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ZEST GROUP PLC (now known as
RARE EARTH MINERALS PLC)
ANNUAL REPORT

FOR THE YEAR ENDED

30 SEPTEMBER 2010

Company No 05234262

ZEST GROUP PLC

COMPANY INFORMATION

For the year ended 30 September 2010

Company registration number	05234262
Registered office	Princes House Suite 3B 38 Jermyn Street London SW1Y 6DN
Directors	Richard Griffiths (Executive Chairman) David Lenigas (Non-executive Director)
Secretary	Donald Strang
Nominated adviser and Nominated broker	W H Ireland Limited 24 Martin Lane London EC4R 0DR
Registrars	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen West Midlands B63 3DA
Bankers	Coutts & Co 440 Strand London WC2R 0QS
Solicitors	Marrriott Harrison Staple Court 11 Staple Inn Buildings London WC1V 7QH
Auditors	Grant Thornton UK LLP Registered Auditor Chartered Accountants Enterprise House 115 Edmund Street Birmingham B3 2HJ

ZEST GROUP PLC

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For the year ended 30 September 2010

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ZEST GROUP PLC

CHAIRMAN'S STATEMENT

For the year ended 30 September 2010

I present the results of the Group for the year ended 30 September 2010

Zest Group Plc ("Zest" or the "Company") announced on 12 November 2010 that it was proposing to change its name and adopt a new Investing Policy ("Proposed Investing Policy") A Circular to Shareholders setting out details of a proposed change in its Investing Policy and proposed Name Change was sent to all company shareholders

The General Meeting ("GM") is to be held on 29 November 2010 to adopt the Proposed Investing Policy, as set out below, and change the Company's name to Rare Earth Minerals Plc

Background

The Company was formed to build a music business by acquiring new artists together with their music publishing rights and acquiring recording and publishing companies The Company has made progress in developing its business objectives as set out in its Admission Document However, in the six months to 31 March 2010 the Company reported a loss before taxation of £194,000 and further reported that it was reliant on external funding The Directors have therefore come to the conclusion that whilst Zest's existing business may be able to deliver some value (and will be retained) it does not form the basis of a sustainable business for a publicly traded company Accordingly, the Directors believe that it is in the Company's interests to adopt a new strategy for the development of the Company as an investing company and to take advantage of opportunities outside of the music industry and also draw on the experience and success of Mr Lenigas in the natural resources sector as a means of establishing greater shareholder value, further details of which are set out below

As an investing company, Zest will be required to make an acquisition or acquisitions which constitute a reverse takeover under the AIM Rules or otherwise implement its Proposed Investing Policy on or before the date falling twelve months from the adoption of the Proposed Investing Policy, failing which, the Company's Ordinary Shares would then be suspended from trading on AIM In the event the Company's Ordinary Shares are so suspended and the Company fails to obtain Shareholders' consent to renew such policy, the admission to trading on AIM of the Ordinary Shares would be cancelled six months from the date of suspension and the Directors will convene a general meeting of the Shareholders to consider whether to continue seeking investment opportunities or to wind up the Company and distribute any surplus cash back to Shareholders In making the assessment of whether or not an investing company has substantially implemented its investing policy, this is normally considered to mean that the investing company has invested a substantial portion (usually at least in excess of 50 per cent) of all funds available to it , including funds available through agreed debt facilities, in accordance with its investing policy

Proposed Investing Policy

The Company's proposed change in strategy and Proposed Investing Policy, which is subject to shareholder approval, is to acquire a diverse portfolio of direct and indirect interests in exploration and producing Rare Earth Minerals and/or Metals projects and assets In light of the nature of the assets and projects which will be the focus of the Proposed Investing Policy, the Company will consider investment opportunities anywhere in the world

The Directors have considerable experience investing, both in structuring and executing deals and in raising funds Further details of the Directors' expertise are set out below The Directors will use this experience to identify and investigate investment opportunities, and to negotiate acquisitions Wherever necessary the Company will engage suitably qualified technical personnel to carry out specialist due diligence prior to making an acquisition or an investment For the acquisitions which they expect the Company to make, the Directors may adopt earn-out structures, with specific performance targets being set for the sellers of the businesses acquired, and with suitable metrics applied

The Company may invest by way of outright acquisition or by the acquisition of assets, including the intellectual property, of a relevant business, partnerships or joint venture arrangements Such investments may result in the

ZEST GROUP PLC

CHAIRMAN'S STATEMENT

For the year ended 30 September 2010

Company acquiring the whole or part of a company or project (which in the case of an investment in a company may be private or listed on a stock exchange, and which may be pre-revenue), and such investments may constitute a minority stake in the company or project in question. The Company's investments may take the form of equity, joint venture, debt, convertible instruments, licence rights, or other financial instruments as the Directors deem appropriate.

