



ZOO

ZOO Digital Group plc
Annual Report 2023

| | |
|-----|---|
| 7 | Welcome to the annual report |
| 8 | ZOO's growth story |
| 10 | Managing global expansion: ZOO India |
| 14 | Bridging cultural gaps: ZOO Korea |
| 18 | Innovation and the ZOO Digital way |
| 22 | Market overview |
| 24 | Chairman's statement |
| 25 | Strategic report |
| 34 | Financial Review |
| 37 | Corporate governance statement |
| 51 | Advisers |
| 52 | Directors' report |
| 55 | Remuneration Committee report |
| 56 | Directors' remuneration report |
| 60 | Independent auditor's report |
| 68 | Consolidated statement of comprehensive |
| 69 | income Consolidated statement of financial |
| 70 | position Company statement of financial position |
| 71 | Consolidated statement of changes in equity |
| 72 | Company statement of changes in equity |
| 73 | Consolidated statement of cash flows |
| 74 | Notes to the financial statements |
| 113 | Group directory |

Key performance indicators

Financial

Revenue:

\$90.3 million

(FY22: \$70.4 million)

Operating Profit:

\$8.1 million

(FY22 restated: \$1.9 million)

Adjusted EBITDA¹ margin:

17.1%

(FY22 restated: 10%)

Operating expense as a % of revenue:

29%

(FY22 restated: 27%)

Operational

Number of freelancers²:

11,467

(FY22: 11,028)

Retained sales³:

98.5%

(FY22: 97.6%)

1: Adjusted for share-based payments, the company's preferred method of measuring profitability.

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.

Broader Market Highlights

Substantial content budgets are not expected to diminish in the medium-term

8.5%

Non-English digital originals grew from 5.9% to 8.5% as a percentage of the total demand for streaming original shows in the period 2020 to 2022

\$242bn

Global content investment totalled \$238 billion in 2022 and is forecast to reach \$242 billion in 2023

\$1.6bn

Media localisation spend with major suppliers estimated by Nimdzi to have grown by over 280% between 2018 and 2022, from \$420 million to \$1.6 billion

Outlook and Post Period event

Raised £12.5 million gross (\$15.5 million) via an oversubscribed placing in April 2023 to fund the proposed acquisition of a partner company in Japan with which ZOO continues to have positive, advanced discussions.

Current trading has been impacted by several major streaming companies carrying out strategic reviews to refocus on profitability and the first simultaneous strike of US writers and actors in 60 years. This has created short-term market disruption and temporarily lower volumes of localisation and media services work.

The Board has been taking steps to adjust the cost base to reduce the impact of the temporary industry slow-down on ZOO's business while there remains uncertainty around the timing of the resumption of former levels of production and orders. The Group remains financially strong with net cash at 30 June 2023 of \$23 million.

ZOO expects to emerge in an even stronger position once certain customers have rationalised their supplier bases, resulting in ZOO taking further market share once former order levels resume. It is reasonable to expect this will be in H2 FY24.

The Board remains confident in ZOO's medium and long-term fundamentals and expects to deliver revenue growth over FY23 in the following years. Our guidance for FY24 remains unchanged and 2030 strategy remains on track.

HIGHLIGHTS OF THE YEAR

Key Financials

28%

Revenue grew by 28% to \$90.3 million (FY22: \$70.4 million)

3% of sales were from newly acquired operations

\$15.5m

Adjusted EBITDA* grew to \$15.5 million (FY22 restated: \$7.1 million)

EBITDA* margin increased to 17.1% (FY22 restated: 10.0%)

\$7.9m

Reported profit before tax of \$7.9 million (FY22 loss restated: \$0.2 million)

\$15.5m

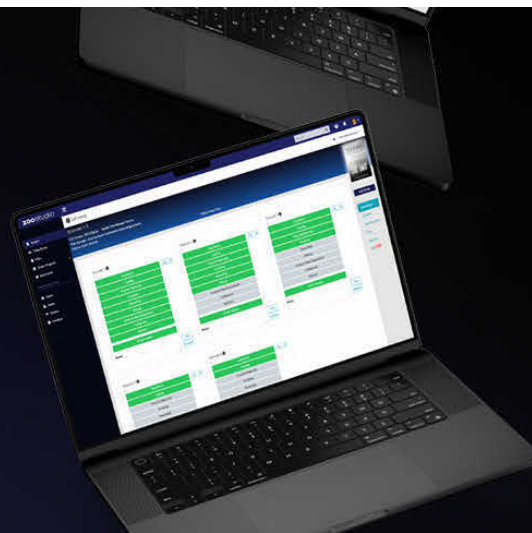
Net cash generated from operations up 197% to \$15.5 million (FY22: \$6.0 million)

\$11.8m

Net cash at year-end of \$11.8 million (FY22: \$5.2 million)

* Adjusted for share-based payments

zoo studio
adopted by second **major Hollywood studio** to support content localisation rollout



Operational Highlights

ZOO selected as a key vendor by a second major content producer with ZOOstudio adopted to support its content localisation across vendors

\$56.6m

Media localisation segment sales grew by 34% to \$56.6 million (FY22: \$42.2 million) – subtitling increased by 15% and dubbing by 73%

98.5%

Leading standard of customer satisfaction maintained – retained sales KPI was 98.5% (FY22: 97.6%)

\$32.1m

Media services grew by 22% to \$32.1 million (FY22: \$26.4 million)

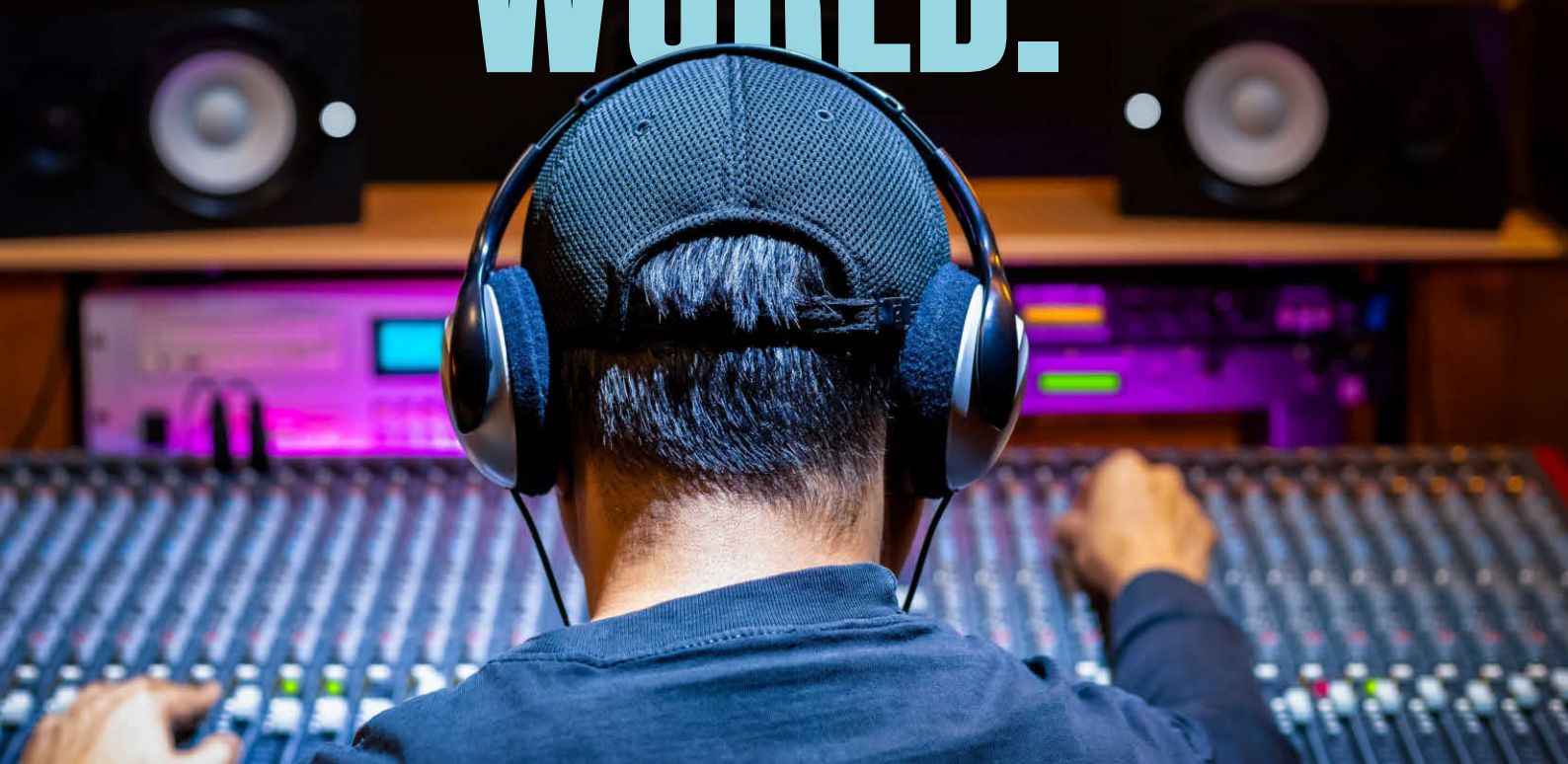
11,467

Worldwide freelancer network grew by 4% to 11,467 (FY22: 11,028)

Strong progress in global growth initiative with further investments across hubs in India, South Korea, Denmark and Spain



MAKING LIFE EASIER FOR THE PEOPLE WHO ENTERTAIN THE WORLD.





WELCOME TO THE ANNUAL REPORT

I am delighted to present our annual report, showcasing another year of significant progress and profitable growth for ZOO Digital. With a 28% increase in revenues to \$90.3 million and improved margins, we have demonstrated the effectiveness of our business model and its inherent operating leverage.

Against a challenging economic backdrop and amidst the dynamic world of streaming, we have successfully expanded our international operations and further cemented our position in the media localisation industry. This highlights the strength and resilience of ZOO's offerings, which continue to resonate with the biggest names in entertainment.

By investing strategically in international hubs and expanding our capabilities, we have attracted new business and talent, enhancing our competitive edge. Looking ahead, we remain committed to driving media globalisation innovation, leveraging cutting-edge technologies, and delivering exceptional service to our clients. With a steadfast focus on being the industry's most trusted globalisation service provider, ZOO Digital is primed for strong growth by **making life easier for the people who entertain the world.**

Gillian Wilmot CBE
Chairman
ZOO Digital Group plc

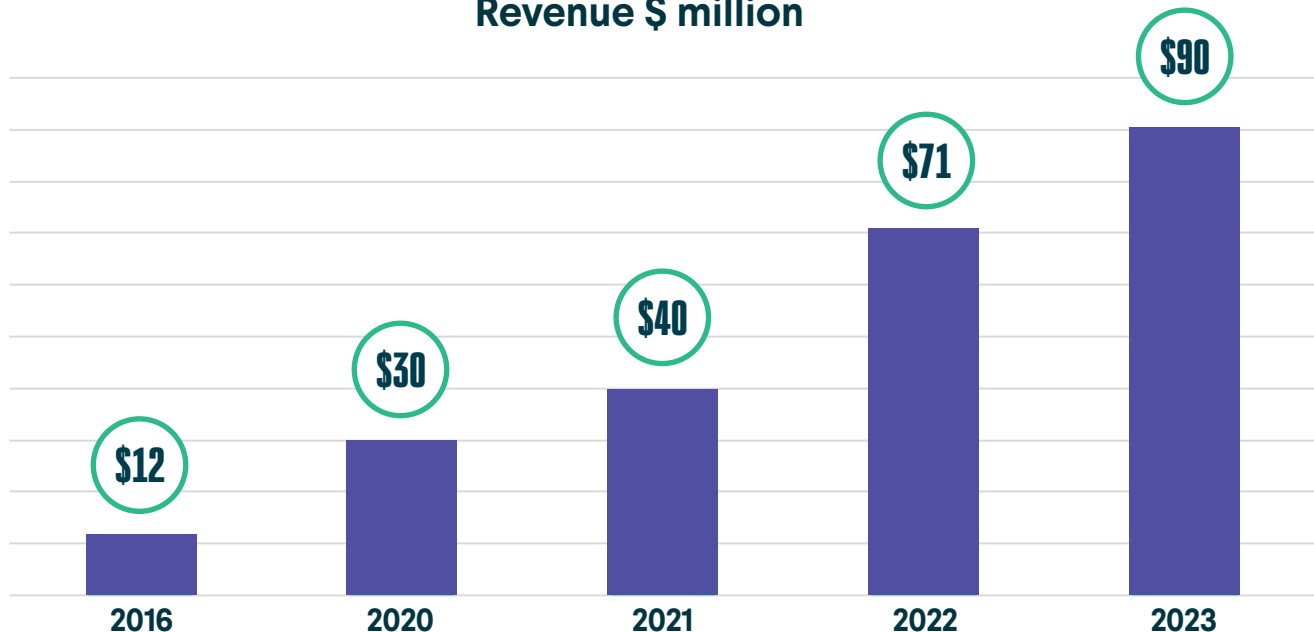
A handwritten signature in black ink, appearing to read 'Gillian Wilmot', written in a cursive style.

ZOO'S GROWTH STORY

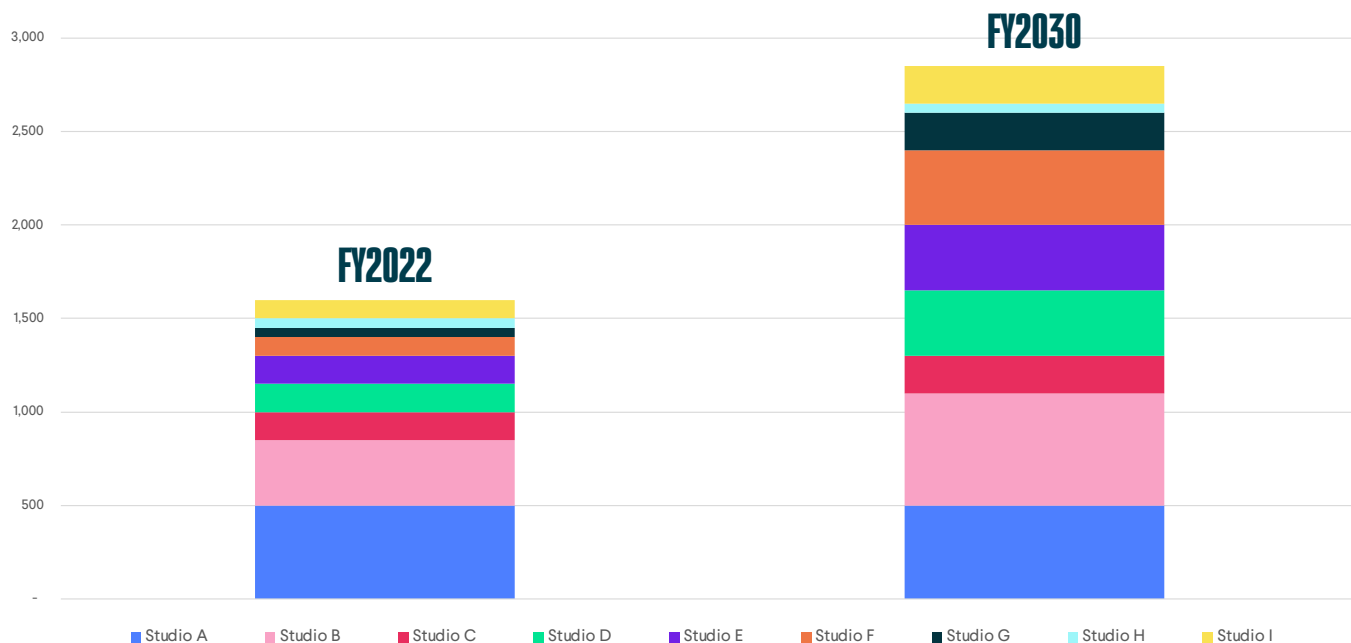
As a tech-enabled provider of services to the media and entertainment market ZOO is positioned to deliver superior growth in its sector due to its capital- and human-efficient model. Over the past seven years the Company has delivered compound annual growth rate (CAGR) of over 34%, with revenues increasing from under \$12 million in 2016 to over \$90 million in 2023.

At a Capital Markets event in October 2022 the Company set out its vision for growing revenues to \$400 million by the end of the decade. By estimating the annual spend on media localisation by nine of the largest international producers and distributors of entertainment content, ZOO estimates that its addressable market in 2022 was around \$1.5 billion, which implies a market share of 6%.

Revenue \$ million

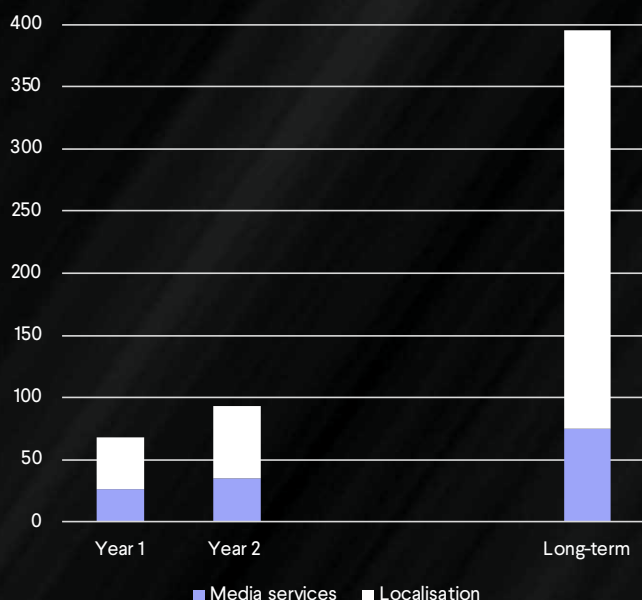


Addressable Market (\$million)



The Company believes that the total industry spend on media localisation will grow over the decade due to several factors, including trends in content production, entry of new global streaming services, delivery of content into more languages and concentration of industry spend on large media companies. The Company estimates that its addressable market will almost double over the period to 2030.

ZOO Revenue Progression (\$million)



Over this same period, due to its strengthening relationships with the major buyers of these services, the Company believes that it is realistic to grow its market share to at least **14%** as a result of delivering growth rates for media services of at least **10%**, subtitling at least **15%** and dubbing at least **45%**. This would equate to an overall **revenue growth rate of 24%** which is achievable given the CAGR delivered over the past seven years of **over 34%**.



MANAGING GLOBAL EXPANSION

with Managing Director, India, Rajiv Raghunathan

ZOO Digital's acquisition of Vista India has been a successful move, expanding its services and capitalising on India's growing market. With India's OTT (over the top) revenue predicted to reach \$4.5 billion and SVOD subscribers doubling by 2026, ZOO's South Asia expansion was well-timed. The seamless integration of Vista India into ZOO Digital Group ensures uninterrupted high-quality services for clients, empowering the India hub to leverage ZOO's advanced technologies and handle large volumes of subtitling and dubbing projects across languages, connecting Indian and international content with a broader audience.

In this interview, Rajiv Raghunathan, Managing Director, India for ZOO Digital, looks back on the significant growth of the team, positive client response, and the adoption of ZOO Digital's technology ecosystem. Looking ahead, Rajiv sees the democratisation of content bringing even greater opportunity to continue the globalisation of the media industry.

Can you introduce yourself and tell me about your role at ZOO Digital?

I'm Rajiv Raghunathan, Managing Director, India for ZOO Digital. I've been in the media and entertainment business for over three decades, having started my career as a computer graphic artist before transitioning into advertising filmmaking and post production. I subsequently moved into digital distribution, and then tech-related content delivery services for premium OTT platforms. With this diverse background, I feel very fortunate to have a holistic view of the media business and wider entertainment landscape.

How would you recap on the last year as part of ZOO?

Since the acquisition, my primary goal has been to grow the local business opportunity – and scale our teams to manage larger volumes for our clients.

To that end, our team size has doubled in the last year, with the team expanding from around 60 people to over 120 in that time. This headcount has added a lot of resource across multiple departments and specialisms, and significantly enhanced our capabilities and capacity. We have also been able to support ZOO's global service offering and

give our international clients 24-7 visibility on their projects; we're in a key strategic position to manage deliveries that are timebound or support projects that need additional care and effort.

Our team has been recognised as a Netflix Preferred Fulfillment Partner and is the only Amazon Prime delivery house for their original shows commissioned in India. As part of ZOO, we have been able to build on this status and continue to reach new heights with our established relationships.

How have the other territories of ZOO benefited from the resources of our dedicated India hub?

As well as the growth we've achieved in India, we have also been able to support territories where ZOO already has such an established presence – across the US, UK, Turkey, Dubai and so on. From project management to subtitling to audio mixing, we collaborate on multiple projects and help our team members across the globe to deliver large scale international projects seamlessly.

With our India office working in multiple shifts, we can give our global team complete visibility and updates on their projects, across multiple time zones.

Were there any unexpected challenges that arose during the expansion process? How were these challenges dealt with?

Our primary challenges revolved around increasing the size of our team and operations. When you scale up within a short period of time, the whole process is very organic and we therefore had to adapt quickly.

By growing from a team of around 60 to 120 within a year, we needed to look at a suitable working environment that would align with the future of the company. The ideal scenario was to find a space that could accommodate the team and its ambitious growth plans from day one. Being flexible, versatile and ambitious about what we were looking to achieve were all crucial in achieving this. We are now in a strong position and a great



deal of the credit goes to our team, who are very excited to have joined the ZOO family. Everyone is willing to go the extra mile to see results, and we are committed to providing the right support to our staff during this time of change. We're all looking forward to more exciting times at ZOO!

How have our clients responded to the expanded services offered in these new territories?

Very positively. The proof is in the increasing volume of work that we have managed in the last year. We have substantially increased our revenue and this can be attributed to the confidence we have given our clients to manage large volumes in a timely manner.

We are continuously demonstrating to our clients that we can not only do great work, but also handle much larger volumes of content for a wider customer base. Our clients were always very pleased with our quality of service and now our ability to manage greater volume solves a lot of their pain points. We are well placed to be the ideal end-to-end service provider for all their OTT delivery requirements.

What kind of new talent have we been able to tap into because of the expansion?

The size of our team has grown significantly over the last 12 months and a large factor in this is the reputation and global reach that ZOO Digital provides. As part of the ZOO family, with offices all around the world, we offer something even greater.

We are recruiting more senior professionals from other companies in the industry, who are seeking out positions in our teams due to our role within this larger entity.

Our network of freelance talent also continues to grow exponentially. A major factor behind this is the wider demand, due to the growth in home and international markets – as studios localise content to expand its reach.

How has the ZOO technology ecosystem been adopted within our India hub?

Due to the previous relationship between ZOO Digital and Vista India, we were already familiar with ZOO's broad technological infrastructure. Since the acquisition, these systems have become more integral to our workflows across all projects.

We have completely removed or replaced previous tools with more advanced technologies developed by ZOO. This full suite of platforms covers the management of projects, talent resource, payments and many other areas; allowing us to fully integrate with their technology ecosystem.

ZOO's platforms have also created new service opportunities. Specifically, the ZOOdubs platform has opened doors for remote and hybrid dubbing, allowing us to reach the very best local talent across different territories – enabling them to record in a way that works for them while safeguarding quality and security throughout.

These platforms developed by ZOO offer flexibility, efficiency and transparency across



a wide range of areas, so we are delighted to have integrated them with our existing workflows and processes. We are even more confident in managing larger volumes of work because of the backing of this dedicated technology.

In your opinion, what are the biggest trends shaping the media globalisation industry currently?

One trend that is really apparent is the democratisation of localisation, with services demanded outside of premium-tier content. 12 to 16 months ago, you would only tend to see top-tier, premium content localised into a large array of languages, but that has evolved with audience demand. Different types of content are now being localised and brought to new markets; even free-to-air content is being subtitled or dubbed into a growing number of languages.

Audiences expect this democratisation and it's becoming the norm in many markets. An example of this is the Indian Premier League (IPL), where live cricket matches are simulcast into multiple languages, which was something unheard of until last year. This is

indicative of changing audience demands and expectations and we believe is a sign of things to come.

Taking this one step further, we are also seeing content creators on video sharing platforms increase their global reach; there are YouTube and Instagram content creators maximising their global reach with the help of subtitles and dubs in multiple languages.

If one wishes to monetise their content, it needs to be of a certain quality and provide a great viewer experience. And to maximise global reach, that content needs to be localised. This proliferation of localised content is something we hadn't anticipated would happen quite so fast. In terms of volume, I can't even put a number on this, it's only going to get bigger in the coming years. And we believe it's going to be a global phenomenon!

Generally speaking, while there has been some slowdown in content creation spend, there appears to be greater numbers in terms of the sheer business of media globalisation,

unlocking new revenue streams for content creators through localisation and media services. These are tell-tale signs that localisation is here to stay and grow.

Looking ahead, what are your plans for further expansion in the coming years?

A key aim is to make sure we can cater to all territories in our country. India makes over 2,000 films a year, with a large film industry in Mumbai and down south in Chennai, Hyderabad and parts of Kerala.

As a natural progression, we are building a brand-new facility in Chennai. The production facility is spread across 11,000 square feet, with over 10 dubbing rooms, multiple Atmos rooms, mixing rooms and multiple screening rooms.

This development will put us in an even stronger position to manage higher volumes of content, that need to be subtitled and dubbed for South Indian languages. The client need for this is ever-growing, so with the help of Mumbai (which will manage languages outside of Southern India) this combination gives us a tremendous edge in the market, with owned-and-operated facilities completely independent of external studios and outsourcing.

What lessons have you learned from this expansion that could apply to future expansion efforts?

One lesson we have learned is to be more optimistic when it comes to the OTT services business. We need to be extremely bold! If you have a talented team and great infrastructure the opportunity in this space is limitless. The growth rate and market appetite has been incredible. Therefore, we are always challenged with managing larger volumes of business that need to be executed in shorter timelines. This is fantastic for a company like ZOO, and certainly a good problem to have.



BRIDGING CULTURAL GAPS: THE ART OF LOCALISING KOREAN CONTENT FOR INTERNATIONAL AUDIENCES

with Managing Director, Korea, Jonghyun Oh

In this interview with Jonghyun Oh, Managing Director of ZOO Digital in Korea, we explore the rapid rise of the Korean content market and its global success.

Jonghyun provides insights into the role of cultural authenticity in the localisation of Korean media and highlights key considerations when adapting content for international audiences. Addressing common misconceptions and stereotypes, he shares how ZOO Digital ensures an accurate portrayal of Korean culture. Additionally, we delve into ZOO Digital's approach to handling the high volume of content while maintaining quality and meeting tight deadlines. Looking to the future, Jonghyun discusses anticipated trends in Korean media localisation and their impact on the industry as a whole.

Join us as we dive into the dynamic world of Korean media localisation with Jonghyun Oh, Managing Director of ZOO Digital in Korea, and gain valuable insights into the industry's rapid growth, cultural authenticity, quality assurance, and future trends.

Can you provide an overview of the Korean content market and its rapid rise to worldwide success in recent years?

The acclaimed movie "Parasite" underscored the global success of Korean content. However, K-dramas have long dominated the Asian market. With the phenomenal success of series such as "Squid Game", "The Glory", and "Crash Landing on You", Netflix has recently committed to investing \$2.5 billion into Korean content over the next four years. Similarly, with the K-pop industry rapidly expanding, Disney is

creating a wealth of K-pop related content, including a series featuring boy band "BTS" and drama productions like "Big Bet".

This surge in interest and investment in Korean content extends beyond just streaming platforms. Major production studios and networks are recognising the immense appeal and market potential of Korean entertainment. For instance, renowned director Bong Joon-ho, the mastermind behind "Parasite," has paved the way for more collaborations and cross-cultural projects. This has led to exciting

partnerships between Korean filmmakers and Hollywood studios, resulting in the creation of captivating films that blend the best of both worlds.

Additionally, the influence of K-dramas and K-pop has transcended borders, inspiring international adaptations, and collaborations with artists from different backgrounds. The global success and recognition of Korean content have sparked a creative renaissance, with industry players eagerly exploring the vast storytelling possibilities and cultural richness that Korean entertainment brings to the table. As a result, we can anticipate a continued surge in innovative and diverse Korean content that will captivate audiences worldwide.

How do you assess the role of cultural authenticity in the localisation of Korean media? What are some key considerations when localising Korean content for international audiences?

In Korea, unlike most of the world, we present our names with the family name preceding the given name. This perhaps reflects our culture, where family and the collective are prioritized over the individual. At work, we traditionally address colleagues by their last name and title, such as "Manager Oh", rather than a casual first-name basis like "Hey, Jonghyun". Previously, we would have translated these names in a Western format, such as "Jonghyun Oh", but now we maintain the Korean format – "Oh Jonghyun" – to authentically portray our culture. This trend extends to other aspects of our culture, like food. Instead of referring to our dishes with English equivalents, like 'Kimchi spicy soup', we now use the traditional name, 'Kimchi jjigae'.

These are just two examples, but this cultural authenticity plays a crucial role in the localisation of Korean media as it helps maintain the integrity and unique identity of the content. Korean language structure and expressions have distinct characteristics that contribute to the cultural nuances of the content. Translators must accurately

capture the tone, idioms, and cultural references embedded in the original Korean dialogue, striving for an equivalent impact in the target language.

Understanding social and hierarchical dynamics is also essential. Korean society places importance on respect, age, and seniority. Translators should consider maintaining appropriate levels of formality and addressing individuals by their proper titles or honorifics, reflecting the hierarchical relationships depicted in the content.

Thirdly, when considering multilingual audio description, visual elements play a significant role. Traditional Korean aesthetics, symbolism, and art forms can carry cultural significance. Paying attention to details such as costumes, set designs, and props can contribute to an authentic portrayal of Korean culture, enhancing the audience's immersion and understanding.

Lastly, cultural references and context should be carefully adapted. Korean history, traditions, festivals, and local customs may need contextual explanation or adaptation to ensure international viewers can fully grasp the intended meaning and appreciate the cultural nuances being portrayed.

By understanding and incorporating these key considerations, the localisation of Korean content can effectively convey the nuances, values, and cultural richness that make Korean culture unique, fostering a deeper appreciation and connection with international audiences.

What are some common misconceptions or stereotypes that you encounter when localising Korean media? How do you address these issues and ensure an accurate portrayal of Korean culture?

There can be misinterpretations or misunderstandings of Korean traditional customs, etiquette, and beliefs. For instance, the importance of age hierarchy in our social interactions may not be easily grasped or could be misconstrued. That's why we rely on seasoned translators who are not

only bilingual but also have an intimate understanding of the cultural nuances of both societies. Localisation is more than mere translation; it's about adapting the content to make it culturally appropriate and meaningful to the target audience.

