ZOO

ZOO

localisation **reimagined**

Dubai
industry-first
subtitling
streamlined
scalable
voice-over
TV

OTT disruptive
innovation
preferred digital distribution
vendor content security
research & development
collaboration
efficient cloud dubbing
entertainment
end-to-end global
studios expansion
technology
industry-first captioning Hollywood
translation multi-lingual
Sheffield film

Los Angeles
thinking differently
streaming services

www.zoodigital.com

Contents

Financial KPIs and Operational KPIs

Revenues
$28.8m
(2018: $28.5m)

EBITDA margin[1]
1.4%
(2018: 8.4%)

Operating expenses as a percentage of revenues
37%
(2018: 33%)

Number of freelancers[2]
6,556
(2018: 4,413)

Retained sales[3]
88%
(2018: 97%)

[1] Adjusted for share-based payments

[2] The number of active freelance workers in ZOO's systems who are engaged directly

[3] Proportion of client revenues retained from one year to the next. This included a significant one-off order from a single client; adjusting for this results in a value of 97%.

About ZOO

ZOO Digital enables major Hollywood studios, global broadcasters and Over-the-Top (OTT) distributors to reach audiences worldwide.

Highly efficient, scalable and secure, ZOO offers end-to-end cloud-based localisation and digital distribution services.

It has facilities in the entertainment hubs of Los Angeles, London and Dubai and a development and production centre at its headquarters in Sheffield, UK. ZOO combines an innovative, technology-powered approach with a track record in the global media and entertainment industry since 2004.

Localisation reimagined

Through R&D investment spanning more than a decade, ZOO has pioneered an innovative technology-led strategy to address key challenges facing its clients in the localisation supply chain. This has delivered significant client benefits including faster time-to-market, scalability and quality that differentiate the company from its competitors.

Our R&D team develops proprietary cloud technology to reimagine the way TV and movie content is localised and prepared for distribution around the world.

End-to-end services

ZOOstudio's cloud-based localisation ecosystem enables us to offer the end-to-end services needed to prepare localised content packages for global OTT distribution, with the primary services being:

- **Subtitling**
- **Dubbing**
- **Captioning**
- **Digital packaging**

ZOO's Highlights

A year of expansion, innovation and reputation building

Expansion

- Opened a new state-of-the-art facility in Dubai in preparation for growth in the Middle East.
- Expanded in South East Asia with the appointment of Head of Operations and Business Development for the region.
- Established a new voice capture hub in London and expanded our Los Angeles production facility.
- Launched the ZOO-Enabled Dubbing Studio programme (ZEDS) to grow our global localisation network. Over 70 in-territory studios have joined and are being trained in our software.
- Increased the number of approved freelance translators, dubbing artists and creative directors by 50% to over 6,500.
- Expanded our cloud dubbing service in Thailand and Vietnam through a new partner studio with Kantana Group, Thailand's largest film studio.

TRUSTED PARTNER NETWORK

KANTANA

The University Of Sheffield.

Innovation

ZOOstudio

- Launched ZOOstudio localisation ecosystem ahead of National Association of Broadcasters (NAB) Show 2019.
- Our industry-first solution addresses the challenges of global OTT distribution including managing capacity, scalability and complex localisation processes.
- It is integrated with our interconnected cloud platforms that share information and enable highly efficient workflows.
- It enables us to offer end-to-end localisation services with significant efficiency benefits for clients.
- It empowers content owners to manage all vendors and projects in one central system.

ZOOdubs

- Refined our industry-first cloud dubbing service, following its launch last year, by developing new ways to streamline key processes including lip-sync dubbing, casting and audio creation.
- It enables ZOO to deliver a multi-lingual dubbing service using innovative technology.
- It virtualises aspects of traditional dubbing, eliminating the need for centralised, dedicated facilities and reducing capital infrastructure costs.
- It secured a third industry award with the International Association for Broadcast & Media Technology Suppliers (IABM) at the NAB Show 2018.

Reputation building

Industry

- Invited to tender for multiple opportunities to provide localisation and digital distribution services for the biggest names in the Hollywood entertainment business.
- Awarded membership of the Trusted Partner Network (TPN), the new international standard for media content security across the film and television industry.
- Maintained approved vendor status with five major Hollywood studios.
- Maintained our status as a delivery partner to leading OTT platforms including Netflix Preferred Fulfilment Partner; Amazon Prime Video; iTunes and iTunes Extras 2.0 preferred vendor for features and TV; Hulu and Google.
- Awarded an IABM Broadcast and Media (BAM) award for cloud dubbing at NAB Show 2018; the dubbing service's third industry award.

Education

- Embarked on a three-year, UK government-backed project with the University of Sheffield around the application of machine learning for media localisation.
- Pursued a number of initiatives to develop the talent pool including with an acting school in Mexico and the Voice Actors Association in South Korea.
- Worked on pilot schemes with University College London, UK and Northern Kentucky University, US to increase the talent pool for localisation services. ZOO's software platforms are being deployed to form part of the course content for students.

ZOO at a Glance

BUILT FOR OTT

1. ZOO R&D

Our in-house team of 32 software specialists innovates using cloud technology to enable us to deliver differentiated and superior services and respond to some of the major challenges our clients face in media localisation.

2. ZOO'S CLIENTS

We work with some of the largest publishers of TV and movie content including all major Hollywood studios, global broadcasters and OTT platforms.

3. COLLABORATIVE APPROACH

We recognise that large buyers will always use multiple localisation vendors to reduce supplier concentration and provide capacity. We are differentiated in the market by our collaborative approach, having developed our own ecosystem management platform, ZOOstudio, so that our clients can centralise and streamline operations and gain access to end-to-end localisation services across multiple vendors.

4. PREFERRED VENDOR STATUS

ZOO is one of the few service providers approved as a global delivery partner for many of the industry's biggest TV and film producers and OTT operators.

5. ZOO'S FREELANCE TRANSLATOR NETWORK

We have a network of over 6,500 approved freelance translators, voice artists, dubbing directors and audio mixers. They work with us using our collaborative cloud platforms and provide us with global reach to a talent pool covering all languages.

6. ZOO-ENABLED DUBBING STUDIOS (ZEDS)

ZOO has an efficient solution for clients that require certain dubbing languages to be recorded in conventional studios. Where other vendors outsource to disparate in-territory studios, ZOO collaborates with established facilities trained in the use of our software, enabling all language versions to be completed efficiently and consistently within one unified platform. We have enrolled a worldwide network of over 70 in-territory ZEDS providing local creative expertise and global capacity, enabling us to meet diverse client requirements.

Clients

A Booming Global TV and Movie Industry

Over the last three years there has been an unprecedented rate of growth in the home entertainment industry due to the rise of video streaming services.

In the US alone there are over 200 OTT platforms, of which Netflix, Amazon Prime Video and Hulu are the most popular. Content owners worldwide have more opportunity than ever before to distribute the latest TV series and movies around the world. Several major content owners have already announced plans to launch their own studio-branded direct-to-consumer platforms in the coming year, involving repurposing of back catalogues of content as well as commissioning new originals to be prepared for launch.

Industry challenges and ZOO's opportunity:

- Content owners must manage more content, distribution channels and delivery platforms.
- In order to release each movie or TV show around the world, content must be localised. This includes subtitling for all languages, dubbing audio for specific territories and translating artwork, with the creation and management of numerous media elements.
- Release windows for the world's most sought-after hit shows and movies are decreasing to meet the expectations of audiences and to combat piracy. Timescales for localisation and production are shorter than ever, so the process must be streamlined and well managed with assets and data shared across workflows wherever possible.
- Each localisation service vendor operates its own production workflows, making it challenging for content owners to unify the management of production across multiple suppliers. Historically there has been no overarching vendor-agnostic system available to address this.
- In certain countries there aren't currently enough translators and dubbing artists to meet the growing demand for localisation. Content owners and audiences alike do not want to hear the same voices featured in the dubbed version of every TV show or film, but with limited availability of voice talent this can be unavoidable.

Content owners are calling on localisation providers to take the initiative and devise new approaches to service delivery, process and capacity to respond to an entertainment industry that is rapidly evolving. They are actively embracing cloud computing, searching for vendors that can offer the best technology-powered approach to handle challenges such as the efficient localisation of huge volumes of OTT content for audiences around the world.

US$4.4 billion

Value of the global voice-over market. (Source: Slator)

70%

Share of EMEA localisation spend on dubbing. (Source: MESA Europe)

Over US$1 billion

OTT revenues in each of 17 countries by 2023 – up from 10 countries in 2017. (Source: Digital TV Europe)

Over US$2.3 billion

Spend in 2018 on TV, movie and video localisation services for EMEA. (Source: MESA Europe)

58%

Share of the global voice-over market attributed to entertainment. (Source: Slator)

Sources
https://www.mesaeurope.org/wp-content/uploads/2019/05/Content-Localisation-Press-Release-May-2019.pdf
https://slator.com/features/how-rapid-growth-in-2018-transformed-media-localization/
https://www.digitaltveurope.com/2018/09/20/global-ott-revenues-to-more-than-double-between-2017-and-2023/

Strategy for Growth and Sustainable Capacity

ZOO recognises the immediate challenges for the entertainment industry. Its strategy for growth is around delivering the much-needed sustainable capacity, operating efficiency and oversight for its content owner clients and is expressed in the following four pillars:

We were confirmed as a preferred fulfilment partner (NPFP) for Netflix, allowing us to secure contracts for subtitling and media processing.

Innovate

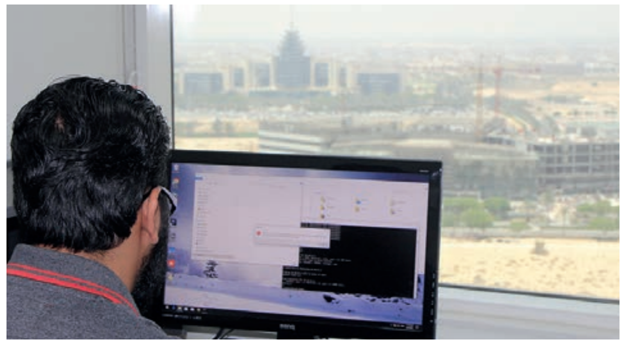
Create added value by responding to industry opportunities and challenges using cutting-edge cloud technology and pioneering thinking.

Deliver a significant competitive advantage by making localisation and digital distribution services more efficient, scalable and collaborative while ensuring consistently high quality to meet the needs of major clients.

Scale

Grow through a freelance network and facilities in strategic locations.

Ensure scalability at all levels. This includes building a cost-effective, freelance talent pool for creative roles in all languages and investing in facilities in key strategic locations for the entertainment industry as well as engaging with in-territory partners rather than investing in bricks and mortar.



Collaborate

Working with like-minded, world-class experts in media localisation, education and research.

Operate a partnership approach with highly reputable, world-leading organisations around the globe with complementary skills and expertise. These include traditional dubbing studios, specialist educational organisations to enlarge the talent pool, and university collaborations to continue ground-breaking research to refine our services.

Partner

Secure preferred partner status with leading buyers.

Work with the leading global buyers of subtitling, dubbing and digital distribution services in order to establish ZOO as a preferred partner.

Investment Summary

STRATEGY

- Focussed on the global TV and film localisation market.
- Innovative, technology-first approach.
- Global opportunity due to the expansion of video streaming services.
- Successful long-term partnerships with major Hollywood studios, global streaming platforms and leading broadcasters.
- Purpose-designed, cloud-based approach to address the needs of the video streaming market delivering clear competitive advantage.
- Currently shaping the way in which the TV and film industry manages media localisation.

GROWTH

- Large and growing global TV and film market creating an estimated $4bn annual spend in media localisation (source: Media Entertainment Services Alliance Europe, 2019 and ZOO Digital).
- A buoyant subscription video on demand market still in its infancy.
- Smartphone penetration in emerging markets offering potential for rapid international growth in consumer streaming services.

CULTURE

- Executive team steeped in industry experience.
- Innovation-led approach to address market challenges with a track record of success.
- International workforce appropriate to long-term market opportunity.
- Embracing supply chain choice and flexibility as expected by content owners.

SCALABILITY

- An agile cloud infrastructure built for capacity and the increasing global demand for media localisation.
- Global network of freelancers connected via the cloud.
- International award-winning cloud software to support all services.

OUTLOOK

- Opportunity for sustained growth.
- Potential to accelerate international growth through cost-effective bolt-on acquisitions.
- Continuing innovation will deliver greater competitive advantage.
- Differentiated market position as key competitors struggle to adapt to market evolution.

Estimated US$4 billion annual global spend in media localisation

(Source: Media and Entertainment Services Alliance Europe and ZOO Digital)

Clients

ZOO counts major Hollywood studios, broadcasters and global brands among its clients

Why Clients Choose ZOO

Reliable quality – We provide reliable, high-quality services powered by innovative technology and our dedicated global team.

Efficient production – Automated processes drive production efficiencies to complete projects faster.

Reduced costs – We use technology to streamline processes, increase productivity and save our clients time and money.

Simple global collaboration – Our cloud-based platforms make it simple for global teams to collaborate, share and review information.

Scalable services – Our scalable, flexible services are ideally suited to meet the evolving demands of global content distributors.

Global coverage – Our services cover all global distribution formats, and we are approved to deliver directly to the leading digital service providers.

Chairman's Statement

The group has continued its programme of planned investment to develop a full suite of services which are needed by the entertainment industry for the global delivery of localised content. These investments are helping our clients – some of the largest creators and distributors of entertainment content – launch and operate their own direct-to-consumer streaming platforms and manage their supply chains across multiple localisation vendors.

During the financial year the group encountered two challenges: one of our largest clients changed the way in which it engages with its supply chain, and our non-core declining legacy DVD and Blu-ray business shrank at a faster rate than had been anticipated. Despite these adverse factors, the board is pleased that ZOO's transition to become one of the most innovative providers of localisation services to the TV and film industry continues to make excellent progress.

Total revenues for the group edged up to $28.8m, driven by a 4% increase in our localisation segment as our nascent dubbing service attracted new customers. As highlighted in the previous year's statement, investments in software innovation, a larger international presence and increased capacity to service our expected growth in demand from the world's largest entertainment companies resulted in adjusted EBITDA* reducing to $0.4m compared to $2.4m in 2017-18. Given the group's investment in R&D, the movement in share-based payments and depreciation of equipment used in the business an operating loss of $1.3m was recorded in 2019 (2018: profit $0.6m). As a consequence of the revaluation of the embedded derivative the reported profit for the year before tax was $1.3m compared to a loss last year of $5.0m. The group was cash positive in the second half of 2018-19, closing with $1.8m cash in the bank and debt of $3.3m**. ZOO also has access to more than $2m in short-term debt financing which was not used at the period end, and as such the board is confident that the group is able to exploit the large and expanding market opportunity for its software and services.

The disruptions during the year have been frustrating for ZOO and for shareholders, but our staff's hard work, adaptability, commitment and undiminished enthusiasm have enabled us to continue to make significant progress with our four strategic priorities:

Innovate – Our software platforms, from which we deliver cloud-based subtitling and dubbing services, have been extended with significant new functionality in the year. ZOOstudio, an advanced project and capacity management platform, was developed specifically to address our clients' needs to manage the localisation process from end to end and to embrace multiple vendors. The excellent market reaction to ZOOstudio has included being awarded Product of the Year at the recent National Association of Broadcasters (NAB) show in Las Vegas after the period end.

Scale – Our freelance network of translators, voice actors, dubbing directors and audio engineers grew by almost 50% to over 6,500. In addition, we have extended the software to allow studios to use our systems for their own projects, which again extends our reach and capacity.

Collaborate – We have continued to add global partners who work in our systems and help us deliver client projects. We launched a partnership and accreditation programme (ZOO-Enabled Dubbing Studios) and have recruited world-leading dubbing partners in Europe, Asia, South America and the Middle East. We have partnered with specialist educational organisations to enlarge the localisation talent pool and with universities to continue ground-breaking research in machine learning to enhance our services.

