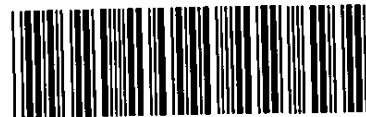


Z GROUP plc
Annual Report & Accounts
for the year ended 28 February 2007

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CORPORATE STATEMENT

Z GROUP plc is a marketing-led Internet software products and services company.

Products and services are commercialised through proven marketing techniques aimed at mass consumer markets.

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“The sentiment within the Group is one of excitement for the current financial year, with a focus on maintaining our core businesses, exploiting the Group’s IP and developing a new pipeline of products, with a more efficient cost-base.”

Jack Bekhor and Jamie True,
Joint Chief Executive Officers

- Results in line with market expectations
 - Turnover £2.6m (2006: £5.0m)
 - Loss before tax of £1.1m, including a share option charge of £0.3m (2006: profit of £0.4m, including a share option charge of £0.7m)
 - Gross Profit Margin 75% (2006: 78%)
- Administrative expenses down by 13% to £3.2m (2006 adjusted: £3.6m)
- Cash of £2.2m (2006: £4.1m), with cost cutting programme initiated
- Minority Interest in Onshare Limited acquired in exchange for £3.8m Z GROUP shares

*“It’s no exaggeration to say
ONSPEED Mobile could
revolutionise mobile web
browsing”*

PC Advisor

“revolutionary”

BUSINESS PROFILE

Z GROUP delivers consumer-focused software services using cutting-edge technologies that are acquired through exclusive licenses or developed from the Group's own Intellectual Property (IP).

Bridging the gap between new technology and marketing, the Group combines a highly effective direct-to-consumer marketing approach, accelerated time-to-market and a growing portfolio of innovative products. The Group's

strength lies in identifying new technological opportunities with well-defined commercial potential and developing these by licensing, acquiring and creating IP. It has produced a number of strong consumer brands, establishing key partnerships and delivering effective, analytical marketing strategies.

PRODUCT PORTFOLIO:

Z GROUP CURRENTLY COMPRISES 4 ACTIVE BUSINESSES

ONSPEED is the leading Internet acceleration software in the market. An award-winning product, it relies upon patented compression technology that delivers Internet speed increases of up to ten times for Dial-up and up to five times for Broadband connections. It is available online and in retail outlets in the UK and abroad.

Dial-up users still make up the majority of Internet users in emerging markets like Brazil, India, Mexico and Russia. For such connections, ONSPEED delivers the only viable means to increase web browsing speeds and significantly enhance the sending and receiving of emails. For users who are on a Broadband connection of up to two Megabytes (2Mb) and who frequently do not receive the promised speeds, as a result of line quality, distance from the exchange and contention ratios, ONSPEED delivers speed increases of up to five times. BT now offers ONSPEED as an enhancement to their 1Mb and 2Mb connections.

Launched in March 2006, ONSPEED Mobile uses compression technology and licensed page reformatting software to enhance mobile phone surfing, making it faster, easier and more affordable. By compressing web pages by up to 80% and resizing pages to fit specific mobile screens, users enjoy speed increases of up to ten times, web pages that are easy to view and use and data savings of up to 75%. As most operators charge per Megabyte of data, by compressing the data, bills are reduced.

ONSPEED Mobile addresses the growing market for mobile Internet access and is aimed at the 700 million Java-enabled mobile phone users across the world. It has been reviewed successfully in over 15 publications, securing several five star awards in magazines such as *Stuff*, *WebUser* and *Computer Active*.

Net2Roam is a pre-paid service purchased online that delivers Internet access in over 140 countries and from over 29,000 locations, permitting users to browse the web and send and receive emails using their existing email accounts. Net2Roam addresses the global need for low-cost easy Internet access when travelling abroad. Relaunched in February 2007 with iPass (NASDAQ: IPAS) infrastructure, Net2Roam added 76,000 Wi-Fi hotspots in 68 countries to its offering.

NetAway, a cut-down version of Net2Roam previously sold in retail outlets throughout the UK, was amalgamated into Net2Roam as part of the successful Net2Roam relaunch in February 2007. All existing NetAway customers were migrated over to the new Net2Roam product via a series of email communications.

"fast"

"(ONSPEED) is effective on ADSL connections as well as dial-up. I've tried it on both, and on broadband my e-mail came in faster than Outlook could display it!"

Micro Mart

The Group focuses on low-risk, pre-paid cash generation and its product portfolio emphasises low-cost products, low-cost customer acquisition and high levels of customer retention, achieved through the provision of excellent customer service and product upgrades

Z GROUP plc was admitted to the Alternative Investment Market (AIM) in June 2005 to enhance its profile among customers and prospective partners. This is the Group's second annual report as a listed company

“...a growing portfolio of innovative products”

OnShare is the most recent addition to the Group's portfolio. A software service, it uses proprietary next generation file sharing technology to deliver the most secure and easiest way to share files with a closed network of friends known as Friend-to-Friend (F2F). The Group has made a significant investment in research and development over the last 25 years and purchased the outstanding minority interest in OnShare in December 2006.

Securing 100% ownership of the OnShare subsidiary allows the Group to benefit fully from the growing market for file sharing, which currently accounts for at least 60% of all Internet traffic. OnShare is set to satisfy the increasing demand while addressing the inherent problems associated with other kinds of file sharing.

Offering secure, private, one-to-one file sharing, OnShare has been developed to integrate into the very heart of the Windows application. It enables secure file sharing without the bundled spyware and malware associated with most other programs. By integrating directly into the Windows operating system, users can create Virtual Private Networks (VPNs)

on-the-fly without the requirement for hardware and set-up. Known as Instant Private Networks (IPNs), OnShare enables friends, family and small to medium enterprises to establish the kind of networks that have commonly been the preserve of big business.

CHAIRMAN'S STATEMENT

The key elements of our results for the year to 28 February 2007 are that turnover was down to £2.6 million (2006: £5.0 million) and losses before tax and the share option based charge were £0.8 million (2006: profit of £1.0 million). Cash balances reduced to £2.2 million (2006: £4.1 million).

These results demonstrate the resilience of ONSPEED as we continued with the development of OnShare. There is no doubt that the challenges associated with the development of OnShare have been greater than originally anticipated but this product is now out and we are confident it will be considerably better for the delays encountered. As a result of this emphasis on development expenditure last year, the cash burn rate was considerable but it has been reduced substantially since the beginning of this year.

CORPORATE STRATEGY

Our strategy for growing the business remains as stated in our AIM admission document – to identify, acquire or licence and develop technology opportunities and to commercialise them through proven brand development and analytical and cost

efficient marketing. We continue to monetise the current products within the Group as well as seeking new, innovative, web-enabled technologies to add to our portfolio that are pre-paid, high margin and offer high visibility. We have acquired the technology rights to market some new products which will grow our product portfolio, thereby enabling us to utilise our customer base to maximum effect.

In December 2006, we completed the acquisition of the outstanding minority interest in OnShare Limited which holds the OnShare technology and this will allow us to gain the full advantage of this new product when commercialisation commences.

BOARD OF DIRECTORS

We strengthened our Board by appointing three new members in the year. In July 2006, Polly Williams was appointed as a non-executive Director and as Chair of our Audit Committee and Jonty Slater, the Group's Chief Technical Officer, was appointed as an executive Director. Duncan Neale was appointed as Finance Director and Company Secretary in September 2006.

Ian Smith, who joined as a non-executive Director at the time of our AIM listing in June 2005, has decided to stand down from the Board at our forthcoming AGM due to his other increasing business commitments. We have benefited greatly from Ian's wisdom and experience and wish him well with his other endeavours.

OUR PEOPLE

Success in the technology sector is fundamentally reliant upon making the best use of the people it employs to create intellectual capital. We are committed to motivating, developing and rewarding our employees and are pleased that employees have been with Z GROUP for an average of nearly two and a half years. We promote knowledge sharing across the Group, ensuring that management are responsive to issues and trends within the business and the wider marketplace. Our employees are encouraged to keep abreast of new technology in the marketplace in order to remain competitive. We also promote a collegiate atmosphere based on teamwork so as to foster creativity while focusing on business development.

“godsend”

“Your service has been a godsend for me and my small company, our need to operate on an international basis would not be possible without Net2Roam”

John Coombs, Meadvale International Ltd

“[Our employees] are truly the key to the future of our business.”

We are grateful for the support and continued hard work put in by these 22 highly skilled employees. They are truly the key to the future of our business.

CORPORATE RESPONSIBILITY

Part of Z GROUP's philosophy is to work to the highest ethical standards wherever possible – this includes its relationships with employees and customers and all those who may have dealings with the Group. We actively support a small start-up charity and provide encouragement to those employees involved. Also, we adhere to all environmental regulations and have, where possible, utilised environment-sustaining policies such as recycling and waste reduction. We also encourage our employees to use environmentally-friendly supplies wherever possible, and to conserve electricity and water.

and other new products, and a much reduced cash burn rate, will assist us in that endeavour. The current year's trading is currently ahead of budget and we are cautiously optimistic that the coming months will continue that trend.

