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If you sell or have sold or otherwise transferred all of your ordinary shares in ZOO Digital Group PLC (the "Company") please send this document, together with the accompanying form of proxy, immediately to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The directors of the Company (the "Directors"), whose names appear on page 4, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Noble & Company Limited ("Noble"), which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting for the Company and no other person in connection with the proposed Fundraising and will not be responsible to anyone other than the Company for providing the protections afforded to customers of Noble nor for advising any other person on the contents of this document or any matter referred to herein.

ZOO Digital Group PLC

(Registered and incorporated in England and Wales No. 3858881)

**Fundraising of approximately £3.98 million (net of expenses)
by way of proposed
Issue of Convertible Loan Stock
and
Placing of 110,000,000 new Ordinary Shares of 0.2 pence
by Noble & Company Limited
at 0.65 pence per Ordinary Share
and
Notice of Extraordinary General Meeting**



NOBLE

A letter from the Chairman of ZOO Digital Group PLC explaining the background to and the reasons for the proposed Fundraising is set out on pages 4 to 10 of this document.

A notice convening an extraordinary general meeting of the Company to be held at the Company's offices at 20 Furnival Street, Sheffield, S1 4QT at 11:00 a.m. on 27 September 2006 is set out at the end of this document. A form of proxy for use at the meeting is enclosed with this document and should be completed, signed and returned in accordance with the instructions thereon as soon as possible but in any event so as to be received by the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU by not later than 11:00 a.m. on 25 September 2006. The completion and return of a form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting should you wish to do so.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Latest time and date for receipt of forms of proxy	11:00 a.m. on 25 September 2006
Extraordinary General Meeting	11:00 a.m. on 27 September 2006
Admission and dealings in the Placing Shares and the Subscription Shares expected to commence on AIM	8:00 a.m. on 28 September 2006

FUNDRAISING STATISTICS

Placing Price per Placing Share	0.65 pence
Number of Placing Shares being placed on behalf of the Company	110,000,000
Amount of Convertible Loan Stock being subscribed for under the Fundraising	£3,496,000
Amount of Convertible Loan Stock being subscribed for under the Subscription	£45,000
Number of Placing Shares being placed as a percentage of the existing issued share capital	34.7%
Number of Placing Shares being placed as a percentage of the enlarged issued share capital	24.8%
Number of Subscription Shares being subscribed for	16,153,846
Number of Ordinary Shares in issue immediately following completion of the Fundraising and the Subscription	443,481,674
Number of Ordinary Shares in issue following Admission of the Placing Shares and the Subscription Shares and following full conversion of the Convertible Loan Stock (including the Subscription CULS)	988,250,905
Market capitalisation following completion of the Fundraising and the Subscription at the Placing Price	£2.88 million
Gross proceeds from the Fundraising	£4.21 million
Estimated net proceeds of the Fundraising receivable by the Company	£3.98 million

DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

“the Act”	the Companies Act 1985, as amended
“Admission”	the admission of the Placing Shares and the Subscription Shares to trading on AIM and such admission becoming effective in accordance with the AIM Rules
“AIM”	AIM, an exchange regulated market regulated by the London Stock Exchange
“AIM Rules”	the rules for AIM companies and their nominated advisers published by the London Stock Exchange from time to time, in relation to AIM traded securities
“Company” or “ZOO”	ZOO Digital Group plc
“Convertible Loan Stock Issue”	the conditional subscription for the Convertible Loan Stock (excluding the Subscription CULS) by certain institutional and other investors, including the FVP VCTs
“CULS” or “Convertible Loan Stock”	£3,541,000 6 per cent. Unsecured Convertible Redeemable Loan Stock 2011 of the Company proposed to be issued for cash at the Issue Price
“Directors” or “Board”	the directors of the Company whose names are set out on page 4 of this document
“EGM” or “Extraordinary General Meeting”	the extraordinary general meeting of the Company to be held at the Company’s offices at 20 Furnival Street, Sheffield, S1 4QT at 11.00 a.m. on 27 September 2006 (or any adjournment thereof), notice of which is set out at the end of this document
“Engagement Letter”	an engagement letter dated 31 August 2006 between (1) Noble and (2) the Company relating to the Fundraising
“Existing Ordinary Shares”	the 317,327,828 Ordinary Shares in issue as at the date of this document
“Foresight” or “FVP”	VCF LLP (trading as Foresight Venture Partners)
“Form of Proxy” or “Proxy Form”	the form of proxy accompanying this document for use by Shareholders at the EGM
“Fundraising”	the proposed fundraising by the Company by way of the Convertible Loan Stock Issue and Placing
“Fundraising Resolutions”	resolutions 1 and 2 as set out in the Notice of EGM
“FSA”	the Financial Services Authority
“FVP VCTs”	Foresight 2 VCT plc, Foresight 3 VCT plc and Foresight 4 VCT plc
“Group”	the Company and its subsidiaries
“HMRC”	Her Majesty’s Revenue and Customs
“Issue Price”	£1 payable for each £1 nominal of Convertible Loan Stock to be issued
“KBC Peel Hunt”	KBC Peel Hunt Ltd
“Loan Stock Holder”	any person whose name is, at the relevant time, entered as holder of Convertible Loan Stock in the register following the Fundraising
“Loan Stock Instrument”	the conditional deed constituting the Convertible Loan Stock which has been executed by the Company
“London Stock Exchange”	London Stock Exchange plc
“Noble”	Noble & Company Limited, the Company’s nominated adviser and broker, which is authorised and regulated by the Financial Services Authority and has its registered address at 76 George Street, Edinburgh, EH2 3BU
“Notice of EGM”	the notice of the EGM set out at the end of this document
“Ordinary Shares”	ordinary shares of 0.2p each in the capital of the Company
“Placing Price”	0.65p per Placing Share
“Placing Shares”	110,000,000 new Ordinary Shares to be allotted and issued to certain institutional and other investors, including the FVP VCTs, pursuant to the Placing
“Placing”	the proposed placing by Noble, on behalf of the Company, of the Placing Shares at the Placing Price details of which are set out in this document
“Resolutions”	the resolutions to be proposed at the EGM
“Shareholders”	the persons who are registered as holders of Ordinary Shares from time to time
“Subscription”	the proposed subscription by Noble for 15,384,615 new Ordinary Shares at the Placing Price and the proposed subscription by KBC Peel Hunt for 769,231 new ordinary shares at the Placing Price and £45,000 of the CULS at the Issue Price
“Subscription CULS”	the £45,000 of the CULS at the Issue Price proposed to be subscribed for by KBC Peel Hunt pursuant to the Subscription
“Subscription Shares”	the 16,153,846 new Ordinary Shares subject to the Subscription
“UK”	the United Kingdom of Great Britain and Northern Ireland
“VCT”	Venture Capital Trust
“ZOOtech”	ZOOtech Limited

