Zest Group plc

Annual Report and Financial Statements

for the year ended 30 September 2008

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Contents

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Company Information

Company registration number	05234262
Registered office	Kitwell House The Warren Radlett Hertfordshire WD7 7DU
Directors	Richard Griffiths (Executive Chairman) Stephen Weltman (Chief Executive)
Secretary	Kitwell Consultants Limited
Nominated adviser and Nominated broker	W. H. Ireland Limited 85-89 Colmore Row Birmingham B3 2BB
Registrars	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen West Midlands B63 3DA
Bankers	Coutts & Co 440 Strand London WC2R 0QS
Solicitors	Marriott Harrison Staple Court 11 Staple Inn Buildings London WC1V 7QH
Auditors	Grant Thornton UK LLP Registered Auditor Chartered Accountants Enterprise House 115 Edmund Street Birmingham B3 2HJ

Chairman's Statement

I present the results of the Group for the year ended 30 September 2008.

Sale of Greensleeves business

On 25 January 2008 the Company entered into an agreement for the disposal of its Greensleeves business to VP Records (UK) Limited and the disposal was subsequently approved by shareholders at a General Meeting on 13 February 2008 and completed on 18 February 2008. The total consideration for the disposal was £3,100,000 in cash, £100,000 of which was on a deferred basis.

The Greensleeves business was acquired on 31 March 2006 by the Company for a consideration of £3,250,000, comprising of a cash consideration of £3,000,000 and the issue of 8,333,334 Ordinary Shares which were issued at 3 pence per share. On 19 June 2007, the Company announced that it had reached a settlement with the vendors of the Greensleeves business in relation to the breach of certain specified warranties given at the time of the acquisition. The gross settlement for these breaches was £455,687.

The proceeds from the disposal were used by Zest to repay its borrowings of approximately £1.8 million and its creditors and to provide additional working capital for the Company.

Results

During the year the Group recorded a loss before taxation from continuing operations of £1.28 million (2007: loss £839,000). There was a loss per share on continuing operations of 0.7p (2007: loss per share 0.5p) and a loss per share on discontinued activities of 0.3p (2007 : loss per share 0.2p).

Operational review

During the year the Group has continued to seek to exploit the publishing and recording rights arising from its retained roster of artists which include Tara Chinn, Nasio Fontaine and Tony Fennell.

The Board is currently considering a proposed UK/European release for Tara Chinn's debut album "Night Racing" through an independent marketing company and expects to make a decision on this shortly.

Zest owns 100% of the recording and publishing rights of all five of Nasio Fontaine's albums and is currently negotiating a new worldwide license deal. In addition, VP Records/Greensleeves will be releasing a "Best Of" Nasio album with a DVD late in the summer of 2009. To support this release, Nasio is being asked to tour in the USA and Europe.

A songwriter and record producer signed to Zest, Tony Fennell, has a song on hold with Disney Records and has a number of other covers currently being considered by major record labels. Tony is also recording and writing an album with a mainstream female artist, which is expected to be concluded this summer for an autumn/winter release.

Whilst the Board continues to support these artists and is confident that the Group will receive some positive financial benefit from these relationships, in the current economic climate the quantum and timing of this benefit is subject to significant uncertainly. Accordingly, in order to take a prudent view of prospects, the Board has agreed to make a full provision against the recoverability of sums advanced to these artists in the preparation of these accounts.

Loss of capital

The financial statements show that the Company's net assets are less than half its called up share capital. In the circumstances, the directors of the Company are obliged by section 142 of the Companies Act 1985 to convene a general meeting for the purposes of considering whether any, and if so what, steps should be taken to deal with the Company's current financial position. We propose to consider this matter at the Company's annual general meeting details of which are set out in the notice accompanying this document, although no resolution will be put to the meeting on this issue.

Chairman's Statement

Board changes

Following the disposal of the Greensleeves business, Marcus Lee and Grant Gazdig stepped down as Finance Director and Non-executive Director of the Company respectively and on 13 January 2009 Jon Crawley resigned from the Board to pursue other business interests. The Board would like to thank Marcus, Grant and Jon for their contributions to the Company.

Outlook

The Company will continue to seek to optimise the value of existing artists and where the opportunity arises, seek to add further rights by signing new artists and songwriters. In addition, Zest continues to look for potential acquisition opportunities and to explore alternative routes to securing shareholder value.

I would like to thank the staff and our shareholders for their continued support.

Richard Griffiths
Chairman

31 March 2009

Report of the Directors

The Directors present their annual report together with the audited consolidated financial statements of the Group for the year ended 30 September 2008.

Principal activity

The principal activity of the Group and the Company is that of music recording and publishing and record sales.

Domicile and principal place of business

Zest Group plc is domiciled in the United Kingdom, which is also its principal place of business.

Business review

The results of the Group are shown on page 18. The directors do not recommend the payment of a dividend.

A review of the performance of the Group and its future prospects is included in the Chairman's Statement on pages 3 and 4.

The objective of the Group is to build, largely through acquisition, a group specialising in music publishing and the management of recording artists.

The Group's key performance indicators are unit sales for recording artists and publishing sales. Due to the sale of the Greensleeves business the Directors have ceased to use these key performance indicators during the year. They will commence measuring and assessing them once the Group's artists generate revenue.

The key uncertainty is whether the remaining artists contracted to the Group generate revenue for the Group.

Financial risk management objectives and policies

The Group's principal financial instruments comprise cash at bank. The main purpose of these financial instruments is to raise finance for the Group's operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are liquidity risk, credit risk and interest rate risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of equity and its cash resources.

Credit risk

The Group trades with only recognised, creditworthy third parties. It is the Group policy that all customers who wish to trade on credit terms are subject to credit vetting procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Interest rate risk

The Group has no loans and therefore the only interest rate risk is that on its cash balances. The Group seeks the highest rate of interest receivable on its cash deposits whilst minimising risk.

Report of the Directors

Directors

The membership of the Board is set out below.

Jon Crawley (resigned 13 January 2009)
Richard Griffiths
Steve Weltman
Marcus Lee (resigned 15 February 2008)
Grant Gazdig (resigned 15 February 2008)

Substantial shareholdings

Interests in excess of 3% of the issued share capital of the Company which had been notified as at 18 March 2009 were as follows:

	Ordinary shares of 1p each Number	Percentage of capital %
Pershing Keen Nominees Limited	40,641,141	23.41%
Lynx Capital Management Limited	13,190,476	7.60%
JIM Nominees Limited	8,223,992	4.74%
Christopher Sedgwick Esq	7,850,000	4.52%
Hoodless Brennan plc	7,597,272	4.38%
Redmayne (Nominees) Limited	7,400,000	4.26%

Payment to suppliers

It is the Group's policy to agree appropriate terms and conditions for its transactions with suppliers by means ranging from standard terms and conditions to individually negotiated contracts and pay suppliers according to agreed terms and conditions, provided that the supplier meets those terms and conditions. The Group does not have a standard or code dealing specifically with the payment of suppliers.

Trade creditors for the Group and the Company at the year end amount to nil days of average supplies for the year (2007: 130 days for the Group, 185 days for the Company).

Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). The financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the 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 estimates that are reasonable and prudent;
- state whether IFRSs 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 Group will continue in business.