JOHN STANDEN

Non-Executive Chairman

21 June 2007

PROSPECTS

OnShare is now at the stage where we can see its potential and believe it can deliver significant shareholder value. Our priority this year is to commercialise the OnShare product and to become cash positive. Our existing

JOINT CHIEF EXECUTIVES' STATEMENT

ONSPEED has been a mainstay since the business was founded and has provided a valuable Internet service for those consumers who have not converted to Internet Broadband usage

INTRODUCTION

The past financial year has seen focus on the following areas

- The core consumer product ONSPEED, improving the cost of acquisition and focusing on customer retention, mitigating a reduction in sales as a result of the increasing use of Broadband,
- ONSPEED Mobile which provides a fast, full Internet experience on a mobile phone, was launched last March 2006 and the business continues to focus on sales both to consumers and also to operators,
- The development of the innovative file sharing service OnShare, and its underlying technology Beta testing of OnShare was concluded in February 2007 and is demonstrating encouraging signs of success,
- Laying the groundwork for the release of new products, and
- Towards the end of the year, the commencement of a cost-cutting exercise

FINANCIAL OVERVIEW

The Group's results for the 12 months ending 28 February 2007 show a loss before tax of £1.1 million on turnover of £2.6 million, compared to a restated profit in 2006 of £0.4 million on turnover of £5.0 million

Turnover from ONSPEED represents 88% of total turnover for the year. The fall in ONSPEED turnover from £4.4 million for 2006 to £2.4 million in 2007 was principally as a result of the growth of competitive, fast Broadband in the UK, Europe and the US

Net2Roam contributed £0.1 million to turnover (2006 £0.4 million) and ONSPEED Mobile which was launched in 2006 added £0.1 million to turnover

The loss in the year adjusted for all non-cash items was £0.6 million. Together with the investment in OnShare of £1.3 million, this has resulted in a net cash outflow of £1.9 million, leaving cash resources of £2.2 million at 28 February 2007

A cost saving plan was implemented in January 2007 and we are already seeing the benefits in the current financial year

SHARE ISSUES

333,172 shares were issued in the year on the exercise of share options by three option holders

A further 3,942,134 shares were issued to the minority shareholders of OnShare Limited to acquire the 49% minority interest in the business, ensuring that the benefits of the future success of this service will flow 100% to Z GROUP shareholders

REVIEW OF OPERATIONS

The primary aims in the past year were to maintain good customer retention in ONSPEED, while gaining market traction for two new products, ONSPEED Mobile and OnShare

ONSPEED

In spite of the predicted decline in Dial-up Internet access, ONSPEED has performed well throughout the year in retaining its direct customer base whilst gaining additional rest of the world revenue through partnerships in new territories. Online sales continue to account for the majority of sales both in the UK and abroad

"safe"

"(OnShare is) a safe and convenient way of sharing files among friends"
Web User

“ONSPEED Mobile has received wide acclaim in the trade press”

We recognise the need for local support within international markets and have established relationships with key local partners, which we have found to be highly beneficial in supporting sales growth. Following the success of ONSPEED sales via the web and the release of the retail version in Europe, we have signed a number of additional distribution deals for ONSPEED in Poland and Russia. In Russia, we deployed a retail promotion in March 2006 through monthly scratch cards, thereby addressing low credit card penetration and successfully attracting direct consumer revenue. In August 2006, we closed an agreement with Voxnet, one of Poland's leading ISPs, to promote ONSPEED and ONSPEED Mobile.

The Group's retail presence in Europe and the US has also been strengthened. In April 2006, the Group signed a retail agreement with Avanquest, a leading global publisher of best-selling personal and professional software marketed in over 100 countries,

for France and Spain gaining a retail presence in key multiples including FNAC, Boulanger and through select online portals such as Bluesquad and Blitzbox. In February 2007, we appointed Navarre (NASDAQ: NAVR), a leading distributor of home entertainment PC software in the US.

In June 2006, we announced an extension to the agreement with BT to distribute ONSPEED to BT's 512kb Broadband base, giving these customers up to 5 times faster connectivity with ONSPEED Version 5. The Group continues to use these high profile relationships to further improve its awareness and credibility to a wider international audience.

Marketing spend on ONSPEED represented 29% of total Group indirect costs, representing a continuation of the historically efficient use of marketing. With targeted media buying and innovative in-house analysis, cost per sale equated to an efficient £6.76 compared to £8.04 in 2006.

To further increase ARPU across the ONSPEED base, we launched an ONSPEED toolbar in February 2007, providing more value to the ONSPEED product as well as a search box powered by YAHOO! to capitalise on search revenue from the ONSPEED base. The benefit of this added capability will be reflected in next year's results.

ONSPEED Mobile

The ONSPEED Mobile product became commercially available in March 2006 via Internet subscription and through existing UK distribution channels, including Amazon, PC World, Play and Staples. ONSPEED Mobile has received wide acclaim in the trade press, many of whom believe that demand will be triggered by the current expense of accessing the Internet via mobile devices – the same driver behind the original success of ONSPEED.

JOINT CHIEF EXECUTIVES' STATEMENT

Fifteen publications have presented upbeat reviews, some granting 5 star awards, notably Computer Active, Stuff and WebUser. Although direct consumer sales have been slow to materialise, the Directors believe in the size and strength of the mobile Internet market and feel ONSPEED Mobile is well-positioned to benefit from longer term consumer take-up. In addition, deeper market penetration will take place via partnership with mobile network operators as demonstrated by a diverse pipeline of potential partners and jurisdictions.

OnShare

The Group has continued to invest significantly in OnShare, the proprietary file sharing software. The development of OnShare over the last 12 months has seen a series of continuous improvements to the design and functionality of the OnShare product, with focus on building stability and ease of use. In addition, significant R&D has been invested in OnShare's underlying protocol, "ActiveStream". This proprietary IP will be re-used and is set to become the basis for future consumer and corporate product development.

OnShare was launched to a test group of users in March 2006, with subsequent upgrades through the year. This test identified a number of required improvements prior to launch and in February 2007 a soft launch was implemented providing users with free access to the product which included a mechanism to encourage viral marketing. The growth in users has exceeded budget and based on this trend, we plan to commercialise the product with marketing support around the middle of the current financial year. Shareholders will be informed at the commencement of this initiative and will be regularly updated as to progress.

Net2Roam

Net2Roam continues to provide a consistent revenue stream, with very little requirement for additional resources or marketing budget. Relaunched in February 2007 using iPass (NASDAQ: IPAS) infrastructure, Net2Roam added 76,000 Wi-Fi hotspots in 68 countries to its offering.

COST SAVINGS AND PERFORMANCE IN THE CURRENT FINANCIAL YEAR

A cost saving plan was implemented starting in January 2007, based on a staff redundancy programme, continuing focus on efficient marketing spend, streamlining server use across our portfolio of products and negotiating better terms with our suppliers.

As a result of these costs savings, our unaudited management accounts for the first two months of the current financial year show a 30% reduction in administrative costs year-on-year.

In addition, consolidated sales for quarter one of the current year are ahead of budget.

OUTLOOK

The extended test launch of OnShare, although putting us behind our original plan at the time of admission to AIM, has resulted in a stronger offering to consumers. OnShare offers several unique features to consumers and to SMEs which the Group intends to take full advantage of in the

"great"

"(ONSPEED Mobile is) a great way to bring the web to your mobile phone, it works extremely well"

Personal Computer World
Product Of The Week

“We have a confirmed launch plan for two new and exciting software products that adhere to our high margin, pre-paid criteria”

coming months. Additionally, the R&D invested in OnShare's underlying proprietary protocol, “ActiveStream” is well-placed to be used in other products developed by the Group to drive future revenue streams.

Mobile Internet usage is the key driver to ONSPEED Mobile, our other recent product, which uses proprietary compression technology to enable more efficient access to the Internet, and we are confident of the conclusion of operator agreements and healthy consumer demand in the coming year.

The Group has continued to identify commercial opportunities for new technologies and to develop products that satisfy consumer needs. We have a confirmed launch plan for two new and exciting software products that adhere to our high margin, pre-paid criteria.

The sentiment within the Group is one of excitement for the current financial year, with a focus on maintaining our core businesses, exploiting the Group's IP and developing a new pipeline of products with a more efficient cost-base.

JACK BEKHOR
JAMIE TRUE

Joint Chief Executive Officers

21 June 2007

BOARD OF DIRECTORS

JACK BEKHOR

(Joint Chief Executive)

Educated at Imperial College, London and the Ecole des Ponts et Chausses in Paris, Jack is a serial entrepreneur who has founded or co-founded a number of successful companies in the telecoms and IT sectors. In 1992 he was recruited by a US venture capital company to become Operations Director of Infolines, a provider of payphone services to targeted market sectors in the UK. Infolines became the second largest private payphone operator in the UK with over 10,000 payphones, including the orange street phones in and around London. In 1997 he brought in a management team to run Infolines and left to set up LCR Telecom, the first European switchless-reseller, providing least cost routing services to SMEs, which was sold to Primus Telecommunications in February 2000, for a valuation in excess of \$100 million.

In March 2002, with partner Jamie, Jack created and launched Net2Roam, the first company to offer a real-time prepaid pay-as-you-go Internet roaming service with access in 163 countries around the world.

JAMIE TRUE

(Joint Chief Executive)

A born entrepreneur at the age of 17 Jamie set up Power Organisation a UK-based trading group of companies focused on branded and textile surplus inventory, servicing most major retail store groups. The business grew to a turnover of circa £6 million and merged with its largest competitor in June 1997. He then co-founded Interclubnet PLC, creating and inventing the trading platform 'X-tranet'. Following its success, a strategic technology alliance was negotiated and a £10 million share exchange effected with Realtech AG, which was traded on the German stock market. By December 1999, the business had over 150 major football clubs paying a yearly subscription as well as administering 120 leagues for the FA and signed a £12 million four year deal with them. In August 2000 the company floated on AIM with a market capitalisation of £30 million.

DUNCAN NEALE

(Finance Director and Company Secretary)

Duncan qualified as an ACA with Price Waterhouse in London. He spent the early part of his career as Group Financial Controller at Quantum Energy Derivatives PLC (now part of Corona Energy) in which he played a leading role in the transformation of the business from being a small energy broker to being the largest independent energy supplier to businesses in the UK. Most recently Duncan assisted on the flotation of IX Europe plc. He joined Z GROUP as a consultant in February 2006 and was formally appointed as Finance Director and Company Secretary in September 2006.

JONTY SLATER

(Chief Technical Officer)

In May 2001 Jonty was appointed corporate manager at Community Internet, managing both the ISP services and website development. In January 2003, Jonty joined Z GROUP as Chief Technical Officer and has been instrumental in the creation and development of Z GROUP's products. Jonty is responsible for all Z GROUP's technological development and maintenance including customer services.

"innovative"

"Safely exchange data online with your friends using the innovative OnShare file-sharing and messaging program"

PC Utilities

JON CLAYDON
(Non-Executive)

After completing a law degree at Durham University in 1983, Jon worked as a commodity trader for Cargill based in their Geneva office. In 1990 he left to found the direct marketing and sales promotion agency Claydon Heeley International. In 1998 the agency was acquired for a consideration of £26 million by Omnicom, the world's largest advertising and communications group. Jon is now chairman of Zulu Group, which includes Claydon Heeley, Agency Republic, Campaign magazine's Agency of the Year, Code, the marketing technology agency, and Weapon 7, the interactive television advertising agency.

