

ZOO DIGITAL GROUP PLC
(“ZOO” or “the Group”)

INTERIM RESULTS FOR THE SIX MONTHS TO 30 SEPTEMBER 2005

ZOO Digital Group plc (“ZOO” or “the Group”) today announces its results for the six months ended 30 September 2005.

Financial Highlights

- Group turnover increased by 48% to £4.4 million (six months to 30 June 2004: £3.0 million)
- Loss before interest, tax, depreciation and amortisation of £2.0m (six months to 30 June 2004: Loss of £1.0 million)
- On track to reach Group profitability by financial year end
- Successful placing with institutions to raise £3 million (net of expenses)

Operational Highlights

- First ‘Menu Regionalisation’ contract signed with major Hollywood studio
- ‘Who Wants To Be A Millionaire – Family Picture Edition’, ‘Wallace & Gromit’ and ‘Telly Addicts’ interactive DVD games completed and delivered to Universal Pictures. Universal will release these games into eight territories throughout the second half of the year
- First interactive DVD completed for the US market – ‘Wallace & Gromit’ published by Snap TV
- Management focus on US market and opportunities that Hollywood presents

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

“The first six months of this year have seen a frenetic level of activity. We have signed our first deal with a major Hollywood studio, developed and tested the technology across a number of new product areas, published a large number of games and interactive DVDs for the Christmas market and broken into the US consumer market. We expect that the commercial results of this activity will be clearly demonstrated in the full year.”

Enquiries

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CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

Introduction

The first half of this year has marked another positive step change in ZOO's development. The Group has firmly established a foothold in the US market through its first major contract with a Hollywood studio and its first published interactive DVD with Snap TV. Detailed discussions continue with other large entertainment corporates and management is focused on delivering further revenues in this market throughout the rest of the financial year.

In addition, ZOO has produced its first 'non-quiz' interactive DVD ("iDVD") game as well as a host of interactive titles for the Christmas period. Excitingly, the retail industry, driven by consumer demand and an 800% increase in iDVD titles, has recognised the importance of iDVD's as an entertainment genre and is now allocating dedicated shelf space separate from space allocated to DVD film titles.

Overall, applications for DVD-EXTRA, ZOO's unique DVD authoring software, have progressed and diversified throughout the first half of this year. This is in parallel with a growing demand for iDVD titles both from consumers and the entertainment industry which wants to match increasing consumer demand with innovative and efficient production techniques.

Financial Review

The Group increased turnover by 48% to £4.4 million for the period to 30 September 2005 (six months to 30 June 2004: £3.0m) and made a loss before interest, tax and depreciation of £2.0 million (six months to 30 June 2004: loss of £1.0 million). The increase in loss is primarily attributable to continued investment in the DVD-EXTRA technology whilst revenues are expected from technology licensing over the second half.

Historically, the Group experiences a much stronger turnover in the second half of the year, driven by Christmas trading in ZOO's publishing division ZDPL. In addition, this year there is an especially strong release schedule in the final quarter of the financial year. ZDPL moved into profitability last year and is expected to continue its progress in driving profitable revenue growth. There is also an expectation that further opportunities with regard to DVD production will be realised over the second half of the year and therefore ZOO expects that the Group as a whole will reach profitability in this financial year.

ZOOtech Ltd

ZOOtech, the technology division of the Group, continues to focus its activities on licensing its innovative proprietary technology and firmly believes this technology can revolutionise the video production industry. ZOOtech's current products deliver substantial time and cost savings for DVD title producers and its market focus over the period has been in two areas:

Home Video Market

Those companies involved in the production and publishing of home video titles, currently on DVD-Video. The technology products to date are DVD-EXTRA STUDIO and the Regionalisation Utility for the efficient production of localised DVD menus. Customers include a major Hollywood studio, Technicolor Creative Services, Ascent Media Corporation and Comchoice. This technology allows radical process re-engineering, enabling automation of many DVD production processes that currently depend upon manual labour. ZOOtech's current products deliver substantial time and cost savings for DVD title producers and the Group firmly believes this technology can revolutionise the video production industry.

