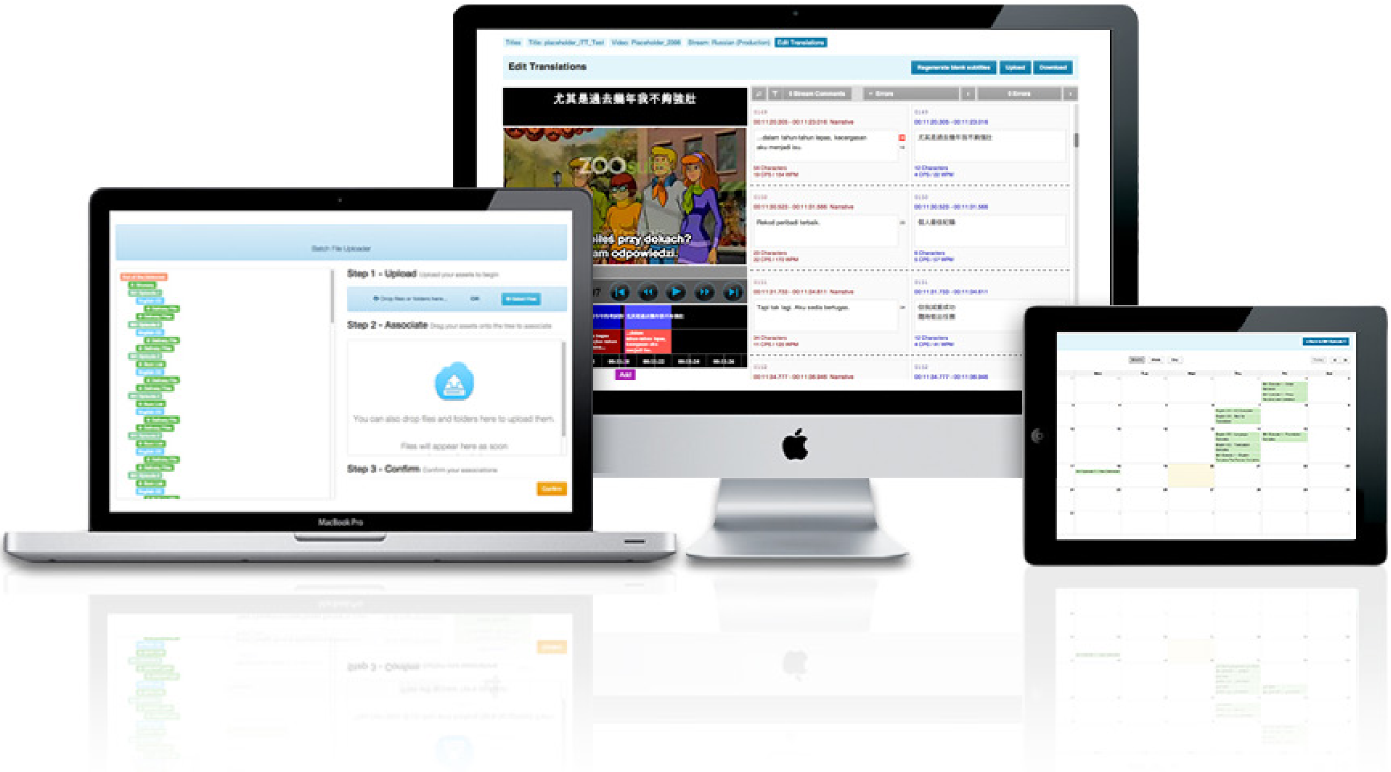
ZOO Digital Group plc

Annual Report and Accounts 2014

Stock Code: ZOO



Smarter Workflows for Creative Media

ZOO Digital Group plc
Annual Report and Accounts 2014
www.zoodigital.com

Welcome
to ZOO Digital Group plc

ZOO Digital is a provider of cloud-based media production services and software to global creative organisations, predominantly in the entertainment industry. Our full service proposition includes localisation of audio-visual content (embracing subtitling, captioning and dubbing), creative workflow systems and digital distribution solutions.

Our services enable clients to capitalise on new routes to market and deliver localised content to their customers across multiple platforms.

Our clients enjoy reduced time to market, higher quality and lower costs. We do this by delivering differentiated production services delivered through the application of our innovative cloud software. In this way we provide flexible solutions that combine services with software licensing to meet the diverse needs of clients 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.

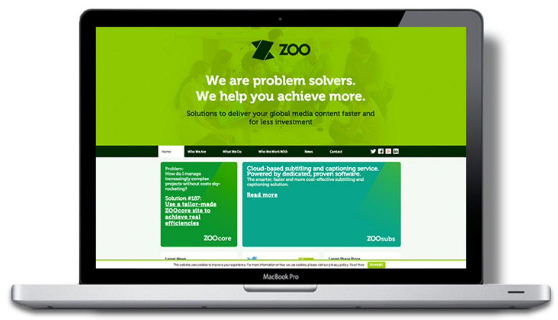
Operational Highlights

- Launch of the ZOOsubs subtitling and captioning services delivered using proprietary Cloud-based systems.
- Products and services more focused and differentiated, serving a greatly diversified client base.
- Now serving five of the six major Hollywood studios either directly or indirectly through intermediaries, plus second tier film and TV producers.
- Monthly billings increased in the second half, a trend which has continued into the new year.
- Agreed an extension of the term of £1.77m convertible loan notes by four years to October 2017.

Key Financials

REVENUE $9.6m (2013: $10.4m)	**ADJUSTED EBITDA** ($0.4m*) (2013: $0.7m)*
ADJUSTED OPERATING LOSS $2.1m* (2013 : $0.9m)*	**YEAR END CASH BALANCE** $0.1m (2013: $1.0m)

* Adjusted EBITDA and operating loss are stated before share based payments of $0.03m* (2013: $0.1m).



Visit us on the web:
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Group at a Glance

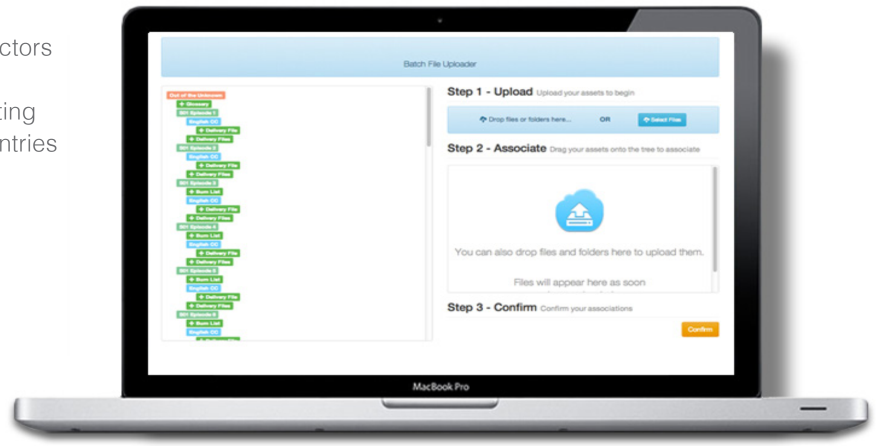
ZOO Digital Group plc ("ZOO") provides a range of software enabled services that support the workflows associated with design, development and distribution of creative media. These include localisation and access services for audio-visual materials, involving subtitling, captioning and dubbing.

By centralising asset storage, order placement, review and approval processes via secure cloud-based platforms, ZOO's proprietary software helps clients to increase their speed of production, reduce costs and protect brand integrity. Our services enable clients to capitalise on new routes to market and deliver localised content to their customers across multiple platforms.

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, localisation, 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 production services delivered through cloud-based software 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 localisation of creative media and is undertaken by commercial organisations 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 delivering fully managed services and by licensing and tailoring a range of software-enabled services that increase productivity, reduce waste and improve management information. Our cloud-based software provides the capabilities of workflow management and process automation. The production services we offer are built upon these systems, most significantly for localisation of and access to audio-visual materials (subtitling, captioning and dubbing).

