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This document is not a prospectus and is addressed only to the shareholders of ZOO Digital Group plc named in the register of shareholders on the date of issue of this document. If you have sold or transferred all of your Existing Ordinary Shares, please forward this document, together with the accompanying Form of Proxy, as soon as possible 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. However, the distribution of this document and/or the accompanying Form of Proxy into a jurisdiction other than the United Kingdom may be restricted by law or regulation and therefore such documents should not be distributed, forwarded to or transmitted in or into the United States, Australia, Canada, the Republic of Ireland, the Republic of South Africa or Japan, nor in or into any other jurisdiction if to do so would breach any applicable law or regulation of such jurisdiction. If you have sold or transferred part of your holding of Existing Ordinary Shares, you are advised to consult your stockbroker, bank or other agent through whom the sale or transfer was effected.

The Directors of the Company, whose names appear on page 6, 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.

Application will be made to London Stock Exchange plc for the Placing Shares to be admitted to trading on AIM. The Placing Shares are expected to be admitted to AIM and to commence trading at 8:00 a.m. on 28 August 2007.

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## **ZOO Digital Group plc**

*(Incorporated and registered in England & Wales with registered number 3858881)*

### **PROPOSED ACQUISITION OF CERTAIN OF THE ASSETS OF SCOPE SEVEN, INC., NOTICE OF ANNUAL GENERAL MEETING AND PROPOSED PLACING OF 12,000,000 ORDINARY SHARES AT 25p PER SHARE**

by

**KBC PEEL HUNT LTD**

Nominated Adviser and Broker

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Your attention is drawn to the letter from the chairman of the Company, which is set out on pages 6 to 11 of this document, recommending that you vote in favour of the Resolutions to be proposed at the Annual General Meeting referred to below.

Notice of the seventh Annual General Meeting of the Company to be held at the offices of DLA Piper UK LLP at 1 St.Paul's Place, Sheffield S1 2JX at 10.00 a.m. on 24 August 2007 is set out at the end of this document. Shareholders will find enclosed a Form of Proxy for use at the Annual General Meeting. To be valid, a Form of Proxy, completed and executed in accordance with the instructions printed thereon, should be returned to the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible and, in any event, so as to be received not later than 10.00 a.m. on 22 August 2007. The completion and return of the Form of Proxy will not preclude you from attending and voting in person at the Annual General Meeting should you wish to do so.

KBC Peel Hunt, which is regulated by the Financial Services Authority, is acting as the Company's nominated adviser in connection with the proposed admission to AIM of the Placing Shares. Its responsibilities as the Company's nominated adviser under the AIM Rules are owed solely to London Stock Exchange plc and are not owed to the Company or to any Director or to any person in respect of his decision to acquire shares in the Company in reliance on any part of this document. No representation or warranty, express or implied, is made by KBC Peel Hunt as to any of the contents of this document (without limiting the statutory rights of any person to whom this document is issued). KBC Peel Hunt will not be offering advice and will not otherwise be responsible for providing customer protections to recipients of this document in respect of the Placing.

The Placing Shares referred to in this document have not been, nor will be, registered under the United States Securities Act and may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the requirements of the United States Securities Act. There will be no public offer of the Placing Shares in the United States, the United Kingdom or elsewhere. The Placing Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission or other regulatory authority, nor have the foregoing authorities passed upon or endorsed the merits of the offering. Any representation to the contrary is unlawful. In addition, the Placing Shares have not been, nor will be, registered under the securities laws of or qualify for distribution under any of the relevant securities laws of Canada, Australia, the Republic of Ireland, the Republic of South Africa or Japan. Accordingly, subject to certain exceptions, the Placing Shares may not, directly or indirectly, be offered, sold, taken up, delivered or transferred in or into the United States, Canada, Australia, the Republic of Ireland, the Republic of South Africa or Japan.

#### **FORWARD LOOKING STATEMENTS**

This document may contain forward-looking statements, including, without limitation, statements containing the words "believes", "anticipates", "expects", and similar expressions. Such forward-looking statements involve unknown risks, uncertainties and other factors which may cause the actual results, financial condition, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Given these uncertainties, prospective investors are cautioned not to place any undue reliance on such forward-looking statements. Save as required by law or by the AIM Rules or the Disclosure Rules, the Company disclaims any obligation to update any such forward-looking statements in this document to reflect future events or developments.

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### STATISTICS

Placing Price per Placing Share	<b>25 pence</b>
Number of Placing Shares being placed on behalf of the Company	<b>12,000,000</b>
Number of Placing Shares as a percentage of the Existing Ordinary Shares	<b>202.94%</b>
Number of Placing Shares as a percentage of the Enlarged Share Capital	<b>66.99%</b>
Number of Ordinary Shares in issue following Admission of the Placing Shares	<b>17,913,088</b>
Proceeds of the Placing available to the Company	<b>£3,000,000</b>

### EXPECTED TIMETABLE OF EVENTS

2007

Latest time and date for receipt of Forms of Proxy	<b>10.00 a.m. on 22 August</b>
Annual General Meeting	<b>10.00 a.m. on 24 August</b>
Admission and commencement of dealings in the Placing Shares	<b>8.00 a.m. on 28 August</b>

### EXCHANGE RATE

The rate of exchange used for the purposes of this document is (unless otherwise stated): **£1.00: US\$2.00**

