

23 September 2004

**ZOO DIGITAL GROUP PLC
("ZOO" or "the Group")**

INTERIM RESULTS FOR THE SIX MONTHS TO 30 JUNE 2004

**ANNOUNCEMENT OF AGREEMENT WITH UNIVERSAL PICTURES
INTERNATIONAL**

ZOO Digital Group plc ("ZOO" or "the Group") today announces results for the six months ended 30 June 2004 and an agreement with Universal Pictures International to market and publish the interactive DVD game "Who Wants To Be A Millionaire" in seven territories for Christmas 2004.

Financial Highlights

- Turnover increased by 131% to £3.0m (2003: £1.3 million)
- Loss before interest, tax, depreciation and amortisation of £1.0m (2003: £0.73 million)
- Cash balance at 30 June 2004 of £3.0m (2003: £1.8 million)
- On track to reach profitability by year end

Operational Highlights

- 'Who Wants To Be A Millionaire' interactive DVD game to be rolled out across a minimum of seven territories for Christmas 2004
- Detailed discussions with a number of major film/toy companies to license DVD-EXTRA
- Total of 30 games to be published over next six months on DVD, PS2, GBA, Xbox and PC platforms
- Patents and IPs related to DVD-EXTRA further extended and 2 new products scheduled for release in 2005
- Premier Manager on track for release for Christmas 2004

Commenting on the results, Ian Stewart, CEO of ZOO Digital Group plc, said:

"ZOO's continued rapid progress in both the innovation of its DVD technology and the commercial development of its two business units is extremely satisfying. ZOO Digital Publishing Ltd ("ZDPL") is well on track to reach our goal of profitability this year and we remain optimistic that the penetration of DVD-EXTRA following launch will result in ZOOtech Ltd becoming profitable in 2005. With our DVD production technology we have proven that the product meets a diverse demand across a range of market sectors and are currently in detailed licensing discussions with a number of international multi-media brands and major corporates.

The interactive DVD market is being established in a number of countries and it is pleasing that ZDPL is at the forefront of this development together with partners such as Universal Pictures, VCI and T-Online. ZDPL's focus on high quality recognised titles is paying dividends and we will be releasing a total of 30 games across a variety of platforms for Christmas 2004."

Enquiries

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CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

Introduction

The last six months has seen the Group build significantly on the growth and development reported at the full year. The restructuring of ZOO into two defined business units; ZOOtech Ltd and ZOO Digital Publishing Ltd ("ZDPL") has worked extremely well and allowed each unit to focus on its core competencies and progress significantly with their respective business plans.

ZOOtech focuses on R&D and licensing of DVD-EXTRA, the Group's highly original development software capable of creating complex interactive content for standard DVD players. Over the last six months, following the successful completion of the 'Early Adopter Programme' a real and very large user demand has been identified, culminating in the launch of DVD-EXTRA STUDIO in April 2004. The strategy for ZOOtech is simple; to create the industry standard tool for the production of interactive DVD content and drive revenues through licensing worldwide in a combination of up front fees and royalties.

ZDPL, which focuses on the publishing and distribution of interactive entertainment products across multiple platforms, continues to provide the Group with the bulk of revenues and this side of the business is expected to continue to generate cash and grow significantly as new titles are launched. As a consequence of ZDPL's pioneering interactive DVD titles, the Group has established a growing consumer appetite and widening interest in the use of DVD as a gaming platform across many territories and we expect to grow this area significantly.

Financial Review

The Group increased turnover by 131% for the period to £3.0m (2003: £1.3m) and in line with expectations made a loss before interest, tax and depreciation of £1.0m (2003: £0.73m). The Group expanded its investment in ZOOtech with the set-up of the commercial team and continued to invest in research and development. We continue to write-off this expenditure in the Profit and Loss account with ZOOtech accounting for over 80% of the above loss. These losses in ZOOtech are expected to reduce going forward as revenues gradually build through up-front fees and royalties on DVD-EXTRA titles published by third parties.

The Group's cash position was £3.0m compared to £1.8m for the same period last year with net current assets at £4.3m (2003: £1.2m).

Historically, the Group experiences a much stronger turnover in the second half of the year, driven by Christmas trading with ZDPL, and as such ZOO expects that the Group will reach its target of profitability in this financial year.

