



**ZOO Digital Group plc  
Unaudited Interim Results  
for the six months ended  
30 September 2010**





## 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 2010.

### Financial Highlights

- Revenue in line with first half of prior year at \$8.1 million (H1 2009: \$8.1 million)
- Operating profit up 36% to \$880,000 (H1 2009: \$647,000) reflecting focus on higher margin work
- Maiden interim profit before tax of \$388,000 (H1 2009: loss of \$232,000)
- Basic earnings per share of 1.72 cents (H1 2009: loss of 1.09 cents)
- Cash balance at 30 September of \$1.9 million (30 September 2009: \$450,000)

### Operational Highlights

- New iTunes® production toolset introduces ZOO to the video Electronic Sell Through (EST) market
- Advanced talks with new prospective clients resulting from Multi Packaging Solutions (MPS) collaboration
- Initial engagement with an illustrated book publisher for e-book production

### Stuart Green, CEO of ZOO Digital, commented:

"I am pleased to be able to report that ZOO has traded profitably in the first half of the year, driven by recurring revenues from major clients.

We continue to add new products to our suite of tools which help our customers achieve cost savings and protect their brand integrity, and I am particularly pleased with the progress we have made in helping our customers exploit Apple's iTunes system for the distribution of video. As well as looking to add further Hollywood studios to our client base, we have qualified, through our relationship with MPS, other vertical markets where our software is highly relevant. This will provide valuable diversification of our sources of income, and we therefore continue to view the future with confidence."

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## Chairman and Chief Executive's Statement

We are pleased to report on another successful period for ZOO for the six months ended 30 September 2010.

Revenues for the period were similar to those reported for the same period last year at \$8.1 million (H1 2009: \$8.1 million), and in line with expectations. However, operating margins have improved due to greater focus on our core higher margin areas of software licensing and value added services. This has resulted in an operating profit up 36% to \$880,000 (H1 2009: \$647,000) and our maiden interim profit before tax of \$388,000 (H1 2009: loss before tax of \$232,000).

Whilst our short term growth depends on our existing market of major Hollywood studios, during the course of the year we have started to explore the applicability of our software tools to a much wider audience and to deliver a greater range of services. Our ability to enable centralisation of certain printing and marketing functions means that ZOO's products are well suited to any company that markets products in multiple countries and particularly to those companies for which the quality, integrity and recognition of their brands are paramount. The fact that we can also provide significant savings in terms of both costs and time to market makes our offering even more compelling.

During the period we have demonstrated the applicability of our solutions in other vertical markets by securing initial engagements with new customers, including one in the area of illustrated book publishing. Our Media Adaptation Tool (MAT) and Translation Management System (TMS) are being used to conform publications to corporate branding requirements, and also to provide for efficient print localisation and conversion for U.S. and international e-book publishing.

Our relationship with Multi Packaging Solutions Inc ("MPS") has continued to highlight some exciting opportunities and we hope to be able to announce our first joint customer project in the near future. The discussions that we have had with prospective clients to date have endorsed our belief that our software tools offer significant benefits to compa-

nies from a number of different industries. They have also confirmed our view that the tools will need only modest adaptation for these different fields and that they can be deployed without significant increase in cost to ZOO.

Within our traditional audiences the Company continues to embed itself within its customers' operations and continually looks for additional tools to meet our customers' requirements. In July we announced that our new automated styleguide system had gone live with its first adoption by Warner Home Video International. The adoption of any system with a major new client is naturally a thorough and prolonged process but we are pleased with the progress being made.

We have also recently introduced our new iTunes® production toolset, introducing ZOO to the Electronic Sell Through (EST) market for video, and we are delighted that this has been adopted by a major film studio. The first titles created with our toolset became available in the iTunes store during November. The EST market is proving increasingly popular as a sales platform and our technology enables studios to adapt existing materials created for release in other formats, such as DVD and Blu-ray, so that they can be purchased via EST. Our production tools provide a highly cost effective way of bringing additional features to iTunes and we believe that there is scope for further work, besides movie extras, that we can support for this very widely used platform.

### Finance Review

The revenue, at \$8.1m, is in line with that reported for the same period last year but the gross profit has increased to \$6.1m (H1 2009: \$5.7m) with gross profit margin increasing by more than 5% from H1 2009 to 76.2%. Last year saw an increase in work which is subcontracted to a third party supplier whereas this year the proportion of sales relating to this type of work has been reduced and replaced with sales of our core products and services which earn higher margins.

