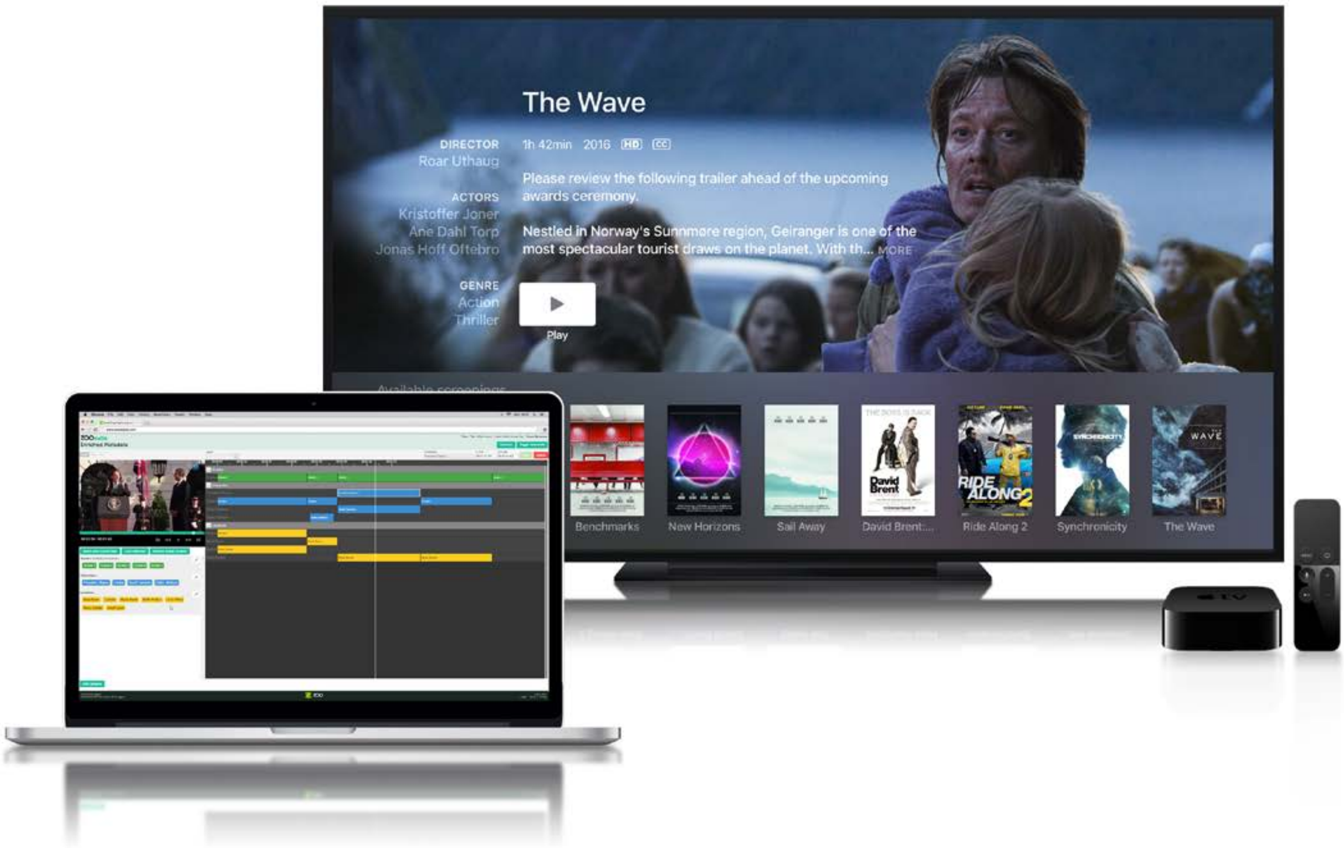
ZOO Digital Group plc

Annual Report and Accounts
Year Ended 31 March 2016



Next generation subtitling and digital distribution services

Number 1 for innovation with ZOOcloud

Simpler, smarter, faster

1 global content strategy, 1 workflow, 1 set of quality standards

Unlimited capacity in ZOOcloud

120 million
subtitles & captions created

72 million
files stored securely in ZOOvault and ready for any platform

250,000
minutes subtitles and captions processed per month

7 CONNECTED SERVICES

- Digital distribution
- Metadata creation & localisation
- Subtitling & captioning
- Dubbing
- Artwork localisation
- Workflow
- Asset management

New in 2016: **Enriched metadata**

TOP 10 SUBTITLING + DUBBING LANGUAGES

French
Spanish for Latin America
German
Italian
Dutch
Swedish
Brazilian Portuguese
Finnish
Norwegian
Danish

TOP 10 UP & COMING LANGUAGES

Arabic
Korean
Chinese Mandarin
Turkish
Thai
Chinese Cantonese
Russian
Polish
Vietnamese
Hindi

Convert & download files:
in 60 secs

55 GLOBAL LANGUAGES

Distribution formats: 30+

hoopla
NETFLIX
vimeo
hulu
XBOX
iTunes
amazon instant video
Google Play

Over 10 years trusted by the biggest names in TV and film

Welcome to ZOO Digital Group plc

Next generation subtitling and digital distribution services

ZOO Digital is a provider of services allowing premium TV and film content to be subtitled in any language and prepared for sale with all major online retailers such as Netflix, Amazon and iTunes.

Powered by our innovative cloud technology, we subtitle and prepare content for digital distribution quickly and cost effectively. We provide subtitling services for 55 languages and deliver TV and film content to over 30 different online platforms. Our subtitling service, having been adopted by a growing number of leading content producers, recently passed the milestone of 120 million subtitles stored.

Operating from the entertainment hubs of Los Angeles and London with headquarters in Sheffield, our clients are some of the best-known brands in the world including all six Hollywood studios, BBC Worldwide and other independent distributors.

Our mission

Our mission is to enable fast and cost-effective localisation and digital distribution of quality TV and movie content through the power of our world-class cloud technology.

Our vision

Thanks to our innovative technology and thinking, we will be the go-to partner for TV and movie businesses to get their content to market in any language and on any platform.

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Operational Highlights

- 29% increase in customer numbers
- Small increase in total revenues with a 25% increase in adjusted* revenues
- Introduced new services for captioning of TV advertisements and enriched metadata creation
- Raised £500,000 in new working capital by way of the issue of a new convertible loan note
- Established as a preferred vendor for two of the largest online entertainment retailers in the industry
- Appointed two new senior sales positions for Europe and Asia

*excluding revenue attributable to the service delivery arm of one of our largest customers that was disrupted during a change of ownership

Key Financials

- Revenues of $11.6m (2015: $11.5m)
- EBITDA profit of $0.2m (2015 loss of: $0.7m)
- Gross margin 79% (2015: 78%)

ZOO Digital's Points of Difference

Using cloud technology to meet industry challenges

- Our point of difference in the marketplace is our innovative use of cloud technology, developed by ZOO's own dedicated Research and Development Team

- Our agile, cloud-based business model enables clients to respond to market trends, scale easily with business growth and capitalise on new routes to market in the fast moving and evolving digital industry.

- Using ZOO's cloud technology, global teams work together, review work, store media assets securely and repackage titles all in one place.

- This connected way of working ensures that content is subtitled in any language and delivered to all the major online platforms with reduced time to market, higher quality and lower costs, while maintaining Hollywood studio-approved quality.

Providing complete global content services

ZOO Digital is one of the few providers now comprehensively equipped to offer a complete, end-to-end service for every aspect of digital distribution to the major online platforms. We are able to deliver TV and film content however our customers choose to approach their global content strategy. All our services our powered by our cloud technology bringing significant advantages in terms of cost savings, efficiency and time to market.

Our full-service offer includes:

- Digital distribution: preparing TV and film content for delivery to all major online retailers.
- Subtitling and captioning: high quality onscreen translations of TV and film into all languages.
- Metadata management: creating, managing, translating and delivering metadata for all online platforms.
- Dubbing: lip sync dubbing and voice-overs in all languages and for all online platforms.
- Artwork localisation: translating all the marketing materials related to a TV series or film for release in specific territories.
- Workflow: managing our clients' projects, people and progress in one place.
- Asset management: a secure cloud store for media assets combined with a user friendly online ordering system for new languages and formats.
- Award screeners: a service to deliver screeners (TV and film previews) for Academy Awards and other film festivals.

Innovating as core business

As a technology company that specialises in subtitling and digital distribution, innovation is core to our business and this also differentiates us in the marketplace. We innovate to help our clients become more efficient, reduce their costs and respond to new industry challenges. In the last five years we have won four competitions from Innovate UK, the UK's innovation agency, including collaborative projects with Russell Group universities.