ZOOtech Ltd

The last six months has seen an incredibly busy period in ZOOtech's development. The 'Early Adopter Programme' has been extremely successful and resulted in over fifty organisations taking part including a number of Hollywood studios and large DVD authoring houses worldwide. A commercial team has been established and is now in place to support the sales and marketing of DVD-EXTRA with Cees Zwaard appointed as Managing Director of ZOOtech Ltd. A US operation, ZOOtech Inc, has been set up with Gordon Doran appointed as President to exploit the product in the North American market. As part of a plan to develop the European marketplace, we have appointed two companies in Benelux and Germany as business partners for a number of European territories.

Since launching DVD-EXTRA STUDIO in April 2004, the response has been very enthusiastic. To date we have already signed a number of developer and publisher licences and there are already at least 15 titles in production that have used DVD-EXTRA STUDIO for release in 10 countries over the next few months. These include the "Driving Test" products being published by Focus Multimedia, 3 Children's Edutainment titles commissioned by a major publisher for release in France and 2 Interactive Marketing DVDs commissioned by a major car manufacturer.

What has become clear is that the uses for DVD-EXTRA are very broad and we have been able to validate our assertions that DVD-EXTRA has applications in a wide range of market segments including film and video, education, multimedia, marketing uses and corporate applications. The scale is such that ZOOtech is in active discussions with over 200 companies worldwide with regard to using DVD-EXTRA on over 250 titles and it is anticipated that this number will grow rapidly.

In Hollywood, for example, there is strong interest in the time and cost savings that can be achieved using DVD-EXTRA STUDIO which reflects in the speed of development and the opportunity to produce more engaging bonus features. In addition, we are in active discussions with a number of studios about DVD security and how DVD-EXTRA STUDIO can be integrated into their processes. By 2005, we envisage that DVD-EXTRA will be used by a number of Hollywood studios.

In the education sector we are working with a leading US DVD authoring house and with 3 of the world's leading children's publishing and media companies who see interactive DVD as an excellent platform to help educate, entertain and motivate children as well as expand their understanding of the world around them.

We continue to attend prestigious industry events to raise visibility, brand awareness and identify opportunities. Since the launch of DVD-EXTRA STUDIO at the National Association of Broadcasters Conference in April, we have exhibited at the European Games Network (EGN) in London, Entertainment Media Expo (EMX) in Los Angeles and International Broadcasting Convention (IBC) in Amsterdam. These events support our vertical market strategy for business development.

At EMX, DVD-EXTRA received its second prestigious DVD Association Excellence Award for the "Qui Veut Gagner Des Millions" title published in France by Universal Pictures. The award was for "Navigation Design and Implementation" and given to titles that demonstrate excellence in the use of the navigation features of the DVD-Video specification. It is further testament to the innovation and power of DVD-EXTRA.

By the end of the first half ZOOtech has filed a total of 36 patents and ZOOtech's innovative approach to DVD development has uncovered a wide range of new opportunities and applications. These include a range of "Prosumer" products and a product that enhances DVD security.

The huge number of opportunities for DVD-EXTRA is certainly too many to pursue all at once without over-stretching our resources. The strategy employed is to safeguard future opportunities through the securing of patent protection while maintaining operational focus on those areas where the strongest and most immediate revenue potential has been identified.

ZOO Digital Publishing Limited ("ZDPL")

ZDPL continues to go from strength to strength and the management is delighted with the progress of this business unit. ZDPL has an extremely attractive portfolio of popular games lined up for the key Christmas trading period. These games will be released across a combination of PlayStation2 (PS2), PC, Xbox, interactive DVD and Gameboy Advance (GBA) platforms. Significantly, ZDPL is now in partnership with many major quality games publishers, which further underlines the strength, depth and saleability of the Group's games portfolio.

ZDPL has successfully expanded the territories in which it operates and is now focussing on opportunities in the North American market where we are in active discussions with a number of major US corporates to have product placed across a range of platforms including interactive DVD, PS2 and Xbox.