The overheads in the business have changed little since the comparable period with a total of \$5.3m



## Chairman and Chief Executive Statement (Cont.)

compared to \$5.2m in the previous period.

The operating profit of \$880,000 shows an improvement of 36% over the same period last year and the retained profit shows considerable improvement over the prior period with a profit of \$388,000 compared to a loss of \$233,000 in the prior period.

The group continues to have significant tax losses to be used in both the UK and the US which we anticipate will protect future profits from tax charges for the foreseeable future.

The group is reporting an improvement in cash generated from operating activities at \$774,000 (H1 2009: \$669,000) and a cash balance at 30 September of \$1.9m (Balance at 30 September 2009: \$450,000). The equity investment by MPS in July has protected the cash position of the business and we continue to have access to an on demand overdraft facility of UK£500,000 (equivalent to \$790,000 at the exchange rate on 30 September 2010), currently unused. The Group has no debt other than a convertible loan note of UK£3.5m, and the overdraft facility helps to provide a working capital buffer to fund the growth of the business.

### Board Changes

Ian Stewart, Non-Executive Director of the Company, has announced his decision to step down from the Board of Directors with effect from 31 December 2010 to concentrate on his other business interests. We are pleased that Ian will be working with us for the following 12 months as a consultant to help us to find and exploit new opportunities for our products. The Board would like to thank Ian, who has been with ZOO Digital since inception, for his dedication and commitment to the Company, and he takes with him our very best wishes for the future.

### Outlook

We continue to add innovative new products and explore further opportunities to embed ourselves deeper within our clients' operations, thereby creating even greater value for them and for ZOO. Over the course of the last few months we have identified several new areas where we believe that our tech-

nology can be applied to help customers in the same way that we have helped major Hollywood studios cut their costs and protect their brand integrity around the world. This will not only increase the overall size of our target market but also diversify our revenue streams so that we become less dependent on any individual customers or area of business.

As with many new, disruptive technologies there is often a long lead time between signing new customers and seeing a significant revenue contribution from them, as the customer needs time to modify established processes and become accustomed to new ways of working. However, the long term rewards for ZOO resulting from such deep involvement at the heart of our customers' businesses can be substantial. Our track record of success with Hollywood studios and a very healthy sales pipeline for our existing and new products from both current and potential clients, give the Board of ZOO confidence in the future success of the Company.

Roger D Jeynes  
Chairman

Dr Stuart A Green  
Chief Executive Officer



**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
(UNAUDITED)  
for the six months ended 30 September 2010**

	6 months to 30 Sep 2010	6 months to 30 Sep 2009	Year ended 31 Mar 2010
	\$000	\$000	\$000
<b>Revenue</b>	<b>8,060</b>	8,117	15,056
Cost of Sales	<b>(1,920)</b>	(2,383)	(3,769)
<b>Gross Profit</b>	<b>6,140</b>	5,734	11,287
Other operating income	<b>35</b>	131	177
Operating expenses	<b>(5,295)</b>	(5,218)	(11,503)
<b>Operating profit/(loss)</b>	<b>880</b>	647	(39)
Analysed as:			
Operating profit/(loss) before exceptional impairment	<b>880</b>	647	821
Exceptional impairment	<b>-</b>	-	(860)
	<b>880</b>	647	(39)
Finance income	<b>-</b>	1	1
Exchange loss on borrowings	<b>(233)</b>	(615)	(290)
Finance cost	<b>(259)</b>	(265)	(540)
<b>Total finance cost</b>	<b>(492)</b>	(880)	(830)
<b>Profit/(loss) before taxation</b>	<b>388</b>	(232)	(868)
Tax on profit/(loss)	<b>-</b>	(1)	(4)
<b>Profit/(loss) for the period attributable to equity holders of the parent</b>	<b>388</b>	(233)	(872)
<b>Total Comprehensive Income</b>	<b>388</b>	(233)	(872)
<b>Comprehensive Income attributable to equity holders of the parent</b>	<b>388</b>	(233)	(872)
<b>Profit/(loss) per ordinary share</b>			
- basic	<b>1.72 cents</b>	(1.09 cents)	(4.09 cents)
-diluted	<b>1.16 cents</b>	(1.09 cents)	(4.09 cents)