The year in brief

- ZOO selected to enter the preferred vendor programme for one of the largest online retailers in the industry. This makes ZOO Digital among the elite service providers delivering TV and movie content for digital distribution in terms of best practice, technologies and infrastructure.
- In response to client demand, ZOO launches a number of new services using its cloud technology at the North American Broadcasters (NAB) Show 2016. This is our best ever tradeshow in terms of visitors and meetings.
- **Enriched metadata:** ZOO is now able to improve significantly the discoverability of video materials on the Internet by preparing contextual information that reveals what is happening in each scene. Although currently in its infancy, we expect this enriched metadata will become increasingly important to online retailers such as Amazon.
- **ZOOvault:** To assist in the management of media assets for delivery to the growing number of digital platforms, ZOO has developed ZOOvault. The system provides secure cloud storage and simplifies ordering of new languages and formats.
- **ZOOscreen:** This is a new digital service to deliver screeners (TV and film previews) for Academy Awards and other film festivals. Currently screeners are distributed on DVD, a time consuming and costly process which is prone to piracy. ZOOscreen provides a higher quality, more economical and ultra-secure way to deliver content to Academy Members and other authorised recipients.

- **Subtitling for TV advertising:** This is a subtitling service for TV advertising – an area of growth as legislation around the world increasingly requires broadcasters to make more programmes accessible to viewers with disabilities.
- ZOO continues to build on its relationships with leading online retailers and is approved by Apple to offer iTunes aggregation services for TV series, in further recognition of its consistent delivery of outstanding quality content to the iTunes store.
- ZOO expands its commercial team through two key appointments to capitalise on the growth of the subtitling and digital distribution markets. European sales will be developed following the appointment of Mazin Al-Jumaili who joins as Director of Business Development for Europe. Mazin was previously Vice President of Localisation Europe at Deluxe and most recently Managing Director UK at BTI Studios.
- Syed Ahmed joins the team to focus on international business development, opening up opportunities for customers in the Middle East, South Asia and Asia Pacific. Syed previously held the position of Managing Director for the Middle East with Deluxe.

Market context - Our competitors

The market for subtitling and digital distribution services is served extensively, yet our competitors, particularly market leaders, share several common characteristics:

- Their business models are labour-intensive and fulfilled by workforces using dated, off-the-shelf tools with little or no proprietary technology or credentials.
- To scale up operations, many traditional vendors rely on extending their physical presence in different territories. This is a costly exercise in terms of investment and each territory has its own delivery method, creating complicated, multiple workflows.
- There is little to distinguish between these players, where continued success relies primarily on customer loyalty and price. Consequently, they are vulnerable to emerging competitors that offer a faster, cheaper, higher quality service and a more personalised approach.

Market context – Our opportunity

The entertainment industry continues to evolve rapidly. A significant shift in market demand and the rapid growth of online retailers, such as Apple, Netflix, Amazon, Google and Hulu represents an enlarged market opportunity for our next generation subtitling and digital distribution services:

- Using research from the European Commission and Common Sense Advisory, we estimate that the current subtitling market is valued at over $500m annually.
- According to the Digital Entertainment Group, overall electronic sell-through (EST) spending rose 18% in calendar 2015.
- Research from Adobe and The Diffusion Group indicates that US consumers are now spending 42% of their TV viewing time watching streaming video services.
- In the US growth in demand for video captioning services has been brought about by legislation, including recent changes in Federal Communications Commission (FCC) regulations that mandate for the availability of captions on a growing proportion of internet-delivered video streams.
- There is an increasing onus on content owners to release subtitled content to international markets over much compressed release windows. This aims to achieve full day-and-date release simultaneously across all online platforms and in all languages as a key strategy to combat copyright theft.

The ongoing changes in the industry are the result of demand for wider availability of entertainment content around the world, delivered in more languages by a growing number of online retailers. This calls for a new breed of service provider, offering more agile and efficient services. Through its development and use of innovative cloud technology, ZOO is uniquely placed to capitalise on this growing market opportunity.

Our clients

We have been trusted by major Hollywood studios and global brands to deliver global content services for over 10 years.

Chairman's Statement

Roger D Jeynes
Chairman

The Board is pleased to report on a year of good progress in firmly establishing our subtitling and other localisation services, powered by our proprietary software, with all six of the major Hollywood studios and with an increasing number of other large content owners and distributors. The industry-leading quality that our platforms deliver has led to their adoption as the favoured systems for localisation data in a growing number of our customers. The enrolment of ZOO as a preferred vendor for one of the leading online entertainment retailers in May 2016 is the latest indicator of the significant progress made by the Group in diversifying its customer base.

Annual revenue of $11.6m (2015: $11.5m) was achieved despite major disruption during the year that resulted from the disposal of the service delivery arm of one of our largest customers. The Board is encouraged that the Group was able to cope with this disruption and still return to a significant improvement at EBITDA level of $0.2m (2015: EBITDA loss of $0.7m), with gross margin remaining strong at 79% (2015: 78%).

The Group continues to invest heavily in its software, in service delivery and in its sales capacity, and is working to conclude long term partnership arrangements with a number of global content owners and distributors.

We are grateful once more for the support of our stakeholders who continue to provide us with working capital to enable the development of the business, and for the excellent work done by our staff in the USA and the UK, upon whom our success depends.

Roger D Jeynes
Chairman

Strategic Report

Year ended 31 March 2016

The directors present the strategic report for the year ended 31 March 2016.

Operational review

Introduction

At the time of our final results for the year ended 31 March 2015 we indicated that sales were impacted by organisational changes in a major client that, during that year, accounted for 24% of revenue. This disruption continued throughout the year ended 31 March 2016 by which time the client was under new ownership. Despite this significant loss of business, we are pleased to report sales of $11.6m (2015: $11.5m). When sales to this client are excluded, underlying growth was 25%. We delivered EBITDA of $0.2m (2014: EBITDA loss of $0.7m).

This underlying growth has been primarily due to the addition of new clients during the period when customer numbers increased by 29%. ZOO's clients now include all of the six major Hollywood studios as well as other leading producers of feature film and episodic TV programmes in North America and Europe.

Working Capital

On 17 December 2015 we announced that we had raised £500,000 in new working capital support by way of the issue of a new convertible loan note. The key terms of this financing are identical to the Company's pre-existing Unsecured Convertible Loan Notes of £2,750,500, namely interest of 7.5 per cent. per annum (payable half-yearly) and a conversion price of 48 pence per ordinary share of 15 pence each.

Software and Services

The Company has continued to invest in its cloud computing platforms, including ZOOcore and ZOOsubs, which are increasingly sought in the market to enable quality TV and movie content to be delivered in a greater number of languages to many online retailers more quickly, reliably and at higher quality. ZOOsubs, which is being adopted as the subtitle system of record by a growing number of ZOO's clients, recently passed the milestone of 120 million subtitles stored for leading content producers.

In response to client demand, ZOO has introduced a number of new products and services in the period:

- The first is a subtitling service for TV advertising – an area of growth as legislation around the world increasingly requires broadcasters to make more programmes accessible to viewers with disabilities.
- Using services enabled through its cloud technology, ZOO is now able to improve significantly the discoverability of video materials on the internet by the preparation of contextual information that reveals what is happening in each scene. Although currently in its infancy, we expect this enriched metadata will become increasingly important to online retailers.
- To assist in the management of media assets for delivery to the growing number of digital platforms, the Company has developed ZOOvault to provide secure cloud storage and simplify ordering of new languages and formats.
- At the North American Broadcasters (NAB) show in Las Vegas in April 2016 the Company unveiled ZOOscreen – a new digital service to deliver screeners (viewing copies) for Academy Awards and other film festivals. Currently screeners are distributed on DVD; ZOOscreen provides a higher quality, more economical and secure way to deliver content to Academy Members and other recipients. NAB 2016 has been the Company's best ever tradeshow in terms of visitors and meetings.

Growth Opportunities

The entertainment industry continues to evolve rapidly with online retailers, such as Apple, Netflix, Amazon, Google and Hulu, playing an increasingly significant role. According to the Digital Entertainment Group, overall electronic sell-through (EST) spending rose 18% in calendar 2015. Research from Adobe and The Diffusion Group indicates that US consumers are now spending 42% of their TV viewing time watching streaming video services.

ZOO continues to build on its relationships with leading online retailers, and in February 2016 was approved by Apple to offer iTunes aggregation services for TV series, in further recognition of its consistent delivery of outstanding quality content to the iTunes store.

More recently in May 2016 ZOO was awarded the status of preferred vendor for one of the largest online entertainment retailers in the industry. This status is an elite industry standard and seen to be awarded for excellence. According to this online retailer, preferred vendors make up the top 3% of its fulfilment partners and represent the highest calibre in Digital Supply Chain capabilities via best practices, technologies, and infrastructure.

The ongoing changes in the industry are the result of demand for wider availability of entertainment content around the world, delivered in more languages by a growing number of online retailers. This calls for a new breed of service provider, offering more agile and efficient services. Through its development and use of innovative cloud technology, ZOO is uniquely placed to capitalise on the growing market opportunity. Despite continuing flux within the industry, ZOO is now securing traction from content owners and online retailers, resulting in greater diversification of the client base, reduced client concentration and a stronger sales pipeline.

To capitalise on the growth market, ZOO has expanded its commercial team through two key appointments. Syed Ahmed has joined to focus on international business development, opening up opportunities for customers in the Middle East, South Asia and Asia Pacific. Syed previously held the position of Managing Director for the Middle East with Deluxe. European sales will also be expanded following the appointment of Mazin Al-Jumaili who joins as Director of Business Development for Europe. Mazin was previously VP Localisation Europe at Deluxe and most recently Managing Director UK at BTI Studios.

