Zinc Media Group plc

Preliminary results
for the year ended 30 June 2018

Zinc Media Group plc, the TV and multimedia content producer, today announces its preliminary unaudited results for financial year ended 30 June 2018 and provides an update on the Group's current trading.

Financial performance

- Group revenues from continuing operations of £21.68m (2017: £19.76m)
- Adjusted EBITDA* profit of £0.49m (2017: £0.48m)
- Operating loss (after exceptional items) for the year of £1.56m (2017: loss of £0.03m)
- Basic loss per share from continuing activities 0.17p (2017: loss per share 0.01p)
- Total assets £16.59 (2017: £12.55m)
- Cash of £3.55m (2017: £2.97m) and net debt (being cash less borrowings) at £0.003m (2017: net debt £0.40m)
- £3.5m fundraising and £2.0m preference share conversion carried out during the year

* Adjusted EBITDA represents earnings before interest, tax, depreciation, amortisation, share based payment charge and exceptional items.

Operational highlights

- Successful acquisition in November 2017 of Tern Television to position Zinc Media as one of the leading UK independent TV production companies with a major footprint in the regions and nations
- Profitability at adjusted EBITDA level maintained, despite what was a very challenging year in the domestic UK TV market
- Zinc increasingly active in the US market, having signed an exclusive deal with renowned US agents, ICM
- Zinc customer base broadened away from dependence on any one domestic broadcaster and customer base now includes several international and US broadcasters including HBO, National Geographic, A&E Networks, Smithsonian and PBS
- Restructuring programme underway in London TV business to streamline the TV business, including merging the different London TV companies into one Zinc brand, split into three main programming genres (Popular, Documentaries and Specialist Factual) to present a more collaborative, efficient and modern business to the TV market place
- Significant commission wins over the last few months, to be delivered in the current financial year, provide a strong TV order book which currently stands at £14.5m, 85 per cent higher than at this stage in the previous financial year

Outlook

Although the international TV content market is experiencing growth, the traditional UK domestic TV market is challenging. The international market is being driven by the rapidly shifting media landscape and rise of the SVOD (subscription video on demand) operators such as Netflix and Amazon to satisfy the high demand from consumers for ever more new and high quality content. The domestic UK market is suffering due to the rise of these international new media players, who take away viewers from the domestic broadcasters. This is coupled with weak advertising markets for the domestic broadcasters, several of whom depend on advertising revenues to fund new TV content.

Our focus is about positioning ourselves to grow into these international markets, whilst making sure that we can maximise our market share and profitability in the UK domestic markets. We do this through making higher margin and longer running repeatable series, capitalising on the demand for 'regions and nations' production from the UK broadcasters and focussing on improving overall efficiency in our TV business.

Having acquired Tern Television, we are now one of the largest players in the UK independent TV sector. As a leading producer in the 'regions and nations' we are positioned strongly to capitalise on the trend by domestic broadcasters to increase their commissioning outside of London. Tern Television, based in Scotland and Northern Ireland, had its strongest year ever and momentum is continuing into the current financial year. The level of confirmed commissions as a whole in the TV business and the strength of our pipeline gives us confidence that the business will deliver higher profitability in the current financial year. The restructuring programme underway in our London TV business should enable us to be more efficient, collaborative and profit focussed and to present a simpler 'Zinc' to our markets. It will also make us 'fit for purpose' to secure much larger programme commissions from the international market and from the new content platforms who have massive budgets for content acquisition. The focus remains on securing long running repeatable business, and in particular from the US market. We believe that our new deal with US agents, ICM, will begin to bear fruit in the current financial year.

In the period post year-end, the Group has experienced a very encouraging win rate on significant commissions. This has exceeded the same period in the prior year. The current TV commissioned order book stands at £14.5m, over 50 per cent of budgeted TV revenues for the current financial year. The strength of our order book gives us a basis for confidence in the outlook for the full year, coupled with a strong development slate with multiple programme ideas which are at an advanced stage with commissioners.

The Digital and Publishing divisions continue to trade in line with management expectations.

We remain committed to our growth strategy, both organically through the hiring of new executive TV talent and by seeking acquisitions of carefully selected complementary TV or digital businesses to achieve scale in our sector of the market.

Chief Executive, David Galan commented:

"We have maintained profitability at an adjusted EBITDA level for a second year running following the restructure of the Group. This was against the backdrop of a particularly challenging domestic TV market in the UK. Our strategy of refocussing our TV business on a more diversified client base, higher value commissions and international markets is starting to bring in results. Our order book for the current financial year is significantly higher than in previous years, which gives a firm basis for profitability to increase in the current financial year."

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Chairman's Statement

The past year has seen much change in the Group as we continue to implement our strategy to grow our position as a 'super indie' in the UK television market and as a more significant player in the larger and more lucrative international market. Successes have included the acquisition and strong performance of recently acquired Tern Television, a restructure into creative genres rather than separate companies and management rationalisation in our London TV business and recent significant programme commissions in the international market. Against the backdrop of a difficult domestic market for TV production, we have again achieved profitability at the adjusted EBITDA level.

The Group made a strategically significant acquisition in November last year, adding Tern Television to the Group, which performed ahead of our expectations in the period post acquisition. Although we made good progress against our strategic objectives in the TV division of winning more longer running series, moving away from low margin single productions and producing more programmes for US and international broadcasters, we fell short of our profit expectations overall in this division. The business experienced significant head-winds during the year, particularly in one of its TV companies, Reef Television, which impacted on profitability. Reef Television was particularly affected by difficult market conditions in the domestic UK TV production industry. There was also significant management change at one of the Group's important customers, Channel 4, which slowed the normal rate of commission wins from this customer across the Group. The team has worked hard during the year to rebuild the Reef Television business and the initial signs of recovery have been seen.

