October 2013. The underlying value of the restructured loan stock was £1,770,500. The remaining 50% of the holding was converted into 4,426,250 ordinary shares, with a value of $2,823,000 (£1,770,500).

19.2 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	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
Cash on hand and balances with banks	**960**	1,234	**3**	(265)

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

20 Share capital and reserves

Called up share capital

	2013 $000	2012 $000
Allotted, called-up and fully paid		
32,660,660 (2012: 32,660,660) ordinary shares of 15p each	7,236	7,236

Reconciliation of the number of shares outstanding:		
Opening balance	32,660,660	23,846,255
Shares issued	-	4,252,500
Conversion of loan note	-	4,426,250
Share options exercised	-	135,655
Closing balance	32,660,660	32,660,660

During the year the group purchased 48,600 (2012: 274,200) of its own shares through ZOO Employee Share Trust Limited at an average price of $0.28 (18p) per share. The total cost of the purchase was $13,548 (2012: $67,593).

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.
Accumulated losses	Cumulative net losses recognised in profit or loss.
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.

21. Borrowings

	Group		Company	
	2013 $000	2012 $000	2013 $000	2012 $000
Non-current				
7.5% Unsecured convertible loan stock	-	2,803	-	2,803
Finance lease liabilities	115	136	-	-
	115	2,939	-	2,803
Current				
7.5% Unsecured convertible loan stock	2,681	-	2,681	-
Bank overdrafts	-	-	-	265
Amounts owed to subsidiary undertakings	-	-	9,701	9,701
Finance lease liabilities	183	194	-	-
	2,864	194	12,382	9,966
Total borrowings	2,979	3,133	12,382	12,769

Notes to the Financial Statements

for the year ended 31 March 2013

On 27 September 2006 the group issued $5,062,000 6% Unsecured convertible loan note stock which was due to mature on 31 October 2011. The underlying value of the loan stock was £3,541,000. Following an agreement with the loan note holders in August 2011 to extend 50% of the loan note instrument for a further two years, the loan note was restructured. The loan note issued, as a result of the restructure, on 6 September 2011 is $2,823,000 7.5% Unsecured convertible loan note stock and matures on 31 October 2013. The underlying value of the restructured loan stock was £1,770,500.

The loan stock holder is entitled, before the redemption date, to convert all or part of the loan stock into fully paid ordinary shares on the basis of 1 Ordinary share for every $0.7654 (£0.48) of principal amount of loan stock.

The 50% of the Unsecured convertible loan note stock which was not extended converted into 4,426,250 ordinary shares on the basis of 1 ordinary share for every $0.6378 (£0.40) of principle amount of loan stock. This differed from the original conversion terms of 1 ordinary share for every $0.7774 (£0.4875) of principle amount of loan stock. The result of the modified terms was the issue of 794,455 additional shares. The market value of these shares at the time of conversion was $507,000 (£318,000). This loss arising on the increase in the conversion ratio was debited to the income statement as a finance cost.

The restructured convertible loan stock has been accounted for in accordance with IAS 39 (Financial instruments: Recognition and measurement). The fair value of the convertible loan note is considered to be the carrying value.

Finance lease liabilities

Finance lease liabilities are payable as follows:

At 31 March 2013	Future minimum lease payments $000	Interest $000	Present value of minimum lease payments $000
Less than one year	209	(26)	183
Between one and five years	129	(14)	115
More than five years	-	-	-
	338	(40)	298

At 31 March 2012	Future minimum lease payments $000	Interest $000	Present value of minimum lease payments $000
Less than one year	229	(35)	194
Between one and five years	139	(10)	129
More than five years	7	-	7
	375	(45)	330

The lease periods of the finance leases range from between 3 and 5 years, with options to purchase the asset at the end of the term.

22. Trade and other payables

	Group		Company	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
Trade Creditors	**686**	935	**260**	299
Amounts owed to subsidiary undertakings	**-**	-	**-**	122
Social security and other taxes	**86**	184	**60**	188
Accrued expenses	**2,242**	1,603	**138**	152
	3,014	2,722	**458**	761

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

23. Commitments

Capital commitments

The group had no capital commitments at the 31 March 2013.

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 profit or loss during the year is disclosed in note 8. The lease expenditure on premises is charged to profit or loss on an average annual charge over the life of the lease.

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

	2013	2012
	$000	$000
Within one year	**618**	419
From one to five years	**1,578**	2,178
After five years	**-**	-
	2,196	2,597

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

24. Related parties

Subsidiaries

The parent company has investments in the following subsidiary undertakings:

Subsidiary undertakings	Country of incorporation	Principal activity	Holding	%
ZOO Digital Limited	UK	Technology development	2 ordinary shares	100
ZOO Digital Inc.	USA	Sale & distribution technology products	10,000 shares of common stock	100
ZOO Digital Production LLC (formerly Scope Seven LLC)	USA	Media production	100 shares of common stock	100*
ZOO Employee Share Trust Limited	UK	Employee share scheme	2 ordinary shares	100
ZOO Digital Production Limited (formerly Scope Seven Limited)	UK	Dormant	100 ordinary shares	100
ZOOtech Limited	UK	Dormant	95,714 ordinary shares	100

*ZOO Digital Production LLC is indirectly held by ZOO Digital Group plc through ZOO Digital Inc.
Transactions between ZOO Digital Group plc and its subsidiaries, which are related parties, have been eliminated on consolidation.