Staff

I continue to be delighted by the accomplishments of ZOO's talented staff, from the innovativeness of our product development team that continues to enhance the competitive advantages of our cloud computing platforms, through to the excellent quality standards maintained by our production team which, for the first calendar quarter of 2016, achieved a perfect 0% redelivery rate to a leading online retailer. I should like to extend my thanks to all ZOO staff for their contribution, dedication and ambition.

Current Trading and Outlook

The changes due to new consumer technologies and internet-delivered services that have disrupted the entertainment supply chain in the last five years have been profound. To meet the new challenges of the industry requires high quality entertainment products to be created for more languages, on more digital platforms and more quickly than ever before. These factors combine to create a significant opportunity for ZOO.

We have entered our 2017 year with a stronger pipeline, a broader range of services and greater sales capability. The board is optimistic about the Company's potential for growth.

Financial review

Helen Gilder
Director and Secretary

During the year ended 31 March 2016 the Group reported sales of $11.6m (2015: $11.5m). As in previous years, turnover in the second half was lower at $5.0m compared to the first half of $6.6m, however the impact of seasonality has lessened compared to prior years and the turnover for the second half of 2015/16 is the strongest such period for several years.

We are pleased to be reporting a significant improvement in profitability with EBITDA of $0.2m compared to a loss of $0.7m in the prior year, despite only a modest rise in turnover. The improvement in profitability is due to meticulous cost controls in place across the business and the drive to improve production processes with the use of technology whenever possible. The total operating expenses for 2015/16 were $10.5m compared to $11.1m in the prior year.

The year included two large claims under the UK R&D tax credit scheme where a total of $0.7m was received under the cash repayment scheme. These claims related to the periods 2013/14 and 2014/15 and the expectation is that a cash repayment will be available under the same scheme for 2015/16, however no financial benefit has been accrued in these results in relation to the expected 2015/16 cash repayment.

Working capital continues to be funded through invoice financing facilities in the UK and US with total facilities of $3.2m available of which $0.6m was drawn down as at 31 March 2016. In addition, the loan from the wife of Dr Stuart Green, the CEO, and the convertible unsecured loan notes remain in place.

Additionally, the Company refers to the results of the vote on 23 June 2016 in the United Kingdom on the referendum for Britain to leave the European Union and the weakening of the British pound following the results of the vote. The Group incurs the majority of its revenue and costs in US dollars and reports in US dollars, therefore the Directors do not anticipate any immediate negative impact on the Group's business as a consequence.

Key performance indicators

In addition to the monthly management accounts and information that is produced and monitored against the group's plan and the previous year's performance, the Board uses Key Performance Indicators (KPIs) in the management of the key risks of the business and as a measure of the business efficiencies of the group. The KPIs cover the following:

- Sales performance is measured against budget and the latest expectations which are updated monthly.
- Debtors are monitored by reviewing trends in debtor days and tracking the level of debt becoming overdue.
- Costs and overheads are monitored against budget and against current needs.
- Employee satisfaction is monitored through regular surveys, enabling management to act on emerging trends.
- Quality of our production services is monitored through the use of KPIs measured independently and reported to us by key clients and partners.

		2016	2015
Revenue	$000	**11,638**	11,465
EBITDA	$000	**156**	(687)
Movement in cash and cash equivalents	$000	**(11)**	203
Customer concentration	%	**57%**	53%
Debtor days	days	**36**	27
Overdue debtors	$000	**260**	83
Employee satisfaction	%	**85**	86
Quality	%	**99.6%**	99.0%

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 94% 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 risk is managing any unexpected peaks or troughs in production orders and ensuring that the appropriate levels of resource are available to provide the quality of services expected by our clients. This risk is managed by having a core of highly skilled permanent staff along with a pool of temporary staff that can be brought in at short notice to help at times of high volume. The use of technology helps mitigate this risk by streamlining processes as much as possible and enabling efficient access to a large, global and scalable pool of independent contractors.

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

Financial risks

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

The functional currency and presentation currency of the company are 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 the US dollar 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 has the ability to draw down funds from invoice financing facilities in both the UK and US.

By order of the board

Helen P Gilder
Director and Secretary
5 July 2016

Corporate Governance Statement

Compliance with the UK Corporate Governance Code

Under the AIM Rules for Companies 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 an internal audit function.

Board of Directors

The board consisted of the non-executive Chairman and three executive directors.

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

Board committees

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

The Audit Committee is chaired by Roger Jeynes. 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

5 July 2016

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

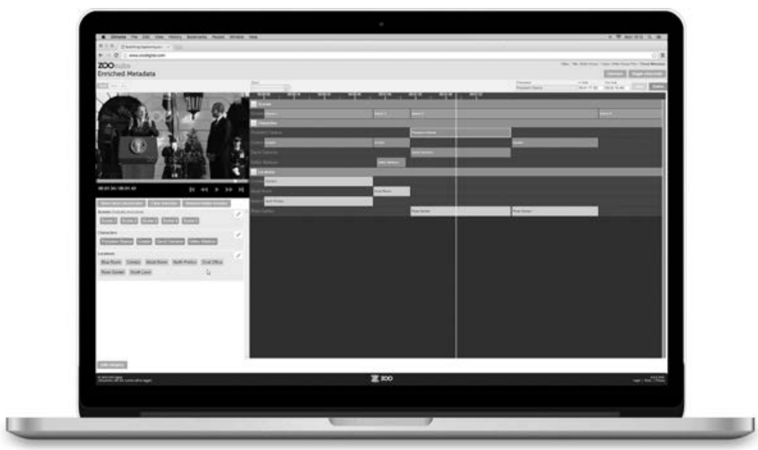
Stuart brings over 25 years' of experience of team building and executive management in the software industry to his role as CEO. Prior to his appointment as CEO Stuart was Chief Technical Officer, where he was responsible for determining the technology strategy and expanding the core intellectual property of the company. Previously he founded Kazoo3D plc and prior to that was the co-founder of LightWork Design Limited where he served as Technical Director. Stuart received a Ph.D. in Computer Science from the University of Bristol in 1989 for his research into multiprocessor systems for advance computer graphics. He is responsible for securing over 30 patents in the fields of image processing and digital media processing.

Helen P Gilder – Group Finance Director

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

Gordon Doran – Commercial Director

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



Advisers

Company Secretary and Registered Office

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Auditor

Grant Thornton UK LLP
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Registrar

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Surrey
GU9 7DR

Solicitors

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

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 2016.

Principal activities

The principal activity of the group for the year under review was to provide a range of services to allow quality TV and movie content to be subtitled in any language and prepared for sale with all major online retailers and to continue with on-going research and development of productivity software 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 7 to 11.

The audited financial statements for the year ended 31 March 2016 are set out on pages 22 to 57. 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

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 2016 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 23,152 ordinary shares with a nominal value of 15p (2015: 35,600), this represents 0.07% of the group's share capital. The total cost of the purchase was $1,000 (2015: $4,000). No ordinary shares with a nominal value of 15p were disposed of (2015: Nil). The maximum number of own ordinary shares held in the year was 141,621 (2015: 118,469).

Financial risk management

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

Substantial shareholdings

At 5 July 2016, 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	19.6%	6,397,539
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
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 13.

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
5 July 2016

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 2016 the Remuneration 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 in 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

Roger Jeynes is paid as an employee for his board services and was remunerated for consultancy fees through Charborough Capital Limited (see note 23 to the financial statements for further information).

Directors' remuneration

Directors' remuneration for the year to 31 March 2016 is:

						2016	2015
	Salary	Bonus	Benefits	Sub total	Pension	Total	Total
	$000	$000	$000	$000	$000	$000	$000
Dr Stuart A Green	182	-	4	186	7	193	205
Helen P Gilder	128	-	4	132	9	141	150
Gordon Doran	234	52	22	308	-	308	314
Roger D Jeynes	39	-	-	39	-	39	42
James A Livingston*	-	-	-	-	-	-	27
	583	52	30	665	16	681	738

*James Livingston retired 25 November 2014.

Of the above, the following directors were remunerated in pound sterling for the year to 31 March 2016. The pound sterling amounts are shown below:

						2016	2015
	Salary	Bonus	Benefits	Sub total	Pension	Total	Total
	£000	£000	£000	£000	£000	£000	£000
Dr Stuart A Green	121	-	2	123	5	128	126
Helen P Gilder	85	-	2	87	6	93	92
Roger D Jeynes	26	-	-	26	-	26	26
James A Livingston	-	-	-	-	-	-	16
	232	-	4	236	11	247	260

Gordon Doran is remunerated in US Dollars.

The balance owing to Charborough Capital Limited at 31 March 2016 was $27,000 (2015: $19,000).

Two directors (2015: 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:	**2016**	2015
	$000	$000
Emoluments	**308**	314
Money purchase pension contributions	**-**	-
	308	314

The highest paid director did not exercise any share options.