Interactive DVD

Those companies involved in the production and publishing of interactive DVD-Video titles, to which ZOOtech licenses its DVD-EXTRA STUDIO product. This software is provided to production houses and multimedia developers. ZOOtech generally enters into publishing agreements with those companies who commercialise such products. Companies such as EMI, Universal Pictures, Granada Media, Snap TV, IMG/TWI and National Geographic have either released or are in the process of releasing interactive DVD titles in multiple territories. These include 'Who Wants To Be A Millionaire', 'Madagascar', 'Wallace & Gromit DVD Game', 'Now That's What I Call A Music Quiz', 'FA Premier League Super Quiz', 'Beat the Intro', 'Test the Nation' and 'NCAA Football Trivia Challenge'.

ZOOtech's main development project is the 'Post-production Hub', which is intended to overcome the inherent inefficiencies in the currently decentralised process of video production by standardising and centralising operations. The first element of this hub is ZOOtech's 'Regionalisation Utility' which enables studios to produce titles in many languages for multiple territories in a fraction of the time and cost of the conventional approach. This results in typical savings of multiple millions of dollars for Hollywood studios. One major studio has already taken this product and testing is well under way with other organisations.

The second element of the hub is a project that encompasses an automated authoring system to allow efficient production of film titles across multiple platforms and formats, including DVD-Video, UMD (used by Playstation Portable), HD DVD, Blu-ray Disc and some 'on demand' formats. Again licensees will benefit from large annual time and cost savings as well as greater efficiencies and creative capacity. Prototypes are currently being tested by major organisations and the Group estimates that this process could be used on a large percentage of all film DVDs produced.

The North American market clearly offers ZOOtech many opportunities, not least the potential for relatively large individual deals with film studios and entertainment corporates and technology development partnerships. Consequently, ZOOtech is looking to develop its US business and has focused greater resources and management time in driving business development in this area. In particular Robert Deri (Chief Financial Officer) and Dr Stuart Green (Chief Technical Officer) have been working more closely on opportunities that the US presents, concentrating on deepening existing relationships with the major organisations and working closely with customers regarding process improvement, reduction of client in-house production budgets and software solutions.

ZOO Digital Publishing Limited ("ZDPL")

ZDPL's activities have led to the creation of a new game genre – the interactive DVD and DVD Game. In the UK retailers such as HMV, Virgin, WHSmith and Borders are, for the first time, dedicating point-of sale areas and actively promoting this rapidly growing product category. ZDPL has pioneered this development and completed four titles during the period, which are being published by Universal Pictures in a number of territories including UK, France, Germany and Japan and supported by television advertising campaigns. In addition, as previously reported in October, ZDPL has for the first time broken into the North American market through a partnership with Los Angeles based games producer Snap TV to publish ZOO's interactive DVD game "Wallace & Gromit Curse of the Were Rabbit". This game is also the first non-quiz based product to enter the market and continues ZOO's history of setting new standards of innovation. Such innovation has not gone unnoticed and the Group was delighted to win three awards in the recent DVD Association Excellence Awards ceremony in New York City with awards for three of its individual titles.

In the Video Games business ZDPL has, during the period, been focussed on delivering its strategy to improve the quality of new games titles that it publishes with a focus on fewer, higher potential products. In the first six months ZDPL have published a total of 38 new games across a variety of platforms including PC, PS2, Xbox, Nintendo Gameboy Advance, Nintendo DS and Sony PSP and has acquired a number of key titles for release in the final quarter of the financial year. These include 'Ty3: Night of the Quinken', 'LA Rush', 'Narc', 'Seaworld Adventure Parks Tycoon 3D' and 'American Chopper – The Full Throttle'.

ZDPL is therefore confident that it can publish attractive and popular titles that will appeal to consumers. However, ZOO remains conservative in its outlook for sales during the second half given the current uncertainties in the retail market.

Outlook

The last six months have seen the Group continue to grow and progress its key activities. The next six months will see us build further on this by delivering solid revenues on the publishing side and further

exploiting our DVD authoring technology. Overall both subsidiaries have continued to progress strongly as the group continues to focus on areas where near-term revenues and the large and accessible market opportunities exist.

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.

