ZOO Digital Group plc
Unaudited Interim Results
for the six months ended
30 September 2023

Chairman and Chief Executive's Statement

Overview

The first half of FY24 saw an unprecedented period of disruption, not only for ZOO, but for the film and TV entertainment industry more widely. The Company has taken necessary steps to mitigate the impact of this short-term disruption while ensuring we are well positioned to recover strongly and win market share.

Market

In the early months of calendar 2023, all major US media corporations undertook strategic reviews, prompted by the rapidly shifting economic landscape for entertainment as consumers migrate away from network television. The hiatus of new projects that this caused was compounded by industrial action in Hollywood as writers and then actors went on strike – the first joint industrial action in more than 60 years – effectively bringing all film and TV production projects to a halt for a period of six months.

Since FY22 the work that ZOO received from its customers consisted predominantly of localisation and media services applied to newly created content. Consequently, the disruption has had a significant adverse impact on order volumes received during the period, not only by ZOO, but also by all its major competitors. This temporary industry-wide hiatus is clearly reflected in ZOO's financial results for the FY24 H1 period.

Prior to the industrial action, in April 2023 the Company successfully completed an oversubscribed placing of £12.5 million ($15.5 million) for the proposed acquisition of a trusted partner in Japan – a strategic growth market for content and localisation budgets. Given the subsequent industry-wide disruption that followed, the Board decided to place the acquisition on hold, to enable it to maintain a strong balance sheet. Meanwhile, we have continued to have regular positive dialogue with the vendor.

The leadership of the Writers' Guild of America, which represents 11,500 screenwriters, voted on 27 September 2023 to end its strike following resolution of the labour dispute, thereby paving the way for resumption of preparation of new scripts. However, restarting productions was contingent on actors returning to work which was finally resolved on 9 November 2023 when the leadership of the Screen Actors Guild – American Federation of Television and Radio Artists (SAG-AFTRA) agreed contract terms for the next three-year period for its 160,000 members. This was the longest strike in the union's history and its repercussions have been far-reaching across the industry, not only in the US but in the UK and many other countries where local actors are often members of SAG-AFTRA as well as local unions (such as Equity in the UK). Practically every discipline in the wider entertainment ecosystem is affected when actors take industrial action including, of course, those services supplied by ZOO.

Insofar as the Board is aware, major players have not sought to address the content shortfall through the period of the strikes with back catalogue material, but rather have elected to preserve budgets for the creation of localised versions of newly produced original programmes. Consequently, the projects on which ZOO worked during the first half year have been related predominantly to titles that were filmed prior to the actors' strike, together with some content produced internationally.

With the recent ending of strikes, we can now look ahead to a resumption of productions and restoration of previous typical volumes of new titles; however, the pace of this recovery remains unclear at present. Resuming a typical project will require reassembling and scheduling a cast and crew of potentially hundreds of people, and there will be competition for accessing the sound stages that are necessary for studio recording. Talented crew members will be in high demand and given the number of jobs lost from the industry as individuals sought alternative sources of employment, this will create a bottleneck. It will require a period of planning before each project can resume and so the period of recovery is likely to extend over several months. Therefore, while ZOO can expect assignments in the near term relating to some new programming, it seems likely that full resumption of former levels of work will not take place until FY25.

Throughout calendar 2023 major entertainment industry players have implemented significant changes in their operations, including cost cutting, a return to licensing of content that has until recently been used as a competitive differentiator, greater exploitation of advertising such as through the launch of ad-supported subscription tiers and *Free Ad-supported Streaming TV* (FAST) channels, refinement of go-to-market strategies, bundling with other services, and many other initiatives that, in combination, should enable these businesses to reach streaming profitability sooner. Recent quarterly earnings reports from major media companies indicate good progress in this respect.

Overall, the Board believes that these changes will be beneficial to ZOO. Several major buyers have elected to contract their vendor pools, thereby requiring fewer studio personnel to manage these relationships. In one case a client has reduced its vendor pool for localisation and media services from around 15 to five including ZOO. In all such situations where vendor programmes have been revised ZOO is either confirmed as an on-going partner or expects to be selected once the review process is complete.