By addressing common misconceptions, conducting thorough research, collaborating with cultural experts, and maintaining cultural sensitivity, localisation professionals can ensure an accurate portrayal of Korean culture, fostering cross-cultural understanding and appreciation among international audiences.

The popularity of Korean dramas, music, and entertainment has led to a surge in demand for localisation services. How do you handle the high volume of content while maintaining quality and meeting tight deadlines?

Securing a competent team of linguists is our initial step in handling the high volume of content while maintaining quality and meeting tight deadlines. However, it's not just about assembling a team; maintaining consistency in quality, terminology, and formality across multiple episodes is crucial. To achieve this, we implement a systematic approach that encompasses both human expertise and technological tools.

One of the key strategies we employ is selecting a proficient and experienced Quality Controller (QCer) to lead the project. The QCer plays a pivotal role in ensuring consistency throughout the entire series. They meticulously review and compare translations, cross-referencing terminology and style guidelines to maintain a cohesive voice and accurate portrayal of the content. Their expertise helps address any discrepancies or inconsistencies, ensuring a high level of quality across all episodes.

In addition to the human element, we leverage technology to enhance our efficiency and maintain consistency. Our ZOOsubs system integrates a glossary feature

that serves as a centralised repository of approved terms and phrases. This glossary not only helps linguists access and adhere to consistent terminology but also speeds up the translation process by providing ready-made translations for frequently used terms. By combining human expertise with technology, we streamline the localisation workflow, reduce errors, and maintain a high level of quality within tight deadlines.

Moreover, we understand the importance of effective communication and collaboration throughout the localisation process. Clear and concise communication with the client, project managers, linguists, and QCers is crucial for maintaining project timelines and ensuring everyone is aligned with the quality standards and expectations. Regular meetings, feedback loops, and proactive problem-solving approaches enable us to address any challenges promptly and efficiently, keeping the project on track and meeting the demanding deadlines.

By combining a competent team, experienced QCers, technological tools, effective communication, and streamlined processes, we can handle the high volume of content while upholding quality standards and meeting tight deadlines. Our commitment to excellence in localisation allows us to deliver culturally authentic and high-quality Korean entertainment experiences to a global audience, satisfying the surge in demand for localisation services in this rapidly growing industry.

How do you measure the success of a localisation project? What metrics or indicators do you use to evaluate the effectiveness of our localisation services?

In addition to adhering to industry-standard metrics, we strive to go beyond expectations in terms of quality and timely delivery. Our commitment to excellence is reflected in our remarkably low redelivery rates, which serve as a testament to the meticulous attention to detail and rigorous quality control processes we employ throughout the localisation

workflow. By maintaining stringent quality standards, we ensure that the localised content meets the highest levels of accuracy, linguistic proficiency, and cultural authenticity.

On-time delivery is another crucial aspect of our service. We understand the importance of meeting tight deadlines and the impact any delays can have on the overall distribution and release plans of our clients. Our dedicated project management team diligently oversees every stage of the localisation process, implementing efficient workflows, coordinating resources, and closely monitoring project timelines. Through effective communication and proactive planning, we consistently achieve on-time delivery, providing our clients with peace of mind and ensuring the seamless integration of their localised Korean media into their distribution platforms.

By excelling in these industry-standard metrics, we demonstrate our unwavering commitment to delivering exceptional quality and service. Our consistent track record of meeting and surpassing these benchmarks showcases our dedication to client satisfaction and solidifies our position as a trusted partner in the localisation of Korean media.

For the end-users, the hallmark of excellent translation is when the audience doesn't even realise they're reading subtitles or hearing a dubbed version. The localisation should seamlessly blend into the content, delivering the narrative in the most natural way possible. When we receive no feedback from the audience, we see that as a sign of successful localisation.

As the Korean content market continues to expand globally, what future trends do you anticipate in the field of Korean media localisation? How do you think these trends will impact the industry as a whole?

As Korean content gains popularity worldwide, the future of Korean media localisation is poised for remarkable growth.

The increasing global fanbase for Korean dramas, music, and entertainment will drive a surge in demand for localisation services. This trend will require localisation providers to expand their resources and capabilities to meet the growing needs of international audiences. In addition, collaborations and partnerships between Korean content creators and global streaming platforms will likely intensify, leading to more extensive distribution of Korean content on a global scale.

The impact of this growth in Korean content popularity on the localisation industry will be significant. Localisation companies will need to enhance their cultural expertise to accurately convey the nuances and cultural references present in Korean content. Moreover, there will be a need for efficient and streamlined localisation processes to handle the high volume of content while ensuring quality and meeting tight deadlines. Technology will continue to play a crucial role, with advancements in subtitling and dubbing technologies facilitating faster and more accurate localisation.

Overall, the increasing popularity of Korean content will drive the expansion and evolution of the Korean media localisation industry, opening up new opportunities and challenges for localisation providers as they strive to deliver authentic and engaging localised experiences to global audiences.



INNOVATION AND 'THE ZOO DIGITAL WAY'

with CTO, Chris Oakley

As ZOO CTO, Chris Oakley is responsible for leading technology initiatives at ZOO Digital Labs, the dedicated research and development arm of ZOO Digital. This team of tech innovators investigate new and cutting-edge technologies to aid the media globalisation industry and service the biggest names in entertainment.

In this interview, Chris highlights the importance of bringing fresh technology to traditional ways of working and reflects on the past 12 months of rapid growth. He discusses tech trends and talks about the biggest challenges that ZOO solves for clients in today's media landscape. For Chris, the never-sit-still approach to technology is exactly what ZOO Digital does best.

In your words, can you describe your role within ZOO Digital?

My role is about leading technology initiatives within the company, this can be split into three main areas.

Initially, it's about leading our dedicated R&D arm, ZOO Digital Labs, where we are responsible for developing our cloud-based platforms and new technological innovations. But my role is also to look at how we can innovate in all areas of the business and improve how we work collectively, including the technology that we are adopting in other areas of the business.

Finally, I'm focused on the technology side of our global expansion into new locations around the world – and how we continue to make our technology scalable and successfully implemented across all facilities in all territories.

Specifically with ZOO Digital Labs in mind, how do you lead these initiatives?

The goal of ZOO Digital Labs, as our research and development arm, is really to understand the current tech landscape within media globalisation and how we can differentiate and improve upon that. Understanding the cutting-edge technologies that are coming through, and the key trends we're seeing, but also looking at how we can differentiate on this and how we can bring about new advancements.

Part of that comes from what we've always done; looking at how things are done traditionally and then taking a fresh look at it with modern technology – how can we change things for the better and improve on these ways of working? Whether that's reducing the amount of time involved in certain processes or improving quality

through new tools and features. It's about using the technology available to us today to change things for the better.

That's really where our research initiatives are right now; looking at how tech can be used to aid what we're doing.

How would you reflect on the last 12 months at ZOO from a technology and innovation perspective?

It's been an exciting and pretty breath-taking 12 months in terms of what we have achieved and continue to achieve.

Industry-wise, there's a lot of talk around new technology and how this can be adopted by the media and entertainment industry and what the future could look like there. So, naturally, we've spent a lot of time looking into those particular areas and doing a lot of investigation and research.

Then, looking inwards at ZOO, there's been a rapid growth period for us in those 12 months, with lots of new territories coming on board; so new offices, new people, new opportunities. Practically speaking, getting everyone integrated and working as a collective unit, and establishing 'the ZOO way' has been a particular challenge but also a point of pride.

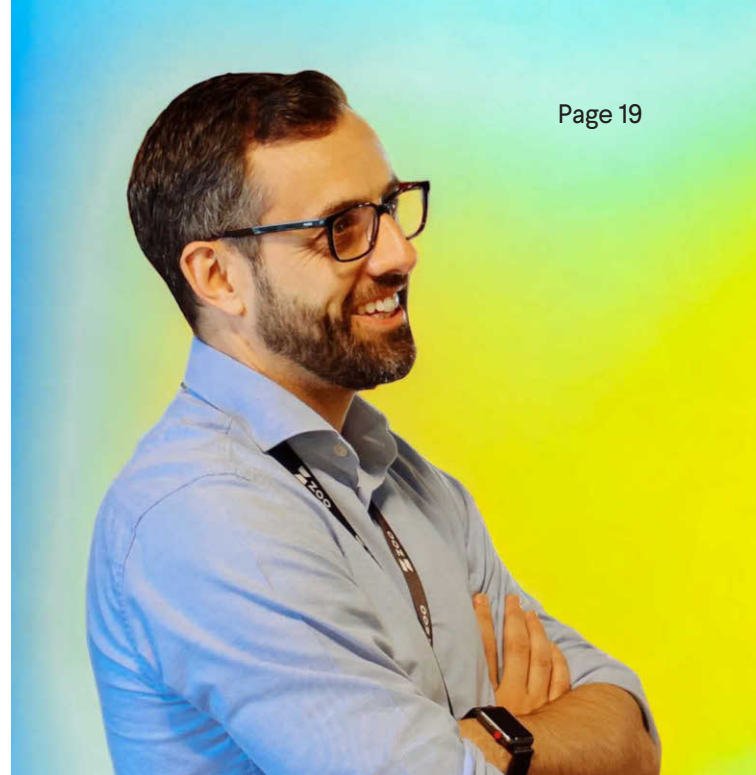
Looking back, it's a massive positive, as we have demonstrated how our scalability is backed by technological innovation. This has enabled us to bring on these new locations and people while integrating everybody into the same way of working.

It's been a real success story in building that 'chase the sun' workflow, working globally rather than in different localities and territories.

How do we emulate 'the ZOO way' across various new territory launches?

The key to the ZOO way is knowing that we aren't limited to the same mould of how the industry has operated historically.

Instead of looking at legacy ways of working, that are often entirely reliant on old-fashioned



brick-and-mortar facilities, studios and recording methods, we instead apply a fresh pair of eyes and look at localisation with the technology available today. The ZOO way focuses on how we can do these things differently; how can it be more efficient, faster or offer greater transparency than through more traditional vendors. This is the approach we've taken and it's what defines us – building global hubs that are backed with the technology to bring everything together.

This philosophy has always allowed us to be more agile and flexible. We're not a lumbering beast which can potentially hold these advancements back. Instead, we're able to go in with a fresh perspective and do what works best, rather than how it's always been done – and this is the approach we're taking around the world.

What are the biggest challenges we're solving for our clients through technology?

I think the biggest challenge facing our clients is the insatiable audience demand for more and more content and that obviously includes more content globally. For us, it's all about how we can help deliver that with the resource available around the world.

This is where technology really supports the industry, by working outside of traditional restraints, we can reach new talents and translators, and therefore unlock new capacity

and resource for our clients. With greater capacity, comes a scaling up of content localisation – and therefore more content delivered to audiences around the world.

On the other hand, our solution is also in working more efficiently. We've got lots of very experienced artists and freelancers that are heavily in demand but it's about how we can get more out of those people, and how can we set them up to work in the most efficient ways possible and minimise any errors or delays, for example. With greater workflow efficiencies and quality control, we can streamline and speed up working practices and help bring content to market faster.

This is where we can expand the talent net, but also do more with the same, or fewer, people. I think that's really where technology and automation, and newer technologies such as artificial intelligence (AI) and machine learning (ML), can really help everyone to achieve more. That's where we are leading the charge, in developing and adopting the best technologies to achieve greater results for our clients.

What are the biggest technology trends facing the media globalisation industry?

AI and ML are definitely the biggest trends and talking points right now. In our industry, people are looking at this with some trepidation, which is understandable. But it's necessary that we look at how this is going to be adopted into media globalisation and how we can best utilise these tools for our clients, while making sure everybody in the industry is happy with the results.

As with a lot of industries right now, AI and ML are either having an impact already, or causing questions to be asked for the future. For ZOO, we see these as complementary technologies; here to support and enhance current ways of working. That's the direction that we're moving towards. In terms of wider industry trends, many of our clients are managing the global rollouts of dedicated streaming platforms,

and this includes handling global workflows, teams and vendors. This is predominant in the industry right now and means a huge amount of content needs to be localised, prepared and published worldwide in as smooth and transparent a way as possible.

It's obviously a major challenge for these entertainment studios to get this scale of content out there, but there's also new areas bringing interesting new challenges alongside this – the likes of FAST channels that are becoming more and more popular. For the entertainment industry, the common theme is looking at how content owners can monetise their assets across all these platforms and strategies, and provide entertainment to end users in a way that works for them.

It's our role in all this to provide solutions that work now and for the future, so we need to work alongside the biggest names in entertainment and adapt to changes in the industry together.

Can you explain what ZOOstudio is, and how it is helping our clients?

Working closely with the biggest names in entertainment for so long put us in a unique position to understand the challenges they face. With this, we identified the need for a centralised digital repository for studios to identify where their projects are and how everything is progressing; the costs, the milestones and so on, in one central place. That's where ZOOstudio comes in. It offers this central management of media and localisation services.

One of the key differentiators here stems from our clients working with numerous different vendors across various globalisation projects. What ZOOstudio offers is a 'vendor-agnostic' approach, allowing information from all our clients' vendors to be made available.

By hooking into all the vendor systems and pulling that information into one central place, this allows studios to know exactly what's happening and keep track of costs, project milestones and other centralised information.

With each project and piece of content, there is so much that needs to be created and managed globally, and with such high-pressure timescales, there needs to be a transparent way of understanding where everything is, and that's what ZOOstudio offers.

How do we make sure to stay at the forefront of industry innovation?

ZOO Digital Labs lives and breathes this. Fundamentally, it comes from really investing in the R&D side of the business. We have research project teams that work on cutting-edge technologies, while also partnering with a lot of universities and investing in research projects to constantly keep ahead of what's happening in the industry.

We're always looking at how we can adopt or create the best technologies going forward and that runs across the whole gamut of what we're doing – all areas of the business. It's not just the products themselves, but also how we project manage our services, how we work around different facilities and how everybody integrates with our systems. Having all our products interconnected and working together is key, as is looking at new updates to make sure that everybody continues to do the job to its best possibility.

Essentially, we want to provide the very best results, so the ZOO way of working is looking at how we best utilise technology to accomplish our goals while developing with the wider world of entertainment.

How does the ZOO technology ecosystem safeguard 'the ZOO way'?

When you make heavy investments in brick-and-mortar studios using traditional platforms and traditional hardware, it can tie you down. By making these huge investments upfront, that doesn't always allow you to be flexible. And that's where our approach is different. Our technology ecosystem is built to be constantly evolving and staying at the cutting edge.

Then when we identify areas where a new tool or system update could improve things, this can be easily adapted and implemented because it lives within our technology ecosystem. That means we're more flexible for our customers.

With this living, breathing ecosystem of interconnected technology platforms, we have a more lightweight, future-proofed approach. That's our philosophy, to make sure that we're not restricted to the traditional ways of doing things, with heavily embedded legacy workflows and systems.

Instead, we have the flexibility and movement to change should we need to. As this industry is constantly moving the goalposts and integrating new innovations, it's crucial that we tackle new challenges and new ways of working to stay ahead of the wider industry. When industry changes happen, we have to be there with solutions up our sleeves.

What's next for ZOO Digital Labs?

The team is working on a lot of projects that we need to keep under wraps, but as ever, we're hoping to live up to our reputation as an industry innovator and disrupter.

This means developing our products to solve new challenges for our clients and looking at how we can utilise new technology to streamline some of our working practices – and wider industry practices.

Internally, we're looking at how we can improve the efficiency of the services we offer while allowing us to scale in a way that is timely, efficient and secure.

We're also continuing to evolve our product set so the likes of ZOOdubs, ZOOsubs and ZOOstudio are all in continuous development and receive new features and improvements all the time. This is a constantly evolving, never-sit-still approach to development – and it's what we do best.

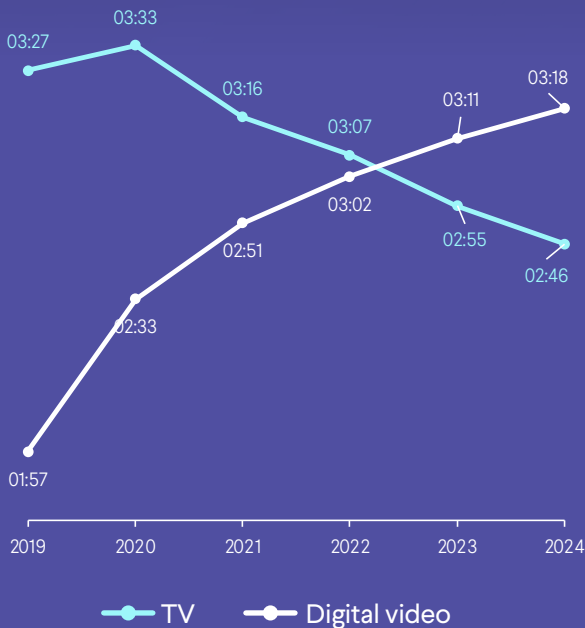
MARKET OVERVIEW

The media and entertainment industry has witnessed significant developments and ongoing trends that continue to reshape the globalisation landscape. Despite short-term disruptions, the market backdrop presents significant long-term opportunities for ZOO.

The Changing Dynamics of TV Entertainment:

In 2022, the hours spent by US adults watching digital video exceeded traditional TV for the first time – and this trend is projected to continue.

US Hours Spent per day with TV vs. Digital Video Among Adults

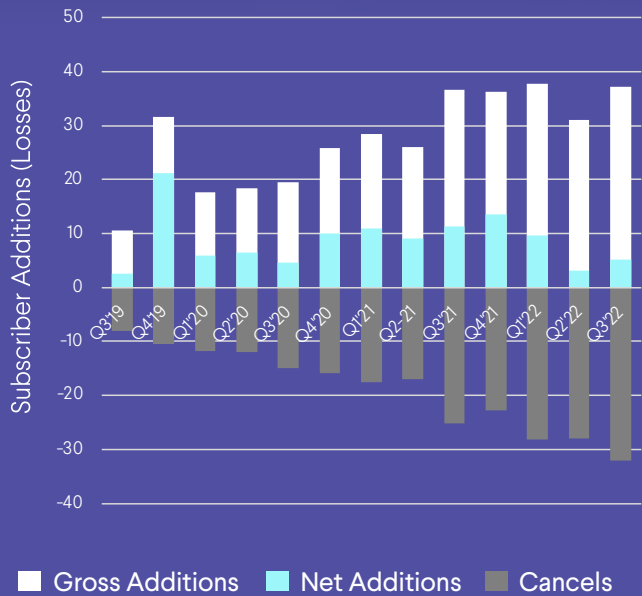


Source: eMarketer, February 2023

Consumer Preference for On-Demand Services:

The flexibility of streaming services is leading to increased consumer churn, prompting content providers to revise their content strategies.

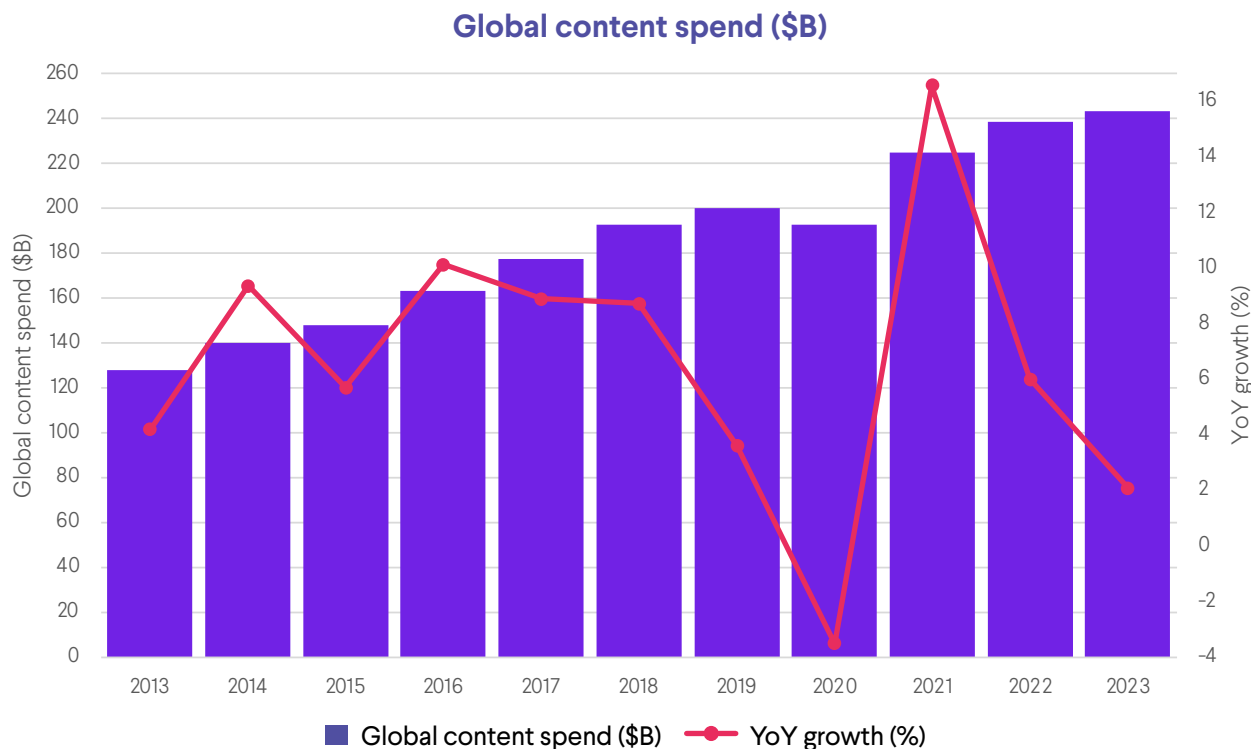
Premium SVOD Quarterly Subscription Growth



Source: Antenna, November 2022

Investment in Content Production:

Industry spend on content has been growing year-on-year, with streaming companies now placing greater emphasis on profitability.



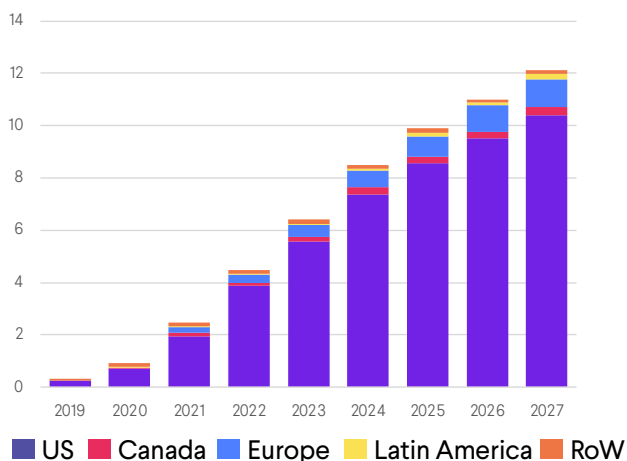
New Monetisation Models:

Streamers are evolving their commercial propositions and introducing advertising-funded services as well as launching Free Ad-supported Streaming Television (FAST).

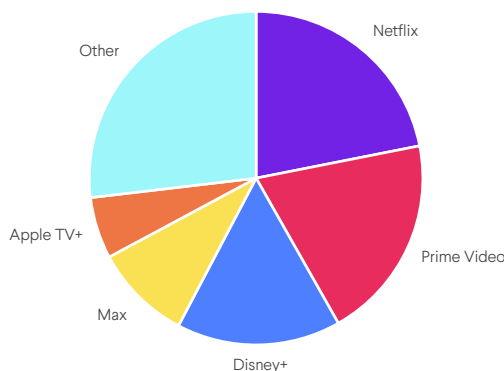
Global Streaming Services:

Worldwide, streaming is concentrated on a small number of global services.

FAST Channel Revenue by Region \$B



Global SVOD Market Shares December 2022



CHAIRMAN'S STATEMENT



I am pleased to report another year of significant progress and profitable growth as the business scaled its international operations and continued to take share of the media localisation market. This has been achieved against a challenging economic backdrop and a dynamic marketplace as the behemoths of the streaming market compete for market share globally, demonstrating the strength and resilience of ZOO's offering to customers.

The Company increased revenues by 28% to \$90.3 million and grew operating profit more than four-fold to \$8.1 million with improved margins, compared to a restated operating profit in FY22 of \$1.9 million. The growth without the restatement, which was due to a misstatement of cost of sales relating to work-in-progress at the year-end, was 120%. We have benefitted from the in-built operating leverage in our model which is now starting to come through, together with increasing cash generation. Year-end cash stood at \$11.8 million, up from \$6.0 million in FY22, and was over \$23 million at the end of June 2023 following a successful \$15.5 million equity placing.

At ZOO's Capital Markets Day in October 2022, we outlined our longer-term aspiration to reach \$400 million of revenue by 2030. This is predicated on taking a greater share of a growing market. The Board estimates that ZOO's addressable market may double from \$1.5 billion currently to \$3 billion by the end of the decade, based on the industry's investment in original content and international expansion by major US media companies. Given our global, end-to-end offering and embedded operations with several of these media companies, we believe ZOO is well positioned to increase market share from 6% currently to our target of approximately 14% by the end of the decade.

These assumptions are underpinned by the strength of our services. ZOO is one of only five companies in the world with the capability and scale to operate as a primary end-to-end vendor to major media groups. Importantly, our ZOOstudio platform is now embedded in the operations of two major media companies following our selection in February 2023 as a key supplier to support another high-profile streaming provider with its global roll-out.

For the major US media companies that are seeking to deliver their streaming services globally, competition remains intense. The recent relative slowdown in subscriber growth from established markets has led to an increased focus on profitability and return on investment from content spend. The Board believes that ZOO can benefit from this trend as media companies outsource greater volumes of work to a smaller number of trusted vendors. Furthermore, localisation is proven to be one of the most cost-efficient ways to increase viewership while scaling streaming services to reach new international audiences.

To capture this demand, the Company has continued to invest in establishing hubs in key international locations. These investments have significantly increased our capacity across India and South Korea as well as Turkey, Scandinavia and most recently Spain, helping us to win new business and attract talent.

In May 2023, the Company successfully completed an oversubscribed placing of £12.5 million (\$15.5 million) for the proposed acquisition of a trusted partner in Japan, another strategic growth market for content and localisation budgets. The fundraise included investment from existing and new shareholders, as well as giving existing retail investors the opportunity to participate, with several new institutional investors joining the register. I would like to thank all our shareholders for their ongoing support in accelerating our growth ambitions.

ZOO is proudly a future-facing business. The first course from ZOO Academy – developed in partnership with the University of Sheffield last June – has already started to deliver the next generation of talent in the highly specialised field of script adaptation for dubbing. Our teams are also constantly innovating and drawing on the latest technologies to improve processes, such as AI, which we plan to apply to complement traditional practices and creative talent.

We have welcomed many new team members over the last year, particularly across our international hubs. I would like to express my sincere gratitude to all my colleagues for the passion they show in delivering for clients and building a better business for everyone.

Our mission remains to be the entertainment industry's most trusted globalisation service provider. We have made good progress over the last year and remain well positioned to capture future demand. Despite some customers currently reviewing their content strategies in the short term, and industrial action in the US temporarily disrupting new content production, the structural drivers for international, multilingual content remain firmly in ZOO's favour. Our leading position in the localisation market ensures the business is well positioned to deliver strong growth over the medium-term.

A handwritten signature in black ink, appearing to read 'Gillian Wilmot'. The signature is fluid and cursive, written over a white background.

Gillian Wilmot, CBE
Chairman

STRATEGIC REPORT



Introduction

The year ended 31 March 2023 covered a period during which ZOO continued to grow strongly, underpinned by structural market drivers despite challenging macroeconomic conditions that have created operational challenges for several customers. As the competitive landscape for consumer streaming services intensifies, the industry is committing enormous sums of capital to produce original content which has been increasing year-on-year, and with it the demand for premium localisation and media services has grown across many languages. The Board believes that ZOO's innovative strategy and its approach to global growth provide strong differentiators and competitive advantage that will lead to an increasing market share over time. Progress during the period under review includes important milestones on that journey.

Market Overview

The period included some significant developments within the industry and a continuation of several important trends that are reshaping the media and entertainment landscape. Despite the current short-term disruption, the Board is confident that the market backdrop presents significant opportunities for ZOO over the long term.

The changing dynamics of TV entertainment

Prior to the emergence of on-demand services, the business of TV was straightforward for distributors and consumers alike. The TV set in the living room was the hub of consumption, to which cable and satellite operators served their audiences by broadcasting content across terrestrial channels.

Watching video content today is a very different experience now that Over-the-Top services ("OTT") – the delivery of programming over the internet – and Video-on-Demand ("VOD") enable individuals to watch content of their choosing at a time and on a device that is convenient to them. The expectations of consumers today have led to a much more complex economic environment for the production and global delivery of content.

The launch of Netflix in 2007 marked the beginning of this new era. Except for 2020, traditional TV has declined every year since 2013, although it was as recently as 2022 that the hours spent by US adults watching digital video exceeded traditional TV for the first time. This trend is projected to continue, and with it the decline in revenues generated by media companies from both the carriage fees they charge distributors and their share of advertising income.

Some media and entertainment companies are not yet delivering returns from streaming sufficient to offset the declines in traditional TV. Streaming represents the future of home entertainment, yet many media companies are still optimising their commercialisation of content to enhance the return on investments made in its production.

Consumer preference for on-demand services

The shift from traditional TV to streaming has been good for consumers. In developed markets expensive bundles of channels have been replaced by low cost, on-demand packages. With most subscription VOD ("SVOD") services charged monthly in advance, the flexibility of these offerings has led to a higher level of consumer churn, with content providers developing strategies to minimise it, partly through careful selection of the content they supply.

Audience growth in emerging markets such as India and China has made APAC a high priority region for all global streaming services. This is further underpinned by the rapid increase in smartphone adoption, which is substantially increasing the addressable market. Selection of content is a crucial factor that will determine the success of streaming services in emerging markets. For example, in India, services have found success by focusing on original content across genres, targeting niche audiences, and catering to the country's multiple languages. Local content has been shown to be particularly important in growing and retaining local audiences, and as a result global streaming providers are sourcing content from many countries.

Investment in content production

The industry's annual spend on producing original programming has been growing year-on-year, although there are signs that this is slowing. In a March 2023 research report, Moffett Nathanson forecasted that total media-industry content cash spend will grow just 1% to \$136.4 billion in 2023, with global content investment in the same year forecast by research firm Ampere Analysis to be \$242 billion. Moffett Nathanson expects Disney to continue to be the leader with \$26.4 billion in 2023, followed by NBCUniversal (\$22.5 billion), Warner Bros Discovery (\$18.4 billion), Paramount (\$15.9 billion), Netflix (\$15.2 billion), Amazon (\$8.5 billion) and Apple (\$6.1 billion).

2022 was the year in which most media companies reassessed their strategies for streaming subscriber growth and after two years of strong double-digit content budget expansion, total spend in 2023 is expected to grow by just 2% as more companies shift their focus away from solely increasing subscriber numbers to delivering profitability.