## DEFINITIONS

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

“Acquisition”	the proposed acquisition of certain assets and contracts (subject to the assumption of certain liabilities) of Scope Seven pursuant to the Asset Purchase Agreement
“Admission”	the admission of the Placing Shares to trading on AIM and such admission becoming effective in accordance with rule 6 of the AIM Rules
“AGM” or “Annual General Meeting”	the seventh annual general meeting of the Company to be held at the offices of DLA Piper UK LLP at 1 St. Paul’s Place, Sheffield S1 2JX convened for 10.00 a.m. on 24 August 2007, notice of which is set out at the end of this document
“AIM”	AIM, a market operated by London Stock Exchange plc
“AIM Rules”	the current version of the London Stock Exchange plc’s rules for companies relating to AIM, entitled “AIM Rules for Companies”
“Annual Report and Accounts”	the annual report and accounts in respect of the Company for the financial year ended 31 March 2007
“Asset Purchase Agreement”	the conditional agreement entered into between Scope Seven LLC, ZOO, ZOO Interactive Video Limited and Scope Seven relating to the Acquisition
“Board”	the board of directors of the Company
“Company” or “ZOO”	ZOO Digital Group plc, a company registered in England and Wales with registered number 3858881, whose registered office is at 20 Furnival Street, Sheffield, South Yorkshire S1 4QT
“Consideration Shares”	the new Ordinary Shares which may be issued in accordance with the terms of the Asset Purchase Agreement in connection with the Acquisition
“CULS”	the £3,541,000 6 per cent. unsecured convertible redeemable loan stock 2011 issued by the Company on 27 September 2006
“Deferred Consideration”	the conditional consideration which may be payable pursuant to the Asset Purchase Agreement
“Directors”	the directors of the Company whose names appear on page 6 of this document
“Disclosure Rules”	the Disclosure Rules and Transparency Rules of the FSA
“EIS”	Enterprise Investment Scheme
“EIS Placing Shares”	the new Ordinary Shares which are the subject of the Placing and qualify for EIS tax relief
“Enlarged Share Capital”	the Company’s issued share capital immediately after Admission
“Existing Ordinary Shares”	the Ordinary Shares in issue on the date of this document
“Form of Proxy”	the form of proxy for use in connection with the AGM
“FSA”	the Financial Services Authority
“Group”	the Company and its subsidiaries

“KBC Peel Hunt”	KBC Peel Hunt Ltd
“Nominated Adviser”	a nominated adviser pursuant to the AIM Rules
“Non-Qualifying Placing Shares”	the new Ordinary Shares which are the subject of the Placing and are not EIS Placing Shares or VCT Placing Shares
“Officers’ Loans”	loans made to Scope Seven by its officers and certain other individuals totalling up to £0.55 million
“Ordinary Shares”	ordinary shares of 15 pence each in the capital of the Company
“Placee”	any person who is or becomes committed to subscribe for Placing Shares under the Placing
“Placing”	the placing by KBC Peel Hunt of the Placing Shares pursuant to the Placing Agreement
“Placing Agreement”	the conditional agreement dated 30 July 2007 entered into between the Company and KBC Peel Hunt relating to the Placing
“Placing Price”	25 pence per Placing Share
“Placing Shares”	the EIS Placing Shares, the VCT Placing Shares, and the Non-Qualifying Placing Shares
“Resolutions”	the resolutions set out in the notice of AGM dated 31 July 2007
“Scope Seven”	Scope Seven, Inc., a Californian corporation
“Scope Seven Division”	a new operating division of the Group to be formed following the Acquisition consisting of the acquired assets and contracts, and the employees of Scope Seven
“Shareholders”	the persons who are registered as holders of Ordinary Shares from time to time
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“United States”	the United States of America, its territories and possessions, any State of the United States and the District of Columbia
“US\$”	United States dollars
“United States Securities Act”	the US Securities Act of 1933
“VCT”	venture capital trust
“VCT Placing Shares”	the new Ordinary Shares which are the subject of the Placing and qualify for VCT tax relief and which are to be allotted to Placees who qualify for VCT status under the pre-March 2006 VCT rules

## ZOO DIGITAL GROUP PLC

(Incorporated in England and Wales with registered number 3858881)

### LETTER FROM THE CHAIRMAN OF THE COMPANY

*Directors:*

Dr Christopher Honeyborne (*Chairman*)  
Dr Stuart Green (*Chief Executive Officer*)  
Helen Gilder (*Group Finance Director*)  
Matt Taylor (*Non-Executive Director*)  
Ian Stewart (*Non-Executive Director*)

*Registered Office:*

20 Furnival Street,  
Sheffield,  
S1 4QT

31 July 2007

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

Dear Shareholder

### **Proposed Acquisition of certain of the assets of Scope Seven, Inc., Notice of Annual General Meeting and Proposed Placing of 12,000,000 Ordinary Shares at 25p per share**

#### **Introduction**

ZOO has today announced that it has conditionally agreed to acquire certain assets and contracts of Scope Seven for a total consideration of up to a maximum of £2.45 million, of which up to £1.4 million is payable at completion of the Acquisition, £0.3 million is payable in quarterly instalments over three years and the remainder is payable as Deferred Consideration. The Deferred Consideration may become payable, depending on the profitability achieved by the Scope Seven Division over a three year period, and, capped at a maximum of £0.75 million, is to be satisfied in cash and/or Ordinary Shares entirely at ZOO's discretion.