The Company may be both an active and a passive investor depending on the nature of the individual investments in its portfolio. Although the Company intends to be a long-term investor, the Directors will place no minimum or maximum limit on the length of time that any investment may be held.

There is no limit on the number of projects into which the Company may invest, nor the proportion of the Company's gross assets that any investment may represent at any time and the Company will consider possible opportunities anywhere in the world.

The Directors may offer new Ordinary Shares by way of consideration as well as cash, thereby helping to preserve the Company's cash for working capital and as a reserve against unforeseen contingencies including by way of example, and without limit, delays in collecting accounts receivable, unexpected changes in the economic environment and unforeseen operational problems. The Company may in appropriate circumstances, issue debt securities or otherwise borrow money to complete an investment. There are no borrowing limits in the Articles. The Directors do not intend to acquire any cross-holdings in other corporate entities that have an interest in the Ordinary Shares.

There are no restrictions in the type of investment that the Company might make nor on the type of opportunity that may be considered other than set out above.

As the Ordinary Shares are traded on AIM this provides a facility for Shareholders to realise their investment in the Company. The attention of Shareholders is drawn to "Risk Factors" set out below. In addition, the Directors may consider from time to time other means of facilitating returns to Shareholders including dividends, share repurchases, demergers, and schemes of arrangements or liquidation.

The Company will provide an update on its investing activities at the same time that it publishes its audited annual results for the year ending 30 September 2011 and as otherwise required by the AIM Rules. The Company has no current plans to publish any regular estimate of net asset value or updates on the investments.

Name Change

In accordance with article 104 of the Articles, the Directors have passed a resolution to change the name of the Company to Rare Earth Minerals Plc conditional upon the passing of the Resolution by the Shareholders to adopt the Proposed Investing Policy.

Subject to the change of name of the Company becoming effective, the new website address of the Company will be www.rareearthmineralsplc.com

Risk Factors

Any investment by the Company as part of the Proposed Investing Policy will carry a high degree of risk. These risks and uncertainties are not the only ones facing the Company and additional risks and uncertainties not presently known or which are currently deemed immaterial may also have a material adverse effect on the Company's business, results of operations or financial condition.

ZEST GROUP PLC

CHAIRMAN'S STATEMENT

For the year ended 30 September 2010

If any or a combination of the risks materialise, the Company's business, financial condition, operational performance and share price could be materially and adversely affected to the detriment of the Company and the Shareholders

GM Business

The business to be considered at the GM is as follows

Adoption of the Proposed Investing Policy – to be proposed as an Ordinary Resolution

We are asking Shareholders to approve and adopt the Proposed Investing Policy. In particular, the Company is seeking the authority of Shareholders to acquire direct and indirect interests in exploration, development and producing Rare Earth Minerals and/or Metals projects and assets. In light of the nature of the assets and projects which will be the focus of the Proposed Investing Policy the Company will consider investment opportunities anywhere in the world. The intention is to acquire a widely distributed mix of Rare Earth Minerals and Metals development and producing assets.

If the Resolution is passed and the Proposed Investing Policy is adopted, the name of the Company will change to Rare Earth Minerals Plc.

FINANCIAL RESULTS

The Group's loss for the year is £284,000 (2009 £283,000)

OUTLOOK

The Board considers that the Resolution for the adoption of the Proposed Investing Policy is in the best interests of the Company and its Shareholders as a whole. The Board will be voting in favour of the Resolution and they unanimously recommend that Shareholders should vote in favour of it as well.

The Board acknowledges this exciting period for the Company as it proceeds to change its investment strategy this year and commence evaluating new investment opportunities as they arise.

The Directors would like to take this opportunity to thank our shareholders for their continued support.

Richard Griffiths

Executive Chairman

19 November 2010

ZEST GROUP PLC

REPORT OF THE DIRECTORS

For the year ended 30 September 2010

The Directors present their annual report together with the audited consolidated financial statements of the Group for the year ended 30 September 2010

Principal activity

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

Domicile and principal place of business

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

Business review

The results of the Group are shown on page 16. The directors do not recommend the payment of a dividend

A review of the performance of the Group and its future prospects is included in the Chairman's Statement on pages 1 to 3

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

The Group's key performance indicators were unit sales for recording artists and publishing sales. Due to the sale of the Greensleeves business in the year ended 30 September 2008, the Directors have ceased to use these key performance indicators. Moving forward the KPIs will be reassessed depending upon the acquisitions completed

Financial risk management objectives and policies

The Group's principal financial instrument comprises cash at bank. The main purpose of this financial instrument is to fund the Group's operations

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

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of equity and its cash resources. Further details of this are provided in the principal accounting policies, headed 'going concern' and note 12 to the financial statements

Interest rate risk

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

Directors

The membership of the Board is set out below. All directors served throughout the year unless otherwise stated