IAN SMITH
(Non-Executive)
(retiring on 30 July 2007)

Ian is the founder and CEO of Matrix Communications Group, which began trading in 2003 and currently has a market capitalisation of approximately £55 million. In this time, Ian has also overseen and integrated six acquisitions. He previously worked as UK Managing Director of Foundry Networks and as Chief Operating Officer of Dataworkforce and before that at Cisco Systems and Cable & Wireless.

JOHN STANDEN
(Non-Executive
Chairman)

John is a Durham graduate and a Member of the Securities Institute. He is also non-executive chairman of Xploite plc and Stanelco plc and the senior non-executive Director of Lavendon plc. In a voluntary capacity, he is chairman of the Council of Hull University. He was chief executive of Corporate Finance for BZW from 1993 to 1995 prior to his retirement from Barclays in 1998.

POLLY WILLIAMS
(Non-Executive)

Polly Williams was an audit partner in KPMG for 6 years until March 2003. She is currently a non-executive member of the Audit and Risk Committee of the Cabinet Office. She is currently a non-executive Director of Execution Holdings Limited, National Counties Building Society and Scotiabank Ireland Limited. She is a trustee of two charities. She was a non-executive Director of Legend Communications plc until its acquisition by Thus Group.

DIRECTORS' REPORT

The Directors present their Report and the audited financial statements for the year ended 28 February 2007

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

Z GROUP plc is a marketing-led internet technology services group that licenses, acquires and creates technologies with well defined potential and commercialises them for the mass consumer market. A more detailed review of the Group's activities during the last year and its prospects is given in the Joint Chief Executives' Statement on pages 6 to 9

The key performance indicators used by the Directors and management to manage the main businesses during the year are summarised below

ONSPEED

The objective is to acquire new business efficiently

New web licences	→	31,275 (2006 118,400)
Retail sales	→	£131,051 (2006 £672,323)
Wholesale & search income	→	£119,353 (2006 £104,988)
Marketing spend / unit sale	→	£6.76 (2006 £8.04)

ONSPEED Mobile

The objective is to grow this new business, whether directly or via operators

New licences	→	5,759 (2006 nil)
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OnShare business

The objective is to grow the number of people that use this service

Registered users	→	7,281 (2006 nil)
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Future Developments

Likely future developments are set out in the outlook section of the Joint Chief Executives' Statement

Principal Business Risks and Uncertainties

The Board has processes in place for identifying and managing business risks, and reviews the major operational risks and uncertainties at each Board meeting. The major risks and uncertainties and how the Board tries to mitigate them are

- 1 competitive pressures – Z GROUP's competitors include major corporations that have much larger customer bases. The Group has focused on best-in-breed technologies compatible with the technologies of major players in areas where there is a growing market, so as to appeal to the widest customer base
- 2 down-turn in the existing product range. The life of existing products is extended by marketing in the emerging markets. Risk is mitigated also by diversification of the product range, in the short term by licencing profitable products and in the medium term by bringing our own technology to market

- 3 inability to protect our intellectual property The Group invests vigorously in its patent portfolio, to ensure that inventions are patented and protected
- 4 the departure of key personnel The Group has a competitive package of remuneration and share options for personnel The Group also encourages a working environment where communication between employees and management is open and leads to a good working relationship
- 5 financial risks The management of these risks is set out in note 16 of the financial statements

Results and dividends

The results for the year are set out on page 22 The Group's results for the 12 months ending 28 February 2007 show a loss before tax of £1.1 million on turnover of £2.6 million compared to a restated profit in 2006 of £0.4 million on turnover of £5.0 million The Directors do not recommend a dividend (2006: £nil)

Directors

Directors who have served during the year are shown below

Jack Bekhor	→	Appointed 20 April 2005
Jon Claydon	→	Appointed 26 May 2005
Duncan Neale	→	Appointed 4 September 2006
Jonty Slater	→	Appointed 6 July 2006
Ian Smith	→	Appointed 15 June 2005
John Standen	→	Appointed 15 June 2005
Jamie True	→	Appointed 20 April 2005
Polly Williams	→	Appointed 6 July 2006

Directors' interests in shares and options

Directors' interests in the shares of the Company, including family interests, were as follows

	Ordinary shares of 5p each at 28 February 2007	Ordinary shares of 5p each at 28 February 2006
Jack Bekhor	3,998,825	3,998,825
Jon Claydon	1,729,170	1,345,170
Duncan Neale	–	–
Jonty Slater	–	–
Ian Smith	23,148	23,148
John Standen	23,148	23,148
Jamie True	3,998,825	3,998,825
Polly Williams	–	–

DIRECTORS' REPORT

Under the rules of the Z GROUP EMI Share Option Plan, the Directors have been granted an interest in options over ordinary shares of £0.05 each as follows:

	At 28 February 2006	Number of options issued during the year	Number of options exercised during the year	At 28 February 2007	Date from which exercisable	Expiry date	Exercise price (pence)
Jack Bekhor	92,592	–	–	92,592	20 June 2006	20 June 2015	108.0
Duncan Neale	–	157,480	–	157,480	4 September 2007	15 December 2016	63.5
Jonty Slater	480,200	–	(60,000)	420,200	20 June 2006	20 June 2015	5.0
Jonty Slater	–	47,244	–	47,244	30 June 2007	15 December 2016	63.5
Jamie True	92,952	–	–	92,952	20 June 2006	20 June 2015	108.0

There have been no changes in any Directors' interests in shares or options between 28 February 2007 and 21 June 2007.

Employment Policy

It is the policy of the Group to operate a fair employment policy. No employees or job applicants are less favourably treated than another on the grounds of their sex, sexual orientation, age, marital status, religion, race, nationality, ethnic or national origin, colour or disability and all appointments and promotions are determined solely on merit. The Directors encourage employees to be aware of all issues affecting the Group and place considerable emphasis on employees sharing in its success through its employee share option scheme.

Research & Development

The Group has invested heavily in the development of new products and is committed to continued development activities in order to secure a leading position for its technology offerings.

Substantial Shareholdings

As at the close of 13 June 2007, being the last practicable date prior to the publication of this document, the Company has been advised of the following shareholdings of 3% or more in the issued share capital of Z GROUP plc:

	Number of Shares	Percentage of Issued Share Capital
Jack Bekhor*	3,998,825	16.84%
Jamie True*	3,998,825	16.84%
Chris Potts	2,135,180	8.99%
Gareth Mallett	1,773,960	7.47%
Elizabeth Wilkinson	1,773,960	7.47%
Jon Claydon**	1,729,170	7.28%
BNY (OCS) Nominees Ltd	833,333	3.51%
Pershing Keen Nominees Ltd	799,680	3.37%

* shares held in the name of Clachan Nominees Limited

** shares held directly and through Clachan Nominees Limited and Rock (Nominees) Ltd

Payment of Suppliers

It is the Group's policy to pay suppliers in accordance with the terms and conditions agreed in advance, providing all trading terms and conditions have been met. All payments are made in the ordinary course of business and the Group expects to pay all supplier debts as they become due.

Trade creditor days based on creditors at 28 February 2007 were 27 (2006: 44) days.

Charitable and political donations

During the year, the Group made charitable payments of £8,730 (2006: £6,000). There were no donations made for political purposes.

Auditors

The Directors, having been notified of the cessation of the partnership known as Baker Tilly, resolved that Baker Tilly UK Audit LLP be appointed as successor auditor with effect from 1 April 2007, in accordance with the provisions of the Companies Act 1989, s26(5). Baker Tilly UK Audit LLP has indicated its willingness to continue in office, and a resolution covering their re-appointment will be proposed at the AGM.

Statement as to disclosure of information to auditors

The Directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the Directors have confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

By order of the Board



Duncan Neale
Company Secretary

21 June 2007

CORPORATE GOVERNANCE

Z GROUP plc recognises the importance of, and is committed to, high standards of corporate governance. Z GROUP plc, as an AIM company, is not required to comply with the July 2003 Combined Code on Corporate Governance (the "Combined Code"), although it has adopted those Combined Code principles relevant to the size of the Group as set out below.

THE BOARD AND ITS COMMITTEES

The Board

There are currently eight board members, comprised of four executive Directors and four non-executive Directors. The role of the non-executive Directors is to bring independent judgement to Board deliberations and decisions. The chairman of the Board is a non-executive Director who oversees the Board meetings and fields all concerns regarding the executive management of the Group and the performance of the executive Directors. A biography of each Director appears on pages 10 to 11. As the biographies demonstrate, the Directors have diverse backgrounds and the Board benefits from a wide range of experience. The Board's collective knowledge and skill in business matters helps to ensure that the Board effectively governs the activities of the Group in the best interests of the shareholders. The Board meets regularly to review the Group's trading performance, to discuss product developments and launches, to review the Group's ongoing operations and to determine strategies for future growth. The Board discusses the schedule of matters prepared for each meeting but otherwise delegates specific responsibilities to its committees as set out on the right.

Each of the executive Directors is subject to an executive services agreement, with notice periods of between three and twelve months. Each of the non-executive Directors is subject to a three month notice period with re-appointment or re-election required annually. Z GROUP plc's Articles require Directors to retire from office and submit themselves for re-election on one third rota at each AGM. Jack Bekhor will be retiring at the AGM and submitting himself for re-election.

BOARD ATTENDANCE

13 scheduled board meetings were held in the year

Director	Number of meetings attended
Jack Bekhor	13
Jon Claydon	13
Duncan Neale	6
Jonty Slater	8
Ian Smith	10
John Standen	13
Jamie True	13
Polly Williams	7

THE COMMITTEES

Nomination Committee

The Nomination Committee is comprised entirely of non-executive Directors, being John Standen as Chairman, Ian Smith and Polly Williams. The committee oversees the structure and balance of the Board generally and is responsible for screening and proposing candidates for appointment to the Board.

Remuneration Committee

The Group's Remuneration Committee is also comprised of non-executive Directors, being Ian Smith as Chairman, John Standen and Polly Williams. The committee is responsible for reviewing the salary and benefits offered to executive Directors as well as the Group's non-director senior management. Specifically, the committee is responsible for determining contract terms, compensatory share options and pension rights. The Board as a whole determines the compensation for all non-executive Directors. Further details regarding the Directors' individual remuneration are set forth in the Report of the Directors on Remuneration on page 18.