Report of the Directors

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the Directors are aware:

- there is no relevant audit information of which the Group's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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 financial statements may differ from legislation in other jurisdictions.

Auditors
Grant Thornton UK LLP offer themselves for reappointment as auditors.

ON BEHALF OF THE BOARD

Stephen Weltman
Director

31 March 2009

Corporate Governance

Directors

The Group supports the concept of an effective board leading and controlling the Group. The Board is responsible for approving Group policy and strategy. It meets on a regular basis and has a schedule of matters specifically reserved to it for decision. Management supply the Board with appropriate and timely information and the Directors are free to seek any further information they consider necessary. All Directors have access to advice from the Company Secretary and independent professional advice at the Group's expense.

The Board consists of two executive Directors, who hold the key operational positions in the Company. This provides a balance whereby the Board's decision making cannot be dominated by an individual. The Chairman of the Board is Richard Griffiths and the Group's business is run by Steve Weltman.

Relations with shareholders

The Company values the views of its shareholders and recognises their interest in the Group's strategy and performance. The Annual General Meeting will be used to communicate with private investors and they are encouraged to participate. The Directors will be available to answer questions. Separate resolutions will be proposed on each issue so that they can be given proper consideration and there will be a resolution to approve the annual report and accounts.

Internal control

The Board is responsible for maintaining a strong system of internal control to safeguard shareholders' investment and the Group's assets and for reviewing its effectiveness. The system of internal financial control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board has considered the need for an internal audit function but has decided the size of the Group does not justify it at present. However, it will keep the decision under annual review.

Going concern

The Directors note the substantial losses that the Group has made for the year ended 30 September 2008. The Directors have prepared cash flow forecasts for the period ending 31 March 2010 which take account of the current cost structure of the Group and include a conservative estimate of income to be generated from the operational business. These forecasts demonstrate that the Group has sufficient finance facilities available to allow it to continue in business for a period of at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

Report on Remuneration

Directors' remuneration

The Board recognises that Directors' remuneration is of legitimate concern to the shareholders. The Group operates within a competitive environment, performance depends on the individual contributions of the Directors and employees and it believes in rewarding vision and innovation.

Policy on executive Directors' remuneration

The policy of the Board is to provide executive remuneration packages designed to attract, motivate and retain Directors of the calibre necessary to maintain the Group's position and to reward them for enhancing shareholder value and return. It aims to provide sufficient levels of remuneration to do this, but to avoid paying more than is necessary. The remuneration will also reflect the Directors' responsibilities and contain incentives to deliver the Group's objectives.

The remuneration of the Directors was as follows:

	J Crawley £	R Griffiths £	S Weltman £	G Gazdig £	A Craissati £	M Lee £	Total £
Year to 30 September 2008							
Salary and fees	10,250	–	100,000	–	–	–	110,250
Bonus payments	20,000	–	65,000	25,000	–	25,000	135,000
Benefits in kind/allowances	–	–	15,000	–	–	–	15,000
Pension	–	–	15,000	–	–	–	15,000
Total	30,250	–	195,000	25,000	–	25,000	275,250
Year ended 30 September 2007	12,000	–	133,625	–	26,000	–	171,625

Pensions

S Weltman is entitled to pension contributions of 15% of his basic salary per annum. No other director is entitled to pension contributions.

Benefits in kind

S Weltman receives £650 per month car allowance, £450 per month medical and other benefits allowance and £155 per month salary continuance allowance.

Bonuses

On the disposal of Greensleeves Records Limited bonus payments were made to Steve Weltman of £65,000, Jon Crawley of £20,000, Grant Gazdig of £25,000 and Marcus Lee of £25,000 in recognition of their contribution to the successful disposal of that company. No amounts were payable for bonuses in respect of the year ended 30 September 2007.

Notice periods

Steve Weltman and Richard Griffiths have a 12 months rolling notice period.

Share option incentives

At 30 September 2008 the following options were held by the Directors:

	Date of grant	Exercise price	Number of options
R Griffiths	7 March 2005	3p	1,275,000
	6 March 2006	3p	1,275,000
			2,550,000
S Weltman	7 March 2005	3p	2,550,000
	6 March 2006	3p	2,550,000
			5,100,000

All options are exercisable between three and ten years from the date of grant.

The high and low share price for the year were 0.38p and 0.14p respectively. The share price at 30 September 2008 was 0.16p.

Report of the Independent Auditors

to the members of Zest Group plc

We have audited the consolidated financial statements of Zest Group plc for the year ended 30 September 2008 which comprise the principal accounting policies, the consolidated income statement, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated cash flow statement and notes 1 to 18. These consolidated financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Zest Group plc for the year ended 30 September 2008.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Directors and auditors

The directors' responsibilities for preparing the Annual Report and the consolidated financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and whether the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. The information given in the Report of the Directors includes that specific information presented in the Chairman's statement that is cross-referred from the business review section of the Report of the Directors.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited consolidated financial statements. The other information comprises only the Chairman's Statement, the Report of the Directors, Corporate Governance statement and Report on Remuneration. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements.

Report of the Independent Auditors

to the members of Zest Group plc

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 September 2008 and of its loss for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

Grant Thornton UK LLP
Registered Auditor
Chartered Accountants
Birmingham

31 March 2009

Principal Accounting Policies

Basis of preparation

The Group financial statements have been prepared for the first time under the historical cost convention, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The Company's shares are listed on the AIM market of the London Stock Exchange. Separate financial statements of Zest Group plc (the Company) have been prepared on pages 33 to 44 under the historical cost convention and in accordance with applicable accounting standards under UK GAAP.

The transition to IFRSs has resulted in a number of changes in the reported financial statements, notes thereto and accounting policies compared to the previous annual report. Note 18 provides further details on the transition from UK GAAP to IFRSs.

The principal accounting policies of the Group are set out below.

Going concern

The Directors note the substantial losses that the Group has made for the year ended 30 September 2008. The Directors have prepared cash flow forecasts for the period ending 31 March 2010 which take account of the current cost structure of the Group and include a conservative estimate of income to be generated from the operational business. These forecasts demonstrate that the Group has sufficient finance facilities available to allow it to continue in business for a period of at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to the balance sheet date. Subsidiaries are entities over which the Company has the power to control, directly or indirectly, the financial and operating policies so as to obtain benefits from their activities. The company obtains and exercises control through voting rights. Subsidiaries are fully consolidated from the date of which control is transferred to the Company. They are deconsolidated from the date that control ceases.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Revenue

The Group follows the principles of IAS18 "Revenue" in determining the appropriate revenue recognition policies. In principle therefore, revenue is recognised to the extent that the Group has obtained the right to consideration through its performance.

The following specific recognition criteria must also be met before revenue is recognised:

- sale of goods: revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured. Revenue is measured after making provision in respect of expected future returns of goods and service supplied by the Group prior to the balance sheet date
- royalty and other income: all royalty and other income is recognised when it has been earned and can be reliably measured.

Principal Accounting Policies

Advances

In the ordinary course of business the Group pays advances and other expenses recoupable from future royalties to performing artists, songwriters, producers and third party repertoire owners. The amounts paid are carried at cost less recoupment and less an allowance for any unrecoupable amounts. The allowance is based on past revenue performance, current popularity and projected revenue. Advances are recoupable during the business operating cycle. All advances are therefore reported as current assets, including advances recoupable more than 12 months after the balance sheet date.