Several major media companies that operate streaming platforms have revisited their content investment plans in 2023 in the face of

ZOO Digital Group plc

Annual Report 2023

greater competition and the higher levels of consumer churn mentioned previously. Some organisations have indicated that they do not plan to increase content spend above current levels, while others have signalled that they will trim their content budgets in 2023. The investment in content by genre is changing also; according to an April 2023 research report by K7 Media, the production of unscripted titles, which are in general much less expensive to produce than scripted programmes, increased in 2022 compared with other genres and there was an increased number of unscripted format launches across both local and global platforms.

It is unclear whether the wider market will see a shift to lower budget titles or a retracement in the number of hours of entertainment content produced annually, but it seems possible that global levels of spend on content production have plateaued for the time being.

Streaming profitability

In the face of declining revenues from linear TV, several leading players have announced plans to reduce operating costs to restore profitability. In May 2023, Disney announced that a cost-cutting strategy involving budgetary and labour reductions is on track to “meet or exceed” its \$5.5 billion savings target. Warner Bros. Discovery announced plans in late 2022 to find more than \$3 billion in cost savings. According to the Wall Street Journal, Netflix, which operates a profitable service, has developed plans to reduce 2023 spending by \$300 million through layoffs, real estate reductions, and rationalisation of cloud computing resources. Paramount Global announced in May 2023 its intention to lay off 25% of staff in its domestic cable networks.

Platform consolidation

The fierce competition amongst streaming services is leading to early stages of consolidation of some platforms. In April 2023 Warner Bros. Discovery announced a new streaming service called ‘Max’ which merged the HBO Max service with Discovery+, combining the content provided by these two offerings. In May 2023 Disney announced plans to combine content from its Disney+ and Hulu services in the US. These efforts help to provide subscribers with a broader offering and greater appeal, which highlights the diversity and range of fresh content across a wide range of genres that will be required for success.

Alternative monetisation models – AVOD and FAST

The commercial propositions of streamers continue to evolve, both through refinements in pricing by country and in their approach to monetisation. For example, in 2022 both Disney and Netflix introduced advertising-supported tiers allowing subscribers to access content at a lower price.

Consumers in the US are adopting Advertising Video on Demand (“AVOD”) at a faster rate than their non-ad-based counterparts, a recent report has found. According to Comscore, AVOD services are seeing adoption at a faster rate than SVOD, with a 29% increase in US households streaming AVODs in 2022 compared to 2020 compared with a 21% increase during the same period for SVODs.

Having become well-established in the US over the past two years, Free Ad-supported Streaming Television (“FAST”) – a category of OTT services for delivering subscription-free digital channels that stream advertising supported content via Connected TV devices – is now becoming popular around the world. On FAST channels, content plays according to a pre-set schedule with advertising breaks and simulates the linear viewing experience of traditional television. “[FAST] is the fastest growing segment of the viewing economy,” said Evan Shapiro, a veteran television executive. “There are people who think it’s basically going to eclipse cable before too long.”

FAST channels provide another avenue for producers to monetise content, particularly catalogue titles, as well as delivering incremental income through a revenue-share arrangement. In January 2023, Warner Bros. Discovery announced deals with streaming services Roku and Tubi to license 2,000 hours of movies and TV series for the launch of Warner Bros. branded FAST channels. The deal marks an evolution of Warner Bros. Discovery’s approach to streaming, which once reserved the studio’s movies and series for its own subscription services. Now, the studio has begun selling movies and TV shows to third parties. Similarly, Amazon announced in May 2023 that it will distribute its original films and TV shows to media outlets outside its Prime Video service for the first time. A February 2023 report by Bloomberg claimed that Disney is exploring the possibility of licensing film and TV properties to rival media outlets, shifting from Disney’s current streaming strategy of keeping its films and TV shows exclusive to the Disney+ service.

Other providers have been operating FAST channels for some time, for example, Paramount Global operates its own FAST service, PlutoTV, launched in 2014, which already has an international footprint that spans 25 countries throughout the US, Europe, and Latin America. Amazon has operated a free-to-view ad-supported streaming service Freevee since 2019, currently available in the US, UK, and Germany.

Global streaming services

There are only a small number of services that have truly global reach, namely Amazon Prime Video (200 countries), Netflix (190 countries), Apple TV+ (over 100 countries) and Disney+ (60 countries). Three other major US media companies have created their own direct-to-consumer platforms that were initially available in North America only, namely NBC Universal with its Peacock service, Paramount Global with Paramount+ and Warner Bros. Discovery’s Max. All three organisations are now in the process of establishing international distribution of their original content, in some cases by launching their own service in multiple countries, in others through partnerships with local operators.

International Content

Streaming services have been investing heavily in global content production and licensing of third-party programmes as English-speaking audiences have grown more interested in foreign content. As a percentage of the total demand for streaming original shows in the period 2020 to 2022, non-English digital originals grew from 5.9% to 8.5%, according to Parrot Analytics’ data. An objective here is to create hit shows that are successful around the world following the success of titles such as Money Heist (Spain), Squid Game (South Korea) and Dark (Germany).

In March 2023 Netflix shared data that revealed the rising popularity of non-English language content on its platform. In the UK, viewing of non-English language programmes on Netflix increased by 90% over the previous three years. In 2022, more than 70% of global Netflix viewing came from members watching a title from a country other than their own.

Over the last few years, the makeup of demand for foreign content in the US has been in transition. Content in European languages

including Spanish, German and French has been growing in popularity for some time, but in the past two years demand for Asian titles has soared. In the period from 2020 to 2022, the consumption of Netflix shows in Japanese, Korean, Chinese, and Hindi grew from 35.4% to 59.8%, with Japanese programming becoming the most in-demand foreign language in the US in the last quarter of 2021. Of particular significance here is Anime, a leading genre of Japanese content.

Korean-language programming is set to become the second most in-demand foreign language for streaming originals in 2023. The demand for Korean shows is largely driven by the popularity of K-pop, which has exploded in recent years, especially among younger audiences. This has helped to drive interest in other forms of Korean media, largely benefiting Korean dramas. The demand for Korean content more than doubled during 2021 after the release of *Squid Game*. More than 70% of the audience for Japanese shows and 60% of the audience for Korean titles is made up of people under 30.

Industrial action in the US

Since early May 2023, 11,500 screenwriters have been on strike against Hollywood studios and entertainment companies for the first time in 15 years in a battle for higher pay and better working conditions. This is the culmination of a dispute between the Writers Guild of America (WGA) and the Alliance of Motion Picture and Television Producers (AMPTP), a trade association that represents over 350 American television and film production companies.

As a result of the wholesale shift of the industry away from TV and towards streaming, the WGA has warned that the future of the profession is at stake. When producing for streaming platforms, in general fewer episodes of each show are ordered, there are fewer writers working on each project and streaming service operators typically limit the residual payments that have traditionally been made to compensate writers for the reuse of their credited work. The writers are also campaigning for restrictions on the use of artificial intelligence.

While initially it was just the short turn productions, such as late-night shows, that were affected by the strike, it's now the case that most productions in Los Angeles have been disrupted by picketing writers. This situation has been considerably worsened by a strike by US actors which commenced in July 2023, marking the first time in 60 years that both writers and actors have simultaneously taken industrial action. This more recent strike, organised by the Screen Actors Guild – American Federation of Television and Radio Artists (SAG-AFTRA), is likely to have far-reaching reverberations across the industry while actors seek higher pay and safeguards against unauthorised use of their images and voices through artificial intelligence. It has brought all US production of new content to a halt and, while all sides in the dispute are motivated to reach a resolution quickly, it is currently unclear how long this will take.

Impact of market developments on ZOO

The market developments described above are expected to provide enhanced opportunities for ZOO to continue to grow and win market share in the medium term.

1. Resilient content spend

Despite cost-cutting by some major media companies, the expectation is that the already substantial content budgets will not diminish in the medium term, supported by competition between streaming services and structural demand for new content. ZOO's proposition is closely aligned with new content production, and this implies that, once the short term hiatus is over, its addressable market will remain strong.

2. Increasing reliance on trusted vendors

The cost cutting at several significant media companies will result in smaller internal staff to process similar volumes of content, necessitating greater reliance on vendors such as ZOO that offer a comprehensive end-to-end (E2E) service. We envisage a continuation of the trend of large buyers working with a fewer number of global service providers, since this simplifies the internal operations required to manage these relationships.

3. Demand from new streaming models

The launch of advertising-supported and free-to-view streaming services provides a greater number of channels through which content is delivered to consumers. The need to maximise the size of the audiences for these services highlights the importance of localisation, which is the most cost-effective way of expanding viewership. The Board estimates that major media companies today spend as little as 1% to 3% of content budgets on localisation.

4. Localisation unlocks ROI and profitability

To maximise the return on investment in content, producers and distributors are increasingly looking for titles and genres that are attractive internationally, irrespective of the source language, and this too highlights the importance of and need for localisation to and from many languages, performed to a standard that is consistent with that of the original programmes.

5. Concentrating outsourcing on end-to-end vendors

For major US media companies, the streaming era has brought a change in the practices of adapting content for international audiences, with this being increasingly overseen by the company itself through a central function rather than by many third parties in territory. This has resulted in the buying of multi-lingual services becoming more concentrated on a smaller number of vendors, particularly those with an E2E capability such as ZOO, that can fulfil this remit in-house.

The prolonging of the Hollywood industrial action is now affecting the pipeline of titles that require localisation and media services to prepare them for global streaming distribution. Whilst negotiations are making slow progress, it is reasonable to expect that a compromise will be reached, and normal operations will resume. In the meantime, streaming companies may refocus their short-term content acquisition plans to other countries that are unaffected by the Hollywood strikes, and/or on migrating more titles from their expansive back catalogues as was their practice during the period of the pandemic.

Media Localisation Market Size

Localisation market research firm Nimdzi provides an annual index of the top 100 vendors of localisation services across all verticals. Combining the revenues of specialist media localisation providers in the top 100 positions indicates that revenues for the segment grew by over 280% in the period 2018 to 2022, from \$420 million to \$1.6 billion. Across all verticals ZOO ranks 28 in the 2023 report, up from 35

ZOO Digital Group plc

Annual Report 2023

in 2022 and 44 in 2021; in the media localisation vertical ZOO ranks 6 in 2023.

In its annual Language Industry Market Report published in May 2023, market commentator Slator estimated the media localisation vertical at \$2.97 billion, up 11% in 2022 over the prior year. The Board continues to hold the view that ZOO's addressable market, corresponding to the proportion spent by major global media organisations, is around half of this figure.

Strategy

As a provider of premium media services and localisation, ZOO is one of only five companies in the world with the capability and scale to operate as a primary E2E vendor to major media and entertainment companies. ZOO's differentiation is the result of a strategy consisting of five pillars: innovation, scalability, collaboration, customer focus and talent.

Innovation

ZOO's leading services are delivered using its proprietary technology. Developed by a team of over 70 in-house specialists, the software provides efficient and scalable solutions for the delivery of premium localisation and media services.

During the period under review the team has prioritised the further development and enhancement of ZOOstudio – its globalisation management platform designed to be used by ZOO's customers. These new developments extend the capability of the platform in many areas, including finance reporting, order history analysis and data entry automation. Such functionality can result in the platform becoming embedded more broadly and deeply within customer operations thereby enhancing the strategic value that ZOO delivers and its competitive differentiation.

Amazon Web Services (AWS) has been for some time one of the Company's strategic partners to support the cost-efficient deployment of its cloud-based software services. During the period ZOO joined the AWS Partner Network, having successfully completed the foundational technical review of its ZOOdubs dubbing services platform. This network is a global community of AWS partners that leverages programmes, expertise, and resources to build, market and sell customer offerings, with membership indicating the observance of best practices to reduce risks around security, reliability, and operational excellence. ZOO's membership of the AWS Partner Network provides customers with a further proof point of the calibre of its technology.

Scalability

ZOO's cloud-based platforms form the foundation of the scalability in capacity that the Company can offer to its customers. These platforms enable an expansive ecosystem of partners that, in combination, provide the creative resources needed to fulfil localisation and media services at scale across many languages. Two of the key components of this ecosystem are firstly, the extensive pool of freelancers across multiple disciplines, and secondly, a small number of hubs in key strategic locations.

The freelancer pool consists predominantly of individuals that provide specialised linguistic skills, each delivering localisation of entertainment content into their mother tongue. This includes translators of subtitles, adapters of scripts for dubbing, voice actors and dubbing directors, each of whom receives and performs work through an intuitive web browser interface. The Company performed a rigorous review of its freelancer database during the period and removed those individuals who, for various reasons, are no longer eligible for work. This resulted in a small net increase in the available number of freelancers to 11,467 (up 4%).

ZOO's global growth initiative – the strategy of establishing hubs in key locations – is designed to ensure the company is positioned well to deliver its services across global languages with high availability. The period just completed marks the first full year of the integration of ZOO India following the acquisition of Vista India Mumbai in March 2022. This has provided the Company with a capability both for subtitling and dubbing into several leading languages spoken in the country, and for the processing of a range of media services. The facility positions ZOO very well to operate as a partner for customers that are targeting India as a market for streaming services as well as a source of original content that is attractive in other markets.

Following the success of its investment in 51% of a Seoul-based partner in March 2022, the Company announced in April 2023 the acquisition of the remaining shares in ZOO Korea. The venture has helped to address the growing global demand for Korean content and distribution of non-Korean titles in the country with premium and secure provision of dubbing, subtitling, quality control and media services. The Board estimates that \$4.5 million of incremental revenues were recognised across the Company in FY23 because of ZOO Korea and that it will generate significant incremental revenue in future years through its own operations in South Korea as well as services it provides to assist ZOO in the US and UK.

In April 2022 the Company launched ZOO Denmark, based in Copenhagen, to act as its Nordic hub. Content from Scandinavian countries continues to see critical and commercial success around the world, with the region building a reputation for high-quality content with global appeal. Post the period end, the Company launched an Iberian hub through a strategic investment in established dubbing and localisation company, AM Group. The investment brings new facilities in Madrid and Valencia and offers increased capacity and expertise in Spain and Portugal, both of which are territories that hold high strategic importance for ZOO's major studio clients.

Collaboration

Its partnerships with third parties enable ZOO to deliver capability and capacity in a cost-effective way.

The Company is helping to address the shortage of talent in the industry in certain disciplines and languages through various initiatives delivered through ZOO Academy. These include a partnership programme with universities and other educational establishments where ZOO is making its proprietary cloud platforms available for teaching purposes to support the education of translators, script adapters and aspiring dubbing professionals. In the period, 17 new institutions partnered with ZOO, bringing the total number to 32 across Europe, Asia, and the Americas, with a strong pipeline of further candidates currently in discussion. Students who complete the courses offered by these organisations will be trained in the use of ZOO's platforms, which assists the Company's talent recruitment efforts.

In a separate ZOO Academy initiative, the Company is co-developing with academic and industry experts a series of online courses and training programmes to equip learners with the knowledge and practical experience to participate in work for our industry. The first such course, developed in partnership with University of Sheffield and covering the discipline of adapting scripts for dubbing, was launched in June 2022 and has since delivered new talent in this important and highly specialised field.

The Company has for some time partnered in many countries with traditional dubbing studios and businesses where the management teams are progressive and willing to embrace ZOO's cloud-based platforms and methodologies. In addition to their help with access to talent, this approach provides the Company with the opportunity to work closely with partners to inform investment and acquisition decisions. Both ZOO India and ZOO Korea were former partners that have become wholly owned subsidiaries, now fully integrated into the Group.

Customer focus

ZOO's aim is to operate as a primary vendor to the largest buyers of localisation and media services in the entertainment industry. Target companies are predominantly US based organisations that produce original content and distribute to global audiences through streaming services and other channels.

A key strategy employed by the Company to strengthen its relationship with customers is through its ZOOstudio platform. This provides, amongst other features and benefits, a means for customers to manage the complex business of planning, procuring, and tracking services placed with multiple providers. ZOOstudio was adopted by a major global streaming service in 2019 and was selected subsequently by another media company. During the period under review, a further major streaming service adopted ZOOstudio ahead of its global rollout. This represents another success story for ZOO as a strategic technology partner. While longer-term contractual arrangements are still being finalised, a significant number of revenue-generating projects for this client are already underway, and work volumes are expected to increase materially during FY24. Despite the industry headwinds, the Company is in ongoing dialogue with other key players regarding the use of ZOOstudio and the platform forms a key part of tenders for framework agreements with key global strategic target customers. This ongoing dialogue and interest further underpins our belief that localisation is a key focus for global streaming companies and despite the short term disruptions localisation remains a key priority for the industry.

Talent

While ZOO's platforms enable the Company to deliver services in an efficient and scalable way, there remains a requirement for talent, particularly to support the production of premium subtitling and dubbing. The Board has sought to expand internal resources to enable the business to process higher volumes of work required by customers.

The acquired facility in Mumbai has provided an effective base from which to expand capacity not only for fulfilment of Indian language production but also for the cost-effective processing of a range of media services. Since the acquisition, headcount in India has increased over the period by 85% to 120, and plans are at an advanced stage to establish a second facility in Chennai which will become a hub from which to deliver services for the different languages spoken in southern India.

As part of the investment in AM Group in May 2023, we have welcomed to the ZOO family Víctor Martínez, Managing Director of AM Group, and his team of media localisation specialists. The team will support the scaling up of capacity and capability in Castilian and other dialects of Spanish as well as European Portuguese.

Review of Operations

The Group manages on an internal basis the following KPIs which assist in measuring progress against the Group's strategy.

Financial

- Revenue increased 28% to \$90.3 million (FY22: \$70.4 million)
- Adjusted EBITDA¹ margin up to 17.1% (FY22 restated: 10.0%)
- OPEX as a % of revenue 28.7% (FY22: 27.2%)
- Operating Profit margin 9.0% (FY22 restated: 2.7%)

Revenue is considered a KPI as it is the headline demonstration of services provided to customers, and of confidence of customers to utilise our services. Operating profit is considered a KPI as this is a key measure of how value is added to the group's net assets, whilst the EBITDA¹ margin is a KPI (and also an Alternative Performance Measure) and considered a key metric as this closely approximates to the cash generated from operations, considered to be a key indicator of the general health of the group.

Operational

- Number of freelancers² 11,467 (FY22: 11,028)
- Retained Sales³ 98.5% (FY22: 97.6%)

The operational KPIs have been adopted by the business because they give indicative measures of quality and capacity which are both important to our customers.

¹ Adjusted for share-based payments (as explained in note 11 to the financial statements).

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.

The financial KPIs indicate excellent progress towards the long-term aspiration that the Board outlined at a Capital Markets event in October 2022 to generate revenues of \$400 million by 2030. Revenue increased year-on-year by 28%, of which 25% was organic (after excluding continuing sales transacted through ZOO India), this being more than the compound annual growth rate required to achieve the stated long-term aspiration. EBITDA margin, adjusted for share-based payments, showed an improvement over FY22 at 17.1%, up by 7.1 points. Operational expenditure expressed as a percentage of revenue increased to 28.7% from 27.2% in the prior year, as the Board committed to invest in expanding capacity across IT, property, and international operations in support of the next phase of growth. Operating profit also showed an improvement growing from a restated 2.7% of revenues to 9.0%.

Revenue in the year was strongly weighted to the first half due to two significant factors. Firstly, the Board estimates that around \$5 million

ZOO Digital Group plc

Annual Report 2023

of H1 sales was associated with work to support the launch of a global streaming service in new countries. Unlike the typical usual month-to-month flow of work orders from major clients, such launch-related work is one-off in nature and no such work occurred in H2. Going forward the Board anticipates that international launches by new global customers may result in further instances of such non-repeating revenues, however, as the business scales, these should result in lower levels of variability.

Secondly, a major client commenced a restructuring programme during ZOO's FY23Q4 which caused a hiatus in the volume of orders from this client, resulting in weaker than expected sales during February and March 2023. Ongoing conversations with the customer are positive and although the restructuring programme is ongoing, we expect this to complete during ZOO's FY24Q2 and have received initial indications that, once the current industrial action has come to an end, orders will return to former levels in due course. In the medium term the Board expects the restructuring to benefit ZOO due to its role as an E2E vendor.

As noted previously, the net number of individuals that make up ZOO's freelancer pool continued to grow. As of 31 March 2023, the number was around 11,500.

The 'retained sales' KPI is a proxy for customer satisfaction since it provides a measure of the proportion of client revenues retained from FY22 to FY23. This metric improved to 98.5% indicating very high levels of customer satisfaction. This is further evidenced by the performance metrics reported to ZOO by several of its customers; over the period under review ZOO's average monthly performance measure as reported by the Company's largest customer was 99.53% which the Board believes places it as one of the best vendors in the industry. The equivalent measure was 99.50% in FY22 and 99.46% in FY21 indicating the consistency of this high level of performance. The quality and reliability of vendors are considerations that are highly important when customers assign projects to their selected partners and ZOO's performance ensures that it is viewed favourably.

The Company announced in February 2023 that it was selected as a key vendor for a major Hollywood content producer to support its content localisation needs. This client will also use ZOOstudio to manage localisation work across all of its vendors. Following its adoption in 2019 by a first major streaming customer, ZOOstudio is now a proven solution for delivering the volume and scale required for an international, multi-language streaming platform. The Company is in dialogue with further major streaming companies concerning the adoption of ZOOstudio.

During the period the Company made good progress on delivering its global growth initiative, first announced in October 2021. Through this initiative, which involves establishing hubs in key locations to support the world's biggest content creators and streaming services as they serve new audiences, ZOO has already significantly enhanced its footprint around the globe.

With accelerating growth in the international distribution of regional content and the roll-out of global direct-to-consumer platforms, ZOO has been pursuing a series of strategic investments that enhance its operations in the key content sourcing and distribution locations. Countries announced previously were Turkey, South Korea, and India, which have complemented ZOO's established operations in Los Angeles, London, Sheffield, and Dubai.

ZOO is one of few global vendors with the proven capability to deliver complete E2E services to prepare content for audiences in all languages and formats, thanks to its cloud-based technology and its ecosystem consisting of a collaborative network of independent dubbing studios, vendor partners and freelance actors and translators. The global investments make ZOO even better placed to address its clients' challenges of localising and fulfilling huge volumes of content, as well as supporting the increasing need to prepare locally acquired TV shows and movies for streaming services around the world.

The Company has taken a low-risk approach in its investments and acquisitions by targeting long-established businesses that have been affiliate partners of ZOO for several years. These companies, which include media services providers and localisation vendors, have accumulated extensive experience of working in the cloud-based technology that ZOO operates throughout its global ecosystem of partners and freelancers. The all-encompassing approach supports unrestricted creativity while enforcing high standards of production quality, workflow efficiency and content security across the entire global Group.

Following an initial March 2022 investment in 51% of a partner in Seoul and a very successful first year of operation, ZOO acquired the remaining shares in April 2023. During the prior 12 months ZOO Korea expanded to deliver an in-territory servicing hub for the most prestigious names in entertainment. The venture has helped to address the growing global demand for Korean content and distribution of non-Korean titles in the country by supplying premium and secure dubbing, subtitling, quality control and media services. In the period, two global streaming platforms worked with ZOO Korea and further significant new opportunities are in the pipeline.

Due to the increased volumes of work, additional investment in people and infrastructure was required to support demand and capture the growing in-territory market for ZOO Korea's services. The Board's view was that it was commercially advantageous for ZOO Korea to become a wholly owned subsidiary of the Group. While in FY23 ZOO Korea generated \$1.2 million revenue and \$0.1 million profit, the Board estimates that \$4.5 million of incremental revenues were recognised across the Group in the year because of ZOO Korea. The Board expects that the hub will generate significant incremental Group revenue in future years through its own operations in country as well as through servicing clients in the US and UK.

In April 2023, the Company announced that it had entered a formal process to acquire 100% of the share capital of one of its trusted partners in Japan – a media localisation subsidiary of a leading Japanese technology company. An equity fundraise was completed to provide sufficient capital to fully finance this proposed acquisition.

ZOO was chosen by the vendor as the preferred bidder for the purchase of the target which has been a trusted partner of ZOO for many years and already works in the Company's cloud-based platforms. These platforms will enable significant capital-efficient expansion of capacity to fulfil Japanese language services at scale. Japan is a leading growth market for all global streaming services and, along with South Korea, is a key target country in the South-East Asia region. Japanese subtitling is charged at the highest rate of any language, and Japanese dubbing is the sixth most expensive. Delivering media localisation services in Japanese requires operations in the country due to cultural factors, and consequently ZOO has to date fulfilled Japanese language services through outsourcing to partners in the country.

This proposed acquisition will provide the Company with experience and capability to deliver these services from within the Group, enabling synergies due to margin enhancement resulting from this move from outsourcing to in-house. Consequently, the Board

anticipates that expansion of orders from ZOO's clients will follow in line with the precedents in India and South Korea. The valuation and timing of the acquisition are under negotiation as a consequence of the current industry challenges.

The countries in which dubbing has been established the longest are France, Italy, Germany, and Spain ("FIGS"). Originally the practice of dubbing in these countries arose through a combination of economic, cultural, ideological, and political factors, with the tradition now deeply rooted in their societies. As a result, the dubbing industries of those countries are unionised, and employment legislation requires certain practices to be observed such that ZOO's capability and capacity for delivering Parisian French, Italian, German and Castilian Spanish will benefit greatly from having hubs in each country. The Company's cloud-based platforms enable a flexible approach to the delivery of dubbing services that affords substantially greater throughput from and flexibility of physical facilities than can be achieved by the traditional process alone.

In May 2023, ZOO announced that it had acquired a 30 per cent. stake in AM Group for a total consideration of EUR 825,000 payable in cash. The investment marks the continued expansion of ZOO's geographic footprint in EMEA, with AM Group acting as a primary hub for ZOO's operations in Spain and Portugal. It will deliver dubbing services as part of ZOO's global E2E offering for major studios and streaming services in Iberia, while also supporting local content creators to expand their reach to global audiences.

Founded in 2004, AM Group has been a partner of ZOO since 2021 and is an approved service provider under the industry-wide Trusted Partner Network. AM Group generated EUR 352,000 in profit before tax for the year ended 31 December 2022. It boasts state-of-the-art facilities in both Madrid and Valencia with an adjoining dubbing school that actively provides practical training for voice talent, with courses in dubbing, voiceover, and vocal technique.

Iberia is an increasingly important market for global content producers with Spain having become established as a key European hub for audio-visual production and distribution. Building on the success of international hits such as *Money Heist*, Netflix launched its first European hub in Madrid in 2019 and has since doubled the size of its operations. Other major US media companies have located their European headquarters in the country. As well as strengthening capacity for Castilian Spanish and European Portuguese, ZOO's presence in Iberia will facilitate localisation into the co-official Spanish languages, bringing content from around the world to life in Valencian, Catalan, Galician and Euskera.

The Company is in advanced stages of negotiations to establish hubs in the other FIGS locations, as well as in a select few countries where a physical presence will be commercially advantageous.

Media Localisation

The services that fall into ZOO's media localisation segment are predominantly subtitling and dubbing. Both services performed strongly: subtitling grew by 15% over the prior year and dubbing by 73% to deliver segment sales of \$56.6 million, up from \$42.2 million in FY22. This reflects underlying expansion of business, increase in market share and, in the case of dubbing, greater penetration of ZOO's proposition across additional languages.

Gross margins for media localisation also improved. ZOO's cost of sales includes components that are external (freelancers and partner studios) and internal (staff directly engaged in fulfilling these services). While subtitling delivered an incremental improvement with margins up to 40% from 33% in the prior year, the period marked a step change in the development of the dubbing service with gross margin improving from a restated 3% to 26%. This excellent performance was due to several factors including sales being significantly improved and operations gaining the benefit of greater scale, a larger proportion of direct-to-talent projects as opposed to outsourcing to traditional studios, and the investments in capacity that were made in earlier periods becoming productive.

Included in dubbing is the production of Audio Description ("AD"), a form of narration used to provide information surrounding key visual elements in media for the benefit of blind and visually impaired audiences. Like subtitles for the deaf and hard of hearing, there is greater demand to provide AD for more content not only in English-speaking countries (US, UK, and Australia) but increasingly for other regions. In the period ZOO fulfilled for the first time AD orders for Latin Spanish, Brazilian Portuguese, Castilian Spanish, Turkish, Italian, German and French.

Media Services

The media services segment includes a range of different activities in which the most significant categories are digital packaging, metadata preparation and artwork. The segment overall delivered \$32.1 million in sales, up 21.5% from \$26.4 million in the prior year. Sales relating to artwork production grew particularly strongly, while metadata, for which demand is greatest when delivering territory launches, declined. Overall gross margin, after the FY22 restatement, improved from 55% to 61%, without the FY22 restatement margins would have remained flat at 58%.

The period delivered strong growth of the mastering service introduced in the prior year, which involves optimising a digital original copy of audio-visual materials for playback through specific channels, such as broadcast and streaming. Revenues have grown from \$0.9 million in FY22 to \$6.5 million in FY23. This service provides good visibility, not only for the incremental mastering assignments but also for the wider scope of work that is frequently bundled with such E2E projects in the areas of localisation and media services.

ESG

After setting up our social responsibility committee in FY22 and publishing our purpose statement, we have spent the last 12 months setting up subgroups to manage our 16 objectives relating to our ESG strategy. This has resulted in the publication of our Environment statement, Innovation statement and Diversity Equity and Inclusion statement, all of which can be found on our website. We have taken steps to codify our approach to our local communities' involvement through the launch of our ZOOgooders programme which allows all staff two working days a year to devote to the charity of their choice. In addition, we have partnered with the RNIB to support greater accessibility for all to media and entertainment. A similar scheme is being finalised with the Braille Institute of America. Finally, we are calculating our carbon footprint and producing a plan to both reduce the footprint and look at ways to offset the impact.

ZOO Digital Group plc

Annual Report 2023

Investing for future growth

On 27 April 2023, to support its proposed acquisition of a Japanese partner, the Company successfully completed an oversubscribed placing of £12.5 million (\$15.5 million) through the issue of 7,812,500 new ordinary shares in the Company with existing and new institutional and other investors at a price of 160 pence per share. This price represented a discount of approximately 13.5% per cent. to the middle market closing price on 26 April 2023. The shares placed represented approximately 8.7% per cent. of the issued share capital of the Company prior to the placing. The Board, having consulted with several major shareholders prior to the placing, was pleased by the support received from both existing and new shareholders and is delighted to welcome several new institutional investors to the share register.

Alongside the placing the Company undertook a retail offer to enable existing shareholders to participate which raised additional gross proceeds of £0.16 million, for which a total of 101,742 new ordinary shares were issued at 160 pence per share.

