ZOO Digital Group plc
Unaudited Interim Results
for the six months ended
30 September 2009

ZOO Digital Group plc, the provider of software and software-led services for the filmed entertainment market, today announces its financial results for the six months to 30 September 2009.

Financial Highlights

As announced at the Company's AGM, functional and presentation currency has changed to US Dollars

- Revenues increased by 31% to $8.1 million (H1 2008: $6.2 million)
- *Profit of $0.4 million for the half year (H1 2008: loss of $0.5 million)
- Operating cash flow of $0.7 million (H1 2008: Nil)
- Cash balance at 30 September of $0.5 million

*before exchange differences on the translation of intercompany balances and borrowings

Operational Highlights

- Launch of Translation Management System (TMS)
- Awarded Government funding for film and video restoration project

Stuart Green, CEO of ZOO Digital, commented:
"The Board has continued to focus on growing the recurring revenue streams, and we are pleased to report significant progress in both of our key areas of software licensing and value-added services. Our software products and staff are becoming increasingly embedded within the operations of our major film studio customers where we enjoy mutually beneficial working relationships.

"The filmed entertainment industry continues to face challenging economic circumstances, which makes ZOO's time and cost-saving solutions even more compelling, and we look forward to the future with confidence."

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Chairman and Chief Executive's Statement

We are pleased to report that the six months ended 30 September 2009 represents another period of growth for ZOO.

As announced at the Company's AGM in September, our functional and presentational currencies have been changed to reflect that the most significant proportion of our business is in the United States of America and transacted in US dollars ("USD" or "$"). As such, our results are stated for the first time in USD with historic results restated in accordance with International Financial Reporting Standards ("IFRS"). The reported business performance has been distorted by the necessary inclusion of exchange gains and losses on the translation of certain balance sheet items that have no immediate cash impact. Adjusting for these items shows the progress in the underlying business where revenue for the six months to 30 September 2009 increased to $8.1 million (six months to 30 September 2008: $6.2 million) with profit before exchange differences increasing to $0.4 million (2008: $0.5 million loss).

The Board has continued to focus on growing the recurring revenue streams, and we are pleased to report significant progress in both of our key areas of software licensing and value-added services. Our software is licensed under long term agreements; in the case of one major client this period is for 15 years.

Our software products and staff are becoming increasingly embedded within the operations of our major film studio customers where we enjoy mutually beneficial working relationships. ZOO is analysing areas of studio operations that are traditionally outsourced to service vendors, and identifying where there is scope to automate and centralise workflows. Increasingly our engagement with customers in these areas begins with us deploying our staff to provide traditional production services, during which time we become familiar with the precise details of the workflows and are quickly able to identify opportunities where we can apply technology solutions. Equipped with this knowledge, we then design, build and deploy sophisticated workflow automation software that benefits our customers by simplifying their operations while reducing their costs and time to market. In each case our software is licensed using a pricing model that provides recurring revenues to ZOO, typically charged monthly based on usage, which reduces production costs borne by our customers. Due to these benefits, when our tools become embedded within our customers' operations their usage, and therefore the corresponding revenue to ZOO, increases over time.

Whilst we continue to develop and enhance our suite of desktop application software, we have recently launched the first of our web-based solutions, enabling greater levels of collaborative working in studio operations. The Translation Management System (TMS) allows users to enter translations and legal information into an on-line database. This textual information is processed using ZOO's integrated desktop tools and applied to multiple media, from DVD and Blu-ray menus to marketing collateral such as posters and websites. The system incorporates a number of modules, including a dictionary of standard translations, as well as the capability to 'learn phrases' as they are used in specific contexts. This eradicates the need for duplication, providing ZOO's clients with significant cost savings, along with improved brand consistency and control. There has been considerable interest in the system and it is currently being evaluated by a number of clients.

With the addition of the TMS, we can offer a turn-key solution to any client that requires localisation across multiple media forms. The combination of this system with our desktop software allows wider participation in customer processes, delivering significant cumulative benefits. We have other web-based solutions in the pipeline and will be announcing further new developments in due course.

