



**ZOO Digital Group plc
Unaudited Interim Results
for the six months ended
30 September 2017**

Chairman and Chief Executive's Statement

Overview

We are pleased to be able to report on a strong performance for the Group, with significant progress made in all facets of the business. The first half of the year has seen further operational improvements, highlighted by strong demand and very positive critical recognition, a strengthening of the Group's balance sheet and adding expertise to the Board of Directors. This is reflected in a much-improved financial performance, with the foundations laid for enhanced performance in future periods.

Financial Results

Revenues of \$12.7 million represent a 63% increase over the corresponding period last year (H1 2016: \$7.8 million). This top line growth has largely been driven by the increasing proportion of revenue derived from our proprietary localisation services, predominantly subtitling delivered using ZOOsubs, but also from the first projects processed using ZOOdubs, our new dubbing platform. This has an impact on gross margin, which is net of external cost of sales (predominantly freelance translators), in two ways. Localisation services incur higher costs of sale than both software licensing and digital distribution services, and in addition, the Group incurred exceptional costs of processing its first dubbing projects in the course of validating the operation of early-stage software. As a result, gross margin in the period reduced to 63% (H1 2016: 75%). The projects were completed successfully and as the ZOOdubs platform is developed further, efficiency of dubbing operations will improve.

Adjusted EBITDA for the six months improved by 34% to \$1.3 million (H1 2016: \$1.0 million), reflecting significant investments during the period in new staff and exceptional costs associated with the establishment and quality control of our new dubbing software and services.

Another pleasing trend in these results is the broadening of our customer base and the diversification of our revenues, with the proportion coming from our largest single customer reducing further during the period to 28% (H1 2016: 47%).

Operations

The principal focus of the Group has been on the continuing progress of our localisation services delivered through our proprietary cloud-based platforms, ZOOsubs and ZOOdubs, for the provision of subtitling and dubbing services respectively. After a period of research and development and building a pipeline for ZOOsubs, it has been reassuring to witness its growing adoption and demand from customers, both existing and new. As well as helping to reduce seasonality within the business, it has enhanced ZOO's reputation for innovation within the marketplace and driven strong revenue growth. There has been additional recruitment of talent and the Group now has a network of almost 3,000 freelance translators who are able to collaborate efficiently with us on projects to satisfy an ever-growing pipeline of demand.

ZOOdubs was officially launched at the start of the period under review at the National Association of Broadcasters show in Las Vegas on 22 April 2017 to critical acclaim, awarded a 'Best in Show' accolade by TV Technology and subsequently an IABM award for Design and Innovation at the International Broadcast Convention in Amsterdam. Helped by our success in subtitling, ZOOdubs has quickly developed strong levels of interest given that it solves a more complex and costly problem for content owners. Our software provides a systematic and truly multi-lingual solution for dubbing services which significantly reduces the need for both expensive, high tech equipment and the associated technical operators. As such it has been imperative to ensure an exceptional quality of service and we were delighted that the first projects, delivered in nine different languages, received extremely positive feedback from the client who was particularly impressed with the quality and speed of completion.

We have been cautious to build out demand for ZOOdubs at the right pace, with rigorous testing, high levels of verification and relatively high levels of human involvement during the software's nascency. This will continue through the remainder of this financial year as the software becomes more developed and established, with ongoing R&D investment to broaden its capability. The foundations are being laid now to build a scalable technological and service capability to satisfy client demand so that the operational gearing of the business will be seen in future periods.

The Group is investing in its software and operational capability to support rapid growth, and is currently in the next phase of commercialisation of our dubbing service delivered using ZOOdubs. This is a programme to identify, select, train and engage freelance dubbing directors, voice actors and audio mixers in order to ensure that talent is available to scale sufficiently to meet the growing levels of demand. Again, this is similar to our experience with ZOOsubs and will help us to be more effective and efficient than our competitors. This can be evidenced in the progress we have made in recruiting further freelance audio-visual translators, required to fulfil both subtitling and dubbing services, aided by the expansion of our on-boarding team.

In the traditional entertainment localisation ecosystem, subtitling and dubbing work have followed two detached work streams from the point of inception, which tends to lead to a duplication of work and inconsistencies in translation across the two approaches which are crafted independently. ZOO's latest innovation is a cloud-powered scripting service which is a cornerstone capability that will enable the Company to process combined subtitling and dubbing assignments consistently, providing our customers with further efficiency and greater control. We look forward to providing an update on progress in due course.

Another important operational development in the period was that our new Sheffield facility received security accreditation from the Content Delivery and Security Association, a key endorsement required by some of our existing and target clients.

Affiliate Network

During the first six months, the Group has been successful in adding three new affiliates in emerging markets, bringing the growing network to a current total of 10. These are Studio Ares in Turkey, Bossdom in Taiwan, and WhatSub Pro in South Korea. Our affiliates are all trained in the use of ZOO's cloud systems and, therefore, provide us with additional capacity to meet client demand as well as access to skilled linguists, dubbing directors and voice actors in the territories in which they deliver services to their own networks of clients. We look forward to building out this network further and working closely with our chosen partners.