Notes to the Financial Statements

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Subsidiary undertakings

	Company	
	2013	2012
	$000	$000
Cost	**11,797**	11,797
Provision for impairment	**2,097**	2,097
Net book value	**9,700**	9,700

Key Management personnel

The details of key management remuneration is disclosed in note 10, Employees including directors.

James Livingston was remunerated by fees invoiced from Foresight Group. Roger Jeynes is paid as an employee for his board services and was remunerated for consultancy fees through Charborough Capital Limited. The balance owing to Foresight Group at 31 March 2013 was $25,000 (2012: $48,000). The balance owing to Charborough Capital Limited at 31 March 2013 was $9,000 (2012: $17,000).

Related Party Transactions

	Company	
	2013	2012
	$000	$000
Sales of services to subsidiaries:		
Administration services	**1,409**	2,343
Interest paid on loans:		
Foresight Group	**53**	146
Sara Green	**16**	26

Interest payable to the Foresight Group at 31 March 2013 in relation to the 7.5% unsecured convertible loan stock is $13,000 (2012: $14,000). The gross interest payable to Sara Green at 31 March 2013 is $5,000 (2012: $5,000).

Sara Green, wife of Dr Stuart A Green, held a $274,000 interest in 7.5% unsecured convertible loan stock at 31 March 2013. The underlying value of the interest in the convertible loan stock is £171,000.

During the year ended 31 March 2013 Sara Green, wife of Dr Stuart A Green, made a loan to the company of $79,000 with an interest rate of 6%. The underlying value of the loan was £50,000 and it was fully repaid before 31 March 2013.

Amounts owed by subsidiary undertakings

	Company	
	2013	2012
	$000	$000
ZOO Digital Limited	**6,363**	17,544
ZOO Digital Production LLC	**8,863**	6,757
ZOO Employee Share Trust Limited	**58**	-
	15,284	24,301

During the year ended 31 March 2013 the parent company made a loss of $8,531,000, of which $8,296,000 was due to the write off of intercompany receivables from ZOO Digital Inc. which management now consider unrecoverable. There is no impact on the consolidated group results.

Amounts owed to subsidiary undertakings

	Company	
	2013	2012
	$000	$000
ZOOtech Limited	**9,701**	9,701
ZOO Digital Inc.	**-**	49
ZOO Employee Share Trust Limited	-	73
	9,701	9,823

25. 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:

	2013		2012	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
ZOO Digital Group plc EMI scheme	**No.**	**$**	No.	$
Outstanding at the beginning of the year	**946,460**	**0.21**	982,615	0.24
Granted during the year	**386,667**	**0.23**	47,334	0.23
Exercised during the year	**-**	**-**	(36,155)	0.21
Surrendered during the year	**(27,134)**	**0.22**	(47,334)	0.76
Outstanding at the end of the year	**1,305,993**	**0.22**	946,460	0.21
Exercisable at the end of the year	**913,326**	**0.21**	918,060	0.21

The underlying weighted average exercise price for the share under option at 31 March 2013 was 15p (2012:15p).

ZOO Digital Group plc Unapproved				
Outstanding at the beginning of the year	**1,200,952**	**0.28**	1,700,952	0.22
Granted during the year	**325,000**	**0.23**	585,000	0.34
Exercised during the year	**-**	**-**	(99,500)	0.21
Surrendered during the year	**(62,500)**	**0.23**	(985,500)	0.22
Outstanding at the end of the year	**1,463,452**	**0.27**	1,200,952	0.28
Exercisable at the end of the year	**1,150,952**	**0.28**	1,153,952	0.21

The underlying weighted average exercise price for the share under option at 31 March 2013 was 18p (2012:19p).

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

Share options granted to key management personnel, including directors, during the year ended 31 March 2013 have a vesting condition that the company's share price must be £0.40 or higher on twenty consecutive business days prior to exercise.

Out of the 2,769,445 outstanding options (2012: 2,147,412 options), 2,064,278 were exercisable (2012: 2,072,012). No share options were exercised during the year ended 31 March 2013 (2012: 135,655).

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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	881,826	13 Oct 2018	0.21	0.15
ZOO Digital Group plc EMI scheme	45,000	30 Nov 2020	0.23	0.15
ZOO Digital Group plc EMI scheme	379,167	11 Jul 2022	0.23	0.15
ZOO Digital Group plc Unapproved	575,952	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	550,000	13 Oct 2018	0.34	0.22
ZOO Digital Group plc Unapproved	10,000	13 Dec 2021	0.23	0.15
ZOO Digital Group plc Unapproved	297,500	11 Jul 2022	0.23	0.15
Outstanding at the end of the year	2,769,445			

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	June 2010	Dec 2010	Dec 2011	Jul 2012
Expected Volatility (%)	100	73	76	63	83
Risk-free Interest rate(%)	4.49	2.65	2.13	0.97	0.71
Expected life of option (years)	5	5	5	5	5
Expected dividends	none	none	none	none	none

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

Share warrants

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

The percentage of shares that can be exercised is staggered over the exercise period based on a minimum level of new sales introduced to the group by the warrant holder in any 12 month rolling period.