As large buyers choose to concentrate work on a smaller number of vendors, there is a growing preference for those that are able to provide an end-to-end (E2E) service, namely, to offer all necessary media services together with subtitling and dubbing across all required languages. ZOO is one of few providers with this capability and scale.

The pace at which ZOO's former levels of revenue will be restored is dependent on both the recovery of the entertainment industry generally and more specifically the media localisation sector. However, the Company's success will depend on its ability to continue to deliver services of the highest calibre. In this regard, through the recent period of uncertainty and disruption, ZOO has maintained consistently high performance metrics as measured and reported by its customers. Indeed, in November ZOO was named APAC Netflix Preferred Fulfilment Partner of the year having achieved outstanding results in this programme including an on-time delivery rate of 99.5%.

Operations

The significant impact of the temporary industry disruption in the first half is clearly reflected in the Company's financial KPIs for the period:

- Revenue fell to $21.4 million (FY23 H1: $51.4 million)
- Adjusted LBITDA[1] margin 33.0% (FY23 H1 EBITDA 14.2%)
- OPEX as a % of revenue 60.7% (FY23 H1: 24.6%)
- Operating Loss margin 51.0% (FY23 H1: profit 7.4%)

The impact on profitability is a result in part of the time taken to implement cost savings, but also the strategic intent of the Board to retain a level of resources that exceeds short term demand so that recovery can be rapid once industry production resumes.

- Number of freelancers[2] 11,745 (FY23 H1: 12,343)
- Retained Sales[3] 99.5% (FY23 H1: 99.0%)

The number of freelancers available to ZOO declined slightly in the period due, in part, to some individuals choosing to leave the industry and find alternative employment as a result of the wider disruption.

[1] Adjusted for share-based payments.
[2] The number of active freelance workers in ZOO's systems who are engaged directly.
[3] Proportion of client revenues retained from one year to the next.

In addition to cash conservation measures, the Board has focused on several steps to improve operational efficiency. The fit out of a new facility located in the Southern India city of Chennai was completed in the period, a process that began in FY23. Covering 11,000 square feet across two floors, the new production facility is equipped with leading technology, opens opportunities for South Indian-language content and distribution into South Indian markets, and will serve as a location from which to operate certain services to fulfil work for clients in the US and elsewhere.

The reduced level of orders has provided an opportunity to enhance training materials and to cross-train staff across multiple workflows and client processes. The Company's ZOO Academy programme serves as a resource for the development of skillsets both by internal staff and freelancers across multiple roles and disciplines.

In addition to establishing a stronger presence in India, ZOO has also continued to expand its international presence for dubbing through investments in partners. This includes a further investment in ZOO Turkey and establishing a presence in Iberia with facilities in Madrid and Valencia which now operate as a primary hub for ZOO's operations in Spain and Portugal. Further similar investments are planned to expand the Company's capability in other strategic locations.

While ZOO remains committed to extending this international presence to an operation in Japan, which is and will continue to be a strategic growth market for entertainment content, the Company has not yet made a binding agreement to acquire the proposed target for which capital was raised in the equity fundraise announced in April. The view of the Board is that further proof of business recovery and a strong balance sheet are necessary before it would be prudent to enter a binding contract. Accordingly, we remain in regular dialogue with the vendor.

A major factor in the dispute between unions and studios has been in relation to the application of Artificial Intelligence (AI). The key terms of the agreements reached with both writers and actors include a range of safeguards around use of such technologies to ensure that human talent is not exploited, and is both fairly compensated and credited with all creative contributions made to motion pictures and TV content. These safeguards extend to the practice of preparing adaptations of scripts for other languages and the creation of dubbed soundtracks. The frameworks are designed to ensure that the benefits of new technologies can be exploited but in ways that are fair and sustainable.