Audit Committee

The Audit Committee similarly is comprised of non-executive Directors, being Polly Williams as Chair and Ian Smith. The Audit Committee supervises the Group's external auditors, including appointment and compensation and performs an assessment of their independence. The Audit Committee is also responsible for ensuring the accuracy of the Interim and Annual Reports, as well as compliance with all applicable standards and regulations.

Relations with Shareholders

The Board recognises and understands that it has a fiduciary responsibility to the Group's shareholders. The Chairman's Statement and Joint Chief Executives' Statement include detailed analysis of the Group's performance and future expectations. The Board and Z GROUP plc maintain consistent dialogue with its shareholders through presentations, such as those made immediately after the Group announced its interim results. The Group also routinely presents newly launched products to institutional investors and the Group's website (www.zgroupplc.com) allows shareholders access to company information, such as contact details and the current share price.

The AGM will also be a platform for the Board to communicate with shareholders, and the Board welcome the attendance and participation of all shareholders. Details of resolutions to be proposed at the AGM on 30 July 2007 can be found in the notice of the meeting on pages 45 to 46.

Internal Control and Risk Management

The Board requires strict internal control procedures for the Group. Upon the advice of the Board, the executive Directors each assumed responsibility for specific aspects of the Group's operations. The executive Directors also regularly liaise with non-executive Directors regarding accounting practices and legal compliance. The Board and senior accounting staff are all aware of the importance of adhering to the financial and accounting policies of the Group. The Board discusses any relevant changes to accounting policies and, if necessary, discusses the impact of such changes with external financial advisers to facilitate compliance.

Internal Audit

The Board agrees that there should be no internal audit function for the Group at this time considering the size of the Group and the close involvement of senior management over the Group's accounting system. However, the Board will keep this matter under review in the event that circumstances warrant an internal audit function for the Group in the future.

Personnel Quality

The Board also oversees recruitment in order to maintain the highest level of competence and integrity. The policy of the Board is to promote competitive compensation and a professional working environment in order to attract the most qualified candidates.

Budgetary Process

The Board approves the annual budget each year. This process allows the Board to identify key performance targets and risks expected during the upcoming year. The Board also considers the agreed budget when reviewing trading updates and considering expenditures throughout the year.

Going Concern

Having made appropriate enquiries, the Directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future.

Corporate Social Responsibility

Z GROUP is committed to operating to the very highest ethical standards, whether dealing with customers, employees, shareholders or partners. The Group also actively supports Women to Women International, a charity dedicated to working with women to promote access to basic economic, health and educational rights to benefit themselves, their families, and the whole community. Z GROUP has been supporting Women to Women International since its inception.

AGM

The AGM will be held at 11 30am on 30 July 2007 at 31 Vernon Street, London W14 0RN.

Approved by the Board


Jack Bokhor
Joint Chief Executive


Jamie True
Joint Chief Executive

21 June 2007

REPORT OF THE DIRECTORS ON REMUNERATION

REMUNERATION COMMITTEE

The Remuneration Committee is described in the report on Corporate Governance on page 16. The remuneration for each executive Director is determined by the Remuneration Committee, which is composed solely of non-executive Directors: Ian Smith as Chairman, John Standen and Polly Williams.

None of the committee members has any personal financial interest, other than as shareholders, in the matters to be decided.

REMUNERATION POLICY

The remuneration packages for Directors and senior managers have been structured so as to fairly compensate them for their contribution to the Group and to encourage them to remain with the Group. The basic components of these packages include:

BASIC SALARY

Each Director, with the exception of Jon Claydon, receives an annual salary for his services. These salaries are reviewed annually by the Remuneration Committee.

SHARE OPTIONS

The executive Directors were granted share options at the time of the flotation of the company, or on appointment as Directors, if later. The Board may grant further options as and when it is deemed appropriate.

PENSION ARRANGEMENTS

All staff, executive Directors and senior management are entitled to participate in the stakeholder pension plan established by the Group.

BONUS ARRANGEMENT

The Group operates a discretionary bonus scheme. The Remuneration Committee is entitled to decide whether, and for what amount, bonuses should be granted to executive Directors.

SERVICE CONTRACTS

All service contracts have notice periods of three to twelve months.

TABLE ON DIRECTORS' REMUNERATION

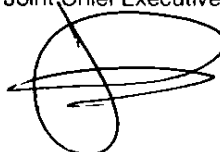
DIRECTORS' REMUNERATION	Salary and fees 2007 £	Bonus 2007 £	Benefits in kind 2007 £	Total 2007 £	Total 2006 £	Pension contributions 2007 & 2006 £
Executive Directors						
Jack Bekhor	120,000	18,000	–	138,000	138,648	–
Michael Hawkes (resigned on 18 November 2005)	–	–	–	–	63,333	–
Duncan Neale	44,423	–	–	44,423	–	–
Jonty Slater	35,000	–	1,042	36,042	–	–
Jamie True	120,000	18,000	–	138,000	142,830	–
	319,423	36,000	1,042	356,465	344,811	–
Non-executive Directors						
Ian Smith	18,000	–	–	18,000	12,750	–
John Standen	40,000	–	–	40,000	24,374	–
Polly Williams	13,051	–	–	13,051	–	–
	71,051	–	–	71,051	37,124	–
Total	390,474	36,000	1,042	427,516	381,935	–

Jack Bekhor
Joint Chief Executive

21 June 2007



Jamie True
Joint Chief Executive



STATEMENT OF 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required to

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking steps to safeguard the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. They are responsible for ensuring that the Annual Report includes information required by the AIM Rules of the Financial Services Authority (or Listing Rules).

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Z GROUP plc website.

The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the website.

INDEPENDENT AUDITORS' REPORT

to the members of Z GROUP plc

We have audited the group and parent company financial statements on pages 22 to 44, which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement and the related notes

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements.

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

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Business Profile, the Chairman's Statement, the Joint Chief Executives' Statement,

the Corporate Governance Report and the Report of the Directors on Remuneration. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion

→ the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company and of the group's affairs at 28 February 2007 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985, and

→ the information given in the Directors' Report is consistent with the financial statements.

Baker Tilly UK Audit LLP

Baker Tilly UK Audit LLP

Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London, WC1B 3ST

21 June 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 28 February 2007

	Notes	28 February 2007 £	28 February 2006 (as restated) £
TURNOVER	1	2,629,788	4,971,722
Cost of sales		(651,199)	(1,077,224)
Gross profit		1,978,589	3,894,498
Administrative expenses		(3,155,181)	(3,606,913)
Operating (loss) / profit before share based payments charge		(832,521)	1,027,563
Share based payments charge		(344,071)	(739,978)
OPERATING (LOSS) / PROFIT		(1,176,592)	287,585
Net interest receivable	2	101,445	110,949
(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	(1,075,147)	398,534
Taxation	5	64,194	(341,016)
(LOSS) / PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		(1,010,953)	57,518
Minority interest		-	30,850
RETAINED (LOSS) / PROFIT FOR THE YEAR	20	(1,010,953)	88,368
EARNINGS PER SHARE			
Basic	6	(4 98)	0 47
Diluted	6	(4 98)	0 45
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES			
Retained (loss) / profit for the period		(1,010,953)	88,368
Total gains and losses related to the period		(1,010,953)	88,368
Prior year adjustment		(739,978)	-
Total recognised gains and losses since the last Annual Report		(1,750,931)	88,368

All Group activities relate to continuing operations

The accompanying accounting policies and notes form an integral part of the financial statements

CONSOLIDATED BALANCE SHEET

→ 23

as at 28 February 2007

	Notes	28 February 2007 £	28 February 2006 (as restated) £
FIXED ASSETS			
Intangible assets	7	6,119,727	1,151,167
Tangible assets	8	515,338	318,690
		6,635,065	1,469,857
CURRENT ASSETS			
Stocks	11	56,383	64,222
Debtors	12	682,492	1,369,296
Cash at bank and in hand	22c	2,256,211	4,134,589
		2,995,086	5,568,107
CREDITORS Amounts falling due within one year	13	(983,754)	(1,553,141)
NET CURRENT ASSETS		2,011,332	4,014,966
TOTAL ASSETS LESS CURRENT LIABILITIES		8,646,397	5,484,823
CREDITORS Amounts falling due after more than one year	14	(16,889)	(25,651)
PROVISIONS FOR LIABILITIES AND CHARGES	15	(39,527)	(61,371)
NET ASSETS		8,589,981	5,397,801
CAPITAL AND RESERVES			
Called up share capital	17	1,187,294	973,529
Share premium account	19, 20	5,967,758	2,322,461
Merger reserve	20	1,065,741	1,065,741
Share option reserve	20	1,084,049	739,978
Profit and loss account	20	(714,861)	296,092
SHAREHOLDERS' FUNDS	21	8,589,981	5,397,801

The accompanying accounting policies and notes form an integral part of the financial statements

Approved by the Board and authorised for issue on 21 June 2007

Jack Bekhor
Joint Chief Executive

21 June 2007



Jamie True
Joint Chief Executive



COMPANY BALANCE SHEET

as at 28 February 2007

	Note	28 February 2007 £	28 February 2006 (as restated) £
FIXED ASSETS			
Intangible assets	7	161	-
Tangible assets	8	140,074	7,273
Investments	10	16,991,305	13,187,145
		17,131,540	13,194,418
CURRENT ASSETS			
Debtors	12	2,880,313	412,327
Cash at bank and in hand		1,405,765	3,460,168
		4,286,078	3,872,495
CREDITORS Amounts falling due within one year	13	(14,567,196)	(13,786,542)
NET CURRENT LIABILITIES		(10,281,118)	(9,914,047)
TOTAL ASSETS LESS CURRENT LIABILITIES		6,850,422	3,280,371
PROVISIONS FOR LIABILITIES AND CHARGES	15	-	(816)
NET ASSETS		6,850,422	3,279,555
CAPITAL AND RESERVES			
Called up share capital	17	1,187,294	973,529
Share premium account	19, 20	5,967,758	2,322,461
Share option reserve	20	1,084,049	739,978
Profit and loss account	20	(1,388,679)	(756,413)
SHAREHOLDERS' FUNDS	21	6,850,422	3,279,555

