Zest Group plc

Annual Report and Financial Statements

for the year ended 30 September 2009

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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) David Lenigas (Non-executive Director)
Secretary	Kitwell Consultants Limited
Nominated adviser and Nominated broker	W. H. Ireland Limited 24 Martin Lane London EC4R 0DR
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 2009.

Results

During the year the Group recorded a loss before taxation from continuing operations of £283,000 (2008: loss £1,280,000). There was a loss per share on continuing operations of 0.2p (2008: loss per share 0.7p) and no loss per share on discontinued activities (2008: loss per share 0.3p).

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 Company is in the process of compiling all the Tara Chinn Masters with a view to releasing them late in 2010.

Zest is seeking to conclude a new worldwide distribution deal for Nasio Fontaine's five albums of which it owns 100% of the masters and publishing rights which will commence towards the end of this calendar year.

Tony Fennell is a songwriter and producer signed to Zest. The Company holds 100% of all his publishing rights. Currently, Tony has a co-write on a new Warner Bros artist Fabio Lendrum's new album which will be released by them late this summer. The song, entitled "Trouble", will be the first single taken from this album and at the time of writing has been serviced to the club circuit in the United Kingdom to enable Warner's to start their promotional campaign. Tony will continue to write and co-write both in the UK and USA this year.

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 656 of the Companies Act 2006 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 considered this issue at the Company's previous annual general meeting, and will do so again at the forthcoming annual general meeting, details of which are set out in the notice accompanying this document.

Board changes

On 13 January 2009 Jon Crawley resigned from the Board to pursue other business interests. The Board would like to thank Jon for his contribution to the Company. On 27 January 2010 David Lenigas was appointed to the Board.

Capital restructuring

During the period the Company's capital base has been restructured through the conversion of each former Ordinary Share of 0.25p each into one New Ordinary Share of 0.01p each and one Deferred Share of 0.24p each. Since the period end 300,000,000 New Ordinary Shares have been issued for cash, raising £300,000. Further details of this are provided in note 18 of these financial statements.

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.

Richard Griffiths
Chairman

26 March 2010

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 2009.

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 16. 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 page 3.

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 in the year ended 30 September 2008, the Directors have ceased to use these key performance indicators. 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. Any revenue generated, as the amounts have been fully provided for, will be an unexpected benefit to the Group.

Financial risk management objectives and policies

The Group's principal financial instrument comprises cash at bank. The main purpose of this financial instrument 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. Further details of this are provided in the principal accounting policies, headed 'going concern' and note 15 to the financial statements.

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. All directors served throughout the year unless otherwise stated.

Jon Crawley (resigned 13 January 2009)
Richard Griffiths
Steve Weltman

Substantial shareholdings

Interests in excess of 3% of the issued share capital of the Company which had been notified as at 22 March 2010 were as follows:

	Ordinary shares of 1p each Number	Percentage of capital %
Corporate Services (TD Waterhouse) Nominees Limited	86,391,667	18.24
Redmayne (Nominees) Limited	50,000,000	10.56
WB Nominees Limited	36,670,241	7.74
Barclayshare Nominees Limited	20,064,213	4.24
David Lenigas Esq.	20,000,000	4.22
Credit Agricole Cheuvreux International Limited	17,000,000	3.59
Hanover Nominees Limited	15,746,834	3.32
Delstar International Limited	15,000,000	3.17
Strand Nominees Limited	15,000,000	3.17

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 68 days of average supplies for the year (2008: 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 and 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; and
- 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 adequate 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 2006. 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 re-appointment as auditor in accordance with Section 489 of the Companies Act 2006.

ON BEHALF OF THE BOARD

Stephen Weltman
Director

26 March 2010

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. 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. 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 2009 and the net liabilities position at that date. The Directors have prepared cash flow forecasts for the period ending 31 March 2011 which take account of the current cost structure of the Group, which is significantly reduced from the cost structure in the year ended 30 September 2009, and the post 30 September 2009 equity issue which raised £300,000. 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 £	M Lee £	Total £
Year ended 30 September 2009						
Salary and fees	2,250	–	100,000	–	–	102,250
Benefits in kind/allowances	–	–	15,060	–	–	15,060
Pension	–	–	15,000	–	–	15,000
Total	2,250	–	130,060	–	–	132,310
Year ended 30 September 2008	30,250	–	195,000	25,000	25,000	275,250

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

No amounts were payable for bonuses in respect of the year ended 30 September 2009. In the year ended 30 September 2008, £135,000 was paid as bonuses on the successful disposal of Greensleeves Records Limited.

Notice periods

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

Share option incentives

At 30 September 2009 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 0.20p and 0.01p respectively. The share price at 30 September 2009 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 2009 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 the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

Respective responsibilities of the Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 5 and 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.ork.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 September 2009 and its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent Company financial statements of Zest Group plc for the year ended 30 September 2009.