Scope Seven is an independent company providing compression and authoring (i.e. DVD production) services to a number of video publishers, including certain Hollywood studios, most notably Warner Brothers. Scope Seven is affiliated to a Warner Brothers subsidiary – GDMX – that operates as an internal facility for digital media production, and through this relationship Scope Seven enjoys significant work on behalf of the Warner Brothers studios. Scope Seven's other customers include 20<sup>th</sup> Century Fox, New Line Cinema, the BBC, DIRECTV, Hasbro and Mattel.

The Board believes that the Acquisition will benefit the Group as it will directly align the enlarged Group with the interests of ZOO's underlying clients – the studios – offering them reduced costs, improved efficiencies and a shortening of the time it takes for the studios to prepare their products for the market. This is distinct from other DVD production companies that are remunerated on a time and materials basis.

ZOO has also announced today proposals for a capital raising by way of the Placing to provide it with the funds, *inter alia*, to further enhance the development of its business. The Placing will raise approximately £3 million which will be used to fund the cash element of the initial consideration of up to £1.4 million due under the terms of the Asset Purchase Agreement, with the balance being used to augment the Company's working capital and defray the costs of the Placing and the Acquisition.

The Company has also announced today its preliminary results for the year ended 31 March 2007. A copy of the Annual Report and Accounts is being sent to Shareholders with this document.

KBC Peel Hunt has agreed, as agent for the Company, to use its reasonable endeavours to procure subscribers for all the Placing Shares at the Placing Price under the terms of the Placing. The Placing is not being underwritten.

The Placing Shares are not being offered to Shareholders on a pre-emptive basis because the Board has concluded, having taken appropriate advice, that it is not in the best interests of the Company to make such a pre-emptive offer due to the time and cost involved and the necessity to complete the Acquisition successfully in a timely manner.

This document sets out the background to and reasons for the Acquisition and the Placing and explains why the Directors believe that the proposals are in the best interests of the Company and its Shareholders. The Acquisition and the Placing are conditional upon the passing of certain Resolutions by the Shareholders at the AGM and this document contains a notice convening the AGM, which includes resolutions to dis-apply Shareholders' statutory pre-emption rights, required in order to effect the Placing. The Acquisition and the Placing are also conditional on Admission of the Placing Shares to trading on AIM.

The Company has received irrevocable undertakings from all of the Directors, holding a total of 1,493,680 Ordinary Shares, to vote in favour of the Resolutions, representing approximately 25.26 per cent. of the Existing Ordinary Shares.

### **Information on ZOO and background to the Acquisition**

ZOO has operated as a software developer and licensor and has created a number of professional software products that are targeted at the digital media production industry. These products are innovative in the market, being based around a number of proprietary algorithms for which ZOO holds several granted and pending patents in the UK, United States and other territories. The products provide clear advantages and benefits to the production process since they automate and centralise functions that are otherwise performed by highly skilled manual labour, thereby substantially reducing the time and cost it takes to prepare consumer products for market.

In the past, ZOO has sought to license its software products to production facilities that in turn provide services to studios and video publishers. The Company has begun to broaden its offering to include certain production services so that it can contract directly with studios, rights holders and video publishers.

ZOO has for some time been in communication directly with studios, rights holders and publishers to better educate the market on the benefit of its products. These organisations are the ultimate beneficiaries of ZOO's technology and have much to gain by its adoption by way of reduced costs, improved efficiencies and a shortening of the time it takes to prepare products for the market. Faced with the resistance of its suppliers to adopt ZOO's products, one major Hollywood studio was convinced enough to embrace the technology directly rather than via intermediaries. That studio now operates the tools internally where they are used in the creation of its worldwide DVD title releases and have been demonstrated to deliver substantial savings of time and cost.

The Board believes that the Group's broadened offering consisting of digital media production services based around ZOO's software tools is unique within the current market and will enable the Company to penetrate the market more effectively and to unlock a significant revenue potential. By augmenting its current offering ZOO will be able to deliver directly to studios, rights holders and publishers a proposition and pricing model, based on utilisation as opposed to time and materials, unlike any other that is currently available.

The Board believes that the Acquisition is key to building critical mass in service delivery, because it provides established facilities and resources and strong customer relationships in Hollywood, which represents a significant share of the available market for digital media production.

### **Information on Scope Seven**

Scope Seven is one of the key independent compression and authoring service providers in the Hollywood digital media production market. Both the company and its President, Duncan Wain, are highly respected within the market.

In the year ended 28 February 2007, the assets of Scope Seven being acquired are estimated to have generated revenues of approximately £3.78 million and to have made a profit before tax of £0.23 million. As at 28 February 2007, Scope Seven had net assets of £2.12 million of which ZOO is acquiring assets with a net book value of £1.07 million. Scope Seven is based in Los Angeles. 65 Scope Seven staff will transfer to the Group as part of the Acquisition.

### **Reasons for the Acquisition**

The Directors believe that the Acquisition has persuasive strategic and financial logic and represents an attractive opportunity for ZOO to broaden its offering, acquire a second major Hollywood studio as a customer and accelerate its growth.