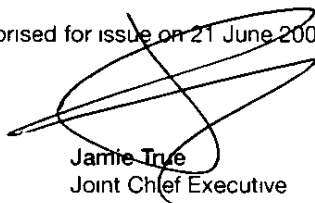
The accompanying accounting policies and notes form an integral part of the financial statements

Approved by the Board and authorised for issue on 21 June 2007

Jack Bekhor
Joint Chief Executive



Jamie True
Joint Chief Executive



CONSOLIDATED CASH FLOW STATEMENT

for the year ended 28 February 2007

	Notes	Year ended 28 February 2007 £	Year ended 28 February 2006 (as restated) £
Cash (outflow) / inflow from operating activities	22a	(218,118)	238,150
Returns on investments and servicing of finance	22b	101,445	110,949
Taxation		(289,958)	(126,855)
Capital expenditure and financial investment	22b	(1,527,319)	(1,090,389)
CASH OUTFLOW BEFORE FINANCING		(1,933,950)	(868,145)
Financing	22b	46,141	2,452,588
(DECREASE) / INCREASE IN CASH IN THE PERIOD	22c	(1,887,809)	1,584,443

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

		Year ended 28 February 2007 £	Year ended 28 February 2006 £
(Decrease) / increase in cash in the period		(1,878,378)	1,585,587
(Increase) in overdraft in the period		(9,431)	(1,144)
	22c	(1,887,809)	1,584,443
Cash outflow from lease financing		8,762	8,762
MOVEMENT IN NET FUNDS IN THE PERIOD		(1,879,047)	1,593,205
NET FUNDS AT THE BEGINNING OF THE PERIOD		4,099,034	2,505,829
NET FUNDS AT THE END OF THE PERIOD	22c	2,219,987	4,099,034

The accompanying accounting policies and notes form an integral part of the financial statements

ACCOUNTING POLICIES

for the year ended 28 February 2007

Basis of Accounting

The financial statements have been prepared under the historical cost convention, in accordance with applicable accounting standards in the United Kingdom

Basis of Consolidation

The Group's financial statements consolidate the financial statements of Z GROUP plc and all its subsidiaries made up to 28 February 2007. No separate profit and loss account is presented for Z GROUP plc as permitted by section 230 Companies Act 1985.

The Company was incorporated on 20 April 2006 as Z GROUP Investments plc and passed a resolution to change its name to Z GROUP plc on 15 June 2006. On 15 June 2006, Z GROUP entered into a share for share exchange agreement with the shareholders of Net2Roam Limited, whereby Z GROUP plc acquired the entire issued share capital of Net2Roam Limited and its subsidiaries, the consideration being satisfied by the allotment of ordinary shares in Z GROUP to the shareholders of Net2Roam Limited.

This acquisition was accounted for as a merger as permitted by Financial Reporting Standard 6.

Subsequent acquisitions, including the acquisition of Onshare Limited, have been accounted for as acquisitions. The difference between the cost of acquisition of shares in subsidiaries and the fair value of the separable net assets acquired, goodwill, is capitalised and written off on a straight line basis over its estimated economic life.

Significant Accounting Policy – Research and Development

Z GROUP invests a significant proportion of its resources in the development of its own intellectual property to bring new products and services to the market. Development expenditure (principally in the form of the salary costs of its developers) is capitalised when its future recoverability can be foreseen with reasonable assurance. It is amortised in line with sales from the related product over a period, typically between four and five years, which represents the Directors' estimate of its useful economic life. ONSPEED Mobile development costs are being amortised over 4 years on a straight-line basis. All research and other development costs are written off as incurred.

Significant Accounting Policy – Goodwill

Goodwill arising on the acquisition of a business is included in the balance sheet at cost, less accumulated amortisation and any provisions for impairment. Goodwill, which represents the difference between the purchase consideration and the fair values of those net assets (or book value of those net assets if the difference between book value and fair value is immaterial), is capitalised and amortised on a straight-line basis from the year following acquisition and over a period which represents the Directors' estimate of its useful economic life. Goodwill in the case of the acquisition of Onshare Limited will be amortised over 10 years.

Adoption of new accounting policy – Share Based Payments, and resulting prior year adjustment

The cost of providing share based payments to employees is charged to the consolidated profit and loss account over the vesting period of the related share options or share allocations. The cost is based on the fair value of the options and shares allocated determined using the Black-Scholes option-pricing model, which is appropriate given the vesting and other conditions attached to the options. The value of the charge is adjusted at each balance sheet date to reflect expected and actual levels of vesting.

In accordance with FRS20 "Share-based payment" the Group has elected to apply FRS20 to all grants, options and other equity instruments as they have all been granted since November 2002, the effective date of the standard.

The adoption of FRS20 this year has necessitated a prior year adjustment to be made, creating a share based payments reserve at 28 February 2006 of £739,978. This adjustment relates to options issued under the share option schemes described in Note 18.

OTHER ACCOUNTING POLICIES

Deferred Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

for the year ended 28 February 2007

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Foreign Currencies

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction. Balances denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Any exchange differences are written off against profits in the period in which they are incurred.

Intellectual Property Rights and Domain Names

Expenditure incurred in the acquisition of intellectual property rights and domain names is capitalised within intangible fixed assets and amortised over a period not exceeding ten years, being the Directors' assessment of the useful economic lives.

An annual impairment review is undertaken to ensure that the recoverable amount has not fallen below the carrying value.

Leased Assets and Obligations

Where assets are financed by leasing agreements that give rights approximating to ownership ("finance leases"), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor.

Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss account in proportion to the remaining balance outstanding.

All other leases are "operating leases" and the annual rentals are charged to profit and loss on a straight line basis over the lease term.

Pensions

The Group operates a stakeholder pension plan for which all employees are eligible. No employee has as yet entered into the scheme.

Stocks

Stocks are valued at the lower of cost and net realisable value. Net realisable value is based upon estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made for any obsolete or slow-moving items.

Tangible Fixed Assets

Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value over its expected useful life, as follows -

Website development costs	→ 4 years, straight line basis
Computer equipment	→ 4 years, straight line basis
Fixtures, fittings and equipment	→ 4 years, straight line basis
Motor vehicles	→ 4 years, straight line basis

Turnover

Revenue from the sale of licences is recognised in full when persuasive evidence of an agreement exists, when delivery and acceptance of the software by the customer has occurred, when the fee is fixed and determinable and when collection is considered probable.

Revenue relating to the provision of services is recognised as the services are delivered with that portion relating to subsequent years included in deferred income.

Revenue is stated exclusive of Value Added Tax.

Website Development Costs

The Group capitalises website development costs to comply with UITF Abstract 29 "Website Development Costs" and these capitalised development costs are amortised over their estimated useful economic life.

The website development costs to launch new versions of an existing product are charged to the profit and loss account as incurred, unless the new version opens up a new customer-base in which case the costs are capitalised as "Website Development Costs" and these capitalised development costs are amortised over their estimated useful economic life.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 28 February 2007

1 TURNOVER

The Group's turnover was all derived from its principal activity Sales (by destination) were made in the following geographical areas

	Year ended 28 February 2007 £	Year ended 28 February 2006 £
United Kingdom	1,641,207	3,327,486
Rest of the European Union	497,554	971,071
United States of America	75,313	306,498
Rest of the World	415,714	366,667
	2,629,788	4,971,722

All sales originated in the UK

2 NET INTEREST RECEIVABLE

	Year ended 28 February 2007 £	Year ended 28 February 2006 £
Bank interest receivable	104,354	113,591
Bank interest payable	(267)	
Interest paid on finance leases	(2,642)	(2,642)
Net interest receivable	101,445	110,949

3 (LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year ended 28 February 2007 £	Year ended 28 February 2006 £
(Loss) / profit on ordinary activities before taxation is stated after charging		
Depreciation		
owned assets	110,867	67,482
assets held under finance leases and hire purchase contracts	11,788	11,789
Amortisation	43,612	5,998
Operating lease rentals		
plant and machinery	431,947	252,096
land and buildings	143,025	64,613
Auditors' remuneration		
Audit fees – holding company	7,850	7,850
– subsidiary companies	41,822	38,500
Non-audit fees – tax compliance services	12,000	6,433

for the year ended 28 February 2007

4 EMPLOYEES

	Year ended 28 February 2007 £	Year ended 28 February 2006 £
The average monthly number of people (including Directors) employed by the Group during the period was		
Management and administration	12	15
Sales	5	5
Development	12	10
	29	30

	Year ended 28 February 2007 £	Year ended 28 February 2006 £
Staff costs for the above persons		
Wages and salaries	1,357,137	1,160,198
Social security costs	143,128	110,826
	1,500,265	1,271,024

Directors' remuneration

The Directors received total emoluments of £427,516 (2006 £381,935) For further details, please see the Report of the Directors on Remuneration on pages 18 to 19

Employee pensions

The Group operates a stakeholder pension plan for which all employees are eligible No employees have as yet joined the scheme

Highest paid Director

The highest paid Director had a remuneration package of £138,000 (2006 £142,830)

Share option charge

There was a share option charge of £344,071 (2006 £739,978) The basis of the calculation is outlined in note 18

Gains on exercise of options

Option holders that exercised their options in the year made a profit of £177,926, representing the difference between the closing market price on the day of the exercise and the exercise price of the option

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 28 February 2007

5 TAXATION

	Year ended 28 February 2007 £	Year ended 28 February 2006 (Restated) £
Current tax:		
UK corporation tax (credit) / charge on (losses) / profits of the period	(1,738)	291,287
Adjustments in respect of previous periods	(473)	-
Current tax (credit) / charge	(2,211)	291,287
Deferred tax		
Origination and reversal of timing differences	(61,983)	49,729
Tax (credit) / charge	(64,194)	341,016