Mark Taylor
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham

26 March 2010

Principal Accounting Policies

Basis of preparation

The Group financial statements have been prepared under the historical cost convention, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). 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 29 to 38 under the historical cost convention and in accordance with applicable accounting standards under UK GAAP.

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 2009 and the net liabilities position at that date. The Directors have prepared cash flow forecasts for the period ending 31 March 2011 which take account of the current cost structure of the Group, which is significantly reduced from the cost structure in the year ended 30 September 2009, and the post 30 September 2009 equity issue which raised £300,000. 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 Company 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 on delivery 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, which is normally when certified by the various authorities 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.

Impairment losses on advances are provided for when objective evidence is received that the Group will not be able to collect amounts due to it in accordance with the original terms of the receivables. The amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of loss is recognised in the income statement for the period in which the impairment occurs.

Goodwill

Goodwill arising on acquisition of a subsidiary 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.

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.

Principal Accounting Policies

Intangible assets (continued)

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 included in administrative expenses and 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
Office equipment	3 to 10 years

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.

Principal Accounting Policies

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 retained earnings on the exercise of share options.

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

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.

Principal Accounting Policies

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.

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.

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 30 September 2008.

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 30 September 2009 the Group had made advance payments to artists of £473,000 (2008: £533,000) which are recoupable from the income generated by those artists. There is no certainty with regard to the level of income, if any, 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 £473,000 (2008: £533,000).

(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 other than the going concern basis of preparing the financial statements, which is detailed in the paragraph headed 'going concern'.

Principal Accounting Policies

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 segmental financial performance and financial position are disclosed, and IAS 1 (revised 2008), which may affect the presentation of the primary 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 2008) 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.

Other standards in issue but not yet effective are not considered to have a material impact on the Group.

Zest Group plc

Consolidated Income Statement

for the year ended 30 September 2009

	Note	2009 £'000	2008 £'000
Administrative expenses			
– amortisation of intangible assets		–	(20)
– impairment of intangible assets		–	(78)
– reversal of impairment/(impairment) of advance payments to artists		60	(533)
– other administrative expenses		(347)	(469)
Total administrative expenses		(287)	(1,100)
Loss from operations		(287)	(1,100)
Finance costs	2	–	(187)
Finance income	3	4	7
Loss before taxation	1	(283)	(1,280)
Taxation	4	–	–
Loss for the year from continuing activities		(283)	(1,280)
Loss from discontinued operations	6	–	(475)
Loss after taxation and retained loss attributable to the equity holders of the company		(283)	(1,755)
Loss per ordinary share (pence)	5		
Basic and diluted			
Continuing operations		(0.2p)	(0.7p)
Discontinued operations		–	(0.3p)
		(0.2p)	(1.0p)

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 2009

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Retained earnings £'000	Total equity £'000
At 1 October 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
Total income and expense – loss for the year	–	–	–	(283)	(283)
Employee share based compensation	–	–	11	–	11
At 30 September 2009	434	3,598	177	(4,342)	(133)

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

Consolidated Balance Sheet

at 30 September 2009

	Note	2009 £'000	2008 £'000
ASSETS			
Non-current assets			
Intangible assets	7	–	–
Property, plant and equipment	8	1	1
		1	1
Current assets			
Trade and other receivables	9	12	133
Cash and cash equivalents		5	62
Total current assets		17	195
Total assets		18	196
LIABILITIES			
Current liabilities			
Trade and other payables	10	151	57
Total liabilities		151	57
EQUITY			
Share capital	12	434	434
Share premium		3,598	3,598
Share based payment reserve		177	166
Retained earnings		(4,342)	(4,059)
Total (capital deficiency)/equity attributable to equity holders of the Company		(133)	139
Total equity and liabilities		18	196

The consolidated financial statements were approved by the Board on 26 March 2010.

Stephen Weltman
Director

Company number 05234262

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

Consolidated Cash Flow Statement

for the year ended 30 September 2009

	2009 £'000	2008 £'000
Cash flows from operating activities		
Continuing operations		
Loss after taxation	(283)	(1,280)
Adjustments for:		
Amortisation of intangible assets	–	20
Depreciation of property, plant and equipment	–	1
Impairment of intangible fixed assets	–	78
Equity settled share based payments	11	40
Finance cost	–	187
Finance income	(4)	(7)
Decrease in trade and other receivables	121	608
Increase/(decrease) in trade and other payables	94	(323)
Net cash outflow from operating activities from continuing operations	(61)	(676)
Discontinued operations		
Net cash inflow from operating activities from discontinued operations	–	519
Net cash outflow from operating activities	(61)	(157)
Cash flows from investing activities		
Continuing operations		
Purchase of property, plant and equipment	–	(1)
Finance cost	–	(49)
Finance income	4	7
Net cash inflow/(outflow) from investing activities from continuing operations	4	(43)
Discontinued operations		
Net cash inflow from investing activities from discontinued operations	–	2,029
Net cash generated from investing activities	4	1,986
Cash flows from financing activities		
Continuing operations		
Repayment of loans	–	(1,799)
Net cash outflow from financing activities from continuing operations	–	(1,799)
Net change in cash and cash equivalents	(57)	30
Cash and cash equivalents at 1 October	62	32
Cash and cash equivalents at 30 September	5	62