Build long-term client partnerships – During the year we were confirmed as a preferred fulfilment partner (NPFP) for Netflix, allowing us to secure contracts for subtitling and media processing. ZOO is currently in the advanced stages of formal tenders at several major companies for the long-term supply of localisation and digital packaging services. Although these have not yet concluded, we remain optimistic of positive outcomes from these for ZOO.

The board is committed to complying with the QCA corporate governance code and, as I have now been a non-executive director of ZOO for 9 years, I have announced that I will not seek re-election at the next AGM. Following a formal selection process, I am pleased that the board has appointed Gillian Wilmot who will take up the role from 1 July 2019. Gillian is an experienced chairman and NED with expertise in digital, brand and value creation and in delivering growth strategies. I extend to her my very best wishes as she takes up leadership of the board in what I expect to be an exciting period of growth for ZOO.

As announced in last year's report, Phillip Blundell joined in July 2018 as the replacement for our long-serving CFO Helen Gilder. Phillip has settled in well and is now a key member of both the board and the senior management team. I would like to thank Helen for her commitment, integrity and significant contribution to the current success of the business. We believe the board is appropriate for the business in its current stage of evolution and, following the new chair appointment, we will again have two independent non-executive directors to ensure the effective representation of all stakeholders' interests.

The board and all our staff are determined to grow ZOO into a leading next-generation media localisation business by offering a unique combination of software and customer service to the film and TV industry's leading players. Our innovative software, established client relationships, extensive partner networks and highly skilled staff give the board confidence that we can deliver an exciting and rewarding future for our stakeholders from this rapidly evolving $4bn market.

(* Adjusted for share-based payments)
(** Represented by the £2.6m sterling-denominated convertible loan notes at an exchange rate of 1.3)

Roger D Jeynes
Chairman
ZOO Digital Group plc

Strategic Report

Year Ended 31 March 2019

The directors present the Strategic Report for the year ended 31 March 2019.

Introduction

Throughout the course of the year the company has invested in people, in technology and in infrastructure so that it is ideally placed to take advantage of the continuing changes in the TV and filmed entertainment industries that our services support.

As highlighted in the Chairman's Statement, we experienced some challenges during the year due to external factors, which is unsurprising given the rapid rate of change and the relatively nascent nature of Over-the-Top (OTT) video delivery. Early in the year subtitling revenue was impacted by disruption, which was experienced by us and other market participants in the subtitling supply chain during the transition of a major OTT operator's partner programmes, and in the second half we were affected by the delay of a single, material localisation project that was scheduled to begin and be completed during the year. Furthermore, the work that we carried out processing legacy DVD and Blu-ray titles showed greater than expected decline in the second half following a poor performance of retail sales of these products over the holiday season. This deterioration confirms our view of the market trends and although these services are not core to the group on an ongoing basis, representing only 8% of revenues in the year, they did impact on our full year profitability in the period under review. Furthermore, we now forecast this decline will accelerate in the period ahead and have significantly reduced our expectations of ongoing revenue from this legacy business line in the new year and beyond.

As a result of the external factors described above, total revenue for the year was $28.8 million (2018: $28.5 million). Within this figure, total localisation revenues grew 4% to $22.3m against a strong comparative prior year figure that included a one-off project with a value of $2.5m for a major studio. The impact of this one-off project was to reduce the key metric relating to retained sales from 97% to 88% in the fiscal period. As a consequence of the investment in people, technology and capacity, EBITDA was $0.4m compared to $2.4m last year. It also adversely affected our other operational KPI, operating expenses as a percentage of revenue, which increased to 37% compared to 33% in 2018. Despite this investment we ended the year with cash of $1.8m (2018: $2.4m).

Strategy and market opportunity

Digital consumption of entertainment continues to gather pace, and with the launch of new direct-to-consumer OTT platforms from some of the world's biggest media, technology and communications companies planned to take place in the coming year, this is set to accelerate even further.

Consequently, content with appeal to a broader consumer audience will continue to become commercially available in more and more geographies, and as the territorial reach increases so too does the need for subtitling and dubbing into additional languages. We envisage that services aimed at family audiences will become more prominent on a wider territorial basis, which will have an impact on demand for professional localisation services since content aimed at young viewers is always dubbed rather than subtitled. The growth in the number of languages into which entertainment is being localised increases the scope of work for ZOO.

Combined with this, companies are committing greater levels of investment to original content creation to act as a differentiator for their platforms. A number of major media companies are currently engaged in a rigorous and usually lengthy process of selecting their preferred partners for localisation services and it is pleasing to note that ZOO is being considered by each one of them, which is evidence of the quality of the work that we have undertaken to date and of our growing reputation as a partner of choice in the industry.

The growth in demand for premium media localisation services that we observe is supported by recent research findings from MESA Europe, an independent industry body, which reported that total spend on media localisation in EMEA alone exceeded $2.3 billion in 2018 (2017: $2.0 billion) and is anticipated to grow at between 5–8% a year from 2019 to 2021. Within that, dubbing represents 70% of the total spend and 69% of it is related to the localisation of episodic TV titles, with feature films accounting for 18%. MESA Europe reports that the top four vendors in subtitling in EMEA represent 62% of the market, whilst in dubbing the figure drops to 20%, a consequence of the fact that the traditional dubbing industry is highly fragmented across a large number of small operators in many countries. This helps to underline why gaining preferred vendor status is such an important step for ZOO, giving the potential for our multi-lingual dubbing proposition to grow a strong market position.

We remain confident that ZOO is well positioned to capture a significant share of this growing number of localisation projects due to the following factors:

Innovation

ZOO's innovative use of technology enables content owners to distribute their products to additional territories at a faster speed-to-market and to a consistently high quality compared with what has previously been possible, with greater security and at a competitive price. The clear benefits delivered by the company's differentiated proposition have driven significant organic growth in sales.

Scale

ZOO's software enables the company to collaborate with a worldwide network of thousands of freelance workers, such as translators, voice actors and dubbing directors, and to significantly reduce the human capital requirements of service fulfilment, enabling the company to scale its capacity efficiently as demand increases and to capitalise on the ongoing trend for global distribution of international content originating in a growing number of languages.

Quality

Over the eight years since we launched our subtitling proposition, we have demonstrated our ability to deliver a service across all global languages, at scale, at the highest levels of quality achieved within the industry. We have become recognised as a leading player and partner of choice for subtitling by some of the largest media organisations. Although our dubbing proposition, launched only two years ago, is at a much earlier stage in its development, we have already been engaged by major studios on initial projects, and the feedback we have received on our performance has been very favourable. This gives us confidence to believe that, given time, we will build a similar reputation for quality in our dubbing service from which we can reasonably expect accelerated adoption will follow.

Partnership

ZOO's long history of service and software provision in the entertainment industry means it has an unrivalled depth of both industry know-how and customer relationships. Recent hires to the company include senior directors from Walt Disney and traditional industry vendors.

Review of operations

We have continued to make considerable progress in our localisation services delivered through our proprietary cloud-based platforms, ZOOsubs and ZOOdubs, for the provision of subtitling and dubbing services respectively.

ZOOsubs: Subtitling

The performance of subtitling was affected by the disruption in the supply chain of a major OTT partner during the first half. This normalised after three months and volumes then continued to increase through the second half, resulting in continued strong growth year-on-year. However, our recent experience is that orders placed by this client are at greater likelihood of change than previously, having encountered situations where certain orders have been delayed or cancelled. For example, a large order was cancelled in our final quarter due to a content licensing deal being aborted, and our completion of a second large order was delayed by two months following late receipt of assets from the licensor, pushing some FY19 expected sales into FY20. This combination of factors leads us to be more cautious in our forecasting of sales from this major client.

It has been particularly rewarding to witness the progress of subtitling from its launch and recognition in the form of a number of industry accolades, through to its current status. It now has an excellent reputation within the industry where it continues to be adopted by an increasing number of clients as well as processing increasing volumes within existing clients. As well as the financial confidence this affords it also affirms our belief that ZOOdubs is on a similar trajectory, being the more recently launched service and which is following a similar path.

ZOOdubs: Dubbing

The supply chain disruption previously mentioned also had an effect on the year's overall performance within dubbing, which nonetheless grew revenues by 17% in the year. ZOOdubs is still a very recent addition to our services and meaningful adoption of any offering inevitably takes time. This is particularly so of one that is so disruptive due to being in some respects at odds with conventional wisdom within the industry. This is entirely consistent with our experience following the launch of ZOOsubs, where the initial reservations articulated by our clients concerning quality, scalability and security have since been proven to have been unfounded.

We have seen an increase in major studios trialling our solution throughout the year and feel confident that this will result in increased workflow in coming periods, as well as increased volumes from existing dubbing clients. Our innovation has continued, resulting in us delivering further significant developments in ZOOdubs and we were delighted that it received its third major industry award during the year, being the IABM at the NAB show in 2018.

Investing for future growth

As previously mentioned there has been exceptional growth in the volume of content consumed across different geographies and in different languages, and this is set to accelerate. With the launch of new OTT market entrants and the continued growth of our existing clients, ZOO has been investing to ensure that it has the appropriate technology, capacity and geographical expertise to partner with content owners and distributors as they bring growing volumes of entertainment titles to greater audiences.

Our freelance network, which gives us scalability at variable cost, grew by 50% during the period and at the year end stood at just over 6,500 individuals, giving us access to 75 different languages. Included within this are over 800 voice actors who cover 34 languages between them. This readily available access to in-territory talent is a key differentiator for ZOO when clients are looking to release content in multiple countries and in multiple languages concurrently. The growth in the freelancer network again reflects ZOO's growing reputation globally.

Through our discussions with clients around our dubbing proposition, in addition to the many attractive benefits we can offer, it has become evident that certain clients require some or all of the voice recordings for some languages to take place in traditional dubbing studios. To address this, shortly prior to the end of the period under review we launched our ZOO-Enabled Dubbing Studio (ZEDS) programme, where we provide access to and training on how to use our solutions so that traditional dubbing studios are able to perform voice recording directly into our system. In this way, we are able to preserve many of the advantages of our disruptive approach while still accommodating particular requirements stipulated by our clients, thereby addressing a common objection we received in the period following its launch. To date, over 70 traditional and reputable dubbing studios across 22 languages have signed up to the ZEDS programme with more expected to follow in the current financial year. In addition to meeting the clients' criteria this also provides ZOO with much greater capacity to meet future demand.

There has been considerable investment in our technology and platform during the year to both our dubbing and subtitling offerings, with some of the key elements being the following:

- Launch of lip-sync dubbing – Our technology now supports the preparation and delivery of lip-syncing, the more demanding, complex and therefore higher value form of dubbing, with initial projects receiving positive feedback from clients, voice actors and dubbing directors. This opens a wider pool of dubbing projects to ZOO.
- Launch of a scripting service powered by a new cloud-based platform, ZOOscripts, a cornerstone capability that enables us to process combined subtitling and dubbing assignments consistently, providing our clients with further efficiency and greater control. This is particularly valuable when working on pre-release content, where the work on localisation begins prior to finalising the video edit. In this case localisation operates as an iterative process, necessitating robust version control. ZOOscripts is an important component of our ecosystem that ensures that any changes made to the original language dialogue are automatically propagated to all localised subtitles and dubbed soundtracks.
- Launch of Delta – software to identify automatically the dialogue changes in different versions and iterations of TV and movie content. This removes the need for manual tracking, visual/audio inspection and duplicated work, which cause unnecessary delays and errors in traditional workflows.
- Launch of ZOOstudio – Given the size of the localisation market, the sheer volume of content and the level of spend incurred by major producers, it has long been the case that many large companies are unwilling to source their localisation needs from a single vendor and this is unlikely to change in the future. This creates its own unique difficulties for clients in being able to manage global distribution materials delivered by multiple vendors.

To this end, the company recently launched ZOOstudio, a localisation ecosystem management platform that provides transparency, tracks key metrics and enables scenario planning. This is therefore a strategically important tool and we are delighted that we are already in dialogue with a number of large studios regarding its adoption and that post the period end, ZOOstudio achieved critical industry acclaim at the NAB 2019 show, where it won a prestigious 'Product of the Year' award.

Outlook

ZOO has the technology, the people and the local expertise to enable our clients to deliver content across multiple territories and in multiple languages simultaneously and efficiently. We have worked hard over the course of the year to enhance our offering, build up our network and differentiate ourselves further from the competition. To be chosen as a primary vendor of localisation services for large media companies requires us to demonstrate significant global capacity, and in this regard, we have made excellent progress that puts us in good stead as we continue to grow.

Trading in the new year has begun well. Whist the significant decline in legacy DVD and Blu-ray formats in our digital packaging segment has continued, now leading us to not forecast any significant income from this business line in the future, this has been offset by strong growth related to Over-the-Top (OTT) delivery. We expect ZOO to be confirmed as a preferred vendor to a greater number of clients and lines of business during the course of the year ahead. Our expectations of timing are reflective of the dynamic nature and disruption experienced in the OTT marketplace recently.

The end market into which we are selling our cloud-powered services continues to grow and the traction that we are gaining with each of our services gives us great confidence that the business is well placed to meet opportunities and growth in the years to come.

Financial Review

Revenue

2018-19 was a challenging year as our largest client changed the way it engages with its supply chain and our legacy DVD and Blu-ray digital packaging business declined faster than we had anticipated. Despite these two factors revenues edged up to $28.8 million compared to $28.5 million in 2018. The movement in revenues is explained by a 4% increase in localisation offset by a 12% decline in digital packaging and a 4% decline in software solution revenues.

The majority of the group's customers are in the USA, where revenues decreased by 3% to $25.4 million. The balance of revenues were in Europe and Asia which showed an increase of 144% to $2.7 million. The shift in geographical revenues is due to our customers seeking content from new regions and the decline in our legacy DVD and Blu-ray business.

We have experienced during the year under review a slight increase in customer concentration, as the revenue contribution from our largest client increased to 36% of sales in 2019 (2018: 34%), with the second largest accounting for 22%, down from 24% last year.

Localisation is the segment of company revenues that will be the future engine for growth. It comprises subtitling, captioning and dubbing services. Subtitling and captioning revenues were flat year on year due to the temporary slowdown in orders from our biggest customer. Dubbing revenues grew by approximately 17% as eight major content creators, up from four the previous year, awarded us projects.

Digital packaging, our other main revenue category, saw revenues drop by 12% as our legacy DVD and Blu-ray service line reflected the global decline in demand for such products.

Software licensing, our third segment which has been a reducing proportion of our business, continued to decline, this year by 4% to $1.9 million.

Segment contribution

The company reports gross profit after deducting both external and internal variable costs to reflect that an increasing proportion of our revenues are derived from the provision of services to our customers. To add clarity to our financial statements we include a table of performance by our three key business segments.

Localisation segment contribution fell in the year from $6.7 million to $6.2 million due to a significant increase in direct staff costs as the business geared up for higher revenues. The contribution percentage as a consequence reduced from 31% to 28%. This additional capacity means that in the coming year, as predicted revenues increase, the localisation contribution margin will improve.

Digital packaging segment contribution fell to 54% in the year from 60% in 2018. This is explained by the adverse mix as the high margin DVD and Blu-ray revenues fell in the year and the increase in direct staff anticipating higher digital packaging revenues.

Software solution segment contribution held steady at 95% in the year.

Overall gross profit, which is calculated after also deducting unallocated variable costs, fell 9% to $9.2 million compared to $10.1 million in 2018. This represents a gross profit margin of 32%, down 3% points from 35% last year. The majority of the reduction in gross profit margin is due to the investment in direct staff in anticipation of increased revenues from our main customers. This cost is approximately $0.7 million.

Other operating expenses

Operational fixed costs, which are defined as operating expenses less share-based payments, depreciation and amortisation, have continued to increase as we internationalise our business and gear up to support our future growth plans. Overall, they increased by 13% to $10.7 million as we have invested in expanding the sales team and broadening out our dubbing capacity. This has involved expanding the R&D department, building a team of dedicated dubbing experts and growing the freelancer network. We have expanded our US office to accommodate the increase in staff and voice capture facilities and opened a larger London office with the space for a dedicated mixing studio. To promote our new dubbing service, we have increased our marketing budget significantly, spending $0.4 million compared to $0.2 million in the prior year. The rate of increase is not expected to continue into future years.