	Year ended 28 February 2007 £	Year ended 28 February 2006 (Restated) £
Factors affecting tax charge for period		
The tax assessed for the period is higher than the standard rate of corporation tax in the UK (30%). The difference is explained below		
(Loss) / profit on ordinary activities before tax	(1,075,147)	398,534
(Loss) / profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 30%)	(322,544)	119,560
Effects of		
Non deductible expenses	21,401	6,659
R & D tax credit uplift	-	(21,842)
Capital allowances in excess of depreciation	8,059	(49,830)
Losses not utilised	194,477	15,954
Relief on exercise of share options	(7,560)	-
Benefit of marginal rate of tax	1,208	(1,207)
Share based payments charge	103,221	221,993
Adjustments to tax in respect of previous periods	(473)	-
Current tax (credit) / charge	(2,211)	291,287

The Group has tax losses of approximately £800,000 (2006 £170,000) which, subject to agreement with HM Revenue & Customs, are available to carry forward against future profits of the same trade

A deferred tax asset of £64,084 (2006 £26,456) has been recognised in respect of these losses leaving a potential deferred tax asset of approximately £178,000 (2006 £24,000) which has not been recognised because there is insufficient certainty that adequate suitable profits will arise in the foreseeable future to utilise such losses

In addition, a deferred tax asset of approximately £325,000 (2006 £220,000) in respect of share based payments has not been recognised because there is insufficient certainty that a tax deduction of this amount will result from the exercise of the options in the foreseeable future

for the year ended 28 February 2007

6 EARNINGS PER SHARE

	Year ended 28 February 2007 No	Year ended 28 February 2006 No
Weighted average number of shares		
For basic earnings per share	20,284,347	18,618,215
Dilutive effect of share options	–	824,510
For diluted earnings per share	20,284,347	19,442,725
Retained (loss) / profit	(1,010,953)	88,368
Earnings per share		
	pence	pence
– Basic	(4.98)	0.47
– Diluted	(4.98)	0.45

Due to the loss incurred in the twelve months ended 28 February 2007, there is no dilutive effect from the issue of share options

7 INTANGIBLE FIXED ASSETS

	Goodwill £	Development expenditure £	Intellectual property rights £	Domain names £	Total £
Group Cost					
1 March 2006	–	1,092,711	58,722	8,912	1,160,345
Additions	3,804,160	1,197,213	5,737	5,062	5,012,172
28 February 2007	3,804,160	2,289,924	64,459	13,974	6,172,517
Amortisation					
1 March 2006	–	–	(8,202)	(976)	(9,178)
Charged in the period	–	(36,404)	(6,271)	(937)	(43,612)
28 February 2007	–	(36,404)	(14,473)	(1,913)	(52,790)
Net book value					
28 February 2007	3,804,160	2,253,520	49,986	12,061	6,119,727
28 February 2006	–	1,092,711	50,520	7,936	1,151,167

Additions to development expenditure relate to the development of OnShare

Intellectual property rights represent the costs associated with patent creation

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 28 February 2007

Company	Domain names £	Total £
Cost		
Additions	200	200
28 February 2007	200	200
Amortisation		
Charged in the period	(39)	(39)
28 February 2007	(39)	(39)
Net book value		
28 February 2007	161	161

8 TANGIBLE FIXED ASSETS

Group	Website development costs £	Computer equipment £	Fixtures fittings & equipment £	Motor vehicles £	Total £
Cost					
1 March 2006	317,484	83,827	7,731	47,155	456,197
Additions	149,839	22,378	147,086	–	319,303
28 February 2007	467,323	106,205	154,817	47,155	775,500
Depreciation					
1 March 2006	(82,520)	(36,848)	(3,900)	(14,239)	(137,507)
Charged in the period	(70,229)	(20,370)	(20,268)	(11,788)	(122,655)
28 February 2007	(152,749)	(57,218)	(24,168)	(26,027)	(260,162)
Net book value					
28 February 2007	314,574	48,987	130,649	21,128	515,338
28 February 2006	234,964	46,979	3,831	32,916	318,690

The motor vehicles are all held under finance leases

for the year ended 28 February 2007

Company	Website development costs £	Computer equipment £	Fixtures fittings & equipment £	Motor vehicles £	Total £
Cost					
1 March 2006	-	7,589	-	-	7,589
Additions	2,250	4,147	147,085	-	153,482
28 February 2007	2,250	11,736	147,085	-	161,071
Depreciation					
1 March 2006	-	(316)	-	-	(316)
Charged in the period	(94)	(2,250)	(18,337)	-	(20,681)
28 February 2007	(94)	(2,566)	(18,337)	-	(20,997)
Net book value					
28 February 2007	2,156	9,170	128,748	-	140,074
28 February 2006	-	7,273	-	-	7,273

The Company holds no assets under finance leases or hire purchase contracts (2006 none)

9 ACQUISITIONS

The Group purchased the 49% minority interest in Onshare Limited for a total consideration of £3,804,160 on 15 December 2006. The transaction gives rise to goodwill of £3,804,160 since, at the date of acquisition, Onshare Limited had net liabilities.

10 INVESTMENTS

Company	Investment in subsidiaries £
Cost	
1 March 2006	13,187,145
Purchase of 49% minority interest in Onshare Limited (note 9)	3,804,160
28 February 2007	16,991,305
Net book value	
28 February 2007	16,991,305
28 February 2006	13,187,145

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 28 February 2007

Details of the subsidiary undertakings of the company are as follows

	Class of share	Proportion held	Nature of business
CallPal Limited	Ordinary	100%	eBay bidding services
Net2Roam Limited	Ordinary	100%	Enhanced Internet access from abroad
Onshare Limited	Ordinary	100%	Data sharing services
Turbodial Limited	Ordinary	100%	Accelerated Internet services
Z GROUP Investments Limited	Ordinary	100%	Non trading
NewOnshare Limited	Ordinary	100%	Dormant

All subsidiary undertakings are incorporated in England and Wales

11 STOCKS

	Group		Company	
	28 February 2007	28 February 2006	28 February 2007	28 February 2006
	£	£	£	£
Goods for resale	56,383	64,222	–	–

The difference between purchase price or production cost of stocks and their replacement cost is not material

12 DEBTORS

	Group		Company	
	28 February 2007	28 February 2006	28 February 2007	28 February 2006
	£	£	£	£
Due within one year				
Trade debtors	72,233	532,569	–	540
Credit card debtors	80,668	584,853	–	–
Amounts owed by subsidiary undertakings	–	–	2,575,821	399,576
Other debtors	240,092	105,665	152,904	10,249
Prepayments and accrued income	107,181	96,532	34,088	1,962
	500,174	1,319,619	2,762,813	412,327
Due in more than one year				
Other debtors	182,318	49,677	117,500	–
Total debtors	682,492	1,369,296	2,880,313	412,327

for the year ended 28 February 2007

Group

The other debtors falling due after more than one year are made up of

- £117,500 – a rent deposit for the Group's premises at 31 Vernon Street, London W14 0RN
- £64,818 in respect of deferred tax assets, as below

	28 February 2007 Deferred tax asset £	28 February 2006 Deferred tax asset £
Balance brought forward	24,679	13,037
Transfer from profit and loss account	40,139	11,642
Balance carried forward	64,818	24,679
The deferred tax asset is		
On accelerated capital allowances	734	(1,777)
On tax losses carried forward	64,084	26,456
	64,818	24,679

13 CREDITORS

	Group		Company	
Amounts falling due within one year	28 February 2007 £	28 February 2006 £	28 February 2007 £	28 February 2006 £
Bank overdraft	10,575	1,144	–	–
Trade creditors	241,359	435,499	94,052	29,772
Amounts due to subsidiary undertakings	–	–	14,337,876	13,739,715
Corporation tax	133,675	291,691	111,678	–
Other taxation and social security	63,145	90,288	11,607	–
Obligations under finance leases and hire purchase contracts	4,488	8,762	–	–
Other creditors	275,271	29,406	–	–
Accruals and deferred income	255,241	696,351	11,983	17,055
	983,754	1,553,141	14,567,196	13,786,542

Obligations under finance leases and hire purchase contracts disclosed above are secured on the related assets

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 28 February 2007

14 CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	28 February 2007 £	28 February 2006 £	28 February 2007 £	28 February 2006 £
Obligations under finance leases and hire purchase contracts	16,889	25,651	–	–

Obligations under finance leases and hire purchase contracts are repayable by installments as follows

	Group		Company	
	28 February 2007 £	28 February 2006 £	28 February 2007 £	28 February 2006 £
Due between one and two years	8,761	8,762	–	–
Due between two and five years	8,128	16,889	–	–
	16,889	25,651	–	–

15 PROVISIONS FOR LIABILITIES AND CHARGES

	Group		Company	
	28 February 2007 £	28 February 2006 £	28 February 2007 £	28 February 2006 £
Balance brought forward	61,371	–	–	–
Transfer (to) / from profit and loss account	(21,844)	61,371	–	816
Balance carried forward	39,527	61,371	–	816

The provision for deferred tax is in respect of accelerated capital allowances

for the year ended 28 February 2007

16 FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise cash and short term deposits. The main purpose of these financial instruments is to provide finance for the Group's operations. The Group has various other financial instruments, such as trade debtors and trade creditors that arise directly from its operations.

The Group has taken advantage of the exemption to exclude short term debtors and creditors from the disclosures given below other than in respect of currency exposures.

	Financial assets 2007			Financial liabilities 2007			Net financial assets/(liabilities)		
	Fixed rate £	Floating rate £	Non interest-bearing £	Total £	Fixed rate £	Floating rate £	Non interest-bearing £	Total £	2007 Total £
Cash and short-term deposits	-	1,405,890	850,321	2,256,211	-	-	-	-	2,256,211
Bank overdraft	-	-	-	-	-	(10,575)	-	(10,575)	(10,575)
Other financial liabilities	-	-	-	-	(25,649)	-	-	(25,649)	(25,649)
	-	1,405,890	850,321	2,256,211	(25,649)	(10,575)	-	(36,224)	2,219,987

Financial assets 2006			Financial liabilities 2006			Net financial assets/(liabilities)			
Fixed rate £	Floating rate £	Non interest bearing £	Total £	Fixed rate £	Floating rate £	Non interest-bearing £	Total £	2006 Total £	
Cash and short-term deposits	-	3,381,730	752,859	4,134,589	-	-	-	-	4,134,589
Bank overdraft	-	-	-	-	-	(1,144)	-	(1,144)	(1,144)
Other financial liabilities	-	-	-	-	(34,411)	-	-	(34,411)	(34,411)
	-	3,381,730	752,859	4,134,589	(34,411)	(1,144)	-	(35,555)	4,099,034

It is the Group's policy to limit foreign currency exposure by using financial instruments whenever they are appropriate. No derivative contracts were entered into during the current year. It is the Group's policy that no trading in financial instruments should be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised as follows:

Interest rate risk

The Group's policy on managing its exposure to interest rate change is agreed at Board level and reviewed on an ongoing basis. At the year end there was a small overdraft with a variable rate of interest at LIBOR plus 2%.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 28 February 2007

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility. The Group's policy is to manage working capital so as to ensure that liquidity is maintained so as to meet peak funding requirements.