Goodwill

Goodwill arising on acquisition prior to 1 October 2006

Goodwill arising on acquisition of a subsidiary for which the agreement date is before 1 October 2006 represents the excess of the cost of acquisition over the Group's interest in fair value of the identifiable assets and liabilities of the acquired subsidiary at the date of acquisition.

Such goodwill is stated after any accumulated amortisation and impairment. Under the transitional provisions in IFRS 1 "First-time Adoption of International Financial Reporting Standards", the goodwill can only be amortised up to 30 September 2006 and the accumulated amortisation and impairment as at 1 October 2006 has been eliminated with a corresponding decrease in the cost of respective goodwill and, since then, any carrying amount of the goodwill is tested at each balance sheet date for impairment as well as when there are indications of impairment.

Goodwill arising on acquisition on or after 1 October 2006

Goodwill arising on acquisition of a subsidiary for which the agreement date is on or after 1 October 2006 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the acquired subsidiary at the date of acquisition. Such goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

On subsequent disposal of the subsidiary the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

Taxation

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable result for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the consolidated financial statements with their respective tax bases. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Most changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that is charged directly to equity are charged or credited directly to equity.

Principal Accounting Policies

Intangible assets

Assets acquired as part of a business combination

In accordance with IFRS 3 Business Combinations, an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group. Where an intangible asset might be separable, but only together with a related tangible or intangible asset, the Group of assets is recognised as a single asset separately from goodwill where the individual fair values of the assets in the group are not reliably measurable. Where the individual fair value of the complementary assets are reliably measurable, the group recognises them as a single asset provided the individual assets have a similar useful lives.

Recording and publishing agreements

Recording and publishing agreements are capitalised at cost and, subject to impairment reviews, amortised over their estimated economic lives. Amortisation is calculated so as to write off the cost of an asset less its estimated residual value on a straight line basis over the useful economic life of the asset, as follows:

Recording and publishing agreements	8 years

Property, plant and equipment

Measurement bases

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the period in which they are incurred. When assets are sold, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

Depreciation

Depreciation is calculated to write down the cost, less estimated residual value, of all property, plant and equipment, except freehold land, by equal annual instalments over their estimated useful economic lives. The periods generally applicable are:

Freehold property	50 years
Computer equipment	4 years
Fixtures and fittings	3 to 10 years

Inventories

Inventories comprise stocks of finished goods which are stated at the lower of cost and net realisable value after making allowance for obsolete and slow moving items.

Principal Accounting Policies

Impairment testing of goodwill, other intangible assets and property, plant and equipment
For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill, other intangible assets with an indefinite useful life, and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Financial assets
The Group's financial assets include cash and trade and other receivables.

All financial assets are recognised when the Group becomes party to the contractual provisions of the instrument. All financial assets are initially recognised at fair value, plus transaction costs.

Interest and other cash flows resulting from holding financial assets are recognised in the income statement when receivable, regardless of how the related carrying amount of financial assets is measured.

Trade and other receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand, bank deposits repayable on demand, and other short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, less advances from banks repayable within three months from the date of advance if the advance forms part of the Group's cash management.

Equity
Share capital is determined using the nominal value of shares that have been issued.

The share premium account represents premiums received on the initial issuing of the share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

The share based payment reserve represents the cumulative amount which has been expensed in the income statement in connection with share based payments, less any amounts transferred to the income statement on the exercise of share options.

Retained earnings include all current and prior period results as disclosed in the income statement.

Principal Accounting Policies

Share based payments

The Group issues equity-settled share-based payments to certain employees (including directors). Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, together with a corresponding increase in equity, based upon the Group's estimate of the shares that will eventually vest.

Fair value is measured using the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Where the terms of an equity-settled transaction are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled transaction is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognised for the transaction is recognised immediately. However, if a new transaction is substituted for the cancelled transaction, and designated as a replacement transaction on the date that it is granted, the cancelled and new transactions are treated as if they were a modification of the original transaction, as described in the previous paragraph.

Financial liabilities

The Group's financial liabilities include trade and other payables. Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument.

All financial liabilities are recognised initially at fair value, net of direct issue costs, and are subsequently recorded at amortised cost using the effective interest method with interest related charges recognised as an expense in the income statement.

Dividend distributions to shareholders are included in 'other short term financial liabilities' when the dividends are approved by the shareholders' before the year end.

Other provisions, contingent liabilities and contingent assets

Other provisions are recognised when present obligations will probably lead to an outflow of economic resources from the Group and they can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognised, if virtually certain as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long term provisions are discounted to their present values, where time value of money is material. All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognised in the balance sheet. Probable inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets.

Foreign currencies

The financial statements are presented in UK Sterling which is the functional and presentational currency of the Group. Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the profit or loss from operations.

Principal Accounting Policies

Segmental reporting
A segment is a distinguishable component of the Group that is engaged either in a particular business (business segment) or conducting business in a particular geographical area (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Discontinued operations
A discontinued operation is a cash-generating unit, or a group of cash-generating units, that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- is a subsidiary acquired exclusively with a view to resale

The disclosures for discontinued operations in the prior year relate to all operations that have been discontinued by the balance sheet date for the latest period presented.

Critical 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.

(i) **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 accounting year are discussed below:

Impairment of advance payments to artists
At 31 December 2008 the Group had made advance payments to artists of £533,000 which are recoupable from the income generated by those artists. There is no certainty with regard to the level of income to be generated by these artists, which could impact on the recoverability of these balances, and as a consequence a provision for impairment has been included within the financial statements of £533,000.

Valuations of share options granted
The fair value of share options granted was calculated using the Black-Scholes option pricing model which requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the opinion of Directors of the Company, the existing model will not always necessarily provide a reliable single measure of the fair value of the share options. Details of the inputs are set out in Note 11 to the financial statements.

(ii) **Critical judgements in applying the Group's accounting policies**

Management, in applying the accounting policies which are described above, do not consider that they have had to make any critical judgements in their application.

Adoption of new or amended IFRS
The Group has not early adopted the new standards, amendments or interpretations that have been issued but are not yet effective. Except for IFRS 8, which may result in changes in the future as to how the Group's financial performance and financial position are disclosed, and IAS 1 (revised 2007), which may affect the presentation of the financial statements, the Directors anticipate that the adoption of these new standards will not result in significant changes to the Group's accounting policies. The Group has commenced its assessment of the impact of IFRS 8 and IAS 1 (revised 2007) on presentation and disclosure but it is not yet in a position to state whether these standards would have a material impact on its results of operations and financial position.

Consolidated Income Statement

for the year ended 30 September 2008

	Note	2008 £'000	2007 £'000
Administrative expenses			
– amortisation of intangible assets		(20)	(19)
– impairment of intangible assets		(78)	–
– impairment of advance payments to artists		(533)	–
– other administrative expenses		(469)	(710)
Total administrative expenses		(1,100)	(729)
Loss from operations		(1,100)	(729)
Finance costs	2	(187)	(111)
Finance income	3	7	1
Loss before taxation	1	(1,280)	(839)
Taxation	4	–	–
Loss for the year from continuing activities		(1,280)	(839)
Loss from discontinued operations	6	(475)	(337)
Loss after taxation and retained loss attributable to the equity holders of the company		(1,755)	(1,176)
Loss per ordinary share (pence)			
Basic and diluted	5		
Continuing operations		(0.7p)	(0.5p)
Discontinued operations		(0.3p)	(0.2p)
		(1.0p)	(0.7p)

There were no recognised gains or losses other than the loss for the financial year.