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
(UNAUDITED)  
as at 30 September 2010**

	As at 30 Sep 2010 \$000	As at 30 Sep 2009 \$000	As at 31 Mar 2010 \$000
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	511	627	558
Intangible assets	7,657	7,713	6,903
	<b>8,168</b>	<b>8,340</b>	<b>7,461</b>
<b>Current Assets</b>			
Inventories	-	-	365
Trade receivables and other receivables	2,618	3,543	2,667
Cash and cash equivalents	1,914	450	1,221
	<b>4,532</b>	<b>3,993</b>	<b>4,253</b>
<b>Total Assets</b>	<b>12,700</b>	<b>12,333</b>	<b>11,714</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade payables and other payables	(3,834)	(4,492)	(4,763)
Borrowings	(169)	(193)	(169)
	<b>(4,003)</b>	<b>(4,685)</b>	<b>(4,932)</b>
<b>Non-Current Liabilities</b>			
Borrowings	(5,470)	(5,472)	(5,138)
	<b>(5,470)</b>	<b>(5,472)</b>	<b>(5,138)</b>
<b>Total Liabilities</b>	<b>(9,473)</b>	<b>(10,157)</b>	<b>(10,070)</b>
<b>Net Assets</b>	<b>3,227</b>	<b>2,176</b>	<b>1,644</b>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Called up share capital	5,097	4,573	4,573
Share premium account	33,626	32,899	32,899
Other reserves	12,293	12,293	12,293
Share option reserve	282	232	267
Warrant reserve	65	46	50
Convertible loan note reserve	380	380	380
Foreign exchange translation	(995)	(992)	(992)
Profit and loss account	(47,402)	(47,183)	(47,822)
	<b>3,346</b>	<b>2,248</b>	<b>1,648</b>
<b>Interest in own shares</b>	<b>(119)</b>	<b>(72)</b>	<b>(4)</b>
<b>Attributable to equity holders</b>	<b>3,227</b>	<b>2,176</b>	<b>1,644</b>



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
(UNAUDITED)  
for the six months ended 30 September 2010**

	Ordinary shares \$000	Share premium reserve \$000	Foreign exchange translation reserve \$000	Convertible loan note reserve \$000	Share option reserve \$000	Share warrant reserve \$000	Other reserves \$000	Accumu- lated losses \$000	Interest in own shares \$000
Balance at 1 April 2009	4,573	32,899	(992)	380	110	38	12,293	(46,950)	(4)
Purchase of own shares									(68)
Share-based payments					122	8			
Loss for period								(233)	
Balance at 30 September 2009	4,573	32,899	(992)	380	232	46	12,293	(47,183)	(72)
Disposal of own shares									68
Share-based payments					35	4			
Loss for period								(639)	
Balance at 31 March 2010	4,573	32,899	(992)	380	267	50	12,293	(47,822)	(4)
Issue of shares	467	779							
Issue costs		(52)							
Foreign ex- change transla- tion adjustment			(3)					4	
Purchase of own shares									(115)
Share-based payments					43	15			
Exercise of share options	57				(28)			28	
Profit for the period								388	
<b>Balance at 30 September 2010</b>	<b>5,097</b>	<b>33,626</b>	<b>(995)</b>	<b>380</b>	<b>282</b>	<b>65</b>	<b>12,293</b>	<b>(47,402)</b>	<b>(119)</b>