Letter from the Chairman

ZOO Digital Group PLC

(Incorporated in England and Wales with registered number 3858881)

Directors:

John Barnes (Non-Executive Chairman)
Dr Stuart Green (Chief Executive Officer)
Robert Deri (Chief Financial Officer and Company Secretary)
Andrew Scrivener (Chief Operating Officer)
Dr Christopher Honeyborne (Non-Executive Director)
Ian Stewart (Non-Executive Director)

Registered Office:

20 Furnival Street
Sheffield
S1 4QT

4 September 2006

To the holders of Ordinary Shares and, for information only, to the holders of options over Ordinary Shares

Dear Shareholder,

Notice of EGM and Fundraising to raise approximately £3.98 million (after expenses)

Introduction

The Company has today announced proposals for a capital raising to provide the Company with additional funds to further enhance the development of its business. The Company is seeking to raise £4.21 million (before expenses) as set out herein. The capital raising is to be effected by means of the Convertible Loan Stock Issue and the Placing of 110,000,000 new Ordinary Shares at the Placing Price, which have been conditionally placed by Noble with certain new and existing investors. Foresight Venture Partners is a UK-based technology venture capital investment manager and the FVP VCTs have conditionally agreed to invest a total of £2.0 million in the Fundraising.

The purpose of this document is to provide you with information about the Fundraising and to explain why the Directors consider the Fundraising to be in the best interests of the Company. The Fundraising is conditional upon the passing of certain resolutions by the Company's Shareholders at an extraordinary general meeting of the Company. Notice of the EGM which is to be held at 11:00 a.m. on 27 September 2006 at the Company's offices at 20 Furnival Street, Sheffield, S1 4QT, at which the Fundraising Resolutions will be proposed, is set out at the end of this document. The Fundraising is also conditional on Admission of the Placing Shares to trading on AIM, a market regulated and operated by the London Stock Exchange, occurring on 28 September 2006, or such later date as the Company and Noble may agree.

The Company has received irrevocable undertakings from Directors of the Company holding a total of 80,337,863 Ordinary Shares to vote in favour of the Resolutions representing approximately 25.3 per cent. of the Existing Ordinary Shares.

Under the terms of the Engagement Letter entered into between the Company and Noble in connection with the Placing, Noble has agreed to use its reasonable endeavours to procure places for the Placing Shares at the Placing Price. The Placing is not being underwritten.

Reasons for the Fundraising and Use of Proceeds

The Company is proposing to raise £4.21 million (before expenses) by way of the issue of the CULS (excluding the Subscription CULS) at the Issue Price and the issue of the Placing Shares at the Placing Price, to institutional and other investors, including the FVP VCTs. The Placing Shares will, when issued, be equivalent to approximately 24.80 per cent. of the Company's enlarged ordinary share capital following Admission (before the conversion of any Convertible Loan Stock). The Placing Price represents a discount of approximately 35 per cent. to the closing mid-market price of an existing issued Ordinary Share of 1p on 1 September 2006, the latest date practicable prior to the production of this document.

Under the Fundraising, Dr. Stuart Green (Chief Executive Officer) has conditionally subscribed for 5,846,154 Placing Shares at the Placing Price and £342,000 of the CULS at the Issue Price, Ian Stewart (Non-Executive Director) has conditionally subscribed for 4,615,385 Placing Shares at the Placing Price and £270,000 of the CULS at the Issue Price, Robert Deri (Chief Financial Officer) and his spouse have conditionally subscribed for 8,461,538 Placing Shares at the Placing Price in aggregate and Brockhill Limited, a company wholly owned by Dr. Christopher Honeyborne (Non-Executive Director), has conditionally subscribed for £4,000 of the CULS at the Issue Price. On completion of the Fundraising, Stuart Green will hold 15,487,654 Ordinary Shares representing approximately 3.49 per cent. of the Company's enlarged issued ordinary share capital following Admission, Ian Stewart will hold 65,152,540 Ordinary Shares representing approximately 14.69 per cent. of the Company's enlarged issued ordinary share capital following Admission and Robert Deri (along with connected parties) will hold 8,593,538 Ordinary

Shares representing approximately 1.94 per cent. of the Company's enlarged issued ordinary share capital following Admission (in all cases before the conversion of any Convertible Loan Stock).

