

**SCOTTY GROUP PLC**  
**(formerly Motion Media PLC)**

**Report and Consolidated Financial Statements**

**For the period from 1 January 2004**  
**to 6 August 2004**

**REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 2004**

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**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

R F Thorne OBE (Chairman)  
K Kerschhat (Chief Executive Officer)  
G Weber (Chief Finance Officer)  
H P Sauerzopf (non-executive director)

**SECRETARY**

H P Sauerzopf

**BANKERS**

The Royal Bank of Scotland PLC  
London City Office  
62-63 Threadneedle Street  
London EC2R 8LA

Singer & Friedlander Limited  
21 New Street  
London EC2M 4HR

**SOLICITORS**

Burges Salmon LLP  
Narrow Quay House  
Prince Street  
Bristol BS1 4AH

**REGISTRARS**

Capita IRG plc  
Bourne House  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

**NOMINATED ADVISERS/STOCKBROKERS**

Durlacher Limited  
Moorgate Hall  
155 Moorgate  
London EC2M 6XB

**AUDITORS**

Deloitte & Touche LLP  
Bristol

## **CHAIRMAN'S STATEMENT**

I am pleased to report that we have now implemented the reorganisation of SCOTTY Tele-Transport Corporation AG ("SCOTTY"), following the acquisition of Motion Media following the approval of shareholders and the re-admission to AIM on the 28 July 2004. The merged company has been renamed SCOTTY Group plc to reflect the benefits of the strong brand reputation established by the Company in its global markets.

The period covered by these results is the seven months from 1 January to 31 July 2004, our new accounting reference date (6 August 2004 due to legal formalities). This first set of results as a combined business includes the historic results of the Motion Media business for the full period but only nine days of SCOTTY. As a result, the Board does not consider the historic results for the seven months to 6 August 2004 to be a relevant indication of the Group's likely performance in the future. The results for the period show an overall group turnover of £689,000 (2003: £1,911,000) and a loss before tax of £3,953,000 (2003: loss of £3,624,000) (this loss is after charging the initial costs of the acquisition and the associated restructuring). The initial costs of restructuring the merged organisations were approximately £322,000 and are included in these results.

Since completion of the acquisition, there continued to be a period of uncertainty, as some potential clients were apprehensive about the placement of orders while management time was focused on the restructuring of the newly merged business. However, the Directors are confident that the situation will improve in 2005 as considerable progress has been made in enhancing the quality and range of our products in each of the markets served by the group's two businesses, together with improvements in the sales and marketing functions.

The Board considers the period since the acquisition to be a phase of consolidation, preparing the Company for improved growth throughout 2005 with the portfolio of enhanced products in the telecommunications, medical, security and military sectors. Shortly after the acquisition, we experienced improvement in orders, Choreograph Limited, which sells telecommunication equipment to blue chip clients in the UK and Continental Europe, ordered 200 mm745 videophones. 7E Communications Limited placed an order worth £140,000 for OEM-boards for integration into its Talking Head Video Reporter. The Talking Head is used by TV broadcast correspondents in the field.

As a part of the restructuring process of the merged business, the engineering centres at Aust in the UK and Manchester in the US have been closed and reduced respectively, whilst production to serve the world markets is from Graz in Austria. The space occupied in Aust will remain open to accommodate sales and product marketing functions for Europe, the Middle East and Africa. In addition, a new operating subsidiary has been formed in the US, SCOTTY Group of the Americas Inc, for the purpose of co-ordinating and directing the combined operations in the US, including sales and associated support together with an engineering group to produce a range of new competitive video products. The Directors estimate that the restructuring will result in an overall annual reduction of up to approximately £1.1 million in operating costs.

The Board of Directors now comprises two Non-Executive directors, Rex Thorne, OBE as Chairman and Peter Sauerzopf who has, in addition, been appointed Company Secretary and two Executive directors, Kurt Kersch as CEO and Georg Weber as chief financial officer. Shortly after the acquisition, the Company appointed Durlacher Limited as broker and Nominated Adviser.

Due to the complexity of consolidating the results of the various companies in the combined Scotty group including associated restructuring costs the company was unable to publish its audited accounts by 31 January 2005 and regrettably had to apply for a suspension of the marketing of its shares. The consolidated accounts are to be made available to shareholders ten days later on 10 February 2005.

On behalf of the Directors, I would like to take this opportunity to thank those who contributed towards completing the acquisition, including all our advisers and personnel from both SCOTTY and Motion Media and to our shareholders for their continuing support and to whom I express optimism that their merged company will begin to perform to their long awaited expectations throughout 2005.

Considerable efforts have been focused on developing the market opportunities for the combined organisation and in summary, therefore, we remain positive about SCOTTY Group Plc's long-term outlook and positioning.