M J Barnes
Chairman

I C Stewart
Chief Executive Officer

14 December 2005

ZOO DIGITAL GROUP PLC
CONSOLIDATED UNAUDITED PROFIT & LOSS ACCOUNT
INTERIM RESULTS TO 30 SEPTEMBER 2005

	6 months to 30-Sep-05 Unaudited £'000	6 months to 30-Jun-04 Unaudited £'000	15 months to 31-Mar-05 Audited £'000
Turnover	4,395	3,012	12,669
Cost of sales	(2,911)	(1,808)	(7,611)
Gross profit	1,484	1,204	5,058
Other operating expenses	(3,508)	(2,203)	(6,647)
Loss before interest, tax, depreciation and amortisation	(2,024)	(999)	(1,589)
Depreciation	(82)	(57)	(155)
Amortisation of goodwill	(241)	(234)	(593)
Operating loss	(2,347)	(1,290)	(2,337)
Interest payable	(50)	(15)	(42)
Investment income	11	79	99
Loss before tax	(2,386)	(1,226)	(2,280)
Taxation	-	-	53
Retained loss	(2,386)	(1,226)	(2,227)
Loss per ordinary share	(0.79p)	(0.44p)	(0.80p)

ZOO DIGITAL GROUP PLC
CONSOLIDATED UNAUDITED BALANCE SHEET
INTERIM RESULTS TO 30 SEPTEMBER 2005

	6 months to 30-Sep-05 Unaudited £'000	6 months to 30-Jun-04 Unaudited £'000	15 months to 31-Mar-05 Audited £'000
Fixed Assets			
Tangible	405	225	377
Intangible	3,127	3,391	3,351
	<u>3,532</u>	<u>3,616</u>	<u>3,728</u>
Current Assets			
Stock	1,005	357	903
Debtors	6,284	3,198	5,937
Cash	-	2,974	-
	<u>7,289</u>	<u>6,529</u>	<u>6,840</u>
Current Liabilities			
Creditors	(3,263)	(2,225)	(3,630)
Net current assets	4,027	4,304	3,210
Long term liabilities	-	-	-
	<u>7,558</u>	<u>7,920</u>	<u>6,938</u>
Equity			
Called up share capital	635	559	559
Share premium	21,649	18,700	18,719
Other reserves	8,598	8,598	8,598
Reserves	(22,995)	(19,608)	(20,609)
Interest in own shares	(329)	(329)	(329)
	<u>7,558</u>	<u>7,920</u>	<u>6,938</u>

ZOO DIGITAL GROUP PLC
CONSOLIDATED UNAUDITED CASH FLOW STATEMENT
INTERIM RESULTS TO 30 SEPTEMBER 2005

	6 months to 30-Sep-05	6 months to 30-Jun-04	15 months to 31-Mar-05
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
Net cash outflow from operating activities	(3,230)	(1,156)	(4,302)
Returns on investment and servicing of finance	(39)	64	57
Capital expenditure and financial investment	(127)	(538)	(1,107)
Net cash outflow before financing	(3,396)	(1,630)	(5,352)
Financing	3,006	(847)	(828)
(Decrease) / increase in cash in the period	(390)	(2,477)	(6,180)
Reconciliation of operating loss to net cash flow from operating activities			
Operating loss	(2,347)	(1,290)	(2,337)
Depreciation charge	82	57	155
Goodwill amortisation	241	234	593
(Increase) / Decrease in stock	(102)	37	(509)
(Increase) / Decrease in debtors	(347)	(91)	(2,777)
(Decrease) / Increase in creditors	(757)	(103)	573
Net cash outflow from operating activities	(3,230)	(1,156)	(4,302)
Analysis of changes in cash and cash equivalents			
(Decrease) / increase in cash in the period	(390)	(2,477)	(6,180)
Cash outflow from decrease in debt	-	858	858
	(390)	(1,619)	(5,322)
Net (debt)/ funds at start of period	(729)	4,593	4,593
Net (liabilities) / funds at end of period	(1,119)	2,974	(729)
Analysed as follows			
Bank overdraft	(1,119)	-	(729)
Cash at bank in hand	-	2,974	-
	(1,119)	2,974	(729)

NOTES

Board approval

The interim accounts were approved by the board of directors on 13th December 2005.

Nature of accounts

The financial information for the six months ended 30 September 2005 and 30 June 2004 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 March 2005.

The financial information for the period ended 31 March 2005 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 300,599,003 (June 2004: 279,058,585; March 2005: 279,333,785).

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 September 2005 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.