#### **■ New Service Offerings**

The Board believes the Acquisition will allow ZOO to offer a unique proposition within the current market consisting of first class services based upon exclusive use of proprietary, innovative technology. This offering can be marketed directly to the studios, rights holders and publishers and can be shown to have significant benefits when compared to competing service providers. ZOO's combined service and technology proposition is aligned with the interests of the studios, offering services at better value, flexibility to use internal resources where appropriate to reduce costs, and shorten the time it takes to prepare products for the market. This is clearly differentiated from the offerings of competing companies which are unable to apply ZOO's technology to reduce their cost of sale. The Board believes that ZOO will be seen as a more trusted vendor since its interests are aligned with those of the studios, and this can be expected to lead to closer and more productive working relationships.

The Board believes the control of Scope Seven's production services which are being acquired and the associated use of ZOO's tools will enable ZOO to accelerate its penetration of the Hollywood digital media production market.

■ **Relationship with Warner Brothers**

Scope Seven's affiliation with GDMX will provide ZOO with the opportunity to supply its technologies for use in conjunction with the production of video titles for Warner Brothers. Scope Seven's relationship with Warner Brothers as the sole US affiliate of GDMX means it receives a significant number of projects commissioned by Warner Brothers.

In 2006 Warner Brothers was the single largest publisher of DVD-Video titles into North America with a 4 per cent. market share by number of new titles (source: www.hometheaterinfo.com). The Board believes that it should be possible to secure significant technology licensing business with Warner Brothers through the Scope Seven Division.

■ **Sales Opportunities**

The Acquisition will enable ZOO to resume sales discussions with several major Hollywood studios and other publishers where ZOO's lack of service capability has previously delayed progress. ZOO has already approached these potential customers to explore the reception of a combined proposition from ZOO and Scope Seven through the Scope Seven Division and this has been received favourably by a number of studios.

■ **Incremental Revenue from Existing Customers**

It is believed that incremental revenue can be secured from some of ZOO's existing customers who are currently outsourcing certain production work (such as video and audio compression) to third parties and who would be prepared to reallocate such work to the enlarged ZOO business.

■ **Interactive DVD Development**

Scope Seven provides interactive DVD ("iDVD") development services for a number of companies in the United States including Mattel and Warner Brothers. These services are provided based on ZOO's DVD-EXTRA STUDIO product; Scope Seven was one of the first companies to license this system for iDVD production. Through its use of ZOO's technology Scope Seven has established itself as one of the leading iDVD developers in the United States, and has undertaken projects for Mattel, Hasbro, Warner Brothers, SnapTV and bEqual.

The inclusion of such iDVD development services in conjunction with ZOO's current technology licensing proposition will enhance the Company's ability to secure high margin royalty income in the United States.

■ **Collaboration Software**

Scope Seven has developed an internet-accessible collaboration system, currently in use by Warner Brothers, that is compatible with ZOO's products and which will be included in the ZOO portfolio and offered to other customers to secure incremental revenues.

**Terms of the Asset Purchase Agreement**

Under the terms of the Asset Purchase Agreement ZOO (through certain Group undertakings) will acquire the assets and properties used by Scope Seven in both its "Entertainment Group" (which includes the compression and authoring business) and its "Interactive Media Group" (which includes the iDVD games development business). These assets (which are acquired subject to the assumption of certain liabilities) include certain employees, contracts and commitments and proprietary rights over the names "Scope Seven", "Comchoice", "ChoiceProjects" and "ChoiceUpdates". Assets used exclusively in Scope Seven's "Education Group" are not being acquired. The Acquisition is conditional, *inter alia*, on Admission occurring.

The maximum consideration payable under the terms of the Asset Purchase Agreement will not exceed £2.45 million. On completion of the Acquisition ZOO shall pay up to £1.4 million to Scope Seven, which comprises the following sums: a consideration payment of £0.3 million; up to £0.85 million owed by Scope Seven under the terms of a credit facility entered into with First Regional Bank; and the repayment of up to £0.25 million of Officers' Loans owed to certain individuals and officers by Scope Seven. In addition ZOO will issue a subordinated promissory note for a principal amount of £0.3 million bearing a rate of interest of ten per cent. per annum, in respect of the balance of the Officers' Loans.

Further Deferred Consideration may become payable subsequently, depending on the profitability achieved by the Scope Seven Division over a three year period and capped at a maximum of £0.75 million.

The amount of Deferred Consideration will be calculated at 20 per cent. of earnings before interest, tax, depreciation and amortisation, subject to a total £0.75 million cap, for each of the periods ending 29 February 2008, 28 February 2009 and 28 February 2010 and will be payable within 60 days of the end of the relevant period.

At least 50 per cent. of any Deferred Consideration that becomes payable shall be satisfied in cash and the remainder, at the sole discretion of ZOO, either in cash and/or by the issue of Consideration Shares. In the event that any amount of the Deferred Consideration is to be satisfied by the issue of Consideration Shares then the Company will issue sufficient number of Consideration Shares as are equivalent to the value of that proportion of the Deferred Consideration, based on the average closing price of the Ordinary Shares during the 20 trading days immediately preceding the date of issue of the Consideration Shares (after having deducted the three highest and three lowest of such 20 sample closing prices from the calculation) but in any event the Consideration Shares shall not be issued at less than 15 pence per share (being the par value of the Ordinary Shares).