David Lenigas (appointed 27 January 2010)
Richard Griffiths
Steve Weltman (resigned 13 October 2010)

ZEST GROUP PLC

REPORT OF THE DIRECTORS

For the year ended 30 September 2010

Substantial shareholdings

Interests in excess of 3% of the issued share capital of the Company which had been notified as at 4 November 2010 were as follows

	Ordinary shares of 1p each Number	Percentage of capital %
Bruce Rowan Esq	100,000,000	11.19
Simplystockbroking Nominees Limited	74,783,333	8.37
Corporate Services (TD Waterhouse) Nominees Limited	73,091,667	8.18
Redmayne (Nominees) Limited	50,360,310	5.64
Barclayshare Nominees Limited	49,957,811	5.59
Minosa International Limited	46,666,667	5.22
TD Waterhouse Nominees (Europe) Limited	42,275,829	4.73
Worldwide Nominees Limited	34,966,667	3.91
Pershing Nominees Limited	29,035,417	3.25
JIM Nominees Limited	28,704,229	3.21
FITEL Nominees Limited	27,650,003	3.09
HSDL Nominees Limited	27,469,067	3.07

Payment to suppliers

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

Trade creditors for the Group and the Company at the year end amount to 36 days of average supplies for the year (2009: 68 days).

ZEST GROUP PLC

REPORT OF THE DIRECTORS

For the year ended 30 September 2010

Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). The financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to

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

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the Directors are aware

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditors

Grant Thornton UK LLP, offer themselves for re-appointment as auditor in accordance with Section 489 of the Companies Act 2006.

ON BEHALF OF THE BOARD



David Lenigas
Director
Date 19 November 2010

ZEST GROUP PLC

CORPORATE GOVERNANCE

For the year ended 30 September 2010

Directors

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

The Board consists of two Directors, who hold the key operational positions in the Company. The Chairman of the Board is Richard Griffiths and the Group's business is run by David Lenigas.

Relations with shareholders

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

Internal control

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

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

Going concern

The Directors note the substantial losses that the Group has made for the year ended 30 September 2010 and the net liabilities position at that date. The Directors have prepared cash flow forecasts for the period ending 31 March 2012 which take account of the current cost structure of the Group, which is significantly reduced from the cost structure in the year ended 30 September 2010, and the post 30 September 2010 equity issue which raised £630,000 before share issue costs. These forecasts demonstrate that the Group has sufficient finance facilities available to allow it to continue in business for a period of at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

ZEST GROUP PLC

REPORT ON REMUNERATION

For the year ended 30 September 2010

Directors' remuneration

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

Policy on executive Directors' remuneration

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

The remuneration of the Directors was as follows

	J Crawley £	R Griffiths £	S Weltman £	D Lenigas	Total £
Year ended 30 September 2010					
Salary and fees	-	-	56,994	-	56,994
Benefits in kind/allowances	-	-	15,060	-	15,060
Loss of office	-	-	30,000	-	30,000
Total	-	-	102,054	-	102,054
Year ended 30 September 2009	2,250	-	130,060	-	132,310

S Weltman resigned as a Director on 13 October 2010

D Lenigas was appointed as Director on 27 January 2010

J Crawley resigned as a Director on 27 July 2009

Pensions

S Weltman was entitled to pension contributions of 15% of his basic salary per annum. The amount accrued in 2009 of £20,000 has not been paid. No other director is entitled to pension contributions.

Benefits in kind

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

Bonuses

No amounts were payable for bonuses in respect of the year ended 30 September 2010 or the year ended 30 September 2009.

ZEST GROUP PLC

REPORT ON REMUNERATION

For the year ended 30 September 2010

Notice periods

David Lenigas and Richard Griffiths have a 12 months rolling notice period

Share option incentives

At 30 September 2010 the following options were held by the Directors

	Date of grant	Exercise price	Number of options
R Griffiths	7 March 2005	3p	1,275,000
	6 March 2006	3p	1,275,000
	28 January 2010	0 5p	<u>14,000,000</u>
			<u>16,550,000</u>
D Lenigas	28 January 2010	0 5p	<u>14,000,000</u>
			<u>14,000,000</u>

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

The high and low share price for the year were 0 44p and 0 14p respectively The share price at 30 September 2010 was 0 21p

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF ZEST GROUP PLC

We have audited the consolidated financial statements of Zest Group plc for the year ended 30 September 2010 which comprise the principal accounting policies, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

Respective responsibilities of the Directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Group's affairs as at 30 September 2010 and its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF
ZEST GROUP PLC**

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the parent Company financial statements of Zest Group plc for the year ended 30 September 2010

Grant Thornton UK LLP

David Munton
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
BIRMINGHAM

Date 19 November 2010

ZEST GROUP PLC

PRINCIPAL ACCOUNTING POLICIES

For the year ended 30 September 2010

BASIS OF PREPARATION

The Group financial statements have been prepared under the historical cost convention, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). The Company's shares are listed on the AIM market of the London Stock Exchange. Separate financial statements of Zest Group plc (the Company) have been prepared on pages 29 to 40 under the historical cost convention and in accordance with applicable accounting standards under UK GAAP.