The world's media landscape continues to shift rapidly. Traditional domestic broadcasters who have enjoyed market dominance for decades now have giant new competitors in the international market places who are challenging their historic business models and competing for their viewers. Consumers are demanding huge volumes of new high-quality TV content which is watched on an increasing number of connected devices. To take advantage and address these changes the Group is restructuring its TV business. There are many more opportunities for the Group in this new media landscape and the Group is well positioned to capitalise on the opportunities.

To address the UK market the Group is expanding into the regions and nations in several ways; through the acquisition during the year of Scotland and Northern Ireland based Tern Television, through the expansion of our Manchester business, Blakeway North, and through a new regional office we are opening in Bristol. We are also restructuring our London TV business from four different companies into one cohesive unit. The purpose of this is to realise efficiencies, present a simpler and more compelling market proposition to our customers and achieve a more collaborative and creative way of working which is necessary to secure bigger long running series.

To address the international market, particularly the US market which is characterised by larger commission sizes, the Group has entered into an exclusive deal with ICM Partners, who are a leading firm of US agents. The restructuring of the London TV business into one cohesive unit is also intended to maximise our attractiveness and make us 'fit for purpose' to secure US commissions. We believe that to secure the larger US commissions, our senior executive talent need to work collaboratively and as teams, pooling and enhancing their contacts, creativity and production know-how. The restructure of the London TV business, once completed, will see the London business trade as Zinc TV with genre-based teams, rather than as four separate companies.

To facilitate the acquisition of Tern Television, the Company completed an equity placing in November 2017, raising gross proceeds of £3.51m. In conjunction with the placing, our two preference shareholders, who are also major ordinary shareholders, converted approximately two thirds of the Company's outstanding preference share capital into ordinary shares, leaving only £1m approximately of preference share capital outstanding. The consideration for the Tern deal was structured partly in cash, shares and an earnout over three years. We are pleased that Tern has exceeded its earnout target in its first year and are confident regarding their order book and trajectory in the current year. Furthermore, we are delighted to welcome the Tern directors to the Zinc senior management team and as significant shareholders of Zinc.

David Galan was promoted from COO to CEO part way through the year and his objective is to focus on improving profitability and scaling the business. David is leading the restructure of the TV business and is also exploring further possible acquisitions both in the TV production industry and other associated digital content areas. We are delighted that Will Sawyer will be joining the Group as its new CFO in October. Will brings many years of experience in the TV production and media sectors. He joins from ITN Productions, where he has most recently acted as Finance Director.

Finally, the Board would like to thank all of our employees for their professional and dedicated work across the Group.

The Board is appreciative of our shareholders and debt-holders for supporting the recent acquisition and fundraising and welcomes the new investors who have shown confidence in the planned trajectory of the business.

Peter Bertram

Chairman

Business Review

Our strategy is to focus on higher margin programmes, by producing more longer running series, building on our reputation for high-end singles to develop returnable factual formats. We aim to be one of the leading regionally diverse 'super indies', producing programming across the factual TV spectrum. To drive higher margins, we are more focussed on a 'returnable format' strategy. This means that we are developing programme ideas in more popular genres, which have the potential to become returnable formats which generate continued recommissions, format sales and higher international distribution revenues. We aim to produce content for a widespread mix of broadcasters, avoiding over dependence on any one client, which can be a risky strategy in the fast-changing TV industry. The mix of customers will ideally, over time, contain increasing numbers of international broadcasters.

We achieved our objective of securing larger budgets for higher quality productions and longer running series. Examples of this during the past year include a 20-part series for Channel 4, *'The People's Vet*' which is transmitting currently, '*The Wonderful World of Puppies'*, a 12-part series for Channel 5, '*Emergency Helicopter Medics*' for Channel 4 and '*Payback Time*' for BBC. The benefit of longer running series is both that the production budgets are higher given the number of episodes produced and that there is the greater possibility of the series being re-commissioned for future series, thus building recurring revenue into the business mix. '*The Wonderful World of Puppies*' and '*Bargain Brits*' are both examples of series that continue to be recommissioned. The other advantage of long running series is their attractiveness for distribution in the international markets. International secondary sales are higher margin, as there are limited further production costs.

We have also achieved some success with our objective to secure more commissions from international broadcasters, although progress in this strategy is at an early stage. We believe that to achieve success in the US market we need to leverage the collective skills of our senior creative team. We believe that the siloed set-up of our London TV business, which historically operated as four distinct companies, each having its own label, served as a deterrent to the collaborative approach required to secure the large US commissions. This restructuring of our London business is designed to end the siloed approach, so that we can maximise our chances in the US market and present ourselves as a unified and creatively broad and powerful 'super indie', as opposed to a collective of small and separate individual labels under a public company head office structure.