Fundraise

On 18 April 2017, a Placing was announced to raise £2.6 million of additional funds whilst at the same time capitalising £1.1 million of debt, strengthening the Balance Sheet. The funds are being used to accelerate organic growth and the benefits are already being seen. The Placing also presented the opportunity to welcome new institutions to the register of shareholders. Subsequent to the fundraise, net debt in the period has reduced to \$3.9m (H1 2016 \$6.2m).

Board Appointment

On 5 October 2017, Mickey Kalifa was appointed as a Non-Executive on the Board of Directors. Mickey is a Chartered Accountant with nearly 30 years' experience across the technology, media and gaming sectors. Previously, Mickey spent eight years with Sportech PLC ("Sportech"), latterly as Chief Financial Officer where he led a transformation in the company's financial strength and played a prominent role in driving Sportech's global expansion. Prior to Sportech, Mickey served in a number of executive and finance director roles with some of the world's largest media and technology companies, including Liberty Global, BSKyB PLC, Time Warner, Disney and Young and Rubicam.

As well as welcoming Mickey, we would like to thank all of our staff, our growing network of translators and our shareholders, both existing and new, for their continuing support in these exciting times.

Outlook

Trading in the second half of the year has begun well, with revenue expectations ahead of market guidance, balanced against our increasing investment in R&D and localisation operations which we are making to support our future growth. We continue to manage our costs prudently in line with our growth and our working capital. The pipeline for subtitling work continues to be consistently strong; while there is ever-growing evidence of the significant opportunity available in dubbing, both of which give us continued confidence in achieving on-going strong organic growth. As ZOOdubs continues to mature, so too will the associated net margins, which we would expect to see to a meaningful degree in future periods. The Board is encouraged with its trading in the period to date, remaining confident of meeting its full year management expectations for adjusted EBITDA, and is excited for the Group's future.

Roger D Jeynes
Chairman

Dr Stuart A Green
Chief Executive Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
for the six months ended 30 September 2017

	6 months to 30 Sep 2017	6 months to 30 Sep 2016	Year ended 31 Mar 2017
	\$000	\$000	\$000
Revenue	12,726	7,804	16,488
Cost of sales	(4,668)	(1,952)	(4,483)
Gross Profit	8,058	5,852	12,005
Other operating income	-	74	196
Operating expenses	(7,645)	(5,613)	(11,699)
Operating profit	413	313	502
Analysed as			
EBITDA before share-based payments	1,339	996	1,780
Share based payments	(191)	(7)	(11)
Depreciation	(222)	(114)	(259)
Amortisation and impairment	(513)	(562)	(1,008)
	413	313	502
Exchange (loss)/gain on borrowings	(184)	399	624
Conversion of convertible loan note	(145)	-	-
Finance cost	(221)	(291)	(591)
Total finance cost	(550)	108	33
(Loss)/profit before taxation	(137)	421	535
Tax credit	222	256	256
Profit and total comprehensive income for the period attributable to equity holders of the parent	85	677	791
Profit per ordinary share			
- basic	0.13 cents	2.07 cents	2.42 cents
- diluted	0.11 cents	2.07 cents	2.42 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
as at 30 September 2017

	As at 30 Sep 2017	As at 30 Sep 2016	As at 31 Mar 2017
	\$000	\$000	\$000
ASSETS			
Non-current assets			
Property, plant and equipment	1,034	359	1,073
Intangible assets	6,671	7,134	6,915
Deferred income tax assets	486	486	486
	8,191	7,979	8,474
Current assets			
Trade and other receivables	7,100	3,722	3,753
Cash and cash equivalents	722	328	607
	7,822	4,050	4,360
Total assets	16,013	12,029	12,834
LIABILITIES			
Current liabilities			
Trade and other payables	(3,977)	(3,016)	(4,045)
Borrowings	(734)	(1,466)	(4,102)
	(4,711)	(4,482)	(8,147)
Non-current liabilities			
Borrowings	(3,912)	(5,097)	(2,126)
Total liabilities	(8,623)	(9,579)	(10,273)
Net assets	7,390	2,450	2,561
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	1,010	7,236	7,236
Share premium reserve	41,033	37,014	37,007
Other reserves	12,320	12,320	12,320
Share option reserve	519	324	328
Capital redemption reserve	6,753	-	-
Convertible loan note reserve	42	42	42
Foreign exchange translation reserve	(992)	(992)	(992)
Accumulated losses	(53,275)	(53,474)	(53,360)
	7,410	2,470	2,581
Interest in own shares	(20)	(20)	(20)
Attributable to equity holders	7,390	2,450	2,561

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
for the six months ended 30 September 2017