Under the terms of the Asset Purchase Agreement, it has been agreed that the Consideration Shares shall only be sold or disposed of prior to or on 30 September 2008, in limited circumstances; and, at any time, only on a best execution basis through such stockbroker as may from time to time act as the broker to the Company, so long as the number of shares sold in any calendar quarter shall not exceed the greater of (i) 1 per cent. of all outstanding Ordinary Shares in issue at such time, or (ii) 1 per cent. of the average weekly volume of Ordinary Shares traded during the 4 weeks immediately preceding such disposal.

### **Statement of Preliminary Results**

The preliminary results of the Group announced today show that, following the reorganisation of the Group, turnover for the year to 31 March 2007 fell to £3.75 million (2006: £9.16 million). The loss before interest, tax, depreciation and amortisation was reduced significantly to £1.42 million (2006: £3.61 million restated loss). As at 31 March 2007 the Group had net current assets of £1.94 million (2006: net current liabilities of £0.415 million) including a bank balance of £2.03 million (2006: overdraft of £0.317 million).

The Board anticipates substantial growth in revenues due to the licensing of new and existing digital media technologies and services, and further growth in the interactive DVD market. The Board anticipates that ZOO's technologies will play an increasingly significant role in the digital media production market.

### **Reasons for and details of the Placing and use of proceeds**

The Placing, assuming that it completes, will raise approximately £3 million (before expenses). Of these proceeds, up to £1.4 million will be used to fund the cash element of the consideration due under the terms of the Acquisition, with the balance being used to defray the costs of the Placing and the Acquisition and to add to the Company's cash reserves for working capital purposes.

Under the terms of the Placing Agreement, KBC Peel Hunt, as agent for ZOO, has agreed conditionally to use its reasonable endeavours to procure subscribers for the Placing Shares at 25 pence per share. The Placing Agreement is conditional, *inter alia*, upon Admission occurring and completion of the Acquisition.

The Placing Price of 25 pence per Placing Share is at a discount of 28.6 per cent. to the closing middle market price of 35 pence per Ordinary Share on 27 July 2007, being the business day before the date of the announcement of the Placing, which the Directors consider to be fair and reasonable given, *inter alia*, the size of the Placing.

The Placing Shares are not being offered to Shareholders on a pre-emptive basis because the Board has concluded, having taken appropriate advice, that it is not in the best interests of the Company to make such a pre-emptive offer due to the time and cost involved and the need to complete the Acquisition successfully in a timely manner.

Since certain of the Directors and their related parties will be issued with a total of 6,340,000 Placing Shares, representing 107 per cent. of the Company's Existing Ordinary Shares, this issue is a "Related Party Transaction" under rule 13 of the AIM Rules. The Directors (with the exception of Stuart Green in respect of his subscription for 2,540,000 Placing Shares and Ian Stewart in respect of his subscription for 800,000 Placing Shares and Matt Taylor in respect of the subscription for 3,000,000 Placing Shares by associated parties), having consulted with KBC Peel Hunt, the Company's Nominated Adviser, consider that the terms of the transaction are fair and reasonable insofar as the Company's Shareholders are concerned. In providing advice to the Board, KBC Peel Hunt has taken into account the Board's commercial assessments.

### **Enterprise Investment Scheme and Venture Capital Trusts**

The Directors believe that the Company will continue to be a qualifying company for the purposes of the EIS and VCT legislation, however they can offer no certainty in this regard.

On 20 June 2007, confirmation was sought from Her Majesty's Revenue and Customs ("HMRC") that:

- the Company is a qualifying company for the purposes of the EIS and for investment by a VCT; and
- the Ordinary Shares of the Company are eligible shares.

On 6 July 2007, the Company received confirmation of both of the above points from HMRC. This authorises the Company to issue certificates under Section 204 (1) Income Tax Act 2007 in respect of the shares to be issued, confirming the eligibility of the Ordinary Shares for the purposes of the EIS scheme.

The continuing availability of EIS relief and the status of the relevant Placing Shares as a qualifying holding for VCT purposes will be conditional, *inter alia*, on the Company continuing to satisfy the requirements for a qualifying company throughout the period of three years from the date of the investor making his investment (under EIS), and, for VCT purposes, throughout the period the Ordinary Shares are held as a "qualifying holding". Neither the Company nor the Directors make any warranty or give any undertaking that relief will be available in respect of any investment in the Placing Shares, nor do they warrant or undertake that the Company will keep its qualifying status throughout the relevant period or that, once given, such relief will not be withdrawn.

Investors considering taking advantage of any of the relief under the EIS or relief available to VCTs should seek their own professional advice in order that they may fully understand how the rules apply in their individual circumstances.

### Settlement and dealings

Application will be made to London Stock Exchange plc for the Placing Shares to be admitted to trading on AIM. It is expected that, subject to the passing of the relevant Resolutions at the AGM, Admission will become effective on 28 August 2007.

The Placing Shares will, when issued, rank *pari passu* in all respects with the Existing Ordinary Shares including the right to receive dividends and other distributions declared following Admission.