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 2015	Granted during the year	Exercised during the year	Surrendered during the year	31 March 2016	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
Helen P Gilder	250,000	-	-	-	**250,000**	$0.23*	Jan-16	Jan-25
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
Gordon Doran	250,000	-	-	-	**250,000**	$0.23*	Jan-16	Jan-25
	2,255,000	-	-	-	**2,255,000**			

*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 20 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 (2015: $8,000).

The market price of the ordinary shares at 31 March 2016 was 16 cents (11p) and the range during the year was 18 cents (12.50p) (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 Jeynes	28 April 2010	-

Directors' interests

The directors who held office at 31 March 2016 had the following interests, including any interests of a "connected person", in the 15p ordinary shares of ZOO Digital Group plc:

Name of director	**2016 Beneficial**	2015 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	**-**	-

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 2016:

Name of director	**2016 $000**	2015 $000
Roger D Jeynes	**36**	34
Dr Stuart A Green	**874**	912

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

Name of director	**2016 £000**	2015 £000
Roger D Jeynes	**25**	23
Dr Stuart A Green	**615**	615

The company has a loan in place from Sara Green, wife of Dr Stuart A Green, of $901,000 (2015: $928,000) with an interest rate of 10%. The underlying value of the loan was £600,000 and the full amount remained outstanding at 31 March 2016.

On 29 March 2016 Roger Jeynes purchased further loan notes to the value of £2,000 bringing his total holding to £25,000 (2015: £23,000). The total value of his holdings at 31 March 2016 was $36,000 (2015: $34,000).

No other transactions have taken place with directors.

No other changes took place in the interests of directors between 31 March 2016 and 5 July 2016.

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 2016 which comprise the consolidated and parent company statements of financial position, the consolidated statement of comprehensive income, the consolidated and parent company statements of cash flow, the consolidated and parent company statements of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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/auditscopeukprivate.

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 2016 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other 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

5 July 2016

Consolidated Statement of Comprehensive Income
for the year ended 31 March 2016

	Note	2016 $000	2015 $000
Revenue	5	**11,638**	11,465
Cost of sales		**(2,399)**	(2,483)
Gross Profit		**9,239**	8,982
Other operating income	6	**115**	-
Other operating expenses		**(9,198)**	(9,669)
Profit/(Loss) before interest, tax, depreciation and amortisation		**156**	(687)
Depreciation		**(181)**	(214)
Amortisation and impairment		**(1,078)**	(1,200)
Total operating expenses	8	**(10,457)**	(11,083)
Operating loss		**(1,103)**	(2,101)
Exchange gain on borrowings	7	**206**	561
Finance cost	7	**(559)**	(584)
Total finance cost		**(353)**	(23)
Loss before taxation		**(1,456)**	(2,124)
Tax on loss	11	**669**	66
Loss and total comprehensive income for the year attributable to equity holders of the parent		**(787)**	(2,058)

Loss per share	13		
basic		**(2.41) cents**	(6.30) cents
diluted		**(2.41) cents**	(6.30) cents

The notes on pages 29 to 57 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 $6,115,000 (2015: profit of $161,000).

Consolidated Statement of Financial Position
as at 31 March 2016

	Note	2016 $000	2015 $000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**433**	421
Intangible assets	15	**7,382**	7,967
Deferred income tax assets	16	**486**	486
		8,301	8,874
Current assets			
Trade and other receivables	17	**2,531**	1,918
Cash and cash equivalents	18	**314**	325
		2,845	2,243
Total assets		**11,146**	11,117
LIABILITIES			
Current liabilities			
Trade and other payables	21	**(3,096)**	(3,031)
Borrowings	20	**(142)**	(105)
		(3,238)	(3,136)
Non-current liabilities			
Borrowings	20	**(6,142)**	(5,453)
Total liabilities		**(9,380)**	(8,589)
Net assets		**1,766**	2,528
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		**12,320**	12,320
Share option reserve		**317**	296
Convertible loan note reserve		**42**	42
Foreign exchange translation reserve		**(992)**	(992)
Accumulated losses		**(54,151)**	(53,364)
		1,786	2,552
Interest in own shares		**(20)**	(24)
Attributable to equity holders		**1,766**	2,528

The notes on pages 29 to 57 are an integral part of these consolidated financial statements.

The financial statements on pages 22 to 57 were approved and authorised for issue by the Board of Directors on 5 July 2016 and were signed on its behalf.

Stuart A Green
Chief Executive Officer

Helen P Gilder
Group Finance Director

Company Statement of Financial Position
as at 31 March 2016

	Note	2016 $000	2015 $000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**23**	34
Intangible assets	15	**2,281**	2,281
Investment in subsidiary undertakings	23	**9,700**	9,700
Amounts due from subsidiary undertakings	17	**12,429**	17,722
		24,433	29,737
Current assets			
Trade and other receivables	17	**266**	204
Cash and cash equivalents	18	**47**	15
		313	219
Total assets		**24,746**	29,956
LIABILITIES			
Current liabilities			
Trade and other payables	21	**(1,776)**	(677)
Borrowings	20	**(9,705)**	(9,704)
		(11,481)	(10,381)
Non-current liabilities			
Borrowings	20	**(5,211)**	(5,427)
Total liabilities		**(16,692)**	(15,808)
Net assets		**8,054**	14,148
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		**10,596**	10,596
Share option reserve		**317**	296
Convertible loan note reserve		**42**	42
Foreign exchange translation reserve		**(13)**	(13)
Accumulated losses		**(47,134)**	(41,019)
		8,058	14,152
Interest in own shares		**(4)**	(4)
Attributable to equity holders		**8,054**	14,148

Company registration number: 3858881

The notes on pages 29 to 57 are an integral part of these consolidated financial statements.

The financial statements on pages 22 to 57 were approved and authorised for issue by the Board of Directors on 5 July 2016 and were signed on its behalf.

Stuart A Green
Chief Executive Officer

Helen P Gilder
Group Finance Director

Consolidated Statement of Changes In Equity for the year ended 31 March 2016

	Ordinary shares	Share premium reserve	Foreign exchange translation reserve	Convertible loan note reserve	Share option reserve	Other reserves	Accumulated losses	Interest in own shares	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000
Balance at 1 April 2014	7,236	37,014	(992)	42	302	12,293	(51,306)	(23)	4,566
Share based payments					24				24
Forfeited share options					(30)	27			(3)
Lapsed share warrants									
Purchase of own shares								(1)	(1)
Transactions with owners					(6)	27		(1)	20
Foreign exchange translation adjustment									
Loss for the year							(2,058)		(2,058)
Total comprehensive income for the year							(2,058)		(2,058)
Balance at 31 March 2015	**7,236**	**37,014**	**(992)**	**42**	**296**	**12,320**	**(53,364)**	**(24)**	**2,528**
Share based payments					22				22
Forfeited share options									
Purchase of own shares					(1)				(1)
Transactions with owners					21				21
Foreign exchange translation adjustment								4	4
Loss for the year							(787)		(787)
Total comprehensive income for the year							(787)		(787)
Balance at 31 March 2016	**7,236**	**37,014**	**(992)**	**42**	**317**	**12,320**	**(54,151)**	**(20)**	**1,766**

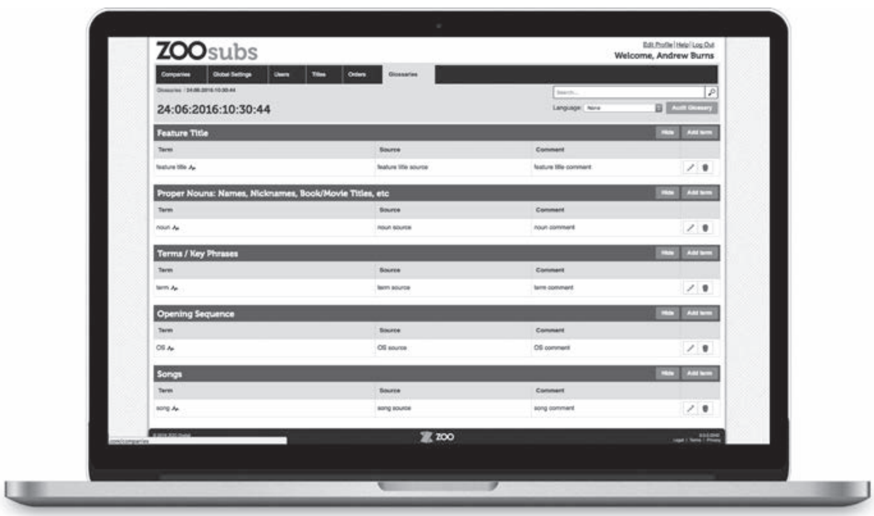
Company Statement of Changes In Equity for the year ended 31 March 2016

	Ordinary shares	Share premium reserve	Foreign exchange translation reserve	Convertible loan note reserve	Share option reserve	Other reserves	Accumulated losses	Interest in own shares	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000
Balance at 1 April 2014	**7,236**	**37,014**	**(13)**	**42**	**302**	**10,569**	**(41,180)**	**(4)**	**13,966**
Share based payments					24				24
Forfeited share options					(30)	27			(3)
Lapsed share options									
Transactions with owners					(6)	27			21
Loss for the year							161		161
Total comprehensive income for the year							161		161
Balance at 31 March 2015	**7,236**	**37,014**	**(13)**	**42**	**296**	**10,596**	**(41,019)**	**(4)**	**14,148**
Share based payments					22				22
Forfeited share options									
Purchase of own shares					(1)				(1)
Transactions with owners					21				21
Profit for the year							(6,115)		(6,115)
Total comprehensive income for the year							(6,115)		(6,115)
Balance at 31 March 2016	**7,236**	**37,014**	**(13)**	**42**	**317**	**10,596**	**(47,134)**	**(4)**	**8,054**

