ZOO Digital Group plc
Unaudited Interim Results
for the six months ended
30 September 2016

Chairman and Chief Executive's Statement

Results

The Board is pleased to report a period of solid progress for the Group with results for the six months to 30 September 2016 in which revenue grew by 18% to $7.8m (H1 2015: $6.6m) with EBITDA growing by 7% to $1.0m (H1 2015: $0.9m), which reflects the expansion of the Group's sales team and on-going investment in R&D. The retained profit was $0.7m (H1 2015: $0.3m).

Compared to the equivalent prior year period, client numbers have increased by 29% and revenue sources have diversified accordingly: the largest client accounted for 47% of invoices, down from 64% in the prior period, and 90% of invoicing was attributed to the 16 largest clients (H1 2015: 9 clients). The Board expects this trend to continue into future periods as client revenue contributions build over time.

The Board continued to manage the business throughout the period within available facilities and with a small net cash outflow from operating activities. The recent movements in currency exchange rates are favourable to the Group since the majority of its revenues are received in US dollars, while around one third of its costs, including the servicing of borrowings, are incurred in pounds sterling. This led to an exchange gain on borrowings of $0.4m (H1 2015: loss of $0.1m).

Business Focus

The Group provides services allowing quality TV and movie content to be subtitled in any language and prepared for sale with all major online retailers as well as on physical products. ZOO's clients are some of the best-known brands in the world including major Hollywood studios, global broadcasters and independent distributors.

ZOO's point of difference in the marketplace is its development and use of innovative cloud technology. This ensures that content is subtitled in any language and delivered to all the major online platforms such as Amazon, iTunes, Google and Hulu with reduced time to market, higher quality and lower costs.

Market Update

The Media and Entertainment (M&E) industry has been undergoing a protracted period of fundamental change brought about by advances in consumer technologies. This has caused many large publishers to restructure their operations and reassess business models in the face of the growing role played by emerging providers of digital distribution services that deliver video content to consumers over the internet. Sales of DVD-Video, once the mainstay of Home Entertainment, have fallen significantly from their peak through an extended period of decline, yet still account for the majority of content sales. However, according to the Digital Entertainment Group, the market has now returned to a period of growth as US Q2 spending rose by 6% and Blu-ray disc sales grew 35% in the quarter. Electronic Sell Through, where consumers pay a one-time fee to download and store a media file, was up by 9%.

According to research by Accenture, current market trends are fundamentally changing the M&E industry. In addition to the declining growth of traditional revenue streams brought about by new revenue models (e.g. for Streaming Video On Demand (SVOD) services), the established practices are being replaced by a complex ecosystem of industry participants, ranging from new start-ups, to global platforms that offer their services in over 190 countries. Digital brands are gaining prominence, in some cases at the expense of established content businesses, due to their ability to deliver an engaging multi-channel customer experience.

The proliferation of digitally distributed video is creating a greater demand for quality content, particularly in the category of episodic entertainment. Some of the larger online retailers have expanded their operations and now commission the production of original TV series and feature films as a strategy to attract new subscribers. A study by FX Networks, which examined the progression of US original scripted TV series over the years, indicates that the number of such shows has almost doubled over a seven-year period.

PwC has forecast that 2016 will be the year in which digital distribution in the M&E industry for the first time eclipses sales of physical products (such as DVD and Blu-ray). This market is much more fragmented than it has ever been in the past, leading to greater demands on publishers in two key areas: (1) managing distribution through a potentially large number of distinct channels, both online and physical, and (2) taking responsibility for localisation of media – creating foreign language subtitles and dubbed soundtracks – that was previously often performed by licensees in territory.

One indicator of the growing significance that video content plays in our lives is the proportion it represents of all internet traffic: Cisco reports that global audio and video traffic combined is expected to be 82% of the total by 2020, up from 70% in 2015. This is creating greater demand for the supply of professional services, forecast by Research and Markets to grow at a CAGR of over 24% during the period 2016 to 2020. A separate study by Juniper Research indicates that the Over The Top (OTT) video marketplace (the delivery of media over the Internet without the involvement of an intermediary to control its distribution) will reach $32B by 2019.

In other market developments, there is ongoing tightening of regulations that apply to access services for hearing and visually impaired consumers, defined by organisations such as Ofcom in the UK and the Federal Communications Commission (FCC) in the US. Rules that relate to the preparation of captions and subtitles, previously relevant to broadcast TV only, are increasingly applicable to video delivered over the internet. New FCC regulations that come into force in 2017 will increase the requirements for captions on all TV content that is made available online.