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 2009

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:

	2009 £'000	2008 £'000
Staff costs	146	344
Amortisation of intangible assets	–	20
Impairment of intangible assets	–	78
Depreciation of owned property, plant and equipment	–	1
(Reversal of impairment)/impairment of advance payments to artists	(60)	533
Auditors' remuneration:		
Fees payable to the Company auditors for the audit of the financial statements	15	20
Fees payable to the Company auditors for other services:		
Taxation services	2	3
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

	2009 £'000	2008 £'000
Interest payable on loans and overdrafts	–	187

3 Finance income

	2009 £'000	2008 £'000
Bank interest receivable	4	7

Notes to the Financial Statements

for the year ended 30 September 2009

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:

	2009 £'000	2008 £'000
Loss before tax	(283)	(1,280)
Loss multiplied by standard rate of corporation tax in the UK of 28% (2008: 28%)	(79)	(358)
Effect of:		
Disallowable expenses	1	50
Deferred tax asset not recognised	78	308
Current tax charge for year	–	–

The Group has tax losses in the UK, subject to Her Majesty's Revenue and Customs approval, of approximately £3,482,000 (30 September 2008: £3,199,000) 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 £974,000 (2008: £896,000) 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.

	2009 £'000	2008 £'000
Loss attributable to equity holders of the Group		
Continuing operations	(283)	(1,280)
Discontinued operations	–	(475)
	(283)	(1,755)

	2009 Number	2008 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 2009

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 2009 £'000	Year ended 30 September 2008 £'000
Trading loss of discontinued subsidiary undertakings	–	(104)
Loss on disposal of subsidiary undertakings	–	(371)
Loss from discontinued operations	–	(475)

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

	Year ended 30 September 2009 £'000	Year ended 30 September 2008 £'000
Revenue	–	525
Cost of sales	–	(288)
Gross profit	–	237
Administrative expenses	–	(340)
Loss from operations	–	(103)
Finance costs	–	(1)
Loss before taxation	–	(104)
Taxation expense	–	–
Loss for the period	–	(104)

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 in the year ended 30 September 2008 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

The deferred consideration was received during the year ended 30 September 2009.

Notes to the Financial Statements

for the year ended 30 September 2009

7 Intangible assets

	Recording and publishing agreements £'000	Goodwill on consolidation £'000	Total £'000
Cost			
At 1 October 2007	157	3,065	3,222
Disposal	–	(3,065)	(3,065)
At 30 September 2008 and 30 September 2009	157	–	157
Amortisation and impairment			
At 1 October 2007	59	–	59
Amortisation charge in the year	20	–	20
Impairment charge in the year	78	–	78
At 30 September 2008 and 30 September 2009	157	–	157
Net book amount at 30 September 2009	–	–	–
Net book amount at 30 September 2008	–	–	–

The recording and publishing agreements are fully impaired at 30 September 2009 as the Directors no longer consider it likely that they revenue will be generated 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 2007	690	–	25	4	719
Additions	–	1	–	–	1
Disposals	(690)	–	(25)	–	(715)
At 30 September 2008 and 30 September 2009	–	1	–	4	5
Depreciation					
At 1 October 2007	21	–	10	3	34
Charge in the year	–	–	–	1	1
Disposals	(21)	–	(10)	–	(31)
At 30 September 2008 and 30 September 2009	–	–	–	4	4
Net book amount at 30 September 2009	–	1	–	–	1
Net book amount at 30 September 2008	–	1	–	–	1

Notes to the Financial Statements

for the year ended 30 September 2009

9 Trade and other receivables

	2009 £'000	2008 £'000
Trade debtors and advance payments to artists	473	533
Less: impairment losses	(473)	(533)
	–	–
Other receivables	2	123
Prepayments and accrued income	10	10
	12	133

The movement in the impairment of receivables is as follows:

	2009 £'000	2008 £'000
At 1 October	533	–
Impairment (gains)/losses recognised in the year	(60)	533
At 30 September	473	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

	2009 £'000	2008 £'000
Trade and other payables	65	19
Social security and other taxes	–	9
Other creditors	20	5
Accruals	66	24
	151	57

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.

Notes to the Financial Statements

for the year ended 30 September 2009

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:

	2009		2008	
	Number	WAEP £	Number	WAEP £
Outstanding at the beginning and end of the year	8,925,000	0.031	8,925,000	0.031

The share options outstanding at the end of the year have a weighted average remaining contractual life of 6.01 years (2008: 7.01 years) and have the following exercise prices and fair values at the date of grant:

	Grant date	Exercise price £	Fair value £	2009 Number	2008 Number
First exercise date (when vesting conditions are met)					
7 March 2009	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. They are all exercisable at 30 September 2009.