The Board intends to use the proceeds of the placing and retail offer to finance the acquisition of a partner in Japan and to provide capital to fund several further investments and acquisitions that are in the pipeline, each of which will provide a hub in another key location.

In the year capital expenditure grew 7% to \$4.7 million compared to \$4.4 million in FY22. The bulk of the spend was on computer equipment to support our growth plans especially in media processing and mastering. This expenditure totalled \$3.4 million and covered our locations in Los Angeles, London, Dubai, Mumbai and Seoul. The expenditure on leasehold improvements dropped significantly to \$0.8 million from \$2.1 million as we upgraded both Sheffield and Los Angeles in FY22.

The Board expects that by the end of FY24, through a combination of minority investments, acquisitions and organic growth initiatives, the Company will have established hubs in each of the key territories that will be pivotal to enabling continuing strong growth and the furtherance of the Company's mission to be the entertainment industry's most trusted globalisation service provider.

ZOO's proprietary cloud platforms are central to the operation of all its international locations, delivering consistency of service offerings, high quality, efficiency, security, and scalability. This ensures that the Company can flex quickly and efficiently and adapt to changing volume requirements of customers as new industry developments unfold and further direct-to-consumer streaming services from US media companies move ahead with their global roll-out.

Artificial Intelligence

Whilst Artificial Intelligence (AI) is a branch of computing that has been growing in applicability over recent years, the level of media coverage and widespread interest in it increased substantially following the launch in November 2022 of ChatGPT, an AI chatbot developed by OpenAI. ChatGPT is technology built on a Large Language Model (LLM), which is a computing system inspired by the biological neural networks in human brains, that has been 'trained' on enormous volumes of text. LLMs are general purpose models which excel at a wide range of tasks, as opposed to being trained for one specific task.

One of the areas where ChatGPT performs well is in natural language translation. A combination of the sophistication of its underlying neural network, the expansiveness of the text data used for training purposes and the enormous computing resources that have been deployed for building its LLM and operating the ChatGPT service have led to translation performance and quality that outstrips many popular dedicated machine translation systems.

The Company has investigated the application of ChatGPT and, indeed, LLMs more generally, to determine their suitability for providing some degree of automation to the services delivered by ZOO.

In the area of translation, it is important to recognise the profound differences between the tasks of, on the one hand, producing convincing literal translations of the written word – an area where ChatGPT performs well – and on the other hand producing authentic adaptations of dialogue. The latter is characterised by being highly contextual and where the capability (whether human or computer) required to perform it entails an appreciation of culture, the motivation of speakers, ethnicity, social dynamics, and a host of other considerations. Consequently, a process that works only with a transcript of the words spoken will be devoid of the broad scope of information that is essential for producing authentic adaptations.

ZOO's target customers are major global operators of streaming services and producers of premium entertainment content and therefore the quality expectations for localisation and media services to fulfil their requirements are the highest in the industry. Here, quality includes the authenticity of a language adaptation of an entertainment product and the extent to which it resonates with an audience that speaks another language and operates within a different culture. At present, while technologies such as ChatGPT may be effective in processing certain genres of media content (such as documentaries, where the commentary may suit a literal translation) or low value catalogues (such as user-generated content or old materials that will be distributed through FAST channels in emerging markets), they are not viable for the type and calibre of content processed by ZOO. However, the Company has since 2020 been actively exploring opportunities to adapt such technologies to provide productivity and other benefits in certain scenarios where such use may be beneficial.

There are other applications of AI that may be suitable for ZOO's business and, indeed, another emerging area of commercial activity is in various approaches designed to perform what has been termed 'automated dubbing'. These too are areas where the quality of output is improving rapidly due to advances in the application of neural networks, but where the technology is not currently capable of displacing traditional practices for premium entertainment content.

Whilst the standard of these automated dubbing approaches applied to generalised content falls a long way short of the quality requirements of ZOO's clients, the Board believes that there may be applications of these technologies that can provide some operational benefits to augment and complement the process of dubbing, rather than as a replacement for the creative human efforts that are crucial to the production of authentic language adaptations. Indeed, the Company is actively engaged in several projects to develop capabilities that are applicable to ZOO's business, including through the exploitation of third-party tools, and where the approach is to augment rather than displace established practices.

In summary, AI is an exciting field of computing that is being developed at pace and holds much potential, including in the field of ZOO's business. Its successful application in media and entertainment, particularly for premium content, will inevitably be alongside traditional practices and the use of creative talent, and where ZOO's heritage as an innovator and trusted partner to the leading names in the industry places it well to become a leader in the field. Consequently, the Board regards AI as an opportunity for ZOO's business rather than a threat.

Outlook

Two recent and ongoing market developments mentioned previously have created a temporary reduction in the production of new entertainment content and its localisation across the industry.

The first of these is the cost-saving measures that were initiated by several of ZOO's largest clients beginning early 2023. These have resulted in headcount reductions and operational reorganisation in major US media organisations that have caused a temporary disruption of new title production and its distribution across streaming platforms.

The second is the industrial action by writers and actors which is unresolved as of the date of this document. It is not possible to have certainty yet of when the strikes will end and there is media speculation they may continue until October 2023. This is causing a delay in completing new programmes which is temporarily having an impact on the current volume of localisation and media services work on new titles that is being commissioned.

However, despite this short-term industry-wide uncertainty, ZOO expects to be in an even stronger position with several customers following a rationalisation of their supplier bases and to take further share of the media localisation market once former order levels resume. At this stage, it is reasonable to expect this will be in H2 of our financial year.

Subsequent to the period end the Board has been taking steps to adjust the cost base to reduce the impact of the temporary industry slow-down on ZOO's business while there remains uncertainty around the timing of the resumption of former levels of production and orders. The Group remains financially strong with net cash at 30 June 2023 of \$23 million.

ZOO continues to have positive, advanced discussions with a leading Japanese technology company regarding the acquisition of its localisation subsidiary.

The Board remains confident in the medium- and long-term fundamentals of the Company and expects to return to profitable growth once market conditions normalise.



Stuart Green
Chief Executive Officer

FINANCIAL REVIEW



Introduction

During the year the Group built on the success of the financial foundations of the prior year to scale the business and increase margins providing confidence in our long-term ambitions. We are now recognised as one of the major suppliers to the global localisation market.

Our acquisition in India has exceeded our initial projections and we are in the process of scaling up its capacity to more than double revenues in FY24. After the year-end in April 2023, we completed a fundraise injecting \$15.5 million of cash into the business to further expand our global footprint which we expect to use to acquire one of the Company's trusted partners in Japan to act as a hub to assist us to achieve our medium-term financial goals. This will allow us to support our major customers in strategic markets and cement long-term supply agreements. The financial performance in the year has reinforced the strength of the business with an operating profit of \$8.1 million (FY22 restated \$1.9 million) contributing to Net Assets growing to \$35.1 million (FY22: \$25.0 million) and a net cash balance of \$11.8 million (FY22: \$6.0 million).

The FY22 cost of sales has been restated to reflect the correct interpretation of IFRS 15. More details can be found in note 34 to the financial statements.

Revenue

In the financial year ended 31 March 2023, total revenues grew 28% to \$90.3 million (FY22: \$70.4 million). This reflects the success of our strategy to focus on being an end-to-end supplier of localisation and media services to the global entertainment streaming providers. As our customers concentrate on their international launches, we have increased our capacity to support the expansion in work required for both the initial launch and the ongoing pipeline of new work required to support their subscriber bases.

Most of the Group's operations are in the United States, where revenues were up 16% at \$71.2 million. The balance of work was performed in Europe which grew by 85% to \$17.0 million and India which made an initial contribution to work of \$2.1 million. The split in geographical production reflects the international launches of US based streaming operators.

Customer concentration reduced during the period with the revenue contribution from our largest client falling slightly to 74% of sales (FY22: 78%) as a consequence of growth in orders from four US based content owners. The second largest customer accounted for 4%, down slightly from 6% last year. These two contracts are expected to continue over the long-term due to the close relationship and technology integration achieved by ZOO.

We report two revenue segments: media production and software solutions.

The media production segment has two revenue streams: localisation and media services. Media localisation revenues increased by 34% in the year to \$56.6 million (FY22: \$42.2 million), as our dubbing service gained further commercial traction in the market. As other US streaming services launch their international services, we expect future growth in revenues from new customers.

Media services revenues increased by 22% to \$32.1 million (FY22: \$26.4 million) as our mastering service delivered a full year's contribution which offset a drop in services related to international launches.

Software solutions, the segment that has been a reducing proportion of our business, decreased by 13% in the year to \$1.6 million. We expect this segment will continue to decline in future years.

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 two key reporting segments. This shows that overall gross profit grew by 63% to \$33.9 million (FY22 restated: \$20.8 million). This represents a gross profit margin of 38%, up from 30% last year, driven by increased gross profit of the dubbing service.

Media localisation contribution grew in the year from \$8.8 million to \$18.9 million an increase of 115% driven by the revenue growth in both subtitling and dubbing and the improvement in project profitability as well as the restatement of costs contributing 8%. The growth in contribution of this segment was higher than that of the revenue as the significant revenue growth contributed to a higher utilisation of our staff. The contribution percentage of 33% is in line with our long-term ambitions.

Media services contribution grew to \$19.5 million up 35% on last year. The contribution from this revenue stream of 61% was up 6% on the previous year due to the restatement, prior to the restatement margins were flat at 58%. This is expected to improve in future years as metadata work reduces leading to an increase in the contribution margin.

Software solution segment contribution fell 9% points to 84% in the year, as a result of the drop in revenues.

Other operating expenses

Operational fixed costs, which are defined as operating expenses less share-based payments, depreciation and amortisation, have increased by 32% in the year as we invested heavily in people and IT to support our future growth plans. Overall, operating expenses increased to \$25.9 million, including share-based payments, depreciation and amortisation. The 35% increase in operating expenses is explained by the above, higher depreciation, and a one-off charge for share based payments.

Finance costs

Finance costs dropped considerably in the year from \$2.1 million in FY22 to \$0.4 million in FY23. The major reason for the decrease was the redemption of the loan notes in FY22 which gave rise to a non-cash charge of \$1.6 million in that year. There was also an exchange gain of \$0.2 million in the year which further improved presentation of finance costs.

As a result of the increase in revenues and a major improvement in gross profit, the operating profit increased 330% to \$8.1 million compared to a restated \$1.9 million last year. On the Company's preferred measure of profitability, being EBITDA before share-based payments, the profit was \$15.5 million, up from a restated \$7.1 million in FY22, an increase of 119%.

Profit before tax was \$7.9 million compared to a restated loss of \$0.2 million, resulting from the revenue growth, the improvement in margins and the absence of a fair value provision offsetting the increase in overheads.

The Group has reviewed the recent profitability of its US subsidiary and the expected growth in profits over the next two years and has concluded that it is appropriate to include a deferred tax asset of \$1.7 million in this year's results to reflect the probable utilisation of unused tax losses in the US subsidiary. This has resulted in a profit and loss credit of \$0.2 million (FY22: \$1.3 million).

Statement of financial position

Non-current assets increased by 8% in the period. The Company invested \$4.7 million in computer equipment to expand production capacity and increased lease commitments by \$0.8 million to support the uplift in staff.

The capitalisation of research and development costs increased by 29% to \$2.2 million as we accelerated the product roadmap to support customer requirements and upgraded our internal production systems. This also increased the depreciation charge resulting in the balance sheet asset increasing by 25% to \$3.3 million. The deferred Tax asset increased by \$0.2million reflecting the recoverability of net operating losses in the US.

Trade and other receivables decreased 28% to \$16.5 million (FY22 restated: \$23.0 million) reflecting the strong sales performance in the first half of the year. This decrease was mirrored in trade and other payables as work performed by suppliers and freelancers peaked in H1 to support our customer deliveries. Contract assets, which represent work in progress and sales accruals on customer projects, increased by 33% to \$4.8 million as certain projects had not completed at year-end and were invoiced in April and May 2023.

Current borrowings increased by 7% to \$1.4 million and represent the lease commitments over the next 12 months.

Current liabilities have fallen significantly in the period due to the lower level of sales in FY23Q4 which has resulted in both trade payables and accruals decreasing due to the pause in customer orders.

Cash and cash equivalents of \$11.8 million at year end (FY22: \$6.0 million) were up 97% as a result of the improvement in profitability and strong cash collections.

Non-current liabilities decreased in the year due to the reduction in the "right to use" liability on our property leases with both Sheffield and Los Angeles having one less year to run.

Consolidated statement of cash flows

Net cash generated from operating activities was \$15.5 million, up from \$5.2 million in FY22. The increase of \$10.3 million is attributable to the decrease in trade receivables compared to last year offsetting the decrease in trade payables and the increase in the operating profit. The inflow from operating activities was reduced by a \$8.2 million spend on investing activities, which was a reduction of \$2.1 million on FY22. The reduction was due to the acquisitions in FY22.

Overall, the Group had a net inflow of \$5.9 million compared to \$3.0 million in FY22 as the cash flow from operations more than offset the fundraise in FY22.

Post balance sheet events and going concern

On the 5th April 2023, we completed the acquisition of the remaining 49% of ZOO Korea that was owned by minority shareholders. We issued 550,000 ordinary shares in ZOO Digital Group plc to the exiting shareholders of ZOO Korea and made a one-off payment of \$200,000 in consideration for their 49 per cent stake. The acquisition reflects the success of the initial investment and the outlook for media localisation in the region.

In April 2023 we completed a placing and retail offer of new equity raising a gross \$15.8 million to fund the proposed acquisition of a business in Japan and accelerate our international footprint. The Company raised gross proceeds of £12.7 million (\$15.8 million) through the oversubscribed placing of 7,914,242 Ordinary Shares with certain existing and new institutional and other investors at a price of 160 pence per New Ordinary Share. The shares were admitted to trading on 4 May 2023 and 12 May 2023.

On the 4th May we acquired 30% of AM Group in Spain for €825,000. The investment marks the continued expansion of ZOO's geographic footprint in EMEA, with AM Group acting as a primary hub for ZOO's operations in Spain and Portugal. It will deliver dubbing services as part of ZOO's global end-to-end offering for major studios and streaming services in Iberia, while also supporting local content creators to expand their reach to global audiences.

Going forward the business remains confident that it has sufficient headroom to trade for the foreseeable future, as the recent fundraise coupled with the renewed \$5 million invoice discounting facility from HSBC gives us the working capital headroom for the next phase of our expansion. The budget for FY24 has been stress tested by our financial modelling. For this reason, we continue to adopt the going

ZOO Digital Group plc

Annual Report 2023

concern basis in preparing the financial statements.

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

While the Group is domiciled in the UK, its main country of operations is the US and over 79% of ZOO's revenues come from overseas clients. As with most small international businesses cash flow and exchange rate fluctuations management present a risk. The Group continues to focus closely on conservative cash management and monitors currency transactions taking proactive actions when appropriate.

Political uncertainty

The political climates in the UK and US are currently challenging due to the global economic environment. Although the terrible situation in Ukraine is having a major impact on the world economy, the current impact on ZOO is negligible. 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 28 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 the UK and the US.

By order of the Board



Approved by:

Phillip Blundell
Director and Secretary

9th August 2023

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. The group has three independent non-executive directors. Gillian Wilmot is the Board Chairman, Nathalie Schwarz chairs the Remuneration Committee and Mickey Kalifa is the chair of the Audit Committee.

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. The most recent review was in June 2023. The major recommendation was to instigate a formal process for succession planning which is expected to be completed by the end of September 2023. 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 and included one or more presentations for retail investors, we have actively promoted our AGM as a forum to present to and meet with investors, and presented at investor conferences. 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.

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 make life easier for the people who entertain the world. Our business model is to provide media localisation and media 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 with competitive advantages over other providers of similar services, leading to faster turn-around 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 facilities in Sheffield, London, Los Angeles, Dubai and Mumbai are audited for security annually by the Trusted Partner Network. Features to prevent the copying of assets and provide effective deterrents are implemented throughout our proprietary software and systems. During the period we enhanced features within our software that provide a high level of deterrent for copyright theft.
- **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 multiple facilities on each project. During the period the group operated a hybrid working model allowing staff to work from home and deliver uninterrupted service and maintain the same high standards of quality and security, as well as attending the office when required, without any interruption in productivity.

ZOO Digital Group plc

Annual Report 2023

- **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 have adopted hybrid working as a permanent practice across the group following successful operations during the COVID-19 pandemic.

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 revenue stream 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 22 | Ad hoc wealth manager calls | SG, PB | Calls with Private Client Brokers and Wealth Managers |
| Apr 22 | Calls with equities research analysts | SG, PB | Provided updates to equities analysts following pre-close trading update |
| Apr 22 | Ad hoc institutional investor calls | SG, PB | Several ad hoc calls requested by institutional shareholders and non-holders following pre-close trading update |
| May 22 | Ad hoc institutional investor calls | SG, PB | Several ad hoc calls requested by institutional shareholders and non-holders following pre-close trading update |
| May 22 | Retail investor event | SG, PB | Participated in Mello with an exhibit and provided two presentations to predominantly retail investor audiences |
| May 22 | Investor newsletter | - | Investor e-newsletter including CEO video distributed to subscribers |
| Jun 22 | Retail investor presentation | SG, PB | Delivered a presentation to the Active Investors Group of retail investors |
| Jun 22 | New York institutional investor meetings | SG | Participated in the Stifel Technology conference in New York and presented to several institutional investors |
| Jul 22 | Preliminary results roadshow and media meetings | SG, PB | Institutional investors, analysts, and PCBs via in-person meetings and Zoom calls |
| Jul 22 | Retail investor meeting | SG, PB | Open invitation to retail investors; virtual presentation and Q&A; recording made and published via website |
| Jul 22 | Participation in retail investor online event | SG, PB | Delivered a presentation to the Mello Monday livestream for retail investors |
| Jul 22 | Vox Markets podcast | SG | Podcast interview with Vox Markets which was subsequently published |
| Jul 22 | Wealth Manager and PCB webinar | SG, PB | Delivered a webinar for wealth managers and PCBs to include prelim results |
| Jul 22 | Broker sales team meetings | SG, PB | Presented to the sales teams at multiple broking firms |
| Aug 22 | Investor newsletter | - | Investor e-newsletter including CEO video distributed to subscribers |
| Sep 22 | AGM | SG, PB, GD, GW, MK, NS | Actively encouraged all shareholders and prospective investors to attend a meeting held in person in Sheffield and live streamed; event made available on website subsequently |
| Sep 22 | Ad hoc institutional investor meetings | SG, PB | Several ad hoc meetings and Zoom calls requested by institutional non-holders in UK and US |
| Sep 22 | Media interview | SG | Interview with reporter from The Times with an article subsequently published |
| Oct 22 | Ad hoc institutional investor meetings | SG, PB | Several ad hoc meetings and Zoom calls requested by institutional non-holders in UK and US |
| Oct 22 | Capital Markets Event | SG, PB, GD | Delivered a Capital Markets event with participation and presentation of senior staff from across the ZOO business |

| Date | Description | Participants | Comments |
|--------|---|--------------|---|
| Oct 22 | Ad hoc retail investor meetings | SG | Met with significant retail investors |
| Nov 22 | Interim results roadshow and media meetings | SG, PB | Institutional investors, analysts, and PCBs via in-person meetings and Zoom calls, including meetings in Frankfurt |
| Nov 22 | Retail investor meeting | SG, PB | Open invitation to retail investors; virtual presentation and Q&A; recording made and published via website |
| Nov 22 | Retail investor event | SG, PB | Participated in Mello with an exhibit and provided two presentations to predominantly retail investor audiences |
| Nov 22 | Site visit | SG, PB | Hosted a site visit for an institutional investor in Sheffield |
| Nov 22 | New York investor meetings | SG, PB | Participated in Stifel New York Discovery conference and held separate in-person institutional investor meetings |
| Dec 22 | Retail investor webinars | SG, PB | Gave two virtual presentations to wealth managers and PCBs |
| Dec 22 | Ad hoc institutional investor meetings | SG, PB | Calls with institutional shareholders and non-holders in UK and US |
| Dec 22 | Investor newsletter | - | Investor e-newsletter including CEO video distributed to subscribers |
| Jan 23 | Ad hoc institutional investor meetings | SG, PB | Calls with institutional shareholders and non-holders in UK and US |
| Jan 23 | Institutional investor meetings | SG, PB | In-person meetings with institutional investors in Edinburgh |
| Feb 23 | Fireside chat | GD | Held two 'fireside chats' with GD covering investors and non-holders, with a recording being made available to investors subsequently |
| Feb 23 | Media interview | SG | Interview with reporter from The Telegraph with an article subsequently published |
| Feb 23 | Ad hoc institutional investor meetings | SG, PB | In-person meetings and calls with institutional shareholders and non-holders in UK and US |
| Feb 23 | Proactive Investors interview | SG | Video interview with Proactive Investors which was subsequently published |
| Feb 23 | Broker sales team meetings | SG, PB | Presented to the sales teams at multiple broking firms |
| Feb 23 | Investor newsletter | - | Investor e-newsletter including CEO video distributed to subscribers |
| Mar 23 | Ad hoc institutional investor calls | SG, PB | Calls with institutional shareholders on request in UK and Europe |
| Mar 23 | Analyst meetings | SG, PB | Met with analysts in person |

Key: GW: Gillian Wilmot; SG: Stuart Green; PB: Phillip Blundell; GD: Gordon Doran; MK: Mickey Kalifa; NS: Nathalie Schwarz.

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 virtual 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. Most meetings with shareholders and potential investors are arranged by the broking teams of our joint brokers. 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 is compared to the group's Investor Relations strategy to ensure adherence.

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

| Stakeholder | Reason for engagement | How we engage |
|--|--|--|
| <p>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.</p> | <p>Good two-way communication with staff is a key requirement for high levels of engagement, fostering a culture of innovation.</p> | <p>Monthly staff briefings delivered to all locations by webcast.</p> <p>Invitation to staff to ask questions of management that are answered in the briefings.</p> <p>Operation of an employee communications platform to provide ad hoc news, industry developments and other information to all staff in an accessible way.</p> <p>Annual engagement survey.</p> <p>These have provided insights that have led to enhancement of management practices and staff incentives.</p> |
| <p>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.</p> | <p>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</p> | <p>Seek feedback on services and software systems.</p> <p>Obtain fulfilment metrics employed by clients to measure performance.</p> <p>Obtain requests for new services and service enhancements.</p> <p>These have led to the group securing approved vendor status with several large media organisations.</p> |
| <p>Suppliers – a key supplier group is our network of freelancers who fulfil linguistic services.</p> | <p>Freelance workers will provide similar services to other organisations, including our competitors, so we must ensure they are available to us and are accommodating.</p> | <p>We optimise our systems to simplify the work of freelancers as much as possible, including in relation to administration of projects.</p> <p>We operate systems to ensure that supplier invoices are processed and paid promptly.</p> <p>These have led to a large, growing and supportive freelancer network.</p> |
| <p>Shareholders – as a public company we must provide transparent, easy-to-understand and balanced information to ensure support and confidence.</p> | <p>Meeting regulatory requirements and understanding shareholder sentiments on the business, its prospects and performance of management.</p> | <p>Regulatory news releases.</p> <p>Keeping the investor relations section of the website up to date.</p> <p>Quarterly investor newsletters.</p> <p>Participation at investor events.</p> <p>Publishing of videos of investor presentations and interviews.</p> <p>Annual and half-year reports and presentations.</p> <p>AGM.</p> <p>We believe we successfully engage with our shareholders; over the past 12 months this engagement has led to support for the group.</p> |
| <p>Industry bodies – the services we provide must meet certain requirements.</p> | <p>The views of certain industry groups, including the Motion Picture Association of America (MPAA), the Trusted Partner Network (TPN) and the Entertainment Globalisation Association (EGA) are influential in the way the group is perceived by certain clients.</p> | <p>Membership of MPAA, MESA, EGA, DPP and TPN and participation in security programs.</p> <p>Annual audit of security.</p> <p>These have resulted in audit reports that have led to certain clients commencing engagement.</p> |

| Stakeholder | Reason for engagement | How we engage |
|---|--|---|
| Communities – what we do impacts communities in the places where we operate and elsewhere. | It is important to be, and to be perceived as a reputable business that makes a positive contribution to local economies and is attractive as an employer and partner. | <p>Multiple activities to support fundraising of local charities and good causes.</p> <p>Operation of ZOOgooders programme which provides all staff with two paid days per year to work for a charity of their choice.</p> <p>Participation in apprenticeship and other schemes to support and provide opportunities to young people.</p> <p>One director is a trustee of a registered charity.</p> <p>These have led to a favourable profile for the group in the local areas of its major operations.</p> |

Corporate social responsibility

The Company strives to ensure that its business activities positively benefit all stakeholders by committing to conduct its business in a fair and responsible manner, to treat its employees fairly, supporting personal growth and development, and to have a positive impact in its local community.

We strongly value our customers and seek to deliver a world-class product backed by class-leading customer service and support. The Company routinely seeks customer feedback and performance appraisal inputs and takes active steps to remedy any instances of customer dissatisfaction.

Key customers are also routinely invited to provide product improvement inputs, and in some cases to test key features or functionality prior to general release.

The Company has agreed rate cards with its major customers to provide a fair and transparent pricing structure so that customers can be confident that the Company's services are cost effective.

The key themes of our Environment, Social and Governance strategy are to grow globally in a smarter, easier and better way ensuring we scale up responsibly.

People

The Company is an Equal Opportunity Employer and its policy is to ensure that all employees and job applicants will be given equal opportunities in all aspects of employment and training irrespective of their gender, ethnic origin, disability, age, marital status, sexual orientation or religious affiliation (and/or any other protected characteristics under relevant legislation). ZOO encourages, where possible, the employment of disabled people and the retention of those who become disabled during their employment with the Group.

The Company recognises the benefit of involving employees in target setting and keeping them informed of progress. The Board has expanded the internal communication network to include all sites across the globe involving more contact, more frequent communication and more opportunities for feedback. The views of employees are considered when making decisions which are likely to affect their interests. This has included the introduction of increased ability for employees to put questions to senior management members during Group wide meetings and has also included the introduction of various digital surveys issued to employees throughout FY23 so that they can give their views and feedback on relevant Group wide matters. ZOO ensures that it communicates clear and appropriate policies to employees setting out data protection rules, information security rules, commercial contract rules (e.g. sales contracts, procurement contracts and partner contracts), commercial dispute resolution rules, share dealing rules, anti-bribery rules, anti-bullying/harassment rules and anti-discrimination rules and codes of conduct. These policies and procedures are made available to employees via the Group's Human Resources Information System and are regularly reviewed and updated as necessary. The Board regularly reviews, considers and updates the salaries, benefits and support offered to the Group's employees. The aim of this is to ensure that individuals with the appropriate experience and skill to add value to the business and drive its long-term success are attracted to the Group and then retained. In addition, this approach by the Board aims to ensure that staff are provided with the appropriate environment, career progression and rewards to remain motivated and enabled to produce the best possible output and add the maximum possible value to the Group. The Board has initiated a diversity strategy and is measuring our performance for future benchmarking.

The current gender analysis is as follows

| | Female | Male | Total |
|-------------------------|--------|------|-------|
| Executive board members | 0 | 5 | 5 |
| Senior Managers | 9 | 16 | 25 |
| Staff | 229 | 357 | 594 |
| Total | 238 | 378 | 624 |
| Non-Executive Directors | 2 | 1 | 3 |

Diversity, Equity and Inclusion

The group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for

ZOO Digital Group plc

Annual Report 2023

training, career development and promotion.

Where existing employees become disabled, it is the group's policy to provide continuing employment wherever practicable in the same or an alternative position, and to provide appropriate training and reasonable working environment adjustments as required to achieve this aim.

The company launched its first diversity and inclusion survey in 2022 and published its results to the workforce. This was followed up with the company hosting its two Diversity, Inclusion, Equity and Belonging forums attended by people across the business to understand our employees' experiences and action plans.

A part of the company action plan was to form the DIEB (Diversity, Inclusion, Equity and Belonging) forum and through collaboration the company has developed several Employee Resource Groups (ERGs) hosted through the company's employee communication platform (ZOOconnect). These spaces have been designed for employees to share experiences, promote awareness, allyship and educate in all areas such as LGBTQ+, Neurodivergence, visible and non-visible disabilities and launching soon, marginalised religious groups and female leadership. These initiatives have created a platform (within the already successful ZOOconnect) that the people of ZOO can access to learn. The company is actively working with its DIEB champions to increase the number of ERG spaces over the next 12 months.

The company has founded a group of DIEB champions across the business who support and facilitate events and opportunities for all colleagues, driving a positive, inclusive and thus engaged workforce.

Through active collaboration with the DIEB champions the company has increased its promotion and celebration of international awareness days through its internal communication platform and will continue with this over the next 12 months. This has included educational pieces, sharing of employee stories and experiences, training and events. Past events have included ADHD month, Mental Health and Wellbeing, Black History Month, Dyslexia and Autism Awareness and Trans Day of Visibility.

The company will continue to focus our development and DE&I programs on growing the number of female and minorities represented in leadership roles. The company will continue to invest in female leadership development programmes over the next 12 months.

As part of its DE&I initiatives the company continues to review its hiring practices. The company promotes and invests in apprenticeship programs to complement its strategy to diversify the workforce, along with internal mobility opportunities across the business. The company believes that apprenticeships and cross training provide access to career opportunities that not only offer paths to higher-paying jobs, but also better opportunities for its workforce.

With the board's support and guidance from our HR department, we have taken significant actions to enhance our diverse and inclusive culture, train and educate our employees, to maintain and increase our commitment as a great place to work.

Community

The pandemic accelerated trends that are reshaping the way of work including what employees expect employers to provide in terms of working arrangements. With the increase in hybrid and remote working, employees are looking for more rewarding, engaging and meaningful workplace experiences.

Through listening to its employees, the company launched its first employee volunteering programme (ZOOgooders) last year which actively encourages all staff to take two additional paid leave days each year and donate them for the support of charitable projects in the community as a way to give back to local communities and increase our employees' sense of purpose and improve engagement.

Following its launch in September 2022, employees across the UK and US participated in 375 hours of volunteering activities that either had been arranged by the company or by the individual. During this first year some charities supported through volunteering included:

- SCCC knit a winter blanket appeal, gifting the elderly with handmade blankets.
- Ben Centre - This charity aims to provide a safe space and an open hand to those who suffer through substance misuse and its associated barriers.
- Cavendish Cancer Care - Providing support to people affected by cancer.
- Live Love Animal Rescue - A charity that partners with local shelters to save homeless animals by providing them a lifelong commitment.
- Heal the Bay Adopt-A-Beach - A programme that gives groups the opportunity to learn about and participate in the conversation of outdoor places in California.
- American Red Cross Blood Drive.