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Our Services

Our services are delivered through the use of a number of cloud-based software platforms:

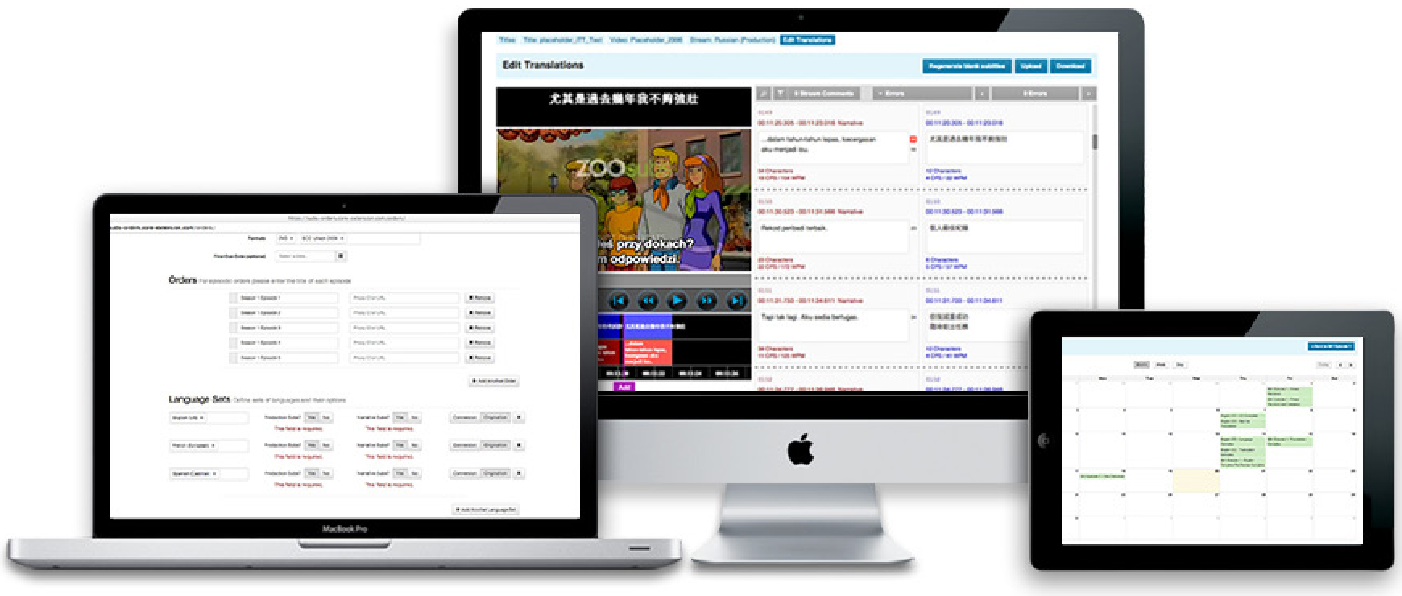
ZOOsubs – enabling highly efficient subtitling and captioning services;

ZOOcore – powering creative media collaborative production processes;

ZOOpost – delivering media post-production services globally; and

ZOOdubs – sourcing premium multi-lingual dubbing services.

Our revenues are derived mainly from provision of media production services to our clients particularly in the areas of subtitling, captioning and dubbing. In addition, we generate recurring income from our software solutions in the form of Software as a Service licensing fees. In some cases 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. This hybrid approach enables us to tailor our offerings to suit the particular needs and circumstances of each client.



ZOOsubs

The introduction of DVD technology in 1996 led to an explosion in demand for localised 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 localisation services for entertainment content and other video programming.

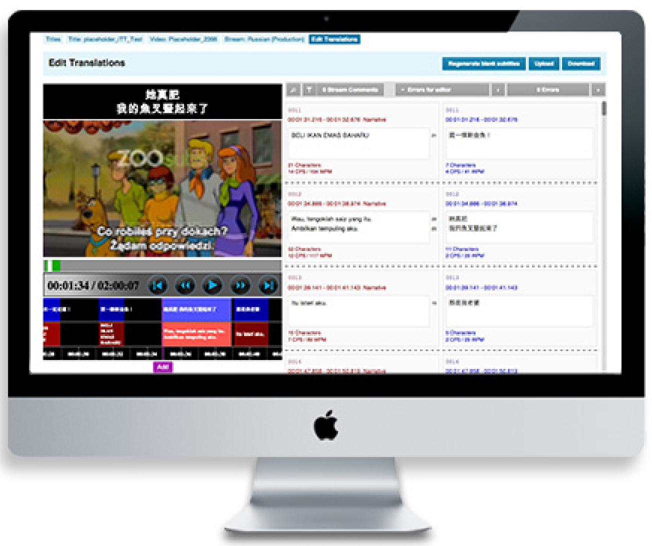
According to the European Commission, the size of the language industry in the EU for subtitling and dubbing was EUR 0.5B annually in 2009. Costing around one tenth of the price of the equivalent dubbed soundtracks, subtitles have become a popular choice for content owners and broadcasters to deliver localised 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 localised 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 localisation of audio-visual materials. Through this cloud-accessible service our clients and their partners are able to submit native language reference materials, order translations, quality assure, convert, repurpose, store, manage and deliver localised deliverables. For most of our ZOOsubs clients we provide a highly efficient complete service empowered by ZOOsubs and ZOOcore, delivering subtitles and captions in over 50 languages, optimised for all popular delivery formats.

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



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.

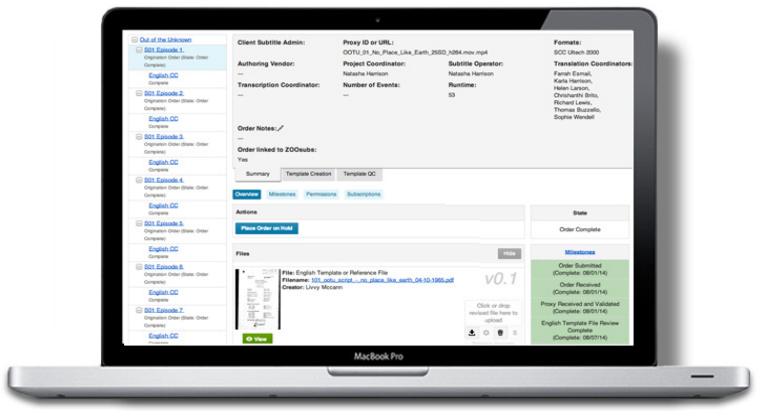
Reporting status and progress to senior management and clients is increasingly onerous due to rapidly evolving schedules and can be a drain on resources. The tools employed in many businesses today for managing people and deliverables are often very limited in how they help – frequently being based on 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 updating schedules automatically and informing the people involved when deadlines move, work packages change or related tasks overrun. Our systems make it very easy for our clients' staff, subcontractors and even their customers 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 systems and services for clients over the past eight 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.

The use of tailored ZOOcore installations is a defining feature of the production services we deliver. These align our services exactly with each client's workflows and streamline the interaction between us, our clients and their partners to ensure clear and reliable communications and full visibility of the progress of all projects. This allows us to deploy productivity solutions for internal and external workforces incurring the least possible disruption to their working practices. For other clients and work groups, ZOOcore provides an affordable entry point to introduce proactive workflow management capabilities into their organisations.

We have deployed ZOOcore systems for some of the largest global creative media organisations 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' organisations.



ZOOpost

The demands and technical challenges associated with the digital distribution of audio-visual programmes, such as feature films and episodic TV series, have increased dramatically over the past four years. Where just a few years ago packaged media in the form of the DVD-Video disc was the primary means to deliver such content to consumers, today there are numerous competing formats.

Consumers appreciate the convenience of being able to purchase and view film and video content on multiple devices and at times that best suit them – whether on conventional TV or on mobile devices. This has become possible as a result of a number of different services including Electronic Sell-Through (consumers pay a one-time fee to download and view), Video On Demand and Internet Video On Demand (consumers pay per view). In each case multiple vendors compete for market share including Apple, Amazon, Microsoft and Sony.

This explosion of technical delivery formats places greater demands and costs on rights holders who must now take the original programme materials and conform them to the specific requirements of each platform operator. This involves formatting of video and audio streams, adapting subtitles and captions, incorporating complex metadata and packaging all these elements together for delivery to the platform operator.

ZOOpost is our proposition to the entertainment industry to provide a reliable and efficient way to prepare digital delivery packages that are right first time. Powered by ZOOcore and a number of additional proprietary software tools, ZOOpost is enabling entertainment companies to exploit the emerging opportunities for commercialisation of content across a wide range of digital platforms.