Foreign currency risk

The Group does not enter into hedging transaction to limit the exposure of foreign currency fluctuations. The Group does operate bank accounts in US Dollar and Euro to receive income and make payments from, and therefore employs a natural hedge against the US Dollar and Euro.

The table below shows the Group's currency exposures, i.e. those transactional (or non-structural) exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or functional) currency of the operating unit involved.

As at 28 February 2007, these currency exposures were as follows:

	2007 £	2006 £
US Dollar	3,684	(124)
Euro	551,224	301,692
	554,908	301,568

Borrowing facilities

The Group has not arranged a borrowing facility as at the balance sheet date.

17 SHARE CAPITAL

Group and Company	28 February 2007 £	28 February 2006 £
Authorised		
100,000,000 ordinary shares of £0.05 each	5,000,000	5,000,000
	5,000,000	5,000,000
Allotted, issued and fully paid		
	28 February 2007 £	28 February 2006 £
At 1 March	973,529	–
Subscriber shares	–	2
Issue of additional shares		
Share for share agreement	–	834,640
AIM listing	–	138,887
Allotted under share option scheme (333,172 shares)	16,659	–
Allotted on acquisition of the 49% minority interest in Onshare Limited (3,942,134 shares)	197,106	–
At 28 February	1,187,294	973,529

for the year ended 28 February 2007

18 SHARE BASED PAYMENTS

Share Option Plans

The Z GROUP plc EMI Share Option Plan and the Z GROUP plc Executive Unapproved Share Option Plan were both introduced in June 2005. Under the schemes the board of Directors of Z GROUP plc can grant options over shares in the Company to Directors and employees of the Group. Options are typically granted at a fixed price equal to the market price of the shares under option at the date of grant. The contractual life of the option is 10 years. Awards under the scheme are reserved for employees who are deemed to be critical to the future success of the Group. The vesting period of the options typically is for 1 year or 3 years. Exercise of an option is subject to continued employment. The differences between the two schemes are relatively minor: the main difference is in the definition of an eligible employee – in the EMI scheme you have to be a full-time employee, whereas part-time employees can become members of the unapproved scheme. Options issued under both schemes were valued using the Black-Scholes option-pricing model. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	21 June 2005	21 June 2005	21 June 2005	21 June 2005
Share price at grant date	108 0p	108 0p	108 0p	108 0p
Exercise price	108 0p	55 0p	22 0p	13 0p
Number of option holders	10	4	1	1
Share options granted	266,198	194,052	135,510	240,100
Vesting period (years)	1 0	1 0	1 0	1 0
Expected volatility	37 1%	37 1%	37 1%	37 1%
Option life (years)	10	10	10	10
Expected life (years)	3 1	2 7	5 0	5 0
Risk Free rate	4 9%	4 9%	4 9%	4 9%
Expected dividends expressed as a dividend yield	0%	0%	0%	0%
Fair value per option	33 9p	61 7p	90 8p	97 8p

Grant date	2 June 2005	1 November 2005	30 December 2005	15 December 2006
Share price at grant date	108 0p	129 5p	100 5p	63 5p
Exercise price	5 0p	121 0p	121 0p	63 5p
Number of option holders	1	5	2	1
Share options granted	480,200	78,923	24,793	47,244
Vesting period (years)	1 0	3 0	3 0	0 5
Expected volatility	37 1%	51 9%	53 2%	47 2%
Option life (years)	10	10	10	10
Expected life (years)	3 0	3 3	3 0	3 0
Risk Free rate	4 9%	4 9%	4 9%	4 9%
Expected dividends expressed as a dividend yield	0%	0%	0%	0%
Fair value per option	103 7p	56 2p	34 3p	23 3p

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 28 February 2007

Grant date	15 December 2006	15 December 2006
Share price at grant date	63 5p	63 5p
Exercise price	63 5p	63 5p
Number of option holders	1	1
Share options granted	157,480	50,000
Vesting period (years)	0.7	1.0
Expected volatility	47.2%	47.2%
Option life (years)	10	10
Expected life (years)	3.0	5.0
Risk Free rate	4.9%	4.9%
Expected dividends expressed as a dividend yield	0%	0%
Fair value per option	23.3p	30.1p

The expected volatility is based on the historic volatility from 21 June 2005, the date Z GROUP plc was admitted onto AIM, to the date of the grant concerned. The expected volatility of options granted at the date of the float was derived by taking an average of historic share price volatility of a listed technology company of equivalent size to Z GROUP plc and Z GROUP plc's subsequent share price volatility.

A reconciliation of option movements over the year to 28 February 2007 follows:

	2007 Number	2007 Weighted average exercise price	2006 Number	2006 Weighted average exercise price
Outstanding at 1 March	1,532,655	48.4p	–	–
Granted	254,724	63.5p	1,532,655	48.4p
Forfeited	(113,079)	121.8p	–	–
Exercised	(333,172)	15.7p	–	–
Outstanding at 28 February	1,341,128	53.2p	1,532,655	48.4p
Exercisable at 28 February	–	–	–	–

The total charge in the profit and loss account is £344,071 (2006: £739,978).

19 MOVEMENTS IN EQUITY AND IN THE SHARE PREMIUM ACCOUNT

	Shares in issue	Exercise price £	Equity £	Share Premium Account £
At 1 March 2006	19,470,573		973,529	2,322,461
Issue of equity on exercise of options	333,172	0.157	16,659	35,744
Issue of equity to purchase the 49% minority interest in Onshare Limited	3,942,134	0.965	197,106	3,607,053
Credit on share issue expenses				2,500
At 28 February 2007	23,745,879		1,187,294	5,967,758

333,172 share options were exercised during the year at an average exercise price of approximately 15.7 pence per share. As the nominal value is 5 pence per share, this has given rise to a share premium on exercised options of approximately 10.7 pence per share.

for the year ended 28 February 2007

20 RESERVES

	Share Premium account £	Merger reserve £	Share based payments reserve £	Profit and loss account £	Total £
GROUP					
1 March 2006, as originally stated	2,322,461	1,065,741	–	1,036,070	4,424,272
Prior year adjustment share based payment charge	–	–	739,978	(739,978)	–
1 March 2006, as restated	2,322,461	1,065,741	739,978	296,092	4,424,272
Premium on shares issued in the period	3,642,797	–	–	–	3,642,797
Credit on share issue expenses	2,500	–	–	–	2,500
Share option charge in the year	–	–	344,071	–	344,071
Retained loss for the period	–	–	–	(1,010,953)	(1,010,953)
28 February 2007	5,967,758	1,065,741	1,084,049	(714,861)	7,402,687
COMPANY					
1 March 2006, as originally stated	2,322,461	–	–	(16,432)	2,306,029
Prior year adjustment share based payment charge	–	–	739,978	(739,978)	–
1 March 2006, as restated	2,322,461	–	739,978	(756,410)	2,306,029
Premium on shares issued in the period	3,642,797	–	–	–	3,642,797
Credit on share issue expenses	2,500	–	–	–	2,500
Share option charge in the year	–	–	344,071	–	344,071
Retained loss for the period	–	–	–	(632,269)	(632,269)
28 February 2007	5,967,758	–	1,084,049	(1,388,679)	5,663,128

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 28 February 2007

21 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	28 February 2007	28 February 2006
GROUP		
(Loss) / profit for the period	(1,010,953)	88,368
Issue of shares	3,856,562	3,000,002
Share issue expenses	2,500	(538,651)
Share option reserve	344,071	739,978
Net addition to shareholders' funds	3,192,180	3,289,697
Opening shareholders' funds	5,397,801	2,108,104
Closing shareholders' funds	8,589,981	5,397,801
COMPANY		
Loss for the period	(632,266)	(756,410)
Issue of shares	3,856,562	3,000,002
Share issue expenses	2,500	(538,651)
Share option reserve	344,071	739,978
Net addition to shareholders' funds	3,570,867	2,444,919
Opening shareholders' funds	3,279,555	834,636
Closing shareholders' funds	6,850,422	3,279,555

22a RECONCILIATION OF OPERATING (LOSS) / PROFIT TO NET CASH (OUTFLOW) / INFLOW FROM OPERATING ACTIVITIES

	Year ended 28 February 2007 £	Year ended 28 February 2006 (restated) £
Operating (loss) / profit	(1,176,592)	287,585
Depreciation	122,655	79,271
Amortisation	43,611	5,998
Share option expense	344,071	739,978
Foreign exchange movement	2,360	—
Decrease / (increase) in stocks	7,839	(64,222)
Decrease / (increase) in debtors	685,990	(1,236,538)
(Decrease) / increase in creditors & provisions	(248,052)	426,078
Net cash (outflow) / inflow from operating activities	(218,118)	238,150

for the year ended 28 February 2007

22b ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW

	Year ended 28 February 2007 £	Year ended 28 February 2006 £
Returns on investments and servicing of finance		
Bank interest received	104,354	113,591
Bank interest paid	(267)	–
Interest paid on finance leases	(2,642)	(2,642)
Net cash inflow for returns on investment and servicing of finance	101,445	110,949
Capital expenditure and financial investment		
Purchase of tangible fixed assets	319,307	224,146
Purchase of intangible fixed assets	1,208,012	866,243
Net cash outflow for capital expenditure and financial investment	1,527,319	1,090,389
Financing		
Issue of share capital	52,403	2,461,350
Credit on issue of share expenses	2,500	–
Capital element of finance lease payments	(8,762)	(8,762)
Net cash inflow from financing	46,141	2,452,588