**R.F. Thorne, OBE**  
Chairman  
8 February 2005

## **OPERATIONS AND FINANCIAL REVIEW**

### **RESULTS**

- Turnover for the period 1 January to 6 August 2004 was £689,000 (2003: £1.91 million) reflecting a number of factors including the efforts of the management to complete the acquisition of SCOTTY Tele-Transport Group and the subsequent restructuring process.
- Headcount reduced from 43 at the start of 2004 to 41 at 6 August 2004 (not considering SCOTTY Tele-transport Corporation Group staff).
- Administration expenses (including restructuring costs) for the seven months to 6 August 2004 were £4.0 million compared to £4.4 million for the twelve months period ending on 31 December 2003.
- Share placing in July 2004 raised £5.0 million before expenses.
- Acquisition of SCOTTY Tele-transport Corporation Group at cost of investment of £10.8 million.
- Negative gross margin (38.1% in 2003), reflecting the reorganisation and the restructuring of the whole group resulting in conservative write down of assets (especially inventories).

### **OPERATIONS**

The past seven months have been a period of important structural changes undertaken in order to guarantee the Group's future success.

The acquisition of SCOTTY Tele-Transport Corporation by Motion Media plc was completed successfully with the establishment of SCOTTY Group plc, the holding company. SCOTTY now has 75 employees manning its global network of offices, with an improved sales team including Robert Kucharczyk, replacing Garey DeAngelis as Director of Sales EMEA.

SCOTTY's cost structure has also been reorganised and streamlined. The fixed cost base has been reduced to £330,000 per month with expected reductions in the second quarter of 2005 of a further £30,000 per month. This cost reduction has been made possible through the reorganisation, which has improved administration, consolidation procedures and made sales control more effective.

The acquisition and the restructuring of the organisation have led to lower revenues than budgeted. The Company underestimated the time and effort which management had to dedicate to restructuring and evaluating the market opportunities for the combined Group. In addition, contracts with distributors did not meet the Group's needs and product cost reduction programmes had to be introduced. These are being implemented but project opportunities were missed because price lists were miscalculated for the mass market.

The long awaited contract with the Veterans' Association in the US has not materialised. This contract was a legacy of Motion Media and its former management. It entailed the planned rollout of videophones to the homes of US veterans in order to monitor health. The board of directors of SCOTTY have been made aware that the videophones will only be optional, which means that the selling process (to each county) may prove to be far too time consuming and costly to profitably exploit.

## **OPERATIONS AND FINANCIAL REVIEW (continued)**

### **OUTLOOK**

Although in the last quarter of the year 2004 the Company did not break even, the Directors reasonably expect to achieve improved results in the third trading quarter 2004 / 2005 and forward. Many larger project opportunities, which are currently under confidentiality restrictions, will offer exciting opportunities for the near future.

In Europe, as well as Asia and the United States, the group expects to continue its highly specialised helicopter installations - SCOTTY has already signed an initial contract with Eurocopter Deutschland, as preferred supplier for delivery and integration of satellite based communication solutions for military helicopters. Revenues should begin in 2005 and continue for the next five years with Eurocopter alone. SCOTTY solutions are currently installed onboard Chinook, Sikorsky and De Havilland Dash-8s helicopters.

In the first quarter of 2005, the exclusive licensing agreement with Porsche Design Group, a subsidiary of Porsche AG will lead to a re-modelling and re-branding of SCOTTY's mm156/225 videophone series and in addition enable the videophones to be distributed by the newly opened Porsche Design stores worldwide.

The combined group will also focus on improving existing products and carefully developing the core product lines while supporting no more than 25 different products.

Key to success in the following months and years will be the technical implementation of special government products and the first trial phase of healthcare solutions in Europe and the US.

### **FINANCIAL REVIEW**

#### **Operating cash flow**

The statement of cash flows shows that there was a net cash outflow from operating activities in the period ended 6 August 2004 of £1.8 million (31 December 2003: £3.6 million).

It is the group's policy to write off all research and development expenditure as incurred, including all software. During the period a total of £0.8 million (31 December 2003: £1.1 million) was invested in research and development.

#### **Working capital and stock provisions**

Working capital financed has decreased by £3.2 million during 2004.

In part, this reduction is due to the impact of consolidating in the balance sheet of SCOTTY Tele-transport Corporation AG, which accounts for £1.2 million of the decrease. Management have also carried out an exercise to identify items of stock and other working capital balances whose value is not likely to be recovered as a result of the changes to the group's product portfolio arising from the restructuring after the combination with SCOTTY. As a result, extra provisions have been created against certain old Motion Media stock lines (£618,000), licence prepayments (£218,000) and debtors (£84,000), all of which contribute to the reduction in working capital financed.

#### **Proceeds of share issue**

On 28 July 2004 387,302,387 new ordinary shares of 1p each were issued at 4p per share. Of these 125,000,000 shares were issued for cash at gross proceeds of £5.0 million and 262,302,387 shares were issued in exchange for shares of SCOTTY Tele-transport Corporation AG, Austria. Expenses of the issue amounting to £679,000 have been taken to the share premium account in the year.

**OPERATIONS AND FINANCIAL REVIEW (continued)**

**FINANCIAL REVIEW (continued)**

**Fixed assets**

The total expenditure on tangible fixed assets during the period was £15,000. Non cash additions from the acquisition of SCOTTY Tele-transport Corporation Group comprise intangible fixed assets with net book value of £12,109,000 (licences £346,000 and goodwill arising on the acquisition £11,763,000) and tangible fixed assets with net book value of £338,000.

**Treasury**

The group's financial instruments comprise cash and liquid resources, and various items, such as trade debtors and trade creditors that arise directly from its operations.

It is the group's policy to finance its operations through cash, and to arrange overdraft facilities after review of the projected working capital requirements of the group should a short-term funding requirement arise.

There were no derivative transactions during the year. It is, and has been throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken.

Following the incorporation of SCOTTY Tele-Transport Corporation of the Americas, Inc, USA, and SCOTTY Tele-Transport Corporation of Asia, Inc, Philippines, a significant part of the group's sales, and expenses, are denominated in US dollars. Foreign currency gains or losses arising on translation of the financial statements of overseas subsidiaries arising on consolidation are transferred to reserves. The nature of the trading between group companies is evolving and foreign currency and corporation taxation exposure is continually reviewed to mitigate adverse risk.

**Georg Weber**  
Chief Financial Officer

8 February 2005

## **CORPORATE GOVERNANCE**

As an AIM company, Scotty Group Plc is not required to make specific disclosures regarding compliance with the July 2003 Combined Code. However, the Board seeks to apply the principles of good governance and in particular, some of the measures adopted by the Board are set out below.

### **BOARD OF DIRECTORS**

The directors bring a range of relevant expertise and experience to the Board. At 6 August 2004 the Board comprised two non-executive directors, one of whom is the Chairman and two executive directors.

The Board is responsible to shareholders for the proper management of the Group. A statement of the directors' responsibilities in respect of the accounts is set out on page 17 and a statement on going concern is given on page 8. The directors have access to the Company Secretary who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. All directors are able to take independent professional advice in furtherance of their duties if necessary.

There are not less than 10 formal Board meetings scheduled each year. Other meetings are held as necessary. The Board has a formal schedule of matters reserved to it. Responsibilities of the Board include the development of business strategy, approval of major business matters and policies, the review and approval of the annual report, interim financial statement, operating budgets and the review of performance against business objectives. To enable the Board to perform its duties, briefing papers, matters for decision and minutes of previous meetings are distributed to all directors in advance of Board meetings.

### **BOARD COMMITTEES**

#### **Audit Committee**

The Audit Committee is chaired by Rex Thorne, OBE, non-executive Chairman and includes Georg Weber, Chief Finance Officer. The committee meets annually with a representative of the company's auditors. The committee is responsible for ensuring that arrangements for the independent audit of the annual report and financial statements are appropriate and effective. The committee also monitors the controls that are in force to ensure the integrity of the information reported to shareholders.

#### **Nomination Committee**

The Nomination Committee is chaired by Peter Sauerzopf, non-executive director and includes Rex Thorne, OBE, non-executive Chairman. The committee is responsible for proposing candidates for appointment to the Board, having regard to the balance and structure of the Board. In appropriate cases recruitment consultants are used to assist in this process. All directors are subject to re-election at least every three years, or more often if required by the Companies Act 1985.

## **RELATIONS WITH SHAREHOLDERS**

The Company is committed to maintaining good relations with its shareholders through the provision of interim and annual reports, press releases, through its web site [www.scottysgroup.com](http://www.scottysgroup.com) and through meetings with shareholders in general meetings. There is regular dialogue with institutional shareholders including presentations after the company's preliminary announcement of the year end results and at the half year.

### **INTERNAL CONTROL**

The Board is responsible for establishing and maintaining the Group's system of internal control. Internal control systems are designed to address the needs of the Group and the risks to which it is exposed. However, such a system can only provide reasonable and not absolute assurance against material misstatement or loss.

**CORPORATE GOVERNANCE (continued)**

**INTERNAL CONTROL (continued)**

The key risk management activities are described under the following headings:

- **Strategy**

The strategic plans of the group have been a core focus of the Board during 2004. The group's business plan was last updated in January 2005.

Monthly Board meetings continue to provide a forum at which strategy and execution and financial progress are monitored and discussed.