### Interests of Directors following the Placing

Immediately following the Placing, the Directors' interests in the Company will be as follows:

Director	Number of existing shares	Number of Placing Shares subscribed	Nominal amount of CULS held (£)	Number of shares held following the Placing	Percentage interest in the Enlarged Share Capital
Dr Christopher Honeyborne ( <i>Chairman</i> )	1,333	Nil	4,000 <sup>1</sup>	1,333	0.01
Dr Stuart Green ( <i>Chief Executive Officer</i> )	206,502	2,540,000	342,000	2,746,502	15.33
Helen Gilder ( <i>Group Finance Director</i> )	226	Nil	Nil	226	0.01
Matt Taylor ( <i>Non-Executive Director</i> ) <sup>2</sup>	410,254	3,000,000 (subscription by funds managed and advised by Foresight Venture Partners)	1,800,000	3,410,254	19.04
Ian Stewart ( <i>Non-Executive Director</i> )	875,365	800,000	270,000	1,675,365	9.35

<sup>1</sup> Christopher Honeyborne's interest in CULS is held by virtue of him being a director of Brockhill Ltd.

<sup>2</sup> By virtue of Matt Taylor being a partner at VCF LLP (trading as Foresight Venture Partners), he is deemed to be interested in Ordinary Shares and CULS held by funds managed and advised by Foresight Venture Partners.

### Annual General Meeting

A notice convening the seventh AGM of the Company to be held at 10.00 a.m. on 24 August 2007 at the offices of DLA Piper UK LLP at 1 St.Paul's Place, Sheffield S1 2JX is set out at the end of this document. At the AGM resolutions 1 – 8, 10 and 12 will be proposed as ordinary resolutions and resolutions 9, 11 and 13 as special resolutions.

Resolutions 1 – 6 to be considered at the AGM propose to receive the Annual Report and Accounts, re-elect Helen Gilder, Matt Taylor and Ian Stewart as Directors having retired by rotation in accordance with the Company's articles of association, re-appoint PKF (UK) LLP as auditors of the Company until the conclusion of the next annual general meeting and to authorise the Directors to fix the remuneration of the auditors.

Resolution 7 to be considered at the AGM proposes to increase the authorised share capital of the Company, whilst resolution 8 proposes to grant the Directors authority to allot the Placing Shares pursuant to section 80 of the Companies Act 1985.

Resolution 9 to be considered at the AGM proposes to dis-apply statutory pre-emption rights in respect of the Placing Shares pursuant to Section 89 of the Companies Act 1985 which would otherwise require 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.

Resolution 10 to be considered at the AGM proposes to grant the Directors authority to allot the Consideration Shares pursuant to section 80 of the Companies Act 1985.

Resolution 11 to be considered at the AGM proposes to dis-apply statutory pre-emption rights in respect of the Consideration Shares pursuant to section 89 of the Companies Act 1985 which would otherwise require 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 dis-applied to a limited extent by a resolution passed at the annual general meeting of the Company held on 23 October 2006. However, the extent of the disapplication is insufficient to enable full take up of the Placing Shares and the Consideration Shares in aggregate. Accordingly, the disapplication of statutory pre-emption rights proposed in Resolutions 9 and 11 is necessary in order to effect the Placing, and to allow sufficient scope for the possible future allotment of Consideration Shares pursuant to the Acquisition.

Resolutions 12 and 13 to be considered at the AGM propose to grant the Directors authority to allot Ordinary Shares and to dis-apply to a limited extent the statutory pre-emption rights pursuant to section 89 of the Companies Act 1985, each other than in connection with the Placing.

Copies of this document incorporating the notice convening the AGM have been sent to Shareholders and will be available for collection from the registered office of ZOO Digital Group plc. for a period of one month from the date of this document and the document is also available at [www.zoodigitalgroup.com](http://www.zoodigitalgroup.com).

#### **Documents available for inspection**

Copies of the following documents are available for inspection at the offices of DLA Piper UK LLP at 1 St.Paul's Place, Sheffield S1 2JX during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), up to and including the date of the Annual General Meeting:

- (a) the Asset Purchase Agreement;
- (b) the Irrevocable Undertakings; and
- (c) a copy of this document.

#### **Action to be taken**

Shareholders will find enclosed a reply-paid Form of Proxy for the AGM. Whether or not you intend to be present at the AGM, you are requested to complete and sign the Form of Proxy and return it to Capita Registrars at the Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible and, in any event, so as to arrive not later than 10.00 a.m. on 22 August 2007. Unless the Form of Proxy is received by this date and time, it will be invalid. The completion and return of a Form of Proxy will not preclude you from attending the AGM and voting in person if you so wish.

#### **Recommendation**

**The Directors believe that the Acquisition and Placing are in the best interests of the Company and its Shareholders as a whole. Accordingly, your Directors unanimously recommend that Shareholders vote in favour of the Resolutions, as they intend to do in respect of their own beneficial and connected shareholdings, which amount to 1,493,680 Ordinary Shares representing 25.26 per cent. of the issued share capital of the Company at the date of this document.**

Yours sincerely

**Christopher Honeyborne**  
*Chairman*

THE COMPANIES ACTS 1985 to 1989  
PUBLIC COMPANY LIMITED BY SHARES

**NOTICE OF THE SEVENTH ANNUAL GENERAL MEETING**

of

**ZOO DIGITAL GROUP PLC (the "Company")**

(Registered in England & Wales with registered number 3858881)

**Dated 31 July 2007**

**NOTICE IS HEREBY GIVEN** that the seventh Annual General Meeting of the Company will be held at 10.00 a.m. on 24 August 2007 at 1 St.Paul's Place, Sheffield S1 2JX, for the following purposes:

**RESOLUTIONS**

To consider and, if thought fit, pass the following resolutions, of which those numbered 1 – 8, 10 and 12 will be proposed as ordinary resolutions and those numbered 9, 11 and 13 as special resolutions.