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ZOOdubs

While subtitling is the most popular method of localising film and TV content, certain markets and audiences require that materials are dubbed into the local language. This involves recording new voices in the target language and mixing these recordings with original production sound (containing music and effects). In this way the voices of the actors shown on screen are replaced with those of different performers speaking another language.

In order to combat the effects of piracy, there is an increasing trend in the entertainment industry to release new feature films in many territories simultaneously, and this imposes a short window of time in which to create dubbed soundtracks for multiple languages. Similarly TV programme makers will seek to syndicate episodic series around the world, necessitating faster turn-around of localised materials to meet broadcast deadlines.

ZOOdubs is a service delivered using a ZOOcore-powered platform that supports dubbing process management to enable multiple recording studios, post production facilities and studio territory offices around the world to collaborate effectively and efficiently. We are using ZOOdubs for clients to bring dubbing projects to fruition quickly and cost effectively.

Some of Our Clients

Chairman's Statement

"I am pleased to report that the year 2014 has ended with ZOO having a more focused set of differentiated products and services, increased sales and marketing resources, and a greatly diversified customer base"

△ Roger D Jeynes
Chairman

"Revenues in the second half of the year were stronger than in the first half … this trend has continued into the new financial year"

The year under review has been a transitional one for the group and I am pleased to report that it has ended with ZOO having a more focused set of differentiated products and services, increased sales and marketing resources, and a greatly diversified customer base. We have made the difficult transition from traditional software licensing and a heavy dependence on one major customer to a business model where a range of different customers use our software and services, and we are pleased at the momentum now building in these continuing revenue streams.

The main focus of the year has been on the development and deployment of ZOOsubs, the group's subtitling and captioning services delivered using our proprietary cloud-based production and management systems. ZOOsubs was developed in response to feedback from customers who wished to create and manage localisation services through our technology. Our offering now includes subtitling, captioning and dubbing services – all huge markets which can be efficiently addressed by our technology platforms. It has been particularly pleasing to see the early enthusiasm for these differentiated services translate into live deployments serving five of the six major Hollywood film studios, as well as several tier-two studios and other corporations.

One of the real strengths of ZOOsubs is that it delivers localisation services across all of the formats of digital content delivery, not just in our traditional area of filmed entertainment. These include physical media, broadcast, streaming and download. The Board believes that this will position the group well for sustainable growth and shelter us from the decline in the production of physical media for filmed entertainment.

Revenues in the second half of the year were stronger than in the first half with a total for the year of $9.6m, which reflects the fact that monthly billings increased through the second half. I am pleased to report that this trend has continued into the new financial year as our ZOOsubs and ZOOcore systems achieve deeper and wider deployments in a number of different markets around the world.

Roger D Jeynes
Chairman

Strategic Report

Year ended 31 March 2014

The directors present the strategic report for the year ended 31 March 2014.

Operational review

Introduction

At the time of the Interim results I stated that we had succeeded in creating a more flexible and focused business but that the Board's primary aim was to build sustainable growth in revenues. I am glad to report that I believe ZOO is well on this path. Revenues for the year were $9.6m, with the second half of the year showing an improvement on the first half, whilst the adjusted EBITDA* loss of $0.4m follows a period of significant investment in our new subtitling and dubbing propositions, particularly ZOOsubs, the group's innovative service delivered through our proprietary cloud-based subtitle production and management system.

The company also concluded the extension of its convertible loan notes of £1.77m by four years to 31 October 2017, with all the other terms of the notes remaining unchanged. This support from our loan note holders enables us to build on the current momentum within the business unhindered, and on behalf of the Board, I would like to thank the loan note holders for their continued support.

This momentum has been created by the Board's focus on its key strategic goals, including further development and deployment of ZOOsubs and ZOOcore.

ZOOsubs

Progress with ZOOsubs has continued in line with the Board's expectations. At the half year stage three of the six major Hollywood studios were utilising ZOO's subtitling production and management system and I am pleased to report that this had increased to five, either directly or indirectly as well as a growing number of second tier film and television makers shortly following the end of the financial year. As well as these new client additions, ZOOsubs has also continued to see increased volumes of throughput from existing clients.

Use of ZOOsubs by our clients is biased more towards recurring outsourced delivery of services which use our software, rather than per-user software licensing. Although this results in lower initial payments from clients, it provides much greater visibility and sustainability of the company's revenues. The Board is pleased to report that the revenue run rate from ZOOsubs services clients continues to develop, providing a strong trajectory of future growth and driving further diversification in client mix, a trend which the Board expects to continue in the new financial year.

ZOOcore

As well as an essential component of ZOO's subtitling and captioning services and a defining feature of other production services we provide, ZOOcore, the cloud-based workflow and collaboration system continues to be deployed as a stand-alone project management solution. This technology platform enables customers to track creative processes and projects from start to finish. In the case of our subtitling services, each client is provided with a customised ZOOcore system through which to submit localisation work orders and track them through all stages until completion on a 24/7 basis. Prospects for all parts of this business remain strong and continue to contribute to ZOO's recurring revenues.

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 and also the growing community of language specialists who work closely with us.

Outlook

The Board's focus on ZOOsubs and ZOOcore has already succeeded in diversifying the company's client base and revenue mix and has placed the group in a strong position to provide increasing volumes of localisation services across all delivery platforms.

As well as showing increased revenues in the second half of the year over the first half, the Board is pleased to announce that the trend of increasing monthly billings has continued into the new financial year.

Financial review

The financial results for the year illustrate the group's transition from being a supplier of traditional software licenses towards supplying customers with a service on a recurring basis.

Consequently, where we had previously tended to report stronger results in the first half of the year, the second half of this year has instead been comparable, if slightly ahead, of the first with turnover at $4.9m compared to $4.7m in the first half. Our variable cost base is shifting accordingly too, with gross margin achieved in the second half being slightly lower than the first at $3.7m compared to $4.2m, reflecting the increased use of outsourced language translation as the ZOOsubs business has gained momentum.

Other operating costs are higher at $4.4m compared to $3.9m, due predominantly to an expansion of the sales and marketing resource which is bearing fruit in regards broadening our customer base and growing revenue streams.

The customer diversification was much improved in the year with the dependence on the largest customer reducing from 87% in the prior year to 68% in the current year, a downward trend which is continuing into the new financial year. The group is now working with five out of the six major Hollywood studios, compared to three in the prior year, as well as several tier-two studios and other corporations. Although customer relationships continue to be excellent, it has been a key focus to reduce the concentration of our revenues from particular customers, and this significant progress is very pleasing.

As would be expected for a company transitioning from a license fee model towards a service model, our working capital resources have been constrained during the year. We have taken steps during the year, including arranging an external invoice financing facility of up to $1.5m and, as previously disclosed, an extension to the standby loan arrangement with the wife of Dr. Stuart Green, to provide cover for fluctuations in our working capital requirements. We are also pleased that the extension in the term of our convertible loan notes to October 2017 is allowing us more time to complete the transition of the business and to capitalise on the achievements of the past year.

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 monitorec through regular surveys, enabling management to act on er ierging trends.

		2014	2013
Revenue	$000	**9,562**	10,363
Adjusted EBITDA*	$000	**(359)**	749
Movement in cash and cash equivalents	$000	**(838)**	(274)
Debtor days	days	**34**	53
Overdue debtors	$000	**341**	518
Employee satisfaction	%	**95**	95

* 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. 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. This 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 largest customer

Client relationships are crucial to the group and the strength of them is key to its continued success. The group mitigates this risk by a diverse number of contacts working closely with the customer across different business units and obtaining long term contractual agreements for supply of technology and services. The group has mitigated this risk during the year ended 31 March 2014 through services to new customers and reliance on the major customer has reduced from 87% to 68% during the year, a trend which has continued into the new financial year.

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 25 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 an invoice financing facility.

By order of the board

Helen P Gilder
Director and Secretary
28 August 2014

Corporate Governance Statement

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 not compliant with the code, but 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 is chaired by James Livingston. The committee meets at least twice a year. The group's external auditor is invited to attend these meetings. Consideration is given to the auditor's pre- and post-audit reports and these provide opportunities to review the accounting policies, internal control and the financial information contained in both the Annual and Interim Reports.

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

Internal control

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

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

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.