Finance costs

The main component of the group's finance costs relate to the 7.5% convertible loan note stock with a maturity date in October 2020. Interest on the principal in the year was $0.4 million, approximately the same as 2018. The other two components of finance costs are non-cash items. The first is the exchange gain on the conversion of the outstanding sterling-denominated debt at the year end due to the weakening of sterling to the US dollar in the year, which has given rise to an exchange gain of $0.3 million. The second is the reduction in the fair value of the embedded derivative at year end calculated with reference to the share price movement in the past 12 months and the expected value to loan note holders at the point of conversion. This has given rise to a non-cash $2.7 million gain.

These non-cash accounting entries have had a material impact on the profit/loss before tax for the year ended March 2019, which was a profit of $1.3 million (2018: $5.0 million loss).

As a result of the expansion of costs to provide capacity for future revenue growth the business made an operating loss of $1.3million (2018: profit $0.6million). On the company's preferred measure of profitability, being EBITDA before share-based payments, the profit was $0.4 million, down from $2.4 million in 2018, reflecting the investment in the localisation business and the run-off of the high margin legacy DVD business.

Statement of financial position

The statement of financial position shows that trade and other receivables have increased 9% compared to last year to $8.1 million reflecting the strong sales performance in the last 2 months of the financial year compared to last year as clients prepared for new platform launches. This increase was mirrored in trade and other payables as work performed by suppliers and freelancers peaked to support our customer deliveries. Cash and cash equivalents of $1.8 million at year end, (2018: $2.4 million) was down 25%, however, in the second half of the year we generated net cash of $0.9 million through strong cash receipts from customers.

At the time of reporting, the majority of year-end debtors had been collected.

Non-current liabilities fell significantly in the year due to the revaluation of the embedded derivative reducing its value by $2.7 million. This is a non-cash adjustment and does not represent a future cash liability to the business. The value of the 7.5% convertible loan notes fell in the year by $0.3 million to $3.3 million due to the weakness of sterling against the dollar and a small redemption of $12,000 by a bond holder.

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 over 88% of its revenues come from overseas clients. 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.

Political uncertainty

The political climates in the UK and US are currently challenging due to the uncertainty around Brexit negotiations. The directors monitor emerging news and trends and remain alert to any potential impact on the trading of the group.

Technology conservation

The group continues with a patent protection policy, with 16 patents granted and a further three pending, having allowed some legacy patents which are no longer beneficial to lapse. These active patents 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. In the current year we have supplemented these resources by engaging international businesses to operate within our technology platform, giving us further variable cost capacity. 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 key clients

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 clients across different business units and seeking to secure long-term contractual agreements for supply of technology and services. The group focusses on providing high quality services to all clients to ensure an attractive and differentiated offering thereby reducing the likelihood of client loss.

Corporate activity within key clients

Merger and acquisitions within key clients represent a risk as they can disrupt sales. This risk is mitigated by ensuring an awareness of news in the market and focussing on diversifying the client base.

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 26 to the accounts.

The group is exposed to the usual credit risk and cash flow risk associated with selling on credit and manages this through credit control procedures. The group regularly monitors cash flows and cash resources and has the ability to draw down funds from financing facilities in both the UK and US.

By order of the board

Phillip Blundell
Director and Secretary

Corporate Governance Statement

All members of the board believe strongly in the value and importance of good corporate governance and in our accountability to all of ZOO's stakeholders, including shareholders, staff, clients, our growing network of freelance workers and other suppliers. In the statement below, we explain our approach to governance and how the board and its committees operate.

The corporate governance framework which the group operates, including board leadership and effectiveness, board remuneration, and internal control is based upon practices which the board believes are proportional to the size, risks, complexity and operations of the business and is reflective of the group's values. Of the two widely recognised formal codes, we decided in 2018 to adhere to the Quoted Company Alliance's ("QCA") Corporate Governance Code for Small and Mid-Size Quoted Companies (revised in April 2018 to meet the current requirements of AIM Rule 26).

The QCA Code is constructed around ten broad principles and a set of disclosures. The QCA has stated what it considers to be appropriate arrangements for growing companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures. We have considered how we apply each principle to the extent that the board judges these to be appropriate in the circumstances, and below we provide an explanation of the approach taken in relation to each. The board considers that it does not depart from any of the principles of the QCA Code.

Board composition and compliance

The QCA Code requires that the boards of AIM companies have an appropriate balance between executive and non-executive directors of which at least two should be independent. During the period under review I announced my intention to resign before the AGM as I have served the maximum term of 9 years to remain classified as an independent non-executive director. I am pleased to confirm that Gillian Wilmot, a very experienced non-executive director, has agreed to join as the group's new chairman from 1 July 2019. On her appointment, Gillian will assume the role of chair of the remuneration committee and member of the audit committee. She joins Mickey Kalifa as the group's second independent non-executive director.

Board evaluation

For many years we have supported the QCA Code's principle to review regularly the effectiveness of the board's performance as a unit, as well as that of its committees and individual directors. I led the most recent review in February 2019. A number of refinements in working practices were identified as a result of this exercise and have since been adopted. We will be considering the use of external facilitators in future board evaluations.

Shareholder engagement

We have made significant efforts to ensure effective engagement with both institutional and private shareholders. In addition to the usual roadshows following the release of full year and interim results, each of which was expanded to include a greater number of existing and potential new investors, we have actively promoted our AGM as a forum to present to and meet with investors, delivered our second Capital Markets event in October 2018, and presented at an investor exhibition and conference. The company has also continued to distribute a quarterly shareholder newsletter to which investors can subscribe via email, providing an easy to access source of information on operational activities taking place within the group.

The board has continued to commission Progressive Equity Research to produce and provide both institutional and private investors with independent research on the group. In the year Arden Partners has also initiated coverage on the group giving shareholders and potential investors an independent view on the group's prospects.

The board has ultimate responsibility for reviewing and approving the Annual Report and Accounts and it has considered and endorsed the arrangements for their preparation, under the guidance of its Audit Committee. The directors confirm the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the group's position and performance, business model and strategy.

The following paragraphs set out ZOO's compliance with the **10 principles of the QCA Code**.

Establish a strategy and business model which promote long-term value for shareholders

The purpose of the group is encapsulated in the expression of its mission, which is to provide services for fast and cost-effective localisation and digital distribution of TV and movie content through the power of our world-class cloud technology. Our business model is to provide media localisation and digital packaging services to content owners and distributors. Our strategy is to deliver these through a combination of proprietary software technology that acts as a competitive differentiator, and a large global network of linguistic professionals engaged on a freelance basis. We believe this will deliver a profitable and highly-valued business and competitive advantages over other providers of similar services, leading to faster turnaround of projects, to a consistently high quality at an attractive price point.

The key challenges we face include:

Maintaining consistently high levels of quality – very high standards are now expected by the digital distributors who influence much of the localisation that is commissioned by industry players. We have implemented automated testing wherever possible, and our system-driven workflow management ensures that manual linguistic quality control is engaged as necessary. In the case of dubbing operations, we have developed software to analyse the acoustic performance of recording environments to ensure they meet minimum specifications.

Ensuring security of client assets – the safekeeping of materials is of paramount importance. Our production facility in Los Angeles is audited for security annually by the Motion Pictures Association of America, and similarly the Sheffield facility by the Trusted Partner Network. Features to prevent the copying of assets and provide effective deterrents are implemented throughout our proprietary software and systems.

Delivering continuous availability – a failure in the group's systems could lead to an inability to deliver services. This is addressed by operating redundant systems across multiple availability zones, a comprehensive disaster recovery programme and assigning staff from both UK and US facilities on each project.

Operating a large freelancer network – the group's capacity for processing orders is dependent, in part, on the network of freelance workers. The cloud software is enhanced on an ongoing basis to make the group's systems increasingly attractive to freelance workers. Financial processes are designed to ensure that all freelancers are paid on time. A process of peer review is implemented in the group's production systems to ensure that all work undertaken by freelancers is independently checked and verified and its quality is assured.

Recruiting and retaining suitable staff – the group's ability to execute its strategy is dependent on the skills and abilities of its staff. We undertake ongoing initiatives to foster good staff engagement and ensure that remuneration packages are competitive in the market.

We believe we have the right strategy and service in place to deliver strong growth in sales over the medium to long term. We expect the gross profit of our localisation segment to improve in future periods as our dubbing service and software mature, which will result in improving EBITDA margins or provide us with scope for additional investment in new services. This will enable us to deliver sustainable shareholder value.

Seek to understand and meet shareholder needs and expectations

Responsibility for investor relations rests with the CEO, supported by the CFO. During the period under review the following activities were pursued to develop a good understanding of the needs and expectations of all constituents of the group's shareholder base:

Date	Description	Participants	Comments
Apr 18	Presentations to institutional investors	SG	Initiate introduction to company
Apr 18	Investor site visit	SG	To gain additional knowledge of group and technology
Apr 18	Private investor event – Mello	SG, HG	Opportunity for retail investors to meet the group
May 18	Various shareholder meetings	SG	Initiate introduction to company
Jun 18	Private shareholder meetings	SG	Update on group progress
Jul 18	Media and shareholder meetings	SG, RJ	Release of preliminary results and analyst coverage
Jul 18	New York institutional meetings	SG	Initiate introduction to company
Sep 18	AGM	RJ, SG, PB, MK	Actively invited shareholders to attend; provided presentations and software demonstrations
Oct 18	Peel Hunt investor show	SG, PB	Opportunity for Yorkshire-based investors to meet the company
Oct 18	Capital Markets Day	RJ, SG, PB, GD	The group's second Capital Markets event to which analysts and fund managers were invited
Nov 18	Numis investor show	SG, PB	Exposure to a new group of potential investors
Nov 18	Analyst event in London and Sheffield	SG, PB	Attended by 16 city analysts giving the group wider coverage and resulted in Arden initiating coverage
Nov 18	Interim results roadshow	SG, PB	Extended to institutions in Edinburgh
Nov 18	Interim results private investor meeting and video	SG, PB	Video disseminated via PI World to private investors and available on PI World website
Dec 18	Various investor meetings	SG, PB	Update on group progress
Jan 19	Various investor meetings	SG, PB	Update on group progress

Key: RJ: Roger Jeynes; SG: Stuart Green; PB: Phillip Blundell; GD: Gordon Doran; MK: Mickey Kalifa; HG: Helen Gilder

The group is committed to communicating openly with its shareholders to ensure that its strategy and performance are clearly understood. We communicate with shareholders through the Annual Report and Accounts, full-year and half-year announcements, trading updates and the annual general meeting (AGM), and we encourage shareholders' participation in face-to-face meetings. A range of corporate information (including all ZOO announcements) is also available to shareholders, investors and the public on our website.

Private shareholders: The AGM is the principal forum for dialogue with private shareholders, and we encourage all shareholders to attend and participate through RNS announcements and a quarterly newsletter. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. The chairs of the board and all committees, together with all other directors whenever possible, attend the AGM and are available to answer questions raised by shareholders. Shareholders vote on each resolution, by way of a poll. For each resolution we announce the number of votes received for, against and withheld and subsequently publish them on our website.

Institutional shareholders: The directors actively seek to build a mutual understanding of objectives with institutional shareholders. Our CEO and CFO make presentations to institutional shareholders and analysts immediately following the release of the full-year and half-year results. We communicate with institutional investors frequently through a combination of formal meetings, participation at investor conferences, roadshows and informal briefings with management. The majority of meetings with shareholders and potential investors are arranged by the broking team within the group's Nominated Advisor. Following meetings, the broker provides anonymised feedback to the board from all fund managers met, from which sentiments, expectations and intentions may be gleaned.

In addition, we review analysts' notes to achieve a wide understanding of investors' views. This information is considered by the board and has contributed to the preparation of the group's Investor Relations strategy which was revised and approved in May 2019.

Take into account wider stakeholder and social responsibilities and their implications for long-term success

Stakeholder	Reason for engagement	How we engage
Staff – our ability to fulfil client services and develop and enhance the cloud software platforms on which they depend relies on having talented and motivated staff.	Good two-way communication with staff is a key requirement for high levels of engagement, fostering a culture of innovation.	• Monthly staff briefings delivered in the UK and US in person and by webcast. • Invitation to staff to ask questions of management that are answered in the briefings. • Annual engagement survey. • These have provided insights that have led to enhancement of management practices and staff incentives. • Launch of Sharesave scheme.
Clients – our success and competitive advantage are dependent upon fulfilling client requirements, particularly in relation to quality of service, its speed of delivery and security.	Understanding current and emerging requirements of clients enables us to develop new and enhanced services, together with software to support the fulfilment of those services.	• Seek feedback on services and software systems. • Obtain fulfilment metrics employed by clients to measure performance. • Obtain requests for new services and service enhancements. • These have led to the group securing approved vendor status with a number of large media organisations.
Suppliers – a key supplier group is our network of freelancers who fulfil linguistic services.	Freelance workers will provide similar services to other organisations, including our competitors, so we must ensure they are available to us and accommodating.	• We optimise our systems to simplify the work of freelancers as much as possible, including in relation to administration of projects. • We operate systems to ensure that supplier invoices are processed and paid promptly. • These have led to a large, growing and supportive freelancer network.
Shareholders – as a public company we must provide transparent, easy-to-understand and balanced information to ensure support and confidence.	Meeting regulatory requirements and understanding shareholder sentiments on the business, its prospects and performance of management.	• Regulatory news releases. • Keeping the investor relations section of the website up to date. • Quarterly investor newsletters. • Participation at investor events. • Publishing of videos of investor presentations and interviews. • Annual and half-year reports and presentations. • AGM. • Capital Markets events. • We believe we successfully engage with our shareholders; over the past 12 months this engagement has led to support for the group and good liquidity in trading.
Industry bodies – the services we provide must meet certain requirements.	The views of certain industry groups, including the Motion Picture Association of America (MPAA) and the Trusted Partner Network (TPN) are influential in the way the group is perceived by certain clients.	• Membership of MPAA, CDSA and TPN and participation in security programs. • Annual audit of security. • These have resulted in audit reports that have led to certain clients commencing engagement.
Communities – what we do impacts communities in the places where we operate and elsewhere.	It is important to be perceived as a reputable business that makes a positive contribution to local economies and is attractive as an employer and partner.	• Multiple activities to support fundraising for local charities and good causes. • Participation in apprenticeship and other schemes to support and provide opportunities to young people. • Two directors are trustees of registered charities. • These have led to a favourable profile for the group in the local areas of its major operations.

Embed effective risk management, considering both opportunities and threats, throughout the organisation

The CFO has prepared a risk register for the group that identifies key risks in the areas of corporate strategy, financial, clients, staff, environmental and the investment community. All members of the board are provided with a copy of the register. The register is reviewed periodically and is updated as and when necessary.

Within the scope of the annual audit, specific financial risks are evaluated in detail, including in relation to foreign currency, interest rates, liquidity and credit.

Staff are reminded on a monthly basis to report, anonymously or otherwise, any security risks or threat they perceive in the operations of the business. On receipt of any such notification, a security incident team is assembled to assess and take remedial action as appropriate in the circumstance.

Staff are reminded on a monthly basis that they should seek approval from the CFO if they, or their families, plan to trade in the group's equities.

Maintain the board as a well-functioning, balanced team led by the chair

The members of the board have a collective responsibility and legal obligation to promote the interests of the group and are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the chair of the board.

The board consists of five directors of which three are executive (one of whom was appointed during the period) and two are independent non-executives. The board is supported by two committees: audit and remuneration. The board does not consider that it is of a size at present to require a separate nominations committee, and all members of the board are involved in the appointment of new directors. The board intends to appoint additional non-executive directors as its business expands.

Non-executive directors are required to attend 10-12 board and board committee meetings per year (in Sheffield, London or Los Angeles) and to be available at other times as required for face-to-face and telephone meetings with the executive team and investors.