The unassailable migration of video content from broadcast to the internet is leading to growth in demand for professional services in the areas of digital distribution: to enable content owners to capitalise on new routes to market (through creation of appropriately formatted variants of media files to meet the diverse technical requirements of online retailers as well as optical discs), and localisation: to adapt programming to meet the language and cultural requirements of audiences all over the world.

Operations
The period has been one of continuing good progress as the number of clients that contributed revenue has grown by 29% over 2015 H1. This has led to diversification of our revenue across a greater number of organisations and de-risking of the business as we reduce reliance on a small number of major clients. Sales growth has been, in part, the result of an expansion of the sales force which has doubled during 2016.

Periodically many large buyers in the industry go through a process of selecting approved vendors of services, often on a three-year cycle. Once selected as an approved vendor, a supplier is eligible to receive significant orders from the purchasing company. In the six months under review, ZOO has been successful in securing approved vendor status with three major Hollywood film studios as well as with one of the leading online video service providers. Revenue from both of these groups has grown in the period. Independent measurements of the quality of ZOO's services suggest that it has been one of the top five vendors in the industry during calendar 2016.

ZOO has announced two new services to complement its existing offerings in localisation and digital distribution. The first is a compliance editing service that provides an efficient way to create versions of TV and movie content that comply with the cultural requirements of diverse territories. This is expected to be important as part of the Group's efforts to expand into Middle East, South Asia and Asia Pacific through partnerships with a number of carefully chosen affiliates in territory. The first of these have been enrolled and are expected to begin operations in 2017.

At the April 2016 National Association of Broadcasters event in the US, the Group previewed its forthcoming ZOOscreen service, designed to stream and showcase video screening copies securely and privately to clients, prospects and judging panels. This system is currently in trials with major film studios and is planned to be released in 2017. ZOOscreen was unveiled to European buyers at the International Broadcast Convention in September 2016 where the Group received an accolade from the organisers in the category of cloud services. Customer feedback on ZOOscreen has so far been favourable and has confirmed the Board's belief that the system fulfils an important requirement in the market.

Outlook
The Board is pleased with the progress achieved in the period under review, and in particular on the addition of significant new clients and diversification of revenue sources. The Board continues to focus on growing profitable revenues from a diverse client base and continuing to invest in R&D, whilst managing the business within available facilities.

In the long-established video localisation market, ZOO has already made significant inroads over a relatively short period. This has been possible as a result of its differentiated offering, based on the proprietary, cloud technology that underpins all of ZOO's propositions, together with the skills and experience of its staff in delivering market-leading professional services.

The Board believes that ZOO has the opportunity to grow consistently and win significant market share in digital distribution and localisation – a large and expanding segment of the M&E industry. The ongoing developments in the market are favourable to ZOO's business model and the Board remains optimistic about the Group's future prospects.

Roger D Jeynes
Chairman

Dr Stuart A Green
Chief Executive Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
for the six months ending 30 September 2016

	6 months to 30 Sep 2016 $000	6 months to 30 Sep 2015 $000	Year ended 31 Mar 2016 $000
Revenue	**7,804**	6,617	11,638
Cost of sales	**(1,952)**	(1,093)	(2,399)
Gross Profit	**5,852**	5,524	9,239
Other operating income	**74**	-	115
Operating expenses	**(4,937)**	(4,603)	(9,198)
Profit before interest, tax, depreciation and amortisation	**989**	921	156
Depreciation	**(114)**	(94)	(181)
Amortisation and impairment	**(562)**	(440)	(1,078)
Total operating expenses	**(5,613)**	(5,137)	(10,457)
Operating profit/(loss)	**313**	387	(1,103)
Exchange gain/(loss) on borrowings	**399**	(115)	206
Finance cost	**(291)**	(278)	(559)
Total finance cost	**108**	(393)	(353)
Profit/(loss) before taxation	**421**	(6)	(1,456)
Tax on loss	**256**	295	669
Profit/(loss) and total comprehensive income for the period attributable to equity holders of the parent	**677**	289	(787)
(Loss)/profit per ordinary share			
- basic	**2.07 cents**	0.88 cents	(2.41) cents
-diluted	**1.59 cents**	0.70 cents	(2.41) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
as at 30 September 2016