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 £11,000 (2008: £40,000) relating to equity-settled share-based payment transactions during the year.

Notes to the Financial Statements

for the year ended 30 September 2009

12 Share Capital

	2009 £'000	2008 £'000
Authorised		
4,000,000,000 ordinary shares of 0.01p	400	–
4,000,000,000 deferred shares of 0.24p	9,600	–
4,000,000,000 ordinary shares of 0.25p	–	10,000
	10,000	10,000
Allotted, issued and fully paid		
173,619,050 deferred shares of 0.24p	417	–
173,619,050 ordinary shares of 0.01p (2008: 173,619,050 ordinary shares of 0.25p)	17	434
	434	434

Following the approval of its shareholders at the Company's general meeting on 3 September 2009, all existing issued and unissued ordinary shares in the capital of the Company ('Ordinary Shares') of 0.25p each were each converted into one Ordinary Share of 0.01p each and one deferred share of 0.24p each. Application was made for 173,619,050 Ordinary Shares of 0.01p each to be admitted to trading on AIM and admission of these 173,619,050 Ordinary Shares of 0.01p each occurred on 4 September 2009. Following this issue there were 173,619,050 Ordinary Shares of 0.01 pence each in issue (each of which are voting shares) at 30 September 2009.

Since the year end a further 300,000,000 Ordinary Shares of 0.01p each have been issued for a placing for cash raising £300,000 (announced on 6 November 2009). Further details of this are provided in note 18 of these financial statements.

The deferred shares have no voting rights and are not eligible for dividends.

13 Contingent liabilities

There were no contingent liabilities at 30 September 2009 or 30 September 2008.

14 Capital commitents

There were no capital commitments at 30 September 2009 or 30 September 2008.

Notes to the Financial Statements

for the year ended 30 September 2009

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	2009 £'000	2008 £'000
Financial assets		
Trade and other receivables – held as loans and receivables	2	123
Cash and cash equivalents	5	62
	7	185
Financial liabilities		
Trade and other payables – held at amortised cost and payable within 30 days	85	33

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:

	2009 £'000	2008 £'000
Trade and other receivables	2	123

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 trade and other payables at 30 September 2009 and 2008 are all due within less than one year.

The Group repaid its bank and other loans during the year ended 30 September 2008.

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 656 of the Companies Act 2006, should have net assets of half its called up share capital. If, as is the case at 30 September 2009, 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.

Notes to the Financial Statements

for the year ended 30 September 2009

16 Related party transactions

Steve Weltman is a related party by virtue of the fact that he is a director of Zest Group plc. Included within accruals at 30 September 2009 is £42,000 (2008: £nil) in respect of salary due.

Zest Group plc paid £8,500 to Steve Weltman in the year to 30 September 2009 (2008: £nil) in respect of rental of office space.

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 2009 is £nil (2008: £25,000) 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:

	2009 £'000	2008 £'000
Wages and salaries	117	140
Bonuses	–	135
Social Security costs	14	14
Share based payments	11	40
Pensions – defined contribution scheme	15	15
	157	344

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

	2009 Number	2008 Number
	1	2

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

	2009 £'000	2008 £'000
Bonuses	–	135
Salary and fees	102	110
Share based payments	11	34
Pensions – defined contribution scheme	15	15
	128	294

Details of Directors' emoluments are included in the Report on Remuneration on page 8.

18 Post balance sheet events

On 6 November 2009 the Company issued 300,000,000 ordinary shares of 0.01p each for £300,000 cash.

Zest Group plc

Company Statutory Financial Statements

(prepared under UK GAAP)

for the year ended 30 September 2009

Zest Group plc

Company Statutory Financial Statements

for the year ended 30 September 2009

Contents

Page

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 adequate 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 2006. 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 30 September 2009 which comprise the principal accounting policies, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the Directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 31, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.ork.uk/apb/scope/UKNP.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the parent Company's affairs as at 30 September 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the consolidated financial statements of Zest Group plc for the year ended 30 September 2009.

Mark Taylor
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham

26 March 2010

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 Group has made for the year ended 30 September 2009 and the net liabilities position at that date. The Directors have prepared cash flow forecasts for the period ending 31 March 2011 which take account of the current cost structure of the Group, which is significantly reduced from the cost structure in the year ended 30 September 2009, and the post 30 September 2009 equity issue which raised £300,000. 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.

Investments

Investments in subsidiary undertakings are recorded at cost less provision for 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 2009

	Note	2009 £'000	2008 £'000
Fixed assets			
Intangible assets	1	–	–
Tangible fixed assets	2	1	1
Investments	3	–	–
		1	1
Current assets			
Debtors	4	12	133
Cash at bank		5	62
		17	195
Creditors: Amounts falling due within one year	5	(151)	(57)
Net current (liabilities)/assets		(134)	138
Total assets less current liabilities		(133)	139
Capital and reserves			
Called up share capital	6	434	434
Share premium account	7	3,598	3,598
Share-based payment reserve	7	177	166
Profit and loss account	7	(4,342)	(4,059)
Equity shareholders' (deficit)/funds	8	(133)	139

The financial statements were approved by the Board on 26 March 2010.