Meetings held during the period under review and the attendance of directors is summarised below:

	Board meetings*		Audit committee		Remuneration committee	
	Possible	Attended	Possible	Attended	Possible	Attended
Executive directors						
Dr Stuart Green	11	11	–	–	–	–
Helen Gilder (resigned 8 August 2018)	4	4	–	–	–	–
Gordon Doran	11	11	–	–	–	–
Phillip Blundell (appointed 8 August 2018)	8	8	1	1	–	–
Non-executive directors						
Roger Jeynes	11	11	2	2	2	2
Mickey Kalifa	11	11	2	2	2	2

* There was one further meeting called and held by conference call for the sole purpose of approving the interim results announcement

The board has a schedule of regular business, financial and operational matters, and each board committee has compiled a schedule of work to ensure that all areas for which the board has responsibility are addressed and reviewed during the course of the year. The chairman is responsible for ensuring that, to inform decision-making, directors receive accurate, sufficient and timely information. The company secretary compiles the board and committee papers which are circulated to directors prior to meetings. The company secretary provides minutes of each meeting and every director is aware of the right to have any concerns recorded in the minutes and to seek independent advice at the group's expense where appropriate.

Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

All five members of the board bring relevant sector experience in media and technology, all have at least nine years of public markets experience and two members are chartered accountants. The board believes that its blend of relevant experience, skills and personal qualities and capabilities is sufficient to enable it to successfully execute its strategy. Directors attend seminars and other regulatory and trade events to ensure that their knowledge remains current.

Roger Jeynes, Independent Chairman (until 1 July 2019)

Term of office: Appointed as Chairman on 28 April 2010, standing down with effect from 1 July 2019 after nine years in conformance with the QCA Code on director independence; Chair of the Remuneration Committee and a member of the Audit Committee.

Background and suitability for the role: Roger has had a long executive career in the technology and corporate finance sectors, including sales and general management roles with large corporations in Europe and the USA. More recently he has held non-executive roles with a number of listed and venture-backed technology companies as well as with several fully listed investment trusts. He therefore brings long experience of governance and public markets and is able to empathise with the sometimes differing views of investors and executive directors.

Roger is an FCA Approved Person for controlled activity CF30: Customer (FCA register ref. no. RDJ01021).

Current external appointments: Non-executive director of Downing Three VCT plc, The Development Bank of Wales plc, mxData Limited and Charborough Capital Limited, and trustee of a charity, The Lloyd Reason Foundation.

Time commitment: Two to three days per month.

Gillian Wilmot, Independent Chairman (from 1 July 2019)

Term of office: Appointed as Chairman with effect from 1 July 2019; Chair of the Remuneration Committee and a member of the Audit Committee.

Background and suitability for the role: Along with extensive board level leadership roles in both private and public company environments, Gillian brings a wealth of relevant industry experience across B2B, technology, advertising and communication sectors. Gillian's skill set shows particular strengths in value creation, operational insight and corporate governance, for which she was recognised in the 2014 UK NED awards. Therefore, she brings strong experience of governance, public markets and growth companies.

Current external appointments: Non-Executive Chairman of Clearly So Ltd., Non-Executive Chairman of Senet Group for Responsible Gambling, Non-Executive Chairman of Bubbles Online Services Ltd., Director of NED Advisory Ltd., Director of Board Mentoring Ltd, Director of Sport Mentoring Ltd, Member of Industrial Development Advisory Board for UK Government.

Time commitment: Two to three days per month.

Mickey Kalifa, Independent Non-Executive Director

Term of office: Joined as Non-Executive Director on 5 October 2017; Chair of the Audit Committee and member of the Remuneration Committee.

Background and suitability for the role: Mickey is a Chartered Accountant and finance professional with nearly 30 years' experience across the technology, media and gaming sectors. Mickey was appointed CFO of M&C Saatchi plc in March 2019, an LSE listed business. Previously he was CEO of the betPawa Group and CFO of Sportech plc. where he led a transformation in the company's financial strength and played a prominent role in driving Sportech's global expansion. He brings a combination of financial expertise, knowledge of public markets as well as a wide range of sector experience gained from a career spent in the technology, media and gaming sectors with some of the world's largest media and technology companies, including Liberty Global, BSkyB PLC, Time Warner, Disney and Young and Rubicam.

Current external appointments: CFO of M&C Saatchi plc.

Time commitment: One to two days per month.

Dr Stuart Green, CEO

Term of office: A co-founder from the group's inception in 2001, originally in the role CTO, and appointed CEO on 1 February 2006.

Background and suitability for the role: Stuart brings 30 years of experience of team building and executive management in the software industry to his role as CEO. Stuart established ZOO's business strategy and difference in the marketplace by using software technology to deliver disruptive innovation. With a PhD in Computer Science he brings expertise in software technology, a track record of innovation having secured over 30 software patents, experience of leading innovative technology businesses as a result of having co-founded and sold three private software companies, and experience of capital markets gained from 19 years as a main board director of AIM-quoted companies.

Current external appointments: Trustee of the registered charity Friends of the Rowan School.

Time commitment: Full time.

Phillip Blundell, CFO

Term of office: Appointed as Chief Financial Officer in July 2018.

Background and suitability for the role: Phill has extensive experience with AIM-listed businesses having worked as an executive director for Dot Digital Group plc, Eagle Eye Solutions Group plc and Intelligent Environments Group plc. During the 21 years working for AIM-listed businesses, he has floated one business and raised substantial funds to assist the growth strategies of the businesses. A qualified Chartered Accountant since 1987 with 31 years' experience in the software and media industries, Phill brings both financial expertise and sector experience. He has 21 years as a CFO and company secretary of AIM-listed business providing strong corporate governance experience.

Current external appointments: Flamefinch Partners.

Time commitment: Full time.

Gordon Doran, Chief Commercial Officer

Term of office: Originally engaged as a commercial consultant in 2005 to establish the group's US operations and was appointed Commercial Director on 28 July 2009.

Background and suitability for the role: Gordon has spent his career in commercial roles with technology businesses in the UK and USA. As Chief Commercial Officer and President of ZOO's US operation, Gordon is responsible for all global operations and has been pivotal in establishing relationships with a number of large US entertainment companies including the 'Big Six' Hollywood studios. Based on the West Coast of the USA, Gordon brings significant experience of sales and marketing in the software industry since the early 1990s, having held senior positions in a number of companies, including as COO for Mediostream Inc., and capital markets experience as a main board director for 10 years.

Current external appointments: None.

Time commitment: Full time.

Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

A board evaluation process led by the Chairman took place in February 2019. All then current directors began by completing questionnaires about the effectiveness of the board and a self-assessment of their own contributions which were returned to the Chairman. The Chairman then reviewed this information and used it as the basis for an individual discussion with each director, followed by a collective discussion with the board.

The review considers effectiveness in a number of areas including general supervision and oversight, business risks and trends, succession and related matters, communications, ethics and compliance, corporate governance and individual contribution.

A number of refinements in working practices were identified as a result of this exercise and have since been adopted.

We will be considering the use of external facilitators in future board evaluations.

As the business expands, the executive directors will be challenged to identify potential internal candidates who could potentially occupy board positions and set out development plans for these individuals.

Promote a corporate culture that is based on ethical values and behaviours

Our long-term growth is underpinned by our five core values, which were defined following a staff consultation process in 2009. They are:

We place our **customers first**, putting ourselves in their shoes to understand the current and future needs of those who use our products and services, and always striving to exceed their expectations.

We have an enduring **positive attitude** that stems from being self-motivated, adaptable and agile and feeling fully empowered to make a difference, speaking out with ideas and suggestions to make things better.

We are **team players** who recognize that ZOO is a company worth much more than the sum of its parts, we are passionate about communicating with colleagues and with our customers and are committed to learning from one another.

We are committed to **innovation** of what we do and how we do it, and to working smarter rather than harder to reduce costs, increase efficiency and make lives easier by being creative, pragmatic and different.

We **respect** one another and are courteous, honest and straightforward in all our dealings, we honour diversity, individuality and personal differences, and are committed to conducting our business with the highest personal, professional and ethical standards.

The culture of the group is characterised by these values which are conveyed regularly to staff through internal communications and forums. A staff recognition programme operates on an ongoing basis by which any employee can nominate any of his/her colleagues for a contribution that is in keeping with the five core values. All nominees are recognised at company-wide staff briefings that take place monthly at the Sheffield, London and Los Angeles offices, presented by executive directors and senior managers. The core values are communicated to prospective employees in the group's recruitment programmes and are considered as part of the selection process.

The board believes that a culture that is based on the five core values is a competitive advantage and consistent with fulfilment of the group's mission and execution of its strategy.

The culture is monitored through the use of a widely-used satisfaction and engagement survey that is operated on an annual basis and to which all permanent staff are invited to contribute. The board reviews the findings of the survey and determines whether any action is required.

Maintain governance structures and processes that are fit for purpose and support good decision-making by the board

The **Board** provides strategic leadership for the group and operates within the scope of a robust corporate governance framework. Its purpose is to ensure the delivery of long-term shareholder value, which involves setting the culture, values and practices that operate throughout the business, and defining the strategic goals that the group implements in its business plans. The board defines a series of matters reserved for its decision and has approved terms of reference for its audit and remuneration committees to which certain responsibilities are delegated. The chair of each committee reports to the board on the activities of that committee.

The **Audit Committee** monitors the integrity of financial statements, oversees risk management and control, monitors the effectiveness of the internal audit function and reviews external auditor independence.

The **Remuneration Committee** sets and reviews the compensation of executive directors including the setting of targets and performance frameworks for cash- and share-based awards.

The **Executive Board**, consisting of the Executive Directors, operates as a management committee, chaired by the CEO, which reviews operational matters and performance of the business, and is responsible for significant management decisions while delegating other operational matters to individual managers within the business.

The **Chairman** has overall responsibility for corporate governance and in promoting high standards throughout the group. He/she leads and chairs the board, ensuring that committees are properly structured and operate with appropriate terms of reference, ensures that performance of individual directors, the board and its committees are reviewed on a regular basis, leads in the development of strategy and setting objectives, and oversees communication between the group and its shareholders.

The **CEO** provides coherent leadership and management of the group, leads the development of objectives, strategies and performance standards as agreed by the board, monitors, reviews and manages key risks and strategies with the board, ensures that the assets of the group are maintained and safeguarded, leads on investor relations activities to ensure communications and the group's standing with shareholders and financial institutions is maintained, and ensures that the board is aware of the views and opinions of employees on relevant matters.

The **Executive Directors** are responsible for implementing and delivering the strategy and operational decisions agreed by the board, making operational and financial decisions required in the day-to-day operation of the group, providing executive leadership to managers, championing the group's core values and promoting talent management.

The **Independent Non-Executive Directors** contribute independent thinking and judgement through the application of their external experience and knowledge, scrutinise the performance of management, provide constructive challenge to the executive directors and ensure that the group is operating within the governance and risk framework approved by the board.

The **Company Secretary** is responsible for providing clear and timely information flow to the board and its committees and supports the board on matters of corporate governance and risk.

The matters reserved for the board are:

- Setting long-term objectives and commercial strategy.
- Approving annual operating and capital expenditure budgets.
- Changing the share capital or corporate structure of the group.
- Approving half year and full year results and reports.
- Approving dividend policy and the declaration of dividends.
- Approving major investments, disposals, capital projects or contracts.
- Approving resolutions to be put to general meetings of shareholders and the associated documents or circulars.
- Approving changes to the board structure.

The board has approved the adoption of the QCA Code as its governance framework against which this statement has been prepared and will monitor the suitability of this code on an annual basis and revise its governance framework as appropriate as the group evolves.

Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

In addition to the investor relations activities described above, the following audit and remuneration committee reports are provided.

Audit Committee Report

During the year, the Audit Committee has continued to focus on the effectiveness of the controls throughout the group. The Audit Committee consists of Mickey Kalifa, Chair, and Roger Jeynes who will be replaced by Gillian Wilmot on 1 July 2019. The committee met twice, and the external auditor and CFO were invited to attend these meetings. Consideration was 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 committee also met with the auditors with no executives present.

Remuneration Committee Report

The remit of the Remuneration Committee is to determine the framework, policy and level of remuneration, and to make recommendations to the board on the remuneration of executive directors. In addition, the committee oversees the creation and implementation of all-employee share plans. The Remuneration Committee consists of Roger Jeynes, Chair (who will be replaced by Gillian Wilmot on 1 July 2019), and Mickey Kalifa. The committee met twice.

In setting remuneration packages, the committee ensured that individual compensation levels and total board compensation were comparable with those of other AIM-listed companies.

During the period under review the Remuneration Committee has granted options over ordinary shares in the company to the new CFO and employees of the company under the ZOO Digital Group plc EMI scheme and the ZOO Digital Group plc USA Unapproved scheme.

In granting these options, the Remuneration Committee's objective was to attract, motivate and retain key staff over the long term, designed to incentivise delivery of the company's growth objectives.

By order of the board

Roger D Jeynes
Chairman

Advisors

Company Secretary and Registered Office

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The Courtyard
17 West Street
Farnham
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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 2019.

Principal activities

The principal activity of the group for the year under review was to provide a range of services to allow TV and movie content to be localised in any language and prepared for sale with all major online retailers and to continue with ongoing 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 13 to 16.

The audited financial statements for the year ended 31 March 2019 are set out on pages 39 to 76. 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 preparation and processing. 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*	Chief Finance Officer
Phillip Blundell**	Chief Finance Officer
Gordon Doran	Commercial Director
Mickey Kalifa	Non-Executive Director

*resigned 8 August 2018
**appointed 8 August 2018

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 2019 are disclosed in the Directors' Remuneration Report. In accordance with the company's Articles of Association, Dr Stuart Green retires by rotation at the next Annual General Meeting and, being eligible, offers himself 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 in the execution of their duties.

Financial risk management

The financial risk management is included in the Strategic Report and in note 26.

Substantial shareholdings

At 25 June 2019, 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
Invesco Ltd	18.83%	14,013,850
Dr S A Green*	15.48%	11,528,764
Herald Investment Trust plc	11.58%	8,617,011
Canaccord Genuity Group Inc (Hargreave Hale Ltd)	9.98%	7,429,140

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

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have, as required by the AIM Rules of the London Stock Exchange, elected to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and have also elected to prepare the parent company financial statements in accordance with those standards. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and 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 judgements 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 pages 25 and 26.

Disclosure of information to auditor

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- that directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Grant Thornton UK LLP have expressed their willingness to continue in office. In accordance with Section 489 (4) of the Companies Act 2006 a resolution to reappoint Grant Thornton UK LLP will be proposed at the Annual General Meeting.

By order of the board

Phillip Blundell
Director and Secretary

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 2019 the Remuneration Committee consisted of both non-executive directors and was chaired by Roger D 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 D Jeynes and Mickey Kalifa are paid as employees for their board services.

Directors' remuneration

Directors' remuneration for the year to 31 March 2019 is:

	Salary	Loss of office	Bonus	Benefits	Subtotal	Pension	2019 Total	2018 Total
	\$000	**\$000**	**\$000**	**\$000**	**\$000**	**\$000**	**\$000**	\$000
Dr Stuart A Green	**230**	**-**	**-**	**-**	**230**	**12**	**242**	421
Helen P Gilder**	**41**	**129**	**-**	**-**	**170**	**5**	**175**	292
Gordon Doran	**314**	**-**	**49**	**23**	**386**	**-**	**386**	372
Phillip Blundell*	**144**	**-**	**-**	**-**	**144**	**-**	**144**	-
Roger D Jeynes	**39**	**-**	**-**	**-**	**39**	**-**	**39**	34
Mickey Kalifa	**33**	**-**	**-**	**-**	**33**	**-**	**33**	15
	801	**129**	**49**	**23**	**1,002**	**17**	**1,019**	1,134

Of the above, the following directors were remunerated in pound sterling for the year to 31 March 2019. The pound sterling amounts are shown below:

	Salary	Loss of office	Bonus	Subtotal	Pension	2019 Total	2018 Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	£000
Dr Stuart A Green	**175**	**-**	**-**	**175**	**9**	**184**	305
Helen P Gilder**	**31**	**98**	**-**	**129**	**4**	**133**	213
Phillip Blundell*	**111**	**-**	**-**	**111**	**-**	**111**	-
Roger D Jeynes	**30**	**-**	**-**	**30**	**-**	**30**	26
Mickey Kalifa	**25**	**-**	**-**	**25**	**-**	**25**	11
	372	**98**	**-**	**470**	**13**	**483**	555

Gordon Doran is remunerated in US dollars.