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

GOING CONCERN

The Directors note the substantial losses that the Group has made for the year ended 30 September 2010 and the net liabilities position at that date. The Directors have prepared cash flow forecasts for the period ending 31 March 2012 which take account of the current cost structure of the Group, which is significantly reduced from the cost structure in the year ended 30 September 2010, and the post 30 September 2010 equity issue which raised £630,000 before share issue costs. These forecasts demonstrate that the Group has sufficient finance facilities available to allow it to continue in business for a period of at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

BASIS OF CONSOLIDATION

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

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

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

ZEST GROUP PLC

PRINCIPAL ACCOUNTING POLICIES

For the year ended 30 September 2010

TAXATION

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

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

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

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

FINANCIAL ASSETS

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

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

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

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

Financial assets categorised as loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest rate method.

CASH AND CASH EQUIVALENTS

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

ZEST GROUP PLC

PRINCIPAL ACCOUNTING POLICIES

For the year ended 30 September 2010

EQUITY

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

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

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

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

SHARE BASED PAYMENTS

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

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

The expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates

No adjustment is made to the expense or share issue cost recognised in prior periods if fewer share options are, ultimately exercised than originally estimated. Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of shares issued are allocated to share capital with any excess being recorded as share premium

FINANCIAL LIABILITIES

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

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

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

ZEST GROUP PLC

PRINCIPAL ACCOUNTING POLICIES

For the year ended 30 September 2010

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical judgements in applying the Group's accounting policies

Management, in applying the accounting policies which are described above, do not consider that they have had to make any critical judgements in their application other than the going concern basis of preparing the financial statements, which is detailed in the paragraph headed 'going concern'

ADOPTION OF NEW OR AMENDED IFRS

(a) New and amended standards adopted by the Group

IAS 1 (revised) 'Presentation of financial statements' (effective 1 January 2009)

The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. The change in accounting policy only impacts presentational aspects.

IAS 1 requires presentation of a comparative balance sheet as at the beginning of the first comparative period, in some circumstances. The Directors consider that this is not necessary this year because the 2008 balance sheet is the same as previously published.

IFRS 8 'Operating segments'

IFRS 8 was issued in November 2006 and has been adopted for the first time in these financial statements. The standard replaces IAS 14, 'Segment reporting', with its requirement to determine primary and secondary reporting segments. Under the requirements of the revised standard, the Group's external segment reporting will be based on the internal reporting to the Group executive board (in its function as the chief operating decision-maker), which makes the decisions on the allocation of resources and assesses the performance of the reportable segments. The application of IFRS 8 does not have any material effect for the Group, but does have an impact on segmental disclosure.

(b) Standards, amendments and interpretations to published standards effective in 2009/10 but with no significant impact on the Group's financial statements

IAS 32 (amendment)	Financial instruments Presentation
IFRS 2 (amendment)	Amendments to IFRS 2 share based payment – vesting conditions and cancellations
IFRS 7 (amendment)	Financial Instruments – Disclosures
IAS 39 (amendment)	Financial Instruments Recognition and measurement

The Directors anticipate that the adoption of new standards which are in issue but not yet effective and have not been early adopted by the Group will not result in significant changes to the Group's accounting policies except for the adoption of IFRS 3 Revised.

The adoption of IFRS 3 (revised 2008) has changed the accounting requirements for the business combinations. The most significant changes that had an impact on the Group's acquisitions in 2010 are as follows:

- acquisition-related costs of the combination are recorded as an expense in the income statement. Previously, these costs would have been accounted for as part of the cost of the acquisition.
 - the assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.
 - any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration arrangement gives rise to a financial liability, any subsequent changes are generally recognised in profit or loss. Previously, contingent consideration was recognised at the acquisition date only if its payment was probable.
- Business combinations for which the acquisition date is before 1 January 2010 have not been restated.