**ORDINARY BUSINESS**

**Ordinary Resolutions**

1. To receive the directors' report and financial statements for the year ended 31 March 2007.
2. To re-elect Helen Gilder as a director of the Company, having retired by rotation in accordance with the articles of association of the Company.
3. To re-elect Matt Taylor as a director of the Company, having retired by rotation in accordance with the articles of association of the Company.
4. To re-elect Ian Stewart as a director of the Company, having retired by rotation in accordance with the articles of association of the Company.
5. To re-appoint PKF (UK) LLP as auditors of the Company to hold office from the conclusion of the meeting until the conclusion of the next annual general meeting of the Company.
6. To authorise the directors to fix the remuneration of the auditors.

**SPECIAL BUSINESS**

**Increase of authorised share capital**

7. That the authorised share capital of the Company be and is hereby increased from £2,200,000 to £4,000,000 by the creation of an additional 12,000,000 Ordinary Shares of £0.15 each ranking *pari passu* in all respects with the existing Ordinary Shares of £0.15 each in the capital of the Company and having the rights and privileges and being subject to the restrictions contained in the articles of association of the Company in force at the date of the passing of this Resolution.

**Section 80 authority for the Placing**

8. That, subject to and conditional upon the passing of resolution 7 above, for the purposes of section 80 of the Companies Act 1985 (as amended) (the "**Act**") the directors of the Company, (each a "**Director**" and together the "**Directors**") be and are hereby authorised generally and unconditionally (in addition to any existing such power or authority) to exercise all of the powers of the Company to allot, grant options over or otherwise deal with or dispose of any relevant securities (within the meaning of section 80(2) of the Companies Act 1985) up to a maximum nominal amount of £1,800,000 in connection with the Placing (as such term is defined in the circular to shareholders dated 31 July 2007 (the "**Circular**") provided that this authority shall expire at the conclusion of the next annual general meeting of the Company or the expiry of the period of 15 months from the date of the passing of this resolution whichever is the earlier and save 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 in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

## **SPECIAL RESOLUTION**

### **Section 89 dis-application for the Placing**

9. That, subject to and conditional upon the passing of resolutions 7 and 8 above, the Directors be and are hereby unconditionally empowered pursuant to section 95(1) of the Act (in addition to any existing such power or authority) to allot equity securities (within the meaning of section 94(2) of the Act) pursuant to the authority conferred by Resolution 8 above as if section 89(1) of the Act did not apply to such allotment provided that this power shall be limited to the allotment of equity securities up to a maximum nominal amount of £1,800,000 pursuant to the Placing and provided that this authority shall expire on the conclusion of the next annual general meeting of the Company or the expiry of the period of 15 months from the date of the passing of this resolution whichever is the earlier and save 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 in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

## **ORDINARY RESOLUTION**

### **Section 80 authority for the Consideration Shares**

10. That, subject to and conditional upon the passing of resolutions 7, 8 and 9 above, for the purposes of section 80 of the Act the Directors be and are hereby authorised generally and unconditionally (in addition to any existing such power or authority) to exercise all of the powers of the Company to allot, grant options over or otherwise deal with or dispose of any relevant securities (within the meaning of section 80(2) of the Companies Act 1985) up to a maximum nominal amount of £375,000 in connection with the issue of the Consideration Shares (as such term is defined in the Circular) for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) on 30 April 2010 save 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 in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

## **SPECIAL RESOLUTION**

### **Section 89 dis-application for the Consideration Shares**

11. That, subject to and conditional upon the passing of resolutions 7, 8, 9 and 10 above, the Directors be and are hereby unconditionally empowered pursuant to section 95(1) of the Act (in addition to any existing such power or authority) to allot equity securities (within the meaning of section 94(2) of the Act) pursuant to the authority conferred by resolution 10 above as if section 89(1) of the Act did not apply to such allotment provided that this power shall be limited to the allotment of equity securities up to a maximum nominal amount of £375,000 in connection with the issue of the Consideration Shares for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) on 30 April 2010 save 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 in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

## **ORDINARY RESOLUTION**

### **Section 80 authority**

12. That, subject to and conditional upon the passing of resolutions 7, 8 and 9 above, the Directors be and are hereby authorised, generally and unconditionally, for the purpose of section 80 of the Act to allot relevant securities (as defined in section 80(2) of the Act) up to a maximum aggregate nominal amount of £895,654 provided that (unless previously revoked, varied or renewed) this authority shall expire at the commencement of the annual general meeting of the Company held next after the passing of this resolution or the date falling 15 months after the date of passing of this resolution (whichever is the earliest) but so 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 the authority hereby conferred had not so expired.

## SPECIAL RESOLUTION

### Section 89 dis-application

13. That, subject to and conditional upon the passing of resolutions 7, 8, 9 and 12 above, the Directors be and are hereby generally empowered, pursuant to Section 95(1) of the Act, to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the authority conferred upon them by the resolution numbered 12 in this notice of meeting as if Section 89(1) of the Act did not apply to any such allotment, provided that such power shall be limited to:

- (a) the allotment of equity securities in connection with an offer (whether by way of a rights issue, open offer or otherwise) in favour of holders of Ordinary Shares where the equity securities respectively attributable to the interests of all such holders are proportionate (as nearly as may be) to the respective number of ordinary shares held by them but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal, regulatory or practical problems arising under the laws of any territory or the requirements of any recognised regulatory body or any stock exchange; and
- (b) the allotment (otherwise than pursuant to paragraph (i) above) of equity securities for cash up to an aggregate nominal amount of £268,696 and (unless previously revoked, varied or renewed) shall expire at the commencement of the annual general meeting of the Company held next after the passing of this resolution or the date falling 15 months after the date of passing of this resolution (whichever is the earliest), except that the Company may, before the expiry of the power contained in this resolution, 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 in pursuance of such offer or agreement as if the power conferred hereby had not expired.

This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 94(3A) of the Act as if in the first paragraph of this resolution the words "pursuant to the authority conferred upon them by the resolution numbered 12 in this notice of meeting" were omitted.

### By order of the Board

**Helen Gilder**  
*Secretary*

Registered office of the Company:  
20 Furnival Street,  
Sheffield,  
S1 4QT

### Note:

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and, on a poll, vote in his place. A proxy need not be a member of the Company. The instrument appointing a proxy and any authority under which it is executed, or a copy of the authority certified notarially or in some other way approved by the Directors must be lodged at the offices of the registrars of the Company, Capita Registrars at the Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting.
2. The time by which a person must be entered on the register of members in order to have the right to attend and vote at the Annual General Meeting is the close of business on 22 August 2007 (being not more than 48 hours prior to the time fixed for the meeting) or, if the meeting is adjourned, such time being not more than 48 hours prior to the time fixed for the adjourned meeting. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend and vote at the meeting.

# ZOO DIGITAL GROUP PLC (the "Company")

## FORM OF PROXY

Form of Proxy for use by shareholders at the Annual General Meeting of the Company to be held on 24 August 2007 at 10.00 a.m.

I/We .....  
(FULL NAME IN BLOCK CAPITALS PLEASE)

of .....  
(ADDRESS IN BLOCK CAPITALS PLEASE)

being (a) member/members of the above named Company, hereby appoint the Chairman of the meeting, (see note 1)

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at 1 St.Paul's Place, Sheffield S1 2JX on **24 August 2007 at 10.00 a.m.** and at any adjournment thereof.

Please indicate with an 'X' in the spaces below how you wish your vote to be cast.

Resolution	For	Against	Abstain
1. To receive the Directors' report and financial statements for the year ended 31 March 2007			
2. To re-elect Helen Gilder as a Director of the Company			
3. To re-elect Matt Taylor as a Director of the Company			
4. To re-elect Ian Stewart as a Director of the Company			
5. To re-appoint PKF (UK) LLP as auditors of the Company			
6. To authorise the Directors to the fix the remuneration of the auditors			
7. To increase the authorised share capital of the Company.			
8. To authorise the Directors to allot shares for the Placing for the purposes of section 80 of the Companies Act 1985.			
9. To authorise the Directors to dis-apply statutory pre-emption rights for the Placing in terms of section 89 of the Companies Act 1985.			
10. To authorise the Directors to allot shares for the Deferred Consideration for the purposes of section 80 of the Companies Act 1985.			
11. To authorise the Directors to dis-apply statutory pre-emption rights for the Deferred Consideration in terms of section 89 of the Companies Act 1985.			
12. To authorise the Directors to allot shares for the purposes of section 80 of the Companies Act 1985.			
13. To authorise the Directors to dis-apply statutory pre-emption rights in terms of section 89 of the Companies Act 1985.			

Signature(s).....Dated.....2007

### Notes:

- If you wish to appoint another person as proxy the words 'the Chairman of the meeting' should be deleted and the name of the proxy (who need not be a member of the Company) inserted instead. If such words are not deleted and a proxy is named on this form the Chairman shall not be entitled to vote as proxy. Any alteration must be initialled. In the absence of any specific direction a proxy shall be deemed to be entitled to vote in respect of all the shares in the relevant holding.
- Please indicate with an 'X' how you wish to vote. Unless otherwise instructed, the proxy will vote or abstain from voting as he thinks fit.
- To be valid, this form, together with the power of attorney, if any, under which it is signed or a notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power, must be lodged with the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to be received not later than 10.00 a.m. on 22 August 2007.
- A corporation must execute this form under its common seal or under the hand of an attorney or duly authorised officer(s).
- In the case of joint holders, the signature of any one holder will be sufficient but the names of all the joint holders should be stated and the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
- Deposit of a completed form of proxy will not preclude a member from being present and voting at the meeting or adjourned meeting and voting in person if he or she attends.
- The 'abstain' 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 for the votes 'For' and 'Against'.

SECOND FOLD

Business Reply Plus  
Licence Number RLUB-TCHH-JEBH



**Capita Registrars  
Proxies  
The Registry,  
34 Beckenham Road,  
Beckenham  
BR3 4ZB**

FIRST FOLD

THIRD FOLD