	As at 30 Sep 2016 $000	As at 30 Sep 2015 $000	As at 31 Mar 2016 $000
ASSETS			
Non-current assets			
Property, plant and equipment	**359**	342	433
Intangible assets	**7,134**	7,823	7,382
Deferred income tax assets	**486**	486	486
	7,979	8,651	8,301
Current assets			
Trade and other receivables	**3,722**	2,460	2,531
Cash and cash equivalents	**328**	441	314
	4,050	2,901	2,845
Total assets	**12,029**	11,552	11,146
LIABILITIES			
Current liabilities			
Trade and other payables	**(3,016)**	(2,800)	(3,096)
Borrowings	**(1,466)**	(892)	(142)
	(4,482)	(3,692)	(3,238)
Non-current liabilities			
Borrowings	**(5,097)**	(5,031)	(6,142)
Total liabilities	**(9,579)**	(8,723)	(9,380)
Net assets	**2,450**	2,829	1,766
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	**7,236**	7,236	7,236
Share premium reserve	**37,014**	37,014	37,014
Other reserves	**12,320**	12,320	12,320
Share option reserve	**324**	308	317
Convertible loan note reserve	**42**	42	42
Foreign exchange translation reserve	**(992)**	(992)	(992)
Accumulated losses	**(53,474)**	(53,075)	(54,151)
	2,470	2,853	1,786
Interest in own shares	**(20)**	(24)	(20)
Attributable to equity holders	**2,450**	2,829	1,766

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
for the six months ending 30 September 2016

	Ordinary shares	Share premium reserve	Foreign exchange translation reserve	Convertible loan note reserve	Share option reserve	Other reserves	Accumu-lated losses	Interest in own shares	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000
Balance at 1 April 2015	7,236	37,014	(992)	42	296	12,320	(53,364)	(24)	2,528
Share-based payments					12				12
Transactions with owners	-	-	-	-	12	-	-	-	12
Profit for the period							289		289
Total comprehensive income for the period	-	-	-	-	-	-	289	-	289
Balance at 30 September 2015	7,236	37,014	(992)	42	308	12,320	(53,075)	(24)	2,829
Share-based payments					10				10
Purchase of own shares					(1)				(1)
Transactions with owners	-	-	-	-	9		-		9
Foreign exchange translation adjustment								4	4
Loss for the period							(1,076)		(1,076)
Total comprehensive income for the period	-	-	-	-	-	-	(1,076)	-	(1,076)
Balance at 31 March 2016	7,236	37,014	(992)	42	317	12,320	(54,151)	(20)	1,766
Share-based payments					7				7
Transactions with owners	-	-	-	-	7	-	-	-	7
Profit for the period							677		677
Total comprehensive income for the period	-	-	-	-	-	-	677	-	677
Balance at 30 September 2016	7,236	37,014	(992)	42	324	12,320	(53,474)	(20)	2,450

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
for the six months ending 30 September 2016

	6 months to 30 Sep 2016 $000	6 months to 30 Sep 2015 $000	Year ended 31 Mar 2016 $000
Cash flows from operating activities			
Operating profit/(loss) for the period	**313**	387	(1,103)
Depreciation	**114**	94	181
Amortisation and impairment	**562**	440	1,078
Share based payments	**7**	12	21
Changes in working capital:			
(Increases)/decreases in trade and other receivables	**(1,191)**	(542)	(613)
(Decreases)/increases in trade and other payables	**(80)**	(231)	65
Cash flow from operations	**(275)**	160	(371)
Tax received	**256**	295	669
Net cash flow from operating activities	**(19)**	455	298
Investing Activities			
Purchase of intangible assets	**(314)**	(296)	(493)
Purchase of property, plant and equipment	**(40)**	(15)	(32)
Net cash flow from investing activities	**(354)**	(311)	(525)
Cash flows from financing activities			
Repayment of borrowings	**(66)**	(55)	(145)
Proceeds from borrowings	**688**	253	710
Finance cost	**(235)**	(226)	(349)
Net cash flow from financing	**387**	(28)	216
Net increase in cash and cash equivalents	**14**	116	(11)
Cash and cash equivalents at the beginning of the period	**314**	325	325
Cash and cash equivalents at the end of the period	**328**	441	314

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 2 November 2016.

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 2016 will be prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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 2016, and have been consistently applied, unless stated otherwise.

A copy of the statutory accounts for the year ended 31 March 2016, 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 arise and all resulting exchange rate differences are recognised with foreign exchange translation reserve.

Equity securities issued

No securities have been issued during the periods ending 30 September 2016, 31 March 2016 or 30 September 2015.

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 2016**	30 Sep 2015	31 Mar 2016
	No. of shares	No. of shares	No. of shares
Basic	**32,660,660**	32,660,660	32,660,660
Diluted	**42,647,881**	41,415,845	41,834,290

Further Copies

Copies of the Interim Report for the six months ended 30 September 2016 will be available, free of charge, for a period of one month 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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