The accompanying principal accounting policies and notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 30 September 2008

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Retained earnings £'000	Total equity £'000
At 1 October 2006	434	3,598	67	(1,128)	2,971
Total income and expense – loss for the year	–	–	–	(1,176)	(1,176)
Employee share based compensation	–	–	59	–	59
At 30 September 2007	434	3,598	126	(2,304)	1,854
Total income and expense – loss for the year	–	–	–	(1,755)	(1,755)
Employee share based compensation	–	–	40	–	40
At 30 September 2008	434	3,598	166	(4,059)	139

The accompanying principal accounting policies and notes form an integral part of these financial statements.

Consolidated Balance Sheet

at 30 September 2008

	Note	2008 £'000	2007 £'000
ASSETS			
Non-current assets			
Intangible assets	7	–	3,163
Property, plant and equipment	8	1	685
		1	3,848
Current assets			
Inventories		–	429
Trade and other receivables	9	133	1,983
Cash and cash equivalents		62	32
Total current assets		195	2,444
Total assets		196	6,292
LIABILITIES			
Current liabilities			
Trade and other payables	10	57	2,350
Bank loans	15	–	252
Other loans	15	–	484
		57	3,086
Non-current liabilities			
Bank loans	15	–	1,352
Total liabilities		57	4,438
EQUITY			
Share capital	12	434	434
Share premium		3,598	3,598
Share based payment reserve		166	126
Retained earnings		(4,059)	(2,304)
Total equity attributable to equity holders of the Company		139	1,854
Total equity and liabilities		196	6,292

The consolidated financial statements were approved by the Board on 31 March 2009.

Stephen Weltman
Director

The accompanying principal accounting policies and notes form an integral part of these financial statements.

Zest Group plc

Consolidated Cash Flow Statement

for the year ended 30 September 2008

	2008 £'000	2007 £'000
Cash flows from operating activities		
Continuing operations		
Loss after taxation	(1,280)	(839)
Adjustments for:		
Amortisation of intangible assets	20	19
Depreciation of property plant and equipment	1	1
Impairment of intangible fixed assets	78	–
Equity settled share based payments	40	59
Finance cost	187	111
Finance income	(7)	(1)
Decrease in trade and other receivables	608	274
(Decrease)/increase in trade an other payables	(323)	213
Net cash outflow from operating activities from continuing operations	(676)	(163)
Discontinued operations		
Net cash inflow/(outflow) from operating activities from discontinued operations	519	(346)
Net cash outflow from operating activities	(157)	(509)
Cash flows from investing activities		
Continuing operations		
Purchase of property, plant and equipment	(1)	–
Finance cost	(49)	(111)
Finance income	7	1
Adjustment to purchase price of subsidiary undertakings	–	417
Net cash from investing activities from continuing operations	(43)	307
Discontinued operations		
Net cash inflow/(outflow) from investing activities from discontinued operations	2,029	(55)
Net cash generated from investing activities	1,986	252
Cash flows from financing activities		
Continuing operations		
New loans	–	484
Repayment of loans	(1,799)	(228)
Net cash (outflow)/inflow from financing activities from continuing operations	(1,799)	256
Discontinued operations		
Net cash outflow from financing activities from discontinued operations	–	(22)
Net cash (outflow)/inflow from financing activities	(1,799)	234
Net change in cash and cash equivalents	30	(23)
Cash and cash equivalents at 1 October 2007	32	55
Cash and cash equivalents at 30 September 2008	62	32

The accompanying principal accounting policies and notes form an integral part of these financial statements.

Notes to the Financial Statements

for the year ended 30 September 2008

1 Revenue, loss before taxation and segmental information

Revenue and loss before taxation – continuing operations

The revenue and loss before taxation is attributable to the principal activities of the Group.

The loss before taxation is stated after charging:

	2008 £'000	2007 £'000
Staff costs	344	257
Amortisation of intangible assets	20	19
Impairment of intangible assets	78	–
Depreciation of owned property, plant and equipment	1	1
Impairment of advance payments to artists	533	–
Auditors' remuneration:		
Fees payable to the Company auditors for the audit of the financial statements	20	12
Fees payable to the Company auditors for other services:		
Audit of the Company's subsidiary pursuant to legislation	–	23
Taxation services	3	5
Other non audit services	9	–

Segmental information

(a) Primary reporting format – business segment

As defined under International Accounting Standard 14 "Segment Reporting" (IAS 14), the only material business segment the Group has is that of music publishing.

(b) Secondary reporting format – geographical segment

Under the definitions contained in IAS 14 the only material geographic segment that the Group operates in is the UK.

2 Finance costs

	2008 £'000	2007 £'000
Interest payable on loans and overdrafts	187	111

3 Finance income

	2008 £'000	2007 £'000
Bank interest receivable	7	1

Notes to the Financial Statements

for the year ended 30 September 2008

4 Taxation – continuing operations

There is no tax credit on the loss for the current or prior year.

The tax assessed for the year differs from the standard rate of corporation tax in the UK as follows:

	2008 £'000	2007 £'000
Loss before tax	(1,280)	(839)
Loss multiplied by standard rate of corporation tax in the UK of 28% (2007: 30%)	(358)	(252)
Effect of:		
Disallowable expenses	50	32
Deferred tax asset not recognised	308	220
Current tax charge for year	–	–

The Group has tax losses in the UK, subject to Her Majesty's Revenue and Customs approval, of approximately £3,199,000 (30 September 2007: £2,100,000) available for offset against future operating profits. The Group has not recognised any deferred tax asset in respect of these losses, which would amount to £896,000 (2007: £588,000) due to there being insufficient certainty regarding its recovery.

5 Loss per share

The calculation of the basic loss per share is calculated by dividing the consolidated loss attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2008 £'000	2007 £'000
Loss attributable to equity holders of the Group		
Continuing operations	(1,280)	(839)
Discontinued operations	(475)	(337)
	(1,755)	(1,176)

	2008 Number	2007 Number
Weighted average number of shares for calculating loss per share	173,619,050	173,619,050

The impact of the share options and share warrant is anti dilutive.

Notes to the Financial Statements

for the year ended 30 September 2008

6 Loss from discontinued operations

On 15 February 2008, the Group disposed of its entire shareholding in Greensleeves Records Limited, Greensleeves Publishing Limited and Greensleeves USA, its reggae music publishing business, for a gross consideration of £3 million plus deferred consideration of £100,000. As this business is a separate genre of music it is considered to be a discontinued operation. The results of the discontinued operations are analysed as follows:

	Year ended 30 September 2008 £'000	Year ended 30 September 2007 £'000
Trading loss of discontinued subsidiary undertakings	(104)	(337)
Loss on disposal of subsidiary undertakings	(371)	–
Loss from discontinued operations	(475)	(337)

The results for Greensleeves Records Limited, Greensleeves Publishing Limited and Greensleeves USA were as follows:

	Year ended 30 September 2008 £'000	Year ended 30 September 2007 £'000
Revenue	525	2,721
Cost of sales	(288)	(1,452)
Gross profit	237	1,269
Administrative expenses	(340)	(1,563)
Loss from operations	(103)	(294)
Finance costs	(1)	(43)
Loss before taxation	(104)	(337)
Taxation expense	–	–
Loss for the period	(104)	(337)

The result for Greensleeves Records Limited, Greensleeves Publishing Limited and Greensleeves USA is for the period to 15 February 2008, being the date of disposal.