The journey of reducing reliance on the UK domestic market and on any one individual domestic broadcaster has continued, building a more diversified and resilient business as a result. Examples of success in winning commissions in the international market place include *'Nigeria's Stolen Daughters*' for HBO, an archaeology film which is currently in production for National Geographic (the title cannot be named for commercial reasons), Tern Television's recent National Geographic special *'Extreme Russia: Football'* which played in 72 territories globally during the Russian World Cup and the next landmark Norma Percy documentary series, '*Europe At The Summit*' which is currently in production with co-production partners from the US, France and Germany. Relationships have now been established and we are regularly pitching programmes to Netflix, A&E Networks, Smithsonian, Discovery, National Geographic, PBS and CNN, to name a few. The appointment of ICM Partners as the Group's exclusive US agent was also announced during the year. ICM is one of the world's largest talent and literary agencies with offices in New York, Los Angeles, and London. The agency represents creative and technical talent in the fields of motion picture, television, books, music, live performance, branded entertainment, and new media. The Company believes that the best route to market in the US at the current time is to enter into an exclusive representation agreement covering the US market with a specialist US agent. Under the terms of an initial one year exclusive deal ICM will work with Zinc Media to secure US commissions, working with all of the Company's senior team.

We are restructuring our London TV business. The four individual TV companies that make up the division (Brook Lapping, Blakeway, Films of Record and Reef Television) will trade as one business in the future, once the restructure has been completed. The business will operate as Zinc TV and will have three genre areas as opposed to separate labels. The genre divisions will be Specialist Factual, with Lucy Van Beek as MD, Popular Factual, with Roy Ackerman as MD and Documentaries with Greg Sanderson as MD. Fiona Stourton will have a creative leadership role as Chief Creative Officer. As one business, the goal is to encourage far greater collaboration between the MDs and senior executives, which is required to secure bigger international commissions. Pitching and development of programme ideas will often utilise more than one MD. Our regional TV businesses are in a very strong position due to the trend by domestic broadcasters to require production to come from outside of London. Blakeway North (based in Manchester) and Tern Television (based in Glasgow, Aberdeen and Belfast) have strong local identities and established relationships with broadcasters and will therefore be complemented, rather than impacted, by our London TV Division restructure. They will continue to operate as before. Trading has been strong in these businesses during the past year, reinforcing our belief in and commitment to an increasing regional presence. We have recently opened a new Bristol office, which will produce natural history programming and may expand into other areas.

Whilst we achieved success against several of our key strategic objectives in the TV Division, the overall trading result was pulled down by a few areas of underperformance. In particular, as discussed at the time of the interim results, Reef Television had a disappointing year and results fell significantly below internal budgets for the full year. The founder and former CEO of Reef Television left the business following an orderly transition.

Reef Television management had expected the recommission of several of their long running daytime series. Disappointingly three of these series were not recommissioned for the current year, although two may still be recommissioned in future years. Additionally, despite several new series having been developed and commissioned in the last twelve months, these new series have not been recommissioned. An impairment of the carrying value of goodwill in respect of Reef Television was made during the year amounting to £1.19m.

Following the acquisition of Tern Television, TV production represented over 81 per cent. of the Group's revenues and so is clearly the primary focus of the Group. The Digital Division and Publishing Division together contribute approximately £4m of revenue and both businesses are operating profitably.

The Digital Communications division fits strategically alongside the TV business and as the media landscape develops rapidly, we believe it makes strategic sense to have digital skills within the Group. The Digital

Division's core competency is around corporate social responsibility (CSR) campaigns and its client base is comprised of predominantly blue-chip corporates and public-sector organisations, such as Transport for London. Trading in the Digital Division was satisfactory during the year, although CSR budgets in its client base seem to have been squeezed due to economic uncertainty and cost pressure. Although revenues fell as a result of this, most of the existing clients were still active during the year and there were some notable client wins for the Digital Division including The Body Shop and BBC.

The Publishing Division continues to operate as a standalone unit, based in Macclesfield. The business operated profitably during the year and made progress against its objectives of adding further clients and contracts in areas of its core competencies.

FINANCIAL REVIEW

Revenue from operations for the year was £21.68m (2017: £19.76m) and gross profit was £6.63m (2017: £6.31m). The main variance in revenues was due to the inclusion of Tern Television's revenues in the period post acquisition, which offset the steep fall in revenues at Reef Television. Reef Television's revenues fell by £3.14m from £6.19m to £3.05m due to several long running series not being recommissioned. The changes at its key customer, Channel 4, which impacted the performance are detailed in the Business Review. The Digital Division's revenue fell by approximately £0.70m during the year due to lower budgets at key clients such as Transport for London. Publishing Division revenue was broadly the same as the prior year. Gross margin decreased slightly during the year from 32 per cent to 31 per cent, with operating expenses representing 28 per cent of revenues, slightly lower compared with FY17. The decrease in gross margin was a consequence of the challenging domestic environment experienced during the year which put competitive pressure on programme budgets. As the business focuses more on international TV opportunities we would expect to see gross margin improvements in the future.

Adjusted EBITDA (being earnings before interest, tax, depreciation, amortisation, share based payment charge and exceptional items) was £0.49m (2017: £0.48m), representing the second year of a return to profit after several years of losses. Operating loss increased to £1.56m (2017: £0.03m) due to significant exceptional items. These include an impairment of £1.19m (2017: £1.00m) in the carrying value of goodwill in the TV division. All of this is attributable to a write-down in goodwill relating to Reef Television, a decision taken by the Board against a backdrop of disappointing trading in Reef Television and a restructure of Reef Television into the Popular Factual genre area. Within exceptional items there is also a £0.70m credit (2017: £1.30m) relating to the change in fair value of contingent consideration payable to the Reef Television selling shareholders due to the final year earn-out not being payable. Exceptional items also include earnout consideration due to the former Tern Television shareholders who remained as senior management which has been treated as remuneration of £0.49m (2017: £nil). This treatment of earnout consideration is explained more fully in Note 3.

