



**ZOO Digital Group plc
Unaudited Interim Results
for the six months ended
30 September 2008**





ZOO Digital Group plc, the creative media production and technology company announces its financial results for the six months to 30 September 2008.

Operational highlights

- Significant uplift in revenues due to increased volume of new discs produced using ZOO products
- New revenue streams initiated following introduction of a range of production services that complement ZOO's proprietary software
- Excellent progress made by the recently launched Media Adaptation Tool with opportunities to develop further to support a range of new applications
- Further penetration of our product and service offerings into our key customers in the home entertainment industry

Financial highlights

- First ever profit before interest, tax, depreciation and amortisation of £0.4m (2007: Loss £0.60m)
- Revenue up 147% to £3.24m* (2007: £1.31m) virtually equal to the £3.26m announced at the full year to 31 March 2008
- The recently launched Media Adaptation Tool already contributing 15% of revenue generated in the period
- Cash position strengthened following October share placing raising £512,000

*includes £1.51m (2007: £0.24m) relating to the newly acquired Scope Seven

Stuart Green, CEO of ZOO Digital Group plc said "It has been our strategy to focus on the major film studios and home entertainment industry. By working closely with our major customers we have been able to develop and refine our offering and as a result we are delighted to be reporting our first ever profit.

"We are finding that our fundamental offering of reducing costs and time to market is proving very attractive in the current economic environment to a wide variety of businesses, both inside and outside the entertainment industry. We are confident that we now have the right platform on which to continue building during the second half of the year."

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Chairman and Chief Executive's Statement

We are pleased to report that we have made continued progress in the six months ended 30 September 2008 and ZOO's first ever profit. The Group reported a profit (before interest, tax, depreciation and amortisation) of £0.4m compared to a loss of £0.6m for the same period last year. Revenues, including Scope Seven which was acquired in 2007, increased 147% to £3.24m (2007: £1.31m) virtually equal to the £3.26m announced at the preliminary results for the full year to 31 March 2008. Excluding the acquisition, like-for-like software licensing revenue, most of which is recurring, grew in the period by 83%.

This milestone has been achieved as a result of management's continued focus on our principal customers, the major film studios, and in broadening the Group's portfolio of products and services. ZOO's core technologies automate the process of creating media products and content, including DVDs, Blu-ray Discs and printed materials, and benefit customers through reducing costs, providing greater economies of scale and significantly increasing the speed to market of consumer products.

We put customer service at the top of our priorities, allowing us to deliver increasing revenues from our existing customers by providing high levels of service on long term contracts and helping us to attract new customers to our business through referrals and reputation.

Financial Review

Overall sales increased due to growth in usage of our software products which generates recurring fees, and also expanded production services which are increasingly used in conjunction with our proprietary software. This combined offering means that the business can offer a fully comprehensive, end-to-end proposition. This has enabled ZOO to move forward with new business opportunities far more rapidly than previously.

We have continued to control costs tightly in the period. Group overheads in the first half of the year are higher than the previous year due to the operating expenses of

Scope Seven, acquired in August 2007.

The net cash outflow from operating activities in the half year was significantly reduced to £5,000 compared to £795,000 in the same period last year. The total cash outflow was £423,000 leaving a balance at 30 September 2008 of £240,000. Following the approval of the placing at the Group's AGM on 6 October 2008 our cash position was strengthened by a further £512,000.

The tax position of the Group remains strong with significant amounts of tax losses to offset any taxable profits in both the UK and USA and the availability of R&D tax credits.

The strengthened dollar is beneficial to ZOO since the vast majority of our revenue is arising out of the USA while Group overheads are split between sterling and the dollar. In addition, in the first half of the year an exchange rate gain of £372,000 has arisen through the translation of intercompany balances denominated in dollars.

Trading

We continue to grow our revenues generated by software licensing. The newest product, the Media Adaptation Tool (MAT), is demonstrating positive early signs. MAT automates the process of producing printed material such as posters, packaging and marketing materials, and we intend to develop this further as a platform for the new products for the localisation of Blu-ray, TV and web based content.

Revenues from the Templated Authoring System (TAS) have significantly increased due to greater volumes of DVDs processed using the tool. We are further encouraged that TAS is now often used in conjunction with our production services.

In order to better reflect the combined service offering and the changed nature of our business, Scope Seven, the production and creative services company we acquired in 2007, has been rebranded under the ZOO Digital banner. The team continues to provide consultancy, creative and production services and we are



Chairman and Chief Executive Statement (Cont.)

benefiting from the strong relationships the team has with major film studios.

Our production group, which delivers a variety of finished media from Blu-ray through to DVD discs, has performed strongly. In response to increased customer demand for localised materials, we launched our specialist localisation group earlier this year. This group uses our proprietary software tools to produce fully finished printed and video materials for use in up to 60 different territories. As we expand this software platform we expect to broaden our offering to include other media.