The loss on disposal of Greensleeves Records Limited, Greensleeves Publishing Limited and Greensleeves USA can be summarised as follows:

	Total £'000
Net assets disposed of	
Goodwill	3,065
Property, plant and equipment	678
Inventories	475
Trade and other receivables	495
Cash at bank and in hand	579
Trade and other payables	(2,175)
Corporation tax payable	(36)
	3,081
Loss on disposal	(371)
Consideration	2,710
Satisfied by:	
Cash	3,000
Deferred consideration at fair value	100
Transaction costs settled in cash	(390)
	2,710

Notes to the Financial Statements

for the year ended 30 September 2008

7 Intangible assets

	Recording and publishing agreements £'000	Goodwill on consolidation £'000	Total £'000
Cost			
At 1 October 2006	157	3,482	3,639
Adjustment to consideration	–	(417)	(417)
At 30 September 2007	157	3,065	3,222
Disposal	–	(3,065)	(3,065)
At 30 September 2008	157	–	157
Amortisation and impairment			
At 1 October 2006	40	–	40
Charge in the year	19	–	19
At 30 September 2007	59	–	59
Amortisation charge in the year	20	–	20
Impairment charge in the year	78	–	78
At 30 September 2008	157	–	157
Net book amount at 30 September 2008	–	–	–
Net book amount at 30 September 2007	98	3,065	3,163

During the year ended 30 September 2007 the Group negotiated a reduction in the purchase price, net of related costs, of £417,000 in respect of Greensleeves Records Limited by invoking the clauses in respect of the warranty provisions in the sale and purchase agreement.

The recording and publishing agreements have been fully impaired during the year ended 30 September 2008 as the Directors no longer consider it likely that they will generate revenue from these agreements.

8 Property, plant and equipment

	Freehold property £'000	Office equipment £'000	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost					
At 1 October 2006	690	–	13	4	707
Additions	–	–	12	–	12
At 30 September 2007	690	–	25	4	719
Additions	–	1	–	–	1
Disposals	(690)	–	(25)	–	(715)
At 30 September 2008	–	1	–	4	5
Depreciation					
At 1 October 2006	7	–	4	2	13
Charge in the year	14	–	6	1	21
At 30 September 2007	21	–	10	3	34
Charge in the year	–	–	–	1	1
Disposals	(21)	–	(10)	–	(31)
At 30 September 2008	–	–	–	4	4
Net book amount at 30 September 2008	–	1	–	–	1
Net book amount at 30 September 2007	669	–	15	1	685

Notes to the Financial Statements

for the year ended 30 September 2008

9 Trade and other receivables

	2008 £'000	2007 £'000
Trade debtors and advance payments to artists	533	1,587
Less: impairment losses	(533)	–
	–	1,587
Other receivables	123	112
Prepayments and accrued income	10	284
	133	1,983

The movement in the impairment of receivables is as follows:

	2008 £'000	2007 £'000
At 1 October	–	–
Impairment losses recognised in the year	533	–
At 30 September	533	–

Details of the basis of the impairment are included in the critical accounting estimates and assumptions section of the principal accounting policies.

10 Trade and other payables

	2008 £'000	2007 £'000
Trade and other payables	19	1,906
Social security and other taxes	9	27
Other creditors	5	37
Accruals	24	380
	57	2,350

The fair value of trade and other payables has not been disclosed as, due to their short duration, management considers the carrying amounts recognised in the balance sheet to be a reasonable approximation of their fair value.

11 Share based payments

The Group operates share option schemes for certain employees (including directors). Options are exercisable at the option price agreed at the date of grant. The options are settled in equity once exercised. The expected life of the options is three years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows:

	2008		2007	
	Number	WAEP £	Number	WAEP £
Outstanding at the beginning and end of the year	8,925,000	0.031	8,925,000	0.031

Notes to the Financial Statements

for the year ended 30 September 2008

11 Share based payments (continued)

The share options outstanding at the end of the year have a weighted average remaining contractual life of 7.01 years (2007: 8.01 years) and have the following exercise prices and fair values at the date of grant:

	Grant date	Exercise price £	Fair value £	2008 Number	2007 Number
First exercise date (when vesting conditions are met)					
7 March 2008	7 March 2005	0.0300	0.019221	5,100,000	5,100,000
6 March 2009	6 March 2006	0.0325	0.020776	3,825,000	3,825,000
				8,925,000	8,925,000

The share options can be exercised up to ten years after the date first exercisable.

For those options when IFRS2 "Share-Based Payment", the fair values were calculated using the Black-Scholes. The inputs into the model were as follows:

	2007
Risk fee rate	4.75%
Share price volatility	100%
Expected life	3 years
Market value at date of grant	
7 March 2005	£0.03
6 March 2006	£0.0325

Expected volatility was determined by calculating the historical volatility of the Company's share price. The expected life used in the model has been adjusted, based on the management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised total expenses of £40,000 (2007: £59,000) relating to equity-settled share-based payment transactions during the year.

12 Share Capital

	2008 £'000	2007 £'000
Authorised		
4,000,000,000 ordinary shares of 0.25p	10,000	10,000
Allotted, issued and fully paid		
173,619,050 (2007: 173,619,050) ordinary shares of 0.25p	434	434

13 Contingent liabilities

There were no contingent liabilities at 30 September 2008 or 30 September 2007.

14 Capital commitents

There were no capital commitments at 30 September 2008 or 30 September 2007.

Notes to the Financial Statements

for the year ended 30 September 2008

15 Financial instruments

The Group uses financial instruments comprising cash at bank and various other short-term business instruments such as trade and other receivables and trade and other payables which arise from its operations.. The main purpose of these financial instruments is to fund the Group's business strategy and the short-term working capital requirements of the business.

Categories of financial instruments	2008 £'000	2007 £'000
Financial assets		
Trade and other receivables – held as loans and receivables	123	1,699
Cash and cash equivalents	62	32
Trade and other receivables	185	1,731
Financial liabilities		
Trade and other payables – held at amortised cost	33	1,970
Borrowings at amortised at cost	–	2,088
	33	4,058

Credit risk

The Group's principal financial assets are trade and other receivables. The key risk that the Group faces is the non-recoupment of advances made to artists. Given that these are stated at a net value of £nil after a full provision for impairment, the maximum potential loss for the Group equates to the financial asset's carrying amount.

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	2008 £'000	2007 £'000
Trade and other receivables	123	1,699

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Maturity of financial liabilities

The Group's borrowings analysis is as follows:

	2008 £'000	2007 £'000
In less than one year		
Bank loan	–	252
Other loans	–	484
In more than one year		
Bank loan	–	1,352
	–	2,088

The trade and other payables at 31 December 2008 and 2007 are all due within less than one year.