The Board does not recommend the payment of a dividend for FY18 (2017: £nil).

Earnings per share

Basic and diluted loss per share from continuing operations in the year was 0.17p on both measures (2017: loss per share of 0.01p). These measures were calculated on the losses for the year attributable to Zinc Media Group shareholders of £1.86m (2017: loss of £0.07m) divided by the weighted average number of shares in issue during the year being 1,086,267,290 on an undiluted basis and a diluted basis (2017: 544,171,445).

Statement of Financial Position

Assets

The Group's non-current assets comprise goodwill and intangibles of £7.13m (2017: £5.91m), the increase reflecting the inclusion of goodwill and other intangibles with respect to Tern Television, partially offset by the impairment of the carrying value of goodwill relating to Reef Television and amortisation of intangibles during the year. Non-current assets comprise property and plant and equipment of £0.36m (2017: £0.23m), the increase again reflecting Tern Television's property, plant and equipment.

Inventories have increased to £0.33m (2017: £0.21m) now reflecting Tern Television work-in-progress. Trade receivables have increased by nearly £1.08m to £2.41m (2017: £1.33m), again due to the inclusion of Tern's debtors' ledger. Other receivables have increased to £2.82m (2017: £1.90m) reflecting an increase in accrued income in the year due to the consolidation of Tern Television and increased rent deposits held by the landlord in respect of the London lease.

The Group had a cash balance of £3.55m as at 30 June 2018 (2017: £2.97m). The balance reflects the financing activities during the year and the cash payment made during the year to satisfy the cash element of the Tern Television acquisition terms.

Total assets for the Group were £16.59m (2017: £12.55m).

Equity and Liabilities

Retained losses as at 30 June 2018 were £32.78m (2017: £30.93m) and total shareholders' equity at that date was £5.38m (2017: £3.00m).

In November 2017, the Company carried out an equity placing to new and existing shareholders, raising £3.51m of gross proceeds, and a preference share conversion, converting approximately £2m of preference shares into ordinary shares. Further analysis of the preference share conversion into ordinary shares is detailed in Note 8. Following a debt variation in the prior year, the repayment date on all the Company's long-term debt obligations is a bullet repayment on 31 December 2020. The Group had an outstanding balance on long term debt of £3.55m at the year end (2017: £3.38m), held by two of the Company's shareholders and with no financial covenants relating to the debt.

Current liabilities consisting of trade and other creditors have increased to £7.08m, reflecting the Tern Television creditors ledger (2017: £5.48m). Current liabilities also includes £0.75m which is the first year earnout consideration payable to the former Tern Television shareholders which is payable shortly.

Long term liabilities consist of the Company's long term debt obligations (detailed above) and potential earnout payments to the former Tern Television shareholders.

Cash Flows

The Group used cash of £2.35m in the year (2017: £1.21m) in its operations mainly due to an increase in trade and other receivables, reflecting the impact of the Tern Television acquisition. The net movement in the year was an increase in cash of £0.57m (2017: decrease of £0.56m) after financing activity cash inflow of £3.04m (2017: £1.17m) and cash used in investing activities of £0.1m (2017: £0.46m).

Consolidated income statement

Zinc Media Group plc consolidated statement of comprehensive income
For the year ended 30 June 2018

	Notes	**2018 (unaudited) £'000**	2017 (audited) £'000
Continuing operations			
Revenue	2	**21,683**	19,756
Cost of sales		**(15,055)**	(13,447)
Gross Profit		**6,628**	6,309
Operating expenses		**(6,137)**	(5,833)
Adjusted EBITDA		**491**	476
Depreciation and amortisation		**(711)**	(517)
Share based payment charge		**(74)**	(32)
Exceptional items	3	**(1,264)**	41
Operating loss		**(1,558)**	(32)
Finance costs		**(253)**	(293)
Loss before tax		**(1,811)**	(325)
Taxation		**(44)**	253
Loss for the year		**(1,855)**	(72)
Discontinued operations			
Loss for the year from discontinued operations		**-**	(37)
Loss for the year		**(1,855)**	(109)
Continuing operations attributable to:			
Equity holders		**(1,855)**	(72)
Discontinued operations attributable to:			
Equity holders		**-**	(37)
Retained loss for the year		**(1,855)**	(109)
Basic earnings per share	5		
From continuing operations		**(0.17)p**	(0.01)p
From discontinued operations		**-**	(0.01)p
Total		**(0.17)p**	(0.02)p
Diluted earnings per share	5		
From continuing operations		**(0.17)p**	(0.01)p
From discontinued operations		**-**	(0.01)p
Total		**(0.17)p**	(0.02)p

Consolidated statement of comprehensive income

Zinc Media Group plc consolidated statement of comprehensive income
For the year ended 30 June 2018

	2018 (unaudited) £'000	2017 (audited) £'000
Loss for the year	**(1,855)**	(109)
Other comprehensive income	**-**	-
Total comprehensive income for the year	**(1,855)**	(109)
Attributable to:		
Equity holders	**(1,855)**	(109)
	(1,855)	(109)

Consolidated statement of financial position

Zinc Media Group plc consolidated statement of financial position
As at 30 June 2018