As a long-standing and proven innovator in the sector, ZOO is uniquely placed to capitalise on benefits afforded by AI in multiple applications within the realms of subtitling and dubbing and, moreover, has been proactively engaged in research and development of technologies that the Board anticipates will yield commercial and operating benefits in the future. ZOO's strategy is to leverage such technology where appropriate to augment and assist traditional processes rather than to displace or obviate the need for skilled human talent, which includes specialist media translators, actors, and directors. Consequently, the Board regards the AI revolution that is unfolding as an opportunity for ZOO to broaden its capabilities and cement its leadership position within the sector.

While the recent period of disruption has brought about significant change across the entertainment industry, the strategic imperatives that set ZOO apart from its competitors remain as relevant and important as ever. Through the period of recovery that lies ahead the Company will continue its strategic focus on its stated priorities:

- *innovation* – by continuing to develop transformational technologies;
- *scalability* – by developing and nurturing its freelancer pool, including the development of training courses available through ZOO Academy;
- *collaboration* – in multiple areas, including AI-related research, industry partnerships for dubbing and academic partnerships with educational institutions;
- *customer focus* – through the strengthening of its E2E offering and provision of the ZOOstudio platform; and
- *talent* – continuing with the global growth plan to expand the talent pool with broader language-specific expertise and reputation.

People

To conserve cash while navigating the industry hiatus, 118 team members, representing 20% of the combined UK/US workforce, sadly left the business in the period through redundancies and attrition. Due to the uncertainty around the duration of the strikes and the time taken to undertake employee consultation, this process was not completed until early November. As a result, both direct and indirect staff costs will be materially reduced throughout the second half compared to the first.

As part of this exercise, a rebalancing of staffing across locations has been undertaken to provide adequate resources for growth regions and languages. A guiding principle has been to maintain industry-leading performance metrics, with monthly customer reports confirming that this has been achieved. Despite the headcount reductions and savings implemented, the staff retained across all service lines has the capacity to deliver, as of the commencement of the second half, a greater volume of work than current orders require. However, and particularly now that strikes have ended, the Board has carefully considered the recovery of the business and has chosen to retain capacity, with a consequent cost, so that the Company can respond to customers' needs and grow quickly when work resumes and capture market share, thereby delivering superior profitability in the medium to long-term.

The Board is enormously grateful to staff for their patience, resilience, and dedication throughout what has been an unprecedented challenging and difficult period for the entertainment industry and the ZOO business. With industrial action now at an end, we know that we can rely on staff embracing the influx of work that we are confident lies ahead, and continuing to deliver the high quality and innovation for which we are renowned.

Outlook

Following a period of disruption that has lasted around nine months since February 2023, the stage is now set for a recovery that, over the medium term, should see ZOO returning to the levels of business achieved in FY23 and continuing its growth from there. Due to the time taken to plan and mobilise resources for each production project, the Board expects the Company to deliver progressively stronger sequential performance in each of Q3 and Q4, with significant expansion of sales commencing from Q1 FY25.

Despite the low levels of project activities in the period, the Company has continued its dialogue with customers throughout the first half and all indications are that ZOO remains a valued partner and will be a beneficiary as business resumes. In several cases, relationships with senior customer contacts have been strengthened and multiple new opportunities are expected to open during the second half.

The Board remains focused to achieve at least break-even at EBITDA level in Q4 and to return to profitability in FY25, expanding ZOO's market share and prominence as a leading provider of premium localisation and media services to the global entertainment industry.

Gillian Wilmot
Chairman

Dr Stuart A Green
Chief Executive Officer

Financial Review

Revenues of $21.4 million were 58% below the same period last year (H1 FY23: $51.4 million). The shutdown in Hollywood from May to November 2023 caused by the writers' and actors' strikes resulted in an almost complete curtailment of orders to ZOO and its competitors.

Gross profit decreased from $16.5 million to $2.1 million in the period, reflecting the revenue reduction and the Board's decision to maintain production capacity during the strikes. Gross margin fell to 10% due to the significant deterioration in direct staff utilisation. This is reinforced by direct staff costs rising from 21% of revenues to 55%.