Our target is to double the number of volunteering hours over the next 12 months and to continue the partnerships formed with local charities.

The Company has made several small direct financial contributions to charities over the past year. The Company decided to let its employees guide the choice of organisations that ZOO should adopt as its main charities. Our employees were presented with several charities that aligned to our company and voted to endorse the RNIB in the UK and the Braille Institute in the US. The Company will be working towards several initiatives to make the workplace more accessible to the sight impaired and make entertainment more accessible to those who are sight impaired.

The recycling of IT equipment that is no longer required in the business has been started, working with a local charity that can repurpose the equipment for local and international use. In the UK we are now recycling 100% of such equipment. In the coming year we hope to extend the scheme to the US.

Environment

In the year we have developed and published our Environmental policy.

ZOO is a technology first service group that has developed platforms that deliver media localisation projects in an efficient and environmentally friendly way by reducing travel and the need for carbon intensive buildings. We are committed to further innovation to support our customers and freelancers in reducing their impact on the environment.

We also recognise that as a company we do have a small impact on the environment relative to other industries and as such will constantly look for ways to reduce and ultimately eliminate our environmental footprint and meet relevant environmental legislation. To achieve this our environmental strategy will focus on:

- Working with suppliers with a responsible attitude to the environment
- Eliminate waste within our offices
- Operating to international and local environmental laws and regulations in all countries in which we operate
- Actively promoting recycling in all our locations
- Source locally to reduce carbon emissions
- Reducing our water consumption

We are currently measuring the impact on the environment in FY23 which we will publish and use for future performance measurement.

Board-level commitment to diversity, equity and inclusion

Our commitment to sustainability from the Board also includes a focus on diversity, equity and inclusion (DE&I). We recently commissioned a comprehensive survey into DE&I across the ZOO workforce, which will give us a benchmark from which to measure future improvements.

We operate ZOO Academy, the goal of which is to bring more diverse talent into the industry. We will also soon be launching an innovative apprenticeship scheme to encourage more young people to become software engineers.

Supporting home working

Our People and Culture team has been very busy supporting enhanced health and safety procedures in our upgraded offices – offering support to our working from home initiative and operating an e-learning platform that is available to all staff to assist in building their work and life skills.

The introduction of a formal ESG strategy means we can codify and measure how we are improving our impact on these critical topics. We are excited about developing and executing our ESG strategy over the coming months and years.

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 every month 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 mobilised to assess and take remedial action as appropriate in the circumstance.

Staff are reminded every month 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 six directors of which three are executive and three 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 may 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 and to be available at other times as required for video and telephone meetings with the executive team and investors.

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

ZOO Digital Group plc

Annual Report 2023

| | Board meetings | | Audit Committee | | Remuneration Committee | |
|--------------------------------|----------------|----------|-----------------|----------|------------------------|----------|
| | Possible | Attended | Possible | Attended | Possible | Attended |
| Executive Directors | | | | | | |
| Dr. Stuart Green | 11 | 11 | – | – | 2 | 2 |
| Gordon Doran | 11 | 11 | – | – | – | – |
| Phillip Blundell | 11 | 11 | 2 | 2 | – | – |
| Non-executive Directors | | | | | | |
| Gillian Wilmot | 11 | 11 | 2 | 2 | 2 | 2 |
| Mickey Kalifa | 11 | 10 | 2 | 2 | 2 | 2 |
| Nathalie Schwarz | 11 | 11 | 2 | 2 | 2 | 2 |

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 six 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.



Gillian Wilmot CBE, Independent Chairman

Term of office: Appointed as Chairman with effect from 1 July 2019; Chair of the Remuneration Committee until Summer 2022 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 skillset 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 Brighter Beauty Group, Non-Executive Chairman of JISP.com trading as Bubbles Online Services Ltd., Director of Board Mentoring Ltd, Non-Executive Chairman of Xpediator plc, Non-Executive Chairman of Synalogik.

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 digital agency Dept in January 2022 having previously held the role of CFO with M&C Saatchi plc, an LSE listed business, since March 2019. 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 Dept Holding B.V.

Time commitment: one to two days per month.

Nathalie Schwarz, Independent Non-Executive Director

Term of office: Joined as Non-Executive Director on 13 January 2022; Chair of the Remuneration Committee from Summer 2022 and member of the Audit Committee.

Background and suitability for the role: Nathalie brings 20 years of board-level international experience from her roles in both publicly listed and privately owned companies. She has particular expertise in the media and digital technology sector with a career spanning broadcasting (television and radio), mobile and digital interactive platforms and information/data services. This includes as Group Commercial and Development Director at Channel 4 Television Corporation, overseeing the negotiation of its commercial partnership with UKTV. She also served as Group Strategy and Development Director at Capital Radio plc as the FTSE 250 company completed an £800 million merger to create the largest commercial radio analogue and digital group.

A qualified corporate finance lawyer, Nathalie began her career at leading global law firm Clifford Chance and has since served as Chair of Boards, Remuneration Committees and Nominations Committees. Her non-executive experience includes roles at Wilmington plc, Matomy Media plc, BigHand, Optionis and Amiad Water Systems plc.

Current external appointments: Vice Chair of the International Trade Association for the Broadcast and Media Industry (IABM)

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 over 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 23 years as a main board director of AIM-quoted companies.

Current external appointments: Trustee of the Sheffield Chamber Orchestra.

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 23 years as a CFO and Company secretary of AIM listed businesses 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 13 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 June 2023. All 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 several areas including general supervision and oversight, business risks and trends, succession and related matters, communications, ethics and compliance, corporate governance and individual contribution.

Several refinements in working practices were identified as a result of this exercise and are in the process of being 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 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 core values which reflect our core brand proposition to make globalising media content smarter, easier and better:

- **Think Smarter**
 - **Inspiration everywhere:** We're always open to learning. From our colleagues, from our customers, even from our suppliers. When we work together and share ideas, we share success.
 - **There is no box:** When you look at things differently, you'll find new and creative ways to take on any challenge.
- **Make it easier**
 - **We are family:** Everyone is heard, everyone is valued. We challenge each other, but it's done with love and respect.
 - **Be the customer:** We put ourselves in our customers' shoes to anticipate their future needs and blow their minds.
- **Be better**
 - **Daydream believers:** Think big and be bold. See a way to change something for the better and then believe you can make it happen. Remember... disruption favours the brave!
 - **There's always a way:** Never underestimate the power of determination. From dreaming up new tech to just good old-fashioned graft. We'll get the job done.

The culture of the group is characterised by these values which are conveyed regularly to staff through internal communications, in monthly staff briefings and forums. A staff recognition programme operates on an on-going basis by which any employee can nominate any of his/her colleagues for a contribution that is in-keeping with the core values. All nominees are recognised at company-wide staff briefings that in FY23 took place by webinar, 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 its 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, the US-based Chief Operations Officer and the CTO, 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. 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; and
- 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, Gillian Wilmot and Nathalie Schwarz. 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.

Directors' Remuneration Policy

This section sets out the Directors' Remuneration Policy. The Remuneration Committee considers the Remuneration Policy annually to ensure that it continues to underpin the Group's strategy.

ZOO Digital Group plc

Annual Report 2023

Key principles

The main aim of the Group's policy is to align the interests of Executive Directors with the Group's growth strategy and long-term creation of shareholder value. The policy is designed to remunerate the Executive Directors competitively and appropriately and allow them to share in this success and the value delivered to shareholders. The policy is based on the following principles:

- Promote shareholder value creation and support the business growth strategy.
- Ensure that the interests of the Directors are aligned with the long-term interests of shareholders.
- Deliver a competitive level of pay for the Directors sufficient to attract, retain and motivate individuals.
- Ensure that an appropriate proportion of the package is determined by targets linked to the Group's performance.
- Ensure the total reward cost to ZOO are affordable and sustainable.

| Component | Purpose and link to strategy | Operation | Maximum | Performance measure |
|----------------|---|--|--|---|
| Base salary | To provide a competitive base salary to attract, motivate and retain directors with the experience and capabilities to achieve the strategic aims. | Reviewed annually against salary surveys for market rate, Group performance, role and experience. | No overall maximum, however, they are reviewed to ensure they are proportionate and fair when compared to other salaries in the Group. | N/A |
| Benefits | To provide a market competitive benefits package | Receive benefits in line with market practise, these include death in service plus health care in the US. | Set a level deemed appropriate by the Remuneration committee | N/A |
| Pension | To provide an appropriate level of retirement benefit | Executive Directors are eligible to participate in the Group's pension scheme. | Up to 5% of base salary | N/A |
| Annual bonus | To reward performance against annual targets which support the strategic plan. | Awards are made annually and are paid in cash | Maximum of 100% of base salary | Minimum of 80% based on financial performance and a maximum of 20% linked to smart personal objectives. |
| L-T incentives | Awards are linked to long-term financial and strategic objectives. To further promote equity ownership and long-term performance, vesting occurs at the end of a three-year period with holding periods applying up to a further seven years. | Awards are made at market price at date of grant and with performance targets that require to be met in the first 3 years after grant. | No maximum, subject to not exceeding the Group's overall share based incentive schemes limit that apply across all employees of 15% of issued share capital. | Performance metrics will be linked to financial performance. |
| Shareholdings | To promote share ownership for Executive Directors | Executive Directors are encouraged to build a shareholding in the Group over time. | No maximum | N/A |

Explanation of performance measures

Performance measures are selected that are aligned with the performance of the Group and the interests of shareholders. Stretching targets are set each year for the annual bonus and long-term incentive awards. When setting these performance targets, the Committee will consider several different reference points, which may include the Group's business plan and strategy and the economic environment.

The Committee retains the ability to adjust or set different performance measures if events occur which cause the Committee to determine that the measures are no longer appropriate, and that amendment is required so that they can achieve their original purpose. Awards and options may be adjusted in the event of a variation of share capital in accordance with the rules of the share option scheme.

Non-Executive Directors Remuneration Policy

The Remuneration Policy for the Non-Executive Directors is to pay fees necessary to attract an individual of the talent required, taking into consideration the size of the business and the time commitment of the role. This is reviewed annually by the Group Chairman and the Chief Executive. The basis of the fees is cash only and Non-Executive Directors do not receive any other benefits other than reasonable travel and other expenses incurred in the course of performing their duties.

The Company welcomes dialogue with its shareholders over matters of remuneration. The Chairman of the Remuneration Committee is available for contact with institutional investors concerning the approach to remuneration.

The remuneration committee report is contained on page 55.

By order of the board

A handwritten signature in black ink, appearing to read 'G. Wilmot', written in a cursive style.

Gillian Wilmot
Chairman

Section 172 Statement

Section 172 of the Companies Act 2006 requires Directors to take into consideration the interests of stakeholders in their decision making. The Directors act in a manner consistent with this statement, and in doing so they promote the success of the Company for the benefit of its shareholders, taking into consideration the interests of all stakeholders.

In this statement we outline the key aspects of our approach to section 172 and how our Directors have fulfilled their duties throughout the year. In summary, the Directors have consistently acted in accordance with their duties under section 172, working diligently to promote the success of ZOO and safeguard the interests of shareholders and stakeholders alike. We will continue to uphold these principles as we navigate the challenges and opportunities ahead, striving to create lasting value for all those connected to our business.

1. *The likely consequences of any decisions in the long term*

Our Directors are committed to making strategic decisions that drive long-term growth and value creation for our shareholders. This includes investments in development, forming strategic partnerships, and expanding both our service offerings and geographic footprint to achieve further market penetration.

2. *The interests of the company's employees*

Details of how the Directors have engaged with employees is provided in our Corporate Governance Statement.

We recognise the importance of attracting, retaining, and developing a talented workforce. We are committed to providing a safe and inclusive working environment, offering competitive remuneration packages, and investing in training and development programmes to help our employees reach their full potential.

3. *The need to foster the company's business relationships with suppliers, customers, and others*

Details of our approach to stakeholder engagement is provided in our Corporate Governance Statement.

4. *The impact of the company's operations on the community and environment*

The Directors continue to have regard to the interests of the Company's employees and other stakeholders, including the impact of its activities on the community, the environment and the Company's reputation, when making decisions. Acting in good faith and fairly, the Directors consider what is most likely to promote the success of the Company for its members in the long term. We explain this in our corporate governance section of this Annual Report.

5. *The desirability of the company maintaining a reputation for high standard of business conduct*

The Company has taken a low-risk approach in its investments and acquisitions by targeting long-established businesses that have been affiliate partners of ZOO for several years. These companies, which include media services providers and localisation vendors, have accumulated extensive experience of working in the cloud-based technology that ZOO operates throughout its global ecosystem of partners and freelancers. The all-encompassing approach supports unrestricted creativity while enforcing high standards of production quality, workflow efficiency and content security across the entire global Group.

The Chairman has overall responsibility for corporate governance and in promoting high standards throughout the group. 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.

6. *The need to act fairly between members of the company*

Details of our decision making in this respect are provided in our Corporate Governance Statement.

The Directors are fully aware of their responsibilities to promote the success of the Company in accordance with section 172 of the Companies Act 2006. The Board regularly reviews its principal stakeholders and how it engages with them. This is achieved through information provided by management and also by direct engagement with stakeholders themselves. The Company has improved staff engagement, as evidenced by the most recent staff engagement survey. During the coming year the Directors will continue to value input from all stakeholders and this will be formalised in more detail in the coming months. In the opinion of the Directors the following significant events or decisions were required to be separately reported under this section.

- The Board approved after the year-end the fundraise to expand our presence in Japan.
- To address the need to support our customers on a global basis the Board approved two strategic investments after the year-end that support our aim to be a global media localisation partner to the major US media corporations.

ADVISERS

Company Secretary and Registered Office

Phillip Blundell
ZOO Digital Group plc
Floor 2
Castle House
Angel Street
Sheffield
S3 8LN

Tel: 0114 241 3700
Company no. 03858881

Bankers

HSBC Plc
Carmel House
49 – 63 Fargate
Sheffield
S1 2HD

Nominated advisor and joint broker

Stifel Nicolaus Europe Limited
150 Cheapside,
London,
EC2V 6ET

Joint broker

Singer Capital Markets
1 Bartholomew Lane
London
EC2N 2AX

Auditor

Grant Thornton UK LLP
No 1 Whitehall Riverside
Leeds
LS1 4BN

Tax advisor

RSM UK Tax and Accounting Limited
25 Farringdon Street
London
EC4A 4AB

Registrar

Share Registrars Limited
Molex House
Millennium Centre
Crosby Way
Farnham
Surrey
GU9 7XX

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 2023.

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 25 to 33.

The audited financial statements for the year ended 31 March 2023 are set out on pages 68 to 112. 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. (2022: nil)

Going concern

The directors have prepared trading and cash flow forecasts for the group for the period to 31 March 2025 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 HSBC Bank which provides invoice financing of up to \$5.0 million against US clients invoices raised by ZOO Digital Production LLC. This facility was renewed for a further year to 1 June 2024. In the UK there is an overdraft facility with a limit of £250,000 (\$345,000) in place with HSBC.

The directors believe the assumptions used in preparing the trading and cash flows 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.

Directors

The directors who served during the year were as follows:

| | |
|-------------------|--------------------------|
| Gillian Wilmot | Non-Executive Chairman |
| Dr Stuart A Green | Chief Executive Officer |
| Phillip Blundell | Chief Finance Officer |
| Gordon Doran | Chief Commercial Officer |
| Mickey Kalifa | Non-Executive Director |
| Nathalie Schwarz | Non-Executive Director |

Details of the interests in the shares of the company at the beginning or subsequent date of appointment and end of the financial year of those directors who held office at 31 March 2023 are disclosed in the Directors' Remuneration report. In accordance with the company's Articles of Association, Mickey Kalifa and Gordon Doran retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' indemnities

The group has granted an indemnity to one or more of its directors against liability in respect of any proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. The company has purchased and maintains directors' and officers' insurance cover against certain legal liabilities and costs for claims in connection with any act or omission by such director in the execution of their duties.

Financial risk management

The financial risk management is included in the Strategic Report and in note 28.

Substantial shareholdings

At 31 July 2023, 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 |
|----------------------------------|------------------------|---------------|
| Canaccord Genuity Group Inc | 13.53% | 13,223,616 |
| Dr S A Green* | 11.72% | 11,458,972 |
| Herald Investment Trust plc | 9.90% | 9,681,978 |
| Invesco Ltd | 6.57% | 6,424,607 |
| Stonehage Fleming IM Limited LLC | 4.79% | 4,686,739 |
| Janus Henderson Investors | 4.61% | 4,510,000 |
| Deka Investment | 3.57% | 3,494,200 |

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

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have to prepare the financial statements in accordance with UK-adopted international accounting 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 UK-adopted international accounting standards 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.

To the best of my knowledge:

- the group financial statements, prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The names and functions of all the directors are stated on pages 44 - 46.

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
- the 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.

ZOO Digital Group plc

Annual Report 2023

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

Signed 9th August 2023

A handwritten signature in black ink, appearing to read 'P Blundell', written in a cursive style.

Phillip Blundell

Director and Secretary

REMUNERATION COMMITTEE REPORT

I am pleased to present the remuneration committee report for FY2023, which sets out the remuneration earned and paid to Directors in the year ended March 2023.

As an AIM listed company, ZOO Digital Group plc is not required to comply with the remuneration reporting requirements applicable to fully listed companies in the UK. However, the Committee has taken a number of these regulations into account in the preparation of this report for the year as a matter of best practice.

The work carried out by the Remuneration Committee during the year included the following:

- A review of the performance of the Executive Directors
- A formal review of the scale and structure of their remuneration,
- Reviewing the basis of their service agreements and,
- Reviewing incentive plans and other employment related benefits with due regard to the interests of the shareholders

The Annual report on remuneration, detailed on pages 56 to 59 provides details of the amounts earned in respect of the year ended 31 March 2023 and how Directors' Remuneration Policy has operated and will be subject to an advisory shareholder vote at the 2023 AGM.

Review of the year ended 31 March 2023

As described earlier in the annual report, the Company has exceeded its financial goals for the year, achieving revenue growth of 28% and adjusted EBITDA growth of 119%. As a result of this performance the Executive Directors achieved an annual cash bonus of 132% of their on-target earnings which is between 61% and 94% of their base salary. The payment of this bonus is subject to the approval of the remuneration committee.

No share options held by the Executive Directors vested in the period, nor were there share option grants in the year.

Outlook for FY2024

The Committee remains committed to a fair and responsible approach to executive pay whilst ensuring it remains in line with best practice and appropriately incentivises Executive Directors over the longer term to deliver the Group's strategy. In respect of the Remuneration policy for FY 2024:

- The committee determined it was appropriate to increase the base salaries of the 3 Executive Directors by 4% to reflect market rates for similar companies, recognising that there is high inflation and the average companywide increase of 4%.
- After reviewing the annual cash bonus provision, the committee felt it appropriate to leave the on-target earnings percentage at an average of 54% of base salary. This mirrors similar schemes at comparable companies.
- The committee determined that it was not appropriate to grant further long-term incentives at this stage. The committee agreed to review the broader remuneration policy and to make recommendations in due course.

On behalf of the Board

Chairman of the Remuneration Committee

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 2023 the Remuneration Committee consisted of all non-executive directors, and was chaired by Nathalie Schwarz.

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

Gillian Wilmot, Mickey Kalifa and Nathalie Schwarz are paid as employees for their board services.

Directors' remuneration

Directors' remuneration for the year to 31 March 2023 is:

| | Salary | Bonus* | Benefits | Sub total | Pension | 2023 Total | 2022 Total |
|--------------------|--------|--------|----------|-----------|---------|------------|------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Dr Stuart A Green | 291 | 292 | - | 583 | 8 | 591 | 615 |
| Gordon Doran | 414 | 340 | 27 | 781 | - | 781 | 726 |
| Phillip Blundell | 235 | 146 | - | 381 | - | 381 | 456 |
| Gillian Wilmot | 71 | - | - | 71 | - | 71 | 74 |
| Mickey Kalifa | 46 | - | - | 46 | 1 | 47 | 50 |
| Nathalie Schwarz** | 46 | - | - | 46 | 1 | 47 | 10 |
| | 1,103 | 778 | 27 | 1,908 | 10 | 1,918 | 1,931 |

* The payment of the bonus for the year ended 31 March 2023 is subject to the approval of the remuneration committee.

** Nathalie Schwarz was appointed on 13 January 2022

Of the above, the following directors were remunerated in pound sterling for the year to 31 March 2023. The pound sterling amounts are shown below:

| | Salary | Bonus | Sub total | Pension | 2023 Total | 2022 Total |
|-------------------|---------------|--------------|----------------------|----------------|-------------------|------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Dr Stuart A Green | 241 | 238 | 479 | 6 | 485 | 458 |
| Phillip Blundell | 194 | 119 | 313 | - | 313 | 343 |
| Gillian Wilmot | 66 | - | 66 | - | 66 | 60 |
| Mickey Kalifa | 38 | - | 38 | 1 | 39 | 36 |
| Nathalie Schwarz | 38 | - | 38 | 1 | 39 | 8 |
| | 577 | 357 | 934 | 8 | 942 | 905 |

Gordon Doran is remunerated in US dollars.

Three directors (2022: 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: | 2023 | 2022 |
| | \$000 | \$000 |
| Emoluments | 781 | 726 |

The highest paid director did not exercise any share options.

ZOO Digital Group plc

Annual Report 2023

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 2022 | Granted during the year | Exercised during the year | Surrendered during the year | 31 March 2023 | Exercise price (\$) | Exercise price (£) | Date from which exercisable | Expiry date |
|------------------|------------------|-------------------------|---------------------------|-----------------------------|------------------|---------------------|--------------------|-----------------------------|-------------|
| Stuart A Green | 150,000 | - | 150,000 | - | 0 | \$0.23 | 15.00p* | Jul-13 | Jul-22 |
| Stuart A Green | 175,000 | - | - | - | 175,000 | \$0.20 | 15.25p** | Sep-17 | Aug-27 |
| Gordon Doran | 150,000 | - | 150,000 | - | 0 | \$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 |
| Mickey Kalifa | 30,000 | - | - | - | 30,000 | \$0.49 | 37.50p | Oct-18 | Oct-27 |
| Phillip Blundell | 150,000 | - | - | - | 150,000 | \$0.80 | 63.00p | Jun-20 | Jun-29 |
| Gillian Wilmot | 50,000 | - | - | - | 50,000 | \$0.80 | 63.00p | Jun-20 | Jun-29 |
| Gordon Doran | 110,000 | - | - | - | 110,000 | \$0.89 | 72.5p**** | May-21 | May-30 |
| Phillip Blundell | 400,000 | - | - | - | 400,000 | \$0.89 | 72.5p**** | May-21 | May-30 |
| Gordon Doran | 150,000 | - | - | - | 150,000 | \$1.76 | 1.30**** | Jan-23 | Jan-32 |
| Phillip Blundell | 150,000 | - | - | - | 150,000 | \$1.76 | 1.30**** | Jan-23 | Jan-32 |
| | 4,265,000 | - | 300,000 | - | 3,965,000 | | | | |

* 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 which was achieved in 2022.

**** The share options granted in the year and FY21 have a vesting condition relating to the profitability of the group.

The exercise of share options granted prior to 31 March 2020 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 \$105,000 (2022: \$88,000).

The market price of the ordinary shares at 31 March 2023 was 242 cents (197.55p) and the range during the year was 255 cents (207.5p) (high) to 127 cents (102) (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 | | |
| Gillian Wilmot | 1 July 2019 | 3 months |
| Mickey Kalifa | 5 October 2017 | 3 months |
| Nathalie Schwarz | 13 January 2022 | 3 months |

Directors' interests

The directors who held office at 31 March 2023 had the following interests, including any interests of a "connected person", in the 1p ordinary shares of ZOO Digital Group plc:

| Name of director | 2023 Beneficial | 2022 Beneficial |
|-------------------------|----------------------------|--------------------|
| Gillian Wilmot | 31,517 | 31,517 |
| Dr Stuart A Green | 11,458,972 | 11,308,972 |
| Phillip Blundell | 80,000 | 80,000 |
| Gordon Doran | 156,033 | 6,033 |
| Mickey Kalifa | 50,000 | 50,000 |

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

On 7 July 2022, Dr Stuart Green and Gordon Doran exercised share options totalling 150,000 each into new ordinary shares at an exercise price of 15p.

No other transactions have taken place with directors.

No changes (other than noted above) took place in the interests of directors between 31 March 2022 and 9 August 2023.

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 2023, 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 of the group financial statements is applicable law and UK-adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Policies).

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 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 are responsible for concluding on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group or the parent company to cease to continue as a going concern.

Our evaluation of the directors' assessment of the group's and the parent company's ability to continue to adopt the going concern basis of accounting included:

In responding to the key audit matter, we performed the following audit procedures:

- obtaining an understanding of, and evaluating the design and implementation of relevant controls with respect to, management's going concern assessment;
- obtaining management's assessment, including management's base case and reverse stress scenarios covering the period to 31 March 2025 and agreeing the mathematical accuracy of management's models;
- assessing the accuracy of management's past forecasting by comparing management's forecasts for the last two financial years to the actual results for those years and considering the impact on the cash flow forecasts;
- evaluating the key assumptions made within the cash flow forecasts, which included evaluating the quantum and timing of cash outflows and inflows and determining whether these had been applied appropriately. We also considered whether these assumptions were consistent with our understanding of the business and current external economic pressures;
- evaluating management's reverse stress test analysis over the forecast period, considering the impact of changing key assumptions and obtaining an understanding of how these could break the forecast, and assessing the likelihood of such a situation occurring;
- obtaining post year end results achieved and comparing them to the forecast to determine whether the business is trading in line with forecast; and
- assessing the adequacy of the going concern disclosures included within the financial statements.


In our evaluation of the directors' conclusions, we considered the inherent risks associated with the group's and the parent company's business model including effects arising from macro-economic uncertainties such as high inflation levels, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the group's and the parent company's financial resources or ability to continue operations over the going concern period.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

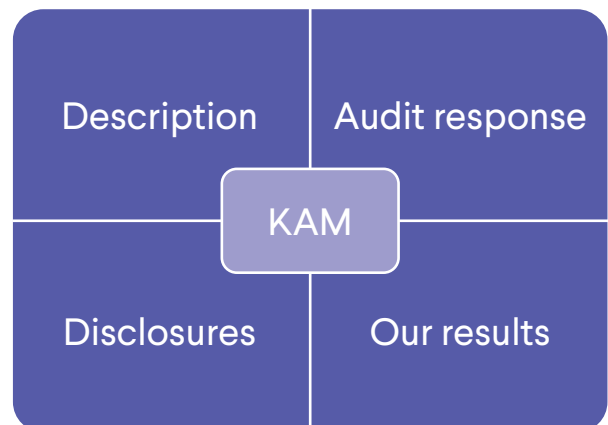
Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Our approach to the audit

| | |
|--|--|
|  | <p>Overview of our audit approach for the Group</p> |
| | <p>Overall materiality: Group: \$677,000, which represents approximately 0.75% of the Group's revenue. Parent company: \$398,000, which represents approximately 1.0% of the parent company's total assets, capped at its component materiality for group audit purposes.</p> |
| | <p>Key audit matters were identified as:</p> <ul style="list-style-type: none"> Improper revenue recognition (same as previous year). <p>Our auditor's report for the year ended 31 March 2022 included going concern as a key audit matter that has not been reported as a key audit matter in our current year's report due to the profitability achieved in the current year and the forecasted headroom throughout the going concern assessment period.</p> |
| | <p>Scoping was determined to ensure appropriate coverage of the significant risks as well as coverage of the key results in the financial statements.</p> <p>An audit of the financial information of the UK component was performed using component materiality. A combination of full scope audits and analytical procedures at Group level (analytical procedures) were performed on the other components.</p> <p>95% of the Group's revenue, 90% of the Group's profit before tax and 92% of the Group's total assets balance were subject to full-scope audit procedures.</p> <p>All audit work was performed by the Group engagement team.</p> |

Key audit matters

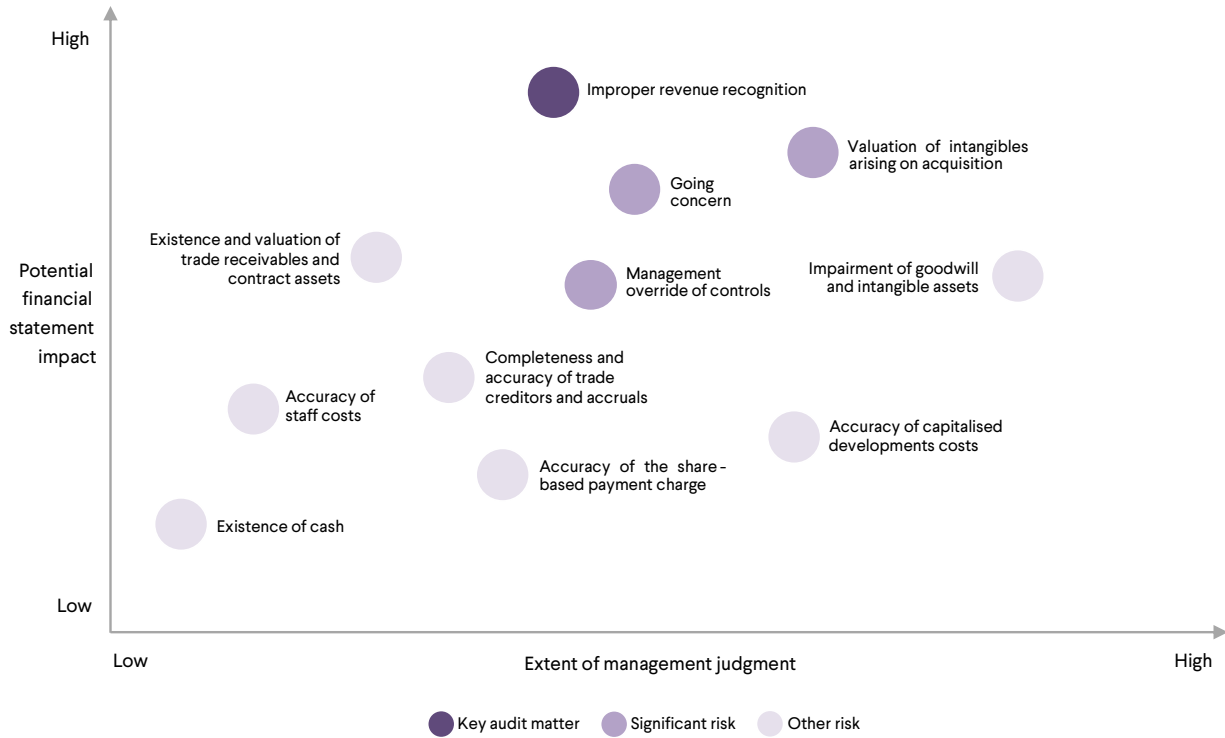
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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.