The Fundraising is expected to raise approximately £3.98 million (after expenses) for ZOO. The Directors intend to use the net proceeds of the Fundraising to:

- provide additional working capital to continue the development of the business;
- complete the development of ZOOtech's templated authoring system for DVD-Video title production;
- invest in sales and sales support to capitalise on revenue opportunities of current and future ZOOtech products and services;
- continue to invest in patent protection and filing of additional patents; and
- invest in further new product development of unique technologies for the video post production market.

The Directors believe that, given the Company's requirements for additional financing, the Fundraising is the most appropriate way to raise additional funds for ZOO. Your Board has therefore decided to raise these monies by way of the Fundraising following a limited and targeted marketing exercise, rather than by offering all shareholders the opportunity to acquire further shares. The Directors believe that the additional cost and delay incurred in the production of a prospectus in connection with any such offer would not have been in the best interests of the Company.

Shareholders should be aware that if the Resolutions are not approved by Shareholders at the Extraordinary General Meeting then the Company will be required to seek alternative sources of finance which may or may not be forthcoming.

Board Changes

With effect from the completion of the Fundraising, John Barnes has decided to step down from the Board as Chairman and a non-executive director of the Company in order that he can pursue other business interests. Dr. Christopher Honeyborne, presently a non-executive director of the Company, will assume the role of Chairman of the Company with effect from the completion of the Fundraising. The Board would like to thank John for his significant contribution to the Company over the past five years and for his advice and wise counsel over the course of his chairmanship.

In addition, it is intended that, as the holders in aggregate of more than 50 per cent. of the Convertible Loan Stock, the FVP VCTs will, under the terms of the Loan Stock Instrument referred to below, in due course appoint up to two new non-executive directors to the Board of ZOO.

Results for the year ended 31 March 2006

The Company has today announced its unaudited preliminary results for the year ended 31 March 2006. These results showed that during the year ended 31 March 2006, the Group reported a turnover of £9.2 million (15 months ended 31 March 2005: £12.7 million). This revenue generated a loss before interest, tax, depreciation and amortisation of £3.4 million in 2006 (15 months ended 31 March 2005: £1.6 million) which largely resulted from the decision by the Company not to publish games from the Group's now exited games publishing business in the last quarter and disappointing revenues from own developed games.

The Board has taken decisive measures to focus the business as a technology company. It is clear that the Group has unique technologies supported by patents and following the successful completion of the proposed fundraising, the Board remains confident about the prospects for the Group.

The Board believes that ZOO offers an attractive opportunity for investors and expects the interactive DVD market to grow across a number of territories in the coming year with revenues increasing accordingly. The Board believes that revenues generated by the Group's video post production tools will increase significantly as the Group further deploys installations of the Regionalization Tool and introduces the Templated Authoring System into the market.

The Group has clear objectives and an effective platform for growth and the business continues to attract new customers as well as developing relationships with key multinational companies. The Group's future product development plans are well defined and are being driven by customer requirements and the Board expects the Group's technology to play an increasingly important role in the video post production market. The Board anticipates that the restructured group will provide a sound base for the business.

Further details on the unaudited preliminary results for the year ended 31 March 2006 are contained in the announcement released today.

Particulars of terms and conditions of the Convertible Loan Stock

The Convertible Loan Stock will be issued in multiples of £1 by a resolution of the Board and will be constituted as unsecured obligations of the Company by the Loan Stock Instrument which has been conditionally entered into by the Company. A copy of the Loan Stock Instrument will be available for inspection by Loan Stock Holders and any person authorised by any of them at all reasonable times during office hours at the registered office of the Company.

The Loan Stock Instrument contains provisions, *inter alia*, to the following effect:

1. Status

The Convertible Loan Stock shall rank *pari passu* (equally and rateably) as an unsecured obligation of the Company.

2. Interest

The Company shall pay interest on the nominal amount of the Convertible Loan Stock outstanding at 6 per cent. per annum (calculated on a day to day basis) less any tax required to be deducted by law and payable in equal instalments twice a year in arrears on 30 June and 31 December in each year in respect of the half year ended on those dates provided that the first payment of interest on the Convertible Loan Stock, which will be made on 31 December 2006 (or the first business day thereafter), will be in respect of the period from the date of issue of the Convertible Loan Stock to 31 December 2006 (both dates inclusive).

3. Repayment of the Convertible Loan Stock

The principal amount of any Convertible Loan Stock that has not been converted shall be redeemed by the Company at par with accrued but unpaid interest on 31 October 2011.

4. Accelerated Repayment Events

The principal amount of all the Convertible Loan Stock (so far as not previously converted) together with any accrued interest shall, on demand made in writing by such Loan Stock Holders and received by the Company at its registered office address, become immediately due and payable on the occurrence of any one of the following events:

- (a) if the Company fails to make any payment of principal or interest within 7 days of it becoming due;
- (b) if material default is made by the Company in the performance or observance of any of its obligations under the Loan Stock Instrument and the Company shall fail to remedy the same, where capable of remedy, within 30 days of being notified in writing thereof by Loan Stock Holders holding not less than 50 per cent. in aggregate principal nominal amount of the Convertible Loan Stock then outstanding; or
- (c) if any warranty made by the Company in the Loan Note Instrument is or proves to be incorrect in any material respect; or
- (d) if the Company stops or threatens to stop payment of its debts or ceases to carry on all or substantially all of its business; or
- (e) if the Company is unable to pay its debts within the meaning of section 123 of the Insolvency Act 1986; or
- (f) if an encumbrancer takes possession or a receiver, administrative receiver, administrator or other similar officer is appointed of the whole or any substantial part of the undertaking, property or assets of the Company or if a distress or execution levied or enforced upon or sued out against any substantial part of the assets of the Company is not paid out or discharged within 28 days; or
- (g) if the Company initiates or consents to proceedings relating to itself under any applicable bankruptcy, insolvency, composition or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition with, its creditors generally.