Stephen Weltman
Director

Company number 05234262

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 2009

1 Intangible fixed assets

	Recording and publishing agreements £'000
Cost	
At 1 October 2008 and 30 September 2009	157
Amortisation and impairment	
At 1 October 2008 and 30 September 2009	157
Net book value at 30 September 2009	–
Net book value at 30 September 2008	–

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

2 Tangible fixed assets

	Computer equipment £'000
Cost	
At 1 October 2008 and 30 September 2009	4
Depreciation	
At 1 October 2008 and 30 September 2009	3
Net book value at 30 September 2009	1
Net book value at 30 September 2008	1

3 Fixed asset investments

At 30 September 2009 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

4 Debtors

	2009 £'000	2008 £'000
Other debtors	2	123
Prepayments and accrued income	10	10
	12	133

Notes to the Financial Statements

for the year ended 30 September 2009

5 Creditors: amounts falling due within one year

	2009 £'000	2008 £'000
Trade creditors	65	19
Social security and other taxes	–	9
Other creditors	20	5
Accruals and deferred income	66	24
	151	57

6 Share Capital

	2009 £'000	2008 £'000
Authorised		
4,000,000,000 ordinary shares of 0.01p	400	–
4,000,000,000 deferred shares of 0.24p	9,600	–
4,000,000,000 ordinary shares of 0.25p	–	10,000
	10,000	10,000
Allotted, issued and fully paid		
173,619,050 deferred shares of 0.24p	417	–
173,619,050 ordinary shares of 0.01p (2008: 173,619,050 ordinary shares of 0.25p)	17	434
	434	434

Following the approval of its shareholders at the Company's general meeting on 3 September 2009, all existing issued and unissued ordinary shares in the capital of the Company ('Ordinary Shares') of 0.25p each were each converted into one Ordinary Share of 0.01p each and one deferred share of 0.24p each. Application was made for 173,619,050 Ordinary Shares of 0.01p each to be admitted to trading on AIM and admission of these 173,619,050 Ordinary Shares of 0.01p each occurred on 4 September 2009. Following this issue there were 173,619,050 Ordinary Shares of 0.01 pence each in issue (each of which are voting shares) at 30 September 2009.

Since the year end a further 300,000,000 Ordinary Shares of 0.01p each have been issued for a placing for cash raising £300,000 (announced on 6 November 2009). Further details of this are provided in note 14 of these financial statements.

The deferred shares have no voting rights and are not eligible for dividends.

7 Reserves

	Share premium £'000	Share based payments reserve £'000	Profit and loss account £'000
At 1 October 2008	3,598	166	(4,059)
Share based payments	–	11	–
Retained loss for the year	–	–	(283)
At 30 September 2009	3,598	177	(4,342)

Notes to the Financial Statements

for the year ended 30 September 2009

8 Reconciliation of movement in equity shareholders' (deficit)/funds

	2009 £'000	2008 £'000
Loss for financial year	(283)	(1,470)
Increase in share based payment reserve	11	40
Net decrease in shareholders' funds	(272)	(1,430)
Equity shareholders' funds brought forward	139	1,569
Equity shareholders (deficit)/ funds carried forward	(133)	139

9 Loss for the financial year

The Company has taken advantage of the exemption under the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Company's loss for the year was £283,000 (2008: £1,470,000).

The loss is stated after charging:

	2009 £'000	2008 £'000
Fees payable to the Company's auditor for the audit of the financial statements	15	20
Other services relating to taxation compliance and advice	2	3

10 Directors remuneration

Details of Directors' remuneration is disclosed within the Report on Remuneration on page 8.

11 Contingent liabilities

There were no contingent liabilities at 30 September 2009 or at 30 September 2008.

12 Capital commitments

There were no capital commitments at 30 September 2009 or at 30 September 2008.

13 Related party transaction

Steve Weltman is a related party by virtue of the fact that he is a director of Zest Group plc. Included within accruals at 30 September 2009 is £42,000 (2008: £nil) in respect of salary due.

Zest Group plc paid £8,500 to Steve Weltman in the year to 30 September 2009 (2008: £nil) in respect of rental of office space.

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 2009 is £nil (2008: £25,000) in respect of salary paid to Julia Weltman.

14 Post balance sheet event

On 6 November 2009 the Company issued 300,000,000 ordinary shares of 0.01p each for £300,000 cash.