We continue to invest in R&D and have recently announced a new initiative to develop software solutions for the automated restoration of film and video materials. This is an area where we have identified a significant annual spend within major film studios and where current solutions depend heavily on highly skilled manual labour. In a project anticipated to run for three years, we plan to develop innovative new approaches that will be substan-

Chairman and Chief Executive Statement (Cont.)

tially automated, enabling operators without specialist skills to process materials in less time and at lower cost. We were pleased to announce that ZOO has received funding for this project from the Technology Strategy Board, a public body established by the British Government in 2007 to support technology-enabled innovation. We will be working closely with a small consortium of partners that includes the British Film Institute – the organisation established in 1933 to promote understanding and appreciation of Britain's rich film and television heritage and culture.

Our patent portfolio continues to grow with 22 cases now granted in the US, UK and other countries. We have recently received notice of allowance of a number of patents that relate to copy protection of video content which we expect to commercialise in the future.

As a Board, we recognise that it is the dedication, quality and enthusiasm of our employees that underpins the success of ZOO. We do not underestimate the skills and talents that our people bring, and on behalf of the Board, we would like to thank our management and staff for their hard work and commitment throughout the year.

Financial Review

In reporting our results in USD for the first time we have translated historic results in accordance with IFRS by converting the reported pound sterling ("£") results into USD at the average rate in effect during the relevant period.

Reported revenue for the period increased by 31% to $8.1 million (2008: $6.2 million).

We recognised exchange losses in the six month period to 30 September 2009 and exchange gains in the year ended 31 March 2009 caused by the translation of certain assets and liabilities which do not have any immediate cash impact or any direct effect on our underlying business. Excluding these exchange differences, we can see that the underlying business improved its performance with a profit of $0.4 million compared to a loss of $0.5 million in the six months to 30 September 2008.

The exchange losses reported in the current period relate to the fluctuating USD value of the £3.5m convertible loan note and the gains in the previous year relate to the translation differences on the internal loans between group companies. After accounting for these exchange gains and losses, we report an operating profit of $0.6 million (2008: $0.4 million), and a net loss for the period of $0.2 million (2008: $0.1 million profit).

When we announced annual results in June 2009 we expected the interactive DVD revenue to decline and for this shortfall to be offset by the growth in our core business. This has proved to be the case with interactive DVD revenue reducing from $1.9 million to $0.5 million, which has been more than offset by increases in our core business.

The cash generated from operating activities is $0.7 million (2008: Nil) leading to a closing cash balance at 30 September 2009 of $0.5 million. In addition to these cash reserves, we have an overdraft facility of £0.5 million in place which is planned to aid the business in weathering the peaks and troughs of its working capital cycle.

Outlook

The filmed entertainment industry continues to face challenging economic circumstances that have prompted a range of cost cutting measures in studio operations. With the on-going growth in video platforms, the public expects greater choice in the way filmed content is enjoyed, which in turn presents additional economic and production challenges to video producers and publishers. ZOO's time and cost-saving solutions continue to be well received by our customers as they offer a compelling investment case; we see further growth potential within existing clients as well as from new customers. Unlike traditional service providers that work with off-the-shelf technology, we are well placed to deliver capacity for new customers since our solutions are highly efficient and scalable.

Chairman and Chief Executive Statement (Cont.)

While there is natural seasonality in a number of our revenue streams, mainly as a greater proportion of the year's home entertainment titles are created during the summer months ahead of the key Thanksgiving and Christmas buying periods, our clients' marketing schedules continue to provide us with good revenue visibility. These schedules give a snapshot of the likely future demand for our software and services. Accordingly we anticipate significant throughput to continue in the second half of the financial year.

We look forward to results for the full year to 31 March 2010 with confidence.

Dr Christopher H B Honeyborne
Chairman

Dr Stuart A Green
Chief Executive Officer

STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
for the six months ending 30 September 2009