**CONSOLIDATED STATEMENT OF CASH FLOWS  
(UNAUDITED)  
for the six months ended 30 September 2010**

	6 months to 30 Sep 2010	6 months to 30 Sep 2009	Year ended 31 Mar 2010
	\$000	\$000	\$000
<b>Cash flows from operating activities</b>			
Operating profit/(loss) for the period	880	647	(39)
Finance income	-	-	1
Depreciation	238	219	419
Amortisation and impairment	195	51	1,214
Share based payments	58	130	169
Disposal of own shares	-	(69)	-
Disposal of intangible assets	-	-	1
Disposal of property, plant and equipment	-	-	1
Exchange (gain)/loss	(82)	108	-
Changes in working capital:			
Decreases/(increases) in inventories	365	-	(365)
Decreases/(increases) in trade and other receivables	49	(1,467)	(591)
(Decreases)/increases in trade and other payables	(929)	1,050	1,244
<b>Cash flow from operations</b>	<b>774</b>	<b>669</b>	<b>2,054</b>
Tax paid	-	-	(4)
<b>Net cash flow from operating activities</b>	<b>774</b>	<b>669</b>	<b>2,050</b>
<b>Investing Activities</b>			
Purchase of intangible assets	(949)	(893)	(1,256)
Purchase of property, plant and equipment	(191)	(91)	(215)
<b>Net cash flow from investing activities</b>	<b>(1,140)</b>	<b>(984)</b>	<b>(1,471)</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings	(43)	(378)	(521)
Proceeds from borrowings	67	-	120
Finance cost	(184)	(271)	(371)
Share and convertible loan issue costs	(52)	-	-
Issue of Share Capital	1,303	-	-
Purchase of own shares	(115)	-	-
<b>Net cash flow from financing</b>	<b>976</b>	<b>(649)</b>	<b>(772)</b>
Net increase/(decrease) in cash and cash equivalents	610	(964)	(193)
Cash and cash equivalents at the beginning of the period	1,221	1,414	1,414
Exchange gain on cash and cash equivalents	83	-	-
Cash and cash equivalents at the end of the period	1,914	450	1,221





## **NOTES**

### **General information**

ZOO Digital Group plc ('the company') and its subsidiaries (together 'the group') provide productivity tools and services for the video post-production, pre-media and interactive markets and continue with ongoing research and development in those areas. The group has operations in both the UK and US.

The company is a public limited company which is listed on the Alternative Investment Market and is incorporated and domiciled in the UK. The address of the registered office is The Tower, 2 Furnival Square, Sheffield.

The registered number of the company is 3858881.

This condensed consolidated financial information is presented in US dollars, the currency of the primary economic environment in which the company operates.

The interim accounts were approved by the board of directors on 23 November 2010.

This consolidated interim financial information has been reviewed, not audited.

### **Basis of preparation**

The consolidated financial statements of ZOO Digital Group plc and its subsidiary undertakings (the "Group") for the period ended 31 March 2011 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 2010, and have been consistently applied, unless stated otherwise.

A copy of the statutory accounts for the year ended 31 March 2010, 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 in 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.



**NOTES continued**

**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 arise and all resulting exchange rate differences are recognised with foreign exchange translation reserve.

**Equity securities issued**

	<b>2010</b> <b>No. of</b> <b>shares</b>	2009 No. of shares	<b>2010</b> <b>\$000</b>	2009 \$000
<b>Issues of ordinary shares during the period</b>				
Exercise of employee share options	<b>246,866</b>	-	<b>57</b>	-
Investment from Multi Packaging Solutions Inc	<b>2,148,642</b>	-	<b>1,246</b>	-
	<b>2,395,508</b>	-	<b>1,303</b>	-

**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.

<b>Weighted average number of shares for basic &amp; diluted profit/ (loss) per share</b>	<b>30 Sep 2010</b> <b>No. of shares</b>	30 Sep 2009 No. of shares	31 Mar 2010 No. of shares
Basic	<b>22,578,604</b>	21,326,421	21,326,421
Diluted	<b>33,356,198</b>	32,249,576	32,249,576

**Further Copies**

Copies of this announcement and the Interim Report for the six months ended 30 September 2010 will be available, free of charge, for a period of one month from the Company's Nominated Adviser and Broker, FinnCap, 60 New Broad Street, London, EC2M 1JJ, 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](http://www.zoodigital.com).



## COMPANY INFORMATION

### Registered office

The Tower  
2 Furnival Square  
Sheffield  
S1 4QL

### Bankers

The Royal Bank of Scotland  
P O Box 52  
5 Church Street  
Sheffield  
S1 1HF

### Nominated advisor and broker

FinnCap  
60 New Broad Street  
London  
EC2M 1JJ

### Company number

3858881

### Solicitors

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1 St Paul's Place  
Sheffield  
S1 2JX

### Registrar

Share Registrars Ltd  
Suite 5, First Floor  
Lion & Lamb Yard  
Farnham  
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GU9 7LL

### Directors

RD Jaynes  
Chairman

Dr SA Green  
Chief Executive Officer

HP Gilder  
Group Finance Director  
and Company Secretary

G Doran  
Commercial Director

JA Livingston  
Non-Executive Director

IC Stewart  
Non-Executive Director

### Auditors

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