	Ordinary shares	Share premium reserve	Foreign exchange translation reserve	Convertible loan note reserve	Share option reserve	Capital redemption reserve	Other reserves	Accumu- lated losses	Interest in own shares	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Balance at										
1 April 2016	7,236	37,014	(992)	42	317	-	12,320	(54,151)	(20)	1,766
Share-based payments					7					7
Transactions with owners	-	-	-	-	7	-	-	-	-	7
Profit for the period								677		677
Total comprehensive income for the period	-	-	-	-	-	-	-	677	-	677
Balance at 30 September 2016	7,236	37,014	(992)	42	324		12,320	(53,474)	(20)	2,450
Share-based payments		(7)			4					(3)
Transactions with owners	-	(7)	-	-	4	-	-	-	-	(3)
Profit for the period								114		114
Total comprehensive income for the period	-	-	-	-	-	-	-	114	-	114
Balance at										
31 March 2017	7,236	37,007	(992)	42	328	-	12,320	(53,360)	(20)	2,561
Deferred shares	(6,753)					6,753				-
Conversion of loan note		145								145
Share-based payments					191					191
Issue of share capital	527	3,881								4,408
Transactions with owners	(6,226)	4,026	-	-	191	6,753	-	-	-	4,744
Profit for the period								85		85
Total comprehensive income for the period	-	-	-	-	-	-	-	85	-	85
Balance at 30 September 2017	1,010	41,033	(992)	42	519	6,753	12,320	(53,275)	(20)	7,390

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
for the six months ended 30 September 2016

	6 months to 30 Sep 2017	6 months to 30 Sep 2016	Year ended 31 Mar 2017
	\$000	\$000	\$000
Cash flows from operating activities			
Operating profit for the period	413	313	502
Depreciation	222	114	259
Amortisation and impairment	513	562	1,008
Share based payments	191	7	11
Disposal of property, plant and equipment	-	-	1
Changes in working capital:			
Increases in trade and other receivables	(3,347)	(1,191)	(1,222)
(Decreases)/increases in trade and other payables	(68)	(80)	949
Cash flow from operations	(2,076)	(275)	1,508
Tax received	222	256	256
Net cash flow from operating activities	(1,854)	(19)	1,764
Investing Activities			
Purchase of intangible assets	(269)	(314)	(541)
Purchase of property, plant and equipment	(183)	(40)	(168)
Net cash flow from investing activities	(452)	(354)	(709)
Cash flows from financing activities			
Repayment of borrowings	(392)	(66)	(164)
Proceeds from borrowings	93	688	-
Finance cost	(267)	(235)	(591)
Issue of Share Capital (net of costs of issue)	2,987	-	(7)
Net cash flow from financing	2,421	387	(762)
Net increase in cash and cash equivalents	115	14	293
Cash and cash equivalents at the beginning of the period	607	314	314
Cash and cash equivalents at the end of the period	722	328	607

NOTES

General information

ZOO Digital Group plc ('the Company') and its subsidiaries (together 'the Group') provide productivity tools and services for digital content authoring, video post-production and localisation for entertainment and packaging markets and continue with on-going research and development in those areas. The Group has operations in both the UK and US.

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 7th Floor, City Gate, 8 St Mary's Gate, 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 Company operates.

The interim accounts were approved by the board of directors on 10 November 2017.

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 ended 31 March 2018 will be prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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 2017, and have been consistently applied, unless stated otherwise.

A copy of the statutory accounts for the year ended 31 March 2017, prepared under IFRS, has been delivered to the Registrar of companies and contained an unqualified auditors' report.

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.

Foreign currency translation

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.

Equity securities issued

On 18 April 2017 it was announced that the company proposed to raise gross funds of approximately £2.58m (\$3.33m) through a placing and subscription comprising the issue of 28,611,111 new ordinary shares at 9p per share. It was further announced that 12,222,223 shares would be issued in return for the conversion of the £600,000 outstanding loan from Sara Green, the wife of Dr Stuart A Green, and the conversion of £500,000 of convertible loan note and that the remaining £2.57m of convertible loan note be extended to mature on 31 October 2020. This transaction was approved in a shareholder meeting held on 4 May 2017.

No securities were issued during the periods ended 30 September 2016 or 31 March 2017.

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 2017	30 Sep 2016	31 Mar 2017
	No. of shares	No. of shares	No. of shares
Basic	66,309,079	32,660,660	32,660,660
Diluted	78,909,632	42,647,881	42,690,381

At 30 September 2016 and 31 March 2017, the basic and diluted earnings per share were the same due to the average share price during the period being lower than the conversion price or the exercise prices of the convertible loan note and share options.

Further Copies

Copies of the Interim Report for the six months ended 30 September 2017 will be available, free of charge, for a period of one month from the registered office of the Company at 7th Floor, City Gate, 8 St Mary's Gate, Sheffield, S1 4LW or from the Group's website: www.zoodigital.com.

COMPANY INFORMATION

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