*appointed 8 August 2018

**resigned 8 August 2018

Two directors (2018: 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:

	2019	2018
	\$000	\$000
Emoluments	**386**	372

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 2018	Granted during the year	Exercised during the year	Surrendered during the year	31 March 2019	Exercise price (\$)	Exercise price (£)	Date from which exer-ciseable	Expiry date
Roger D Jeynes	30,000	-	-	-	**30,000**	\$0.65	43.00p	Jun-11	Jun-20
Dr Stuart A Green	150,000	-	-	-	**150,000**	\$0.23	15.00p*	Jul-13	Jul-22
Dr Stuart A Green	175,000	-	-	-	**175,000**	\$0.20	15.25p**	Sep-17	Aug-27
Gordon Doran	150,000	-	-	-	**150,000**	\$0.23	15.00p*	Jul-13	Jul-22
Gordon Doran	250,000	-	-	-	**250,000**	\$0.23	15.00p	Jan-16	Jan-25
Gordon Doran	1,500,000	-	-	-	**1,500,000**	\$0.20	15.25p**	Sep-17	Aug-27
Gordon Doran	1,000,000	-	-	-	**1,000,000**	\$0.20	15.25p***	Aug-18	Aug-27
Helen P Gilder	110,000	-	110,000	-	**-**	\$0.23	15.00p*	Jul-13	Jul-22
Helen P Gilder	250,000	-	250,000	-	**-**	\$0.23	15.00p	Jan-16	Jan-25
Helen P Gilder	49,349	-	49,349	-	**-**	\$0.20	15.25p***	Aug-18	Aug-27
Mickey Kalifa	30,000	-	-	-	**30,000**	\$0.49	37.50p	Oct-18	Oct-27
Phillip Blundell	-	250,000	-	-	**250,000**	\$1.61	1.235	Nov-19	Nov-28
	3,694,349	**250,000**	**409,349**	**-**	**3,535,000**				

* The 2012 issue of share options has a vesting condition that the company's share price must be £0.40 or higher on 20 consecutive business days prior to exercise.

** The 2017 issue of share options has a vesting condition that the company's share price must be £0.20 or higher for 3 months immediately prior to exercise.

*** The 1,000,000 share options issued to Gordon Doran in 2017 have a vesting condition relating to the profitability of the group.

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 \$70,000 (2018: \$105,000).

The market price of the ordinary shares at 31 March 2019 was 78 cents (60p) and the range during the year was 226 cents (172p) (high) to 62 cents (46.75p) (low).

Service contracts

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

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

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

Name of director	Date of appointment	Notice period
Executive directors		
Dr Stuart A Green	28 January 2000	12 months
Phillip Blundell	8 August 2018	6 months
Gordon Doran	28 July 2009	12 months
Non-executive directors		
Roger D Jeynes	28 April 2010	-
Mickey Kalifa	5 October 2017	-

Directors' interests

The directors who held office at 31 March 2019 had the following interests, including any interests of a "connected person", in the 1p ordinary shares of ZOO Digital Group plc:

Name of director	**2019 Beneficial**	2018 Beneficial
Roger D Jeynes	**342,104**	342,222
Dr Stuart A Green	**11,528,764**	11,524,002
Phillip Blundell	**25,000**	-
Gordon Doran	**-**	-
Mickey Kalifa	**50,000**	50,000

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 2019:

Name of director	**2019 $000**	2018 $000
Roger D Jeynes	**33**	35
Dr Stuart A Green	**806**	865

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

Name of director	**2019 £000**	2018 £000
Roger D Jeynes	**25**	25
Dr Stuart A Green	**615**	615

On 23 January 2019 Phillip Blundell purchased 25,000 ordinary shares at 65p per share bringing his total holding to 25,000.

On 23 April 2019 Phillip Blundell purchased 25,000 ordinary shares at 44.02p per share bringing his total holding to 50,000.

No other transactions have taken place with directors.

No changes (other than noted above) took place in the interests of directors between 31 March 2019 and 25 June 2019

Independent Auditor's Report to the Members Of ZOO Digital Group Plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of ZOO Digital Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2019 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Company Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. 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.

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 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

GrantThornton

Overview of our audit approach

Overall materiality: £144,000 which represents 0.5% of the group's revenue;

Key audit matter identified as revenue recognition;

Full scope audits were performed on all non-dormant UK entities. A combination of full scope and targeted procedures were performed on US entities.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter – Group

Revenue recognition

Revenue is a major driver of the business and under ISA (UK) 240 there is a presumed risk of fraud in revenue recognition that could result in material misstatements.

Revenue for the year ended 31 March 2019 was $28,818,000 (2018: $28,551,000).

As described on page 46 the group adopted IFRS 15 'Revenue from Contracts with Customers' in the current year, choosing to apply the "cumulative effect" modified retrospective method of transition. There is significant judgement required in applying the standard's five step model to the group's contracts, including:

- Identifying the relevant contract(s) requires judgement in determining at what point an agreement with a customer creates enforceable rights and obligations.
- Identifying the performance obligations in the contract requires judgement as to whether the group is obligated to provide a single service or multiple distinct services.
- Determining the transaction price requires judgement in assessing the best estimate of variable consideration that is due.
- Allocating the transaction price to the performance obligations in the contract requires judgement in allocating the amount of revenue in respect of each performance obligation.
- Recognising revenue when (or as) the entity satisfies a performance obligation requires judgement as to whether revenue should be recognised at a point in time, or over time. Where revenue is recognised over time, management judgement is required in assessing the expected contract outcome and stage of completion at each reporting date.

We therefore identified the recognition of contract revenue as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

- Assessing whether the revenue recognition policy is in accordance with International Financial Reporting Standard (IFRS) 15 'Revenue from Contracts with Customers'.
- Comparing a sample of contract revenue to the group's accounting policy to determine whether it has been recognised in line with the policy by:
  - Confirming that a valid contract existed with the customer by reference to evidence such as written agreements
  - Challenging whether the identification of the performance obligations within the contract by management is appropriate
  - Challenging the appropriateness of the transaction price ascertained by management by reference to relevant contract(s) and to any assumptions made
  - Determining whether the allocation of transaction price to performance obligations is appropriate
  - Challenging whether management's assessment as to whether performance obligations have been met, including the percentage of completion assessment made by management where performed over time, is appropriate in light of relevant evidence, including time records and customer acceptance records
- Agreeing a sample of revenue transactions to customer payments, remittances and evidence of performance of the service.
- Analytically reviewing sales, including trend and ratio analysis comparing results to prior year.
- Testing the design and operating effectiveness of the relevant controls surrounding revenue recognition for the group's main revenue stream.

The group's accounting policy on revenue recognition is shown in note 2.12 to the financial statements and related disclosures are included note 5.

Key observations

Based on our audit work, we are satisfied that revenue is accounted for in accordance with the group's accounting policies and IFRS 15 'Revenue from Contracts with Customers'.

We did not identify any key audit matters relating to the audit of the financial statements of the parent company.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	Group	Parent company
Financial statements as a whole	$144,000, which is 0.5% of the group's revenue. This represents a change in the basis of determination over the prior year, where we determined materiality at $118,000, which was 4% of the group's preliminary adjusted earnings before interest, tax, depreciation and amortisation. This revised benchmark is considered the most appropriate because revenue is considered to be a key performance indicator by the directors of the group, and also provides a more stable basis on which to determine materiality. Materiality for the current year is higher than the level that we determined for the year ended 31 March 2018 due to the change in basis as described above.	$130,000 which is 2% of total assets, capped at component materiality which is 90% of group materiality. This benchmark is considered the most appropriate because the parent company is a holding company. Materiality for the current year is in line with the level that we determined for the year ended 31 March 2018.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.	We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	$7,200 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	$6,500 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- Evaluation by the group audit team of identified components to assess the significance of those components and to determine the planned audit response based on a measure of materiality. Significance was based on a variety of benchmarks including, total assets, revenues, EBITDA and profit before tax.
- A full scope statutory audit in relation to the parent company and to all other non-dormant UK-based group entities.
- A combination of full scope and targeted procedures were performed on the US entities.
- There has been no change in the overview of the scope of the current year audit from the scope of that of the prior year.
- 100% of group revenue was subjected to full scope procedures.
- All audit work was performed by the group audit team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 30, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the parent 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 parent 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Donna Steel
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Sheffield
25 June 2019

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2019

	Note	2019 $000	2018 $000
Revenue	5	**28,818**	28,551
Cost of sales		**(19,624)**	(18,486)
Gross profit		**9,194**	10,065
Other operating income	6	**157**	-
Other operating expenses	8	**(10,671)**	(9,426)
Operating (loss)/profit		**(1,320)**	639
Analysed as:			
EBITDA before share-based payments		**409**	2,396
Share-based payments		**(286)**	(276)
Depreciation	8	**(539)**	(450)
Amortisation	8	**(904)**	(1,031)
		(1,320)	639
Exchange gain/(loss) on borrowings	7	**275**	(456)
Conversion of loan into equity	7	**-**	(115)
Fair value movement on embedded derivative	7	**2,701**	(4,666)
Finance cost	7	**(392)**	(411)
Total finance income/(cost)		**2,584**	(5,648)
Profit/(Loss) before taxation		**1,264**	(5,009)
Tax credit	11	**368**	253
Profit/(Loss) and total comprehensive income for the year attributable to equity holders of the parent company		**1,632**	(4,756)
Profit/(loss) per share	13		
Basic		2.19 cents	(6.81) cents
Diluted		2.02 cents	(6.81) cents

The notes on pages 46 to 76 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

as at 31 March 2019

	Note	2019 $000	2018 $000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**944**	889
Intangible assets	15	**6,624**	6,541
Deferred income tax assets	16	**486**	486
		8,054	7,916
Current assets			
Trade and other receivables	17	**8,103**	7,412
Cash and cash equivalents	18	**1,828**	2,409
		9,931	9,821
Total assets		**17,985**	17,737
LIABILITIES			
Current liabilities			
Trade and other payables	22	**(7,189)**	(6,106)
Borrowings	21	**(248)**	(226)
		(7,437)	(6,332)
Non-current liabilities			
Borrowings	21	**(3,899)**	(4,084)
Separable embedded derivative	21	**(1,965)**	(4,666)
		(5,864)	(8,750)
Total liabilities		**(13,301)**	(15,082)
Net assets		**4,684**	2,655
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	20	**1,010**	1,010
Share premium reserve		**41,003**	41,003
Foreign exchange translation reserve		**(992)**	(992)
Convertible loan note reserve		**42**	42
Share option reserve		**1,085**	688
Capital redemption reserve		**6,753**	6,753
Interest in own shares		**(53)**	(53)
Other reserves		**12,320**	12,320
Accumulated losses		**(56,484)**	(58,116)
Attributable to equity holders		**4,684**	2,655

The notes on pages 46 to 76 are an integral part of these consolidated financial statements.

The financial statements on pages 39 to 76 were approved and authorised for issue by the board of directors on 25 June 2019 and were signed on its behalf.

Dr Stuart A Green
Chief Executive Officer

Phillip Blundell
Chief Finance Officer

Company Statement of Financial Position

as at 31 March 2019

	Note	2019 $000	2018 $000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**254**	283
Intangible assets	15	**2,283**	2,284
Investment in subsidiary undertakings	23	**9,700**	9,700
Amounts due from subsidiary undertakings	17	**13,412**	14,912
		25,649	27,179
Current assets			
Trade and other receivables	17	**308**	328
Cash and cash equivalents	18	**113**	201
		421	529
Total assets		**26,070**	27,708
LIABILITIES			
Current liabilities			
Trade and other payables	22	**(3,434)**	(3,392)
Borrowings	21	**(9,757)**	(9,755)
		(13,191)	(13,147)
Non-current liabilities			
Borrowings	21	**(3,457)**	(3,746)
Separable embedded derivative	21	**(1,965)**	(4,666)
		(5,422)	(8,412)
Total liabilities		**(18,613)**	(21,559)
Net assets		**7,457**	6,149
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	20	**1,010**	1,010
Share premium reserve		**41,003**	41,003
Foreign exchange translation reserve		**(13)**	(13)
Convertible loan note reserve		**42**	42
Share option reserve		**1,085**	688
Capital redemption reserve		**6,753**	6,753
Interest in own shares		**(4)**	(4)
Other reserves		**10,596**	10,596
Accumulated losses		**(53,015)**	(53,926)
Attributable to equity holders		**7,457**	6,149

Company registration number: 03858881

The parent company has elected to take the exemption under section 408(2) of the Companies Act 2006 to not present the parent company Statement of Comprehensive Income.

The profit for the parent company for the year was $911,000 (2018: loss of $5,341,000).

The notes on pages 46 to 76 are an integral part of these consolidated financial statements.

The financial statements on pages 39 to 76 were approved and authorised for issue by the board of directors on 25 June 2019 and were signed on its behalf.

Dr Stuart A Green
Chief Executive Officer

Phillip Blundell
Chief Finance Officer

Consolidated Statement of Changes In Equity

for the year ended 31 March 2019

	Ordinary shares	Share premium reserve	Foreign exchange translation reserve	Convertible loan note reserve	Share option reserve	Capital redemption reserve	Other reserves	Accumulated losses	Interest in own shares	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Balance at 1 April 2017	7,236	37,007	(992)	42	328	-	12,320	(53,360)	(20)	2,561
Deferred shares	(6,753)	3,881	-	-	-	6,753	-	-	-	3,881
Loan note conversion	-	115	-	-	-	-	-	-	-	115
Share-based payments	-	-	-	-	360	-	-	-	-	360
Purchase of own shares	-	-	-	-	-	-	-	-	(33)	(33)
Issue of ordinary shares	527	-	-	-	-	-	-	-	-	527
Loss for the year	-	-	-	-	-	-	-	(4,756)	-	(4,756)
Total comprehensive income for the year	-	-	-	-	-	-	-	(4,756)	-	(4,756)
Balance at 31 March 2018	**1,010**	**41,003**	**(992)**	**42**	**688**	**6,753**	**12,320**	**(58,116)**	**(53)**	**2,655**
Share-based payments	-	-	-	-	397	-	-	-	-	397
Profit for the year	-	-	-	-	-	-	-	1,632	-	1,632
Total comprehensive income for the year	-	-	-	-	-	-	-	1,632	-	1,632
Balance at 31 March 2019	**1,010**	**41,003**	**(992)**	**42**	**1,085**	**6,753**	**12,320**	**(56,484)**	**(53)**	**4,684**

Company Statement of Changes In Equity

for the year ended 31 March 2019

	Ordinary shares	Share premium reserve	Foreign exchange translation reserve	Convertible loan note reserve	Share option reserve	Capital redemption reserve	Other reserves	Accumulated losses	Interest in own shares	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Balance at 1 April 2017	7,236	37,007	(13)	42	328	-	10,596	(48,587)	(4)	6,605
Deferred shares	(6,753)	3,881	-	-	-	6,753	-	-	-	3,881
Loan note conversion	-	115	-	-	-	-	-	-	-	115
Share-based payments	-	-	-	-	360	-	-	-	-	360
Issue of ordinary shares	527	-	-	-	-	-	-	-	-	527
Loss for the year	-	-	-	-	-	-	-	(5,339)	-	(5,339)
Total comprehensive income for the year	-	-	-	-	-	-	-	(5,339)	-	(5,339)
Balance at 31 March 2018	**1,010**	**41,003**	**(13)**	**42**	**688**	**6,753**	**10,596**	**(53,926)**	**(4)**	**6,149**
Share-based payments	-	-	-	-	397	-	-	-	-	397
Profit for the year	-	-	-	-	-	-	-	911	-	911
Total comprehensive income for the year	-	-	-	-	-	-	-	911	-	911
Balance at 31 March 2019	**1,010**	**41,003**	**(13)**	**42**	**1,085**	**6,753**	**10,596**	**(53,015)**	**(4)**	**7,457**

Consolidated Statement of Cash Flows

for the year ended 31 March 2019

	Note	2019 $000	2018 $000
Cash flows from operating activities			
Operating (loss)/profit for the year		**(1,320)**	639
Depreciation	14	**553**	450
Amortisation and impairment	15	**904**	1,031
Share-based payments		**397**	360
Purchase of own shares		**-**	(33)
Changes in working capital:			
Increases in trade and other receivables		**(691)**	(3,659)
Increases in trade and other payables		**1,082**	2,061
Cash flow from operations		**925**	849
Tax received		**368**	253
Net cash inflow from operating activities		**1,293**	1,102
Investing activities			
Purchase of intangible assets	15	**(29)**	(71)
Capitalised development costs	15	**(958)**	(586)
Purchase of property, plant and equipment	14, 18	**(310)**	(266)
Net cash outflow from investing activities		**(1,297)**	(923)
Cash flows from financing activities			
Repayment of borrowings		**(228)**	(927)
Finance cost		**(349)**	(437)
Issue of share capital		**-**	2,987
Net cash (outflow)/inflow from financing		**(577)**	1,623
Net (decrease)/increase in cash and cash equivalents		**(581)**	1,802
Cash and cash equivalents at the beginning of the year		**2,409**	607
Cash and cash equivalents at the end of the year	18	**1,828**	2,409

The notes on pages 46 to 76 are an integral part of these consolidated financial statements.