	Note	**30 June 2018 (unaudited) £'000**	30 June 2017 (audited) £'000
Assets			
Non-current			
Goodwill and intangibles	6	**7,132**	5,909
Property, plant and equipment		**355**	231
		7,487	6,140
Current assets			
Inventories		**333**	208
Trade receivables		**2,406**	1,326
Other receivables		**2,818**	1,904
Cash and cash equivalents		**3,545**	2,973
		9,102	6,411
Total assets		**16,589**	12,551
Equity and liabilities			
Shareholders' equity			
Called up share capital	8	**5,928**	5,926
Share premium account		**30,414**	25,013
Share based payment reserve		**106**	47
Merger reserve		**777**	27
Preference shares		**934**	2,909
Retained earnings		**(32,781)**	(30,926)
Total shareholders' equity		**5,378**	2,996
Liabilities			
Non-current	7		
Borrowings		**3,548**	3,375
Contingent consideration		**583**	700
		4,131	4,075
Current			
Trade payables		**2,048**	1,205
Other payables		**3,881**	4,275
Contingent consideration		**750**	-
Current tax liabilities		**45**	-
Deferred tax		**300**	-
Secured finance leases		**56**	-
		7,080	5,480
Total equity and liabilities		**16,589**	12,551

Consolidated statement of cash flows

Zinc Media Group plc consolidated statement of cash flows
For the year ended 30 June 2018

	Note	**2018 (unaudited) £'000**	2017 (audited) £'000
Cash flows from operating activities			
Loss for the year before tax		**(1,811)**	(362)
Adjustments for:			
Depreciation		**138**	96
Amortisation and impairment of intangibles		**1,763**	1,421
Finance costs		**253**	293
Share based payment charge		**74**	32
Gain on revaluation of deferred contingent consideration		**(700)**	(1,300)
Contingent consideration deemed remuneration		**487**	-
Gain on disposal of assets		**(6)**	(43)
		198	137
Increase in inventories		**(125)**	(6)
(Increase) / decrease in trade and other receivables		**(1,100)**	415
Decrease in trade and other payables		**(1,327)**	(1,759)
Cash used in operations		**(2,354)**	(1,213)
Finance costs		**(3)**	(1)
Tax paid		**(4)**	(33)
Net cash flows used in operating activities		**(2,361)**	(1,247)
Investing activities			
Disposal of subsidiary undertakings, net of cash and overdrafts		**-**	5
Acquisition of subsidiary undertakings, net of cash and overdrafts		**86**	(500)
Purchase of property, plant and equipment		**(65)**	(69)
Proceeds of sale of property, plant and equipment		**6**	-
Disposal of associate		**-**	100
Purchase of intangible assets		**(122)**	-
Net cash flows used in investing activities		**(95)**	(464)
Financing activities			
Issue of ordinary share capital and preference shares		**3,066**	740
Borrowings received		**-**	433
Capital element of finance lease payments		**(23)**	-
Net cash flows from financing activities		**3,043**	1,173
Net increase / (decrease) in cash and cash equivalents		**587**	(538)
Translation differences		**(15)**	(26)
Cash and cash equivalents at beginning of year		**2,973**	3,537
Cash and cash equivalents at the end of the year		**3,545**	2,973

Consolidated statement of changes in equity

Zinc Media Group plc consolidated statement of changes in equity

For the year ended 30 June 2018

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Merger reserve £'000	Preference shares £'000	Retained earnings £'000	Total equity £'000
Balance at 1 July 2016	**5,925**	**22,671**	**-**	**696**	**2,909**	**(30,549)**	**1,652**
Loss and total comprehensive income for the year	-	-	-	-	-	(109)	(109)
Total comprehensive income	**-**	**-**	**-**	**-**		**(109)**	**(109)**
Equity-settled share-based payments	-	165	32	-	-	-	197
Transfer to share premium account	-	937	-	(669)	-	(268)	-
Deferred tax on share options	-	-	15	-	-	-	15
Shares issued	1	1,338	-	-	-	-	1,339
Expenses of issue of shares	-	(98)	-	-	-	-	(98)
Balance at 30 June 2017	**5,926**	**25,013**	**47**	**27**	**2,909**	**(30,926)**	**2,996**

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Merger reserve £'000	Preference shares £'000	Retained earnings £'000	Total equity £'000
Balance at 1 July 2017	**5,926**	**25,013**	**47**	**27**	**2,909**	**(30,926)**	**2,996**
Loss and total comprehensive income for the year	-	-	-	-		(1,855)	(1,855)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(1,855)**	**(1,855)**
Equity-settled share-based payments	-	-	74	-	-	-	74
Issue of shares on acquisition	-	-	-	750	-	-	750
Conversion of preference shares	1	2,277	-	-	(1,975)	-	303
Deferred tax on share options	-	-	(15)	-	-	-	(15)
Shares issued	1	3,506	-	-	-	-	3,507
Expenses of issue of shares	-	(382)	-	-	-	-	(382)
Balance at 30 June 2018	**5,928**	**30,414**	**106**	**777**	**934**	**(32,781)**	**5,378**

Notes to the preliminary financial statements
For the year ended 30 June 2018

1) ACCOUNTING POLICIES

1.1) General Information

Zinc Media Group plc and its subsidiaries (the Group) is a multi-media Group which produces high quality TV together with digital communications and publishing.

Zinc Media Group plc is the Group's ultimate parent and is a public listed company incorporated in Scotland. The address of its registered office is 7 Exchange Crescent, Conference Square, Edinburgh EH3 8AN. Its shares are traded on the AIM Market of the London Stock Exchange plc (LSE: ZIN).