5. Conversion Rights

- (a) Subject to any applicable fiscal or other laws or regulations, each Loan Stock Holder shall be entitled at any time after the first anniversary of issue following the service of notice by the Loan Stock Holder to require the Company to convert all or part of his holding of Convertible Loan Stock into fully paid Ordinary Shares on the basis of twenty Ordinary Shares for every thirteen pence of principal nominal amount of Convertible Loan Stock held subject to adjustment as provided in paragraph 5(j) ("Conversion Rate").
- (b) If the Company commences liquidation, whether voluntary or compulsory (other than for the purposes of a solvent reconstruction or amalgamation not affecting the Loan Stock Holders' rights), each Loan Stock Holder is entitled to elect to be treated as if his conversion rights had been exercised in respect of all or part of his Convertible Loan Stock immediately prior to the date of such commencement. Subject to the foregoing, conversion rights lapse in the event of liquidation of the Company.
- (c) If, at any time, any offer is made to all shareholders (or to all shareholders other than the offeror and/or person associated or acting in concert with the offeror in respect of the offer) to acquire all or part of the issued share capital of the Company and the Company becomes aware that the right to cast more than 50 per cent of the votes which may ordinarily be cast in a poll at any general meeting has or will become vested in the offeror, then the Company shall give notice to the Convertible Loan Stock Holders within 14 days and the Loan Stock Holder may give notice to the Company within 28 days thereafter to:
 - (i) exercise their conversion rights on all or part of their Convertible Loan Stock; and/or
 - (ii) require the Company to repay all or part of their Convertible Loan Stock in cash at par.

- (d) If any offer (not being an offer falling within paragraph 5(c) above) or invitation is made to subscribe for ordinary shares by way of rights or otherwise to the holders of ordinary shares of the Company, the Company shall make or procure to be made a like offer or invitation to each Loan Stock Holder (as if all the Convertible Loan Stock held by him had been converted on the record date for such offer or invitation to fully paid ordinary shares at the Conversion Rate then applicable).
- (e) The Company will procure that no compromise or arrangement within the meaning of section 425 of the Companies Act 1985 affecting the ordinary share capital of the Company shall become effective unless the Loan Stock Holders are party to the scheme and have approved its terms in accordance with section 425 of the Act.
- (f) If at any time after the date of issue of the Convertible Loan Stock but on or before the third anniversary of the date of issue, the mean average of the closing bid price of an Ordinary Share as shown in the Daily Official List of the London Stock Exchange for at least 30 consecutive days ("Hurdle Price") is equal to or exceeds 12p, or if at any time after the third anniversary of the date of issue the Hurdle Price is equal to or exceeds 15p, the Company may at any time thereafter by giving 30 days notice in writing require each Loan Stock Holder to convert all or part of his holding of Convertible Loan Stock into fully paid ordinary shares at the Conversion Rate. The minimum amounts of Convertible Loan Stock which may be converted by the Company exercising its right to convert on any occasion shall be no less than £1,000,000 save where the amount of Convertible Loan Stock which remains unconverted at that time is less than £1,000,000 in which case the minimum amount shall be such amount of Convertible Loan Stock which remains so unconverted.
- (g) If, at any time, the principal nominal amount of all Convertible Loan Stock outstanding shall be equal to 25 per cent or less of the total nominal amount of Convertible Loan Stock issued prior to that time, the Company shall also be entitled at any time to require each remaining Loan Stock Holder to convert all or part of his holding of Loan Stock into fully paid ordinary shares at the Conversion Rate.
- (h) The Company shall not be entitled to require conversion in respect of an amount of Convertible Loan Stock to the extent that the conversion of such Convertible Loan Stock would result in the Loan Stock Holder (or any other person), together with the persons acting in concert with it, being interested (directly or indirectly) in shares in the Company carrying in aggregate more than 29.9 per cent of the voting rights of the Company.
- (i) A Loan Stock Holder's entitlement to shares on conversion shall be rounded down to the nearest whole number of shares and any such fractional entitlements shall be disregarded.
- (j) On any consolidation, subdivision, capitalisation issue or reduction of capital of the Company when, in any such case any Convertible Loan Stock remains liable to be converted, the Conversion Rate will be adjusted by the Directors so that the proportion of the Company's share capital to which a Loan Stock Holder is entitled on conversion shall remain after the adjustment as it was (as nearly as possible) prior to such consolidation, subdivision, capitalisation issue or reduction (except that the Conversion Rate shall not be less than the nominal value of ordinary shares for the time being).

6. Undertakings/Warranties

- (a) The Company will use its reasonable endeavours to:
 - (i) ensure that all the ordinary share capital of the Company issued on conversion will, upon allotment, be admitted to trading on AIM; and
 - (ii) maintain an admission to trading on AIM for the fully paid ordinary share capital of the Company.
- (b) The Loan Note Instrument includes certain warranties from the Company to the FVP VCTs in relation, *inter alia*, to accounts, assets and liabilities, contracts, intellectual property, tax, employment and other trading and Fundraising related matters.