ZOO Digital Group plc

Annual Report 2023

In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.



| Key Audit Matter – Group | How our scope addressed the matter – Group |
|--|---|
| <p>Improper revenue recognition</p> <p>We identified improper revenue recognition as one of the most significant assessed risks of material misstatement due to fraud.</p> <p>Revenue is the most significant item in the consolidated statement of comprehensive income (\$90 million) and impacts a number of key performance indicators, and key strategic decisions set out in the annual report.</p> <p>Licence and service revenue is recognised throughout the Group as the fair value of consideration receivable in respect of the performance of contracts and the provision of services and is reported under International Financial Reporting Standard (IFRS) 15 'Revenue from Contracts with Customers'. Revenue is recognised on an "output method" through assessing the progress towards satisfying the performance obligation. There is judgement in determining this for open projects at year-end. There is a significant risk that management may record revenue fictitiously or in advance of the criteria for revenue recognition being satisfied.</p> | <ul style="list-style-type: none"> • In responding to the key audit matter, we performed the following audit procedures: • Documenting and assessing the design and implementation of controls for the recording of revenue; • Using data analytic procedures to interrogate and test the revenue population, including the analysis of revenue postings from inception to cash, and substantively testing a sample of manual entries. We tested the operating effectiveness of controls over the bank reconciliation process to support this testing; • Assessing revenue recognition policies, including comparing accounting policies to IFRS 15 requirements; • Performing substantive testing across material revenue streams by agreeing a sample of transactions to supporting documentation and vouching that income has been appropriately recognised; and • Obtaining and testing management's revenue recognition calculations by recalculating a sample of contracts that are in progress towards satisfying the performance obligation and comparing to the amounts recorded by the Group. |
| <p>Relevant disclosures in the Annual Report 2023</p> <p>Financial statements: Note 2.12, Summary of significant accounting policies</p> <p>Financial statements: Note 5, Revenue</p> <p>Financial statements: Note 27, Contracts with customers</p> | <p>Key observations</p> <p>Based on our audit work, we did not identify any material misstatement or fraudulent transactions in the revenue recognised in the year to 31 March 2023.</p> |

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

ZOO Digital Group plc

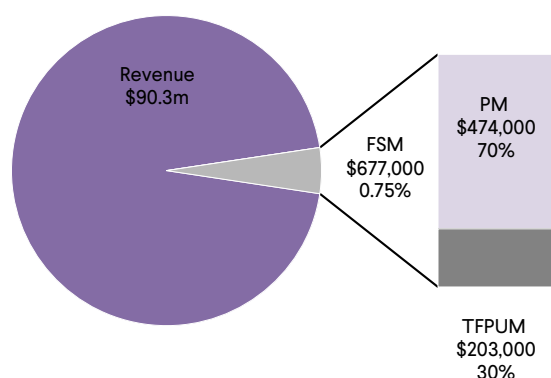
Annual Report 2023

| Materiality measure | Group | Parent company |
|---|--|---|
| Materiality for financial statements as a whole | We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work. | |
| Materiality threshold | \$677,000, which is approximately 0.75% of the Group's revenue. | \$398,000, which is approximately 1% of the parent company's total assets, capped at its component materiality for group audit purposes. |
| Significant judgements made by auditor in determining materiality | <p>In determining materiality, we made the following significant judgements:</p> <ul style="list-style-type: none"> Revenue is a key performance indicator for the Group; Revenue is a more stable measure year on year than profit or loss before tax; and We determined a percentage of 0.75% to be appropriate based on the parent company being listed on AIM and the performance of the Group in the year being strong. Materiality for the current year is higher than the level that we determined for the year ended 31 March 2022 to reflect the improvement in the performance of the Group during the year, which has led to the Group's financial position also strengthening and the increase in the Group's revenue. | <p>In determining materiality, we made the following significant judgements:</p> <ul style="list-style-type: none"> Total assets is considered the most appropriate performance measure to the stakeholders of the parent company based on there being no trade through the parent company with the parent company acting as a holding company, and therefore balance sheet benchmarks are most relevant. The percentage of 1% was selected based on the risk profile of the company as a component within a listed entity Group. <p>Materiality for the current year is higher than the level that we determined for the year ended 31 March 2022 to reflect the improvement in the Group's financial performance and the increase in the parent company's total assets at the year end.</p> |
| Performance materiality used to drive the extent of our testing | We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. | |
| Performance materiality threshold | \$474,000, which is 70% of financial statement materiality. | \$260,000, which is 70% of financial statement materiality. |
| Significant judgements made by auditor in determining performance materiality | <p>In determining performance materiality, we made the following significant judgements:</p> <ul style="list-style-type: none"> The strength of the control environment based on our assessment of the design and implementation of controls; and The effect of misstatements identified in previous audits. | <p>In determining performance materiality, we made the following significant judgements:</p> <ul style="list-style-type: none"> The strength of the control environment based on our assessment of the design and implementation of controls; and The effect of misstatements identified in previous audits. |
| Specific materiality | We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. | |
| Specific materiality | <p>We determined a lower level of specific materiality for the following areas:</p> <ul style="list-style-type: none"> Directors' remuneration; and Related party transactions outside of the normal course of business. | <p>We determined a lower level of specific materiality for the following areas:</p> <ul style="list-style-type: none"> Directors' remuneration; and Related party transactions outside of the normal course of business. |

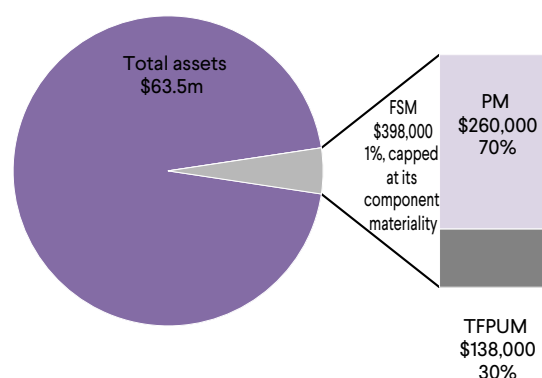
| Materiality measure | Group | Parent company |
|--|--|--|
| Communication of misstatements to the audit committee | We determine a threshold for reporting unadjusted differences to the audit committee. | |
| Threshold for communication | \$38,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds. | \$20,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds. |

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – Group



Overall materiality – Parent company



FSM: Annual Report materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatement

An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the Group's and the parent company's business and in particular matters related to:

Understanding the Group, its components, and their environments, including Group-wide controls

- We obtained an understanding of the group and its environment, including group-wide and component specific controls, and assessed the risks of material misstatement at the group level. We held planning discussions with the Group's management team; and
- We performed inquiries and observations on key areas of focus including revenue, going concern, impairment, employee remuneration and cash, to understand the controls.

Identifying significant components

- We evaluated the identified components to assess their significance and determined the planned audit response based on a measure of materiality. Significance was determined by reference to each component's contribution to the Group's total revenue, profit before tax and total assets as well as considering qualitative factors, such as a component's specific nature or circumstances.

Type of work to be performed on financial information of parent and other components (including how it addressed the key audit matters)

- We performed a full-scope audit of the financial information of three components, using component materiality. These procedures included a combination of tests of details and analytical procedures. Our procedures to address our key audit matter in respect of revenue recognition were performed at a component level.
- For the five components that were not individually significant to the Group, we carried out analytical procedures.

Performance of our audit

- All audit procedures to support the Group audit opinion were performed by the Group engagement team.
- Our audit procedures were performed by a combination of remote and in person auditing. We attended the parent company's primary location in Sheffield to perform audit procedures.
- We performed the full-scope audits and analytical procedures across the components in line with the scope described.

Communications with component auditors

- There were no component auditors involved in the Group audit. All audit work was performed by the Group engagement team.

ZOO Digital Group plc

Annual Report 2023

| Audit approach | No. of components | % coverage total assets | % coverage revenue | % coverage PBT |
|-----------------------|-------------------|-------------------------|--------------------|----------------|
| Full-scope audit | 3 | 92 | 95 | 90 |
| Analytical procedures | 5 | 8 | 5 | 10 |

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report. 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.

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 themselves. 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.

Matter 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 their 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

As explained more fully in the Directors' responsibilities statement set out on page 53, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and the parent company, and the industry in which they operate. We determined that the most significant are the Companies Act 2006 and UK-adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of Companies Act 2006, and relevant tax regulations.
- We obtained an understanding of the UK and US legal and regulatory framework applicable to the Group and the parent company by discussing relevant frameworks with group management and component management, and corroborated our inquiries through a review of board minutes and papers provided to the Audit Committee.
- We enquired of management whether there were any circumstances of non-compliance with laws and regulations or whether they had any knowledge of actual or suspected fraud. We corroborated the results of our enquiries to supporting documentation such as board minutes and papers provided to the Audit Committee.
- To assess the potential risks of misstatement, we obtained an understanding of:
 - the Group's operations including the nature of its revenue sources, expected financial statement disclosures and business risks that may result in risk of material misstatement; and
 - the Group's control environment including the adequacy of procedures for authorisations and transactions.
- We assessed the susceptibility of the financial statements to material misstatement, including how fraud might occur by meeting with management from different parts of the business to understand where it is considered there was a susceptibility of fraud. We also considered performance targets and their propensity to influence efforts made by management to manage earnings. We considered the programs and controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls;
- Audit procedures performed by the engagement team included:
 - evaluating the processes and controls established to address the risks related to irregularities and fraud;
 - testing manual journal entries, in particular, journal entries relating to management estimates such as the provision for trade receivables, and journal entries determined to have a large impact on profit or relating to unusual transactions. In addition, we performed primary testing to identify journals posted by senior finance personnel and material credits to costs;
 - challenging the assumptions and judgements made by management in its significant accounting estimates, including the suitability of the discount rate used by management in its impairment testing; and
- identifying and testing related party transactions.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery, or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The engagement partner's assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
 - understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation;
 - knowledge of the industry in which the Group and the parent company operate; and
 - understanding of the legal and regulatory requirements specific to the Group and the parent company.
- Team communications in respect of potential non-compliance with laws and regulations and fraud included the potential for fraud in revenue through manipulation of the revenue recognised on contracts that were open at the year end. 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 company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Victoria McLoughlin

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Leeds

9 August 2023

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2023

| | Note | 2023 \$000 | Restated* 2022 \$000 |
|--|------|-------------------|----------------------------|
| Revenue | 5 | 90,260 | 70,403 |
| Cost of sales | | (56,327) | (49,562) |
| Gross Profit | | 33,933 | 20,841 |
| Other operating income | 6 | 8 | 204 |
| Other operating expenses | 8 | (25,860) | (19,165) |
| Operating profit | | 8,081 | 1,880 |
| Analysed as: | | | |
| EBITDA before share based payments | | 15,466 | 7,060 |
| Share based payments | 8 | (1,650) | (513) |
| Depreciation (net of grant) and impairment | 8 | (3,973) | (3,008) |
| Amortisation | 8 | (1,762) | (1,659) |
| | | 8,081 | 1,880 |
| Share of profit of associates and JVs | 19 | 146 | - |
| Finance income | 7 | 8 | - |
| Exchange gain/(loss) on borrowings | 7 | 247 | (5) |
| Fair value movement on embedded derivative | 7 | - | (1,567) |
| Finance cost | 7 | (620) | (519) |
| Total finance costs | | (365) | (2,091) |
| Profit/(loss) before taxation | | 7,862 | (211) |
| Tax credit | 12 | 370 | 1,573 |
| Profit and total comprehensive income for the year attributable to equity holders of the parent | | 8,232 | 1,362 |
| Profit per share | | | |
| basic | 14 | 9.30 cents | 1.60 cents |
| diluted | | 8.30 cents | 1.50 cents |

*see note 34 for details regarding the prior period restatement.

The notes on pages 74 to 112 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March 2023

| | Note | 2023 \$000 | Restated* 2022 \$000 |
|--|------|-----------------|-------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 17 | 10,341 | 9,870 |
| Property, plant and equipment | 15 | 14,736 | 13,317 |
| Equity accounted investments | 19 | 4,300 | 4,154 |
| Deferred income tax assets | 20 | 1,664 | 1,490 |
| | | 31,041 | 28,831 |
| Current assets | | | |
| Trade and other receivables | 21 | 16,532 | 22,972 |
| Contract assets | 27 | 4,836 | 3,647 |
| Cash and cash equivalents | 22 | 11,839 | 5,962 |
| | | 33,207 | 32,581 |
| Total assets | | 64,248 | 61,412 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 26 | (19,746) | (25,884) |
| Contract liabilities | 27 | (693) | (774) |
| Borrowings | 25 | (1,408) | (1,313) |
| | | (21,847) | (27,971) |
| Non-current liabilities | | | |
| Borrowings | 25 | (6,968) | (7,830) |
| Other payables | 26 | (300) | (619) |
| | | (7,268) | (8,449) |
| Total liabilities | | (29,115) | (36,420) |
| Net assets | | 35,133 | 24,992 |
| EQUITY | | | |
| Equity attributable to equity holders of the parent | | | |
| Called up share capital | 24 | 1,179 | 1,174 |
| Share premium reserve | 24 | 55,797 | 55,665 |
| Foreign exchange translation reserve | 24 | (992) | (992) |
| Converted loan note reserve | 24 | - | 5,471 |
| Share option reserve | 24 | 4,391 | 2,619 |
| Capital redemption reserve | 24 | 6,753 | 6,753 |
| Interest in own shares | 24 | (49) | (49) |
| Other reserves | 24 | 12,320 | 12,320 |
| Accumulated losses | 24 | (44,266) | (57,969) |
| Attributable to equity holders | | 35,133 | 24,992 |

*see note 34 for details regarding the prior period restatement.

The notes on pages 74 to 112 are an integral part of these consolidated financial statements.

The financial statements on pages 68 to 112 were approved and authorised for issue by the board of directors on 9 August 2023 and were signed on its behalf.



Stuart A Green
Chief Executive Officer



Phillip Blundell
Chief Finance Officer

COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 March 2023

| | Note | 2023 \$000 | 2022 \$000 |
|--|------|-----------------|---------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 15 | 4,342 | 4,336 |
| Intangible assets | 17 | 2,291 | 2,281 |
| Investments in associated undertakings | 19 | 4,198 | 4,052 |
| Investment in subsidiary undertakings | 19 | 13,449 | 12,700 |
| Amounts due from subsidiary undertakings | 21 | 38,546 | 26,095 |
| | | 62,826 | 49,464 |
| Current assets | | | |
| Trade and other receivables | 21 | 665 | 480 |
| Cash and cash equivalents | 22 | 7 | 30 |
| | | 672 | 510 |
| Current liabilities | | | |
| Trade and other payables | 26 | (20,369) | (9,314) |
| Borrowings | 25 | (9,892) | (9,795) |
| | | (30,261) | (19,109) |
| Net current assets | | 33,237 | 30,865 |
| Non-current liabilities | | | |
| Borrowings | 25 | (2,178) | (2,527) |
| Other payables | 26 | (300) | (600) |
| | | (2,478) | (3,127) |
| Net assets | | 30,759 | 27,738 |
| EQUITY | | | |
| Called up share capital | 24 | 1,179 | 1,174 |
| Share premium reserve | 24 | 55,797 | 55,665 |
| Foreign exchange translation reserve | 24 | (13) | (13) |
| Converted loan note reserve | 24 | - | 5,471 |
| Share option reserve | 24 | 4,391 | 2,619 |
| Capital redemption reserve | 24 | 6,753 | 6,753 |
| Interest in own shares | 24 | (4) | (4) |
| Other reserves | 24 | 10,596 | 10,596 |
| Accumulated losses | 24 | (47,940) | (54,523) |
| Total equity | | 30,759 | 27,738 |

Company registration number: 03858881

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

The profit for the parent company for the year was \$1,112,000 (2022: loss of \$667,000).

The notes on pages 74 to 112 are an integral part of these consolidated financial statements.

The financial statements on pages 68 to 112 were approved and authorised for issue by the board of directors on 9 August 2023 and were signed on its behalf.



Stuart A Green

Chief Executive Officer



Phillip Blundell

Chief Finance Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2023

| | Ordinary shares | Share premium reserve | Foreign exchange trans- lation reserve | Convert- ed loan note reserve | Share option reserve | Capital redemp- tion reserve | Other reserves | Accu- mulated losses | Interest in own shares | Total equity attributa- ble to the owners of the Parent |
|---|--------------------|-----------------------------|--|--|----------------------------|---------------------------------------|-------------------|----------------------------|------------------------------|--|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Balance at 1 April 2021 | 1,010 | 41,003 | (997) | 42 | 2,085 | 6,753 | 12,320 | (59,331) | (46) | 2,839 |
| Issue of Share Capital | 164 | 14,662 | - | 5,429 | - | - | - | - | - | 20,255 |
| Share options exercised | - | - | - | - | 21 | - | - | - | - | 21 |
| Share based payments | - | - | - | - | 513 | - | - | - | - | 513 |
| Transactions with owners | 164 | 14,662 | - | 5,429 | 534 | - | - | - | - | 20,789 |
| Foreign exchange transla- tion adjustment | - | - | 5 | - | - | - | - | - | (3) | 2 |
| Profit for the year (restated*) | - | - | - | - | - | - | - | 1,362 | - | 1,362 |
| Total comprehensive income for the year (restated*) | - | - | - | - | - | - | - | 1,362 | - | 1,362 |
| Balance at 31 March 2022 (restated*) | 1,174 | 55,665 | (992) | 5,471 | 2,619 | 6,753 | 12,320 | (57,969) | (49) | 24,992 |
| Balance at 31 March 2022 as originally pre- sented | 1,174 | 55,665 | (992) | 5,471 | 2,619 | 6,753 | 12,320 | (56,703) | (49) | 26,258 |
| Prior period adjustment * | - | - | - | - | - | - | - | (1,266) | - | (1,266) |
| After restated total eq- uity as at 31 March 2022 | 1,174 | 55,665 | (992) | 5,471 | 2,619 | 6,753 | 12,320 | (57,969) | (49) | 24,992 |
| Issue of Share Capital | 5 | - | - | - | - | - | - | - | - | 5 |
| Share options exercised | - | 132 | - | - | 122 | - | - | - | - | 254 |
| Share based payments | - | - | - | - | 1,650 | - | - | - | - | 1,650 |
| Transfer of converted loan note reserve | - | - | - | (5,471) | - | - | - | 5,471 | - | - |
| Transactions with owners | 5 | 132 | - | - | 1,772 | - | - | - | - | 2,672 |
| Foreign exchange transla- tion adjustment | - | - | - | - | - | - | - | - | - | - |
| Profit for the year | - | - | - | - | - | - | - | 8,232 | - | 8,232 |
| Total comprehensive income for the year | - | - | - | - | - | - | - | 8,232 | - | 8,232 |
| Balance at 31 March 2023 | 1,179 | 55,797 | (992) | - | 4,391 | 6,753 | 12,320 | (44,266) | (49) | 35,133 |

*see note 34 for details regarding the prior period restatement.

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2023

| | Ordinary shares | Share premium reserve | Foreign exchange translation reserve | Convert- ed loan note reserve | Share option reserve | Capital re- demption reserve | Other reserves | Accu- mulated losses | Interest in own shares | Total |
|---|--------------------|-----------------------------|---|--|----------------------------|------------------------------------|-------------------|----------------------------|------------------------------|---------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Restated balance at 1 April 2021 | 1,010 | 41,003 | (13) | 42 | 2,085 | 6,753 | 10,596 | (53,856) | (4) | 7,616 |
| Issue of share capital | 164 | 14,662 | - | 5,429 | - | - | - | - | - | 20,255 |
| Share options exercised | - | - | - | - | 21 | - | - | - | - | 21 |
| Share based payments | - | - | - | - | 513 | - | - | - | - | 513 |
| Transactions with owners | 164 | 14,662 | - | 5,429 | 534 | - | - | - | - | 20,789 |
| Loss for the year | - | - | - | - | - | - | - | (667) | - | (667) |
| Total comprehensive income for the year | - | - | - | - | - | - | - | (667) | - | (667) |
| Balance at 31 March 2022 | 1,174 | 55,665 | (13) | 5,471 | 2,619 | 6,753 | 10,596 | (54,523) | (4) | 27,738 |
| Issue of share capital | 5 | - | - | - | - | - | - | - | - | 5 |
| Share options exercised | - | 132 | - | - | 122 | - | - | - | - | 254 |
| Share based payments | - | - | - | - | 1,650 | - | - | - | - | 1,650 |
| Transfer of converted loan note reserve | - | - | - | (5,471) | - | - | - | 5,471 | - | - |
| Transactions with owners | 5 | 132 | - | - | 1,772 | - | - | - | - | 1,909 |
| Profit for the year | - | - | - | - | - | - | - | 1,112 | - | 1,112 |
| Total comprehensive income for the year | - | - | - | - | - | - | - | 1,112 | - | 1,112 |
| Balance at 31 March 2023 | 1,179 | 55,797 | (13) | - | 4,391 | 6,753 | 10,596 | (47,940) | (4) | 30,759 |

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 March 2023

| | | 2023 | Restated* |
|--|--------|----------------|-----------------|
| | Note | \$000 | 2022 \$000 |
| Cash flows from operating activities | | | |
| Operating profit for the year | | 8,081 | 1,880 |
| Other income | | 8 | - |
| Depreciation and impairment | 15 | 3,973 | 3,022 |
| Amortisation and impairment | 17 | 1,762 | 1,659 |
| Share based payments | | 1,650 | 513 |
| Changes in working capital: | | | |
| Increases in trade and other receivables | | 5,251 | (15,433) |
| (Decrease)/Increase in trade and other payables | | (5,219) | 13,583 |
| Cash flow from operations | | 15,506 | 5,224 |
| Tax received | | 196 | 258 |
| Net cash inflow from operating activities | | 15,702 | 5,482 |
| Investing activities | | | |
| Purchase of intangible assets | 17 | (60) | (58) |
| Capitalised development costs | 17 | (2,163) | (1,675) |
| Purchase of Investments | 19 | - | (953) |
| Acquisition of subsidiaries | 18 | - | (3,000) |
| Purchase of property, plant and equipment | 15, 20 | (4,706) | (4,377) |
| Payment of deferred consideration | | (1,300) | (300) |
| Net cash outflow from investing activities | | (8,229) | (10,363) |
| Cash flows from financing activities | | | |
| Repayment of borrowings | | (477) | (231) |
| Proceeds from fund raise | | - | 10,107 |
| Repayment of principal under lease liabilities | | (748) | (1,268) |
| Finance cost | | (630) | (348) |
| Share options exercised | | 254 | 21 |
| Share issue costs | | - | (551) |
| Issue of share capital | | 5 | 164 |
| Net cash (outflow)/inflow from financing | | (1,596) | 7,894 |
| Net increase in cash and cash equivalents | | 5,877 | 3,013 |
| Cash and cash equivalents at the beginning of the year | | 5,962 | 2,949 |
| Cash and cash equivalents at the end of the year | 22 | 11,839 | 5,962 |

*see note 34 for details regarding the prior period restatement.

The notes on pages 74 to 112 are an integral part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2023

1. General information

ZOO Digital Group plc ('the company') and its subsidiaries (together 'the group') provide productivity tools and services for digital content authoring, video post-production and localisation for entertainment, publishing and packaging markets and continue with on-going research and development in those areas. The group has operations in the UK, US and India.

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 Floor 2 Castle House, Angel Street, Sheffield.

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). Monetary amounts in these financial statements are rounded to the nearest \$000.

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 and going concern

Group financial statements

These financial statements have been prepared in accordance with UK adopted international accounting standards and the requirements of the Companies Act 2006.

The preparation of financial statements in accordance with international accounting standards and the requirements of the Companies Act 2006 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.

Parent Company financial statements

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and in accordance with applicable accounting standards

In the current reporting period the Company has adopted FRS 101 for the first time. FRS 101 is a reduced disclosure framework of IFRS, and accordingly there have been no transitional adjustments to disclose on adoption of FRS 101.

As permitted by FRS 101, the Company has taken advantage of the following disclosure exemptions from the requirements of IFRS:

- inclusion of an explicit and unreserved statement of compliance with IFRS;
- presentation of a statement of cash flows and related notes;
- disclosure of the objectives, policies and processes for managing capital;
- disclosure of key management personnel compensation;
- disclosure of the categories of financial instrument and the nature and extent of risks arising on these financial instruments;
- the effect of financial instruments on the statement of comprehensive income;
- comparative period reconciliations for the number of shares outstanding and the carrying amounts of property, plant and equipment, intangible assets, investment property and biological assets;
- a reconciliation of the number and weighted average exercise prices of share options, how the fair value of share-based payments was determined and their effect on profit or loss and the financial position;
- comparative narrative information;
- for financial instruments, investment property and biological assets measured at fair value and within the scope of IFRS 13, the valuation techniques and inputs used to measure fair value, the effect of fair value measurements with significant unobservable inputs on the result for the period and the impact of credit risk on the fair value; and
- related party disclosures for transactions with the parent or wholly owned members of the Group.

The Company applies accounting policies, key judgements, and key estimates on a consistent basis as the Group, except for disclosure exemptions set out above. To the extent that an accounting policy is relevant to both Group and Parent Company financial statements, the Group accounting policy disclosed below provides details of the accounting policy insofar as this is relevant to the Company.

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.

Going concern

The directors have prepared trading and cash flow forecasts for the group for the period to 31 March 2025 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 HSBC Bank which provides invoice financing of up to \$5m against US clients invoices raised by ZOO Digital Production LLC. This facility is in place until 1 June 2024.

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 2022

There are no new or revised standards that will have a material impact on the Group.

2.1.1 Standards and interpretations in issue at 31 March 2023 but not yet effective and have not yet been adopted early by the Group

At the date of authorisation of these financial statements, there are no new, but not yet effective, standard, amendments to existing standards, or interpretations that have been published by the IASB that will have a material impact on these financial statements.

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.

The Group applies the acquisition method when accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and equity interests issued the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

Assets acquired and liabilities assumed are generally measured at their acquisition date fair values. However, such fair values and all associated accounting entries are subject to revision during a period not exceeding 12 months following the date of acquisition, insofar as the accounting for the business combination is incomplete by the end of the first reporting period date. As a result, ZOO Digital Group plc revises any provisional amounts retrospectively to reflect further evidence received in respect of acquisition date values. Details of these revisions are provided in note 18.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting regularly reviewed by the group's chief operating decision maker (chief executive) to make decisions about resource allocation to the segments and to assess their performance. The segments are described further in note 4.

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 2023 was 0.813 (2022: 0.762).

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;

ZOO Digital Group plc

Annual Report 2023

- 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.

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 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.

2.6.1 Joint ventures and associates

Joint ventures are all entities in which the Group has shared control with another entity, established by contractual agreement. Associates are all entities over which the Group has significant influence but not control, generally accompanied by a share of between 20% and 50% of the voting rights. Joint ventures and associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's share of the profits or losses is recognised in the Consolidated Statement of Comprehensive Income. If the share of losses equals its investment, the Group does not recognise further losses, except to the extent that there are amounts receivable that are long-term and may not be settled in the foreseeable future. Unrealised gains on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group's interest in them. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the joint ventures and associates are consistent with those of the Group.

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 non-current 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 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.

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 transaction price and subsequently at their amortised cost using the effective interest rate method, less provision for impairment.

Impairment of financial assets

The impairment requirement of IFRS 9 uses a forward-looking information to recognise expected credit losses – the “expected credit loss (ECL) model”. Instruments within the scope of IFRS 9 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 in hand and short-term 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.

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 have been included in the consolidated financial statements as the Group exercises control over the EMI in accordance with the terms of the scheme rules.

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 Company to eligible employees. The eligible employees to whom options are granted and the terms of such options will be determined by the Directors of ZOO or the trustees.

The employees who are eligible to participate in the EMI scheme are all ZOO's employees, including the employees of the Company's subsidiaries. Options are not transferable.

ZEST holds shares for employees only. Its statement of financial position is consolidated within the Group.

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

Costs are recognised when the liability transfers to ZOO, which is determined by work being completed.

A contract asset must be recognised if the Group recorded revenue for fulfilment of a contractual performance obligation before the customer paid consideration or before – irrespective of when payment is due – the requirements for billing and thus the recognition of a receivable exist.

A contract liability must be recognised when the customer paid consideration or a receivable from the customer is due before the Group fulfilled a contractual performance obligation and thus recognised revenue.

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 value to the customer of services transferred to date and a contract asset is

recognised if appropriate.

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

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, i.e. 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. Performance obligations within each contract are separated to identify distinct elements to which transaction prices are allocated. Revenue is recognised over time because the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. 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 still ongoing at the end of an accounting period, the asset enhancement completed to date is estimated based on reports within ZOO core and ZOO invoicing which use the project status and the customer ratecard to determine revenue to date. This allows revenue to be allocated across accounting periods.

The revenue stream forms the Media Production segment.

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 series of distinct goods and services that are all substantially the same and have the same pattern of transfer to the customer, 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. All costs relating to complete or partially complete performance are expensed as incurred. This revenue stream forms the Software Solutions revenue stream.

2.13 Leases

The Group as a lessee

For any new contracts entered into the Group considers whether a contract is, or contains a lease. A lease is defined as "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration". To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- The Group has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- The Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct "how and for what purpose" the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentive received).

The Group depreciates the right-of-use assets on a straight line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is removed to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of

recognising a right-of-use asset and lease liability, the payments in relation to those are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in borrowings.

2.14 Deferred taxation

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

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

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

2.15 Government grants

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

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

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

3. Accounting estimates and judgements

Estimates and 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 17) 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 16% (2022:10%). No impairment loss is incurred at this discount rate. No reasonable adjustment to the discount rate or other inputs would result in an impairment.

Financial Instruments (note 31)

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.

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, in accordance with the requirements of IAS 12 'Income Taxes'.

Where the temporary differences related to unused tax losses, evidence considered to support the recognition of deferred tax assets include the existence of relevant taxable profits in the current and preceding periods and in the period after the reporting date and expectations of profits in the future. Recognition therefore involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset has been recognised.

Intangible non-current assets

These are estimated on the basis of value in use, which is calculated from the present value of future cash flows expected to be derived from the asset under review. The key elements of estimation are the calculation of future cash flows. For intangible assets, future cash flows are forecast revenues from the associated cash-generating unit. Further estimation is made in determining an appropriate discount rate that reflects the specific risks associated with the asset or cash-generating unit. See note 17 for further details of assumptions made and sensitivity testing regarding intangible assets.

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 has 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.

Allocation of the transaction price to performance obligations

Where a contract contains multiple performance obligations, the transaction price is required 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. The allocation of such a price is done using the output method, reflecting that ZOO's delivery is to deliver services to enhance the customer's assets.