The Group repaid its bank and other loans during the year.

Notes to the Financial Statements

for the year ended 30 September 2008

15 Financial instruments (continued)

Capital risk management

The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns and benefits for shareholders
- to support the Group's stability and growth: and
- to provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure an optimal capital structure and equity holder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The management regards total equity as capital and reserves, for capital management purposes.

The Company, in accordance with section 142 of the Companies Act 2005, should have net assets of half its called up share capital. If, as is the case at 31 December 2008, it does not meet this requirement, the Company must convene a general meeting to consider whether any, and if so what, steps should be taken to deal with the financial position. This is considered further in the Chairman's statement.

16 Related party transactions

Julia Weltman is a related party by virtue of being the spouse of Steve Weltman, a director of Zest Group plc. Included within wages and salaries cost for the year to 30 September 2008 is £25,000 (2007: £nil) in respect of salary paid to Julia Weltman.

17 Employee remuneration

Employee benefits expense – continuing operations

Expense recognised for employee benefits, including Directors' emoluments, is analysed below:

	2008 £'000	2007 £'000
Wages and salaries	140	166
Bonuses	135	–
Social Security costs	14	14
Share based payments	40	59
Pensions – defined contribution scheme	15	18
	344	257

The average number of employees (including directors) employed by the Group during the year was:

	2008 Number	2007 Number
	2	3

Included within the above are amounts in respect of Directors, who are considered to be the key management personnel, as follows:

	2008 £'000	2007 £'000
Bonuses	135	–
Salary and fees	110	
Share based payments	34	
Pensions – defined contribution scheme	15	171
	294	171

Details of Directors' emoluments are included in the Report on Remuneration on page 9.

Notes to the Financial Statements

for the year ended 30 September 2008

18 Transition to International Financial Reporting Standards

The transition from UK GAAP to IFRS has been made in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards".

The Group's financial statements for the year ended 30 September 2008 and the comparatives for the year ended 30 September 2007 comply with all presentation, recognition and measurement requirements of IFRS applicable for accounting periods commencing on or after 1 October 2007.

The following reconciliations and explanatory notes thereto describe the effects of the transition at 1 October 2006 and 30 September 2007 and on the years then ended.

The following transition adjustments have been made as a consequence of the adoption of IFRS:

(i) Reversal of amortisation of goodwill. Under IFRS3 "Business Contributions goodwill is not amortised but is instead subject to an annual impairment review.

(ii) Reclassification of the results of Greensleeves Records Limited, Greensleeves Publishing Limited and Greensleeves USA to a single line in the income statement for loss on discontinued operations as the companies were disposed of during the year ended 30 September 2008.

(iii) Reclassification of the cash flows of Greensleeves Records Limited, Greensleeves Publishing Limited and Greensleeves USA to discontinued operations in the cash flow statement as the companies were disposed of during the year ended 30 September 2008.

The re-measurement of balance sheet items as at 30 September 2007 may be summarised as detailed below. There was no change in the reported balance sheet at 1 October 2006 as a result of the transition to IFRS:

	Notes	UK GAAP £'000	Effect of transition £'000	IFRS £'000
ASSETS				
Non-current assets				
Intangible assets	(i)	3,005	158	3,163
Property, plant and equipment		685	–	685
	(i)	3,690	158	3,848
Current assets				
Inventories		429	–	429
Trade and other receivables		1,983	–	1,983
Cash and cash equivalents		32	–	32
Total current assets		2,444	–	2,444
Total assets	(i)	6,134	158	6,292
EQUITY AND LIABILITIES				
Current liabilities				
Trade and other payables		2,350	–	2,350
Bank loans		252	–	252
Other loans		484	–	484
		3,086	–	3,086
Non-current liabilities				
Bank loans		1,352	–	1,352
Total liabilities		4,438	–	4,438
Equity				
Share capital		434	–	434
Share premium		3,598	–	3,598
Share based payment reserve		126	–	126
Retained earnings	(i)	(2,462)	158	(2,304)
Equity shareholder funds		1,696	158	1,854
Total equity and liabilities		6,134	158	6,292

Notes to the Financial Statements

for the year ended 30 September 2008

18 Transition to International Financial Reporting Standards (continued)

Profit and loss reported under UK GAAP for the year ending and 30 September 2007 is reconciled to IFRS as follows:

	Notes	UK GAAP £'000	Effect of transition £'000	IFRS £'000
Sales revenue	(ii)	2,513	(2,513)	–
Cost of sales	(ii)	(1,452)	1,452	–
Gross profit	(ii)	1,061	(1,061)	–
Administrative expenses	(ii)	(2,065)	1,355	(710)
Amortisation of intangibles	(i)	(177)	158	(19)
Operating loss	(ii)	(1,181)	452	(729)
Finance costs	(ii)	(153)	43	(110)
Loss before taxation	(i), (ii)	(1,334)	495	(839)
Taxation expense		–	–	–
Loss from discontinued operations	(ii)	–	(337)	(337)
Loss for the period	(i), (ii)	(1,334)	158	(1,176)

Cash flows reported under UK GAAP for the year ending 30 September 2008 are reconciled to IFRS as follows:

	Notes	UK GAAP £'000	Effect of transition £'000	IFRS £'000
Net cash outflow from operating activities	(iii)	(509)	509	–
Net cash outflow from operating activities from continuing operations	(iii)	–	(163)	(163)
Net cash outflow from operating activities from discontinued operations	(iii)	–	(346)	(346)
Net cash outflow from returns on investment and servicing of finance	(iii)	(153)	153	–
Net cash outflow from capital expenditure and financial investment	(iii)	(12)	12	–
Net cash inflow from acquisitions and disposals	(iii)	417	(417)	–
Net cash inflow from investing activities from continuing operations	(iii)	–	307	307
Net cash outflow from investing activities from discontinued operations	(iii)	–	(55)	(55)
Net cash inflow from financing	(iii)	234	(234)	–
Net cash inflow from financing activities from continuing operations	(iii)	–	256	256
Net cash outflow from financing activities from discontinued operations	(iii)	–	(22)	(22)
Decrease in cash		(23)	–	(23)

Zest Group plc

Company Statutory Financial Statements

(prepared under UK GAAP)

for the year ended 30 September 2008

Zest Group plc

Company Statutory Financial Statements

for the year ended 30 September 2008

Contents

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Company only financial statements ("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 elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that 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 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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 financial statements may differ from legislation in other jurisdictions.

Report of the Independent Auditors

to the members of Zest Group plc

We have audited the parent Company financial statements (the "financial statements") of Zest Group plc for the year ended 31 September 2008 which comprise the principal accounting policies, the balance sheet and notes 19 to 32. These parent Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the consolidated financial statements of Zest Group plc for the year ended 30 September 2008.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The directors' responsibilities for preparing the Annual Report and financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. The information given in the Report of Directors includes that specific information presented in the Chairman's statement that is cross-referred from the business review section of the Report of the Directors.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent Company financial statements. The other information comprises only the Chairman's Statement, the Report of the Directors, Corporate Governance statement and Report on Remuneration. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Report of the Independent Auditors

to the members of Zest Group plc

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 September 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

Grant Thornton UK LLP
Registered Auditor
Chartered Accountants
Birmingham

31 March 2009

Principal Accounting Policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

The principal accounting policies of the Company are set out below and remain unchanged from the previous period.

