



**ZOO Digital Group plc
Unaudited Interim Results
for the six months ended
30 September 2012**

Chairman and Chief Executive's Statement

The Company provides the following report on the first six months of the year.

We are pleased to announce that ZOO has had a profitable start to the year, in contrast to the difficult first half of last year where we were affected by the volatility of the Home Entertainment market. Revenue has increased to \$6.2 million (2011: \$5.9 million) leading to an operating profit of \$0.2 million (2011: \$1.1 million loss). This improvement in profitability is the result of a diversification in revenue sources and a greater contribution from higher margin services and software licensing.

A significant proportion of ZOO's revenue comes from the supply of products and services for the Home Entertainment market, with customers including film and TV programme makers in Hollywood and elsewhere. For the past two years this market has been undergoing significant change due to a large number of factors, most notably the growth of on-demand electronic distribution services.

In the year to March 2012 the decline in the number of home entertainment products introduced into the market by ZOO's clients led to a reduction in revenues. This has subsequently stabilised, although market conditions continue to be difficult. According to the Digital Entertainment Group (DEG), consumer spending on home entertainment rose 0.24% in the third quarter of 2012 compared with prior year, made up of a decline in mature parts of the market, such as DVD-Video, offset by growth in new market areas including Electronic Sell Through (EST), Video on Demand (VOD) and Blu-ray Disc. We have experienced pricing pressures from established vendors in areas such as DVD services, and continue to observe consolidation in this market. ZOO's workflow tools are designed to work for all platforms and therefore any increase in the number of titles produced, irrespective of format, results in an increased throughput for ZOO. There has been particularly strong growth in EST and Blu-ray which, according to the DEG, have grown in the third quarter by 38% and 13% respectively.

During the first half of the year we introduced our cloud-based subtitle production system, ZOOsubs. We have signed up a number of customers who are now using this service to repurpose existing subtitles for new electronic delivery formats such as iTunes. Feedback has been positive and we anticipate adding further licensees from which we will generate recurring revenues as ZOOsubs is adopted for both conversion and origination of subtitle data.

We have continued to develop tailored workflow management solutions and have deployed several new systems in the period to groups involved in the production of creative media, including those working on feature films, TV series and electronic books. A large number of the new systems we have built and deployed have arisen through repeat business with satisfied clients who have sought to replicate the efficiency benefits through introduction in other parts of their operations.

Whilst we have secured further new clients in the eBook market and have now licensed our software to a number of the leading US book publishers, we have not yet seen the large participants in this market commit fully to eBook formats for their back catalogues of illustrated titles. Our ZOO eBook Builder software enables existing print source files to be repurposed quickly and easily for publishing on eReader devices, and we are well positioned to secure new business if leading publishers embrace electronic formats for their illustrated titles. However, until we see evidence of commitment to electronic illustrated titles, we must remain cautious about our expectations for the profit potential of this market.

We continue to invest in research and development to create new technologies that strengthen our product set and facilitate our scalable business model from which we generate recurring revenues as a result of strong customer and partner relationships. This is particularly true of our workflow management solutions that are priced on a per-user-per-month basis, and where enhanced functionality usually leads to greater adoption and therefore increased licensing income.

Chairman and Chief Executive Statement (Cont.)

Outlook

We remain cautious about volatility in the market. Our business may be disrupted by new entrants and new ways of doing business, and we are conscious of the potential for desperate actions by established vendors under threat. Overall, however, we believe that this disruption should be positive for us as clients seek to de-risk their businesses by taking greater control over the production process, which our systems enable. It is our belief that the benefits our systems deliver will become increasingly attractive across multiple segments of the creative industries. We go into the second half with a broader product set and many opportunities to diversify our customer base and we remain cautiously optimistic.

Roger D Jeynes
Chairman

Dr Stuart A Green
Chief Executive Officer

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)
for the six months ended 30 September 2012**

	6 months to 30 Sep 2012	6 months to 30 Sep 2011	Year ended 31 Mar 2012
	\$000	\$000	\$000
Revenue	6,211	5,878	11,186
Cost of sales	(381)	(1,340)	(1,907)
Gross profit	5,830	4,538	9,279
Other operating income	114	21	168
Operating expenses	(5,745)	(5,646)	(10,471)
Operating profit/(loss)	199	(1,087)	(1,024)
Exchange (loss)/gain on borrowings	(28)	73	14
Renegotiation of convertible loan stock	-	-	(526)
Finance cost	(141)	(281)	(430)
Total finance cost	(169)	(208)	(942)
Profit/(loss) before taxation	30	(1,295)	(1,966)
Tax on profit/(loss)	(1)	(2)	(60)
Profit /(loss) for the period attributable to equity holders of the parent	29	(1,297)	(2,026)
Total comprehensive income	29	(1,297)	(2,026)
Comprehensive income attributable to equity holders of the parent	29	(1,297)	(2,026)
Profit /(loss) per share			
basic	0.09 cents	(5.19) cents	(7.01) cents
diluted	0.07 cents	(5.19) cents	(7.01) cents

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(UNAUDITED)
as at 30 September 2012**

	As at 30 Sep 2012	As at 30 Sep 2011	As at 31 Mar 2012
	\$000	\$000	\$000
ASSETS			
Non-current assets			
Property, plant and equipment	446	566	430
Intangible assets	9,625	9,248	9,487
Deferred income tax assets	486	486	486
	10,557	10,300	10,403
Current assets			
Trade and other receivables	3,340	2,665	2,365
Cash and cash equivalents	277	1,490	1,234
	3,617	4,155	3,599
Total assets	14,174	14,455	14,002
LIABILITIES			
Current liabilities			
Trade and other payables	(2,672)	(3,029)	(2,722)
Borrowings	(231)	(225)	(194)
	(2,903)	(3,254)	(2,916)
Non-current liabilities			
Borrowings	(2,943)	(2,925)	(2,939)
Total liabilities	(5,846)	(6,179)	(5,855)
Net assets	8,328	8,276	8,147
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	7,236	7,236	7,236
Share premium account	37,014	36,845	37,014
Other reserves	12,293	12,293	12,293
Share option reserve	262	278	248
Warrant reserve	508	315	440
Convertible loan note reserve	42	42	42
Foreign exchange translation reserve	(992)	(992)	(992)
Accumulated losses	(48,024)	(47,721)	(48,053)
	8,339	8,296	8,228
Interest in own shares	(11)	(20)	(81)
Attributable to equity holders	8,328	8,276	8,147

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)
for the six months ended 30 September 2012**

	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 2011	5,127	33,626	(992)	380	278	190	12,293	(46,782)	(128)
Issue of shares	1,017	1,695							
Issue costs		(241)							
Loan note conver- sion	1,059	1,765		(380)				343	
Issue of Converti- ble loan stock				42					
Disposal of own shares									108
Share-based pay- ments						125			
Exercise of share options	33							15	
Loss for period								(1,297)	
Balance at 30 September 2011	7,236	36,845	(992)	42	278	315	12,293	(47,721)	(20)
Issue costs		(2)							
Loan note conver- sion		171						(153)	
Fair value adjust- ments on loan conversion								507	
Share-based pay- ments					32	125			
Exercise of share options					(15)				
Forfeited Share options					(47)			43	
Purchase of own shares									(68)
Disposal of own shares									7
Loss for period								(729)	
Balance at 31 March 2012	7,236	37,014	(992)	42	248	440	12,293	(48,053)	(81)
Disposal of own shares									70
Share-based pay- ments					14	68			
Profit for period								29	
Balance at 30 September 2012	7,236	37,014	(992)	42	262	508	12,293	(48,024)	(11)

**CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)
for the six months ended 30 September 2012**

	6 months to 30 Sep 2012	6 months to 30 Sep 2011	Year ended 31 Mar 2012
	\$000	\$000	\$000
Cash flows from operating activities			
Operating profit/(loss) for the period	199	(1,087)	(1,024)
Depreciation	121	259	393
Amortisation and impairment	610	283	867
Share based payments	82	140	278
Purchase of own shares	-	-	(68)
Disposal of own shares	70	108	115
Disposal and de-recognition of intangible assets	-	-	68
Exchange loss	20	18	-
Changes in working capital:			
Decreases in inventories	-	80	80
(Increases)/decreases in trade and other receivables	(975)	351	651
Decreases in trade and other payables	(50)	(290)	(597)
Cash flow from operations	77	(138)	763
Tax paid	(1)	(2)	(60)
Net cash flow from operating activities	76	(140)	703
Investing Activities			
Purchase of intangible assets	(730)	(1,051)	(1,942)
Purchase of property, plant and equipment	(29)	(47)	(274)
Net cash flow from investing activities	(759)	(1,098)	(2,216)
Cash flows from financing activities			
Repayment of borrowings	(121)	(209)	(202)
Proceeds from borrowings	-	-	187
Finance cost	(133)	(149)	(340)
Share and convertible loan issue costs	-	(241)	(243)
Issue of Share Capital	-	2,745	2,745
Net cash flow from financing	(254)	2,146	2,147
Net (decrease)/increase in cash and cash equivalents	(937)	908	634
Cash and cash equivalents at the beginning of the period	1,234	600	600
Exchange loss on cash and cash equivalents	(20)	(18)	-
Cash and cash equivalents at the end of the period	277	1,490	1,234

NOTES

General information

ZOO Digital Group plc ('the company') and its subsidiaries (together 'the group') provide productivity tools and services for digital content authoring, video post-production and localisation for entertainment and packaging markets and continue with on-going 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 20 November 2012.

This consolidated interim financial information has not been 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 2013 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 2012, and have been consistently applied, unless stated otherwise.

A copy of the statutory accounts for the year ended 31 March 2012, 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

	30 September 2012		30 September 2011		31 March 2012	
	No. of shares	\$000	No. of shares	\$000	No. of shares	\$000
Issues of ordinary shares during the period						
Exercise of employee share options	-	-	135,655	33	135,655	33
Redemption of convertible loan note	-	-	4,426,250	2,824	4,426,250	2,995
Issue of new shares	-	-	4,252,500	2,712	4,252,500	2,712
	-	-	8,814,405	5,569	8,814,405	5,740

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 2012	30 Sep 2011	31 Mar 2012
	No. of shares	No. of shares	No. of shares
Basic	32,660,660	24,984,561	28,901,576
Diluted	41,481,367	30,661,430	39,262,390

Further Copies

Copies of this announcement and the Interim Report for the six months ended 30 September 2012 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.

COMPANY INFORMATION

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