1.2) Basis of Preparation

The annual financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU) and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

The preliminary consolidated financial information for the year ended 30 June 2018 does not constitute the company's statutory accounts as defined in Section 434 of the Companies Act 2006.The preliminary financial information for the year ended 30 June 2018 has been prepared in accordance with the accounting policies adopted in the preparation of the Group's annual financial statements but does not contain all the information required to be disclosed in the financial statements prepared in accordance with IFRS. The Group's full financial accounts for the year ended 30 June 2018 are in the process of being audited.

Statutory accounts for 2017 have been delivered to the registrar of companies, and those for 2018 will be delivered in due course. The auditors have reported on the Group statutory accounts for the year ended 30 June 2017; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

1.3) Going Concern

During the year, the Group continued their funding activities. On 13 November 2017, the Group and Company announced the share placing of 389,603,280 new ordinary shares at 0.9 pence per share with certain of the Company's shareholders and new investors. The placing raised gross proceeds for the Company of £3.51 million. This placing provided significant cash resources to finance the Group and Company's strategic objectives. In addition, the Group only has long term debt with a bullet repayment on 31 December 2020 with no financial covenants.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current financing.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

2) SEGMENTAL INFORMATION

Management currently identifies the Group's three service lines as three operating segments: TV, Publishing and Digital Communications. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

In addition, items included under 'Central and plc' relate mainly to Group activities based in the UK.

	TV		**Publishing**		**Digital Communications**		**Central and plc**		**Total**	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Continuing Operations	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Revenue	**17,598**	15,167	**2,132**	1,961	**1,864**	2,566	**89**	62	**21,683**	19,756
Adjusted EBITDA	**26**	406	**298**	276	**227**	314	**(60)**	(520)	**491**	476
Depreciation	**(120)**	(66)	**(13)**	(18)	**(4)**	(12)	**(1)**	-	**(138)**	(96)
Amortisation	**(573)**	(421)	**-**	-	**-**	-	**-**	-	**(573)**	(421)
Share based payment charge	**-**	-	**-**	-	**-**	-	**(74)**	(32)	**(74)**	(32)
Exceptional items	**(1,362)**	300	**(13)**	(240)	**(72)**	(43)	**183**	24	**(1,264)**	41
Operating (loss) / profit	**(2,029)**	219	**272**	18	**151**	259	**48**	(528)	**(1,558)**	(32)
Segment Assets	**12,343**	9,977	**1,275**	1,078	**1,765**	1,430	**1,206**	66	**16,589**	12,551
Segment Liabilities	**(4,421)**	(3,462)	**(647)**	(684)	**(226)**	(227)	**(5,917)**	(5,182)	**(11,211)**	(9,555)
Other Segment Items:										
Expenditure on intangible assets	**2,864**	-	-	-	**122**	-	-	-	**2,986**	-
Expenditure on tangible assets	**53**	140	**2**	-	**8**	-	**3**	2	**65**	142

The internal reporting of the Group's performance does not require that costs and/or Statement of Financial Position information is gathered on the basis of the geographical streams.

The Group's principal operations are in the UK. Its revenue from external customers in the United Kingdom was £20.30m (2017: £18.06m), and the total revenue from external customers in other countries was £1.38m (2017: £1.70m).

3) EXCEPTIONAL ITEMS

Exceptional items are presented separately as, due to their nature or the infrequency of the events giving rise to them, this allows shareholders to understand better the elements of financial performance for the year, to facilitate comparison with prior years and to assess better the trends of financial performance.

	2018	2017
	£'000	£'000
Impairment of carrying value of goodwill in respect of Reef Television	**(1,190)**	(1,000)
Change in fair value of contingent consideration in respect of Reef Television	**700**	1,300
Reorganisation and restructuring costs	**(190)**	(75)
Earnout consideration treated as remuneration	**(487)**	-
Other exceptional items	**(97)**	(184)
Total	**(1,264)**	41

TV reorganisation and restructuring costs

During the year, the TV division reorganised itself around programming genres resulting in changes to its cost base. The non-recurring element of the costs has been presented as exceptional to enable a more refined evaluation of financial performance.

Reef Television impairment and change in fair value of contingent consideration

Reef Television traded disappointingly during the year with the result that the terms of the earnout contingent consideration were not met, necessitating a write down to £nil of the fair value of the contingent consideration liability. Furthermore, the Board undertook a detailed impairment review resulting in a reduction to £nil of the carrying value of the goodwill pertaining to Reef Television.

Contingent consideration treated as remuneration

In relation to the acquisition of Tern Television Productions in November 2017, the Directors note that where selling shareholders are also post-acquisition employees and contingent consideration is conditional on continuing employment during the earnout period, contingent consideration is treated as remuneration for the purposes of post-acquisition accounting under IFRS 3 and is expensed to the income statement over the earn out period.

Therefore, £0.49m has been expensed to the income statement in the year of acquisition in relation to earn out consideration linked to remuneration. As this is a non-operational expense item, it has been presented as exceptional for the purposes of an accurate evaluation of financial performance for the year. The Directors note that should the contingent consideration become payable (if earn out targets are satisfied), then the further expenses amounting to £0.21m in the year ending 30 June 2019 and £0.08m in the year ending 30 June 2020 will be recognised.

4) ACQUISITION OF TERN TELEVISION PRODUCTIONS

In November 2017, the Company acquired the entire issued share capital of Tern Television Productions Limited for an initial consideration of £2.35m in cash and £0.75m in shares. In addition, contingent consideration is payable dependent on delivering against certain EBITDA earnout targets, with maximum contingent consideration of £2.35m payable on certain earn out targets being met between 2018 and 2020 (being £1.75m deferred consideration plus a £0.6m overachievement target).