Our creative group, which provides services to complement our production and software licensing offerings, continues to work with a number of the major content providers and produced excellent growth over the period.

Market

The global home entertainment industry is facing a number of important challenges in the current economic climate, which is a situation we believe will benefit ZOO. The studios are already exploring ways to reduce costs and increase the speed to market of their products. Currently most of the studios outsource the production of DVDs and printed items to third parties, however, ZOO's solutions can significantly reduce the cost of production by automating the process thereby removing the need for highly skilled and expensive operators.

A further challenge the studios are facing is how to combat the threat of piracy which, according to research conducted in 2005 by LEK on behalf of the Motion Picture Association of America, cost the worldwide motion picture industry \$18.2 billion that year, of which \$6.1 billion was attributed to the six major Hollywood Studios. It is well known that a significant proportion of fake product sales occur in the period between a movie opening in the theatres and its international release on disc and, as a result, the studios are seriously committed to ways of reducing that window of lost opportunity. It is clear that the products and services ZOO provides will have a key role to play in achieving this goal.

Staff

We are grateful to our excellent team of managers and staff who have delivered against our strategic plan and enabled us to move the business into profitable trading. The commitment to the customer and collaborative teamwork are values that run throughout the organisation and provide ZOO with great promise for the future.

Outlook

The Group's strategy of focusing on the major film studios and home entertainment industry is beginning to reap rewards. We are in a strong position to benefit from the current economic environment which will encourage the studios to take a closer look at their costs and the opportunities presented on diversified platforms. In the second half of the financial year management's emphasis will remain focused on growing revenues and increasing profitability.



**CONSOLIDATED INCOME STATEMENT
(UNAUDITED)**
for the six months ending 30 September 2008

| | 6 months to 30 Sep 2008 £000 | 6 months to 30 Sep 2007 £000 | Year ended 31 Mar 2008 £000 |
|---|------------------------------------|------------------------------------|-----------------------------------|
| Revenue | 3,236 | 1,309 | 3,264 |
| Cost of Sales | (474) | (162) | (27) |
| Gross Profit | 2,762 | 1,147 | 3,237 |
| Other operating income | 10 | 4 | 100 |
| Other operating expenses | (2,390) | (1,771) | (4,711) |
| Profit/ (Loss) before interest, tax, depreciation and amortisation | 382 | (620) | (1,374) |
| Depreciation | (116) | (75) | (152) |
| Amortisation and impairment | (31) | (2) | (227) |
| Exceptional items | - | - | (175) |
| Total operating expenses | (2,537) | (1,848) | (5,265) |
| Operating Profit/ (Loss) | 235 | (697) | (1,928) |
| Finance income | 5 | 41 | 72 |
| Finance cost | (172) | (92) | (327) |
| Profit/ (Loss) before taxation | 68 | (748) | (2,183) |
| Tax on profit/ (loss) | - | - | 135 |
| Profit/ (Loss) for the period | 68 | (748) | (2,048) |
| Continuing operations | 68 | (748) | (1,837) |
| Discontinued operations | - | - | (211) |
| Profit/ (Loss) for the period | 68 | (748) | (2,048) |
| Attributable to equity holders of the parent | 68 | (748) | (2,048) |
| Profit/ (Loss) per ordinary share | | | |
| - basic | 0.38p | (9.24p) | (15.72p) |
| -diluted | 0.24p | (9.24p) | (15.72p) |



**CONSOLIDATED BALANCE SHEET
(UNAUDITED)
as at 30 September 2008**

| | As at 30 Sep 2008 £000 | As at 30 Sep 2007 £000 | As at 31 Mar 2008 £000 |
|--|------------------------------|------------------------------|------------------------------|
| ASSETS | | | |
| Non-Current Assets | | | |
| Intangible assets | 4,444 | 4,060 | 4,042 |
| Property, plant and equipment | 606 | 675 | 567 |
| | 5,050 | 4,735 | 4,609 |
| Current Assets | | | |
| Inventories | 55 | - | 188 |
| Trade receivables and other receivables | 1,532 | 2,058 | 1,238 |
| Current tax assets | - | - | 90 |
| Cash and cash equivalents | 240 | 2,030 | 675 |
| | 1,827 | 4,088 | 2,191 |
| Total Assets | 6,877 | 8,823 | 6,800 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade payables and other payables | (1,781) | (2,597) | (1,621) |
| Borrowings | (297) | - | (270) |
| | (2,078) | (2,597) | (1,891) |
| Non-Current Liabilities | | | |
| Borrowings | (3,277) | (3,364) | (3,275) |
| | (3,277) | (3,364) | (3,275) |
| Total Liabilities | (5,355) | (5,961) | (5,166) |
| Net Assets | 1,522 | 2,862 | 1,634 |
| EQUITY | | | |
| Equity attributable to equity holders of the parent | | | |
| Called up share capital | 2,687 | 2,687 | 2,687 |
| Share premium account | 23,030 | 23,031 | 23,030 |
| Other reserves | 8,598 | 8,598 | 8,598 |
| Share option reserve | 19 | 11 | 54 |
| Convertible loan note reserve | 266 | 266 | 266 |
| Foreign exchange translation | (121) | 3 | 56 |
| Profit and loss account | (32,955) | (31,659) | (33,055) |
| | 1,524 | 2,937 | 1,636 |
| Interest in own shares | (2) | (75) | (2) |
| Attributable to equity holders | 1,522 | 2,862 | 1,634 |