7. Transfer and Registration

- (a) The Convertible Loan Stock shall be transferable in multiples of £1.
- (b) The Company is not bound to take notice or see to the execution of any trust to which the Convertible Loan Stock may be subject.
- (c) A register of Loan Stock Holders must be kept by the Company.
- (d) The transfer of Convertible Loan Stock on the death of a Loan Stock Holder is subject to the terms of the Loan Stock Instrument.

8. Meetings of the Loan Stock Holders/Authorisations

The Loan Stock Instrument contains general provisions relating to the conduct of the meetings of Loan Stock Holders and requirements for obtaining authorisation from the Loan Stock Holders in certain circumstances referred to in paragraph (e) below. These include provisions, *inter alia*, as follows:

- (a) holders of not less than one-tenth in nominal value of the Convertible Loan Stock for the time being outstanding may require the Company to convene a meeting of the Loan Stock Holders;
- (b) the conduct of the Loan Stock Holders' meetings is subject to the terms of the Loan Stock Instrument. On

a show of hands every Loan Stock Holder who is present in person or by proxy shall have one vote and upon a poll have one vote for every £1 nominal Convertible Loan Stock held by him;

- (c) a meeting of the Loan Stock Holders can sanction and authorise certain acts relating to the Convertible Loan Stock or the rights of Loan Stock Holders. Such authorisation is by way of Extraordinary Resolution which requires the support of not less than 75 per cent. of those persons voting at a meeting or of votes cast on a poll. Such resolutions may also be validly passed by a written resolution signed by or on behalf of Loan Stock Holders of at least 75 per cent. in nominal amount of the Convertible Loan Stock for the time being outstanding who are for the time being entitled to receive notice of meetings;
- (d) at any meeting convened for any purpose other than the passing of an Extraordinary Resolution, persons holding or representing by proxy one-tenth in nominal value of the Convertible Loan Stock for the time being outstanding (one of which must be a representative of one of the FVP VCTs) shall form a quorum for the transaction of business. At any meeting convened for the purpose of passing an Extraordinary Resolution, persons holding or representing by proxy a clear majority in nominal value of the Convertible Loan Stock for the time being outstanding shall form a quorum. The Loan Stock Instrument contains further provisions for dealing with the absence of a quorum including adjourned meetings; and
- (e) an Extraordinary Resolution of the Loan Stock Holders shall be required to:
 - (i) wind up the Company or any company in the Group;
 - (ii) alter or vary any of the rights attached to any of the shares for the time being in the capital of the Company;
 - (iii) reduce, subdivide or consolidate the authorised or issued share capital of the Company;
 - (iv) alter the Company's memorandum of association or articles of association;
 - (v) make any distributions to the holders of shares in the Company; and
 - (vi) pass any special resolution by the holders of shares in the Company (other than any special resolution to disapply section 89 of the Act to be proposed at an annual general meeting of the Company).

9. Payments

Any monies payable on or in respect of the Convertible Loan Stock shall be paid by telegraphic transfer of immediately available funds for credit to the account designated by each Loan Stock Holder in writing lodged with the Company at its registered office, failing which such payment may be paid by cheque.

10. Venture Capital Trust Compliance

The Loan Stock Instrument contains certain covenants and warranties by the Company in connection with its status, as described in the paragraph headed "Taxation" below, in relation to an investment by a VCT and related matters.

11. Modifications/No Listing

The provisions of the Loan Stock Instrument and the rights of each Loan Stock Holder may be modified, abrogated or compromised in any respect by the written consent of the FVP VCTs and the Company in order to obtain confirmation from HMRC that the Convertible Loan Stock shall be capable of being regarded as a qualifying loan within the meaning of section 842AA of the Income & Corporation Taxes Act 1988. Otherwise, the provisions of the Loan Stock Instrument and the rights of each Loan Stock Holder may be modified, abrogated or compromised in any respect with the sanction by Extraordinary Resolution of the Loan Stock Holders, together with the prior written consent of the Company. No application shall be made for the Convertible Loan Stock to be traded on AIM or any other recognised investment exchange.

12. Appointment of directors

Loan Stock Holders holding, in aggregate, more than 50 per cent. of the principal amount of Loan Stock outstanding from time to time shall be entitled (acting jointly) to appoint two non executive directors to the Company and each company in the Group and may remove from office any person so appointed and subject to such removal appoint another person in their place. The fees of such non-executive directors are payable by the Company in accordance with the terms of the Loan Stock Instrument.

Taxation

On 15 August 2006, confirmation was sought from Her Majesty's Revenue and Customs ("HMRC") that:

- the Company is a qualifying company for the purposes the Enterprise Investment Scheme ("EIS") and for investment by a VCT;
- the ordinary shares of the Company are eligible shares pursuant to section 842AA(14) ICTA 1988;
- the Convertible Loan Stock will be capable of being regarded as a qualifying loan pursuant to section 842AA(12) ICTA 1988; and
- the ordinary shares issued on conversion of the Convertible Loan Stock will be, if converted in accordance with the conversion provisions, eligible shares pursuant to section 842AA(14) ICTA 1988.

On 18 August 2006, the Company received confirmation of all the above points from HMRC. This authorises the Company to issue certificates under section 306(2) ICTA 1988 in respect of the shares to be issued, confirming the eligibility of the ordinary shares for the purposes of the EIS scheme.

Detailed legislation exists in respect of qualifying investments by both VCTs and under the EIS scheme, which sets out the conditions that must be met by both the Company and the investors in it.

Investors should seek advice from their own advisers to ensure that their circumstances comply as required by the legislation.