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
28 August 2014

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Directors and Advisers

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 Three VCT plc, mxData Limited and Charborough Capital Limited, and is Visiting Professor at the Lord Ashcroft International Business School of Anglia Ruskin University.

Dr Stuart A Green
Chief Executive Officer

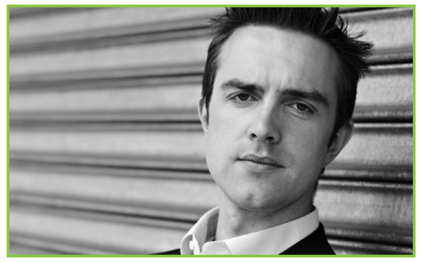
Stuart brings over 20 years' of experience of team building and executive management in the software industry to his role as CEO. Prior to his appointment as CEO Stuart was Chief Technical Officer, where he was responsible for determining the technology strategy and expanding the core intellectual property 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 15 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 a 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 University of Cambridge 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.

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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 2014.

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 Statement and the Strategic Report set out on pages 12 to 14.

The audited financial statements for the year ended 31 March 2014 are set out on pages 25 to 61. 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.

Political contributions

During the year the group made no political donations.

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 2014 are disclosed in the Directors' Remuneration report. In accordance with the company's Articles of Association, Helen Gilder and Gordon Doran 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.

Purchase and disposal of interest in own shares

During the year the group purchased 14,400 ordinary shares with a nominal value of 15p (2013: 48,600), this represents 0.04% of the group's share capital. The total cost of the purchase was $1,519 (2013: $13,548). No ordinary shares with a nominal value of 15p were disposed of (2013: 278,420).The maximum number of own ordinary shares, held in the year was 82,869 (2013: 321,689).

Financial risk management

The financial risk management is included in the strategic report and in note 25.

Substantial shareholdings

At 28 August 2014, 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
South Yorkshire Investment Capital Fund	5.0%	1,637,914
Hargreaves Lansdown Nominees Ltd	4.9%	1,609,569
TD Direct Investing Nominees Europe Ltd	3.5%	1,157,438
Lynchwood Nominees Ltd	3.1%	1,018,699

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

Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, 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 applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

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
28 August 2014

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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 2014 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 2014 is:

	Salary $000	Bonus $000	Benefits $000	Sub total $000	Pension $000	**2014 Total $000**	2013 Total $000
Dr Stuart A Green	140	-	5	145	7	**152**	233
Helen P Gilder	133	-	5	138	7	**145**	174
Gordon Doran	204	94	21	319	-	**319**	311
Roger D Jeynes	41	-	-	41	-	**41**	41
James A Livingston	38	-	-	38	-	**38**	37
	556	94	31	681	14	**695**	796

Directors' remuneration paid in pound sterling for the year to 31 March 2014 is:

	Salary £000	Bonus £000	Benefits £000	Sub total £000	Pension £000	**2014 Total £000**	2013 Total £000
Dr Stuart A Green	88	-	3	91	4	**95**	146
Helen P Gilder	84	-	3	87	4	**91**	110
Roger D Jeynes	26	-	-	26	-	**26**	26
James A Livingston	24	-	-	24	-	**24**	24
	222	-	6	228	8	**236**	306

Gordon Doran is remunerated in US Dollars.

The balance owing to Foresight Group at 31 March 2014 was $12,000 (2013: $25,000).The balance owing to Charborough Capital Limited at 31 March 2014 was $7,000 (2013: $9,000).

Two directors (2013: 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:

	2014 $000	2013 $000
Emoluments	**319**	311
Money purchase pension contributions	**-**	-
	319	311

The highest paid director did not exercise any share options.

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Directors' Remuneration Report

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 2013	Granted during the year	Exercised during the year	Surrendered during the year	31 March 2014	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
	1,755,000	-	-	-	**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 $14,000 (2013: $20,000).

The market price of the ordinary shares at 31 March 2014 was 13 cents (7.55p) and the range during the year was 23 cents (14p) (high) to 10 cents (6.25p) (low).

Service contracts

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

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

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

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

Directors' interests

The directors who held office at 31 March 2014 had the following interests, including any interests of a "connected person", in the 15p ordinary shares of ZOO Digital Group plc:

Name of director	2014 Beneficial	2013 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.

The directors also had the following interest in 7.5% unsecured convertible loan stock at 31 March 2014:

Name of director	2014 $000	2013 $000
Roger D Jeynes	**38**	-
Dr Stuart A Green	**1,025**	274

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

Name of director	2014 £000	2013 £000
Roger D Jeynes	**23**	-
Dr Stuart A Green	**615**	171

During the year ended 31 March 2014 Sara Green, wife of Dr Stuart A Green, made a loan to the company of $1,015,000 with an interest rate of 10%. The underlying value of the loan was £600,000 and the full amount remained outstanding at 31 March 2014.

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 2014 and 28 August 2014.

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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 2014 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 on page 19, 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 Financial Reporting Council'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 2014 and of the group's and the parent company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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
28 August 2014

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Consolidated Statement of Comprehensive Income

for the year ended 31 March 2014

	Note	2014 $000	2013 $000
Revenue	5	**9,562**	10,363
Cost of sales		**(1,708)**	(745)
Gross profit		**7,854**	9,618
Other operating income	6	**34**	293
Other operating expenses		**(8,383)**	(9,278)
(Loss)/ profit before interest, tax, depreciation and amortisation		**(495)**	633
Depreciation		**(279)**	(260)
Amortisation and impairment		**(1,317)**	(1,425)
Total operating expenses	8	**(9,979)**	(10,963)
Operating loss		**(2,091)**	(1,052)
Exchange (losses)/ gains on borrowings	7	**(254)**	142
Finance cost	7	**(332)**	(286)
Total finance cost		**(586)**	(144)
Loss before taxation		**(2,677)**	(1,196)
Tax on loss	11	**(15)**	106
Loss and total comprehensive income for the year attributable to equity holders of the parent		**(2,692)**	(1,090)
Loss per share	13		
- basic		**(8.24) cents**	(3.34) cents
- diluted		**(8.24) cents**	(3.34) cents

The notes on pages 32 to 61 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 $703,000 (2013: loss of $8,531,000).

Consolidated Statement of Financial Position

as at 31 March 2014

	Note	2014 $000	2013 $000
ASSETS			
Non-current assets			
Property, plant and equipment	14	509	419
Intangible assets	15	8,598	9,260
Deferred income tax assets	16	486	486
		9,593	10,165
Current assets			
Trade and other receivables	17	3,207	2,103
Cash and cash equivalents	18	122	960
		3,329	3,063
Total assets		12,922	13,228
LIABILITIES			
Current liabilities			
Trade and other payables	21	(2,971)	(3,014)
Borrowings	20	(147)	(2,864)
		(3,118)	(5,878)
Non-current liabilities			
Borrowings	20	(5,238)	(115)
Total liabilities		(8,356)	(5,993)
Net assets		4,566	7,235
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	19	7,236	7,236
Share premium reserve		37,014	37,014
Other reserves		12,293	12,293
Share option reserve		302	276
Warrant reserve		-	523
Convertible loan note reserve		42	42
Foreign exchange translation reserve		(992)	(992)
Accumulated losses		(51,306)	(49,138)
		4,589	7,254
Interest in own shares		(23)	(19)
Attributable to equity holders		4,566	7,235

The notes on pages 32 to 61 are an integral part of these consolidated financial statements.
The financial statements on pages 25 to 31 were approved and authorised for issue by the Board of Directors on 28 August 2014 and were signed on its behalf.