The acquisition was funded by the share placing of 389,603,280 new ordinary shares at 0.9 pence per share with certain of the Company's shareholders and new investors. The placing raised gross proceeds for the Company of £3.51 million. The Company paid £1.25m in initial cash consideration plus £1.10m of surplus cash held on the Tern Television Productions' balance sheet.

	Book Value £'000	**Fair Value Adjustments £'000**	**Fair Value £'000**
Intangible fixed assets	-	1,420	**1,420**
Property, plant and equipment	197	-	**197**
Inventories	-	-	
Trade and other receivables	894	-	**894**
Cash and cash equivalents	2,436	-	**2,436**
Trade and other payables	(1,756)	-	**(1,756)**
Other taxes and social security	(398)	-	**(398)**
Current tax liabilities	(178)	128	**(50)**
Deferred tax	-	(241)	**(241)**
Net assets/(liabilities) acquired	1,195	1,307	**2,502**

Goodwill capitalised	**1,444**
Consideration given	**3,946**
Satisfied by:	
Issue of shares	**750**
Cash	**2,350**
Deferred contingent consideration	**846**
	3,946

5) EARNINGS PER SHARE

Basic earnings per share (EPS) for the year equals the loss after tax from continuing operations attributable to the Company's ordinary shareholders of £1.86 million (2017: loss of £0.07 million) divided by the weighted average number of issued ordinary shares of 1,086,267,290 (2017: 544,171,445).

When the Group makes a profit from continuing operations, diluted EPS equals the profit attributable to the Company's ordinary shareholders divided by the diluted weighted average number of issued ordinary shares. When the Group makes a loss from continuing operations, diluted EPS equals the loss attributable to the Company's ordinary shareholders divided by the basic (undiluted) weighted average number of issued ordinary shares. This ensures that EPS on losses is shown in full and not diluted by unexercised share options or awards.

	2018 Number of Shares	2017 Number of Shares
Weighted average number of shares used in basic and diluted earnings per share calculation	**1,086,267,290**	**544,171,445**
Potentially dilutive effect of share options	1,999,431	11,330,279
	£'000	**£'000**
Loss for the year from continuing operations attributable to shareholders	**(1,855)**	(72)
Loss for the year from discontinued operations attributable to shareholders	**-**	(37)
Continuing operations		
Basic loss per share	(0.17)p	(0.01)p
Diluted loss per share	(0.17)p	(0.01)p
Discontinued operations		
Basic loss per share	-p	(0.01)p
Diluted loss per share	-p	(0.01)p

6) INTANGIBLE ASSETS

	Goodwill £'000	Brands £'000	Customer Relationships £'000	Multimedia Products & Websites £'000	Distribution Catalogue £'000	Total £'000
Cost						
At 1 July 2016	27,950	4,318	2,621	-	-	34,889
At 30 June 2017	27,950	4,318	2,621	-	-	34,889
Additions	1,444	179	798	122	443	2,986
At 30 June 2018	29,394	4,497	3,419	122	443	**37,875**
Amortisation						
At 1 July 2016	(23,164)	(3,887)	(508)	-	-	(27,559)
Charge for the year	-	(71)	(350)	-	-	(421)
Impairment charge	(1,000)	-	-	-	-	(1,000)
At 30 June 2017	(24,164)	(3,958)	(858)	-	-	(28,980)
Charge for the year	-	(88)	(426)	-	(59)	(573)
Impairment charge	(1,190)	-	-	-	-	(1,190)
At 30 June 2018	**(25,354)**	**(4,046)**	**(1,284)**	**-**	**(59)**	**(30,743)**
Net Book Value						
At 30 June 2018	**4,040**	**451**	**2,135**	**122**	**384**	**7,132**
At 30 June 2017	3,786	360	1,763	-	-	5,909

Goodwill

Goodwill arising on acquisitions after is attributable to operational synergies and earnings potential expected to be realised over the longer term.

Distribution Catalogue

The distribution catalogue intangible asset arises on the acquisition of Tern Television Productions.

Brands and Customer Relationships

Brand and customer relationships relate to the intangible assets arising on the acquisition of Reef Television and Tern Television Productions.

Multimedia Products and Websites

Multimedia products and websites relate to the development of applications and websites within the Digital Communications Division, which will be amortised on the completion of the product.

Impairment Tests for Goodwill

The carrying amount of goodwill by operating segment is:

	2018 £'000	2017 £'000
TV	**3,055**	2,801
Digital Communications	**985**	985
Total	**4,040**	3,786

Goodwill is not amortised but tested annually for impairment with the recoverable amount being determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate, growth rates and forecasts in income and costs.

The Group assessed whether the carrying value of goodwill was supported by the discounted cash flow forecasts of operating segments based on financial forecasts prepared by management.

An impairment charge of £1.2m was made during the year in respect of the carrying value of goodwill relating to the Television Division (excluding Tern Television Productions, which is its own cash generating unit for impairment purposes).

7) NON-CURRENT LIABILITIES

An analysis of the amounts presented as non-current liabilities in these financial statements is given below:

	2018	2017
	£'000	£'000
Borrowings	**3,548**	3,375
Contingent consideration	**583**	700
Total	**4,131**	4,075

The debt restructuring which took place in November 2016 resulted in all the Company's debt being repayable on 31 December 2020. Other non-current liabilities relate to the deferred contingent consideration payable to the Tern Television former shareholders. In addition, the £0.7m deferred contingent consideration due to the Reef Television sellers was fully written back during the year as its condition for payment will not be met.