	2013		2012	
Share Warrants	Options No.	Weighted average exercise price $	Options No.	Weighted average exercise price $
Outstanding at the beginning and end of the year	2,148,642	0.77	2,148,642	0.77

Out of the 2,148,642 outstanding warrants (2012: 2,148,642), no warrants were exercisable at the 31 March 2013 (2012: nil). No warrants have been exercised in 2013 or 2012. 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:

Expected Volatility (%)	71
Risk-free Interest rate (%)	0.67
Expected life of option (years)	1.50
Expected dividends	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 loss for the year:	**2013 $000**	2012 $000
Total expense recognised from share option transactions	**33**	31
Total expense recognised from share warrant transactions	**83**	250

Share based payment reserve appears in the statement of financial position under:	**2013 $000**	2012 $000
Share option reserve	**276**	248
Warrant reserve	**523**	440

26. Financial instruments

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

Categories of financial instruments

	Group		**Company**	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
Loans and receivables				
Trade and other receivables, excluding prepayments and VAT (note 18)	**1,780**	2,100	**-**	-
Amounts owed by subsidiary undertakings (note 18)	**-**	-	**15,284**	24,301
Cash and cash equivalents	**960**	1,234	**3**	-
Total	**2,740**	3,334	**15,287**	24,301

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for the year ended 31 March 2013

Categories of financial instruments continued

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Other financial liabilities at amortised cost				
Finance lease liabilities (note 21)	298	330	-	-
Amounts owed to subsidiary undertakings (note 21)	-	-	9,701	9,701
7.5% Unsecured convertible loan stock	2,681	2,803	2,681	2,803
Bank overdrafts	-	-	-	265
Trade and other payables excluding payroll taxes (note 22)	2,928	2,538	398	573
Total	5,907	5,671	12,780	13,342

Market Risk

Foreign currency risk

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

The group includes subsidiaries operating in both the UK and USA. The majority of the group's transactions are denominated in US dollars, however the costs arising from the UK subsidiaries are denominated in 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 2013 there was less volatility in the pound sterling/US Dollar rate than in some previous years with the rate peaking at 0.6715 and falling to a low of 0.6139, with an average rate of 0.6326. If the US Dollar had remained at its highest level throughout the full year the group would have shown a post-tax loss of $0.8m (2012: Loss $0.9m), if US Dollar had been at its lowest level throughout the full year the group would have shown a post-tax loss of $1.4m (2012: Loss $1.7m) and if the US Dollar had remained at the average rate throughout the year the post-tax loss would have been $1.2m (2012: Loss $1.4m).

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

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

The pound sterling/US dollar exchange rate at the 31 March 2013 was 0.6577 (2012: 0.6245)

Interest rate risk

In September 2011 the company restructured the loan note issued in September 2006. Half of the $5,062,000 (£3,541,000) Unsecured convertible redeemable loan stock, which was due to mature on 31 October 2011, was converted into equity. The restructured loan has an outstanding amount of $2,823,000 (£1,770,500) which is due to mature on 31 October 2013 and carries a fixed interest rate of 7.5%. The group and company consider the interest rate risk on the loan to be minimal as the rate is fixed.

Liquidity risk

Liquidity risk is the risk that the group and company will not be able to meet their financial obligations as they fall due. Management monitors rolling forecasts of the group's cash and cash equivalents on the basis of expected cash flows, reducing its liquidity risk through management of bank accounts, trade debtors and trade creditors, by utilising the availability of finance leases and through controls on expenditure. The 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 2013	Less than 1 year $000	Between 1 and 2 years $000	Between 2 and 5 years $000	Over 5 years $000
Borrowings	2,681	-	-	-
Finance lease liabilities	183	80	35	-
Trade and other payables	3,014	-	-	-

At 31 March 2012	Less than 1 year $000	Between 1 and 2 years $000	Between 2 and 5 years $000	Over 5 years $000
Borrowings	-	2,803	-	-
Finance lease liabilities	194	129	7	-
Trade and other payables	2,722	-	-	-

Company At 31 March 2013	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	2,681	-	-	-
Trade and other payables	458	-	-	-

At 31 March 2012	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	-	2,803	-	-
Trade and other payables	761	-	-	-

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 18.

Notes to the Financial Statements

for the year ended 31 March 2013

27. 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.

	2013 $000	2012 $000
Total borrowings	2,979	3,133
Less cash and cash equivalents	(960)	(1,234)
Net Debt	2,019	1,899
Total equity	7,235	8,147
Total capital	9,254	10,046
Gearing ratio	22%	19%

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