Operating expenses increased 2.5% to $13.0 million (H1 FY23: $12.7 million) as we continued to invest in infrastructure to support our long-term revenue goals. This included our new facilities in Korea and Chennai. This is reflected in OPEX as a percentage of revenue, which increased from 25% of revenue to 60.7%. We continued to invest in our R&D programme where expenditure increased 67% in the period.

Adjusted LBITDA of $7.1 million compares to a profit of $7.3 million last year as a direct result of the revenue decrease without any significant reduction in OPEX, people or R&D. This is also reflected in the operating loss of $10.9 million.

The loss before tax for the period was $10.1 million, which compares to a profit of $3.5 million last year. The loss includes the gain of $1.1 million attributed to the original 51% investment in Korea when we completed the acquisition of the remaining 49% in April 2023.

The cash balance as of 30 September 2023 was $16.8 million after the completion of paying off short-term operating leases (H1 FY23: $10.8 million before short-term operating leases of $0.3 million). The increase was driven by the fundraise in April 2023 offsetting the operating losses. This was further impacted by the outflow of $4.0 million from investing activities and $1.2 million repayment of leases in the period. The investing activities comprised R&D of $1.5 million and CAPEX of $1.4 million. The CAPEX was used to extend the production capacity in both India and Korea. The Group purchased the remaining 49% of the investment in Korea for $0.2 million, and took a 30% stake in Estudios AM in Spain for $0.9 million, both investments following the stated strategy to build international capacity to support our customers when the expected growth in media localisation spend by our global media customers returns.

The Group remains financially strong with net cash of $16.8 million at the end of September 2023 and no debt. This is further enhanced by an unused $5.0 million debt facility with HSBC. Over the coming months the Board is focused on aligning costs and revenues to reach break-even in Q4 FY24.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
for the six months ended 30 September 2023

	Unaudited 6 months to 30 Sep 2023 $000	Unaudited 6 months to 30 Sep 2022 $000	Audited Year ended 31 Mar 2023 $000
Revenue	**21,408**	51,422	90,260
Cost of sales	**(19,329)**	(34,941)	(56,327)
Gross Profit	**2,079**	16,481	33,933
Other operating income	**-**	-	8
Operating expenses	**(12,988)**	(12,671)	(25,860)
Operating (loss)/profit	**(10,909)**	3,810	8,081
Analysed as			
EBITDA before share-based payments	**(7,094)**	7,286	15,466
Share based payments	**(286)**	(970)	(1,650)
Depreciation	**(2,506)**	(1,768)	(3,973)
Amortisation	**(1,023)**	(738)	(1,762)
	(10,909)	3,810	8,081
Share of profit of associates and JV's	**1,100**	-	146
Finance Income	**165**	-	8
Exchange loss on borrowings	**(100)**	-	247
Other finance cost	**(340)**	(299)	(620)
Total finance cost	**(275)**	(299)	(365)
(Loss)/Profit before taxation	**(10,084)**	3,511	7,862
Tax on (Loss)/profit	**(152)**	(147)	370
(Loss)/profit and total comprehensive income for the period attributable to equity holders of the parent	**(10,236)**	3,364	8,232

Profit per ordinary share			
- basic	**(10.60) cents**	3.80 cents	9.30 cents
- diluted	**(10.60) cents**	3.46 cents	8.30 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
as at 30 September 2023