Information on Foresight Venture Partners

Foresight Venture Partners provides venture capital investment management services and expertise to assist growth companies. Foresight manages five VCT funds with over £120 million of funds under management. The portfolio of over 50 investments managed by FVP on behalf of such VCTs is spread across the IT, communications, manufacturing, services and environmental sectors. Foresight invests at the early and development stage through to IPO and special quoted situations as well as MBO/MBI transactions and its typical investment size is up to £3 million.

The FVP VCTs have conditionally agreed to subscribe for £1.8 million of the Convertible Loan Stock and for 30,769,231 Placing Shares in aggregate. Following completion of the Fundraising and the Subscription, the FVP VCTs will therefore hold Ordinary Shares or (in respect of Convertible Loan Stock) rights to convert into Ordinary Shares which would in aggregate equate to approximately 42.71 per cent. of the entire issued share capital of the Company if all the Convertible Loan Stock held by the FVP VCTs was converted into Ordinary Shares and no other conversion took place.

The conditional agreement to subscribe entered into by the FVP VCTs provides that immediately following the issue of the Placing Shares and the Convertible Loan Stock to the FVP VCTs, the Company will pay to Foresight an arrangement fee of 1 per cent. of funds raised under the Fundraising plus a further 2 per cent. of funds raised from the FVP VCTs. In addition, the Company has agreed to pay certain reasonable legal costs of the FVP VCTs and due diligence costs in connection with the Fundraising in accordance with the terms of agreements entered into with the providers of those legal and due diligence services.

Under the terms of the Loan Stock Instrument referred to above, it is intended that the FVP VCTs as the majority holder of CULS, will, in due course, appoint two new non-executive directors to the Board of ZOO.

The Board of ZOO is pleased to welcome investors of the profile of the FVP VCTs as new shareholders of the Company.

Related Party Transactions

Stuart Green has agreed that he will subscribe for 5,846,154 Placing Shares and £342,000 of the CULS at an aggregate subscription of £380,000. Stuart Green is a Director and is therefore a related party for the purposes of the AIM Rules. The subscription by Stuart Green for 5,846,154 Placing Shares and £342,000 of the CULS constitutes a related party transaction for the purposes of the AIM Rules.

Ian Stewart has agreed that he will subscribe for 4,615,385 Placing Shares and £270,000 of the CULS at an aggregate subscription of £300,000. Ian Stewart is a Director and is therefore a related party for the purposes of the AIM Rules. The subscription by Ian Stewart for 4,615,385 Placing Shares and £270,000 of the CULS constitutes a related party transaction for the purposes of the AIM Rules.

The Directors (with the exception of Stuart Green in respect of his subscription for 5,846,154 Placing Shares and £342,000 of the CULS and Ian Stewart in respect of his subscription for 4,615,385 Placing Shares and £270,000 of the CULS) consider, having consulted with Noble, the terms of Stuart Green's and Ian Stewart's subscriptions under the Fundraising to be fair and reasonable insofar as Shareholders are concerned.

Terms of the Fundraising and the Subscription

The Fundraising is conditional, *inter alia*, on the passing of the Fundraising Resolutions. You will find set out at the end of this document a notice convening the EGM to be held at 11:00 a.m. on 27 September 2006 at the Company's offices at 20 Furnival Street, Sheffield, S1 4QT. The Fundraising Resolutions will, if passed, give the Directors authority to allot the Placing Shares, the Convertible Loan Stock and the Subscription Shares for cash to persons other than existing shareholders and increase the authorised share capital of the Company.

The Fundraising is also conditional on:

- (i) the Company and the FVP VCTs receiving a letter from PKF (UK) LLP (in a form acceptable to the Company and the FVP VCTs) in relation to the audit for the statutory accounts for the year ended 31 March 2006; and
- (ii) Admission of the Placing Shares taking place on 28 September 2006, or such date as may be agreed between Noble and the Company, being not later than 13 October 2006 (all the conditions referred to above being the "Conditions").

provided that the FVP VCTs shall have the sole right to waive (or, if required, confirm satisfaction of) condition (i) at

any time. The FVP VCTs have agreed to use all reasonable endeavours and will provide all reasonable assistance to the Company to procure that each of the Conditions are satisfied and agree not to unreasonably withhold or delay any waiver or confirmation of satisfaction of condition (i) above.

On 31 August 2006, the Company entered into the Engagement Letter with Noble in connection with the Fundraising. Under the Engagement Letter, Noble will be entitled to a fee of £100,000, which it has agreed to apply to the subscription of 15,384,615 Ordinary Shares at the Placing Price immediately upon successful completion of the Fundraising. The Fundraising is not being underwritten by Noble.

In addition, under the terms on which the Company engaged the services of KBC Peel Hunt in connection with the Fundraising, KBC Peel Hunt will be entitled to a fee of £100,000, which it has agreed to apply one half of the fee to which it is entitled to the subscription of 769,231 Ordinary Shares at the Placing Price and £45,000 of CULS at the Issue Price immediately upon successful completion of the Fundraising. The Fundraising is not being underwritten by KBC Peel Hunt.

Extraordinary General Meeting

On pages 11 to 12 of this document is a notice convening the EGM of the Company to be held at the Company's offices at 20 Furnival Street, Sheffield, S1 4QT at 11:00 a.m. on 27 September 2006, at which the resolutions set out in such notice will be proposed.