Company Statement of Cash Flows

for the year ended 31 March 2019

	Note	2019 $000	2018 $000
Cash flows from operating activities			
Operating (loss)/profit for the year		**(220)**	204
Depreciation	14	**107**	92
Amortisation & impairment	15	**1**	1
Share-based payments		**397**	360
Changes in working capital:			
Trade and other receivables		**(38)**	(3,784)
Trade and other payables		**42**	735
Cash flow from operations		**289**	(2,392)
Tax received/(paid)		**-**	-
Net cash flow from operating activities		**289**	(2,392)
Investing activities			
Purchase of property, plant and equipment	14	**(78)**	(68)
Net cash flow from investing activities		**(78)**	(68)
Cash flows from financing activities			
Repayment of borrowings		**(54)**	(49)
Finance cost		**(245)**	(334)
Issue of share capital		**-**	2,987
Net cash flow from financing		**(299)**	2,604
Net (decrease)/increase in cash and cash equivalents		**(88)**	144
Cash and cash equivalents at the beginning of the year		**201**	57
Cash and cash equivalents at the end of the year	18	**113**	201

The notes on pages 46 to 76 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

for the year ended 31 March 2019

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 ongoing research and development in those areas. The group has operations in both the UK and US.

The company is a public limited company which is listed on the AIM Market of the London Stock Exchange and is incorporated and domiciled in the UK. The address of the registered office is 7th Floor, City Gate, 8 St Mary's Gate, Sheffield S1 4LW.

The registered number of the company is 03858881.

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 2021 which show a continuation of the growth in profitability and cash generation. In line with industry practice in this sector the directors have had informal indications from major and smaller clients 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 a facility with Crestmark Bank which provides invoice financing of up to $2.5m against US client invoices raised by ZOO Digital Production LLC. This facility is in place until 7 July 2020. In the UK there is an overdraft facility with a limit of £250,000 in place with HSBC.

The convertible unsecured loan notes totalling £2.6m are in place until 31 October 2020.

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 April 2018

A number of new and revised standards are effective for annual periods beginning on or after 1 April 2018. Information on these new standards is presented below.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 "Revenue from Contracts with Customers" and the related "Clarifications to IFRS 15 Revenue from Contracts with Customers" (hereinafter referred to as "IFRS 15") replaced IAS 18 "Revenue", IAS 11 "Construction Contracts", and several revenue-related interpretations. The new standard has been applied retrospectively without restatement as it had no material impact on previously reported results or retained earnings. In accordance with the transition guidance, IFRS 15 has only been applied to contracts that are incomplete as at 1 April 2018.

The adoption of IFRS 15 has not resulted in any adjustment to previously reported results or retained earnings.

IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement". It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an "expected credit loss" model for the impairment of financial assets.

The group's finance team performs valuations of financial items for financial reporting purposes, in consultation with third party valuation specialists for complex valuations. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. The finance team reports directly to the chief financial officer (CFO) and to the audit committee. Valuation processes and fair value changes are discussed among the audit committee and the valuation team at least every year, in line with the group's reporting dates.

The following valuation technique was used for the embedded derivative (level 2) in relation to the outstanding convertible loan notes.

A third party specialist was used to ascertain the fair value for the convertible instruments as at 31 March 2019. This can be described as "The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

When adopting IFRS 9, the group has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognised in retained earnings.

The adoption of IFRS 9 has impacted the following areas:

- The impairment of financial assets applying the expected credit loss model. This affects the group's trade receivables and investments in debt type assets measured at amortised cost. For contract assets arising from IFRS 15 and trade receivables, the group applies a simplified model of recognising lifetime expected credit losses on these items do not have a significant financing component.
- The reclassification of financial instruments, financial assets previously classified as loans and receivables are now classified as financial assets subsequently measured at amortised cost. There has been no reclassification of financial liabilities, and the reclassification of financial assets has not resulted in any adjustment to the values previously reported.

No change is required on transition to IFRS 9.

2.1.1 Standards and interpretations in issue at 31 March 2019 but not yet effective

IFRS 16 "Leases"

IFRS 16 will replace IAS 17 "Leases" and three related interpretations. It completes the IASB's long-running project to overhaul lease accounting. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability. There are two important reliefs provided by IFRS 16 for assets of low value and short-term leases of less than 12 months.

IFRS 16 is effective from periods beginning on or after 1 January 2019. Early adoption is permitted, however the group has decided not to early adopt.

Management is in the process of assessing the full impact of the standard, but the group's position so far is as folows:

- It has has decided to make use of the practical expedient not to perform a full review of existing leases and apply IFRS 16 only to new or modified contracts. As some leases will be modified or renewed in 2019, the group has reassessed these leases and concluded they will be recognised on the statement of financial position as a right-of-use asset.
- The group believes that the most significant impact will be that the group will need to recognise a right of use asset and a lease liability for the office and production buildings currently treated as operating leases. At 31 March 2019 the future minimum lease payments amounted to $4,629,000. This will mean that the nature of the expense of the above cost will change from being an operating lease expense to depreciation and interest expense.
- The group concludes that there will not be a significant impact to the finance leases currently held on the statement of financial position.
- the group is implementing a new IT system that will facilitate the recording of lease contracts.

The group is planning to adopt IFRS 16 on 1 April 2019 using the standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to equity at the date of initial application. Comparative information is not restated.

Choosing this transition approach results in further policy decisions the group needs to make as there are several other transitional reliefs that can be applied. These relate to those leases previously held as operating leases and can be applied on a lease-by-lease basis. The group is currently assessing the impact of applying these other transitional reliefs.

IFRS 16 has not made any significant changes to the accounting for lessors, and therefore the group does not expect any changes for leases where they are acting as lessor.

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 executive 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 2019 was 0.763 (2018: 0.710).

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 10 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 in the Statement 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 are accounted for at fair value through profit and loss, in accordance with IFRS 9 “Financial Instruments” and split between debt and equity based upon the market rate of similar loans not carrying conversion options. Equity movements are recognised in the convertible loan note reserve.

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 clients 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.

Impairment of financial assets

IFRS’s impairment requirements use more forward-looking information to recognise expected credit losses – the “expected credit loss (ECL) model”. This replaces IAS 39’s “Incurred loss model”. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit and loss.

Recognition of credit losses is no longer dependent on the group first identifying a credit loss event. Instead the group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (“Stage 1”), and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (“Stage 2”).

“Stage 3” would cover financial assets that have objective evidence of impairment at the reporting date.

“12-month expected credit losses” are recognised for the first category while “lifetime expected credit losses” are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

2.9.3 Cash and cash equivalents

Cash and cash equivalents comprise cash on 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 Statement of Financial Position.

2.12 Revenue

Revenue arises from the provision of cloud-based localisation and digital distribution services. To determine whether to recognise revenue, the group follows a 5-step process as follows:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied.

Revenue is measured at transaction price, stated net of VAT and other sales-related taxes.

Revenue is generally recognised over time as the group satisfies performance obligations by transferring the promised services to its customers.

2.12.1 Sales of services

Service revenue is recognised in accordance with the transfer of value to the customer and typically this is over one to four months. Where a project goes over a month end, projects completed but not invoiced are accrued. At year end projects that have not completed are assessed for the percentage completion and a contract asset is recognised if appropriate.

The major consideration for ZOO is the timing of revenue recognition and apportionment of costs. The board believes that the length of projects is short and that the current method of recognising revenues is appropriate along with apportionment of costs.

All customers are onboarded before any orders can be placed. This includes credit check, account information and agreement of a customer ratecard. Any customer wishing to place an order sends an email to ZOO production outlining the project requirements. ZOO production then evaluates the project and sends the customer a quote. The contract is confirmed either by email or a purchase order request.

The customer reviews the quote and signs off the project by issuing a purchase order or email confirming the contract. This clearly states the deliverables for the project. There may be multiple performance obligations in the contract, e.g. more than one service and more than one language. This allows us to identify the individual obligations within a contract and also where requested make separate deliveries of the localised assets. Revenue is recognised over time because the performance of the localisation service does not create an asset with any alternative use to ZOO, and ZOO has an enforceable right to payment for performance completed to date. Invoices for goods or services transferred are due within 45 days of receipt by the customer.

Having an agreed ratecard with all customers and either an email or purchase order confirming the individual projects gives certainty to the transaction price and the individual components of the contract. There are no variable components to ZOO contracts, nor financing or non-cash elements in transaction price.

Where a project is part complete at the end of an accounting period, the percentage completion is estimated based on reports within ZOO core and ZOO invoicing which use the project status, the customer ratecard and our supplier ratecard to determine revenue to date and cost to date. This allows revenue and profit to be allocated across accounting periods.

2.12.2 Software licence fees

Revenue arising from software licences is assessed on a contract by contract basis to identify the performance obligations included within the contract, and specifically whether the licence is considered to be a distinct performance obligation. Generally, the contracts include hosting, support, maintenance and other services which are not distinct from the licence. As the licence is not distinct, the contract is treated as a service contract, with revenue being recognised over time pro rata over the period of the contract, as the customer simultaneously receives and consumes the benefits of the service as ZOO performs it.

In the event that the agreement with the customer does not meet the definition of a contract under IFRS 15, revenue is recognised when all performance obligations have been fulfilled, and the consideration receivable in respect of the licence has been received and is non-refundable.

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.

2.16 Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host – with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Derivatives embedded in hybrid contracts with a financial asset host within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured as either amortised cost or fair value as appropriate.

Derivatives embedded in hybrid contracts with hosts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

If the hybrid contract is a quoted financial liability, instead of separating the embedded derivative, the group generally designates the whole hybrid contract at FVTPL.

An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months.

2.17 Share options

The group operates an employee share incentive scheme, namely the Enterprise Management Incentive (the "EMI") and the share incentive plan ("SIP").

The total expense for the period relating to employee share-based payment plans has been included in the consolidated financial statements as the group exercises control over the EMI in accordance with the terms of the trust deed.

The group's EMI scheme is an equity-settled share option scheme approved by HMRC. Options have also been granted under the terms of HMRC's schedule, which is not approved.

Under the EMI scheme the trustees may grant options over shares in the group to eligible employees. The eligible employees to whom options are granted and the terms of such options will be determined by the directors of the group or the trustees. The employees who are eligible to participate in the EMI scheme are all ZOO's employees, including the employees of the group's subsidiaries. Options are not transferable.

3. Accounting estimates and judgements

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

3.1 Critical accounting estimates and assumptions

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

Goodwill

Goodwill (detailed in note 15) 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 10%. 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 (note 26)

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 post-tax discount rate of 8.5%.

The separable embedded derivative fair value is estimated using a quantitative model based on that described in K Tsiveriotis and C Fernandes. This uses option-pricing techniques to model the value of the convertible instruments based on parameters such as the credit spread on the company's debt instruments, the volatility and price of the company's shares. The valuation methodology requires the input of several judgemental assumptions.

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 includes 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.

Identification of performance obligations

The determination of the number of distinct performance obligations in a contract requires judgement, based on whether the customer can benefit from the use of the service on its own or together with other resources that are readily available to it, and also whether the promise to transfer the service is separately identifiable from other promises in the contract. As explained in the accounting policy for revenue, our contracts usually include just one distinct performance obligation.

Allocation of the transaction price to performance obligations

Where a contract contains multiple performance obligations, the transaction price needs to be allocated to the different performance obligations. Wherever possible the transaction price is allocated on a stand-alone selling price basis, by reference to the agreed customer ratecard. In the event that this is not available, the price is allocated to the various performance obligations on a reasonable basis, with reference to other ratecards, the expected time involved in performing the service, and management's experience of similar projects.

4. Segmental reporting

Operating segments

At 31 March 2019, the group is organised on a worldwide basis into three main operating segments:
- Localisation, including subtitling and dubbing along with all associated services
- Digital packaging
- Software solutions, including research, development, consultancy and software sales

These divisions are the basis on which the group reports its segment information and manages the business. Although there is overlap and interconnectivity between the segments the dynamics and growth prospects differ from one another so it is appropriate that they are separately identified. The categories identified also depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The segment results are as follows:

	Localisation		Digital packaging		Software solutions		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	$000	$000	**$000**	$000	**$000**	$000	**$000**	$000
Total revenue	**23,877**	23,645	**4,620**	5,234	**1,875**	1,940	**30,372**	30,819
Inter-segment revenue	**(1,554)**	(2,268)					**(1,554)**	(2,268)
Revenue	**22,323**	21,377	**4,620**	5,234	**1,875**	1,940	**28,818**	28,551
Segment contribution	**6,165**	6,669	**2,495**	3,129	**1,788**	1,856	**10,448**	11,654
Unallocated cost of sales							**(1,254)**	(1,589)
Gross profit							**9,194**	10,065
Unallocated corporate expense							**(10,514)**	(9,426)
Operating (loss)/profit							**(1,320)**	639
Finance cost							**2,584**	(5,648)
Profit/(loss) before taxation							**1,264**	(5,009)
Tax on profit/(loss)							**368**	253
Profit/(loss) for the year							**1,632**	(4,756)

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	
	2019	2018	**2019**	2018	**2019**	2018
	$000	$000	**$000**	$000	**$000**	$000
United Kingdom (domicile)	**3,429**	1,101	**8,971**	9,320	**7,381**	7,324
US	**25,389**	27,450	**9,014**	8,417	**673**	592
	28,818	28,551	**17,985**	17,737	**8,054**	7,916

At 31 March 2019, contract assets amounted to $1.4m (2018: $0.4m) and contract liabilities amounted to $0.8m (2018: $0.8m). Revenue for the year ended 31 March 2019 includes $0.8m (2018: $0.6m) included in the contract liability balance at the beginning of the period.

The group has taken advantage of the practical expedient permitted by IFRS 15, and has therefore not disclosed the amount of the transaction price allocated to unsatisfied performance obligations or when it expects to recognise that revenue, as contracts have an expected duration of less than one year.