Going concern

The Directors note the substantial losses that the Company has made for the year ended 30 September 2008. The Directors have prepared cash flow forecasts for the period ending 31 March 2010 which take account of the current cost structure of the Company and include a conservative estimate of income to be generated from the operational business. These forecasts demonstrate that the Company has sufficient finance facilities available to allow it to continue in business for a period of at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

Investments

Investments in subsidiary undertakings are recorded at cost less provision for impairment.

Impairment

Impairment reviews are undertaken when there are potential indicators of impairment and provisions against the carrying value made as appropriate.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Intangible fixed assets

Recording and publishing agreements are included at cost and amortised on a straight line basis over their expected useful economic life. They are also assessed for impairment if there are indicators of impairment in their value.

Share based payments

The Company issues equity-settled share-based payments to certain employees (including directors). Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, together with a corresponding increase in equity, based upon the Company's estimate of the shares that will eventually vest.

Fair value is measured using the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Where the terms of an equity-settled transaction are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled transaction is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognised for the transaction is recognised immediately. However, if a new transaction is substituted for the cancelled transaction, and designated as a replacement transaction on the date that it is granted, the cancelled and new transactions are treated as if they were a modification of the original transaction, as described in the previous paragraph.

Principal Accounting Policies

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Zest Group plc

Balance Sheet

at 30 September 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Intangible assets	19	–	98
Tangible fixed assets	20	1	1
Investments	21	–	3,000
		1	3,099
Current assets			
Debtors	22	133	541
Cash at bank		62	
		195	541
Creditors: Amounts falling due within one year	23	(57)	(1,123)
Net current assets/(liabilities)		138	(582)
Total assets less current liabilities		139	2,517
Creditors: Amounts falling due after more than one year	24	–	(948)
Total assets less net liabilities		139	1,569
Capital and reserves			
Called up share capital	25	434	434
Share premium account	26	3,598	3,598
Share-based payment reserve	26	166	126
Profit and loss account	26	(4,059)	(2,589)
Equity shareholders' funds/(deficit)	27	139	1,569

The financial statements were approved by the Board on 31 March 2009.

Stephen Weltman
Director

The accompanying principal accounting policies and notes form an integral part of these financial statements.

Notes to the Financial Statements

for the year ended 30 September 2008

19 Intangible fixed assets

	Recording and publishing agreements £'000
Cost	
At 1 October 2007 and 30 September 2008	157
Amortisation and impairment	
At 1 October 2007	59
Amortisation charged in the year	20
Impairment charged in the year	78
At 30 September 2008	157
Net book value at 30 September 2008	–
Net book value at 30 September 2007	98

The recording and publishing agreements have been fully impaired during the year ended 30 September 2008 as the Directors no longer consider it likely that they will generate revenue from these agreements

20 Tangible fixed assets

	Computer equipment £'000
Cost	
At 1 October 2007 and 30 September 2008	4
Depreciation	
At 1 October 2007 and 30 September 2008	3
Net book value at 30 September 2008	1
Net book value at 30 September 2007	1

Notes to the Financial Statements

for the year ended 30 September 2008

21 Fixed asset investments

	Investment in group undertakings £'000
Cost	
At 1 October 2007	3,311
Disposal	(3,311)
At 30 September 2008	–
Amounts written off	
Provision for impairment	
At 1 October 2007	311
Eliminated on disposal	(311)
At 30 September 2008	–
Net book value at 30 September 2008	–
Net book value at 30 September 2007	3,000

On 15 February 2008 the Company disposed of its entire share capital in Greensleeves Records Limited, Greensleeves Publishing Limited and Greensleeves USA for £3,000,000 in cash and deferred consideration of £100,000.

At 30 September 2008 the Company holds 100% of the ordinary share capital of the following subsidiary undertakings, which are registered in England and Wales.

Subsidiary	Nature of business
Zest Music Limited	Dormant
Zest Songs Limited	Dormant
Zest Entertainments Ltd	Dormant
Reggae Tunes Limited	Dormant

22 Debtors

	2008 £'000	2007 £'000
Trade debtors and advance payments to artists	533	511
Less: impairment losses	(533)	–
	–	511
Other debtors	123	9
Prepayments and accrued income	10	21
	133	541

23 Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Bank loans	–	229
Other loans	–	484
Bank overdraft	–	30
Trade creditors	19	245
Social security and other taxes	9	16
Other creditors	5	36
Accruals and deferred income	24	83
	57	1,123

Notes to the Financial Statements

for the year ended 30 September 2008

24 Creditors: amounts falling due after more than one year

	2008 £'000	2007 £'000
Bank loans	–	948

25 Share Capital

	2008 £'000	2007 £'000
Authorised		
4,000,000,000 ordinary shares of 0.25p each	10,000	10,000
Allotted, issued and fully paid		
173,619,050 (2007: 173,619,050) ordinary shares of 0.25p	434	434

26 Reserves

	Share premium £'000	Share based payments reserve £'000	Profit and loss account £'000
At 1 October 2007	3,598	126	(2,589)
Share based payments	–	40	–
Retained loss for the year	–	–	(1,470)
At 30 September 2008	3,598	166	(4,059)

27 Reconciliation of movement in equity shareholders' deficit

	2008 £'000	2007 £'000
Loss for financial year	(1,470)	(1,557)
Increase in share based payment reserve	40	59
Net decrease in shareholders' funds	(1,430)	(1,498)
Equity shareholders' funds brought forward	1,569	3,067
Equity shareholders' funds carried forward	139	1,569

28 Loss for the financial year

The Company has taken advantage of section 230 (4) of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The Company's loss for the year was £1,470,000 (2007: £1,557,000).

The loss is stated after charging:

	2008 £'000	2007 £'000
Fees payable to the Company's auditor for the audit of the financial statements	20	12
Other services relating to taxation compliance and advice	3	3

Notes to the Financial Statements

for the year ended 30 September 2008

29 Directors remuneration

Details of Directors' remuneration is disclosed within the Report on Remuneration on page 9.

30 Contingent liabilities

There were no contingent liabilities at 30 September 2008 or at 30 September 2007.

31 Capital commitments

There were no capital commitments at 30 September 2008 or at 30 September 2007.

32 Related party transactions and post balance sheet events

Julia Weltman is a related party by virtue of being the spouse of Steve Weltman, a director of Zest Group plc. Included within wages and salaries cost for the year to 30 September 2008 is £25,000 (2007: £nil) in respect of salary paid to Julia Weltman.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held on 1 May 2009 at the offices of Marriott Harrison, Staple Court, 11 Staple Inn Buildings, London, WC1V 7QH at 11 am for the purpose of considering in accordance with section 142 of the Companies Act 1985 whether any, and if so what, steps should be taken to deal with the situation that the net assets of the Company are less than half of its called up share capital and the transaction of the following business:

Ordinary Business

To consider and, if thought fit, to pass the following resolutions which will be proposed as ordinary resolutions:

1 To receive and adopt the report of the directors, the financial statements and the report of the auditors for the financial year ended 30 September 2008.

2 To re-appoint as director Richard Griffiths who retires in accordance with the Articles of Association.

3 To re-appoint Grant Thornton UK LLP (the "Auditors") as auditors of the Company to hold office until the completion of the next general meeting of the Company at which accounts are laid.