Resolution 1 to be considered at the EGM proposes the following:

- (a) to grant the Directors authority to allot the Placing Shares, the Convertible Loan Stock and the Subscription Shares pursuant to section 80 of the Companies Act 1985; and
- (b) to disapply statutory pre-emption rights in respect of the Placing Shares, the Convertible Loan Stock and the Subscription Shares. Section 89 of the Companies Act 1985 requires that any equity securities (including any rights to convert securities into shares) allotted wholly for cash must be offered to existing shareholders in proportion to their existing holdings. This requirement was disappplied to a limited extent by a resolution passed at the annual general meeting held on 26 July 2005. However the extent of the disapplication is insufficient to enable full take up of the Placing Shares and the Convertible Loan Stock in aggregate under the Fundraising together with the issue of the Subscription Shares. Accordingly, the disapplication of statutory pre-emption rights proposed in paragraph (b) of Resolution 1 is necessary in order to effect the Fundraising and the Subscription.

Resolution 2 is to increase the Company's authorised share capital, *inter alia*, to give the Company sufficient authorised share capital to enable the issue of Ordinary Shares in the event that conversion of the Convertible Loan Stock takes place.

Resolutions 3 and 4 (which are conditional on the passing of the Fundraising Resolutions) are to authorise the Directors to allot further relevant securities and to disapply statutory pre-emption rights. It is normal for companies to maintain (and the Company has previously always maintained) the ability to allot further shares up to a maximum of 33 per cent. of its issued share capital and to be able to allot up to 5 per cent. of its securities on a non pre-emptive basis. These limits are in line with the maximum amounts permitted under the Investor Protection Committee's guidelines and Resolutions 3 and 4 seek to restore these amounts by reference to the Company's expected enlarged issued share capital following the Placing and the Subscription.

Action to be taken

A form of proxy for use at the EGM is enclosed. The form of proxy should be completed and signed in accordance with the instructions on it and returned to the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU as soon as possible, but in any event so as to be received not later than 11:00 a.m. on 25 September 2006. The completion and return of a form of proxy will not preclude you from attending the EGM and voting in person should you so wish.

Recommendation

The Directors consider the Fundraising and the approval of the Resolutions, including the Fundraising Resolutions upon which the Fundraising is conditional, to be in the best interests of the Company and its shareholders as a whole and unanimously recommend you vote in favour of the Resolutions, as your Directors have irrevocably undertaken to do or procure to be done in respect of their beneficial holdings of Ordinary Shares amounting to, in aggregate, 80,337,863 Ordinary Shares, representing approximately 25.3 per cent. of the Existing Ordinary Shares.

Yours sincerely

John Barnes
Non-Executive Chairman

Christopher Honeyborne

ZOO DIGITAL GROUP PLC

(Registered and incorporated in England and Wales No. 3858881)

Notice of Extraordinary General Meeting

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the Company will be held at the Company's offices at 20 Furnival Street, Sheffield, S1 4QT at 11:00 a.m. on 27 September 2006 to consider and, if thought fit, pass the following resolutions of which numbers 1 and 4 will be proposed as special resolutions and numbers 2 and 3 as ordinary resolutions:

SPECIAL RESOLUTION

1. (a) that, in addition to the existing authority under that section conferred by the ordinary resolution of the Company passed on 26 July 2005, the directors of the Company ("**the Directors**") be generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 ("**the Act**") to exercise all the powers of the Company to allot, grant options over or otherwise deal with or dispose of any relevant securities within the meaning of that section in connection with (i) the placing ("**the Placing**") by the Company of up to 110,000,000 new ordinary shares in the capital of the Company; (ii) the issue ("**the Convertible Loan Stock Issue**") by the Company of up to £3,541,000 of 6 per cent. unsecured convertible redeemable loan stock 2011; and (iii) the issue by the Company of 16,153,846 new ordinary shares in the capital of the Company in aggregate to Noble & Company Limited and KBC Peel Hunt Limited ("**Subscription**"), each as described in the circular of which this notice forms part, such authority to expire on 31 October 2006 (provided that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer or agreement as if such authority had not expired); and
- (b) that, in addition to the existing authority under that section conferred by the special resolution of the Company passed on 26 July 2005, the Directors be unconditionally empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94(2) of the Act) pursuant to the authority conferred by resolution 1(a) above as if Section 89(1) of the Act did not apply to the allotment, provided that this power shall be limited to the allotment of equity securities in connection with the Placing, the Convertible Loan Stock Issue and the Subscription, such authority to expire on 31 October 2006 (provided that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer or agreement as if such authority had not expired).

ORDINARY RESOLUTIONS

2. That, subject to and conditional upon the passing of resolution 1 above, the authorised share capital of the Company be increased from £900,000 to £2,200,000 by the creation of an additional 650,000,000 ordinary shares of 0.2p each ranking *pari passu* in all respects with the existing ordinary shares and all such shares to have the rights and be subject to the restrictions set out in the articles of association of the Company.
3. That, subject to and conditional upon the passing of resolutions 1 and 2 above, in substitution for all existing authorities under that section, the Directors be generally and unconditionally authorised pursuant to section 80 of the Act to exercise all the powers of the Company to allot, grant options over or otherwise deal with or dispose of any relevant securities within the meaning of that section up to an aggregate nominal amount of £292,697.90 for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) on 26 September 2011 but the Company may make an offer or agreement which would or might require relevant securities to be allotted after expiry of this authority and the Directors may allot relevant securities in pursuance of that offer or agreement.