**CONSOLIDATED CASH FLOW STATEMENT
(UNAUDITED)**
for the six months ending 30 September 2008

| | 6 months to 30 Sep 2008 | 6 months to 30 Sep 2007 | Year ended 31 Mar 2008 |
|--|----------------------------|----------------------------|---------------------------|
| | £000 | £000 | £000 |
| Cash flows from operating activities | | | |
| Operating Profit/(loss) for the period | 235 | (697) | (1,928) |
| Finance income | 5 | 41 | 72 |
| Depreciation | 116 | 75 | 152 |
| Amortisation and impairment | 31 | 2 | 227 |
| Share based payments | (6) | (131) | (87) |
| Disposal of own shares | - | - | 74 |
| Disposal of intangible assets | - | - | 7 |
| Disposal of property, plant and equipment | - | - | 53 |
| Exchange gain/(loss) on foreign operations | (372) | - | - |
| Changes in working capital: | | | |
| Inventories | - | - | (188) |
| Trade and other receivables | (217) | (72) | 566 |
| Trade and other payables | 114 | (13) | (975) |
| Cash flow from operations | (94) | (795) | (2,027) |
| Tax received | 89 | - | 98 |
| Net cash flow from operating activities | (5) | (795) | (1,929) |
| Investing Activities | | | |
| Acquisition of subsidiary | - | (1,559) | (1,536) |
| Purchase of intangible assets | (130) | (240) | (310) |
| Purchase of property, plant and equipment | (27) | (94) | (2) |
| Net cash flow from investing activities | (157) | (1,893) | (1,848) |
| Cash flows from financing activities | | | |
| Repayment of borrowings | (131) | - | (10) |
| Finance cost | (130) | (53) | (232) |
| Share and convertible loan issues | - | - | (272) |
| Issue of Share Capital | - | 2,729 | 3,000 |
| Net cash flow from financing | (261) | 2,676 | 2,486 |
| Net decrease in cash and cash equivalents | (423) | (12) | (1,291) |
| Cash and cash equivalents at the beginning of the year | 675 | 2,026 | 2,026 |
| Exchange (loss)/gain on cash and cash equivalents | (12) | 16 | (60) |
| Cash and cash equivalents at the end of the year | 240 | 2,030 | 675 |



NOTES

Board Approval

The interim accounts were approved by the board of directors on 10 December 2008.

Basis of preparation

This interim financial report has been prepared using accounting policies consistent with those previously stated in the latest Annual report and accounts for the year ended 31 March 2008.

A copy of the statutory accounts for the year ended 31 March 2008, prepared under IFRS, has been delivered to the Registrar of companies and contained an unqualified auditors' report in accordance with S235 of the Companies Act 1985.

Basis of Consolidation

The consolidated financial statements of ZOO Digital Group plc included the results of the Company and its subsidiaries. Subsidiary accounting policies are amended where necessary to ensure consistency within the Group and intra group transactions are eliminated on consolidation.

Earnings per share

Earnings per share is calculated based upon the profit or loss on ordinary activities after tax for each period divided by the weighted average number of shares in issue during the period, being 17,913,089 (6 months to 30 September 2007: 8,099,152; year ending 31 March 2008: 13,030,659).

Information on fully diluted earnings per share has not been presented for the comparative periods as the company recorded a loss after tax in these periods and accordingly the exercise of options would not result in further earnings dilution for shareholders.

Further Copies

Copies of this announcement and the Interim Report for the six months ended 30 September 2008 will be available, free of charge, for a period of one month from the Company's Nominated Adviser and Broker, KBC Peel Hunt Ltd, 111 Old Broad Street, London, EC2N 1PH. Tel: 020 7418 8900, from the registered office of the Company at The Tower, 2 Furnival Square, Sheffield, S1 4QL or from the Group's website: www.zoodigital.com.



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