Intercompany non-current asset classification (parent company only)

The amounts owed by subsidiary undertakings as non-current assets because the Group is still in an investment phase and does not expect or require its subsidiaries to repay its debts to the Group in the next 12 months.

Recognition of revenue from multiple element contracts, and revenue recognition

Management uses judgement in determining the fair value of multiple element contracts in order to appropriately recognise the revenue attributable to each element, which may be based on contractual terms or (for bundled contracts) the standalone selling price that would be attributed to each service.

For revenues recognised over time, the value of revenue recognised in the period is dependent on an assessment of work to the reporting period end date. (see 2.12.1).

Capitalisation of development costs

The capitalisation of development expenditure is dependent on the costs meeting the recognition criteria in accordance with IAS 38 'Intangible Assets'. In assessing the criteria, management makes judgements on the level of future economic benefits of the asset flowing to the Company. Management is assisted in making these judgements through the monitoring both of sales forecasts and of the level of future cost benefits arising.

ZOO Digital Group plc

Annual Report 2023

4. Segmental reporting

Operating segments

At 31 March 2023, the group is organised on a worldwide basis into two main operating segments:

Segment 1 – Media Production – being localisation and media services

Segment 2 - Software solutions

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 cashflows are affected by economic factors. The media production segment generates revenue which is reported as “Localisation” and “Media Services”. Both types of revenue are interdependent and are generated by the same processes, people and assets, accordingly are considered to represent one segment.

The segment profit reported to the Group’s Chief Operating Decision Maker (“CODM”) is to a segment contribution level only, which is to the extent required for the purpose of resource allocation and assessment of segment performance. Thus, a further analysis is not provided nor arbitrarily allocated on the basis that the CODM does not use this information. Similarly, assets and liabilities of the Group are not reported to the CODM by segment.

The segment results are as follows:

| | Media Production | | | | | | | |
|---|------------------|------------------|----------------|------------------|--------------------|------------------|-----------------|------------------|
| | Localisation | | Media services | | Software solutions | | Total | |
| | 2023 | Restated 2022 | 2023 | Restated 2022 | 2023 | Restated 2022 | 2023 | Restated 2022 |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Total revenue | 65,911 | 49,573 | 38,297 | 26,425 | 1,567 | 1,792 | 105,775 | 77,790 |
| Inter-segment revenue | (9,333) | (7,387) | (6,182) | | | - | (15,515) | (7,387) |
| Revenue | 56,578 | 42,186 | 32,115 | 26,425 | 1,567 | 1,792 | 90,260 | 70,403 |
| Segment contribution | 18,853 | 8,756 | 19,547 | 14,481 | 1,316 | 1,660 | 39,716 | 24,897 |
| Unallocated cost of sales | | | | | | | (5,783) | (4,056) |
| Gross profit | | | | | | | 33,933 | 20,841 |
| Unallocated corporate expense and income | | | | | | | (25,852) | (18,961) |
| Operating profit | | | | | | | 8,081 | 1,880 |
| Finance income | | | | | | | 8 | - |
| Finance cost | | | | | | | (373) | (2,091) |
| Profit share of profits of associates and JVs | | | | | | | 146 | - |
| Profit/(loss) before taxation | | | | | | | 7,862 | (211) |
| Tax on profit | | | | | | | 370 | 1,573 |
| Profit for the year | | | | | | | 8,232 | 1,362 |

Geographical areas

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

| | Revenue | | Total assets | | Non-current assets | |
|---------------------------|---------------|--------|---------------|------------------|--------------------|--------|
| | 2023 | 2022 | 2023 | Restated 2022 | 2023 | 2022 |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| United Kingdom (domicile) | 16,990 | 9,179 | 27,080 | 31,476 | 19,677 | 26,083 |
| India | 2,052 | - | 3,710 | - | 1,644 | - |
| US | 71,218 | 61,224 | 33,458 | 29,936 | 9,720 | 2,748 |
| | 90,260 | 70,403 | 64,248 | 61,412 | 31,041 | 28,831 |

At 31 March 2023, contract assets amounted to \$4.8m (2022: \$3.6m) and contract liabilities amounted to \$0.7m (2022: \$0.8m). Revenue for the year ended 31 March 2023 includes \$0.5m (2022: \$0.5m) included in the contract liability balance at the beginning of the period. Further information on the values of contract assets and liabilities is provided in note 27.

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:

| | 2023 | 2022 |
|--|---------------|--------|
| | \$'000 | \$'000 |
| Service revenue (recognised over time) | 88,693 | 68,611 |
| Licence revenue (recognised over time) | 1,567 | 1,792 |
| | 90,260 | 70,403 |

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

| | For the year ended 31 March 2023 | | |
|-----------------|----------------------------------|---------------------|-------------------------|
| | Service \$'000 | Licensing \$'000 | Total \$'000 |
| United Kingdom | 10,261 | 9 | 10,270 |
| USA | 70,438 | 1,558 | 71,996 |
| Europe | 288 | - | 288 |
| Singapore | 4,621 | - | 4,621 |
| Other countries | 3,085 | - | 3,085 |
| | 88,693 | 1,567 | 90,260 |

| | For the year ended 31 March 2022 | | |
|-----------------|----------------------------------|---------------------|-----------------|
| | Service \$'000 | Licensing \$'000 | Total \$'000 |
| United Kingdom | 3,937 | 49 | 3,986 |
| USA | 62,838 | 1,735 | 64,573 |
| Europe | 764 | - | 764 |
| Singapore | 165 | - | 165 |
| Other countries | 907 | 8 | 915 |
| | 68,611 | 1,792 | 70,403 |

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

| | For the year ended 31 March 2023 | | |
|--------------------------------|----------------------------------|---------------------|-------------------------|
| | Service \$'000 | Licensing \$'000 | Total \$'000 |
| Services transferred over time | 88,693 | 1,567 | 90,260 |

| | For the year ended 31 March 2022 | | |
|--------------------------------|----------------------------------|---------------------|-----------------|
| | Service \$'000 | Licensing \$'000 | Total \$'000 |
| Services transferred over time | 68,611 | 1,792 | 70,403 |

ZOO Digital Group plc

Annual Report 2023

Major clients

The group has two major customers contributing 74% and 4% (2022: 78% and 6%) of the group's revenue respectively. The debtor receivable balance as at 31 March 2023 for the two largest clients was \$9m (2022: \$18m). The revenues are as follows:

| | 2023 | 2022 |
|---------------------|---------------|---------------|
| | \$000 | \$000 |
| Largest two clients | 70,669 | 58,905 |
| Other clients | 19,591 | 11,498 |
| | 90,260 | 70,403 |

6. Other operating income

| | 2023 | 2022 |
|--|----------|------------|
| | \$'000 | \$'000 |
| Grant Funding (Sheffield City Council and Innovate UK) | - | 204 |
| Investment income | 8 | - |
| Other operating income | 8 | 204 |

7. Finance income and costs

| | 2023 | 2022 |
|--|------------|--------------|
| | \$'000 | \$'000 |
| Interest received | 8 | - |
| Finance costs | | |
| Interest on borrowings | 29 | 288 |
| Interest on lease liabilities | 591 | 231 |
| | 620 | 519 |
| Fair value movement on embedded derivative | - | 1,567 |
| Exchange loss on borrowings | (247) | 5 |
| Finance costs | 373 | 2,091 |

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 (CLN) agreement which have been classed as embedded derivatives. The CLN was converted in September 2021 and this now no longer exists.

8. Operating profit

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

| | 2023 | 2022 |
|--|---------------|---------------|
| | \$000 | \$000 |
| Other exchange losses/(gains) | 51 | (98) |
| Staff costs (indirect) | 12,439 | 9,973 |
| Capitalised staff costs | (2,163) | (1,675) |
| Share based payment | 1,650 | 513 |
| Depreciation | 3,973 | 2,411 |
| Impairment re Citygate right of use asset | - | 611 |
| Grant release re tangible fixed assets | - | (14) |
| Amortisation of other intangible assets | 1,762 | 1,659 |
| Research and non-capitalised development costs | 602 | 278 |
| Auditor's remuneration | 212 | 129 |
| Other expenses | 7,334 | 5,378 |
| Other operating expenses | 25,860 | 19,165 |

9. Auditor's remuneration

| | 2023 | 2022 |
|---|--------------|-------|
| | \$000 | \$000 |
| Fees payable to the company's auditor for the audit of the company's financial statements | 194 | 104 |
| For audit services: | | |
| Fees payable to the company's auditor and its associates for other services: | | |
| The audit of subsidiary financial statements | 18 | 18 |
| For other services: | | |
| Audit-related assurance services | - | 7 |
| | 212 | 129 |

10. Employees including directors

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

| | Group | | Company | |
|-------------------------------------|--------------|------|----------------|------|
| | 2023 | 2022 | 2023 | 2022 |
| | No. | No. | No. | No. |
| Product design and service delivery | 499 | 320 | 150 | 110 |
| Sales and marketing | 16 | 10 | 9 | 6 |
| Administration | 43 | 23 | 18 | 14 |
| | 558 | 353 | 177 | 130 |

Their aggregate remuneration comprised:

| | Group | | Company | |
|-----------------------|---------------|--------|----------------|-------|
| | 2023 | 2022 | 2023 | 2022 |
| | \$'000 | \$000 | \$'000 | \$000 |
| Wages and salaries | 31,031 | 24,462 | 3,684 | 3,560 |
| Social security costs | 2,030 | 2,257 | 287 | 226 |
| Other pension costs | 444 | 259 | 118 | 130 |
| Share based payments | 1,650 | 513 | 268 | 371 |
| | 35,155 | 27,491 | 4,357 | 4,287 |

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

Compensation of key management personnel (including directors)

| | Group | |
|---|--------------|--------|
| | 2023 | 2022 |
| | \$000 | \$'000 |
| Short-term employee benefits | 2,426 | 2,452 |
| Cost of defined benefit scheme pensions | 10 | 11 |
| Share based payments | 280 | 120 |
| | 2,716 | 2,583 |

This includes all directors listed on pages 44 - 46 and senior management.

ZOO Digital Group plc

Annual Report 2023

Directors' remuneration for the year to 31 March 2023 is:

| | | | | | 2023 | 2022 |
|-------------------|--------------|------------|-----------|-----------|--------------|-------|
| | Salary | Bonus | Benefits | Pension | Total | Total |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Dr Stuart A Green | 291 | 292 | - | 8 | 591 | 615 |
| Gordon Doran | 414 | 340 | 27 | - | 781 | 726 |
| Phillip Blundell | 235 | 146 | - | - | 381 | 456 |
| Mickey Kalifa | 46 | - | - | 1 | 47 | 50 |
| Gillian Wilmot | 71 | - | - | - | 71 | 74 |
| Nathalie Schwartz | 46 | - | - | 1 | 47 | 10 |
| | 1,103 | 778 | 27 | 10 | 1,918 | 1,931 |

Three directors (2022: 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: | 2023 | 2022 |
|--|-------|-------|
| | \$000 | \$000 |
| Emoluments | 781 | 726 |

11. Alternative Performance Measures

The Directors have used a number of Alternative Performance Measures ("APM") in the preparation of these financial statements. The Consolidated Statement of Comprehensive Income has presented 'Earnings before Interest, Tax, Depreciation and Amortisation' ("EBITDA") before share-based payments, which removes the non-cash aspect of employee remuneration which is, in the opinion of the Directors, not relevant to the underlying performance and cash generation of the business.

The Directors have presented this APM because they feel it most suitably represents the underlying performance and cash generation of the business, and allows comparability between the current and comparative period in light of the changes in the business, and will allow an ongoing trend analysis of this performance based on plans for the business.

The Consolidated Statement of Comprehensive Income provides a reconciliation of EBITDA before share-based payments to operating profit, which is presented within the boxed section. This reconciliation is relevant throughout this annual report when "EBITDA before share-based payments" or "adjusted EBITDA" is stated.

12. Income tax

| | 2023 | 2022 |
|--|--------------|----------------|
| | \$000 | \$000 |
| Current tax: | | |
| UK corporation tax | | |
| - Research and development tax credit | (446) | (410) |
| Foreign tax | 112 | 152 |
| Adjustments in respect of prior periods (foreign tax) | 142 | - |
| Total current tax | (192) | (258) |
| Total deferred tax – Origination and reversal of timing differences | (178) | (1,315) |
| Tax credited | (370) | (1,573) |

Corporation tax is calculated at 19% (2022: 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:

| | 2023 | Restated* 2022 |
|---|----------------|----------------|
| | \$000 | \$000 |
| Profit/(loss) before tax | 7,862 | (211) |
| Tax calculated at standard rate of corporation tax of 19% (2022: 19%) | 1,494 | (40) |
| Disallowable expenses | 59 | - |
| Research and development tax credit (<i>see below</i>) | (446) | (410) |
| Foreign tax | 770 | 152 |
| Deferred tax asset initially recognised | (144) | (1,315) |
| Other movements | 142 | - |
| (Deducted from)/accumulation of unrecognised losses brought forward | (2,245) | 40 |
| Tax credited | (370) | (1,573) |

*see note 34 for details regarding the restatement as a result of an error.

Companies within the Group are entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure under the Research and Development Tax Incentive regime. The Group accounts for these allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense.

The UK corporation tax rate was 19% throughout the year.

In the March 2021 Budget, a change to the future UK corporation tax rate was announced, meaning that the rate will increase to 25% from April 2023. Full details of the impact of this and other overseas rates are provided in note 20.

Tax losses carried forward

The group has tax losses carried forward of approximately \$31.5m (2022: \$38.1m), of which \$1.9m (2022: \$2.6m) has been recognised at a rate of 25% (UK) and 30% (US) 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. Further analysis is provided in note 20.

13. Dividends

There were no dividends paid or proposed.

ZOO Digital Group plc

Annual Report 2023

14. Earnings per share

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

Diluted EPS is calculated by dividing the profit attributable to the equity holders of the Parent by the weighted average number of ordinary shares outstanding plus the weighted average number of shares that would be issued on conversion of all the dilutive share options into ordinary shares.

| | Basic and Diluted | |
|--------------------------------------|--------------------------|---------------|
| | 2023 | Restated 2022 |
| | \$000 | \$000 |
| Profit for the financial year | 8,232 | 1,362 |

| | 2023 | 2022 |
|---|-------------------|------------|
| | Number of | Number of |
| | shares | shares |
| Weighted average number of shares for basic & diluted profit per share | | |
| Basic | 88,835,890 | 85,037,636 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | 10,451,983 | 8,585,215 |
| Diluted | 99,287,873 | 93,622,851 |

| | 2023 | Restated 2022 |
|---------|--------------|---------------|
| | Cents | Cents |
| Basic | 9.30 | 1.60 |
| Diluted | 8.30 | 1.50 |

15. Property, plant and equipment

| Group | Production equipment \$000 | Leasehold property improvements \$000 | Computer hardware \$000 | Office equipment, fixtures & fittings \$000 | Total \$000 |
|--|----------------------------------|--|-------------------------------|---|----------------|
| Cost | | | | | |
| Opening cost at 1 April 2021 | 843 | 4,460 | 5,225 | 191 | 10,719 |
| Additions – Right of use assets | - | 8,495 | - | - | 8,495 |
| Additions - owned | 94 | 2,110 | 2,001 | 172 | 4,377 |
| On Vista acquisition | - | - | 97 | - | 97 |
| Disposals – Right of use assets | - | (3,034) | - | - | (3,034) |
| Opening cost at 1 April 2022 | 937 | 12,031 | 7,323 | 363 | 20,654 |
| Additions – Right of use assets | - | 686 | - | - | 686 |
| Additions - owned | 328 | 838 | 3,446 | 94 | 4,706 |
| Disposals – owned | (503) | (545) | (2,404) | (108) | (3,560) |
| Closing cost at 31 March 2023 | 762 | 13,010 | 8,365 | 349 | 22,486 |
| Accumulated depreciation | | | | | |
| Opening balance at 1 April 2021 | 628 | 2,306 | 3,296 | 127 | 6,357 |
| Depreciation | 149 | 1,097 | 1,126 | 39 | 2,411 |
| Impairment | - | 611 | - | - | 611 |
| On disposal | - | (2,042) | - | - | (2,042) |
| Opening balance at 1 April 2022 | 777 | 1,972 | 4,422 | 166 | 7,337 |
| Depreciation | 182 | 1,930 | 1,776 | 85 | 3,973 |
| Impairment | - | - | - | - | - |
| On disposal | (503) | (545) | (2,404) | (108) | (3,560) |
| Closing balance at 31 March 2023 | 456 | 3,357 | 3,794 | 143 | 7,750 |
| Opening carrying value at 1 April 2022 | 160 | 10,059 | 2,901 | 197 | 13,317 |
| Closing carrying value at 31 March 2023 | 306 | 9,653 | 4,571 | 206 | 14,736 |

Included in the net carrying amount of Leasehold Improvements are right-of-use assets of \$7,311,000 (2022: \$7,959,000). Details of these leases are provided in note 16.

ZOO Digital Group plc

Annual Report 2023

| Company | Leasehold improvements \$000 | Computer & Production hardware \$000 | Office equipment, fixtures & fittings \$000 | Total \$000 |
|--|---------------------------------|---|--|----------------|
| Cost | | | | |
| Opening cost at 1 April 2022 | 4,918 | 1,238 | 178 | 6,334 |
| Additions - owned | 183 | 804 | 13 | 1,000 |
| Disposals - owned | (307) | (166) | (73) | (546) |
| Closing cost at 31 March 2023 | 4,794 | 1,876 | 118 | 6,788 |
| Accumulated depreciation | | | | |
| Opening balance at 1 April 2022 | 1,333 | 582 | 83 | 1,998 |
| Depreciation | 542 | 419 | 33 | 994 |
| On disposals | (307) | (166) | (73) | (546) |
| Closing balance at 31 March 2023 | 1,568 | 835 | 43 | 2,446 |
| Opening carrying value at 1 April 2022 | 3,585 | 656 | 95 | 4,336 |
| Closing carrying value at 31 March 2023 | 3,226 | 1,041 | 75 | 4,342 |

Included in the net carrying amount of leasehold improvements are right-of-use assets of \$1,851,000 (2022: \$2,041,000). Details of these leases are provided in note 16.

16. Leases

Lease liabilities are presented in the statement of financial position as follows:

| | Group | | Company | |
|-------------|---------------|---------------|---------------|---------------|
| | 2023 \$000 | 2022 \$000 | 2023 \$000 | 2022 \$000 |
| Current | 1,408 | 1,313 | 191 | 94 |
| Non-current | 6,968 | 7,830 | 2,178 | 2,527 |
| | 8,376 | 9,143 | 2,369 | 2,621 |

The Group has leases for offices in Sheffield, London, California, Chennai and Mumbai, and also for some IT equipment. Each lease is reflected on the balance sheet as a right-of-use-asset and a lease liability. The Group classifies its right-of-use-assets in a consistent manner to its property, plant and equipment (see Note 15).

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use-asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Group's leasing activities by type of right-of-use asset recognised on the balance sheet:

| | No of right-of-use assets | Range of remaining term | Average remaining lease term | No of leases with extension options | No of leases with options to purchase | No of leases with variable payments linked to an index | No of leases with termination options |
|---------------------------|---------------------------|-------------------------|------------------------------|-------------------------------------|---------------------------------------|--|---------------------------------------|
| Right-of-use-asset | | | | | | | |
| Office building | 8 | 2-8.5 years | 4 years | - | - | - | - |

The lease liabilities are secured by the related underlying assets. Future minimum lease payments as at 31 March 2023 were as follows:

| | Within 1 year \$'000 | 1-2 years \$'000 | 2-3 years \$'000 | 3-4 years \$'000 | 4-5 years \$'000 | After 5 years \$'000 | Total \$'000 |
|---------------------------|-------------------------|---------------------|---------------------|---------------------|---------------------|-------------------------|-----------------|
| 31 March 2023 | | | | | | | |
| Lease payments | 1,941 | 1,887 | 1,804 | 1,784 | 1,535 | 1,177 | 10,128 |
| Finance charges | (533) | (436) | (331) | (220) | (109) | (123) | (1,752) |
| Net present values | 1,408 | 1,451 | 1,473 | 1,564 | 1,426 | 1,054 | 8,376 |
| 31 March 2022 | | | | | | | |
| Lease payments | 1,868 | 1,760 | 1,665 | 1,637 | 1,600 | 2,732 | 11,262 |
| Finance charges | (555) | (458) | (382) | (284) | (197) | (243) | (2,119) |
| Net present values | 1,313 | 1,302 | 1,283 | 1,353 | 1,403 | 2,489 | 9,143 |

Lease payments not recognised as a liability

The Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

The expense relating to payments not included in the measurement of the lease liability amounted to \$14,000 for leases of low value assets. (2022: \$12,000).

At 31 March 2023 the total commitment was \$29,000 (2022: \$20,000).

Total cash outflow for leases for the year ended 31 March 2023 was \$1.9 million (2022 \$1.9 million).

Group

Tangible assets for the group includes the following amounts where the company is a lessee:

| At 31 March 2023 | Production equipment \$000 | Leasehold improvements \$000 | Computer hardware \$000 | Office equipment, fixtures & fittings \$000 | Total \$000 |
|---------------------------|-------------------------------|---------------------------------|----------------------------|--|----------------|
| Cost - capitalised leases | 168 | 9,864 | 1,229 | - | 11,261 |
| Accumulated depreciation | (140) | (2,553) | (1,083) | - | (3,776) |
| Net book value | 28 | 7,311 | 146 | | 7,485 |
| At 31 March 2022 | Production equipment \$000 | Leasehold improvements \$000 | Computer hardware \$000 | Office equipment, fixtures & fittings \$000 | Total \$000 |
| Cost - capitalised leases | 298 | 9,547 | 2,815 | 26 | 12,686 |
| Accumulated depreciation | (215) | (1,587) | (2,377) | (26) | (4,205) |

ZOO Digital Group plc

Annual Report 2023

| | | | | | |
|-----------------------|-----------|--------------|------------|----------|--------------|
| Net book value | 83 | 7,959 | 438 | - | 8,480 |
|-----------------------|-----------|--------------|------------|----------|--------------|

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

Company

Tangible assets for the company includes the following amounts where the group is a lessee:

| At 31 March 2023 | Leasehold Improvements \$000 | Computer hardware \$000 | Total \$000 |
|---------------------------|---|--|------------------------|
| Cost - capitalised leases | 2,953 | - | 2,953 |
| Accumulated depreciation | (1,102) | - | (1,102) |
| Net book value | 1,851 | | 1,851 |

| At 31 March 2022 | Leasehold Improvements \$000 | Computer hardware \$000 | Total \$000 |
|---------------------------|---|--|------------------------|
| Cost - capitalised leases | 3,229 | 20 | 3,249 |
| Accumulated depreciation | (1,189) | (20) | (1,209) |
| Net book value | 2,040 | - | 2,040 |

17. Intangible assets

| Group | Goodwill \$000 | Customer relationships \$000 | Development costs \$000 | Patents and trademarks \$000 | Computer software \$000 | Total \$000 |
|--|-------------------|------------------------------------|-------------------------------|------------------------------------|-------------------------------|----------------|
| Cost | | | | | | |
| Opening cost at 1 April 2021 | 16,610 | - | 13,583 | 739 | 819 | 31,751 |
| Additions | - | - | 1,675 | 54 | 4 | 1,733 |
| On business combinations* | 1,548 | 1,424 | - | - | 12 | 2,984 |
| Opening cost at 1 April 2022 (as restated) | 18,158 | 1,424 | 15,258 | 793 | 835 | 36,468 |
| Additions | - | - | 2,163 | 28 | 32 | 2,223 |
| Disposals | - | - | - | - | (598) | (598) |
| Exchange differences | 10 | - | - | - | - | 10 |
| Closing cost at 31 March 2023 | 18,168 | 1,424 | 17,421 | 821 | 269 | 38,103 |
| Accumulated amortisation and impairments | | | | | | |
| Opening balance at 1 April 2021 | 12,620 | - | 11,090 | 555 | 674 | 24,939 |
| Amortisation | - | - | 1,550 | 37 | 72 | 1,659 |
| Opening balance at 1 April 2022 | 12,620 | - | 12,640 | 592 | 746 | 26,598 |
| Amortisation | - | 142 | 1,516 | 32 | 72 | 1,762 |
| Disposals | - | - | - | - | (598) | (598) |
| Closing balance at 31 March 2023 | 12,620 | 142 | 14,156 | 624 | 220 | 27,762 |
| Opening carrying value at 1 April 2022 (as restated) | 5,538 | 1,424 | 2,618 | 201 | 89 | 9,870 |
| Closing carrying value at 31 March 2023 | 5,548 | 1,282 | 3,265 | 197 | 49 | 10,341 |

* Values have been retrospectively restated after adjustment of provisional fair values on business combination, following completion of measurement period. Details of these adjustments are given in note 18.

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 5 years.

No patent applications were derecognised during the year (2022: nil).

No intangible assets were impaired during the year (2022: nil).

ZOO Digital Group plc

Annual Report 2023

| Company | Goodwill \$000 | Computer software \$000 | Total \$000 |
|--|-------------------|-------------------------------|----------------|
| Cost | | | |
| Opening cost at 1 April 2022 | 10,960 | 14 | 10,974 |
| Additions | - | 13 | 13 |
| Disposals | - | (10) | (10) |
| Closing cost at 31 March 2023 | 10,960 | 17 | 10,977 |
| Accumulated amortisation/ impairment | | | |
| Opening balance at 1 April 2022 | 8,679 | 14 | 8,693 |
| Amortisation | - | 3 | 145 |
| Disposals | - | (10) | (10) |
| Closing balance at 31 March 2023 | 8,679 | 7 | 8,828 |
| Opening carrying value at 1 April 2022 | 2,281 | - | 2,281 |
| Closing carrying value at 31 March 2023 | 2,281 | 10 | 2,291 |

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 group of cash-generating assets to which the goodwill attracted on acquisition. 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 16% (2021: 10%). The carrying amount of goodwill is allocated as follows:

| Software solutions | | Media production | | Vista India | | Group | |
|--------------------|-------|------------------|-------|--------------|-------|--------------|-------|
| 2023 | 2022 | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| 2,281 | 2,281 | 1,733 | 1,709 | 1,548 | 1,548 | 5,562 | 5,538 |

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 the Board 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 and into perpetuity. 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 | India |
|---------------|--------------------|------------------|-------|
| Discount rate | 16% | 16% | 25% |
| Growth rate | 3% | 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 and are therefore considered a "worse case" scenario. The pre-tax discount rate of 16% 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 16% 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 16% was applied, the software solutions segment and the media production segment would require no impairment.

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

With the acquisition in March 2022 of the two Vista subsidiaries, they have been classified as one CGU and have been tested for impairment under the same Discount and Growth rates as above. Management has based its forecasts from current products and services and estimates of future clients requirements and market trends. A “cautious” assumption was used when assessing any potential impairment. The pre-tax discount rate of 25% 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 25% was applied, the Vista segment would require no impairment.

If sector growth assumption rates were applied at 0% and a discount rate of 25% was applied, the Vista segment would require no impairment.

If sector growth assumption rates were applied at 0% and a discount rate of 30% was applied, the Vista segment would require no impairment.

18. Acquisitions

On 20 March 2022, the Group acquired 100% of two Indian registered companies, Vista India Digitek Private Limited and Vista Tanweer Studios Private Limited, which are now subsidiaries of the group. We also acquired 35% of Vista India Digital Media Inc. a US business, which is now an associate of the group. ZOO Digital Limited acquired a 1% holding of Vista India Digitek Private Limited in the above transaction.

ZOO's strategy is to become the leading provider of localisation services to the global entertainment industry through innovation and superior customer service. The five pillars of this strategy are innovation, scale, collaboration, customer partnerships and talent.

As our key Hollywood customers grow internationally it is vital that we also become more global. This can be partly accommodated by signing up more affiliates, however having local offices is becoming more of a priority.

The value to ZOO based on the original model presented to the Board is as follows:

- Vista India Digital Media Inc. \$3.0 million
- Vista India Digitek Private Limited \$1.5 million
- Vista Tanweer Studios Private Limited \$1.5 million

The total consideration for the transaction was \$6 million (that being \$3.1 million in cash, \$1.9 million in deferred cash and the remaining \$1 million in shares in the Group) and the consideration was split across the three businesses in a non-commercial arrangement to comply with Indian legal requirements.

The methodology for the split was that the two service businesses were worth 1 times their combined revenues and the balance represents the negotiated price with the Vendors for the 35% of future profits of the US entity, its customer relationships, the ongoing participation of the founders and the Indian brand value.

The Company has obtained expert help in identifying the intangible assets acquired and liabilities assumed based on their fair values. In accordance with IFRS 3 para 45, this exercise is a movement from a provisional position.

The following table summarises the allocation of the acquisition of Vista India Digitek Private Limited and Vista Tanweer Studio Private Limited.

| | \$000 | \$000 |
|--|-------|-------|
| Fair value of consideration | | 3,000 |
| Acquired tangible net assets | | |
| Non-current assets | 168 | |
| Working capital | 235 | |
| Net (debt)/cash | (19) | |
| Acquired net assets | 384 | |
| Identified intangible assets | | |
| Customer relationships | 1,424 | |
| Intangible assets | 1,424 | |
| Deferred tax on customer relationships | (356) | |
| Deferred tax on intangible assets | (356) | |
| Fair value of net assets acquired | | 1,452 |
| Residual goodwill | | 1,548 |

Revision of previously presented values

The Group has revised the accounting for this business combination, in accordance with IFRS 3.45, in respect of new information

ZOO Digital Group plc

Annual Report 2023

received about the acquisition date fair values. The final position is shown above, which compares to previously adopted values as follows:

| | Per provisional acquisition accounting | Revision | Final fair value (as above) |
|-----------------------------|---|----------|-----------------------------------|
| | \$000 | \$000 | \$000 |
| Fair value of consideration | 3,000 | - | 3,000 |
| <i>Split as:</i> | | | |
| Non-current assets | 168 | - | 168 |
| Working capital | 235 | - | 235 |
| Net debt | (19) | - | (19) |
| Customer relationships | - | 1,424 | 1,424 |
| Deferred tax | - | (356) | (356) |
| Goodwill | 2,616 | (1,068) | 1,548 |

These amendments have been recognised as a prior year adjustment, although due to the timing of the acquisition late in the prior year no amortisation has been charged on the customer relationships and as such there is no impact on the Group's reported results. Following this amendment, the measurement period for this acquisition is complete and no further amendments will be recognised.