22c ANALYSIS OF NET FUNDS

	At 28 February 2006 £	Cash Flow £	At 28 February 2007 £
Cash at Bank	4,134,589	(1,878,378)	2,256,211
Overdraft	(1,144)	(9,431)	(10,575)
	4,133,445	(1,887,809)	2,245,636
Finance Leases	(34,411)	8,762	(25,649)
	4,099,034	(1,879,047)	2,219,987

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 28 February 2007

23 COMMITMENTS UNDER OPERATING LEASES

At 28 February 2007, the Group had annual commitments under non-cancellable operating leases as follows

	28 February 2007 £	28 February 2006 £
Plant and machinery		
Expiring in less than one year	252,632	72,599
Expiring between one and two years	160,648	-
Expiring between two and five years	-	353,631
	413,280	426,230
Land and buildings		
Expiring in less than one year	-	28,000
Expiring between one and two years	-	-
Expiring between two and five years	200,000	-
	200,000	28,000

At 28 February 2007, the Group had an agreement in place to sub-let part of its premises at 31 Vernon Street, London W14 0RN for £2,200 per quarter with a notice period of 3 months

24 RELATED PARTY TRANSACTIONS

The Group has taken advantage of the exemptions conferred by Financial Reporting Standard 8 from the requirement to make disclosure concerning transactions with entities that are owned 90% or more within the Group

Onshare Limited, a fellow subsidiary undertaking, was only 51% owned by Z GROUP plc until 15 December 2006. Between 1 March 2006 and 14 December 2006, £307,490 was lent by Z GROUP plc to Onshare Limited as working capital and £99,750 of recharges were passed from Z GROUP plc to Onshare Limited in the same period.

During the year rent totalling £16,875 (2006 £64,613) was paid to Claydon Heeley Jones Mason Limited, of which Jon Claydon is a Director and controlling shareholder.

During the year Directors' fees of £18,000 (2006 £12,750) were paid to Computer Marketing Services Limited of which Ian Smith is a Director and controlling shareholder. During the year Directors' fees of £40,000 (2006 £24,374) were paid to Standen Consult Limited of which John Standen is a Director and controlling shareholder.

25 TRANSACTIONS WITH DIRECTOR

The Group had advanced a loan to an employee who subsequently became a Director, as follows

	28 February 2007 £	28 February 2006 £
J Slater	-	25,000

The above loan was fully paid off during the financial year ended 28 February 2007.

£25,000 was advanced to Jonathan Slater on 8 July 2005 preceding his appointment as a Director. The loan was fixed for a period of 13 months, after which the loan became repayable on demand. The loan was interest-free and was unsecured.

Z GROUP plc

The Annual General Meeting of Z GROUP plc will be held at 31 Vernon Street, London W14 0RN, on 30 July 2007 at 11 30am. The business of the meeting will be as follows

ORDINARY BUSINESS

To consider and, if thought fit, pass the following Resolutions which will be proposed as Ordinary Resolutions

Resolution 1

THAT the Directors' Report and Accounts for the period ended 28 February 2007, together with the Auditors' Report thereon, be received and adopted

Resolution 2

THAT the Directors' Remuneration Report as set out in the Annual Report and Accounts 2007 be approved

Resolution 3

THAT Jack Bekhor, who retires in accordance with the Company's Articles of Association and who being eligible, offers himself for re-election, be re-elected as a Director

Resolution 4

THAT Duncan John Neale be elected as a Director of the Company

Resolution 5

THAT Jonathan Richard Marston Slater be elected as a Director of the Company

Resolution 6

THAT Polly Ann Williams be elected as a Director of the Company

Resolution 7

THAT Baker Tilly UK Audit LLP be re-appointed as auditors of the Company from the conclusion of this meeting until the conclusion of the next Annual General Meeting at which accounts are laid before shareholders in accordance with the provisions of the Companies Act 1985 (the "Act"), and that their remuneration be fixed by the Board

SPECIAL BUSINESS

To consider and if thought fit, (and subject in the case of resolution 9 to the passing of resolution 8) pass the following resolutions which in the case of resolution 8 will be proposed as an ordinary resolution and in the case of resolution 9 will be proposed as a special resolution

Resolution 8

THAT the Directors of the Company be and are hereby generally and unconditionally authorised in accordance with Section 80 of the Act (in substitution for all existing authorities under the said Section 80) to exercise all the powers of the Company to allot relevant securities (within the meaning of the said Section 80) up to a nominal value of £466,668 provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (or if earlier, the date which is 15 months from the date of passing of this resolution) and provided further that the Company may, before such expiry, make any offers or agreements which would or might require relevant securities to be allotted after such expiry

Resolution 9

THAT the Directors of the Company be and are hereby empowered pursuant to Section 95(1) of the Act to allot equity securities (within the meaning of Section 94(2) of the Act) for cash as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to

NOTICE OF ANNUAL GENERAL MEETING

Z GROUP plc

- a the allotment of equity securities in connection with a rights issue in favour of the holders of ordinary shares (notwithstanding that, by reason of such exclusions or other arrangements as the Directors may deem necessary or desirable to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory, the equity securities to be issued are not offered to all such holders in proportion to the number of ordinary shares held by each of them), and
- b the allotment (otherwise than pursuant to paragraph (a) above) of equity securities up to an aggregate nominal value of £118,729

and shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (or, if earlier the date which is 15 months from the date of passing of this resolution), save that the Company may before such expiry make any offers or agreements which would or might require equity securities to be allotted after such expiry

By order of the Board

Duncan Neale
Company Secretary

31 Vernon Street
London W14 0RN

NOTES

- 1 The Articles of the Company require one third of the Directors to retire each year and seek re-election at the AGM. Jack Bekhor volunteered to retire this year and the Board recommends his re-election by shareholders
- 2 The articles of association of the Company require that any Director appointed since the last Annual General Meeting of the Company has his or her appointment ratified by shareholders at the Company's next Annual General Meeting. This is the case with both Mr Neale, Mr Slater and Mrs Williams who offer themselves for election. The Board recommends these elections by shareholders
- 3 A member of the Company entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote on his or her behalf. A proxy need not also be a member. Completion and return of a Form of Proxy will not preclude a member from attending and voting at the meeting should the member so decide
- 4 To be valid, the enclosed Form of Proxy must be completed and returned so as to reach the Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU by 11 30 am on 28 July 2007
- 5 To be entitled to attend and vote at the Annual General Meeting (and for the purpose of determining the number of votes a member may cast), members must be entered on the Register of Members of the Company by 5 00 pm on 28 July 2007
- 6 The following documents will be available for inspection during normal business hours at the Company's registered office up until the date of the Annual General Meeting and at the place of the meeting from 11 30 am on 30 July 2007 until the end of the meeting
 - i the audited consolidated accounts of the Company for the financial period ended 28 February 2007,
 - ii copies of Directors' service contracts and letters of appointment, in each case, with the Company,
 - iii the Register of Directors' interests in the capital of the Company, and
 - iv a copy of the Memorandum and Articles of Association of the Company

FORM OF PROXY

Z GROUP plc

For use at the Annual General Meeting to be held at 31 Vernon Street, London W14 0RN on 30 July 2007 at 11 30 am

I/We (BLOCK CAPITALS PLEASE)

of (ADDRESS)

being (a) member(s) of Z GROUP plc hereby appoint the Chairman of the meeting*

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at 31 Vernon Street, London W14 0RN on 30 July 2007 at 11 30 am and at any adjournment thereof

I/we wish my/our proxy to vote in respect of the resolutions to be proposed at the Annual General Meeting as indicated below**

Ordinary Business	VOTE			
	FOR**	AGAINST**	WITHHELD**	DISCRETIONARY**
1 To receive and adopt the Accounts and Directors' and Auditors' Reports of the Company for the year ended 28 February 2007				
2 To approve the Directors' Remuneration Report				
3 To re-elect Mr Jack Bekhor as a Director				
4 To elect Mr Duncan John Neale as a Director				
5 To elect Mr Jonathan Richard Marston Slater as a Director				
6 To elect Mrs Polly Ann Williams as a Director				
7 To re-appoint Baker Tilly UK Audit LLP as Auditors				
Special Business				
8 To authorise the Directors to allot relevant securities up to an aggregate nominal value of £466,667				
9 To authorise the Directors to allot equity securities up to an aggregate nominal value of £118,729				

If this form is signed and returned without any indication as to how the proxy shall vote, he will exercise his discretion as to both how he votes (including as to any amendments to the resolutions) and whether or not he abstains from voting

Signature

Date

NOTES

* You may, if you wish, delete the words "the Chairman of the meeting" and insert here the names(s) of the person(s) of your choice, who need not be a member of the Company, to attend and vote at the Annual General Meeting on your behalf

** Please indicate how you wish your proxy to vote by inserting "X" in one of the boxes below against each resolution. If you select "discretionary" or fail to select any of the options, your proxy can vote as he or she chooses or can decide not to vote. The "vote withheld" option is provided to enable you to abstain on any particular resolution. However, it should be noted that this will not be calculated in the proportion of the votes "for" and "against" a resolution.

To be valid this form must be lodged at the offices of Capita Registrars, 34 Beckenham Road, Beckenham Kent BR3 4TU not less than 48 hours before the time of the Annual General Meeting. Completion and return of this form shall not preclude a member from attending and voting at the Annual General Meeting or at any adjournment thereof.

A corporation must have this form executed under its common seal (or such form of execution as has the same effect) or on its behalf by an attorney or a duly authorised Officer of the corporation.

If this form is executed under a power of attorney or other authority, the original power of attorney or notarially certified copy thereof must be lodged at the offices of Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU together with this form.

In the case of joint holders, any one holder may sign but if more than one votes, the vote of the first named on the register of members will be accepted to the exclusion of the other joint holders.

2

Second side

Business Reply Service
Licence Number
MB 122



/ Capita Reistrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

First side

Third side and back

1

ADVISERS

SECRETARY

Duncan Neale

REGISTERED OFFICE

31 Vernon Street
London W14 0RN

AUDITORS

Baker Tilly UK Audit LLP
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

PRINCIPAL BANKERS

Barclays Bank Plc
1 Churchill Place
London E14 5HP

NOMINATED ADVISER AND BROKER

Teather & Greenwood Limited
Beaufort House
15 St Botolph Street
London EC3A 7QR

REGISTRARS

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU