

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

**INTERIM RESULTS FOR THE SIX MONTHS TO 30 SEPTEMBER 2006**

ZOO Digital Group plc, the DVD and video technology company, (“ZOO” or “the Group”) today announces its results for the six months ended 30 September 2006.

**Financial Highlights**

- Group loss before interest, tax, depreciation and amortisation reduced to £1.1 million (six months to 30 September 2005: Loss of £2.2 million)
- Group turnover of £2.1 million following the restructure of the Group (six months to 30 September 2005: £4.4 million)
- Turnover of the continuing business, ZOOtech, increased by 67% to £736,000 (six months to 30 September 2005: £440,000)
- ZOOtech’s loss before interest, tax, depreciation and amortisation reduced by 67% to £396,000 (six months to 30 September 2005: loss of £1.2 million)
- Successful fundraising of £3.9 million (net of expenses) through a placing of new ordinary shares and issue of convertible loan notes

**Operational Highlights**

- The Group strategy has been restructured and is now focussed on its higher margin video technology business; both ZOO’s games publishing division and interactive DVD development operation have been closed and their assets sold in two separate transactions
- A contract has been signed with a major Hollywood studio for the use of the Group’s new and unique Templated Authoring System which automates production of video titles on DVD and other formats
- The renewal for a second year of a ‘Menu Regionalisation’ contract with a major Hollywood studio
- Continued growth in the adoption of the Group’s DVD-EXTRA STUDIO product in businesses across the UK, Europe and USA. This product is now used by over 100 customers and products released across the education, entertainment and corporate markets
- New editions of ‘Who Wants to be a Millionaire?’ and ‘Telly Addicts’, together with a range of new UK interactive DVD products including ‘Test the Nation’, ‘Time Tunnel’, ‘Smash Hits’ and ‘Stardancer’ developed for and published by Universal Pictures Video. ‘Question of Sport’ interactive DVD title developed for 2 Entertain Video
- 15 patents granted with a further 53 patents pending

Commenting on the results, Stuart Green, CEO of ZOO Digital Group plc, said:

“During the first six months of this year the Group has been restructured and refocused around its video technology development and licensing operations, and its finances underpinned by a successful fundraising that has provided the working capital to develop the business.

“We are expecting to release shortly our latest professional software product – the Templated Authoring System – for which we have already secured our first licensing deal with a major Hollywood studio. It is the latest addition to a suite of products, with our Regionalisation Tool and DVD-EXTRA STUDIO software, that delivers significant benefits for the video title production industry. We expect these to generate a growing revenue stream.

“We are very excited by the new opportunities available to the Group and look forward to a year of growth in 2007.”

### **Enquiries**

Stuart Green  
CEO, ZOO Digital Group plc  
0114 241 3700

Chris Lynch/Helen Thomas/Charlie Hooper  
Weber Shandwick  
020 7067 0700

Alasdair Robinson  
Noble & Company Limited  
0131 225 9677

### **Notes to Editors**

ZOO Digital Group (“ZOO”) is an innovative software solutions company that helps video publishers and rights owners maximise revenues and profits by exploiting their content across multiple platforms, languages and territories. ZOO has a portfolio of 60 patents (granted or pending) and a depth of knowledge in digital media processes which has few rivals.

ZOO’s key products include:

**Interactive DVD software** — world leading tool for creating interactive DVDs. Most of the computer games played on any household DVD player are made with ZOO’s software. Notable titles include “Who Wants to be a Millionaire?”, “Question of Sport” and “Madagascar – Animal Trivia Game”.

**Linear DVD production software** — technology to automate the production of linear (movies & TV shows) digital media. With this automation comes a significant reduction in time-to-value for the intellectual property, as well as radically changing the economies of publishing back catalogues.

**Multi-language production software** — technology to ‘localise’ text that appears in digital media. This software revolutionises the localisation process for video publishers. Previously, highly-skilled technicians were required to manipulate graphical data. Now, with ZOO’s software, text that needs translation is extracted and replaced with corresponding translations – reducing time, errors and labour costs.

## **CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT**

### **Introduction**

The first half of this year has represented a step change in ZOO's development. A strategic review announced in February 2006 prompted the Board to focus Group activities on the continuing development of its unique video technology and exit its games publishing and development activities.

During the first half of the year the core ZOOtech division secured the first contract for its new unique Templated Authoring System. This system enables the automated production of video titles. The customer is a major Hollywood studio, which has also renewed its licence for the use of ZOOtech's Menu Regionalisation Tool for a further year. Detailed discussions are ongoing with other large entertainment companies and management is focused on securing new customers for these tools.

The interactive DVD games ("iDVD") market has grown significantly in 2006 with over 100 new iDVD titles being released to the UK market this season, up from around 30 last year. Over half have been developed using ZOOtech's DVD-EXTRA STUDIO system.

### **Financial Review**

As a result of the closure of the Group's publishing and development activities, Group turnover decreased to £2.1 million for the six months to 30 September 2006 (six months to 30 September 2005: £4.4 million). The loss before interest, tax, depreciation and amortisation was reduced by 50% to £1.1 million (six months to 30 September 2005: loss of £2.2 million).

The continuing business, ZOOtech, increased its turnover by 67% to £736,000 (six months to 30 September 2005: £440,000) and reduced its loss before interest, tax, depreciation and amortisation by 67% to £396,000 (six months to 30 September 2005: loss of £1.2 million).

Historically, the Group's revenue stream has been weighted towards the second half of the year, the Christmas season is a major part of the selling season for PC games and iDVD's. In the current year ZOO's revenues continue to have a strong seasonal component due to its royalty income stream on sell-through of consumer iDVD titles. However, in future years, the Group expects the revenue profile to become progressively more even as the less seasonal revenue streams from Regionalisation and Templated Authoring become better established.

The prospects for the second half of the financial year are encouraging with a base of continuing revenues from the Regionalisation Tool and the Templated Authoring System. Revenue from DVD-EXTRA STUDIO is dependent on the level of sell-through of the numerous consumer iDVD titles produced using the tool, particularly over the Christmas period.

### **ZOOtech Ltd**

ZOOtech, the technology division of the Group, and now its sole business, continues to focus its activities on licensing its innovative proprietary software. The Board believes these products can establish dominant positions in the video production industry. ZOOtech's current products deliver substantial time and cost savings for DVD title producers, in some cases enabling customers to access incremental revenue streams. Its market focus over the period has continued in two areas:

#### *Home Video Market*

This market consists of those companies involved in the production and publishing of home video titles, currently on DVD-Video, with a range of new platforms, such as HD DVD, Blu-ray and video on demand, growing in popularity.

The Home Video Market is in a state of transition, with publishers facing increasing pressures due to factors such as declining margins, the effects of piracy, shortening release windows and the emergence of new platforms. ZOO addresses this market with the Regionalisation Tool for the efficient production of localised DVD menus, and the Templated Authoring System for the automated production of video titles. Using ZOOtech's unique production tools, customers can generate additional revenue streams by publishing DVD titles in previously uneconomic territories.

#### *Interactive DVD*

ZOOtech licenses its DVD-EXTRA STUDIO product to companies involved in the production and publishing of iDVD titles.

The number of companies involved in the development and commercialisation of iDVD titles has increased significantly this year, in line with a far higher number of consumer products released into the Christmas 2006 market. The UK remains ahead of other territories, and publishers of iDVD titles created using ZOO's technology this year include Universal Pictures Video, 2 Entertain Video, ITV DVD, EMI, Warner Vision International, Lace International, Dreamworks Home Entertainment, Sony BMG, Scholastic Media, Circle Studios, Britannia Games, Fremantle Media, Pinnacle Vision, and TWI.

Including products released in previous years that are still being sold at retail, the number of iDVD titles in the UK market is around 150, of which more than half are created using ZOO's technology.

New titles developed by the Company's licensees for the season include 'Now That's What I Call a Music Quiz', 'Blockbusters', 'Catchphrase', 'Top Trumps', 'The Price is Right', 'Blankety Blank', 'Play Your Cards Right' and 'Sale of the Century'. In the first half of the year ZOO Interactive Video developed a selection of iDVD games including 'Who Wants to be a Millionaire?', 'Telly Addicts', 'Question of Sport', 'Test the Nation', 'Time Tunnel', 'Smash Hits' and 'Stardancer'.

#### **ZOO Interactive Video Limited ("ZIV")**

ZIV'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 displaying iDVD titles prominently with dedicated display sections and, in some cases, an iDVD chart. The Official UK Charts Company – the market research company that compiles UK chart information for music and DVD – has this year for the first time produced a chart of iDVD products. These developments reflect the growing popularity of this new home entertainment genre. ZIV has pioneered this development and completed eight titles during the period, up from four last year, which are being published by Universal Pictures Video and 2 Entertain Video, all supported by television advertising campaigns.

ZOOtech now has over 100 development and publishing licensees of its technology who are active in producing and releasing iDVD titles across a number of territories. Consequently it is no longer appropriate for ZOO to produce consumer titles in-house and the Board decided to dispose of this activity. In October ZOO announced that Andy Scrivener, Chief Operating Officer, would be leaving the Group to establish his own DVD games development business. Andy's company is a new DVD-EXTRA STUDIO licensee, and his first title – 'Terry Venables Football Quiz' – has been published by Universal Pictures Video. ZOO has retained the benefit of all iDVD titles developed prior to disposal.

In a separate transaction we announced in April 2006 that the assets of ZOO's traditional games publishing business had been sold. Following these disposals, the Group consists solely of ZOOtech.

## **Board Changes**

The final part of our reorganisation involved a restructuring of the Board. John Barnes stepped down as Non-Executive Chairman of the Group to be replaced by Dr. Christopher Honeyborne (previously a Non-Executive Director of the Group).

Helen Gilder was appointed Group Finance Director and Company Secretary replacing Robert Deri who previously held these positions. Helen qualified as a Chartered Accountant with PKF in September 1991 and has worked as Group Financial Controller for the Company since 2000. Robert remains on the Board as Executive Director, responsible for corporate strategy.

Matt Taylor was appointed as a Non-Executive Director of the Company. Matt is a partner in Foresight Venture Partners and a Non-Executive Director of several AIM-quoted and private companies. Funds managed by Foresight Venture Partners invested a total of £2 million in the Group's recently announced fundraising.

## **Outlook**

After a period of restructuring, ZOO has established a sound platform for growth. The Board is currently considering strategic options to maximise this growth. Trading in the short term is heavily reliant on iDVD sales over the Christmas period, but recurring revenue streams are increasing, providing greater predictability for future years.

ZOO's success hinges on the talent of its employees and managers responsible for the creation and exploitation of its world class intellectual properties. The Directors would like to extend their thanks and appreciation to all staff for their contribution and commitment.

**C H B Honeyborne**  
**Chairman**

**S A Green**  
**Chief Executive Officer**

**22 December 2006**

**CONSOLIDATED UNAUDITED PROFIT AND LOSS ACCOUNT**  
**For the six months ended 30 September 2006**

	6 months to 30 September 2006 Unaudited £'000	6 months to 30 September 2005 Unaudited Restated* £'000	Year to 31 March 2006 Audited Restated* £'000
Turnover			
Continuing operations	736	440	1,696
Discontinued operations	1,328	3,955	7,468
	2,064	4,395	9,164
Cost of sales	(1,113)	(2,911)	(6,183)
Gross profit	951	1,484	2,981
Other operating expenses	(2,038)	(3,679)	(6,739)
Loss before interest, tax, depreciation and amortisation	(1,087)	(2,195)	(3,758)
Depreciation	(82)	(82)	(173)
Amortisation of intangible fixed assets	(214)	(241)	(682)
Operating loss	(1,383)	(2,518)	(4,613)
Continuing operations	(646)	(1,443)	(1,948)
Discontinued operations	(737)	(1,075)	(2,665)
	(1,383)	(2,518)	(4,613)
Loss on disposal of discontinued operation	-	-	(3,698)
Other interest receivable and similar income	4	11	25
Amounts written off investment	-	-	(240)
Interest payable and similar charges	(27)	(50)	(109)
Loss on ordinary activities before taxation	(1,407)	(2,557)	(8,635)
Tax on loss on ordinary activities	-	-	-
Retained loss for the financial year	(1,407)	(2,557)	(8,635)

\* Restated following the adoption of FRS20

**CONSOLIDATED UNAUDITED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**For the six months ended 30 September 2006**

	<b>6 months to 30 September 2006 Unaudited £'000</b>	<b>6 months to 30 September 2005 Unaudited Restated* £'000</b>	<b>Year to 31 March 2006 Audited Restated* £'000</b>
Loss for the financial period	(1,407)	(2,557)	(8,635)
Total gains and losses relating to the year	(1,407)	(2,557)	(8,635)
Prior year adjustment	(632)	-	-
Total recognised gains and losses relating to the period	(2,039)	(2,557)	(8,635)