	6 months to 30 Sep 2009 $000	6 months to 30 Sep 2008 $000	Year ended 31 Mar 2009 $000
Revenue	**8,117**	6,210	11,336
Cost of Sales	**(2,383)**	(898)	(2,085)
Gross Profit	**5,734**	5,312	9,251
Other operating income	**131**	17	136
Exchange gain on intercompany transactions	**-**	601	2,293
Exceptional items	**-**	-	52
Other operating expenses	**(5,218)**	(5,497)	(10,768)
Total operating expenses	**(5,218)**	(4,896)	(8,423)
Operating Profit	**647**	433	964
Finance income	**1**	9	15
Exchange loss on borrowings	**(615)**	-	-
Other finance cost	**(265)**	(329)	(599)
Total finance cost	**(880)**	(329)	(599)
(Loss)/Profit before taxation	**(232)**	113	380
Tax on loss	**(1)**	(1)	(36)
(Loss)/Profit for the period	**(233)**	112	344
Profit/(loss) before exchange differences on the translation of intercompany balances and borrowings (see notes)	**382**	(489)	(1,949)
Other Comprehensive Income			
Exchange difference on the change of presentation currency and on the translation of foreign operations	**-**	(635)	(2,231)
Other Comprehensive Income net of tax	**-**	**(635)**	**(2,231)**
Total Comprehensive Income	**(233)**	**(523)**	**(1,887)**
Comprehensive Income attributable to equity holders of the parent	**(233)**	**(523)**	**(1,887)**
(Loss)/Profit per ordinary share			
- basic	**(1.09 cents)**	**0.63 cents**	**1.76 cents**
- diluted	**(1.09 cents)**	**0.4 cents**	**1.15 cents**

STATEMENT OF FINANCIAL POSITION (UNAUDITED)
as at 30 September 2009

	As at 30 Sep 2009 $000	As at 30 Sep 2008 $000	As at 31 Mar 2009 $000
ASSETS			
Non-Current Assets			
Property, plant and equipment	**627**	1,078	755
Intangible assets	**7,713**	7,912	6,871
	8,340	8,990	7,626
Current Assets			
Inventories	**-**	97	-
Trade receivables and other receivables	**3,543**	2,727	2,076
Cash and cash equivalents	**450**	428	1,414
	3,993	3,252	3,490
Total Assets	**12,333**	12,242	11,116
LIABILITIES			
Current Liabilities			
Trade payables and other payables	**(4,492)**	(3,170)	(3,519)
Borrowings	**(193)**	(528)	(523)
	(4,685)	(3,698)	(4,042)
Non-Current Liabilities			
Borrowings	**(5,472)**	(5,834)	(4,726)
	(5,472)	(5,834)	(4,726)
Total Liabilities	**(10,157)**	(9,532)	(8,768)
Net Assets	**2,176**	2,710	2,348
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	**4,573**	4,783	4,573
Share premium account	**32,899**	40,997	32,899
Other reserves	**12,293**	15,306	12,293
Share option reserve	**232**	18	110
Warrant reserve	**46**	16	38
Convertible loan note reserve	**380**	474	380
Foreign exchange translation	**(992)**	(215)	(992)
Profit and loss account	**(47,183)**	(58,665)	(46,950)
	2,248	2,714	2,351
Interest in own shares	**(72)**	(4)	(3)
Attributable to equity holders	**2,176**	2,710	2,348

STATEMENT OF CASH FLOWS (UNAUDITED)
for the six months ending 30 September 2009

	6 months to 30 Sep 2009 $000	6 months to 30 Sep 2008 $000	Year ended 31 Mar 2009 $000
Cash flows from operating activities			
Operating profit for the period	**647**	433	964
Finance income	**-**	9	15
Depreciation	**219**	223	427
Amortisation and impairment	**51**	60	883
Share based payments	**130**	(12)	123
Disposal of own shares	**(69)**		
Disposal of property, plant and equipment	**-**		6
Exchange (gain)/loss	**108**	(695)	(2,449)
Changes in working capital:			
Inventories	**-**		291
Trade and other receivables	**(1,467)**	(417)	(52)
Trade and other payables	**1,050**	219	1,099
Cash flow from operations	**669**	(180)	1,307
Tax received	**-**	171	132
Net cash flow from operating activities	**669**	(9)	1,439
Investing Activities			
Purchase of intangible assets	**(893)**	(250)	(1,044)
Purchase of property, plant and equipment	**(91)**	(52)	(148)
Net cash flow from investing activities	**(984)**	(302)	(1,192)
Cash flows from financing activities			
Repayment of borrowings	**(378)**	(252)	(541)
Proceeds from borrowings	**-**	-	116
Finance cost	**(271)**	(250)	(436)
Share and convertible loan issues	**-**	-	(31)
Issue of Share Capital	**-**	-	896
Net cash flow from financing	**(649)**	(502)	4
Net (decrease)/increase in cash and cash equivalents	**(964)**	(813)	251
Cash and cash equivalents at the beginning of the period	**1,414**	1,340	1,340
Exchange (loss)/gain on cash and cash equivalents	**-**	(99)	(177)
Cash and cash equivalents at the end of the period	**450**	428	1,414

NOTES

Board Approval

The interim accounts were approved by the board of directors on 25 November 2009.