ZEST GROUP PLC**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 30 September 2010

	Note	2010 £'000	2009 £'000
Administrative expenses			
- (impairment) / reversal of impairment of advance payments to artists		(1)	60
- other administrative expenses		(283)	(347)
Total administrative expenses		(284)	(287)
Loss from operations		(284)	(287)
Finance income	2	-	4
Loss before taxation	1	(284)	(283)
Taxation	3	-	-
Loss for the year from continuing activities		(284)	(283)
Loss after taxation and loss attributable to the equity holders of the company		(284)	(283)
Other comprehensive income		-	-
Total comprehensive expenditure for the period		(284)	(283)
Loss per ordinary share (pence) Basic and diluted	4	(0.06)p	(0.2)p

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

ZEST GROUP PLC**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 30 September 2010

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Retained earnings £'000	Total equity £'000
At 1 October 2008	434	3,598	166	(4,059)	139
Share based payments	-	-	11	-	11
Transactions with owners	-	-	11	-	11
Loss for the year	-	-	-	(283)	(283)
Total comprehensive expenditure for the year	-	-	-	(283)	(283)
At 30 September 2009	434	3,598	177	(4,342)	(133)
Share based payments	-	-	38	-	38
Issue of share capital	30	270	-	-	300
Transactions with owners	30	270	38	-	338
Loss for the year	-	-	-	(284)	(284)
Total comprehensive expenditure for the year	-	-	-	(284)	(284)
At 30 September 2010	464	3,868	215	(4,626)	(79)

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

ZEST GROUP PLC**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

At 30 September 2010

	Note	2010 £'000	2009 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	-	1
		<u>-</u>	<u>1</u>
Current assets			
Trade and other receivables	6	17	12
Cash and cash equivalents		306	5
Total current assets		<u>323</u>	<u>17</u>
Total assets		<u>323</u>	<u>18</u>
LIABILITIES			
Current liabilities			
Trade and other payables	7	402	151
Total liabilities		<u>402</u>	<u>151</u>
EQUITY			
Share capital	9	464	434
Share premium		3,868	3,598
Share based payment reserve		215	177
Retained earnings		(4,626)	(4,342)
Total capital deficiency attributable to equity holders of the Company		<u>(79)</u>	<u>(133)</u>
Total equity and liabilities		<u>323</u>	<u>18</u>

The consolidated financial statements were approved by the Board on 19 November 2010


David Lenigas
Director

Company number 05234262

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

ZEST GROUP PLC

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 September 2010

	2010 £'000	2009 £'000
Cash flows from operating activities		
Loss after taxation	(284)	(283)
Adjustments for		
Depreciation of property plant and equipment	1	-
Equity settled share based payments	38	11
Finance income	-	(4)
(Increase)/decrease in trade and other receivables	(5)	121
Increase in trade and other payables	251	94
Net cash inflow/(outflow) from operating activities from	1	(61)
Cash flows from investing activities		
Finance income	-	4
Net cash inflow from investing activities	-	4
Cash flows from financing activities		
Proceeds from issue of share capital	300	-
Net cash inflow from financing activities	300	-
Net change in cash and cash equivalents	301	(57)
Cash and cash equivalents at 1 October	5	62
Cash and cash equivalents at 30 September	306	5

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

ZEST GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010

1 LOSS BEFORE TAXATION AND SEGMENTAL INFORMATION

Loss before taxation - continuing operations

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

The loss before taxation is stated after charging/(crediting)

	2010	2009
	£'000	£'000
Staff costs	90	146
Impairment/ (reversal of impairment) of advance payments to artists	1	(60)
Auditors' remuneration		
Fees payable to the Company auditors for the audit of the financial statements	10	15
Fees payable to the Company auditors for other services		
Taxation services	1	2
Other non audit services	-	-

Segmental information

An operating segment is a distinguishable component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about the allocation of resources and assessment of performance and about which discrete financial information is available

The chief operating decision maker reviews financial information for and makes decisions about the Group's performance as a whole, as the Group has not traded during the period

Subject to further acquisitions the Group expects to further review its segmental information during the forthcoming financial year

2 FINANCE INCOME

	2010	2009
	£'000	£'000
Bank interest receivable	-	4

ZEST GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010

3 TAXATION - CONTINUING OPERATIONS

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

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

	2010 £'000	2009 £'000
Loss before tax	<u>(284)</u>	<u>(283)</u>
Loss multiplied by standard rate of corporation tax in the UK of 28% (2009 28%)	(80)	(79)
Effect of Disallowable expenses	1	1
Deferred tax asset not recognised	<u>79</u>	<u>78</u>
Current tax charge for year	<u>-</u>	<u>-</u>

The Group has tax losses in the UK, subject to Her Majesty's Revenue and Customs approval, of approximately £3,763,000 (2009 £3,482,000) available for offset against future operating profits. The Group has not recognised any deferred tax asset in respect of these losses, which would amount to £1,016,000 (2009 £974,000) due to there being insufficient certainty regarding its recovery.