8) SHARE CAPITAL

	2018	2017
Ordinary shares with a nominal value of:	**0.00025p**	0.00025p
Authorised:		
Number	**Unlimited**	Unlimited
Issued and fully paid:		
Number	**1,359,586,281**	619,775,478
Nominal value (£'000)	**3.4**	1.5
Deferred shares with a nominal value of 1.99p		
Authorised, issued and fully paid:		
Number	**276,666,012**	276,666,012
Nominal value (£'000)	**5,506**	5,506
D Deferred shares with a nominal value of 0.09975p		
Authorised, issued and fully paid:		
Number	**419,397,339**	419,397,339
Nominal value (£'000)	**418**	418
Preference shares with a nominal value of 0.01p		
Authorised, issued and fully paid:		
Number	**933,887**	2,908,631
Paid up value (£'000)	**934**	2,909

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

In November 2016, at a General Meeting of the Company, shareholders approved capital restructure proposals whereby each of the existing issued shares of 0.1 pence each in the capital of the Company were subdivided and converted into one new ordinary share of 0.00025 pence and one D deferred share of 0.09975 pence.

Deferred shares and D deferred shares have attached to them the following rights and restrictions:

- they do not entitle the holders to receive any dividends and distributions;

- they do not entitle the holders to receive notice or to attend or vote at General Meetings of the Company;

- they have very limited rights on a return of capital; and

- they are not admitted or listed on any stock exchange and are not freely transferable.

The principal terms of the preference shares are as follows:

(a) they are convertible at 2.5 pence per ordinary share at the holder's option (which would give rise to the issue of 37,355,480 new ordinary shares if the preference shares were completed in full and no dividend had accrued);
(b) they are redeemable at the Company's option on the date falling five years after their issue;
(c) they have a dividend of 4.5 per cent per annum (which increases to 13.5 per cent per annum if they are not converted or redeemed within five years of their issue) which is payable on 31 July each year, or accrued and repayable when the preference shares are converted or redeemed; and
(d) they are freely transferable.

The preference shares have been classified as equity rather than debt as the shares can only be settled in cash at the company's option. The intention by all parties at the inception of the preference shares was that the preference shares would be converted to ordinary shares when the opportunity presents itself, rather than be repaid.

		2018				2017	
Ordinary shares	**Number of Shares**	**Share Capital**	**Share Premium**	**Merger Reserve**	Number of Shares	Share Capital	Share Premium
		£'000	**£'000**	**£'000**		£'000	£'000
At start of year	**619,775,478**	**1.5**	**25,013**	**27**	419,397,339	419	22,671
Nominal value transferred to deferred share capital	**-**	**-**	**-**	**-**	-	(418)	-
Share placing and subscription for cash	**389,603,280**	**0.97**	**3,505**	**-**	111,711,471	0.28	838
Consideration paid in shares	**93,750,000**	**0.23**	**-**	**750**	66,666,667	0.17	500
Shares issued in lieu of fees	**3,333,333**	**0.01**	**30**	**-**	22,000,001	0.050	165
Expenses of issue of shares	**-**	**-**	**(412)**	**-**	-	-	(98)
Shares issued in preference share dividend conversion	**33,708,222**	**0.08**	**304**	**-**	-	-	-
Shares issued in preference share conversion	**219,415,968**	**0.55**	**1,974**	**-**	-	-	-
Transfer to share premium account	**-**	**-**	**-**	**-**	-	-	937
At end of year	**1,359,586,281**	**3.4**	**30,414**	**777**	619,775,478	1.5	25,013

In November 2017 the Company raised approximately £3.51m (before expenses) through a placing of 389,603,280 new ordinary shares at 0.9p per share. The Company also issued 93,750,000 new ordinary shares at 0.9p per share as part of the consideration for the acquisition of Tern Television, to the Tern Television selling shareholders. The Company also issued 3,333,333 new ordinary shares in lieu of certain adviser fees.

The consideration for the acquisition of Tern Television was partly satisfied through the issue of 93,750,000 ordinary shares at a price of 0.8 pence per share. The difference between the nominal value of the shares issued and the issue price gives rise to a premium of £0.75m, which has been added to the merger reserve.

In November 2017, in conjunction with the placing, the Company converted £1.97m of preference shares and £0.30m of accrued dividend on the preference shares into 253,124,190 new ordinary shares at 0.9p. Herald Investment Trust plc and the John Booth Charitable Foundation, the holders of the Company's preference shares, converted such number of preference shares and accrued dividends on the preference shares into ordinary shares such that the combined current holding of ordinary shares of approximately 40 per cent of the issued ordinary share capital in the Company was maintained.

Below is a description of the nature and purpose of the individual reserves:

- Share capital represents the nominal value of shares issued;
- Share premium includes the amounts over the nominal value in respect of share issues. In addition, costs in respect of share issues are debited to this account;
- Merger reserve is used where more than 90 per cent of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company, thereby attracting merger relief under the Companies Act 1985 and, from 1 October 2009, the Companies Act 2006;
- Share based payment reserve arises on recognition of the share based payment charge in accordance with IFRS2 'Share Based Payment Transactions';
- Retained earnings include the realised gains and losses made by the Group; and
- Preference shares represents the value of preference shares issued.

9) AVAILABILITY OF REPORT AND ACCOUNTS

The Company's annual report and accounts for the year ended 30 June 2018 will be posted to those shareholders who still receive printed copies in due course and a soft copy will be available to download from the Company's website at www.zincmedia.com at the same time.