Consolidated Statement of Cash Flows
for the year ended 31 March 2016

	Note	2016 $000	2015 $000
Cash flows from operating activities			
Operating loss for the year		**(1,103)**	(2,101)
Depreciation	14	**181**	214
Amortisation and impairment	15	**1,078**	1,200
Share based payments		**21**	21
Purchase of own shares		**-**	(1)
Exchange loss on foreign operations		**-**	-
Changes in working capital:		**-**	-
(Increases)/decreases in trade and other receivables		**(613)**	1,289
Increases in trade and other payables		**65**	60
Cash flow from operations		**(371)**	682
Tax received		**669**	66
Net cash flow from operating activities		**298**	748
Investing Activities			
Purchase of intangible assets	15	**(493)**	(569)
Purchase of property, plant and equipment	14, 18	**(32)**	(67)
Net cash flow from investing activities		**(525)**	(636)
Cash flows from financing activities			
Repayment of borrowings		**(145)**	(512)
Proceeds from borrowings		**710**	1,187
Finance cost		**(349)**	(584)
Net cash flow from financing		**216**	91
Net (decrease)/increase in cash and cash equivalents		**(11)**	203
Cash and cash equivalents at the beginning of the year		**325**	122
Cash and cash equivalents at the end of the year	18	**314**	325

The notes on pages 29 to 57 are an integral part of these consolidated financial statements.



Company Statement of Cash Flows
for the year ended 31 March 2016

	Note	**2016** **$000**	2015 $000
Cash flows from operating activities			
Operating loss for the year		**(95)**	(17)
Depreciation	14	**11**	6
Share based payments		**21**	21
Changes in working capital:			
Increases in trade and other receivables		**(606)**	(1,240)
Increases in trade and other payables		**1,099**	42
Cash flow from operations		**430**	(1,188)
Net cash flow from operating activities		**430**	(1,188)
Investing Activities			
Purchase of property, plant and equipment	14	**-**	(19)
Net cash flow from investing activities		**-**	(19)
Cash flows from financing activities			
Proceeds from borrowings		**710**	1,187
Repayment of borrowings		**(925)**	(87)
Finance cost		**(183)**	118
Net cash flow from financing		**(398)**	1,218
Net increase in cash and cash equivalents		**32**	11
Cash and cash equivalents at the beginning of the year		**15**	4
Cash and cash equivalents at the end of the year	18	**47**	15

The notes on pages 29 to 57 are an integral part of these consolidated financial statements.

Notes to the Financial Statements for the year ended 31 March 2016

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 2019 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. The group has invoice financing arrangements in place for sales made by both the UK and US subsidiaries. The facility with Bibby Financial Services (California) Inc provides invoice financing of up to $2.5m against US customers invoices raised by ZOO Digital Production LLC. This facility is in place until 1 February 2017. The facility with Santander Bank provides an invoice financing facility for certain sales invoices raised by ZOO Digital Limited. The maximum facility is £500,000 and it is committed until February 2017. Both facilities have the option to continue for an additional year.

On 21 November 2014 the group entered into a new £800,000 convertible loan note with a major investor. The terms of this loan note mirror those of the existing loan note in that they have a fixed interest rate of 7.5%, a maturity date of 31 October 2017 and a conversion price of 48p.

On 17 December 2015 the group entered into a new £500,000 convertible loan note with a major investor. The terms of this loan note mirror those of the existing loan note in that they have a fixed interest rate of 7.5%, a maturity date of 31 October 2017 and a conversion price of 48p.

On 13 December 2013 Sara Green, the wife of Dr. Stuart A Green, CEO of the company, provided financial support to the company with a loan of $1,015,000 (£600,000). The full amount of this loan remains outstanding at 31 March 2016.

The convertible loan note, totalling $4,301,000 (£3,070,500), is due to mature on 31 October 2017 and the directors are working with investors to establish a mutually acceptable outcome.

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.

New and revised standards that are effective for annual periods beginning on or after 1 January 2015

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2015. Information on these new standards is presented below. There has been no material impact as a result of these changes.

IFRS 21

IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. It addresses the accounting for a liability to pay a levy whose timing and amount is certain. Under IFRIC 21, the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. For example, if the activity that triggers the payment of the levy is the generation of revenue in the current period and the calculation of that levy is based on the revenue that was generated in a previous period, the obligating event for that levy is the generation of revenue in the current period. Where the activity that triggers the payment of the levy occurs over a period of time, the liability to pay a levy is recognised progressively. For example, if the obligating event is the generation of revenue over a period of time, the corresponding liability is recognised as the entity generates that revenue.

IFRIC 21 also clarifies that an entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

Annual Improvements to IFRSs 2010 – 2012 Cycle and 2011-2013 Cycle

As part of its annual improvements cycles the International Accounting Standards Board amended various standards primarily with a view to removing inconsistences and clarifying wording.

The adoption of these amendments did not have any material impact on the Group.

2.1.1 Standards and interpretations in issue at 31 March 2016 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 16 Leases (effective 1 January 2019)

IFRS 15 Revenue from Contracts with Customers (effective 1 January 2017)

IFRS 9 Financial Instruments (effective 1 January 2018)

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the group. Management anticipates that all of the relevant pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncement.

The group is assessing the impact of these standards and interpretations.

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 (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is obtained until the date that control ceases.

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

2.3 Segment reporting

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

2.4 Foreign currency translation

2.4.1 Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in US dollars which is the company's functional and presentation currency. The functional currency of the company's subsidiaries is US dollars, therefore the majority of transactions between the company and its subsidiaries and the company's revenue and receivables are denominated in US dollars.

The US dollar/pound sterling exchange rate at 31 March 2016 was 0.704 (2015: 0.674).

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.

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 are measured at fair value at grant date using the binomial model. The fair value is expensed on a straight line basis over the vesting period, based on an estimate of the number of options that will eventually vest.

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

When share options are exercised, 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 are exercised. When share options are forfeited, cancelled or expire, the corresponding fair value is transferred to the accumulated losses reserve.

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

2.11 Pension costs and other post-retirement benefits

The group operates only defined contribution schemes and pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further obligations once the contributions have been paid. The amount charged to the 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 and software licence fees. 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 at the contracted rates as labour hours and direct expenses are incurred.

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 licence 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.

2.15 Government grants

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

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

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

3. Accounting estimates and judgements

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

3.1 Critical accounting estimates and assumptions

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

Goodwill

Goodwill is tested annually for impairment at the year end date. The recoverable amounts of cash generating units have been estimated based on value in use calculations. Value in use calculations have been based on a pre-tax discount rate of 12%. No impairment loss is incurred at this discount rate. Had the discount rate used been 1% greater or lower than estimated, there still would be no material impact on impairment.

Financial Instruments

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

Recognition of deferred tax assets

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

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

3.2 Critical judgements in applying the group's accounting policies

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 2016, the group is organised on a worldwide basis into two main operating segments:

- Software solutions, including research, development, consultancy and software sales
- Media production, localisation 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	
	2016	2015	**2016**	2015	**2016**	2015
	$000	$000	**$000**	$000	**$000**	$000
Total revenue	**3,270**	3,192	**8,884**	8,788	**12,154**	11,980
Inter-segment revenue	**-**	-	**(516)**	(515)	**(516)**	(515)
Revenue	**3,270**	3,192	**8,368**	8,273	**11,638**	11,465
Segment operating (Loss)/ Profit	**(474)**	(756)	**805**	95	**331**	(661)
Unallocated corporate expense					**(1,434)**	(1,440)
Operating loss					**(1,103)**	(2,101)
Finance cost					**(353)**	(23)
Loss before taxation					**(1,456)**	(2,124)
Tax on loss					**669**	66
Loss for the year					**(787)**	(2,058)

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

	Software solutions		Media production		Group operations		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	$000	$000	**$000**	$000	**$000**	$000	**$000**	$000
Depreciation	**6**	10	**164**	197	**11**	7	**181**	214
Amortisation	**1,044**	1,012	**34**	48	**-**	-	**1,078**	1,060
Impairment losses	**-**	140	**-**	-	**-**	-	**-**	140

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	
	2016	2015	**2016**	2015	**2016**	2015
	$000	$000	**$000**	$000	**$000**	$000
Assets	**4,077**	4,452	**2,291**	1,973	**6,368**	6,425
Unallocated corporate assets					**4,291**	4,205
Consolidated total assets					**10,659**	10,630
Liabilities	**1,136**	1,006	**2,421**	2,246	**3,557**	3,252
Unallocated corporate liabilities					**5,822**	5,337
Consolidated total liabilities					**9,379**	8,589
Capital expenditure	**504**	568	**180**	108	**684**	676
Unallocated capital expenditure					**2**	19
	$000				**686**	695