Dr Stuart A Green
Chief Executive

Helen P Gilder
Group Finance Director

Company Statement of Financial Position

as at 31 March 2014

	Note	2014 $000	2013 $000
ASSETS			
Non-current assets			
Property, plant and equipment	14	21	2
Intangible assets	15	2,281	2,281
Investment in subsidiary undertakings	23	9,700	9,700
Amounts due from subsidiary undertakings	17	16,435	15,226
		28,437	27,209
Current assets			
Trade and other receivables	17	251	270
Cash and cash equivalents	18	4	3
		255	273
Total assets		28,692	27,482
LIABILITIES			
Current liabilities			
Trade and other payables	21	(635)	(458)
Borrowings	20	(9,704)	(12,382)
		(10,339)	(12,840)
Non-current liabilities			
Borrowings	20	(4,387)	-
Total liabilities		(14,726)	(12,840)
Net assets		13,966	14,642
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	19	7,236	7,236
Share premium reserve		37,014	37,014
Other reserves		10,569	10,569
Share option reserve		302	276
Warrant reserve		-	523
Convertible loan note reserve		42	42
Foreign exchange translation reserve		(13)	(13)
Accumulated losses		(41,180)	(41,001)
		13,970	14,646
Interest in own shares		(4)	(4)
Attributable to equity holders		13,966	14,642

Company registration number: 3858881
The notes on pages 32 to 61 are an integral part of these consolidated financial statements.
The financial statements on pages 25 to 31 were approved and authorised for issue by the Board of Directors on 28 August 2014 and were signed on its behalf.

Dr Stuart A Green
Chief Executive

Helen P Gilder
Group Finance Director

Consolidated Statement of Changes in Equity

for the year ended 31 March 2014

	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 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**
Share based payments					29					29
Forfeited share options					(3)			1		(2)
Lapsed share options						(523)		523		-
Purchase of own shares									(2)	(2)
Transactions with owners					26	(523)		524	(2)	25
Foreign Exchange translation adjustment									(2)	(2)
Loss for the year								(2,692)		(2,692)
Total comprehensive income for the year								(2,692)	(2)	(2,694)
Balance at 31 March 2014	**7,236**	**37,014**	**(992)**	**42**	**302**	**-**	**12,293**	**(51,306)**	**(23)**	**4,566**

Company Statement of Changes in Equity

for the year ended 31 March 2014

	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 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)	-	14,642
Balance at 31 March 2013	**7,236**	**37,014**	**(13)**	**42**	**276**	**523**	**10,569**	**(41,001)**	**(4)**	**14,642**
Share based payments					29					29
Forfeited share options					(3)			1		(2)
Lapsed share options						(523)		523		-
Transactions with owners					26	(523)		524		27
Loss for the year								(703)		(703)
Total comprehensive income for the year								(703)		(703)
Balance at 31 March 2014	**7,236**	**37,014**	**(13)**	**42**	**302**	**-**	**10,569**	**(41,180)**	**(4)**	**13,966**

Consolidated Statement of Cash Flows

for the year ended 31 March 2014

	Note	2014 $000	2013 $000
Cash flows from operating activities			
Operating loss for the year		(2,091)	(1,052)
Depreciation	14	279	260
Amortisation and impairment	15	1,428	1,425
Share based payments		27	116
Purchase of own shares		(2)	(13)
Disposal of own shares		-	75
Disposal and de-recognition of intangible assets		-	15
Disposal of property, plant and equipment		-	3
Exchange loss on foreign operations		(2)	-
Changes in working capital:			
(Increases)/ decreases in trade and other receivables		(1,104)	262
(Decreases)/ increases in trade and other payables		(43)	292
Cash flow from operations		(1,508)	1,383
Tax (paid)/ received		(15)	106
Net cash flow from operating activities		(1,523)	1,489
Investing activities			
Purchase of intangible assets	15	(766)	(1,213)
Purchase of property, plant and equipment	14	(369)	(252)
Net cash flow from investing activities		(1,135)	(1,465)
Cash flows from financing activities			
Repayment of borrowings		(200)	(336)
Proceeds from borrowings		2,327	304
Finance cost		(307)	(266)
Net cash flow from financing		1,820	(298)
Net decrease in cash and cash equivalents		(838)	(274)
Cash and cash equivalents at the beginning of the year		960	1,234
Cash and cash equivalents at the end of the year	18	122	960

The notes on pages 32 to 61 are an integral part of these consolidated financial statements.

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Company Statement of Cash Flows

for the year ended 31 March 2014

	Note	2014 $000	2013 $000
Cash flows from operating activities			
Operating loss for the year		(175)	(8,347)
Depreciation	14	1	1
Share based payments		27	116
Changes in working capital:			
(Increases)/ decreases in trade and other receivables		(1,190)	9,017
Increases/ (decreases) in trade and other payables		573	(303)
Cash flow from operations		(764)	484
Net cash flow from operating activities		(764)	484
Investing activities			
Purchase of property, plant and equipment	14	(20)	(2)
Net cash flow from investing activities		(20)	(2)
Cash flows from financing activities			
Proceeds from borrowings		1,033	79
Repayment of borrowings		-	(79)
Finance cost		(248)	(214)
Net cash flow from financing		785	(214)
Net increase in cash and cash equivalents		1	268
Cash and cash equivalents at the beginning of the year		3	(265)
Cash and cash equivalents at the end of the year	18	4	3

The notes on pages 32 to 61 are an integral part of these consolidated financial statements.

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Notes to the Financial Statements

for the year ended 31 March 2014

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 2.4.1).

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 2017 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. During the year ended 31 March 2014 the group entered into an agreement with Crestmark Bank to provide an invoice financing facility of up to $1.5m against US customers invoices raised by ZOO Digital Production LLC. This facility will be in place until 31 January 2016, with the option to continue for an additional year. The directors have forecast that the loan from this facility will be fully repaid by this date.

Also during the year ended 31 March 2014 Sara Green, the wife of Dr. Stuart Green, CEO of the company, provided financial support to the company with a loan of $1,015,000 (£600,000). The directors have forecast that this loan will be fully paid by 31 March 2017.

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.

2.1.1 New and revised standards that are effective for annual periods beginning on or after 1 January 2013

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2013. Information on these new standards is presented below. There has been no material impact as a result of these changes.

IFRS 13 Fair Value Measurement (IFRS 13)
IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. The scope of IFRS 13 is broad and it applies for both financial and non-financial items for which other IFRSs require or permit fair value measurements or disclosures about fair value measurements except in certain circumstances.

IFRS 13 applies prospectively for annual periods beginning on or after 1 January 2013. Its disclosure requirements need not be applied to comparative information in the first year of application.

IAS 1 Presentation of Financial Statements
The revision to IAS 1 requires management to group items presented in other comprehensive income into those that, in accordance with other IFRSs:

- will not be reclassified subsequently to profit or loss.
- will be reclassified subsequently to profit or loss when specific conditions are met.

There has been no other comprehensive income recorded in the year.

2.1.2 Standards and interpretations in issue at 31 March 2014 but not yet effective

The following standards and interpretations of relevance to the group have been issued but are not yet effective and have not been adopted by the group:

- IFRS 9 Financial Instruments (effective 1 January 2015)
- IFRS 10 Consolidated Financial Statements (effective 1 January 2014)
- IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2014)
- IAS 27(Revised), Separate Financial Statements (effective 1 January 2014)

These standards and interpretations are not expected to have any significant impact on the group's financial statements. Other standards and interpretations in issue but not yet effective are not considered to have any relevance to the group.

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.

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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 2014 was 0.5998 (2013: 0.6577)

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 in other comprehensive income 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.

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.

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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.

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'. Upon modification the convertible loan notes were derecognised and a new convertible loan note recognised.

Amounts due in respect of invoice financing are separately disclosed as current and non-current liabilities. The group can use these facilities to draw down the value of certain sales invoices. The management and collections of trade receivables remains with the group.

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.

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 assets 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.

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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 15%. 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

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 2014, 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.

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	
	2014	2013	2014	2013	2014	2013
	$000	$000	$000	$000	$000	$000
Total revenue	3,688	4,734	7,230	7,689	10,918	12,423
Inter-segment revenue	-	-	(1,356)	(2,060)	(1,356)	(2,060)
Revenue	3,688	4,734	5,874	5,629	9,562	10,363
Segment operating profit/ (loss)	(1,350)	(664)	674	1,066	(676)	402
Unallocated corporate expenses					(1,415)	(1,454)
Operating loss					(2,091)	(1,052)
Finance cost					(586)	(144)
Loss before taxation					(2,677)	(1,196)
Tax on loss					(15)	106
Loss for the year					(2,692)	(1,090)

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

	Software solutions		Media production		Group operations		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	$000	$000	$000	$000	$000	$000	$000	$000
Depreciation	13	15	264	244	2	1	279	260
Amortisation	1,260	1,181	57	65	-	-	1,317	1,246
Impairment losses	111	179	-	-	-	-	111	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	
	2014	2013	2014	2013	2014	2013
	$000	$000	$000	$000	$000	$000
Assets	5,387	6,894	2,825	2,105	8,212	8,999
Unallocated corporate assets					4,224	4,229
Consolidated total assets					12,436	13,228
Liabilities	1,115	1,597	2,609	1,206	3,724	2,803
Unallocated corporate liabilities					4,632	3,190
Consolidated total liabilities					8,356	5,993

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	Software solutions		Media production		Total	
	2014	2013	2014	2013	2014	2013
	$000	$000	$000	$000	$000	$000
Capital expenditure	687	1,197	428	268	1,115	1,465
Unallocated capital expenditure					21	-
					1,136	1,465

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	
	2014	2013	2014	2013	2014	2013
	$000	$000	$000	$000	$000	$000
United Kingdom (domicile)	303	392	9,600	10,596	8,531	9,208
US	9,259	9,971	2,836	2,146	576	471
	9,562	10,363	12,436	12,742	9,107	9,679

5. Revenue

The group's revenue comprises:

	2014	2013
	$000	$000
Software solutions	3,688	4,734
Media production	5,874	5,629
	9,562	10,363
Continuing operations	9,562	10,363
Discontinued operations	-	-
	9,562	10,363
Revenue from services	7,360	8,226
Software licence fees	2,202	2,137
	9,562	10,363

Major customers

The group's largest customer represented 68% (2013: 87%) of the group's revenues. These revenues are generated from both of the group's operating segments. The revenues are as follows:

	2014	2013
	$000	$000
Largest customer	6,547	9,049
Other customers	3,015	1,314
	9,562	10,363

6. Other operating income

	2014	2013
	$000	$000
Government grants	34	293

7. Finance costs

	2014	2013
	$000	$000
Interest on bank overdraft	6	2
Interest on borrowings	326	284
Exchange losses/ (gains) on borrowings	254	(142)
Finance costs	586	144

8. Operating loss

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

	2014	2013
	$000	$000
Other exchange losses/ (gains)	600	(20)
Staff costs	6,265	7,788
Capitalised staff costs	(712)	(1,465)
Depreciation	279	260
Amortisation of other intangible assets	1,317	1,246
Impairment losses on other intangible assets	111	179
Research and non-capitalised development costs	148	154
Operating lease expense - land and buildings	656	622
Auditor's remuneration	69	68
Other expenses	1,246	2,131
Other operating expenses	9,979	10,963

9. Auditor's remuneration

	2014	2013
	$000	$000
Fees payable to company's auditor for the audit of the parent company and consolidated financial statements	32	28
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	18	19
Tax services	17	19
All other services	2	2
	69	68

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10. Employees including directors

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

	2014 No.	2013 No.
Product design and service delivery	63	84
Sales and marketing	3	3
Administration	12	11
	78	98

Their aggregate remuneration comprised:

	2014 $000	2013 $000
Wages and salaries	5,688	6,868
Social security costs	484	639
Other pension costs	67	87
Termination costs	-	161
Share based payments	26	33
	6,265	7,788

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

Compensation of key management personnel (including directors)

	2014 $000	2013 $000
Short-term employee benefits	1,155	1,340
Post-employment benefits	14	21
Share based payments	18	24
	1,187	1,385

This includes all directors listed on page 16 and senior management.
Directors' remuneration for the year to 31 March 2014 is:

	Salary $000	Bonus $000	Benefits $000	Pension $000	2014 Total $000	2013 Total $000
Dr Stuart A Green	140	-	5	7	152	233
Helen P Gilder	133	-	5	7	145	174
Gordon Doran	204	94	21	-	319	311
Roger D Jeynes	41	-	-	-	41	41
James A Livingston	38	-	-	-	38	37
	556	94	31	14	695	796

Two directors (2013: two) serving during the year have been members of money purchase pension schemes into which the company contributes.

10. Employees including directors continued

The highest paid director received emoluments and benefits as follows:

	2014 $000	2013 $000
Emoluments	319	311
Money purchase pension contributions	-	-
	319	311

11. Income tax

	2014 $000	2013 $000
Current tax:		
UK corporation tax		
- Research and development tax credit	-	120
Foreign tax	(15)	(14)
Total current tax	(15)	106
Total deferred tax	-	-
Tax (charged)/ credited	(15)	106

Corporation tax is calculated at 23% (2013: 24%) 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:

	2014 $000	2013 $000
Loss before tax	(2,677)	(1,196)
Tax calculated at standard rate of corporation tax of 23% (2013: 24%)	(616)	(287)
Capital allowances in excess of depreciation	(27)	(26)
Disallowable items	15	17
Additional R&D expenditure relief	(47)	(145)
R&D tax credit	-	(120)
Losses carried forward	660	667
Tax (charged)/ credited	(15)	106

Tax losses carried forward

The group has tax losses carried forward of approximately $33m (2013: $32m), of which $2.4m (2013: $2.0m) has been recognised at a rate of 20% 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 the timing of future profits.

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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	
	2014	2013
	$000	$000
Loss for the financial year	(2,692)	(1,090)

	2014	2013
Weighted average number of shares for basic & diluted loss per share	Number of shares	Number of shares
Basic	32,660,660	32,660,660
Effect of dilutive potential ordinary shares:		
Convertible loan note	3,688,542	3,688,542
Share options	2,859,411	2,634,342
Share warrants	915,231	2,673,642
Diluted	40,123,844	41,657,186

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.

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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 2012	404	157	1,437	386	2,384
Additions	58	110	57	27	252
Disposals	-	(106)	(205)	(236)	(547)
Opening cost at 1 April 2013	462	161	1,289	177	2,089
Additions	12	4	351	2	369
Closing cost at 31 March 2014	**474**	**165**	**1,640**	**179**	**2,458**
Accumulated depreciation/ impairment					
Opening balance at 1 April 2012	324	142	1,109	379	1,954
Depreciation	49	17	188	6	260
Disposals	-	(106)	(205)	(233)	(544)
Opening balance at 1 April 2013	373	53	1,092	152	1,670
Depreciation	50	31	192	6	279
Closing balance at 31 March 2014	**423**	**84**	**1,284**	**158**	**1,949**
Opening carrying value at 1 April 2012	80	15	328	7	430
Opening carrying value at 1 April 2013	89	108	197	25	419
Closing carrying value at 31 March 2014	**51**	**81**	**356**	**21**	**509**

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

At 31 March 2014	Production equipment $000	Leasehold improvements $000	Computer hardware $000	Office equipment, fixtures & fittings $000	Total $000
Cost - capitalised finance leases	131	92	744	26	993
Accumulated depreciation	(93)	(29)	(427)	(9)	(558)
Net book value	**38**	**63**	**317**	**17**	**435**

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**

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

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Company	Leasehold improvements $000	Computer hardware $000	Office equipment, fixtures & fittings $000	Total $000
Cost				
Opening cost at 1 April 2012	128	425	377	930
Additions	-	2	-	2
Disposals	(106)	(188)	(233)	(527)
Opening cost at 1 April 2013	22	239	144	405
Additions	-	20	-	20
Closing cost at 31 March 2014	**22**	**259**	**144**	**425**
Accumulated depreciation/ impairment				
Opening balance at 1 April 2012	128	425	376	929
Depreciation	-	-	1	1
Disposals	(106)	(188)	(233)	(527)
Opening balance at 1 April 2013	22	237	144	403
Depreciation	-	1	-	1
Closing balance at 31 March 2014	**22**	**238**	**144**	**404**
Opening carrying value at 1 April 2012	-	-	1	1
Opening carrying value at 1 April 2013	-	2	-	2
Closing carrying value at 31 March 2014	**-**	**21**	**-**	**21**

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

At 31 March 2014	Computer hardware $000	Total $000
Cost - capitalised finance leases	20	20
Accumulated depreciation	(1)	(1)
Net book value	**19**	**19**

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

15. Intangible assets

Group	Goodwill $000	Development costs $000	Patents and trademarks $000	Computer software $000	Total $000
Cost					
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)
Opening cost at 1 April 2013	16,610	7,615	579	516	25,320
Additions	-	683	1	82	766
Closing cost at 31 March 2014	**16,610**	**8,298**	**580**	**598**	**26,086**
Accumulated amortisation/ impairment					
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
Opening balance at 1 April 2013	12,620	2,846	153	441	16,060
Amortisation	-	1,208	48	61	1,317
Impairment loss	-	111	-	-	111
Closing balance at 31 March 2014	**12,620**	**4,165**	**201**	**502**	**17,488**
Opening carrying value at 1 April 2012	3,990	4,918	460	119	9,487
Opening carrying value at 1 April 2013	3,990	4,769	426	75	9,260
Closing carrying value at 31 March 2014	3,990	**4,133**	**379**	**96**	**8,598**

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 8 years.