Interactive DVD Titles

Universal will release a multi player version of ZDPL's interactive DVD product "Who Wants To Be A Millionaire" for Christmas 2004. The product will be released across many territories including the UK, France, Italy, Spain, Holland, Sweden and Australia. Furthermore Universal are marketing and publishing ZDPL's interactive DVD football title "FOOTBALL QUIZZ: VOTRE DÉFI!" in France for Christmas 2004. Universal's continued and expanding commitment to interactive DVDs clearly demonstrates that interactive DVD games are gaining mass international appeal and Universal continues to give indications that, together with ZDPL, it wishes to remain at the forefront of this rapidly expanding gaming market.

ZDPL has also concluded deals for the "Who Wants To Be A Millionaire" product in other territories. In Germany, the Group has agreed to develop an interactive DVD game with T-Mobile and in Russia, ZDPL has agreed a deal with Noviy Disk for the product to be released in early 2005.

During the period ZDPL signed a licensing deal with Guinness World Records and will publish a Guinness World Records DVD game in the UK, France and Germany to coincide with the fiftieth anniversary of Guinness World Records. Further territories are still in discussion with 3rd party publishers. ZDPL has also developed its first title for VCI: "Manchester United – The Official Interactive DVD" which is due for release in November 2004.

For 2005 ZDPL will be broadening its range of interactive DVD products with a focus on the lucrative North American market as well as further consolidating its position in the European market place.

Games Publishing

Specifically on individual gaming platforms outside interactive DVD the Group has been extremely active acquiring rights, entering into partnerships and signing licensing deals. Regarding Premier Manager, the 2004 product which has been developed in-house is on schedule for pre-Christmas release across GBA, PS2 and PC formats. On the PC gaming side ZDPL has signed a European publishing deal with Midway for three titles: 'The Suffering', 'Arcade Treasures' and 'Psi-Ops – The Mindgate Conspiracy'.

For GBA ZDPL has acquired the rights to the Hasbro title 'Monopoly' which is expected to release in early 2005, two Namco titles 'Ms PacMan-Maze Madness' and 'Pacman World' and 'Who Wants To Be A Millionaire 2' developed by Hothouse, ZDPL's Bristol studio which is expected to launch for Christmas 2004 in the UK and Australia.

The games listed above represent some highlights in progress over the financial period. However, in total, ZDPL has a portfolio of over 45 games with plans to publish a further 19 titles which amounts to a total of 54 individual units in a number of countries for Christmas 2004. Other titles include 'Guilty Gear', 'Gallop Racer' and 'Pool Shark'.

The management firmly believes that by having a portfolio of popular well-known and proven game brands across a broad range of platforms and price-points it can avoid the high cost and lengthy development pitfalls associated with the mainstream games development sector, and limiting the exposure to any single title.

ZDPL's strategy is to improve the quality of new games titles that it publishes with a focus on fewer, higher potential products and serving key accounts with bigger outlets in the UK, building on established relationships with retailers such as Dixons and Game while also looking to European markets. The management of ZOO has already begun this process and strongly believes that a higher quality of titles is visible in the games being released this year.

Outlook

The last six months have seen the Group grow and progress ZOO's key activities of games publishing and R&D and licensing of DVD-EXTRA. The next six months will see us build further on this by delivering solid revenues on the publishing side and exploiting our DVD developing technology through the signing of a number of license agreements.

We are on track to reach profitability for this financial year and given the quality of the games portfolio, readiness for the Christmas market, together with the proven appeal of DVD-EXTRA, we remain extremely confident about the opportunities and prospects on both sides of the business moving forward.

We would like to take this opportunity, on behalf of the Board, to thank all ZOO's staff for their continued hard work and commitment over the last six months.

ZOO DIGITAL GROUP PLC
CONSOLIDATED UNAUDITED PROFIT & LOSS ACCOUNT
INTERIM RESULTS TO 30 JUNE 2004

	30-Jun-04	30-Jun-03	31-Dec-03
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
Turnover	3,012	1,296	5,093
Net operating expenses (excluding depreciation)	(4,011)	(2,027)	(6,048)
Loss before interest, tax, depreciation and amortisation	(999)	(731)	(955)
Other operating expenses			
- depreciation	(57)	(55)	(112)
- amortisation of goodwill	(234)	(225)	(451)
Operating loss	(1,290)	(1,011)	(1,518)
Net investment income	64	16	(20)
Loss on ordinary activities before taxation	(1,226)	(995)	(1,538)
Taxation	-	-	84
Retained loss for the period	(1,226)	(995)	(1,454)
Loss per ordinary share	(0.44p)	(0.61p)	(0.75p)