	Unaudited as at 30 Sep 2023 $000	Unaudited as at 30 Sep 2022 $000	Audited as at 31 Mar 2023 $000
ASSETS			
Non-current assets			
Property, plant and equipment	**14,092**	12,952	14,736
Intangible assets	**13,443**	9,746	10,341
Investments	**4,709**	3,819	4,300
Deferred tax assets	**1,708**	1,842	1,664
	33,952	28,359	31,041
Current assets			
Trade and other receivables	**7,742**	15,092	16,532
Contract assets	**4,831**	3,600	4,836
Cash and cash equivalents	**16,783**	10,818	11,839
	29,356	29,510	33,207
Total assets	**63,308**	57,869	64,248
LIABILITIES			
Current liabilities			
Trade and other payables	**(12,828)**	(17,338)	(19,746)
Contract liabilities	**(571)**	(521)	(693)
Borrowings	**(1,445)**	(741)	(1,408)
	(14,844)	(18,600)	(21,847)
Non-current liabilities			
Borrowings and other payables	**(6,945)**	(8,579)	(7,268)
Total liabilities	**(21,789)**	(27,179)	(29,115)
Net assets	**41,519**	30,690	35,133
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	**1,284**	1,178	1,179
Share premium reserve	**70,683**	55,727	55,797
Other reserves	**12,320**	12,320	12,320
Share option reserve	**4,690**	3,625	4,391
Capital redemption reserve	**6,753**	6,753	6,753
Merger reserve	**1,326**	-	-
Convertible loan note reserve	**-**	5,471	-
Foreign exchange translation reserve	**(992)**	(992)	(992)
Accumulated losses	**(54,496)**	(53,339)	(44,266)
	41,568	30,743	35,182
Interest in own shares	**(49)**	(53)	(49)
Attributable to equity holders	**41,519**	30,690	35,133

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
for the six months ended 30 September 2023

	Ordinary shares	Share premium reserve	Foreign exchange translation reserve	Convertible loan note reserve	Share option reserve	Capital redemption reserve	Other reserves	Other reserves	Accumu-lated losses	Interest in own shares	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Balance at 1 April 2022	1,174	55,665	(992)	5,471	2,619	6,753	-	12,320	(57,969)	(49)	24,992
Issue of share capital	4	-	-	-	-	-	-	-	-	-	4
Share options exercised	-	62	-	-	36	-	-	-	-	-	98
Share-based payments	-	-	-	-	970	-	-	-	-	-	970
Foreign exchange translation	-	-	-	-	-	-	-	-	-	(4)	(4)
Transactions with owners	4	62	-	-	1,006	-	-	-	-	(4)	1,068
Profit for the period	-	-	-	-	-	-	-	-	3,364	-	3,364
Total comprehensive income for the period	-	-	-	-	-	-	-	-	3,364	-	3,364
Balance at 30 September 2022	1,178	55,727	(992)	5,471	3,625	6,753	-	12,320	(54,605)	(53)	29,424
Share options exercised	-	70	-	-	86	-	-	-	-	-	156
Share-based payments	-	-	-	-	680	-	-	-	-	-	680
Foreign exchange translation	-	-	-	-	-	-	-	-	-	4	4
Transfer of CLN	-	-	-	(5,471)	-	-	-	-	5,471	-	-
Issue of share capital	1	-	-	-	-	-	-	-	-	-	1
Transactions with owners	1	70	-	(5,471)	766	-	-	-	5,471	4	841
Profit for the period	-	-	-	-	-	-	-	-	4,868	-	4,868
Total comprehensive income for the period	-	-	-	-	-	-	-	-	4,868	-	4,868
Balance at 31 March 2023	1,179	55,797	(992)	-	4,391	6,753	-	12,320	(44,266)	(49)	35,133
Share based payments	-	-	-	-	286	-	-	-	-	-	286
Foreign exchange translation	-	-	-	-	-	-	-	-	6	-	6
Share options exercised	-	-	-	-	13	-	-	-	-	-	13
Issue of share capital	105	15,604	-	-	-	-	1,326	-	-	-	17,035
Transaction costs incurred	-	(718)	-	-	-	-	-	-	-	-	(718)
Transactions with owners	105	14,886	-	-	299	-	1,326	-	-	-	16,616
Loss for the period	-	-	-	-	-	-	-	-	(10,236)	-	(10,236)
Total comprehensive income for the period	-	-	-	-	-	-	-	-	(10,236)	-	(10,236)
Balance at 30 September 2023	1,284	70,683	(992)	-	4,690	6,753	1,326	12,320	(54,496)	(49)	41,519

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
for the six months ended 30 September 2023