4 LOSS PER SHARE

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

	2010 £'000	2009 £'000
Loss attributable to equity holders of the Group		
Continuing operations	(284)	(283)
Discontinued operations	-	-
	<u>(284)</u>	<u>(283)</u>
	2010 Number	2009 Number
Weighted average number of shares for calculating loss per share	<u>443,208,091</u>	<u>173,619,050</u>

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

ZEST GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010

5 PROPERTY, PLANT AND EQUIPMENT

	Office equipment £'000	Computer equipment £'000	Total £'000
Cost			
At 1 October 2008, 30 September 2009 and 30 September 2010	1	4	5
Depreciation			
At 1 October 2008 and 30 September 2009	-	4	4
Charge for the year	1	-	1
At 30 September 2010	1	4	5
Net book amount at 30 September 2010	-	-	-
Net book amount at 30 September 2009 and at 30 September 2008	1	-	1

6 TRADE AND OTHER RECEIVABLES

	2010 £'000	2009 £'000
Trade receivables and advance payments to artists	474	473
Less impairment losses	(474)	(473)
	-	-
Other receivables	14	2
Prepayments and accrued income	3	10
	17	12

The movement in the impairment of receivables is as follows

	2010 £'000	2009 £'000
At 1 October	473	533
Impairment losses/(gains) recognised in the year	1	(60)
At 30 September	474	473

The fair value of these financial assets is not individually determined as the carrying amount is a reasonable approximation of fair value

ZEST GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010

7 TRADE AND OTHER PAYABLES

	2010 £'000	2009 £'000
Trade and other payables	28	65
Social security and other taxes	-	-
Other creditors	364	20
Accruals	10	66
	<u>402</u>	<u>151</u>

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

8 SHARE BASED PAYMENTS

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

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

	2010		2009	
	Number	WAEP £	Number	WAEP £
Outstanding at the beginning of the year	8,925,000	0.031	8,925,000	0.031
Outstanding at the end of the year	<u>46,925,000</u>	<u>0.010</u>	<u>8,925,000</u>	<u>0.031</u>

The share options outstanding at the end of the year have a weighted average remaining contractual life of 6.01 years (2009 6.01 years) and have the following exercise prices and fair values at the date of grant

	Grant date	Exercise price £	Fair value £	2010 Number	2009 Number
First exercise date (when vesting conditions are met)					
7 March 2010	7 March 2005	0.0300	0.019221	5,100,000	5,100,000
6 March 2010	6 March 2006	0.0325	0.020776	3,825,000	3,825,000
28 January 2013	28 January 2010	0.0050	0.0040	38,000,000	-
				<u>46,925,000</u>	<u>8,925,000</u>

ZEST GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010

8 SHARE BASED PAYMENTS (CONTINUED)

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

At 30 September 2010 8,925,000 options were exercisable

For those options granted where IFRS 2 "Share-Based Payment" is applicable, the fair values were calculated using the Black-Scholes model. The inputs into the model were as follows

	28 January 2010	6 March 2006	7 March 2005
Risk free rate	0.5%	4.75%	4.75%
Share price volatility	100%	100%	100%
Expected life	3 years	3 years	3 years
Market value at date of grant	£0.004	£0.0325	£0.03

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

The Group recognised total expenses of £38,000 (2009: £11,000) relating to equity-settled share-based payment transactions during the year

9 SHARE CAPITAL

	2010 £'000	2009 £'000
Authorised		
4,000,000,000 ordinary shares of 0.01p	400	400
4,000,000,000 deferred shares of 0.24p	9,600	9,600
4,000,000,000 ordinary shares of 0.25p	-	-
	10,000	10,000
Allotted, issued and fully paid		
173,619,050 deferred shares of 0.24p	417	417
473,619,050 ordinary shares of 0.01p (2009: 173,619,050 ordinary shares of 0.24p and 173,619,050 ordinary shares of 0.01p)	47	17
	464	434

On 6 November 2009, 300,000,000 Ordinary Shares of 0.01p were issued for a placing for cash raising £300,000. Since the year end a further 420,000,000 Ordinary Shares of 0.01p each have been issued for a placing for cash raising £630,000.

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

10 CONTINGENT LIABILITIES

There were no contingent liabilities at 30 September 2010 or 30 September 2009

ZEST GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010

11 CAPITAL COMMITMENTS

There were no capital commitments at 30 September 2010 or 30 September 2009

12 FINANCIAL INSTRUMENTS

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

Categories of financial instruments

	2010 £'000	2009 £'000
Financial assets		
Trade and other receivables - held as loans and receivables	14	2
Cash and cash equivalents - held as loans and receivables	306	5
	<u>320</u>	<u>7</u>
Financial liabilities		
Trade and other payables - held at amortised cost and payable within 30 days	<u>392</u>	<u>85</u>

The carrying amount is considered a reasonable approximation to fair value due to the short duration of these instruments.