No patent applications were derecognised during the year (2013: $15,000).

During the year ended 31 March 2014 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 $111,000.

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

	2014	2013
	$000	$000
Cost - capitalised finance leases	127	50
Accumulated amortisation	(51)	(24)
Net book value	76	26

Company	Goodwill $000	Computer software $000	Total $000
Cost			
Opening cost at 1 April 2012 and 1 April 2013	10,960	49	11,009
Closing cost at 31 March 2014	10,960	49	11,009
Accumulated amortisation/ impairment			
Opening balance at 1 April 2012 and 1 April 2013	8,679	49	8,728
Closing balance at 31 March 2014	8,679	49	8,728
Opening carrying value at 1 April 2012	2,281	-	2,281
Opening carrying value at 1 April 2013	2,281	-	2,281
Closing carrying value at 31 March 2014	2,281	-	2,281

There were no assets held under finance leases at 31 March 2014 and 31 March 2013.

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 15% (2013: 12%). The carrying amount of goodwill is allocated as follows:

Software solutions		Media production		Group	
2014	2013	2014	2013	2014	2013
$000	$000	$000	$000	$000	$000
2,281	2,281	1,709	1,709	3,990	3,990

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

Management has based its pre-tax cash flow projections on financial budgets approved by management covering the next financial period. These are based on its expectations of prices, volumes and margin obtained from its current products and services and products and services under development. 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	15%	15%
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 services and products and services under development. The pre-tax discount rate of 15% 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 15% was applied, both the software solutions and media production segments would require no impairment.

If sector growth assumption rates were applied at 1% and a discount rate of 25% was applied, the media production segment would require no impairment, but the software solutions segment would require an impairment of $47,000.

If sector growth assumption rates were applied at 0% and a discount rate of 25% was applied, the media production segment would require no impairment, but the software solutions segment would require an impairment of $84,000.

16. Deferred income tax

	Group		Company	
	2014	2013	2014	2013
Deferred tax assets comprise :	$000	$000	$000	$000
Unused tax losses	486	486	-	-

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

	Group		Company	
	2014	2013	2014	2013
	$000	$000	$000	$000
At 1 April	486	486	-	92
Charged to the statement of comprehensive income	-	-	-	(92)
At 31 March	486	486	-	-

Tax losses carried forward

The group has tax losses carried forward of approximately $33m (2013: $32m), of which $2.4m (2013: $2.0m) has been recognised at a rate of 20% 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 the timing of future profits.

17. Trade and other receivables

	Group		Company	
	2014	2013	2014	2013
	$000	$000	$000	$000
Trade receivables	2,498	1,400	-	-
Less: provision for impairment of trade receivables	-	(21)	-	-
Trade receivables - net	2,498	1,379	-	-
Amounts owed by subsidiary undertakings	-	-	16,476	15,284
VAT	-	9	-	5
Other debtors	131	71	-	-
Prepayments and accrued income	578	644	210	207
	3,207	2,103	16,686	15,496
Less non-current portion: amounts owed by subsidiary undertakings	-	-	(16,435)	(15,226)
Current portion	3,207	2,103	251	270

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

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As of 31 March 2014, trade receivables of $341,000 (2013: $518,000) were overdue. The ageing analysis of these trade receivables is as follows:

	Group	
	2014	2013
	$000	$000
Less than 3 months	149	145
3 to 6 months	117	305
7 to 12 months	44	64
Over 12 months	31	4
	341	518

There were no trade receivables outstanding in the company at 31 March 2014 or 31 March 2013.

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

	Group		Company	
	2014	2013	2014	2013
	$000	$000	$000	$000
Pound sterling	276	246	251	270
US Dollar	2,931	1,857	16,435	15,226
	3,207	2,103	16,686	15,496

Provision for impairment of trade receivables:

	Group	
	2014	2013
	$000	$000
At 1 April	21	-
Provision for receivables impairment	-	21
Receivables written off in the year	(21)	-
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.

18 Notes to the cash flow statement

18.1 Significant non-cash transactions

During the year the group acquired property, plant and equipment and computer software with a cost of $452,000 (2013: $279,000) of which $413,000 (2013: $224,000) was acquired by the means of finance leases.

Following an agreement with the loan note holders in October 2013 the term of the 7.5% Convertible loan note was extended. The remaining £1,770,500 of the £3,541,000 loan note, issued in September 2006 and amended in September 2011, will now mature on the 31 October 2017.

18.2 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	
	2014	2013	2014	2013
	$000	$000	$000	$000
Cash on hand and balances with banks	122	960	4	3

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

19 Share capital and reserves

Called up share capital

	2014	2013
	$000	$000
Allotted, called-up and fully paid		
32,660,660 (2013: 32,660,660) ordinary shares of 15p each	7,236	7,236

Reconciliation of the number of shares outstanding:		
Opening balance and closing balance	32,660,660	32,660,660

During the year the group purchased 14,400 ordinary shares with a nominal value of 15p (2013: 48,600) of its own shares through ZOO Employee Share Trust Limited at an average price of $0.11 (7p) per share. The total cost of the purchase was $1,519 (2013: $13,548).

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.

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20. Borrowings

	Group		Company	
	2014	2013	2014	2013
	$000	$000	$000	$000
Non-current				
Amounts owed to subsidiary undertakings	-	-	396	-
7.5% Unsecured convertible loan note stock	2,960	-	2,960	-
Connected person loan	1,015	-	1,015	-
Other bank borrowings	920	-	-	-
Finance lease liabilities	343	115	16	-
	5,238	115	4,387	-
Current				
7.5% Unsecured convertible loan note stock	-	2,681	-	2,681
Amounts owed to subsidiary undertakings	-	-	9,701	9,701
Finance lease liabilities	147	183	3	-
	147	2,864	9,704	12,382
Total borrowings	5,385	2,979	14,091	12,382

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 was $2,823,000 7.5% Unsecured convertible loan note stock and was to mature on 31 October 2013. The underlying value of the restructured loan stock was £1,770,500.

On 31 October 2013 the maturity of the loan note was further extended to mature on 31 October 2017.

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 principal 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.

During the year ended 31 March 2014 the group entered into an agreement with Crestmark Bank to provide an invoice financing facility of up to $1.5m against US customers invoices raised by ZOO Digital Production LLC. This facility will be in place until 31 January 2016, with the option to continue for an additional year. Interest is payable on a monthly basis and is charged for each day on the outstanding balance at an interest rate of 2.75% in excess of the rate shown in the Wall Street journal as the prime rate, with a minimum interest of 6%. The principal outstanding at 31 March 2014 was $920,000. This funding is secured against the US trade receivables of ZOO Digital Production LLC.

Also during the year ended 31 March 2014 Sara Green, wife of Dr Stuart A Green, made a loan to the company of $1,015,000 with an interest rate of 10%. The underlying value of the loan was £600,000 and the full amount remained outstanding at 31 March 2014. This loan is secured as a floating charge over the assets of the group.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments
At 31 March 2014	$000	$000	$000
Less than one year	197	(50)	147
Between one and five years	419	(76)	343
More than five years	-	-	-
	616	(126)	490

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

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. Finance lease liabilities are secured against the leased assets.

21. Trade and other payables

	Group		Company	
	2014	2013	2014	2013
	$000	$000	$000	$000
Trade creditors	763	686	257	260
Social security and other taxes	219	86	177	60
Accrued expenses	1,989	2,242	201	138
	2,971	3,014	635	458

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

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22. Commitments

Capital commitments

The group had no capital commitments at 31 March 2014.

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 5 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 a straight line basis over the life of the lease.

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

	2014	2013
	$000	$000
Within one year	566	618
From one to five years	1,022	1,578
	1,588	2,196

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

23. 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 of technology products	10,000 shares of common stock	100
ZOO Digital Production 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	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.