5. Revenue

All revenue is derived from continuing operations

The group's revenue comprises:

	2019 $000	2018 $000
Service revenue	**26,942**	26,611
Licence revenue	**1,876**	1,940
	28,818	28,551

The group's revenue disaggregated by primary geographical markets is as follows:

For the year ended 31 March 2019	Service $000	Licensing $000	Total $000
United Kingdom	529	107	**636**
USA	23,696	1,761	**25,457**
Europe	865	-	**865**
Other countries	1,852	8	**1,860**
	26,942	1,876	**28,818**

For the year ended 31 March 2018	Service $000	Licensing $000	Total $000
United Kingdom	904	197	1,101
USA	24,622	1,710	26,332
Europe	656	-	656
Other countries	429	33	462
	26,611	1,940	28,551

The group's revenue disaggregated by pattern of revenue recognition is as follows:

For the year ended 31 March 2019	Service $000	Licensing $000	Total $000
Services transferred over time	26,942	1,876	**28,818**
	26,942	1,876	**28,818**

For the year ended 31 March 2018	Service $000	Licensing $000	Total $000
Services transferred over time	26,611	1,940	28,551
	26,611	1,940	28,551

Major clients

The group has two major customers contributing 36% and 22% (2018: 34% and 24%) of the group's revenue respectively. The revenues are as follows:

	2019 $000	2018 $000
Largest two clients	**16,547**	16,114
Other clients	**12,271**	12,437
	28,818	28,551

6. Other operating income

	2019 $000	2018 $000
Grant funding	**157**	-
Other operating income	**157**	-

7. Finance costs/income

	2019 $000	2018 $000
Interest on borrowings	**392**	411
Conversion of convertible loan stock	**-**	115
Fair value movement on embedded derivative	**(2,701)**	4,666
Exchange (gain)/loss on borrowings	**(275)**	456
Finance costs	**(2,584)**	5,648

The fair value movement on the embedded derivative is a non-cash charge based on the valuation of the separate economic items within the convertible loan note agreement which have been classed as embedded derivatives. This is explained more fully in note 21.

8. Operating profit/loss

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

	2019 $000	2018 $000
Other exchange losses/(gains)	**69**	(13)
Staff costs	**5,704**	5,390
Capitalised staff costs	**(958)**	(586)
Share-based payment	**286**	276
Depreciation	**553**	450
Grant release re tangible fixed assets	**(14)**	-
Amortisation of other intangible assets	**904**	1,031
Research and non-capitalised development costs	**527**	301
Operating lease expense – land and buildings	**603**	482
Loss on disposal of assets	**-**	-
Auditor's remuneration	**145**	86
Other expenses	**2,852**	2,009
Other operating expenses	**10,671**	9,426

9. Auditor's remuneration

	2019 $000	2018 $000
Fees payable to the company's auditor for the audit of the company's financial statements	**44**	39
Fees payable to the company's auditor and its associates for other services:		
The audit of subsidiary financial statements	**18**	16
Audit-related assurance services	**6**	-
Tax compliance services	**34**	31
Tax advisory services	**43**	-
	145	86

10. Employees including directors

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

	Group		Company	
	2019	2018	**2019**	2018
	No.	No.	**No.**	No.
Product design and service delivery	**178**	152	**41**	30
Sales and marketing	**8**	7	**4**	4
Administration	**15**	14	**8**	6
	201	173	**53**	40

Their aggregate remuneration comprised:

	Group		Company	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
Wages and salaries	**12,334**	11,171	**1,271**	1,408
Social security costs	**992**	811	**158**	71
Other pension costs	**119**	179	**41**	131
Share-based payments	**286**	276	**171**	182
	13,731	12,437	**1,641**	1,792

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

Compensation of key management personnel (including directors)

	Group		Company	
	2019	2018	**2019**	2018
	$000	$'000	**$000**	$'000
Short-term employee benefits	**1,300**	1,513	**603**	744
Cost of defined benefit scheme pensions	**17**	18	**17**	18
Share based payments	**92**	143	**80**	105
	1,409	1,674	**700**	867

This includes all directors listed on pages 25 and 26 and senior management.

Directors' remuneration for the year to 31 March 2019 is:

						2019	2018
	Salary	**Compensation for loss of office**	**Bonus**	**Benefits**	**Pension**	**Total**	Total
	$000	**$000**	**$000**	**$000**	**$000**	**$000**	$000
Dr Stuart A Green	**230**	**-**	**-**	**-**	**12**	**242**	421
Helen P Gilder**	**41**	**129**	**-**	**-**	**5**	**175**	292
Gordon Doran	**314**	**-**	**49**	**23**	**-**	**386**	372
Phillip Blundell*	**144**	**-**	**-**	**-**	**-**	**144**	-
Roger D Jeynes	**39**	**-**	**-**	**-**	**-**	**39**	34
Mickey Kalifa	**33**	**-**	**-**			**33**	15
	801	**129**	**49**	**23**	**17**	**1,019**	1,134

*appointed 8 August 2018

**resigned 8 August 2018

Two directors (2018: 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:	**2019**	2018
	$000	$000
Emoluments	**386**	372

11. Income tax

	2019	2018
	$000	$000
Current tax:		
UK corporation tax		
- Research and development tax credit	**365**	332
Foreign tax	**3**	(79)
Total current tax	**368**	253
Total deferred tax	**-**	-
Tax credited	**368**	253

Corporation tax is calculated at 19% (2018: 19%) 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:

	2019	2018
	$000	$000
Profit/(loss) before tax	**1,264**	(5,009)
Tax calculated at standard rate of corporation tax of 19% (2018: 19%)	**240**	(952)
Research and development tax credit	**368**	253
Deducted from losses brought forward	**(240)**	952
Tax credited	**368**	253

Tax losses carried forward

The group has tax losses carried forward of approximately $42m (2018: $43m), of which $2.8m (2018: $2.8m) has been recognised at a rate of 17% 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)/profit per share

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

	Basic and diluted	
	2019	2018
	$000	$000
Profit/(loss) for the financial year	**1,632**	(4,756)

	2019	2018
	Number of shares	Number of shares
Weighted average number of shares for basic & diluted (loss)/profit per share		
Basic	**74,356,016**	69,841,166
Effect of dilutive potential ordinary shares:		
Convertible loan note	**-**	5,452,241
Share options	**6,369,825**	5,711,639
Diluted	**80,725,841**	81,005,046

	2019	2018
	Cents	Cents
Basic	**2.19**	(6.81)
Diluted	**2.02**	(6.81)

The convertible debt has not been included in the 2019 diluted earnings per share calculations due to being anti-dilutive. 2018 diluted earnings per share were equal to basic earnings per share due to the loss for the year.

14. Property, plant and equipment

Group	**Production equipment**	**Leasehold improve-ments**	**Computer hardware**	**Office equipment, fixtures & fittings**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**
Cost					
Opening cost at 1 April 2017	495	472	2,270	92	3,329
Additions	8	73	171	14	266
Opening cost at 1 April 2018	503	545	2,441	106	3,595
Additions	6	84	496	22	608
Closing cost at 31 March 2019	**509**	**629**	**2,937**	**128**	**4,203**
Accumulated depreciation					
Opening balance at 1 April 2017	479	174	1,521	82	2,256
Depreciation	15	81	348	6	450
Opening balance at 1 April 2018	494	255	1,869	88	2,706
Depreciation	10	86	448	9	553
Closing balance at 31 March 2019	**504**	**341**	**2,317**	**97**	**3,259**
Opening carrying value at 1 April 2017	16	298	749	10	1,073
Opening carrying value at 1 April 2018	9	290	572	18	889
Closing carrying value at 31 March 2019	**5**	**288**	**620**	**31**	**944**

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

At 31 March 2019	**Production equipment**	**Leasehold improve-ments**	**Computer hardware**	**Office equip-ment, fixtures & fittings**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**
Cost - capitalised finance leases	131	369	1,940	26	2,466
Accumulated depreciation	(131)	(219)	(1,553)	(26)	(1,929)
Net book value	**-**	**150**	**387**	**-**	**537**

At 31 March 2018	**Production equipment**	**Leasehold improve-ments**	**Computer hardware**	**Office equip-ment, fixtures & fittings**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**
Cost - capitalised finance leases	131	369	1,586	26	2,112
Accumulated depreciation	(131)	(164)	(1,226)	(26)	(1,547)
Net book value	**-**	**205**	**360**	**-**	**565**

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

Company	**Leasehold improvements $000**	**Computer hardware $000**	**Office equipment, fixtures & fittings $000**	**Total $000**
Cost				
Opening cost at 1 April 2017	303	112	62	477
Additions	4	51	9	64
Opening cost at 1 April 2018	307	163	71	541
Additions	4	71	3	78
Closing cost at 31 March 2019	**311**	**234**	**74**	**619**
Accumulated depreciation				
Opening balance at 1 April 2017	38	73	55	166
Depreciation	57	31	4	92
Opening balance at 1 April 2018	95	104	59	258
Depreciation	57	44	6	107
Closing balance at 31 March 2019	**152**	**148**	**65**	**365**
Opening carrying value at 1 April 2017	265	39	7	311
Opening carrying value at 1 April 2018	212	59	12	283
Closing carrying value at 31 March 2019	**159**	**86**	**9**	**254**

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

At 31 March 2019	**Leasehold improvements $000**	**Computer hardware $000**	**Total $000**
Cost - capitalised finance leases	277	20	297
Accumulated depreciation	(127)	(20)	(147)
Net book value	**150**	**-**	**150**

At 31 March 2018	**Leasehold improvements $000**	**Computer hardware $000**	**Total $000**
Cost - capitalised finance leases	277	20	297
Accumulated depreciation	(72)	(17)	(89)
Net book value	**205**	**3**	**208**

15. Intangible assets

Group	**Goodwill $000**	**Development costs $000**	**Patents and trademarks $000**	**Computer software $000**	**Total $000**
Cost					
Opening cost at 1 April 2017	16,610	9,864	608	548	27,630
Additions	-	586	17	54	657
Opening cost at 1 April 2018	16,610	10,450	625	602	28,287
Additions	-	958	26	3	987
Closing cost at 31 March 2019	**16,610**	**11,408**	**651**	**605**	**29,274**
Accumulated amortisation					
Opening balance at 1 April 2017	12,620	7,186	363	546	20,715
Amortisation	-	965	54	12	1,031
Opening balance at 1 April 2018	12,620	8,151	417	558	21,746
Amortisation	-	833	52	19	904
Closing balance at 31 March 2019	**12,620**	**8,984**	**469**	**577**	**22,650**
Opening carrying value at 1 April 2017	3,990	2,678	245	2	6,915
Opening carrying value at 1 April 2018	3,990	2,299	208	44	6,541
Closing carrying value at 31 March 2019	**3,990**	**2,424**	**182**	**28**	**6,624**

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 five years.

No patent applications were derecognised during the year (2018: nil).

No intangible assets were impaired during the year (2018: nil).

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

	2019 $000	2018 $000
Cost - capitalised finance leases	**127**	127
Accumulated amortisation	**(127)**	(127)
Net book value	**-**	-

Company	Goodwill $000	Computer software $000	Total $000
Cost			
Opening cost at 1 April 2018	10,960	14	10,974
Closing cost at 31 March 2019	**10,960**	**14**	**10,974**
Accumulated amortisation/impairment			
Opening balance at 1 April 2018	8,679	11	8,690
Amortisation	-	1	1
Closing balance at 31 March 2019	**8,679**	**12**	**8,691**
Opening carrying value at 1 April 2017	2,281	-	2,281
Opening carrying value at 1 April 2018	2,281	3	2,284
Closing carrying value at 31 March 2019	**2,281**	**2**	**2,283**

There were no assets held under finance leases at 31 March 2019 and 31 March 2018.

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 10% (2018: 10%). The carrying amount of goodwill is allocated as follows:

Software solutions		Media production		Group	
2019	2018	**2019**	2018	**2019**	2018
$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. The discount rate has been calculated for each CGU and is considered to reflect the risks specific to the asset as well as the time value of money.

	Software solutions	Media production
Discount rate	10%	10%
Growth rate	3%	3%

The risks associated with each CGU are considered to be similar, therefore it is appropriate to use the same discount rate for each.

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 clients 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 10% 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 10% 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 10% 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 15% was applied, the software solutions segment and the media production segment would require no impairment.

16. Deferred income tax

	Group		Company	
	2019	2018	**2019**	2018
	$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	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
At 31 March 2018 and 31 March 2019	**486**	486	**-**	-

Tax losses carried forward

The group has tax losses carried forward of approximately $42m (2018: $43m), of which $2.8m (2018: $2.8m) has been recognised at a rate of 17% 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 ability to offset against future profits.

17. Trade and other receivables

	Group		Company	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
Trade receivables	**4,605**	4,801	**-**	-
Less: provision for impairment of trade receivables	**-**	(24)	**-**	-
Trade receivables - net	**4,605**	4,777	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**13,469**	14,973
VAT	**-**	-	**-**	-
Other debtors	**210**	148	**47**	50
Prepayments and accrued income	**3,288**	2,487	**204**	217
	8,103	7,412	**13,720**	15,240
Less non-current portion: amounts owed by subsidiary undertakings	**-**	-	**(13,412)**	(14,912)
Current portion	**8,103**	7,412	**308**	328

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

As of 31 March 2019, trade receivables of $135,000 (2018: $395,000) were overdue. The ageing analysis of these trade receivables is as follows:

	Group	
	2019	2018
	$000	$000
Less than 3 months	**165**	172
3 to 6 months	**8**	187
7 to 12 months	**(33)**	34
Over 12 months	**(5)**	2
	135	395

There were no trade receivables outstanding in the company at 31 March 2019 or 31 March 2018.

All of the group's trade and other receivables have been reviewed for indicators of impairment. No trade receivables were found to be impaired and a loss allowance for lifetime credit losses of $nil (2018: $24,000) has been recorded accordingly. The prior year provision was under IAS 39. The amount charged to the consolidated income statement for the year in relation to expected credit losses was $14,000.

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

	Group		Company	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
Pound sterling	**408**	479	**252**	252
US dollar	**7,614**	6,707	**13,468**	14,988
Euro	**81**	308	**-**	-
	8,103	7,494	**13,720**	15,240

Provision for impairment of trade receivables:

	Group	
	2019	2018
	$000	$000
At 1 April 2018	**24**	24
Provision for receivables impairment	**-**	-
Receivables written off in the year	**(24)**	-
Inter company impairment written off in the year	**1,557**	-
At 31 March 2019	**1,557**	24

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 expected credit losses and, when taking into consideration the historic rate of impairment, the remaining unprovided amounts are considered to be recoverable.

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

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 $608,000 (2018: $266,000) of which $298,000 (2018: $nil) was acquired by the means of finance leases.

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	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
Cash on hand and balances with banks	**1,828**	2,409	**113**	201

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

19. Reconciliation of liabilities arising from financing activities

The changes in the group's liabilities arising from financing activities can be classified as follows:

	Long-term borrowings	**Short-term borrowings**	**Embedded derivative**	**Total**
	$000	**$000**	**$000**	**$000**
1 April 2018	**4,084**	**226**	**4,666**	**8,976**
Cash flows				
- Repayment	(189)	(40)	-	(229)
- Proceeds	236	62	-	298
Non-cash				
- Fair value	(232)	-	(2,701)	(2,933)
- Reclassification				
31 March 2019	**3,899**	**248**	**1,965**	**6,112**

	Long-term borrowings	**Short-term borrowings**	**Embedded derivative**	**Total**
	$000	**$000**	**$000**	**$000**
1 April 2017	**2,126**	**4,102**	**-**	**6,228**
Cash flows				
- Repayment	(872)	(55)	-	(927)
- Proceeds	-	-	-	-
Non-cash				
- Fair value	430	-	4,666	5,096
- Converted	(1,421)	-	-	(1,421)
- Reclassification	3,821	(3,821)	-	-
31 March 2018	**4,084**	**226**	**4,666**	**8,976**

20. Share capital and reserves

Called-up share capital

	2019	2018
	$000	$000
Allotted, called-up and fully paid		
74,424,771 (2018: 73,773,655) ordinary shares of 1p each	**1,010**	1,010

Reconciliation of the number of ordinary shares outstanding:		
Opening balance	**73,773,655**	32,660,660
Shares issued	**-**	28,611,111
Conversion of unsecured convertible loan note into equity	**-**	5,555,556
Conversion of director's loan into equity	**-**	6,666,667
Share options exercised	**651,116**	279,661
Closing balance	**74,424,771**	73,773,655

On 4 May 2017 a reorganisation of the share capital took place in which the existing ordinary shares were subdivided to create two classes of shares: ordinary shares with a nominal value of 1p and deferred shares with a nominal value of 14p. The proportion of the issued ordinary share capital held by each shareholder was unchanged by this subdivision, and other than the changed nominal value, the ordinary shares carry equivalent rights to those they replaced. The deferred shares carry no right to vote, attend or speak at any general meeting or any right to a dividend.