SPECIAL RESOLUTION

4. That, subject to and conditional upon the passing of resolutions 1, 2 and 3 above, in substitution for all existing authorities, the Directors be generally empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94(2) of the Act) pursuant to the authority conferred by resolution 3 as if Section 89(1) of the Act did not apply to the allotment. This power:

- 4.1 expires on 26 September 2011 but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this authority and the Directors may allot equity securities in pursuance of that offer or agreement; and
- 4.2 is limited to:
- 4.2.1 allotments of equity securities where such securities have been offered (whether by way of rights issue, open offer or otherwise) to holders of ordinary shares in the capital of the Company in proportion (as nearly as may be) to their existing holdings of ordinary shares but subject to the Directors having a right to make such exclusions or other arrangements in connection with the offer as they deem necessary or expedient:
- 4.2.1.1 to deal with equity securities representing fractional entitlements; and
- 4.2.1.2 to deal with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory; and
- 4.2.2 allotments of equity securities for cash otherwise than pursuant to paragraph 4.2.1 up to an aggregate nominal amount of £44,348.16.

For and on behalf of the Board
Robert Deri
Company Secretary
4 September 2006

Registered Office:
20 Furnival Street
Sheffield
S1 4QT

Explanatory Notes

1. *Voting*

All shareholders who wish to attend and vote at the meeting must be entered on the Company's register of members no later than 11:00 a.m. on 25 September 2006 (being 48 hours prior to the time fixed for the meeting) or, in the case of an adjournment, as at 48 hours prior to the time of the adjourned meeting. Changes to entries on the register after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.
2. *Proxy*

Shareholders entitled to attend and vote at the meeting may appoint a proxy or proxies to attend on their behalf. A proxy need not be a member of the Company. Investors who hold their shares through a nominee may wish to attend the meeting as a proxy, or to arrange for someone else to do so for them, in which case they should discuss this with their nominee or stockbroker. Whilst proxies may vote on a poll on any resolution, they are not entitled to vote on a show of hands. Proxies may ask questions at the meeting if, in his discretion, the Chairman of the meeting allows it. Shareholders are invited to complete and return the enclosed Proxy Form. Completion of the Proxy Form will not prevent a shareholder from attending and voting at the meeting if subsequently he/she finds they are able to do so. To be valid, completed Proxy Forms must be received at the offices of the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU by not later than 11:00 a.m. on 25 September 2006 (being 48 hours prior to the time fixed for the meeting) or, in the case of an adjournment, as at 48 hours prior to the time of the adjourned meeting.
3. *Corporate shareholders*

Representatives of shareholders which are corporations attending the meeting should produce evidence of their appointment by an instrument executed in accordance with Section 36A of the Companies Act 1985 or signed on behalf of the corporation by a duly authorised officer or agent.
4. *CREST*

The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those holders of ordinary shares registered in the register of members of the Company at 11:00 a.m. on 25 September 2006 (being 48 hours prior to the time fixed for the meeting) shall be entitled to attend and vote at the Extraordinary General Meeting in respect of such number of shares registered in their name at that time. Changes to entries in the register of members after 11:00 a.m. on 25 September 2006 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

ZOO DIGITAL GROUP PLC

FORM OF PROXY

Form of Proxy for use by holders of ordinary shares having the right to attend and vote at the Extraordinary General Meeting of ZOO Digital Group PLC on 27 September 2006.

I/We _____
being (a) registered holder(s) of ordinary shares of 0.2p each in the capital of ZOO Digital Group PLC hereby appoint the Chairman of the Meeting (Note 2) or

_____ as my/our proxy to vote for me/us and on my/our behalf at the Extraordinary General Meeting of the Company to be held at the Company's offices at 20 Furnival Street, Sheffield, S1 4QT at 11 a.m. on 27 September 2006 and at any adjournment thereof (Note 3).

SPECIAL RESOLUTION	FOR	AGAINST	VOTE WITHHELD
1 To provide the directors with authority to allot relevant securities and to confer a limited disapplication of pre-emption rights in connection with the Placing, Convertible Loan Stock Issue and Subscription			

ORDINARY RESOLUTIONS

2 To increase the authorised share capital of the Company			
3 To provide the directors with authority to allot relevant securities			

SPECIAL RESOLUTION

4 To confer a limited disapplication of pre-emption rights			
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Please indicate your voting instructions by inserting a cross in the appropriate place (Notes 4 and 5). Return of a signed Form of Proxy without specific instructions will enable the proxy to vote as he sees fit.

Signature _____ (Notes 6 and 7) Date _____

NOTES

- 1 To be valid, this Form of Proxy (and the power of attorney or other authority, if any, under which it is signed, or a notarially certified or office copy of such power or authority) must be lodged with the Registrars of the Company, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time of the meeting.
- 2 If desired, "the Chairman of the Meeting" may be deleted and another name inserted as proxy. A proxy need not be a member of the Company.
- 3 A proxy may demand or join in demanding a poll.
- 4 If you do not indicate how you wish your proxy to vote on any resolution the proxy will vote as he sees fit, or abstain from voting.
- 5 In the case of joint holders of a share only one need sign this Form of Proxy, but the names of the other joint holders should be shown in the space provided. The vote of the joint holder first named in the Register of Members (whether voting in person or by proxy) will be accepted to the exclusion of the votes of the other joint holders in respect of the joint holding.
- 6 In the case of a corporation, the Form of Proxy must be executed under its common seal or under the hand of its attorney or duly authorised officer.
- 7 Completion and return of this Form of Proxy will not preclude you from attending and voting in person if you decide to do so.
- 8 The 'Vote Withheld' column has been provided to enable you to abstain from voting but this is not a vote in law and will not be counted in the calculations of the votes 'For' and 'Against'.

Second Fold

RESPONSE LICENCE No.
MB122

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Capita Registrars (Proxies)
PO Box 25
Beckenham
Kent
BR3 4BR

First Fold

Third fold and tuck in.