Notice of Annual General Meeting

Notice is given that the annual general meeting of the members of the Company will be held at the offices of Greenhair Services Limited at Level 5, 22 Arlington Street, London SW1A 1RD on 22 April 2010 at 10:00 a.m. for the purpose of considering in accordance with section 656 of the Companies Act 2006 ("Act") 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, if thought fit, passing the following:

Ordinary resolutions

1. To receive the accounts and reports for the year ended 30 September 2009.
2. To re-elect Steve Weltman as a director who is retiring by rotation in accordance with the articles of association of the company and who being eligible offers himself for re-election.
3. To re-elect David Lenigas as a director who is retiring having been appointed by the directors since the last annual general meeting and who being eligible offers himself for re-election.
4. To re-appoint Grant Thornton UK LLP as auditors and authorise the directors to determine their remuneration.
5. That, in accordance with section 551 of the Act, the directors are generally and unconditionally authorised to allot the equity securities (within the meaning of section 560 of the Act) up to an aggregate nominal amount of £352,638.09 (three hundred and fifty two thousand six hundred and thirty eight pounds and nine pence), provided that such authority, unless previously revoked or varied by the Company in general meeting, is to expire on the date of the Company's next annual general meeting, except that the directors may allot relevant securities pursuant to an offer or agreement made before the expiry of the authority.

Special resolutions

6. That subject to the passing of resolution 5, pursuant to section 570 of the Act, the directors are authorised to allot equity securities (within the meaning of section 560 of the Act) for cash under the authority conferred by resolution 5, as if section 561 of the Act did not apply to the allotment, for the period commencing on the date of this resolution and expiring either 15 months from the date of this resolution or at the conclusion of the next annual general meeting of the Company, whichever is sooner, except that the directors may allot relevant securities following an offer or agreement made before the expiry of the authority and provided that the authority is limited to:

   6.1 the allotment of equity securities in connection with an issue in favour of shareholders where the equity securities respectively attributable to the interests of all such shareholders are proportionate (or as nearly as may be practicable) to the respective number of Ordinary Shares in the capital of the Company held by them on the record date for such allotment, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any recognised body or any stock exchange, in any territory; and

   6.2 the allotment of equity securities, otherwise than in accordance with paragraph 6.1, up to an aggregate nominal amount of £100,000.00.

7. That the Memorandum and Articles of Association of the Company be amended by deleting all the provisions of the Company's Memorandum of Association which by virtue of section 28 of the Companies Act 2006 are to be treated as provisions of the Company's Articles of Association.

Notice of Annual General Meeting

8. That the new Articles of Association produced to the Meeting and initialled by the Chairman of the Meeting for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.

By order of the Board

Kitwell Consultants Limited
Company Secretary

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

29 March 2010

Notes:

Appointment of proxies

1. As a member of the Company, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
2. A proxy does not need to be a member of the Company but must attend the meeting to represent you. Details of how to appoint the chairman of the meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the meeting you must appoint your own choice of proxy (not the chairman) and give your instructions directly to the relevant person.
3. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, you must complete a separate proxy form for each proxy and specify against the proxy's name the number of shares over which the proxy has rights. If you are in any doubt as to the procedure to be followed for the purpose of appointing more than one proxy you must contact the Company's registrars, Neville Registrars, Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3DA. If you fail to specify the number of shares to which each proxy relates, or specify a number of shares greater than that held by you on the record date, proxy appointments will be invalid.
4. If you do not indicate to your proxy how to vote on any resolution, your proxy will vote or abstain from voting at his discretion. Your proxy will vote (or abstain from voting) as he thinks fit in relation to any other matter which is put before the meeting.

Appointment of proxy using the hard copy proxy form

5. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold his vote.
6. To appoint a proxy using the proxy form, it must be:
   6.1 completed and signed;
   6.2 sent or delivered to the Company's registrars, Neville Registrars, Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3DA; and
   6.3 received by the Company's registrars no later than 10.00 a.m. on 20 April 2010.
7. In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

Notice of Annual General Meeting

8. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.
9. The Company, pursuant to regulation 41 of The Uncertificated Securities Regulations 2001, specifies that only those ordinary shareholders registered in the register of members of the Company 48 hours before the meeting shall be entitled to attend or vote at the meeting in respect of the number of Ordinary shares registered in their name at that time. Changes to entries on the relevant register of securities after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

Appointment of proxies through CREST

10. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) by using 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.
11. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID: 7RA11) by 6.00 p.m. on 20 April 2010. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.
12. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI 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 that his CREST sponsor or voting service provider(s) take(s)) such action as are necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their 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.
13. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Appointment of proxy by joint members

14. In the case of joint holders of shares, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder (being the first named holder in respect of the shares in the Company's register of members) will be accepted.