Credit risk

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

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

	2010 £'000	2009 £'000
Trade and other receivables	<u>14</u>	<u>2</u>

ZEST GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010

12 FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

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

Maturity of financial liabilities

The trade and other payables at 30 September 2010 and 2009 are all due within less than one year

The Group repaid its bank and other loans during the year ended 30 September 2009

The directors have considered the sensitivity of interest rates to both financial assets and financial liabilities and have concluded that this is not material to the group

Capital risk management

The Group's objectives when managing capital are

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

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

The Company, in accordance with section 656 of the Companies Act 2006, should have net assets of half its called up share capital. If, as is the case at 30 September 2010, it does not meet this requirement, the Company must convene a general meeting to consider whether any, and if so what, steps should be taken to deal with the financial position. This is considered further in the Chairman's statement

13 RELATED PARTY TRANSACTIONS

Steve Weltman is a related party by virtue of the fact that he served as a director of Zest Group plc during the year ended 30 September 2010. Included within creditors at 30 September 2010 is £3,000 (2009 £nil) in respect of unpaid expenses. Included within accruals at 30 September 2010 is £nil (2009 £42,000) in respect of salary due

Zest Group plc paid £9,000 to Steve Weltman in the year to 30 September 2010 (2009 £8,500) in respect of rental of office space

Richard Griffiths is a related party by virtue of the fact that he is a director of Zest Group plc. Included within debtors at 30 September 2010 is £9,200 (2009 £nil) in respect of monies owed for an advance payment made in the year. The maximum value of advance payment in the year was £45,000 (2009 £nil)

ZEST GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010

14 EMPLOYEE REMUNERATION

Employee benefits expense

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

	2010 £'000	2009 £'000
Wages and salaries	72	117
Loss of office	30	-
Social Security costs	8	14
Share based payments	38	11
Pensions - defined contribution scheme	(20)	15
	<u>128</u>	<u>157</u>

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

2010 Number	2009 Number
<u>1</u>	<u>1</u>

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

	2010 £'000	2009 £'000
Loss of office	30	-
Salary and fees	72	102
Share based payments	38	11
Pensions - defined contribution scheme	(20)	15
	<u>120</u>	<u>128</u>

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

15 POST BALANCE SHEET EVENT

On 7 October 2010 the Company issued 420,000,000 ordinary shares of 0.01p each for £630,000 proceeds before share issue costs of £2,500, £300k of these proceeds had been received before 30 September 2010

ZEST GROUP PLC
COMPANY STATUTORY FINANCIAL STATEMENTS
(PREPARED UNDER UK GAAP)
FOR THE YEAR ENDED
30 SEPTEMBER 2010
Company No 05234262

ZEST GROUP PLC

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For the year ended 30 September 2010

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ZEST GROUP PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES

For the year ended 30 September 2010

Statement of directors' responsibilities

The Directors are responsible for preparing the Company only financial statements ("financial statements") in accordance with applicable law and regulations

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

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

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the Directors are aware

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We have audited the parent Company financial statements (the "financial statements") of Zest Group plc for the year ended 30 September 2010 which comprise the principal accounting policies, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 30, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the parent Company's affairs as at 30 September 2010,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

ZEST GROUP PLC

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF ZEST GROUP PLC

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the consolidated financial statements of Zest Group plc for the year ended 30 September 2010

Grant Thornton UK LLP

David Munton
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
BIRMINGHAM

Date 19 November 2010

ZEST GROUP PLC

PRINCIPAL ACCOUNTING POLICIES

For the year ended 30 September 2010

BASIS OF PREPARATION

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

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

GOING CONCERN

The Directors note the substantial losses that the Company has made for the year ended 30 September 2010 and the net liabilities position at that date. The Directors have prepared cash flow forecasts for the period ending 31 March 2012 which take account of the current cost structure of the Company, which is significantly reduced from the cost structure in the year ended 30 September 2010, and the post 30 September 2010 equity issue which raised £630,000 before share issue costs. These forecasts demonstrate that the Company has sufficient finance facilities available to allow it to continue in business for a period of at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

DEFERRED TAXATION

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

ZEST GROUP PLC

PRINCIPAL ACCOUNTING POLICIES

For the year ended 30 September 2010

SHARE BASED PAYMENTS

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

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

The expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates.

No adjustment is made to the expense or share issue cost recognised in prior periods if fewer share options are ultimately exercised than originally estimated. Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of shares issued are allocated to share capital with any excess being recorded as share premium.