	30 Sep 2023 Unaudited 6 months to 30 Sep 2023 $000	30 Sep 2022 Unaudited 6 months to 30 Sep 2022 $000	31 Mar 2023 Audited Year ended 31 Mar 2023 $000
Cash flows from operating activities			
Operating (loss)/profit for the period	**(10,909)**	3,810	8,081
Finance income	**165**	-	8
Depreciation	**2,506**	1,768	3,973
Amortisation	**1,023**	738	1,762
Share based payments	**286**	970	1,650
Disposal of property, plant and equipment	**(12)**	-	-
Changes in working capital:			
(Increases)/decreases in trade and other receivables	**9,346**	10,976	5,251
Increases/(decreases) in trade and other payables	**(7,048)**	(10,541)	(5,219)
Cash flow from operations	**(4,643)**	7,721	15,506
Tax (paid)/received	**(196)**	(147)	196
Net cash flow from operating activities	**(4,839)**	7,574	15,702
Investing Activities			
Purchase of intangible assets	**(20)**	(41)	(60)
Capitalised development costs	**(1,512)**	(904)	(2,163)
Purchase of subsidiaries (net of cash acquired)	**(240)**	-	-
Purchase of investments	**(905)**	339	-
Purchase of property, plant and equipment	**(1,362)**	(1,355)	(4,706)
Payment of deferred consideration	**-**	-	(1,300)
Net cash flow from investing activities	**(4,039)**	(1,961)	(8,229)
Cash flows from financing activities			
Repayment of borrowings	**(123)**	(219)	(477)
Repayment of principal under lease liabilities	**(710)**	(536)	(748)
Finance cost	**(342)**	(42)	(630)
Share options exercised	**13**	36	254
Share issue costs	**-**	(596)	(551)
Issue of Share Capital (net of costs)	**14,984**	4	5
Net cash flow from financing	**13,822**	(757)	(1,596)
Net Increase in cash and cash equivalents	**4,944**	4,856	5,877
Cash and cash equivalents at the beginning of the period	**11,839**	5,962	5,962
Cash and cash equivalents at the end of the period	**16,783**	10,818	11,839

NOTES

General information

ZOO Digital Group plc ('the Company') and its subsidiaries (together 'the Group') provide end-to-end cloud-based localisation and media services to the global entertainment industry and continue with on-going research and development to enhance the Group's core offerings. The Group has operations in the UK, the US, India and South Korea.

The Company is a public limited company which is listed on the Alternative Investment Market and is incorporated and domiciled in the UK. The address of the registered office is Castle House, Angel Street, Sheffield. The registered number of the Company is 3858881.

This condensed consolidated financial information is presented in US dollars, the currency of the primary economic environment in which the Group operates.

The interim accounts were approved by the board of directors on 29 November 2023.

This consolidated interim financial information has not been audited.

Basis of preparation

The consolidated financial statements of ZOO Digital Group plc and its subsidiary undertakings for the period ending 31 March 2024 will be prepared in accordance with UK adopted international accounting standards and the requirements of the Companies Act 2006.

This Interim Report has been prepared in accordance with UK AIM listing rules which require it to be presented and prepared in a form consistent with that which will be adopted in the annual accounts having regard to the accounting standards applicable to such accounts. It has not been prepared in accordance with IAS 34 "Interim Financial Reporting".

The policies applied are consistent with those set out in the annual report for the year ended 31 March 2023, and have been consistently applied, unless stated otherwise.

This condensed consolidated financial information is for the six months ended 30 September 2023. It has been prepared with regard to the requirements of IFRS. It does not constitute statutory accounts as defined in S343 of the Companies Act 2006. It does not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 March 2023 which contained an unqualified audit report and have been filed with the Registrar of Companies. They did not contain statements under s498 of the Companies Act 2006.

The Group has applied the same accounting policies and methods of computation in its interim consolidated financial statements as in its 2023 annual financial statements, except for those that relate to new standards and interpretations effective for the first time for periods beginning on (or after) 1 April 2023 and will be adopted in the 2024 financial statements. There are no standards materially impacting the Group that will be required to be adopted in the annual financial statements for the year ending 31 March 2024.

Basis of Consolidation

The consolidated financial statements of ZOO Digital Group plc include 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.