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	
	2016	2015	**2016**	2015	**2016**	2015
	$000	$000	**$000**	$000	**$000**	$000
United Kingdom (domicile)	**657**	553	**8,361**	8,649	**7,394**	7,946
US	**10,981**	10,912	**2,298**	1,981	**419**	441
	11,638	11,465	**10,659**	10,630	**7,813**	8,387

5. Revenue

The group's revenue comprises:

	2016	2015
	$000	$000
Software solutions	**3,270**	3,192
Media production	**8,368**	8,273
	11,638	11,465
Continuing operations	**11,638**	11,465
Discontinued operations	**-**	-
	11,638	11,465
Revenue from services	**9,782**	9,605
Software licence fees	**1,856**	1.859
	11,638	11,465

Major customers

The group's largest customer represented 58% (2015: 53%) of the group's revenues. These revenues are generated from both of the group's operating segments. The revenues are as follows:

	2016	2015
	$000	$000
Largest customer	**6,773**	6,090
Other customers	**4,865**	5,375
	11,638	11,465

6. Other operating income

	2016 $'000	2015 $'000
Profit on sale of assets	**1**	-
Grant Funding	**114**	-
Other operating income	**115**	-

7. Finance costs

	2016 $000	2015 $000
Finance costs:		
Interest on borrowings	**559**	584
Exchange gain on borrowings	**(206)**	(561)
Finance costs	**353**	23

8. Operating loss

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

	2016 $000	2015 $000
Other exchange losses/(gains)	**38**	(115)
Staff costs	**6,950**	7,657
Capitalised staff costs	**(560)**	(589)
Depreciation	**181**	214
Amortisation of other intangible assets	**1,078**	1,060
Impairment losses on other intangible assets	**-**	140
Research and non-capitalised development costs	**284**	176
Operating lease expense – land and buildings	**582**	566
Auditor's remuneration	**72**	89
Other expenses	**1,832**	1,885
Other operating expenses	**10,457**	11,083

9. Auditor's remuneration

	2016 $000	2015 $000
Fees payable to company's auditor for the audit of the parent company and consolidated financial statements	**38**	35
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	**14**	18
Tax services	**18**	32
All other services	**2**	4
	72	89

10. Employees including directors

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

	2016 No.	2015 No.
Product design and service delivery	**89**	88
Sales and marketing	**4**	4
Administration	**10**	13
	103	105

Their aggregate remuneration comprised:

	2016	2015
	$000	$000
Wages and salaries	**6,376**	6,945
Social security costs	**487**	626
Other pension costs	**65**	66
Share based payments	**22**	20
	6,950	7,657

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

Compensation of key management personnel (including directors)

	2016	2015
	$000	$000
Short-term employee benefits	**953**	1,070
Post-employment benefits	**16**	14
Share based payments	**17**	10
	986	1,094

This includes all directors listed on page 13 and senior management.

Directors' remuneration for the year to 31 March 2016 is:

					2016	2015
	Salary	**Bonus**	**Benefits**	**Pension**	**Total**	Total
	$000	**$000**	**$000**	**$000**	**$000**	$000
Dr Stuart A Green	**182**	**-**	**4**	**7**	**193**	205
Helen P Gilder	**128**	**-**	**4**	**9**	**141**	150
Gordon Doran	**234**	**52**	**22**	**-**	**308**	314
Roger D Jeynes	**39**	**-**	**-**	**-**	**39**	42
James A Livingston*	**-**	**-**	**-**	**-**	**-**	27
	583	**52**	**30**	**16**	**681**	738

*Retired 25 November 2014

Two directors (2015: 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:	**2016**	2015
	$000	$000
Emoluments	**308**	314
Money purchase pension contributions	**-**	-
	308	314

11. Income tax

	2016	2015
	$000	$000
Current tax:		
UK corporation tax		
- Research and development tax credit	**669**	68
Foreign tax	**-**	(2)
Total current tax	**669**	66
Total deferred tax	**-**	-
Tax credited	**669**	66

Corporation tax is calculated at 20% (2015: 21%) 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:

	2016	2015
	$000	$000
Loss before tax	**(1,456)**	(2,124)
Tax calculated at standard rate of corporation tax of 20% (2015: 21%)	**(291)**	(446)
Capital allowances in excess of depreciation	**(27)**	(26)
Disallowable items	**11**	12
Additional R&D expenditure relief	**(29)**	(35)
Losses carried forward	**1,005**	561
Tax credited	**669**	66

Tax losses carried forward

The group has tax losses carried forward of approximately $35m (2015: $34m), of which $2.4m (2015: $2.4m) 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.

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	
	2016	2015
	$000	$000
Loss for the financial year	**(787)**	(2,058)

	2016	2015
	Number of shares	Number of shares
Weighted average number of shares for basic & diluted loss per share		
Basic	**32,660,660**	32,660,660
Effect of dilutive potential ordinary shares:		
Convertible loan note	**5,654,867**	4,268,451
Share options	**3,518,763**	2,868,069
Diluted	**41,834,290**	39,797,180

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.

14. Property, plant and equipment

Group	Production equipment	Leasehold improvements	Computer hardware	Office equipment, fixtures & fittings	Total
	$000	**$000**	**$000**	**$000**	**$000**
Cost					
Opening cost at 1 April 2014	474	165	1,640	179	2,458
Additions	2	-	123	1	126
Opening cost at 1 April 2015	476	165	1,763	180	2,584
Additions	6	-	187	-	193
Closing cost at 31 March 2016	**482**	**165**	**1,950**	**180**	**2,777**
Accumulated depreciation/ impairment					
Opening balance at 1 April 2014	423	84	1,284	158	1,949
Depreciation	26	31	151	6	214
Opening balance at 1 April 2015	449	115	1,435	164	2,163
Depreciation	14	19	142	6	181
Closing balance at 31 March 2016	**463**	**134**	**1,577**	**170**	**2,344**
Opening carrying value at 1 April 2014	51	81	356	21	509
Opening carrying value at 1 April 2015	27	50	328	16	421
Closing carrying value at 31 March 2016	**19**	**31**	**373**	**10**	**433**

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

At 31 March 2016	Production equipment	Leasehold improvements	Computer hardware	Office equipment, fixtures & fittings	Total
	$000	**$000**	**$000**	**$000**	**$000**
Cost - capitalised finance leases	131	92	1,131	26	1,380
Accumulated depreciation	(117)	(66)	(814)	(19)	(1,016)
Net book value	**14**	**26**	**317**	**7**	**364**

At 31 March 2015	Production equipment	Leasehold improvements	Computer hardware	Office equipment, fixtures & fittings	Total
	$000	$000	$000	$000	$000
Cost - capitalised finance leases	131	92	970	26	1,219
Accumulated depreciation	(107)	(47)	(556)	(14)	(724)
Net book value	**24**	**45**	**414**	**12**	**495**

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

Company	Leasehold improvements	Computer hardware	Office equipment, fixtures & fittings	Total
	$000	$000	$000	$000
Cost				
Opening cost at 1 April 2014	22	259	144	425
Additions	-	18	1	19
Opening cost at 1 April 2015	22	277	145	444
Additions	-	-	-	-
Closing cost at 31 March 2016	**22**	**277**	**145**	**444**
Accumulated depreciation/ impairment				
Opening balance at 1 April 2014	22	238	144	404
Depreciation	-	7	(1)	6
Opening balance at 1 April 2015	22	245	143	410
Depreciation	-	11	-	11
Closing balance at 31 March 2016	**22**	**256**	**143**	**421**
Opening carrying value at 1 April 2014	-	21	-	21
Opening carrying value at 1 April 2015	-	32	2	34
Closing carrying value at 31 March 2016	**-**	**21**	**2**	**23**

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

At 31 March 2016	Computer hardware	Total
	$000	$000
Cost - capitalised finance leases	20	20
Accumulated depreciation	(9)	(9)
Net book value	**11**	**11**

At 31 March 2015	Computer hardware	Total
	$000	$000
Cost - capitalised finance leases	20	20
Accumulated depreciation	(4)	(4)
Net book value	**16**	**16**

15. Intangible assets

Group	Goodwill	Development costs	Patents and trademarks	Computer software	Total
	$000	$000	$000	$000	$000
Cost					
Opening cost at 1 April 2014	16,610	8,298	580	598	26,086
Additions	-	556	4	9	569
Opening cost at 1 April 2015	16,610	8,854	584	607	26,655
Additions	-	487	6	-	493
Closing cost at 31 March 2016	**16,610**	**9,341**	**590**	**607**	**27,148**
Accumulated amortisation/ impairment					
Opening balance at 1 April 2014	12,620	4,165	291	502	17,488
Amortisation	-	963	48	49	1,060
Impairment loss	-	140	-	-	140
Opening balance at 1 April 2015	12,620	5,268	249	551	18,688
Amortisation	-	986	58	34	1,078
Impairment loss	-	-	-	-	-
Closing balance at 31 March 2016	**12,620**	**6,254**	**307**	**585**	**19,766**
Opening carrying value at 1 April 2014	3,990	4,133	379	96	8,598
Opening carrying value at 1 April 2015	3,990	3,586	335	56	7,967
Closing carrying value at 31 March 2016	**3,990**	**3,087**	**283**	**22**	**7,382**

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 6 years.