Changing proxy instructions

15. To change your proxy instructions simply submit a new proxy appointment using the method set out in paragraph 6 above. Note that the cut off time for receipt of proxy appointments specified in that paragraph also applies in relation to amended instructions. Any amended proxy appointment received after the specified cut off time will be disregarded.
16. Where you have appointed a proxy using the hard copy proxy form and would like to change the instructions using another hard copy proxy form, please contact the Company's registrar as indicated in paragraph 3 above.
17. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Notice of Annual General Meeting

Termination of proxy appointments

18. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the Company's registrar as indicated in paragraph 3 above. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.
19. The revocation notice must be received by the Company no later than 10.00 a.m. on 20 April 2010.
20. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to paragraph 21 below, your proxy appointment will remain valid.
21. Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

Documents available for inspection

22. The following documents will be available for inspection at the registered office of the Company on any weekday (except Saturdays, Sundays and Bank Holidays) during normal business hours from the date of this notice until the date of the meeting and at the place of the meeting for 15 minutes prior to and until the conclusion of the meeting: statement of transactions of Directors (and of their family interests) in the share capital of the Company and any of its subsidiaries; copies of the Directors service agreements and letters of appointment with the Company; and the register of Directors interests in the share capital of the Company (maintained under section 808 of the Act).

Total voting rights

23. As at 10.00 a.m. on 26 March 2010, the Company's issued share capital comprised 473,619,050 ordinary shares of 0.01 penny each and 173,619,050 deferred shares of 0.24 pence each. Deferred shares do not carry voting rights. 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 10.00 a.m. on 26 March 2010 is 473,619,050.

Communication

24. Except as provided above, members who have general queries about voting by proxy should contact the Company's registrar, Neville Registrars, Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3DA.

Notice of Annual General Meeting

Explanatory notes to the notice of annual general meeting

The notes on the following pages give an explanation of the proposed resolutions.

Resolutions 1 to 5 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 6 and 7 are proposed as special resolutions. This means that for each of those resolutions to be passed, at least three quarters of the votes cast must be in favour of the resolution.

Resolution 1

Reports and accounts

The directors are required by law to present to the annual general meeting the audited accounts and the reports of the directors and auditors contained in the annual report and accounts.

Resolution 2

Re-election of Steve Weltman

An ordinary resolution will be proposed to re-elect Steve Weltman, who is retiring by rotation in accordance with the Company's articles of association and, being eligible, offers himself for re-election as a director of the Company.

Resolution 3

Re-election of David Lenigas

An ordinary resolution will be proposed to re-elect David Lenigas, who having been appointed by the directors since the last annual general meeting and, being eligible, offers himself for re-election as a director of the Company.

Resolution 4

Re-appointment of auditors

The Company is required to appoint auditors at each general meeting at which accounts are laid before the Company, to hold office until the end of the next such meeting. Grant Thornton UK LLP have indicated that they are willing to continue in office as the Company's auditors. Accordingly, this resolution proposes their re-appointment and, in accordance with standard practice, gives authority to the directors to determine their remuneration.

Resolution 5

Authority to allot relevant shares

It is proposed to authorise the directors of the Company to allot ordinary shares up to a maximum nominal value of £352,638.09. The Board has no immediate plans to issue shares but it recognises that current market conditions may create opportunities which will require the issue of new equity as part of a transaction. For this reason, the Board wishes to maintain an adequate margin of authority should an opportunity arise.

Resolution 6

Dis-application of pre emption rights

It is proposed, as a special resolution, to authorise the directors of the Company to allot equity securities for cash without first being required to offer such securities to existing shareholders in proportion to their existing holding by the limited dis-application of section 561 of the Companies Act 2006. This authority is limited as set out in the resolution and will expire at the conclusion of the annual general meeting in 2011 or 15 months from the date of the resolution, whichever is the earlier. Whilst the Board has no immediate plans to issue shares it recognises that current market conditions may create opportunities which will require the issue of new equity as part of a transaction. For this reason, the Board wishes to maintain an adequate margin of authority should an opportunity arise.

Notice of Annual General Meeting

Resolutions 7 and 8

Adoption of new articles of association

We are asking shareholders to approve a number of amendments to the Current Articles, primarily to reflect the provisions of the Companies Act 2006. An explanation of the main changes between the proposed and existing Articles of Association is set out below.

Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006 have not been noted in the explanation below. The proposed new Articles of Association of the Company and a copy of the existing Articles of Association marked to show the changes being proposed in Resolutions 7 and 8 are available for inspection at the Company's registered office during normal office hours and at the Company's website www.zestmusic.com.

These Special Resolutions, if approved, will update the Company's Articles of Association.

1. **Variation of class rights**
   The Current Articles contain provisions regarding the variation of class rights. The proceedings and specific quorum requirements for a meeting convened to vary class rights are contained in the Companies Act 2006. The relevant provisions have therefore been amended in the New Articles.

2. **Convening extraordinary and annual general meetings**
   The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to conform to new provisions in the Companies Act 2006. In particular a general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required.

3. **Votes of members**
   The time limits for the appointment or termination of a proxy appointment in the case of a poll taken more than 48 hours after a general meeting at which a resolution is considered has been changed and cannot now be more than 24 hours before the time for the taking of a poll.