FINANCIAL INSTRUMENTS

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

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

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

ZEST GROUP PLC

BALANCE SHEET

For the year ended 30 September 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Tangible fixed assets	1	-	1
		-	1
Current assets			
Debtors	3	17	12
Cash at bank		306	5
		<u>323</u>	<u>17</u>
Creditors: Amounts falling due within one year	4	<u>(402)</u>	<u>(151)</u>
Net current liabilities		<u>(79)</u>	<u>(134)</u>
Total assets less current liabilities		<u>(79)</u>	<u>(133)</u>
Capital and reserves			
Called up share capital	5	464	434
Share premium account	6	3,868	3,598
Share-based payment reserve	6	215	177
Profit and loss account	6	<u>(4,626)</u>	<u>(4,342)</u>
Deficit to Equity shareholders' funds	7	<u>(79)</u>	<u>(133)</u>

The financial statements were approved by the Board on 19 November 2010


David Jenigas
Director

Company number 05234262

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

ZEST GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010

1 TANGIBLE FIXED ASSETS

	Computer equipment £'000
Cost	
At 1 October 2009 and 30 September 2010	<u>4</u>
Depreciation	
At 1 October 2009	3
Charge for the year	<u>1</u>
At 30 September 2010	<u>4</u>
Net book value at 30 September 2010	<u>-</u>
Net book value at 30 September 2009	<u>1</u>

2 FIXED ASSET INVESTMENTS

At 30 September 2010 the Company holds 100% of the ordinary share capital of the following subsidiary undertakings, which are registered in England and Wales

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

3 DEBTORS

	2010 £'000	2009 £'000
Other debtors	14	2
Prepayments and accrued income	<u>3</u>	<u>10</u>
	<u>17</u>	<u>12</u>

4 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010 £'000	2009 £'000
Trade creditors	28	65
Other creditors	364	20
Accruals and deferred income	<u>10</u>	<u>66</u>
	<u>402</u>	<u>151</u>

ZEST GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010

5 SHARE CAPITAL

	2010 £'000	2009 £'000
Authorised		
4,000,000,000 ordinary shares of 0 01p	400	400
4,000,000,000 deferred shares of 0 24p	<u>9,600</u>	<u>9,600</u>
	<u>10,000</u>	<u>10,000</u>
Allotted, issued and fully paid		
4,000,000,000 ordinary shares of 0 01p	417	417
473,619,050 ordinary shares of 0 01p (2009 173,619,050 ordinary shares of 0 25p)	<u>47</u>	<u>17</u>
	<u>464</u>	<u>434</u>

On 6 November 2010, 300,000,000 Ordinary Shares of 0 01p each were issued for a placing for cash raising £300,000. Since the year end a further 420,000,000 Ordinary Shares of 0 01p each have been issued for a placing for cash raising £630,000.

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

6 RESERVES

	Share Premium £'000	Share based payments reserve £'000	Profit and loss account £'000
At 1 October 2009	3,598	177	(4,342)
Share based payments	-	38	-
Share issue	270	-	-
Retained loss for the year	-	-	(284)
At 30 September 2010	<u>3,868</u>	<u>215</u>	<u>(4,626)</u>

7 RECONCILIATION OF MOVEMENT IN DEFICIT TO EQUITY SHAREHOLDERS' FUNDS

	2010 £'000	2009 £'000
Loss for financial year	(284)	(283)
Share issue	300	-
Increase in share based payment reserve	<u>38</u>	<u>11</u>
Net increase/(decrease) in shareholders' funds	54	(272)
Equity shareholders' (deficit)/funds brought forward	<u>(133)</u>	<u>139</u>
Equity shareholders deficit carried forward	<u>(79)</u>	<u>(133)</u>

ZEST GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010

8 LOSS FOR THE FINANCIAL YEAR

The Company has taken advantage of the exemption under the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Company's loss for the year was £284,000 (2009 £283,000)

The loss is stated after charging

	2010 £'000	2009 £'000
Fees payable to the Company's auditor for the audit of the financial statements	10	15
Other services relating to taxation compliance and advice	<u>-</u>	<u>2</u>

9 DIRECTORS REMUNERATION

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

10 CONTINGENT LIABILITIES

There were no contingent liabilities at 30 September 2010 or at 30 September 2009

11 CAPITAL COMMITMENTS

There were no capital commitments at 30 September 2010 or at 30 September 2009

12 RELATED PARTY TRANSACTIONS

Steve Weltman is a related party by virtue of the fact that he served as a director of Zest Group plc during the year ended 30 September 2010. Included within creditors at 30 September 2010 is £3,000 (2009 £nil) in respect of unpaid expenses. Included within accruals at 30 September 2010 is £nil (2009 £42,000) in respect of salary due.

Zest Group plc paid £9,000 to Steve Weltman in the year to 30 September 2010 (2009 £8,500) in respect of rental of office space.

Richard Griffiths is a related party by virtue of the fact that he is a director of Zest Group plc. Included within debtors at 30 September 2010 is £9,200 (2009 £nil) in respect of monies owed for an advance payment made in the year. The maximum value of advance payment in the year was £45,000 (2009 £nil).

13 POST BALANCE SHEET EVENT

On 7 October 2010 the Company issued 420,000,000 ordinary shares of 0.01p each for £630,000 proceeds before share issue costs of £2,500, £300k of these proceeds had been received before 30 September 2010.