ZOO DIGITAL GROUP PLC
CONSOLIDATED UNAUDITED BALANCE SHEET
INTERIM RESULTS TO 30 JUNE 2004

	30-Jun-04	30-Jun-03	31-Dec-03
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
Fixed Assets			
Intangible	3,391	3,540	3,343
Tangible	225	168	127
	<u>3,616</u>	<u>3,708</u>	<u>3,470</u>
Current Assets			
Stock	357	229	394
Debtors	3,198	905	3,107
Cash at bank and in hand	2,974	1,796	5,451
	<u>6,529</u>	<u>2,930</u>	<u>8,952</u>
Creditors : amounts falling due within one year	(2,225)	(1,760)	(3,185)
Net current assets	<u>4,304</u>	<u>1,170</u>	<u>5,767</u>
Total assets less current liabilities	7,920	4,878	9,237
Creditors : amounts falling due after more than one year	-	(757)	-
Total net assets	<u><u>7,920</u></u>	<u><u>4,121</u></u>	<u><u>9,237</u></u>
Financed By			
Share capital	559	435	558
Share premium account	18,700	13,239	18,691
Other reserves	8,598	8,598	8,598
Profit & loss account	(19,608)	(17,923)	(18,382)
Shareholders' funds (all equity)	<u>8,249</u>	<u>4,349</u>	<u>9,465</u>
Interest in own shares	(329)	(228)	(228)
	<u><u>7,920</u></u>	<u><u>4,121</u></u>	<u><u>9,237</u></u>

ZOO DIGITAL GROUP PLC
CONSOLIDATED UNAUDITED CASH FLOW STATEMENT
INTERIM RESULTS TO 30 JUNE 2004

	30-Jun-04	30-Jun-03	31-Dec-03
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
Net cash outflow from operating activities	(1,156)	(902)	(2,070)
Returns on investment and servicing of finance	64	16	(20)
Tax refund	-	-	84
Capital expenditure and financial investment	(453)	(22)	(67)
Acquisitions and disposals	(85)	-	-
Net cash outflow before financing	(1,630)	(908)	(2,073)
Financing	(847)	1,398	6,218
(Decrease) / increase in cash in the period	(2,477)	490	4,145

Reconciliation of operating loss to net cash flow from operating activities

Operating loss	(1,290)	(1,011)	(1,518)
Depreciation charge	57	55	112
Goodwill amortisation	234	225	451
Decrease / (Increase) in stock	37	134	(31)
(Increase) / Decrease in debtors	(91)	530	(1,672)
(Decrease) / Increase in creditors	(103)	(835)	588
Net cash outflow from operating activities	(1,156)	(902)	(2,070)

Analysis of changes in cash and cash equivalents

(Decrease) / increase in cash in the period	(2,477)	490	4,145
Cash outflow from decrease in debt	858	556	755
	(1,619)	1,046	4,900
Net (debt)/ funds at start of period	4,593	(307)	(307)
Net funds at end of period	2,974	739	4,593

Analysed as follows

Cash at bank and in hand	2,974	1,796	5,451
Debt due within one year	-	(1,057)	(857)
Finance leases	-	-	(1)
	2,974	739	4,593

NOTES

Board approval

The interim accounts were approved by the board of directors on 21st September 2004.

Nature of accounts

The financial information for the six months ended 30 June 2004 and 30 June 2003 is unaudited and does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The information has been prepared on the basis of accounting policies used in the financial statements to 31 December 2003.

The financial information for the year ended 31 December 2003 is extracted from the audited accounts for that period. The auditors' report on those accounts was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

Earnings per share

Earnings per share is calculated based upon the loss on ordinary activities after tax for each period divided by the weighted average number of shares in issue during each period being 279,058,585 (June 2003: 163,826,332, December 2003: 193,574,949).

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

Gains and losses

The company had no recognised gains or losses in the current period other than the loss for the period.

Further Copies

Copies of this announcement and the Interim Report for the six months ended 30 June 2004 will be available, free of charge, for a period of one month from the Company's Nominated Adviser and Broker, Noble & Company Limited, 120 Old Broad Street, London, EC2N 1AR, Tel: 020 7763 2200 or from the registered office of the Company at 20 Furnival Street, Sheffield, S1 4QT.