Basis of preparation

The consolidated financial statements of ZOO Digital Group plc and its subsidiary undertakings (the "Group") for the period ended 31 March 2010 will be prepared in accordance with those International Financial Reporting Standards ("IFRS"), as adopted by the European Union.

This Interim Report has been prepared in accordance with UK AIM listing rules which require it to be presented and prepared in a form consistent with that which will be adopted in the annual accounts having regard to the accounting standards applicable to such accounts. It has not been prepared in accordance with IAS 34 "Interim Financial Reporting".

The policies applied are consistent with those set out in the annual report for the year ended 31 March 2009, and have been consistently applied, unless stated otherwise.

A copy of the statutory accounts for the year ended 31 March 2009, prepared under IFRS, has been delivered to the Registrar of companies and contained an unqualified auditors' report.

Basis of Consolidation

The consolidated financial statements of ZOO Digital Group plc include the results of the Company and its subsidiaries. Subsidiary accounting policies are amended where necessary to ensure consistency within the Group and intra group transactions are eliminated on consolidation.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented is US Dollars which is the company's functional and presentation currency.

Transactions and balances

Transactions in foreign currencies are recorded at the prevailing rate of exchange in the month of the transaction. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the year end exchange rates are recognised in the income statement.

Group companies

The results and financial positions of all group entities that use a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each entity are translated at the closing rate at the balance sheet date;
- income and expenses for each income statement are translated at the prevailing monthly exchange rate for the month in which the income or expense arose and all resulting exchange rate differences are recognised with foreign exchange translation reserve.

NOTES continued

Change in Functional and Presentation Currency

Over the recent past an increasing proportion of the group's trading transactions have been denominated in US dollars. The directors now consider US dollars to be more representative of the group's operations, and as a consequence with effect from 1 April 2009 the group has determined that its functional currency has changed from pound sterling to US dollars, and has elected to change its presentation currency from pound sterling to US dollars.

The effect of the change in the functional currency has been to commence using the US dollar as the functional currency from 1 April 2009. This change does not in itself have any effect on the comparative figures, but since the convertible loan notes are designated in pound sterling, the results now include an exchange loss deriving from currency movement in the last six months; the comparative figures do not include an equivalent figure, since the functional currency at that time was pound sterling.

The effect of changing the presentation currency has been to restate the comparative figures by translating the figures in the Statement of Comprehensive Income ("SoCI") at the average rate for the period, and the figures in the Statement of Financial Position at the period end rate. However, the underlying comparative figures have not been reworked as if the functional currency had been the US dollar. The treatment adopted is that required by IFRS. Consequently, the figures in the SoCI relating to "exchange gain on intercompany transactions", which arose from translation from US dollars into Sterling, have no comparable figure in the current period.

The directors recognise that the effect shown in the previous paragraph is non-recurring, whilst there will continue to be currency movements on the convertible loan notes. Nonetheless, the directors consider that the combined effect of these items makes it difficult for the reader of these financial statements to get a clear picture of the underlying trading and operational performance over the last eighteen months. Consequently the SoCI includes an extra line disclosing the profit/loss after removing the exchange difference figures referred to above

Earnings per share

Earnings per share is calculated based upon the profit or loss on ordinary activities after tax for each period divided by the weighted average number of shares in issue during the period.

Weighted average number of shares for basic & diluted profit/(loss) per share	**30 Sep 2009** **No. of shares**	30 Sep 2008 No. of shares	31 Mar 2009 No. of shares
Basic	**21,326,421**	17,913,089	19,558,970
Diluted	**32,249,576**	27,851,894	29,955,174

Further Copies

Copies of this announcement and the Interim Report for the six months ended 30 September 2009 will be available, free of charge, for a period of one month from the Company's Nominated Adviser and Broker, FinnCap, 4 Coleman Street, London, EC2R 5TA, from the registered office of the Company at The Tower, 2 Furnival Square, Sheffield, S1 4QL or from the Group's website: www.zoodigital.com.

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