On 4 May 2017 the company raised gross funds of approximately $3.33m (£2.58m) through a placing and subscription comprising the issue of 28,611,111 new ordinary shares of $0.01 (1p) each in the company at a subscription price of $0.11 (9p). On the same day a further 12,222,223 ordinary shares were issued in return for the conversion of the £600,000 outstanding loan from Sara Green, the wife of Dr Stuart A Green, and the conversion of £500,000 of the convertible loan note.

During the year the group purchased nil (2018: $42,576) of its own shares through ZOO Employee Share Trust Limited. The total cost of the purchase was nil (2018: $20,000).

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.
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.
Capital redemption reserve	Represents 32,660,660 deferred shares of 14p each created during the share reorganisation on 4 May 2017.
Other reserves	Created as part of the reverse takeover between Kazoo3D plc and ZOO Media Corporation Ltd in 2001.
Accumulated losses	Cumulative net losses recognised in profit or loss.

21. Borrowings

	Group		Company	
	2019	2018	2019	2018
	$000	$000	$000	$000
Non-current				
7.5% unsecured convertible loan note stock	**3,349**	3,581	**3,349**	3,581
Connected person loan	**-**	-	**-**	-
Other bank borrowings	**-**	1	**-**	-
Finance lease liabilities	**550**	502	**108**	165
	3,899	4,084	**3,457**	3,746
Separable embedded derivative	**1,965**	4,666	**1,965**	4,666
Current				
7.5% unsecured convertible loan note stock	**-**	-	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	**9,701**	9,701
Finance lease liabilities	**248**	226	**56**	54
	248	226	**9,757**	9,755
Total borrowings	**6,112**	8,976	**15,179**	18,167

On 1 April 2017 the group had a total of £3,070,500 in unsecured convertible loan notes in place which were due to mature on 31 October 2017. During the year ended 31 March 2018 £500,000 of the convertible loan stock was converted into equity and the remaining £2,570,500 had its maturity extended to 31 October 2020. The loan notes pay a coupon of 7.5% and 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 one ordinary share for every £0.48 of principal amount of loan stock. The US dollar value of the loan notes at 31 March 2019 was $3,349,000 (2018: $3,581,000).

The restructured convertible loan stock has two separate economic components within it; the holder is entitled to convert the loan note into equity at any point and the company is entitled to convert the loan note into equity if the 30 business day trailing average share price is above the level of £2.50 per share. In both instances the conversion is on the basis of one ordinary share for every £0.48 of principal amount of loan stock. In years prior to the year ended 31 March 2018 it has been assessed that there is no material value to the resulting embedded derivative but in the year ended 31 March 2018 there has been significant increase in the company's share price leading to the appointment of an independent valuation firm to measure the fair value of the two separate economic components as at the balance sheet date. For the year ended 31 March 2019 the valuation of the embedded derivative resulted in a non-cash charge totalling $2,701,000 (2018: $4,666,000) which has an underlying value of $3,349,000.

The group has an arrangement with Crestmark Bank to provide an invoice financing facility of up to $2.5m against US client invoices raised by ZOO Digital Production LLC. This facility will be in place until 7 July 2020. The structure of this loan arrangement has been renegotiated since the year end to terms which are more favourable with the expectation of a reduced need for lending in the future. The principal outstanding at 31 March 2019 was nil (2018: nil). This funding is secured against the US trade receivables of ZOO Digital Production LLC.

During the year ended 31 March 2018 the group changed its UK banking partner to HSBC which provides an overdraft facility of £250,000. The principal outstanding at 31 March 2019 was nil (2018: nil). This line of funding has been secured as a floating charge over the assets of the UK companies.

Finance lease liabilities

Finance lease liabilities are payable as follows:

At 31 March 2019	Future minimum lease payments $000	Interest $000	Present value of minimum lease payments $000
Less than one year	**318**	**(70)**	**248**
Between one and five years	**631**	**(81)**	**550**
	949	**(151)**	**798**

At 31 March 2018	Future minimum lease payments $000	Interest $000	Present value of minimum lease payments $000
Less than one year	**289**	**(63)**	**226**
Between one and five years	**576**	**(74)**	**502**
	865	**(137)**	**728**

The lease periods of the finance leases range from between three and five years, with options to purchase the asset at the end of the term. Finance lease liabilities are secured against the leased assets.

22. Trade and other payables

	Group		Company	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
Trade creditors	**3,076**	1,957	**328**	238
Amounts owed to subsidiary undertaking	**-**	-	**2,428**	1,937
Social security and other taxes	**191**	172	**161**	179
Accrued expenses	**3,922**	3,977	**517**	1,038
	7,189	6,106	**3,434**	3,392

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

23. Commitments

Capital commitments

The group had no capital commitments at 31 March 2019.

Operating lease commitments

The group has a number of operating leases, as a lessee, for equipment and premises under non-cancellable agreements. The lease terms are between three and five 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:

	2019	2018
	$000	$000
Within one year	**1,018**	604
From one to five years	**3,611**	1,817
	4,629	2,421

The group does not sublease any of its leased premises.

24. Related parties

Subsidiaries

The parent company has investments in the following subsidiary undertakings:

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

*ZOO Digital Production LLC is indirectly held by ZOO Digital Group plc through ZOO Digital Inc.

Transactions between ZOO Digital Group plc and its subsidiaries, which are related parties, have been eliminated on consolidation.

Subsidiary undertakings

	Company	
	2019	2018
	$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.

Related party transactions

	Company	
	2019	2018
	$000	$000
Interest paid on loans:		
Sara Green	**69**	68
Roger D Jeynes	**2**	3

The gross interest payable to Sara Green at 31 March 2019 is $22,000 (2018: $23,000). The gross interest payable to Roger D Jeynes at 31 March 2019 is $1,000 (2018: $1,000).

Sara Green, wife of Dr Stuart A Green, held an $806,000 (2018: $865,000) interest in 7.5% unsecured convertible loan stock at 31 March 2019. The underlying value of the interest in the convertible loan stock is £614,500 (2018: £614,500).

Roger D Jeynes held a $33,000 (2018: $35,000) interest in 7.5% unsecured convertible loan stock at 31 March 2019. The underlying value of the interest in the convertible loan stock is £25,000 (2018: £25,000).

25. Share-based payments

Employee share option schemes

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

	2019		2018	
	Options No.	Weighted average exercise price $	Options No.	Weighted average exercise price $
ZOO Digital Group plc EMI scheme				
Outstanding at the beginning of the year	**2,252,232**	**0.21**	1,666,893	0.21
Granted during the year	**525,000**	**1.46**	1,870,000	0.20
Exercised during the year	**(502,414)**	**0.22**	(157,661)	0.22
Surrendered during the year	**-**	**0.22**	(1,127,000)	0.22
Outstanding at the end of the year	**2,274,818**	**0.50**	2,252,232	0.21
Exercisable at the end of the year	**1,444,818**	**0.22**	1,123,082	0.22

The underlying weighted average exercise price for the shares under option at 31 March 2019 was 15p (2018: 15p).

ZOO Digital Group plc Unapproved				
Outstanding at the beginning of the year	**4,331,452**	**0.21**	1,965,952	0.26
Granted during the year	**165,000**	**1.33**	3,355,000	0.20
Exercised during the year	**(129,952)**	**0.23**	(122,000)	0.22
Surrendered during the year	**-**	**-**	(867,500)	0.29
Outstanding at the end of the year	**4,366,500**	**0.25**	4,331,452	0.21
Exercisable at the end of the year	**2,695,501**	**0.22**	1,756,052	0.22

The underlying weighted average exercise price for the shares under option at 31 March 2019 was 17p (2018: 16p).

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.

Share options granted to key management personnel, including directors, during the year ended 31 March 2018 have vesting conditions. A total of 3,820,000 share options have a vesting condition that the company's share price must be £0.20 or higher for a period of at least three months immediately prior to exercise and 1,000,000 share options have a vesting condition related to the profitability of the group.

Out of the 6,641,318 outstanding options (2018: 6,583,684 options), 4,140,319 were exercisable (2018: 2,879,134).

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	25,000	**30 Nov 2020**	**0.23**	0.1500
ZOO Digital Group plc EMI scheme	191,667	**11 Jul 2022**	**0.23**	0.1500
ZOO Digital Group plc EMI scheme	55,000	**26 Sep 2023**	**0.24**	0.1500
ZOO Digital Group plc EMI scheme	25,000	**19 Jan 2025**	**0.23**	0.1500
ZOO Digital Group plc EMI scheme	20,500	**17 Sep 2025**	**0.23**	0.1500
ZOO Digital Group plc EMI scheme	1,432,651	**2 Aug 2027**	**0.20**	0.1525
ZOO Digital Group plc EMI scheme	275,000	**2 July 2028**	**1.33**	1.01
ZOO Digital Group plc EMI scheme	250,000	**6 Nov 2028**	**1.61**	1.24
ZOO Digital Group plc Unapproved	30,000	**27 Jun 2020**	**0.65**	0.4300
ZOO Digital Group plc Unapproved	190,000	**11 Jul 2022**	**0.23**	0.1500
ZOO Digital Group plc Unapproved	50,000	**26 Sep 2023**	**0.24**	0.1500
ZOO Digital Group plc Unapproved	375,000	**19 Jan 2025**	**0.23**	0.1500
ZOO Digital Group plc Unapproved	201,500	**17 Sept 2025**	**0.23**	0.1500
ZOO Digital Group plc Unapproved	3,325,000	**2 Aug 2027**	**0.20**	0.1525
ZOO Digital Group plc Unapproved	30,000	**5 Oct 2027**	**0.49**	0.3800
ZOO Digital Group plc Unapproved	165,000	**2 Jul 2028**	**1.33**	1.01
Outstanding at the end of the year	**6,641,318**			

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:

	Sep 2013	Jan 2015	Sep 2015	Aug 2017	Oct 2017	July 2018	Nov 2018
Expected volatility (%)	84	67	61	57	57	57	57
Risk-free interest rate (%)	1.52	1.08	1.35	0.55	0.55	0.55	0.55
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 profit/(loss) for the year:	**2019** $000	2018 $000
Total expense recognised from share option transactions	**286**	276

Share-based payment reserve appears in the statement of financial position under:	**2019** $000	2018 $000
Share option reserve	**1,085**	688

26. Financial instruments

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

The adoption of IFRS 9 has resulted in a reclassification of financial instruments as follows:

Financial assets previously classified as loans and receivables are now classified as financial assets subsequently measured at amortised cost.

Categories of financial instruments

	Group		Company	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
Financial assets subsequently measured at amortised cost				
Trade and other receivables excluding pre-payments and VAT (note 17)	**7,392**	6,352	**-**	-
Amounts owed by subsidiary undertakings (note 17)	**-**	-	**13,469**	14,973
Cash and cash equivalents	**1,828**	2,409	**113**	201
Total	**9,220**	8,761	**13,582**	15,174

	Group		Company	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
Financial liabilities subsequently measured at amortised cost				
Finance lease liabilities (note 21)	**798**	728	**164**	219
Amounts owed to subsidiary undertakings (note 21)	**-**	-	**9,701**	9,701
7.5% unsecured convertible loan stock (note 21)	**3,349**	3,581	**3,349**	3,581
Other bank borrowings (note 21)	**-**	1	**-**	-
Connected person loan (note 21)	**-**	-	**-**	-
Trade and other payables excluding payroll taxes (note 22)	**6,998**	5,934	**3,270**	3,213
Total	**11,145**	10,244	**16,484**	16,714

	Group		Company	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
Financial liabilities at fair value through profit or loss (level 2)				
Separable embedded derivative (note 21)	**1,965**	4,666	**1,965**	4,666
Total	**1,965**	4,666	**1,965**	4,666

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 2019 there was more volatility in the pound sterling/US dollar rate than in some previous years with the rate peaking at 0.7989 and falling to a low of 0.6977, with an average rate of 0.748. If the US dollar had remained at its highest level throughout the full year the group would have shown a post-tax profit of $0.5m (2018: profit $1.4m), if the US dollar had been at its lowest level throughout the full year the group would have shown a post-tax loss of $0.6m (2018: breakeven) and if the US dollar had remained at the average rate throughout the year the group would have shown a breakeven position (2018: profit $0.7m).

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 foreign currency risk through the convertible loan note has a significant impact on the reporting of exchange variances but it is not expected to have a material commercial risk as the expectation is that the loan will be converted into equity which is also denominated in pound sterling.

The pound sterling/US dollar exchange rate at 31 March 2019 was 0.763 (2018: 0.710).

Interest rate risk

On 1 April 2017 the group had a total of £3,070,500 in unsecured convertible loan notes in place which were due to mature on 31 October 2017. During the year ended 31 March 2018 £500,000 of the convertible loan stock was converted into equity and the remaining £2,570,500 had its maturity extended to 31 October 2020. The loan notes pay a coupon of 7.5%. The US dollar value of the loan notes at 31 March 2019 was $3,349,000 (2018: $3,581,000).

The group and company consider the interest rate risk on the loan to be minimal as the rate is fixed.

The group has an arrangement with Crestmark Bank to provide an invoice financing facility of up to $2.5m against US client invoices raised by ZOO Digital Production LLC. This facility has been renegotiated since the year end and is now in place until 7 July 2020. Interest is payable on a monthly basis at an interest rate linked to LIBOR with a monthly minimum fee. The principal outstanding at 31 March 2019 was nil (2018: nil). The group is subject to interest rate risk on the movement in the LIBOR rate.

The HSBC bank overdraft facility has terms linked to the UK base rate but the interest rate risk is minimal due to the reduced need for drawing down upon the facility.

On 13 December 2013 Sara Green, wife of Dr Stuart A Green, made a loan to the company of £600,000 with an interest rate of 10%. The full amount of this loan was converted into equity during the year ended 31 March 2018. Following this conversion into equity the group and company consider there to be no interest rate risk.

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 an overdraft facility, 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 Crestmark Bank to provide an invoice financing facility of up to $2.5m against US client invoices. This facility will be in place until July 2020, with the option to extend. The principal outstanding at 31 March 2019 was nil (2018: nil).

The group has a £250,000 overdraft facility in place from HSBC for the UK companies. There has been no lending drawn down from this facility to date.

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 2019	**$000**	**$000**	**$000**	**$000**
Borrowings	**-**	**3,349**	**-**	**-**
Finance lease liabilities	**248**	**-**	**550**	**-**
Trade and other payables	**7,189**	**-**	**-**	**-**

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
At 31 March 2018	**$000**	**$000**	**$000**	**$000**
Borrowings	-	3,582	-	-
Finance lease liabilities	226	-	502	-
Trade and other payables	6,106	-	-	-

Company

At 31 March 2019	Less than 1 year $000	Between 1 and 2 years $000	Between 2 and 5 years $000	Over 5 years $000
Amount owed to subsidiary undertakings	**9,701**	**-**	**-**	**-**
Borrowings	**-**	**3,349**	**-**	**-**
Finance lease liabilities	**56**	**-**	**108**	**-**
Trade and other payables	**3,434**	**-**	**-**	**-**
At 31 March 2018	**Less than 1 year $000**	**Between 1 and 2 years $000**	**Between 2 and 5 years $000**	**Over 5 years $000**
Amount owed to subsidiary undertakings	9,701	-	-	-
Borrowings	-	3,581	-	-
Finance lease liabilities	54	-	165	-
Trade and other payables	3,392	-	-	-

Credit risk

Credit risk arises from cash and cash equivalents and credit exposures on outstanding receivables. The group's and the 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.

27. Capital management

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

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

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

	2019 $000	2018 $000
Total borrowings	**6,112**	8,976
Less cash and cash equivalents	**(1,828)**	(2,409)
Net debt	**4,284**	6,567
Total equity	**4,684**	2,655
Total capital	**8,968**	9,222
Gearing ratio	**48%**	71%
Adjusted Gearing ratio*	**26%**	21%

*Adjusted for the impact of the non-cash embedded derivative movement

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