4 To authorise the Directors to fix the remuneration of the Auditors.

Special Business

To consider and, if thought fit, to pass the following resolution which will be proposed an ordinary resolution:

5 That, in substitution for all existing authorities the directors be and they are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £86,810 of the authorised but unissued share capital for the time being provided that this authority shall expire five years from the passing of this resolution or, if earlier, 15 months from the date of this resolution save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

To consider and, if thought fit, to pass the following resolution which will be proposed as a special resolution:

6 That subject to the passing of resolution number 5 above, the directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred by that resolution as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment provided that this power shall expire on the date of the next annual general meeting of the Company after the passing of this resolution, or if earlier, 15 months from the date of this resolution (whichever is the earlier) save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

By order of the Board

Kitwell Consultants Limited
Company Secretary

Registered office:
Kitwell House
The Warren
Radlett
Hertfordshire WD7 7DU

31 March 2009

Notice of Annual General Meeting

Notes:

1 Shareholders entitled to attend and vote at the meeting may appoint a proxy or proxies to attend and speak on their behalf. A proxy need not be a member of the Company. Investors who hold their shares through a nominee may wish to attend the meeting as a proxy, or to arrange for someone else to do so for them, in which case they should discuss this with their nominee or stockbroker. Proxies may vote on a poll on any resolution. Proxies may ask questions at the meeting if, in his discretion, the Chairman of the meeting allows it. Shareholders are invited to complete and return the enclosed Proxy Form. Completion of the Proxy Form will not prevent a Shareholder from attending and voting at the meeting if subsequently he/she finds they are able to do so. To be valid, completed Proxy Forms must be received at the offices of the Company's registrars, Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA, by not later than 11 am on 29 April 2009 (being 48 hours prior to the time fixed for the meeting, excluding weekends and public holidays) or, in the case of an adjournment, as at 48 hours prior to the time of the adjourned meeting.

2. Representatives of Shareholders which are corporations attending the meeting should produce evidence of their appointment by an instrument executed in accordance with Section 36A of the Companies Act 1985 or signed on behalf of the corporation by a duly authorised officer or agent.

3. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those holders of Ordinary Shares registered in the register of members of the Company at 11 am on 29 April 2009 (being 48 hours prior to the time fixed for the meeting) shall be entitled to attend and vote at the Annual General Meeting in respect of such number of shares registered in their name at that time. Changes to entries in the register of members after 11 am on 29 April 2009 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

4. The Register of Directors' Interests, together with the Directors' service agreements, and a copy of the Company's Articles of Association, will be available for inspection during usual business hours on any weekday (Saturdays and Public Holidays excluded) at the registered office of the Company until the date of the Annual General Meeting and at the place of the meeting for 15 minutes prior to and until the termination of the meeting.

Zest Group plc

Form of Proxy

For use at the Annual General Meeting

For use at the annual general meeting of the company to be held at the offices of Marriott Harrison, Staple Court, 11 Staple Inn Buildings, London WC1V 7QH.

I/We* (block capitals please) ______________________________

being a member/members of the above-named Company, hereby appoint the Chairman of the Meeting or failing him:

____

as my/our proxy to attend and vote and/or speak for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 1 May 2009 at 11 am and at any adjournment thereof.

My/our proxy is to vote as indicated below in respect of the resolutions set out in the notice of the Annual General Meeting (see note 1).

Please complete the fourth column entitled “No. of shares in respect of which proxy direction is given” only if you require your proxy to act for you in respect of less than your entire holding of Zest shares, and insert in the fourth column the number of shares in respect of which the direction is given.

Signed ______________________ Dated ______________________ 2009

Resolutions	**For** **	**Against** **	**Vote withheld** **	**No. of shares in respect of which proxy direction is given**
1. To receive and adopt the report of the directors, the financial statements and auditors’ report.	☐	☐	☐	☐
2. To re-appoint Richard Griffiths who retires by rotation in accordance with the Company’s Articles of Association.	☐	☐	☐	☐
3. To re-appoint Grant Thornton UK LLP as auditors of the Company.	☐	☐	☐	☐
4. To authorise the directors to fix the remuneration of the auditors.	☐	☐	☐	☐
5. To authorise the directors to allot pursuant to section 80 of the Companies Act 1985 relevant securities up an aggregate nominal amount of £86,810 of the authorised but unissued share capital of the Company.	☐	☐	☐	☐
6 To dis-apply statutory pre-emption rights pursuant to section 95 of the Companies Act 1985 over the authorised but unissued share capital of the Company referred to in resolution 5 above.	☐	☐	☐	☐

Notes:

1 Members’ full names as registered should be stated, including account designations, if any. The names of all joint holders should be stated. (but see also note 4 below).

2 Any member who is entitled to vote at the Meeting is entitled to appoint one or more proxies to attend, speak and, on a poll, to vote instead of him. If such an appointment is made, delete the words “the Chairman of the meeting”, initial the alteration and PRINT the name and address of the person appointed proxy in the space provided. A proxy need not be a member of the Company. If a proxy is appointed the procedures set out in these notes and this form of proxy must be used. You may if you wish appoint more than one proxy to exercise rights attached to different shares. If more than one person is appointed to act as a proxy, then please complete another form of proxy setting out the details of such proxy and the number of Zest shares the subject of the appointment.

3 If the appointor is a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised in that behalf.

4 In the case of joint holders, the signature of any holder will be sufficient but the names of all the joint holders should be stated. If more than one joint holder is present at the meeting, whether in person or by proxy, the vote of the first named standing in the register of members will be accepted to the exclusion of the votes of the other registered holders

5 If this form is returned without any indication as to how the person appointed proxy shall vote, he will exercise his discretion as to how he votes or whether he abstains from voting.

6 A “vote withheld” is not a “vote” in law which means that the “vote” will not be counted in the calculation of votes for or against the resolution. Where no voting indication is given the proxy will vote or abstain at his/her discretion.

7 To be valid this form must be completed and deposited at the offices of the Company’s Registrars, Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA not less than 48 hours before the date and time fixed for the holding of the meeting or any adjourned meeting, excluding weekends and bank holidays.

8 CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic appointment service may do so for the annual general meeting to be held on [?] April 2008 and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

9 In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland’s (formerly Crest Co Limited) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instructions given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer’s agent, Neville Registrars Limited, by the latest time(s) for receipt of proxy appointments specified in the notice of the annual general meeting and in note 5 of this form of proxy. For this purpose, the time of receipt shall be taken as the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company’s agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

10 CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s) to procure his/her CREST sponsor or voting service provider(s) take(s)) such action as is necessary to ensure that a message is transmitted by means of the CREST system by a particular time. In this connection, CREST members and, where applicable, CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

11 The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001.

12 Any alterations to this form must be initialled.

13 As at 7.00 am on 31 March 2009 the Company’s issued share capital comprised 173,619,050 ordinary shares of 0.25 pence each (“Ordinary Shares”), each Ordinary Share carries the right to one vote at a general meeting of the Company and therefore the total number of voting rights in the Company as at 7.00 am on 31 March 2009 is 173,619,050.

14 The completion and return of this form of proxy will not affect the right of a member to attend, speak and vote in person at the meeting convened by this notice.

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