No patent applications were derecognised during the year (2015: nil).

No intangible assets were impaired during the year (2015: $140,000).

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

	2016	2015
	$000	$000
Cost - capitalised finance leases	**127**	127
Accumulated amortisation	**(112)**	(84)
Net book value	**15**	43

Company	**Goodwill**	**Computer software**	**Total**
	$000	**$000**	**$000**
Cost			
Opening cost at 1 April 2014 and 1 April 2015	10,960	49	11,009
Closing cost at 31 March 2016	**10,960**	**49**	**11,009**
Accumulated amortisation/ impairment			
Opening balance at 1 April 2014 and 1 April 2015	8,679	49	8,728
Closing balance at 31 March 2016	**8,679**	**49**	**8,728**
Opening carrying value at 1 April 2014	2,281	-	2,281
Opening carrying value at 1 April 2015	2,281	-	2,281
Closing carrying value at 31 March 2016	**2,281**	**-**	**2,281**

There were no assets held under finance leases at 31 March 2016 and 31 March 2015.

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 pre-tax discount rate of 12% (2015: 12%). The carrying amount of goodwill is allocated as follows:

Software solutions		**Media production**		**Group**	
2016	2015	**2016**	2015	**2016**	2015
$000	$000	**$000**	$000	**$000**	$000
2,281	2,281	**1,709**	1,709	**3,990**	3,990

Within the Company the goodwill is the software solutions portion

Following the impairment tests, goodwill was considered not to be impaired In either the Group or the Company.

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 development. Cash flows after this period have been extrapolated based on estimated growth rates and discount rates disclosed below for each segment over the next five years.

	Software solutions	Media production
Discount rate	12%	12%
Growth rate	3%	3%

Management has based the growth rate of 3% on its expectations of prices, volumes and margin obtained from its current products and services and products and services under development. Current estimates from customers and market trends would support a higher growth rate but management have adopted a cautious assumption when assessing any potential impairment. The pre-tax discount rate of 12% is what management consider to be its cost of obtaining funds.

If sector growth assumption rates were applied at 3% and a discount rate of 12% was applied, the software solutions segment and the media production segment would require no impairment.

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

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

16. Deferred income tax

	Group		Company	
	2016	2015	**2016**	2015
	$000	$000	**$000**	$000
Deferred tax assets comprise:				
Unused tax losses	**486**	486	**-**	-

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

	Group		Company	
	2016	2015	**2016**	2015
	$000	$000	**$000**	$000
At 31 March 2015 and 31 March 2016	**486**	486	**-**	-

Tax losses carried forward

The group has tax losses carried forward of approximately $35m (2015: $34m), of which $m (2015: $2.4m) has been recognised at a rate of 20% as a deferred tax asset for the year. The balance of tax losses remains unrecognised at the balance sheet date due to the uncertainty of the timing of future profits.

17. Trade and other receivables

	Group		Company	
	2016	2015	**2016**	2015
	$000	$000	**$000**	$000
Trade receivables	**1,771**	1,599	**-**	-
Less: provision for impairment of trade receivables	**(12)**	(47)	**-**	-
Trade receivables - net	**1,759**	1,552	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**12,464**	17,758
VAT	**-**	7	**-**	12
Other Debtors	**84**	82	**-**	-
Prepayments and accrued income	**688**	277	**231**	156
	2,531	1,918	**12,695**	17,926
Less non-current portion: amounts owed by subsidiary undertakings	**-**	-	**(12,429)**	(17,722)
Current portion	**2,531**	1,918	**266**	204

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

As of 31 March 2016, trade receivables of $260,000 (2015: $83,000) were overdue. The ageing analysis of these trade receivables is as follows:

	Group	
	2016	2015
	$000	$000
Less than 3 months	**204**	3
3 to 6 months	**1**	78
7 to 12 months	**3**	-
Over 12 months	**52**	2
	260	83

There were no trade receivables outstanding in the Company at 31 March 2016 or 31 March 2015.

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

	Group		Company	
	2016	2015	**2016**	2015
	$000	$000	**$000**	$000
Pound sterling	**403**	115	**231**	115
US Dollar	**2,128**	1,803	**12,464**	17,811
	2,531	1,918	**12,695**	17,926

Provision for impairment of trade receivables:

	Group	
	2016	2015
	$000	$000
At 1 April	**47**	-
Provision for receivables impairment	**(35)**	47
Receivables written off in the year	**-**	-
At 31 March	**12**	47

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 $193,000 (2015: $139,000) of which $161,000 (2015: $59,000) 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	
	2016	2015	**2016**	2015
	$000	$000	**$000**	$000
Cash on hand and balances with banks	**314**	325	**47**	15

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

19. Share capital and reserves

Called up share capital

	2016	2015
	$000	$000
Allotted, called-up and fully paid		
32,660,660 (2014: 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 23,152 (2015: 35,600) 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 $2,000 (2015: $4,000).

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.

20. Borrowings

	Group		**Company**	
	2016	2015	**2016**	2015
	$000	$000	**$000**	$000
Non-current				
Amounts owed to subsidiary undertakings	**-**	-	**-**	771
7.5% Unsecured convertible loan note stock	**4,301**	3,715	**4,301**	3,715
Connected person loan	**901**	928	**901**	928
Other bank borrowings	**637**	518	**-**	-
Finance lease liabilities	**303**	292	**9**	13
	6,142	5,453	**5,211**	5,427
Current				
Amounts owed to subsidiary undertakings	**-**	-	**9,701**	9,701
Finance lease liabilities	**142**	105	**4**	3
	142	105	**9,705**	9,704
Total borrowings	**6,284**	5,558	**14,916**	15,131

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.

On 24 November 2014 a further loan note of $1,187,000 7.5% was issued. The underlying value of the new loan note is £800,000 and it is due to mature on 31 October 2017. On 17 December 2015 a further loan note of $754,000 7.5% was issued. The underlying value of the new loan note is £500,000 and it is due 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 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 not considered to be materially different to the carrying value.

During the year ended 31 March 2016 the group replaced the existing invoice financing arrangement with Crestmark Bank with one from Bibby Financial Services (California) Inc in order to gain an improvement in terms. The agreement with Bibby provides an invoice financing facility of up to $2.5m against US customer invoices raised by ZOO Digital Production LLC. This facility will be in place until 1 February 2017 with an option to extend. Interest is payable on a monthly basis and is charged for each day on the outstanding balance with an interest rate of 5% above the LIBOR rate with a minimum interest rate of 5.25%. An administration fee of 0.20% is due on the face value of each invoice submitted and a discount fee of 0.15% for each 15 day period for any invoice outstanding after a period of 30 days. The principle outstanding at 31 March 2016 was $625,000 (2015: $518,000). This funding is secured against the US trade receivables of ZOO Digital Production LLC.

The group has an agreement in place with Santander Bank to provide an invoice financing facility of up to $760,000 (£500,000) against certain customers' invoices raised by ZOO Digital Limited. This is an annually renewable facility. The group can draw on funding from the bank up to the lower of 75% of its applicable UK company Trade receivables and £500,000. The principle outstanding at 31 March 2016 was $12,000 (2015: nil). This funding is secured as a floating charge over the assets of the UK companies.

On 13 December 2013 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 2016. This loan is secured as a floating charge over the assets of the group.

Finance lease liabilities

Finance lease liabilities are payable as follows:

At 31 March 2016	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
	$000	**$000**	**$000**
Less than one year	**176**	**(34)**	**142**
Between one and five years	**354**	**(51)**	**303**
More than five years	**-**	**-**	**-**
	530	**(85)**	**445**

At 31 March 2015	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
	$000	**$000**	**$000**
Less than one year	141	(36)	105
Between one and five years	332	(40)	292
More than five years	-	-	-
	473	(76)	397

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	
	2016	2015	**2016**	2015
	$000	$000	**$000**	$000
Trade creditors	**1,040**	1,031	**241**	252
Amounts owed to subsidiary undertaking	**-**	-	**1,169**	-
Social security and other taxes	**254**	332	**116**	213
Accrued expenses	**1,802**	1,668	**250**	212
	3,096	3,031	**1,776**	677

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

22. Commitments

Capital commitments

The group had no capital commitments at the 31 March 2016.

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:

	2016	2015
	$000	$000
Within one year	**444**	577
From one to five years	**-**	444
	444	1,021

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 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	
	2016	2015
	$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.

Roger Jeynes is paid as an employee for his board services and is remunerated for consultancy fees through Charborough Capital Limited. The balance owing to Charborough Capital Limited at 31 March 2015 was $27,000 (2015: $19,000).

Related party transactions

	Company	
	2016	2015
	$000	$000
Sales of services to subsidiaries:		
Administration services	**1,704**	1,825
Interest paid on loans:		
Sara Green	**161**	168
Roger Jeynes	**3**	3

The gross interest payable to Sara Green at 31 March 2016 is $91,000 (2015: $69,000). The gross interest payable to Roger Jeynes at 31 March 2016 is $3,000 (2015: $1,000).