**CONSOLIDATED UNAUDITED BALANCE SHEET**  
**As at 30 September 2006**

	<b>As at 30 September 2006 Unaudited £'000</b>	<b>As at 30 September 2005 Unaudited Restated* £'000</b>	<b>As at 31 March 2006 Audited Restated* £'000</b>
<b>Fixed Assets</b>			
Intangible	1,818	3,127	2,007
Tangible	262	405	342
	<u>2,080</u>	<u>3,532</u>	<u>2,349</u>
<b>Current Assets</b>			
Stock	-	1,005	48
Debtors	2,706	6,284	2,499
Cash	2,444	-	-
	<u>5,150</u>	<u>7,289</u>	<u>2,547</u>
<b>Current Liabilities</b>			
Creditors	(2,762)	(3,263)	(2,962)
<b>Net current assets</b>	2,388	4,026	(415)
<b>Long term liabilities</b>	(3,258)	-	-
	<u>1,210</u>	<u>7,558</u>	<u>1,934</u>
<b>Equity</b>			
Called up share capital	887	635	635
Share premium	21,818	21,648	21,648
Convertible loan	283	-	-
Equity share options	610	417	632
Other reserves	8,598	8,598	8,598
Profit and loss account	(30,897)	(23,411)	(29,490)
Interest in own shares	(89)	(329)	(89)
	<u>1,210</u>	<u>7,558</u>	<u>1,934</u>



**CONSOLIDATED UNAUDITED CASH FLOW STATEMENT**  
**For the six months ended 30 September 2006**

	6 months to 30 September 2006 Unaudited £'000	6 months to 30 September 2005 Unaudited Restated* £'000	Year to 31 March 2006 Audited Restated* £'000
Net cash outflow from operating activities	(1,150)	(3,229)	(2,004)
Exceptional items	-	-	(35)
Returns on investment and servicing of finance	(23)	(39)	(84)
Capital expenditure and financial investment	(27)	(127)	(470)
<b>Net cash outflow before financing</b>	<b>(1,200)</b>	<b>(3,395)</b>	<b>(2,593)</b>
<b>Financing</b>	<b>3,963</b>	<b>3,005</b>	<b>3,005</b>
<b>Increase / (decrease) in cash in the period</b>	<b>2,763</b>	<b>(390)</b>	<b>412</b>
<b>Reconciliation of operating loss to net cash flow from operating activities</b>			
Operating loss	(1,383)	(2,518)	(4,613)
Depreciation charge	82	82	173
Goodwill amortisation	214	241	281
Decrease / (Increase) in stock	48	(102)	1,359
(Increase) / Decrease in debtors	(207)	(347)	(272)
Increase / (Decrease) in creditors	116	(756)	682
Share based payments	(22)	171	386
<b>Net cash outflow from operating activities</b>	<b>(1,152)</b>	<b>(3,229)</b>	<b>(2,004)</b>
<b>Financing</b>			
Ordinary share capital	820	3,171	3,171
Convertible loan notes	3,541	-	-
Costs of fundraising	(398)	(166)	(166)
	<b>3,963</b>	<b>3,005</b>	<b>3,005</b>
<b>Analysis of changes in cash and cash equivalents</b>			
Increase / (decrease) in cash in the period	2,761	(390)	412
Cash inflow from convertible loan	(3,258)	-	-
Net debt at start of period	(317)	(729)	(729)
<b>Net debt at end of period</b>	<b>(814)</b>	<b>(1,119)</b>	<b>(317)</b>

### **Analysed as follows**

Cash at bank and in hand	2,444	-	-
Bank overdraft	-	(1,119)	(317)
Convertible loan notes	(3,258)	-	-
	<u>(814)</u>	<u>(1,119)</u>	<u>(317)</u>

### **NOTES**

#### **Board Approval**

The interim accounts were approved by the board of directors on 21st December 2006.

#### **Nature of Accounts**

The financial information for the six months ended 30 September 2006 and 30 September 2005 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 2006 with the exception of FRS20 which has been adopted for the first time in the period ended 30 September 2006. Comparative periods have been restated.

The financial information for the period ended 31 March 2006 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 317,660,076 (September 2005: 300,599,003; March 2006: 308,920,444).

On 24 October 2006 the shares were consolidated in the ratio 75:1. The total number of shares in issue after this consolidation is 5,913,088.

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.

#### **FRS20**

In line with the requirements of UK standard accounting practice, FRS20 'Share Based Payments' has been adopted for the first time in the half year to 30 September 2006. FRS20 requires the Group to expense share options granted to employees and directors. Charges are calculated using the binomial method and are recognised on a straight line basis and assessed on estimated performance over the period in which the share options vest. The effect on the result for the period was a credit of £22,000 (six months to 30 September 2005: charge £171,000; year to March 2006: charge £386,000). Its adoption has no net effect on the Group's retained reserves and cash flow.

#### **Further Copies**

Copies of this announcement and the Interim Report for the six months ended 30 September 2006 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.