Subsidiary undertakings

	Company	
	2014	2013
	$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 2014 was $12,000 (2013: $25,000). The balance owing to Charborough Capital Limited at 31 March 2014 was $7,000 (2013: $9,000).

Related party transactions

	Company	
	2014	2013
	$000	$000
Sales of services to subsidiaries:		
Administration services	1,674	1,409
Interest paid on loans:		
Foresight Group	32	53
Sara Green	80	16
Roger Jeynes	1	-

Interest payable to the Foresight Group at the 31 March 2014 in relation to the 7.5% unsecured convertible loan stock is $nil (2013: $13,000). The gross interest payable to Sara Green at 31 March 2014 is $37,000 (2013: $5,000). The gross interest payable to Roger Jeynes at 31 March 2014 is $1,000 (2013: $nil).

Sara Green, wife of Dr Stuart A Green, held a $1,025,000 (2013: $274,000) interest in 7.5% unsecured convertible loan stock at 31 March 2014. The underlying value of the interest in the convertible loan stock is £614,500 (2013: £171,000).

At 31 March 2014 Roger Jeynes held a $38,000 (2013: $nil) interest in 7.5% unsecured convertible loan stock. The underlying value of the interest in the convertible loan stock is £23,000 (2013: £nil).

During the year ended 31 March 2014 Sara Green, wife of Dr Stuart A Green, made a loan to the company of $1,015,000 with an interest rate of 10%. The underlying value of the loan was £600,000. The full amount was still outstanding at 31 March 2014.

Amounts owed by subsidiary undertakings

	Company	
	2014	2013
	$000	$000
ZOO Digital Limited	6,686	6,363
ZOO Digital Production LLC	9,749	8,863
ZOO Employee Share Trust Limited	41	58
	16,476	15,284

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Amounts owed to subsidiary undertakings

	Company 2014 $000	2013 $000
ZOOtech Limited	9,701	9,701
ZOO Digital Inc.	396	-
	10,097	9,701

24. Share-based payments

Employee share option schemes

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

ZOO Digital Group plc EMI scheme	2014 Options No.	2014 Weighted average exercise price $	2013 Options No.	2013 Weighted average exercise price $
Outstanding at the beginning of the year	1,305,993	0.22	946,460	0.21
Granted during the year	87,500	0.24	386,667	0.23
Surrendered during the year	-	-	(27,134)	0.22
Outstanding at the end of the year	1,393,493	0.22	1,305,993	0.22
Exercisable at the end of the year	1,078,493	0.24	913,326	0.21

The underlying weighted average exercise price for the share under option at 31 March 2014 was 15p (2013:15p).

ZOO Digital Group plc Unapproved	2014 Options No.	2014 Weighted average exercise price $	2013 Options No.	2013 Weighted average exercise price $
Outstanding at the beginning of the year	1,463,452	0.27	1,200,952	0.28
Granted during the year	90,000	0.24	325,000	0.23
Surrendered during the year	-	-	(62,500)	0.23
Outstanding at the end of the year	1,553, 452	0.27	1,463,452	0.27
Exercisable at the end of the year	1,281,952	0.23	1,150,952	0.28

The underlying weighted average exercise price for the share under option at 31 March 2014 was 18p (2013:18p).

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. No share options were granted to key management personnel in the year ended 31 March 2014.

Out of the 2,946,945 outstanding options (2013: 2,769,445 options), 2,360,445 were exercisable (2013: 2,064,278). No share options were exercised during the year ended 31 March 2014 (2013: nil).

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

Scheme	Options No.	Expiry date	Exercise price $	Exercise price £
ZOO Digital Group plc EMI scheme	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 EMI scheme	87,500	26 Sep 2023	0.24	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
ZOO Digital Group plc Unapproved	90,000	26 Sep 2023	0.24	0.15
Outstanding at the end of the year	2,946,945			

In arriving at the fair value, each option grant has been valued separately using the binomial model and the resulting fair value is expensed over the vesting period. The following table lists the range of assumptions used in the model:

	2008	Jun 2010	Dec 2010	Dec 2011	Jul 2012	Sep 2013
Expected Volatility (%)	100	73	76	63	83	84
Risk-free Interest rate (%)	4.49	2.65	2.13	0.97	0.71	1.52
Expected life of option (years)	5	5	5	5	5	5
Expected dividends	none	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.

Share Warrants	2014 Options No.	2014 Weighted average exercise price $	2013 Options No.	2013 Weighted average exercise price $
Outstanding at the beginning of the year	2,148,642	0.77	2,148,642	0.77
Lapsed during the year	(2,148,642)	0.77	-	-
Outstanding at the beginning and end of the year	-	-	2,148,642	0.77

There were no outstanding warrants (2013: 2,148,642) and no warrants were exercisable at 31 March 2014 (2013: nil). No warrants were exercised in 2014 or 2013.

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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:	2014 $000	2013 $000
Total expense recognised from share option transactions	26	33
Total expense recognised from share warrant transactions	-	83

Share based payment reserve appears in the statement of financial position under:	2014 $000	2013 $000
Share option reserve	302	276
Warrant reserve	-	523

25. 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	
	2014 $000	2013 $000	2014 $000	2013 $000
Loans and receivables				
Trade and other receivables, excluding prepayments and VAT (note 17)	2,862	1,780	-	-
Amounts owed by subsidiary undertakings (note 17)	-	-	16,476	15,284
Cash and cash equivalents	122	960	4	3
Total	2,984	2,740	16,480	15,287

Categories of financial instruments continued

	Group		Company	
	2014 $000	2013 $000	2014 $000	2013 $000
Other financial liabilities at amortised cost				
Finance lease liabilities (note 20)	490	298	19	-
Amounts owed to subsidiary undertakings (note 20)	-	-	10,097	9,701
7.5% Unsecured convertible loan stock	2,960	2,681	2,960	2,681
Other bank borrowings	920	-	-	-
Connected person loan	1,015	-	1,015	-
Trade and other payables excluding payroll taxes (note 21)	2,752	2,928	458	398
Total	8,137	5,907	14,549	12,780

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 2014 there was more volatility in the pound sterling/US Dollar rate than in some previous years with the rate peaking at 0.6717 and falling to a low of 0.5971, with an average rate of 0.6291. If the US Dollar had remained at its highest level throughout the full year the group would have shown a post-tax loss of $2.0m (2013: Loss $0.8m), if US Dollar had been at its lowest level throughout the full year the group would have shown a post-tax loss of $2.7m (2013: Loss $1.5m) and if the US Dollar had remained at the average rate throughout the year the post-tax loss would have been $2.4m (2013: Loss $1.2m).

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 2014 was 0.5998 (2014: 0.6577).

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 was due to mature on 31 October 2013, but now extended to 31 October 2017 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.

The Crestmark Bank facility, which is in place until 31 January 2016, with the option to continue for an additional year. Interest is payable on a monthly basis and is charged for each day on the outstanding balance at an interest rate of 2.75% in excess of the rate shown in the Wall Street journal as the prime rate, with a minimum interest of 6%. The group is subject to interest rate risk from the movement in the US prime rate.

Notes to the Financial Statements

for the year ended 31 March 2014

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.

During the year ended 31 March 2014 the group entered into an agreement with Crestmark Bank to provide an invoice financing facility of up to $1.5m against US customers' invoices. This facility will be in place until 31 January 2016, with the option to continue for an additional year. The group can draw on funding from the bank up to lower of 85% of its current US company Trade receivables or $1.5m. The principle outstanding at 31 March 2014 was $920,000

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 2014	Less than 1 year $000	Between 1 and 2 years $000	Between 2 and 5 years $000	Over 5 years $000
Borrowings	-	4,895	-	-
Finance lease liabilities	147	-	343	-
Trade and other payables	2,971	-	-	-

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	-	-	-

Company At 31 March 2014	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	396	-	-
Borrowings	-	2,960	-	-
Finance lease liabilities	3	-	16	-
Trade and other payables	635	-	-	-

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	-	-	-

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 17.

26. 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.

	2014 $000	2013 $000
Total borrowings	5,385	2,979
Less cash and cash equivalents	(122)	(960)
Net debt	5,263	2,019
Total equity	4,566	7,235
Total capital	9,829	9,254
Gearing ratio	54%	22%

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