19. Investments

Parent company – shares in group undertakings

| | \$000 |
|-----------------------------------|---------|
| Cost | |
| At 1 April 2022 | 14,797 |
| Additions | 749 |
| At 31 March 2023 | 15,546 |
| Amounts written off | |
| At 1 April 2022 and 31 March 2023 | (2,097) |
| Carrying amount | |
| At 31 March 2023 | 13,449 |
| At 31 March 2022 | 12,700 |

The additions in the year related to a subscription for additional ordinary share capital in Vista India Digitek Private Limited.

Investments in joint ventures and associates
Group

| | 2023 | | | 2022 | | |
|-------------------------------|----------------|------------|-------|----------------|------------|-------|
| | Joint ventures | Associates | Total | Joint ventures | Associates | Total |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| At 1 April | 906 | 3,248 | 4,154 | - | - | - |
| Additions | - | - | - | 906 | 3,248 | 4,154 |
| Share of profits for the year | 3 | 143 | 146 | - | - | - |
| Dividends received | - | - | - | - | - | - |
| At 31 March | 909 | 3,391 | 4,300 | 906 | 3,248 | 4,154 |

Company

| | 2023 | | | 2022 | | |
|-------------------------------|----------------|------------|-------|----------------|------------|-------|
| | Joint ventures | Associates | Total | Joint ventures | Associates | Total |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| At 1 April | 906 | 3,146 | 4,052 | - | - | - |
| Additions | - | - | - | 906 | 3,146 | 4,052 |
| Share of profits for the year | 3 | 143 | 146 | - | - | - |
| Dividends received | - | - | - | - | - | - |
| At 31 March | 909 | 3,289 | 4,198 | 906 | 3,146 | 4,052 |

On 20 March 2022, the Group acquired 100% of two Indian registered companies, Vista India Digitek Private Limited and Vista Tanweer Studios Private Limited, which are now subsidiaries of the group. We also acquired 35% of Vista India Digital Media Inc. a US business, which is now an associate of the Group.

On 20 October 2021, the Company invested £200,000 (\$318,000) for new shares in Studyo Ares Filmcilik ve Yapimcilik Ticaret A.S (“Ares Media”), a company incorporated in Turkey, which resulted in the Company obtaining a 20% equity stake in that Company. The voting rights attaching to the stake will result in the investment being classified as a joint venture for accounting purposes.

On 28 February 2022, the Company invested \$588,000 for new shares in Whatsub Pro Inc, a company incorporated in South Korea, which resulted in the Company obtaining a 51% equity stake in that Company. The voting rights attaching to the stake will result in the investment being classified as a joint venture for accounting purposes.

ZOO Digital Group plc

Annual Report 2023

| Name | Address of registered office | Class of share held | Proportion of nominal value held |
|--------------------|--|---------------------|----------------------------------|
| Ares Media | Kireçburnu Mah. Arabayolu Cad. No: 136 Sarıyer, Istanbul | Ordinary Shares | 20% |
| Whatsub Pro | B1, 78, Seongmisan-ro Mapo-gu Seoul South Korea | Ordinary Shares | 51% |
| Vista India DM Inc | 2600 West Olive Ave, Suite 500, Burbank. CA 915 | Ordinary Shares | 35% |

The accounting date for Ares Media, Whatsub Pro and Vista India DM Inc is 31 December.

The investments are not considered material in the context of the Group as the consideration of any of the three investments represents less than 5% of Group sales.

20. Deferred income tax

| | Group | | Company | |
|--------------------------------------|-------|-------|---------|-------|
| | 2023 | 2022 | 2023 | 2022 |
| | \$000 | \$000 | \$000 | \$000 |
| Deferred tax assets comprise: | | | | |
| Vista India Digitek | 34 | 2 | - | - |
| Vista Tanweer | 40 | 43 | - | - |
| Fixed asset timing differences | - | (832) | - | - |
| Business combinations | (321) | (356) | - | - |
| Unused tax losses | 1,911 | 2,633 | - | - |
| As at 31 March | 1,664 | 1,490 | - | - |

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

| | Group | | Company | |
|--|-------|-------|---------|-------|
| | 2023 | 2022 | 2023 | 2022 |
| | \$000 | \$000 | \$000 | \$000 |
| At 31 March | 1,490 | 486 | - | - |
| On Vista acquisition | (4) | (311) | - | - |
| Charged to the statement of comprehensive income | 178 | 1,315 | - | - |
| At 31 March | 1,664 | 1,490 | - | - |

Tax losses carried forward

The group has tax losses carried forward of approximately \$31.5m (2022: \$38.1m), of which \$1.9m (2022: \$2.6m) has been recognised at a rate of 25% (UK) and 30% (US) 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. Any deferred tax assets on share based payments will not be recognised due to the uncertainty of the ability to offset future profits.

21. Trade and other receivables

| | Group | | Company | |
|---|---------------|---------------|-----------------|----------|
| | 2023 | Restated 2022 | 2023 | 2022 |
| | \$000 | \$000 | \$000 | \$000 |
| Trade receivables | 13,307 | 20,910 | 72 | 16 |
| Less: allowance for impairment of trade receivables | - | (29) | - | - |
| Trade receivables - net | 13,307 | 20,881 | 72 | 16 |
| Amounts owed by subsidiary undertakings | - | - | 38,600 | 26,152 |
| VAT | - | - | 18 | - |
| Other debtors | 910 | 371 | 47 | 46 |
| Prepayments | 2,315 | 1,720 | 474 | 361 |
| | 16,532 | 22,972 | 39,211 | 26,575 |
| Less non-current portion: amounts owed by subsidiary undertakings | - | - | (38,546) | (26,095) |
| Current portion | 16,532 | 22,972 | 665 | 480 |

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

The amounts owed by subsidiary undertakings are shown in as non-current assets because the Group is still in an investment phase and does not expect or require its subsidiaries to repay its debts to the Group in the next 12 months.

As of 31 March 2023, trade receivables of (\$203,000) (2022: \$283,000) were overdue. The ageing analysis of these trade receivables is as follows:

| | Group | |
|--------------------|--------------|-------|
| | 2023 | 2022 |
| | \$000 | \$000 |
| Less than 3 months | 415 | 354 |
| 3 to 6 months | 240 | (10) |
| 7 to 12 months | 54 | (277) |
| Over 12 months | (912) | (350) |
| | (203) | (283) |

There were no trade receivables outstanding in the company at 31 March 2023 that were overdue (31 March 2022: nil)

All of the group's trade and other receivables have been reviewed for indicators of impairment. Trade receivables were found not to be impaired (2022: Impairment \$29,000).

Expected credit loss as a % of gross receivables.

| Group | Current | 1-3 months | 3-6 months | Over 6 months |
|------------------------|----------------|-------------------|-------------------|----------------------|
| | | | | |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Expected credit loss % | 0.1% | 0.2% | 0.5% | 1% |
| Trade receivables | 5,802 | 6,685 | 304 | 516 |
| Expected credit loss | 6 | 13 | 2 | 5 |

The expected credit loss based on the above is not material and has therefore no provision has been made.

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

ZOO Digital Group plc

Annual Report 2023

| | Group | | Company | |
|------------------|---------------|---------------|---------------|--------|
| | 2023 | Restated 2022 | 2023 | 2022 |
| | \$000 | \$000 | \$000 | \$000 |
| Pound sterling | 894 | 541 | 462 | 201 |
| US Dollar | 14,230 | 19,389 | 38,701 | 26,374 |
| Hong Kong dollar | 6 | 157 | - | - |
| Japanese Yen | 90 | 377 | - | - |
| UAE dirham | 48 | 168 | 48 | - |
| Indian rupee | 746 | - | - | - |
| Euro | 518 | 2,340 | - | - |
| | 16,532 | 22,972 | 39,211 | 26,575 |

Allowance for impairment of trade receivables:

| | Group | |
|--------------------------------------|----------|-----------|
| | 2023 | 2022 |
| | \$000 | \$000 |
| At 1 April 2022 | 29 | 29 |
| Allowance for receivables impairment | - | - |
| Receivables written off in the year | (29) | - |
| At 31 March 2023 | - | 29 |

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 un-provided amounts are considered to be recoverable.

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

22. Notes to the cash flow statement

22.1 Significant non-cash transactions

During the year the group acquired property, plant and equipment and computer software with a cost of \$5,392,000 (2022: \$12,969,000) of which \$686,000 (2022: \$8,495,000) was acquired by means of a lease.

22.2 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 | |
|--------------------------------------|--------|-------|---------|-------|
| | 2023 | 2022 | 2023 | 2022 |
| | \$000 | \$000 | \$000 | \$000 |
| Cash on hand and balances with banks | 11,839 | 5,962 | 7 | 30 |

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

23. 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 | Lease liability | Total |
|----------------------|----------------------|-----------------------|---------------------|-----------------|--------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 |
| 1 April 2022 | - | - | - | 9,143 | 9,143 |
| Cash-flows | | | | | |
| - Repayment | - | - | - | (1,453) | (1,453) |
| - Proceeds | - | - | - | - | - |
| Non-cash | | | | | |
| - Fair value | - | - | - | - | - |
| - Converted | - | - | - | - | - |
| - Additions | - | - | - | 686 | 686 |
| - Reclassification | - | - | - | - | - |
| 31 March 2023 | - | - | - | 8,376 | 8,376 |

| | Long-term borrowings | Short-term borrowings | Embedded derivative | Lease liability | Total |
|----------------------|----------------------|-----------------------|---------------------|-----------------|--------------|
| | \$000 | \$000 | \$000 | \$'000 | \$000 |
| 1 April 2021 | 4,110 | 528 | 4,452 | 2,153 | 11,243 |
| Cash-flows | | | | | |
| - Repayment | (464) | (67) | - | (948) | (1,479) |
| - Proceeds | - | - | - | - | - |
| Non-cash | | | | | |
| - Fair value | - | - | 971 | - | 971 |
| - Converted | (3,526) | - | (5,423) | - | (8,949) |
| - Additions | - | - | - | 8,495 | 8,495 |
| - Reclassification | (120) | (461) | - | (557) | (1,138) |
| 31 March 2022 | - | - | - | 9,143 | 9,143 |

24. Share capital and reserves for Group and Company

Called up share capital

| | 2023 | 2022 |
|--|--------------|-------|
| | \$000 | \$000 |
| Allotted, called-up and fully paid 89,285,291 (2022: 88,335,079) ordinary shares of 1p each | 1,179 | 1,174 |

Reconciliation of the number of ordinary shares outstanding:

| | | |
|-------------------------|-------------------|------------|
| Opening balance | 88,335,079 | 74,837,271 |
| Shares issued | 185,545 | 28,022 |
| Vista Acquisition | - | 636,100 |
| Converted loan note | - | 5,336,459 |
| Fundraise | - | 7,454,727 |
| Share options exercised | 764,667 | 42,500 |
| Closing balance | 89,285,291 | 88,335,079 |

ZOO Digital Group plc

Annual Report 2023

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 the Group changing reporting currency from pounds sterling to USD. |
| Converted loan note reserve | Represents the gain recognised on conversion of historic loan notes.* |
| 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. |
| Interest in own shares | This arises from ZEST and concerns historical transactions as part of the Group's employee benefit trust. |
| 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. |

*In the current year the Directors have reviewed the converted loan note reserve and concluded that the losses within here represent realised retained profits to which the Group and Company have unconditional entitlement. As such, the reserve has been transferred to offset against accumulated losses.

25. Borrowings

| | Group | | Company | |
|---|--------------|-------|---------------|--------|
| | 2023 | 2022 | 2023 | 2022 |
| | \$000 | \$000 | \$000 | \$000 |
| Non-current | | | | |
| Lease liabilities | 6,968 | 7,830 | 2,178 | 2,527 |
| | 6,968 | 7,830 | 2,178 | 2,527 |
| Current | | | | |
| Amounts owed to subsidiary undertakings | - | - | 9,701 | 9,701 |
| Lease liabilities | 1,408 | 1,313 | 191 | 94 |
| Borrowings | 1,408 | 1,313 | 9,892 | 9,795 |
| Total borrowings | 8,376 | 9,143 | 12,070 | 12,322 |

The group has renewed on 1 June 2023 with HSBC Bank US an invoice financing facility of up to \$5.0 million against US client invoices raised by ZOO Digital Production LLC. The facility is in place until the renew date of 1 June 2024.

The UK banking partner, HSBC, continues to provide an overdraft facility of £250,000. The principal outstanding at 31 March 2023 was nil (2022: nil). This line of funding has been secured as a floating charge over the assets of the UK companies and automatically renews on an annual basis.

Lease liabilities

Lease liabilities are payable as follows:

| At 31 March 2023 Group only | Future minimum lease payments \$000 | Interest \$000 | Present value of minimum lease payments \$000 |
|------------------------------------|--|---------------------------|--|
| Less than one year | 1,941 | (533) | 1,408 |
| Between one and five years | 8,187 | (1,219) | 6,968 |
| | 10,128 | (1,752) | 8,376 |

The lease periods range from between 1 and 10 years, with options to purchase the asset at the end of the term if applicable. Lease liabilities are secured against the leased assets.

26. Trade and other payables

| | Group | | Company | |
|--|-----------------------|------------------------|-----------------------|---------------|
| | 2023 \$000 | Restated 2022 \$000 | 2023 \$000 | 2022 \$000 |
| Current | | | | |
| Trade creditors | 5,412 | 12,379 | 434 | 543 |
| Amounts owed to subsidiary undertaking | - | - | 16,285 | 4,423 |
| Social security and other taxes | 1,001 | 654 | 335 | 358 |
| Deferred consideration | 300 | 1,300 | 300 | 1,300 |
| Accrued expenses | 13,033 | 11,551 | 3,015 | 2,690 |
| | 19,746 | 25,884 | 20,369 | 9,314 |
| Non Current | \$000 | \$000 | \$000 | \$000 |
| Other payables | | 19 | | - |
| Deferred consideration | 300 | 600 | 300 | 600 |
| | 300 | 619 | 300 | 600 |

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

ZOO Digital Group plc

Annual Report 2023

27. Contracts with customers

The Group and Company have recognised the following assets and liabilities relating to contracts with customers:

| | Group | |
|------------------------------|--------------|-------|
| | 2023 | 2022 |
| | \$000 | \$000 |
| Current contract assets | 4,836 | 3,647 |
| Current contract liabilities | (693) | (774) |

| | Group | |
|---|--------------|--------------|
| | | \$000 |
| Contract liabilities as at 1 April 2022 | | 774 |
| New contract liabilities | | 1,344 |
| Revenue recognised in the year: | | |
| That was included in the contract liability balance as at 31 March 2022 | | (507) |
| Relating to new contract liabilities in the year | | (918) |
| Contract liabilities as at 31 March 2023 | | 693 |

Of the existing contracts that were unsatisfied or partially unsatisfied at 31 March 2023, revenue is expected to be recognised in the financial year to 31 March 2024.

28. Commitments for Group and Company

Capital commitments

The group had no capital commitments at 31 March 2023.

Operating commitments

For FY2022 & FY2023 the group has applied IFRS 16 to operating leases. Other than the lease liabilities included in the Statement of Financial Position, the Group (and Company) has no operating lease commitments.

29. Related parties

Subsidiaries

The parent company has investments in the following subsidiary undertakings:

| Subsidiary undertakings | Country of incorporation | Principal activity | Holding | % |
|---------------------------------------|---------------------------------|---|-------------------------------|----------|
| ZOO Digital Limited | UK | Technology development | 2 ordinary shares | 100 |
| ZOO Digital Inc. | USA | Sale & distribution technology products | 10,000 shares of common stock | 100 |
| ZOO Digital Production LLC | USA | Media production | 100 shares of common stock | 100* |
| ZOO Employee Share Trust Limited | UK | Employee share scheme | 2 ordinary shares | 100 |
| ZOO Digital Production Limited | UK | Dormant | 100 ordinary shares | 100 |
| ZOOtech Limited | UK | Dormant | 95,714 ordinary shares | 100 |
| Vista India Digitek Private Limited | India | Media production | 1333 ordinary shares | 100 |
| Vista Tanweer Studios Private Limited | India | Media production | 266,667 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

Key management personnel

The details of key management remuneration is disclosed in note 10.

ZOO Digital Group plc

Annual Report 2023

Related party transactions

The Company owns 20% of the shares in Ares Media. ZOO Digital Production LLC (subsidiary) owed Ares Media \$19,027 at 31 March 23, payable on 45 day terms and purchased services from them of \$185,074 in the year. ZOO Digital Limited (subsidiary) was owed \$2,500 from Ares Media at 31 March 23 and invoiced total sales of \$6,008 in the year.

The Company owns 51% in Whatsub Pro. There were no amounts outstanding to or from the Group at 31 March 23. ZOO Digital Production LLC (subsidiary) purchased services from them of \$571,048 in the year.

The Company owns 35% in Vista India DM Inc. ZOO Digital Limited (subsidiary) owed Vista India DM Inc \$481.50 at 31 March 23 and invoiced total sales of \$109,189 in the year.

30. 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:

| | 2023 | | 2022 | |
|--|----------------|---|----------------|---|
| | 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 | 4,111,145 | 0.96 | 2,855,145 | 0.58 |
| Granted during the year | - | - | 1,305,000 | 1.76 |
| Exercised during the year | (524,667) | 0.27 | (37,500) | 0.36 |
| Surrendered during the year | - | - | (11,500) | - |
| Outstanding at the end of the year | 3,586,478 | 1.06 | 4,111,145 | 0.96 |
| Exercisable at the end of the year | 2,467,530 | 0.86 | 2,134,249 | 0.49 |

The underlying weighted average exercise price for the shares under option at 31 March 2023 was 70p (2022:35p).

ZOO Digital Group plc Unapproved

| | | | | |
|--|-----------|------|-----------|------|
| Outstanding at the beginning of the year | 6,765,673 | 0.69 | 5,238,673 | 0.37 |
| Granted during the year | - | - | 1,575,000 | 1.76 |
| Exercised during the year | (240,000) | 0.25 | (5,000) | 1.33 |
| Surrendered during the year | - | - | (43,000) | - |
| Outstanding at the end of the year | 6,525,673 | 0.71 | 6,765,673 | 0.69 |
| Exercisable at the end of the year | 5,342,122 | 0.52 | 4,653,570 | 0.31 |

The underlying weighted average exercise price for the shares under option at 31 March 2023 was 42p (2022:19p).

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

Share options granted to key management personnel, including directors, during the year ended 31 March 2018 have vesting conditions. A total of 3,820,000 share options have a vesting 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 10,112,151 outstanding options (2022: 10,876,818 options), 7,809,652 were exercisable (2022: 6,787,819).

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 | 35,000 | 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 | 25,000 | 17 Sep 2025 | 0.23 | 0.1500 |
| ZOO Digital Group plc EMI scheme | 848,651 | 2 Aug 2027 | 0.20 | 0.1525 |
| ZOO Digital Group plc EMI scheme | 240,000 | 2 Jul 2028 | 1.33 | 1.01 |
| ZOO Digital Group plc EMI scheme | 1,107,827 | 13 May 2030 | 0.89 | 0.73 |
| ZOO Digital Group plc EMI scheme | 1,305,000 | 25 Jan 2032 | 1.76 | 1.30 |
| ZOO Digital Group plc Unapproved | 35,000 | 26 Sep 2023 | 0.24 | 0.1500 |
| ZOO Digital Group plc Unapproved | 350,000 | 19 Jan 2025 | 0.23 | 0.1500 |
| ZOO Digital Group plc Unapproved | 103,500 | 17 Sep 2025 | 0.23 | 0.1500 |
| ZOO Digital Group plc Unapproved | 3,282,000 | 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 | 155,000 | 2 Jul 2028 | 1.33 | 1.01 |
| ZOO Digital Group plc Unapproved | 200,000 | 30 Jun 2029 | 0.80 | 0.63 |
| ZOO Digital Group plc Unapproved | 795,173 | 13 May 2030 | 0.89 | 0.73 |
| ZOO Digital Group plc Unapproved | 1,575,000 | 25 Jan 2032 | 1.76 | 1.30 |
| Outstanding at the end of the year | 10,112,151 | | | |

| | | |
|--|--------------|-------|
| Share based payments have had the following impact on the group's profit for the year: | 2023 | 2022 |
| | \$000 | \$000 |
| Total expense recognised from share option transactions | 1,650 | 513 |

| | | |
|---|--------------|-------|
| Share based payment reserve appears in the statement of financial position under: | 2023 | 2022 |
| | \$000 | \$000 |
| Share option reserve | 4,391 | 2,619 |

ZOO Digital Group plc

Annual Report 2023

31. Financial instruments

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

Categories of financial instruments - Group

| | 2023 | 2022 |
|--|--------|--------|
| | \$000 | \$000 |
| Financial Assets subsequently measured at amortised cost | | |
| Trade and other receivables excluding pre-payments and VAT (note 21) | 14,217 | 21,252 |
| Contract assets | 4,836 | 3,647 |
| Amounts owed by subsidiary undertakings (note 21) | - | - |
| Cash and cash equivalents | 11,839 | 5,962 |
| Total | 30,892 | 30,861 |
| Financial liabilities subsequently measured at amortised cost | | |
| Lease liabilities (note 25) | 8,376 | 9,143 |
| Contract liabilities | 693 | 774 |
| Amounts owed to subsidiary undertakings (note 25) | - | - |
| Trade and other payables excluding payroll taxes (note 26) | 19,066 | 25,230 |
| Total | 28,135 | 35,147 |

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 2023 there was similar volatility in the pound sterling/US dollar rate as in the previous year with the rate peaking at 0.93666 and falling to a low of 0.762515, with an average rate of 0.8307. If the US dollar had remained at its highest level throughout the full year the group would have shown a post-tax profit of \$11.9m (2022: Profit \$10.3m), if US dollar had been at its lowest level throughout the full year the group would have shown a post-tax profit of \$14.5m (2022: Profit \$11m) and if the US dollar had remained at the average rate throughout the year the group would have shown a post-tax profit of \$13.5m (2022: \$10.7m).

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 pound sterling/US dollar exchange rate at the 31 March 2023 was 0.813 (2022: 0.762).

Interest rate risk

The group has a facility with HSBC Bank which provides invoice financing of up to \$5m against US clients' invoices raised by ZOO Digital Production LLC. This facility is in place until 1 June 2024. Interest is payable on a monthly basis at an interest rate linked to LIBOR. 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.

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 group has a facility with HSBC Bank which provides invoice financing of up to \$5m against US clients' invoices raised by ZOO Digital Production LLC. This facility is in place until 1 June 2024.

The group has a £250,000 overdraft facility in place from HSBC for the UK companies. There was no overdrawn balance at the year end 31 March 2023.

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 2023 | \$000 | \$000 | \$000 | \$000 |
| Borrowings | | | | |
| Lease liabilities | 1,408 | 1,451 | 4,463 | 1,054 |
| Trade and other payables | 19,746 | 300 | - | - |

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|------------------------------------|-----------------------------|----------------------------------|----------------------------------|---------------------|
| At 31 March 2022 (restated) | \$000 | \$000 | \$000 | \$000 |
| Borrowings | - | - | - | - |
| Lease liabilities | 1,313 | 1,302 | 4,039 | 2,489 |
| Trade and other payables | 25,884 | - | - | - |

ZOO Digital Group plc

Annual Report 2023

Credit risk

Credit risk arises from cash and cash equivalents and credit exposures on outstanding receivables. The group's and company's main credit risks are on the outstanding trade receivables. This risk is reduced through credit control procedures. An analysis of outstanding receivables is included in note 21.

32. 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.

| | 2023 | Restated 2022 |
|--------------------------------|-----------------|---------------|
| | \$000 | \$000 |
| Total borrowings | 8,376 | 9,143 |
| Less cash and cash equivalents | (11,839) | (5,962) |
| Net (cash)/debt | (3,463) | 3,181 |
| Total equity | 35,133 | 24,992 |
| Total capital | 31,670 | 28,173 |
| Gearing ratio | (11%) | 11% |

33. Post Balance Sheets Events

On the 5th April 2023, we completed the acquisition of the remaining 49% of ZOO Korea that was owned by minority shareholders. We issued 550,000 ordinary shares in ZOO Digital Group plc to the exiting shareholders of ZOO Korea and made a one-off payment of \$200,000 in consideration for their 49 per cent stake. The acquisition reflects the success of the initial investment and the outlook for media localisation in the region.

In April 2023 we completed an 8.8% placing and retail offer of new equity raising a gross \$15.8 million. This money is expected to be used to acquire a business in Japan and accelerate our international footprint. The details of the fundraise are that the Company with raised gross proceeds of £12.7 million (\$15.8 million) through the oversubscribed placing of 7,914,242 Ordinary Shares with certain existing and new institutional and other investors at a price of 160 pence per New Ordinary Share. The shares were admitted to trading on 4 May 2023 and 12 May 2023.

On the 4th May we acquired 30% of AM Group in Spain for Euros 825,000. The investment marks the continued expansion of ZOO's geographic footprint in EMEA, with AM Group acting as a primary hub for ZOO's operations in Spain and Portugal. It will deliver dubbing services as part of ZOO's global end-to-end offering for major studios and streaming services in Iberia, while also supporting local content creators to expand their reach to global audiences.

34. Restatement of prior period

The Board has made two prior year restatements, one related to an incorrect basis of accounting for revenue and contract assets / costs at the year end, and one related to the conclusion of fair values on a business combination (as expected under IFRS 3).

Incorrect basis of accounting

During 2023 the Group identified an error relating to its application of IFRS 15 'Revenue from Contracts with Customers' in respect of the recognition of costs incurred on partially completed contracts, where performance obligations were not wholly satisfied as at the reporting date. Under IFRS 15, as the Group applies the output method to account for its partially completed performance obligations, the costs should be expensed in the period in which they were incurred; previously, the Group had incorrectly performed a matching exercise such that costs were accrued or deferred to match the revenue recognised under the output method.

This has resulted in a material understatement of cost of sales in 2022, and a material overstatement in accruals and prepayments. As a result, the prior year has been adjusted as per below (decrease in profit of \$1,266,000).

| Consolidation of statement of comprehensive income (extract) | 2022 | Increase/ decrease | Restated 2022 |
|--|----------|-----------------------|------------------|
| | \$000 | \$'000 | \$000 |
| Revenue | 70,403 | - | 70,403 |
| Cost of sales | (48,296) | (1,266) | (49,562) |
| Gross profit | 22,107 | (1,266) | 20,841 |

| | 2022 | Increase/ decrease | Restated 2022 |
|--------------------------|-------|-----------------------|------------------|
| | \$000 | \$'000 | \$000 |
| Profit/(loss) before tax | 1,055 | (1,266) | (211) |
| Tax on profit/(loss) | 1,573 | - | 1,573 |
| Profit for the year | 2,628 | (1,266) | 1,362 |

| Consolidated statement of financial position (extract) | 2022 | Increase/ decrease | Restated 2022 |
|--|--------|-----------------------|------------------|
| | \$000 | \$'000 | \$000 |
| Trade and other receivables | 25,992 | (3,020) | 22,972 |
| | 35,601 | (3,020) | 32,581 |
| Total current assets | 64,432 | (3,020) | 61,412 |

| | 2022 | Increase/ decrease | Restated 2022 |
|--------------------------|----------|-----------------------|------------------|
| | \$000 | \$'000 | \$000 |
| Trade and other payables | (27,638) | 1,754 | (25,884) |
| | (29,725) | 1,754 | (27,971) |
| Net assets | 26,258 | (1,266) | 24,992 |

| Consolidated statement of financial position (extract) | 2022 | Increase/ decrease | Restated 2022 |
|--|----------|-----------------------|------------------|
| | \$000 | \$'000 | \$000 |
| Accumulated losses | (56,703) | (1,266) | (57,969) |
| Attributable to equity holders | 26,258 | (1,266) | 24,992 |

ZOO Digital Group plc

Annual Report 2023

| Note 12. Income Tax (extract) | 2022 | Increase/ decrease | Restated 2022 |
|---|--------|-----------------------|------------------|
| | \$'000 | \$'000 | \$'000 |
| Profit/(loss) before tax | 1,055 | (1,266) | (211) |
| Tax calculated at standard rate of corporation tax of 19% | 200 | (200) | (40) |
| (deducted from)/accumulation of unrecognised losses brought forward | (200) | 200 | 40 |

We have assessed the impact of the misstatement and conclude that no material changes to the tax charge in 2022 are required. As the Group has significant tax losses (see note 12) no tax would be provided for.

There is no change to net cash inflow from operating activities as a result of this prior period adjustment. However, movements in trade and other receivables decreased from a position of \$18,453,000 by \$3,020,000 to \$15,433,000 and movements in trade and other payables decreased from \$15,337,000 by \$1,754,000 to \$13,583,000.

The correction to profit has been shown through the Consolidated Statement of changes in equity on page 71.

The correction to prepayments and accruals as at 31 March 2022 can be seen in the Consolidated statement of financial position on page 69, and has also had consequential amendments on other notes to the financial statements, most notably the segmental analysis (note 4) and the earnings per share (note 14).

Basic and diluted earnings per share for the prior year have been restated. The amounts of the correction for basic and diluted earnings per share was a decrease of 1.5 and 1.3 cents per share respectively.

Business combination

Details of the restatement are provided in note 18, and reflect the expected changes arising as at the date of approval of the prior year's financial statements in respect of an incomplete measurement period. Following confirmation of the fair value of assets acquired during the measurement period, the values have been retrospectively adjusted as per the requirements of IFRS 3.

Although these amendments have been recognised as a prior year adjustment, due to the timing of the acquisition late in the prior year no amortisation has been charged on the customer relationships and as such there is no impact on the Group's reported results for the prior year.

GROUP DIRECTORY

Head Office

ZOO Digital Group plc

Castle House
Angel Street
Sheffield
S3 8LN
United Kingdom

T: +44 (0)114 241 3700

F: +44 (0)114 241 3701

ZOO Digital Limited

Castle House
Angel Street
Sheffield
S3 8LN
United Kingdom

T: +44 (0)114 241 3700

F: +44 (0)114 241 3701

ZOO Digital Production LLC

2201 Park Place
Suite 100
El Segundo
CA 90245
USA

T: +1 310 220 3939

F: +1 310 220 3958

ZOO Employee Share Trust Limited

Castle House
Angel Street
Sheffield
S3 8LN
United Kingdom

T: +44 (0)114 241 3700

F: +44 (0)114 241 3701

ZOO Digital Inc.

2201 Park Place
Suite 100
El Segundo
CA 90245
USA

T: +1 310 220 3939

F: +1 310 220 3958

Vista India Digitek Private Limited

501, 5th Floor
Modi House of Link Road, C-10
Dalia Estate, Andheri West Mumbai
Mumbai City MH 400053
India

Vista Tanweer Studios Private Limited

Gala 5-C, 5th Floor
Modi House, Plot No. C-10
Veera Desai Road
Andheri (West) MH 400058
India

ZOO Digital Group plc