4. **Conflicts of interest**
   The New Articles contain a new provision, not included in the Current Articles. With effect from 1 October 2008, under section 175 of the Companies Act 2006, a director of a company came under a duty to avoid a situation in which he has, or can have, a direct or indirect interest which conflicts or possibly may conflict with the interests of the Company. This duty is not infringed if the relevant conflict situation is authorised by the other directors of the Company, and in order to give that authorisation the directors must be permitted to do so by the Company's articles of association. The New Articles include provision for the directors to authorise such conflict situations, and include related amendments to the provisions in the Current Articles which refer to directors' interests.

5. **Notice of board meetings**
   Under the Current Articles, when a director is abroad he can request that notice of directors' meetings are sent to him at a specified address and if he does not do so he is not entitled to receive notice while he is away. This provision has been removed, as modern communications mean that there may be no particular obstacle to giving notice to a director who is abroad. It has been replaced with a more general provision that a director is treated as having waived his entitlement to notice, unless he supplies the Company with the information necessary to ensure that he receives notice of a meeting before it takes place.

6. **Distribution of assets otherwise than in cash**
   The Current Articles contain provisions dealing with the distribution of assets in kind in the event of the Company going into liquidation. These provisions have been removed on the grounds that a provision about the powers of liquidators is a matter for insolvency law rather than the articles and that the Insolvency Act 1986 confers powers on the liquidator which would enable it to do what is envisaged by the articles.

7. **Electronic and web communications**

Provisions of the Companies Act 2006 which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. The New Articles continue to allow communications to members in electronic form and, in addition, they also permit the Company to take advantage of the new provisions relating to website communications. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

8. **Directors**

The Companies Act 2006 contains no restrictions on a director remaining in, or being appointed to office after the age of 70. Provisions in the Current Articles setting out special steps to appoint or re-elect in such circumstances have been removed in the New Articles.

The Companies Act 2006 has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. In addition, the existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies.

9. **The Company's objects**

The provisions regulating the operations of the Company are currently set out in the Company's memorandum and articles of association. The Company's memorandum contains, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake.

The Companies Act 2006 significantly reduces the constitutional significance of a company's memorandum. The Companies Act 2006 provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the Companies Act 2006 the objects clause and all other provisions which are currently contained in a company's memorandum, for existing companies at 1 October 2009, will be deemed to be contained in a company's articles of association but the company can remove these provisions by special resolution.

Further the Companies Act 2006 states that unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason the Company is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the Companies Act 2006, are to be treated as forming part of the Company's articles of association as of 1 October 2009. Resolution 7 confirms the removal of these provisions for the Company. As the effect of this resolution will be to remove the statement currently in the Company's memorandum of association regarding limited liability, the New Articles also contain an express statement regarding the limited liability of the shareholders.

10. **Change of name**

Currently, a company can only change its name by special resolution. Under the Companies Act 2006 a company will be able to change its name by other means provided for by its articles. To take advantage of this provision, the New Articles enable the directors to pass a resolution to change the Company's name.

11. **Authorised share capital and unissued shares**

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital and the New Articles reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Companies Act 2006, save in respect of employee share schemes.

Notice of Annual General Meeting

12. **Authority to purchase own shares, consolidate and sub-divide shares, and reduce share capital**
    Under the Companies Act 1985 a company required specific enabling provisions in its articles to purchase its own shares, to consolidate or sub-divide its shares and to reduce its share capital or other undistributable reserves as well as shareholder authority to undertake the relevant action. The Current Articles include these enabling provisions. Under the Companies Act 2006 a company only requires shareholder authority to do any of these things and it will no longer be necessary for articles to contain enabling provisions. Accordingly the relevant enabling provisions have been removed in the New Articles.

13. **Use of seals**
    A company currently requires authority in its articles to have an official seal for use abroad. After 1 October 2009 such authority will no longer be required. Accordingly the relevant authorisation has been removed in the New Articles.

    The New Articles provide an alternative option for execution of documents (other than share certificates). Under the New Articles, when the seal is affixed to a document it may be signed by one authorised person in the presence of a witness, whereas previously the requirement was for signature by either a director and the secretary or two directors or such other person or persons as the directors may approve.

14. **Suspension of registration of share transfers**
    The Current Articles permit the directors to suspend the registration of transfers. Under the Act share transfers must be registered as soon as practicable. The power in the Current Articles to suspend the registration of transfers is inconsistent with this requirement. Accordingly, this power has been removed in the New Articles.

15. **Vacation of office by directors**
    The Current Articles specify the circumstances in which a director must vacate office. The New Articles update these provisions to reflect the approach taken on mental and physical incapacity in the model articles for public companies produced by the Department for Business, Enterprise and Regulatory Reform.

16. **General**
    Generally the opportunity has been taken to bring clearer language into the New Articles. The New Articles provide updated references to relevant sections of the legislation which has been enacted and come into force since the time when the Current Articles were adopted, including, specifically, references to the Companies Act 2006.

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