Going concern

The Group's financial statements are prepared on a going concern basis despite the losses incurred in the period. The Group continues to have a strong order pipeline and has significant cash reserves, and its results reflect predominantly the impact of the Hollywood writers' strike which is anticipated to be short term and, as at the date of approval of these financial statements, has finished.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting regularly reviewed by the group's chief operating decision maker to make decisions about resource allocation to the segments and to assess their performance.

	Localisation		Media services		Software Services		Total	
	FY24 H1	FY23 H1	**FY24 H1**	FY23 H1	**FY24 H1**	FY23 H1	**FY24 H1**	FY23 H1
	$000	$000	**$000**	$000	**$000**	$000	**$000**	$000
Revenue	**13,471**	32,325	**7,065**	18,241	**872**	856	**21,408**	51,422
Segment contribution	**2,282**	8,533	**2,676**	9,870	**689**	766	**5,647**	19,169
Unallocated cost of sales							**(3,568)**	(2,688)
Gross profit							**2,079**	16,481
	17%	*26%*	*38%*	*54%*	*79%*	*89%*	*10%*	*32%*

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in US Dollars which is the Company's functional and presentation currency.

Transactions and balances

Transactions in foreign currencies are recorded at the prevailing rate of exchange in the month of the transaction. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the year-end exchange rates are recognised in the income statement.

Group companies

The results and financial positions of all Group entities that use a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each entity are translated at the closing rate at the period end date;
- income and expenses for each Statement of Comprehensive Income are translated at the prevailing monthly exchange rate for the month in which the income or expense arose and all resulting exchange rate differences are recognised in other comprehensive income with the foreign exchange translation reserve.

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.

Weighted average number of shares for basic & diluted profit per share	**30 Sep 2023**	30 Sep 2022	31 Mar 2023
	No. of shares	No. of shares	No. of shares
Basic	**96,560,892**	88,518,335	88,835,890
Diluted	**107,012,875**	97,103,550	99,287,873

Where the Group has recorded a loss, diluted earnings per share is equal to basic earnings per share.

Alternative performance measure

Adjusted EBITDA is a key performance measure for the Group and is derived as follows,

$000	Unaudited 6 months to 30 Sep 2023	Unaudited 6 months to 30 Sep 2022	Audited Year to 31 Mar 2023
Profit/(Loss) before taxation	(10,084)	3,511	7,862
Add back			
Finance costs	275	299	365
Share based payments	286	970	1,650
Depreciation and Amortisation	3,529	2,506	5,735
Share of profit of associates and JVs	(1,100)	-	(146)
Adjusted EBITDA	**(7,094)**	**7,286**	**15,466**

Acquisition of Whatsub Pro Inc.

On 11 April 2023 the Group acquired 49% of the ordinary share capital of Whatsub Pro Inc ("Korea"), a company incorporated in South Korea, which took the Group's ownership from 51% to 100% of the ownership of Korea. Korea was previously accounted for as a joint venture, and the step acquisition results in ownership of a subsidiary which is to be accounted for as a business combination under IFRS 3.

The 49% acquisition was satisfied by way of a payment of $200,000 together with the issue of 550,000 1p ordinary shares in the Company. The total consideration was therefore $1,533,000.

As a result of Korea being previously recognised as a joint venture, the Group's financial statements reflects the disposal of the joint venture at its carrying value of $552,000 for proceeds of $1,596,000 (being a pro-rata fair value determined by reference to the consideration paid for 49%). This resulted in a profit of $1,044,000 which is included within the Group's share of profits from joint ventures in its Income Statement.

The Group has not yet completed its assessment of fair values acquired, although it does not anticipate any separable intangible assets will be recognised on this business combination. Based on the net assets reported by Korea on its acquisition date of $621,000, the Group has provisionally recognised goodwill of $2,592,000 on this transaction, which is included on the Statement of Financial Position within intangible assets.

Further Copies

Copies of the Interim Report for the six months ended 30 September 2022 will be available, free of charge, for a period of one month from the registered office of the Company at Castle House, Angel Street, Sheffield, S3 8LN or from the Group's website: www.zoodigital.com.

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Non-Executive Director

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