Sara Green, wife of Dr Stuart A Green, held a $873,000 (2015: $911,000) interest in 7.5% unsecured convertible loan stock at 31 March 2016. The underlying value of the interest in the convertible loan stock is £614,500 (2015: £614,500).

On 29 March 2016 Roger Jeynes increased his holding in the 7.5% unsecured convertible loan stock by $2,000 to $36,000 (2015: $34,000). The underlying value of the interest in the convertible loan stock is £25,000 (2015: £23,000).

On 13 December 2013 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 outstanding at 31 March 2016.

Amounts owed by subsidiary undertakings

	Company	
	2016	2015
	$000	$000
ZOO Digital Limited	**-**	6,647
ZOO Digital Production LLC	**12,464**	11,075
ZOO Employee Share Trust Limited	**-**	36
	12,464	17,758

Amounts owed to subsidiary undertakings

	Company	
	2016	2015
	$000	$000
ZOOtech Limited	**9,701**	9,701
ZOO Digital Inc.	**771**	771
	10,472	10,472

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:

	2016		2015	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
	No.	**$**	No.	$
ZOO Digital Group plc EMI scheme				
Outstanding at the beginning of the year	**1,636,893**	**0.22**	1,393,493	0.22
Granted during the year	**45,000**	**-**	285,000	0.23
Surrendered during the year	**(15,000)**	**0.24**	(41,600)	0.22
Outstanding at the end of the year	**1,666,893**	**0.21**	1,636,893	0.22
Exercisable at the end of the year	**1,315,893**	**0.26**	1,194,643	0.24

The underlying weighted average exercise price for the shares under option at 31 March 2016 was 15p (2015:15p).

ZOO Digital Group plc Unapproved				
Outstanding at the beginning of the year	**1,740,952**	**0.26**	1,553,452	0.27
Granted during the year	**225,000**	**0.23**	425,000	0.23
Surrendered during the year	**-**	**-**	(237,500)	0.21
Outstanding at the end of the year	**1,965,952**	**0.26**	1,740,952	0.27
Exercisable at the end of the year	**1,288,952**	**0.25**	1,187,702	0.23

The underlying weighted average exercise price for the shares under option at 31 March 2016 was 15p (2015:15p).

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

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

Out of the 3,632,845 outstanding options (2015: 3,377,845 options), 2,604,845 were exercisable (2015: 2,382,345). No share options were exercised during the year ended 31 March 2016 (2015: 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	865,226	**13 Oct 2018**	**0.21**	0.15
ZOO Digital Group plc EMI scheme	40,000	**30 Nov 2020**	**0.23**	0.15
ZOO Digital Group plc EMI scheme	361,667	**11 Jul 2022**	**0.23**	0.15
ZOO Digital Group plc EMI scheme	70,000	**26 Sep 2023**	**0.24**	0.15
ZOO Digital Group plc EMI scheme	285,000	**19 Jan 2025**	**0.23**	0.15
ZOO Digital Group plc EMI scheme	45,000	**17 Sep 2025**	**0.23**	0.15
ZOO Digital Group plc Unapproved	388,452	**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	247,500	**11 Jul 2022**	**0.23**	0.15
ZOO Digital Group plc Unapproved	90,000	**26 Sep 2023**	**0.24**	0.15
ZOO Digital Group plc Unapproved	425,000	**19 Jan 2025**	**0.23**	0.15
ZOO Digital Group plc Unapproved	225,000	**17 Sept 2025**	**0.23**	0.15
Outstanding at the end of the year	3,632,845			

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:

	Jun 2010	Dec 2010	Dec 2011	Jul 2012	Sep 2013	Jan 2015	Sep 2015
Expected Volatility (%)	73	76	63	83	84	67	61
Risk-free Interest rate (%)	2.65	2.13	0.97	0.71	1.52	1.08	1.35
Expected life of option (years)	5	5	5	5	5	5	5
Expected dividends	none	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 based payments have had the following impact on the group's loss for the year:	**2016**	2015
	$000	$000
Total expense recognised from share option transactions	**22**	20

Share based payment reserve appears in the statement of financial position under:	**2016**	2015
	$000	$000
Share option reserve	**317**	296

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**	
	2016	2015	**2016**	2015
	$000	$000	**$000**	$000
Loans and receivables				
Trade and other receivables excluding pre-payments and VAT (note 17)	**1,875**	1,642	**-**	-
Amounts owed by subsidiary undertakings (note 17)	**-**	-	**12,464**	17,758
Cash and cash equivalents	**314**	325	**47**	15
Total	**2,189**	1,967	**12,511**	17,773

	Group		**Company**	
	2016	2015	**2016**	2015
	$000	$000	**$000**	$000
Other financial liabilities at amortised cost				
Finance lease liabilities (note 20)	**445**	397	**13**	16
Amounts owed to subsidiary undertakings (note 20)	**-**	-	**9,701**	10,472
7.5% Unsecured convertible loan stock	**4,301**	3,715	**4,301**	3,715
Other bank borrowings	**637**	518	**-**	-
Connected person loan	**901**	928	**901**	928
Trade and other payables excluding payroll taxes (note 21)	**2,842**	2,699	**1,660**	464
Total	**9,126**	8,257	**16,576**	15,595

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 2016 there was more volatility in the Pound Sterling/US Dollar rate than in some previous years with the rate peaking at 0.7212 and falling to a low of 0.62958, with an average rate of 0.6638. If the US Dollar had remained at its highest level throughout the full year the group would have shown a post-tax loss of $0.2m (2015: Loss $1.9m), if US Dollar had been at its lowest level throughout the full year the group would have shown a post-tax loss of $1.3m (2014: Loss $2.9m) and if the US Dollar had remained at the average rate throughout the year the post-tax loss would have been $0.8m (2014: Loss $2.5m).

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 2016 was 0.704 (2015: 0.6742).

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.

In November 2014 the company entered into a new loan note arrangement with a major shareholder for an amount of $1,187,000 (£800,000). The terms of this loan note are identical to the existing loan note, namely a fixed interest rate of 7.5% and a maturity date of 31 October 2017.

In December 2015 the company entered into a new loan note arrangement with a major shareholder for an amount of $700,000 (£500,000). The terms of this loan note are identical to the existing loan note, namely a fixed interest rate of 7.5% and a maturity date of 31 October 2017.

The Bibby Financial Services facility is in place until 1 February 2017, with an option to extend. Interest is payable on a monthly basis and is charged for each day on the outstanding balance with an interest rate of 5.00% above the LIBOR rate with a minimum interest rate of 5.25%. An administration fee of 0.20% is due on the face value of each invoice submitted and a discount fee of 0.15% for each 15 day period for any invoice outstanding after a period of 30 days. The group is subject to interest rate risk on the movement in the LIBOR rate.

The Santander invoice financing facility is in place until February 2017, with an option to extend, and has interest payable on a monthly basis and is charged for each day on the outstanding balance at an interest rate of 2.35% in excess of the UK base rate. The group is subject to interest rate risk from the movement in the UK base rate.

Liquidity risk

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

The group has an agreement in place with Bibby Financial Services to provide an invoice financing facility of up to $2.5m against US customers' invoices. This facility will be in place until 1 February 2017, with the option to extend. The group can draw on funding from the bank up to lower of 90% of its current US company Trade receivables and $2.5m. The principle outstanding at 31 March 2016 was $625,000 (2015: $518,000).

The Group has an agreement in place with Santander Bank to provide an invoice financing facility of up to $760,000 (£500,000) against certain customers' invoices raised by ZOO Digital Limited. This facility will be in place until February 2017 with an option to extend. The group can draw on funding from the bank up to the lower of 75% of its applicable UK company trade receivables and £500,000. The principle outstanding at 31 March 2016 was $12,000 (2015: nil).

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 March 2016	**$000**	**$000**	**$000**	**$000**
Borrowings	**-**	**5,839**	**-**	**-**
Finance lease liabilities	**142**	**-**	**303**	**-**
Trade and other payables	**3,096**	**-**	**-**	**-**

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 March 2015	$000	$000	$000	$000
Borrowings	-	5,161	-	-
Finance lease liabilities	105	-	292	-
Trade and other payables	3,031	-	-	-

Company

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 March 2016	**$000**	**$000**	**$000**	**$000**
Amount owed to subsidiary undertakings	**9,701**	**-**	**-**	**-**
Borrowings	**-**	**5,202**	**-**	**-**
Finance lease liabilities	**4**	**-**	**9**	**-**
Trade and other payables	**1,776**	**-**	**-**	**-**

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 March 2015	$000	$000	$000	$000
Amount owed to subsidiary undertakings	9,701	-	-	-
Borrowings	-	3,715	-	-
Finance lease liabilities	3	-	13	-
Trade and other payables	677	-	-	-

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.

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.

	2016	2015
	$000	$000
Total borrowings	**6,284**	5,558
Less cash and cash equivalents	**(314)**	(325)
Net debt	**5,970**	5,233
Total equity	**1,766**	2,373
Total capital	**7,736**	7,606
Gearing ratio	**77%**	69%

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