- **The role of the Executive Management Team**

Day to day management of the group's activities is delegated to the Executive Management Team (EMT), with senior management representatives from UK, Austria, Asia and US operations meeting weekly by video conference to discuss progress in delivering the group's business plan.

- **Financial Controls**

The group's investment in accounting and business software has delivered benefits in timeliness and comprehensiveness of management information. Each subsidiary produces monthly results with comparison against budget for review by the Board. The group has made significant investment in quality procedures and policy documentation over a number of years.

- **IT Systems**

The group has established controls and procedures over the security of data held on IT systems, including daily back up routines. The group has put in place appropriate disaster recovery arrangements.

- **Internal Audit**

The Board believes that a separate internal audit function is inappropriate at this stage in the group's development. The investment in procedure and policy documentation, along with appropriately qualified departmental directors to monitor compliance with those procedures mitigates that risk to manageable levels.

- **Personnel**

With employee costs being a significant part of group expenses, and engineering excellence key to the group's strategy, personnel is a core focus for the Board, with the specific responsibility of the chairman to ensure legal responsibilities are met, in conjunction with appropriate professional advice.

- **Regulatory Compliance**

SCOTTY Group PLC is a small company and does not have a dedicated legal, secretarial and compliance function. However the Board and Company Secretary have access to external resource as appropriate.

- **Risk Management Reporting and Board Review**

The Board has overall responsibility for identifying, evaluating and managing major business risks facing the group.

**CORPORATE GOVERNANCE (continued)**

**GOING CONCERN BASIS**

On 28 July 2004, Motion Media PLC completed the acquisition of SCOTTY Tele-Transport Corporation Radio und Videoelektronik AG (“SCOTTY”) and the anticipated equity fundraising of over £4 million after expenses to provide working capital for the enlarged group. The acquisition is described in note 12 to the financial statements.

In order to launch new marketing and sales initiatives a new financing facility with Headstart Funds was structured as follows: the immediate provision of an unsecured loan of US\$650,000; and, the provision of up to £3 million through the issue of new ordinary shares at 95% of the minimum closing price, 10 days prior to issuing the shares.

The equity facility can be drawn down in amounts of up to £150,000 over a period of three years at the discretion of the Company and includes certain restrictions on the sale of SCOTTY shares by Headstart Funds following draw down. At the Company’s election, the initial unsecured loan can be repaid through the draw down of part of the £3 million equity financing. The funds raised will be used to finance additional marketing for SCOTTY products and to recruit further personnel to strengthen its sales function.

On the basis of the information currently available to directors concerning future sales opportunities of the combined Motion Media and SCOTTY group and likely restructuring activities, the directors have prepared working capital forecasts which demonstrate that no further funding will be required for at least the next 12 months from the date of approving the financial statements.

The working capital forecasts include sales from new orders which are not committed at the date of approving the financial statements. Having given careful consideration to the timing and likelihood of these sales opportunities coming to fruition, the directors have formed the judgement that they will be able to secure the orders and subsequent invoiced sales which will allow the enlarged group to meet the working capital forecasts.

As a result, at the time of approving the financial statements, the directors have formed the view that there is a reasonable expectation that the group will have adequate resources to continue in operational existence for the foreseeable future. On this basis, the directors consider it appropriate to prepare the financial statements on the going concern basis. The financial statements do not include any adjustments that would be necessary had they been prepared on a basis other than going concern. This statement forms part of the operating and financial review.

**CORPORATE GOVERNANCE (continued)**

**REPORT ON DIRECTORS' REMUNERATION**

As an AIM listed company, SCOTTY Group PLC is not required to prepare a directors' remuneration report. The following disclosures are prepared on a voluntary basis and are not subject to audit.

The remuneration committee is chaired by Peter Sauerzopf, non-executive director and includes Rex Thorne, OBE, non-executive Chairman. The committee makes recommendations to the Board, within agreed terms of reference, on remuneration packages for executive directors and senior managers in order to retain and motivate high quality individuals capable of achieving the group's objectives. The package consists of basic salary, benefits, share options, performance related bonuses and pensions. The committee has access to independent advice on competitive levels of compensation within the electronics sector.

The details of individual components of the remuneration package and service contracts are discussed below.

**Basic salary and benefits**

Salaries and benefits are reviewed with effect from 1 January each year. The executive director receives certain benefits-in-kind, including insurance for medical expenses.

**Performance related bonus**

The group operates a discretionary bonus scheme for executive directors, and other key employees. Performance related bonuses for executive directors are calculated based on formulae, which are determined in advance by the remuneration committee. This formula measures the group's performance against specific operating profit targets and personal performance objectives.

**Share options**

Share options are awarded to executive directors and other employees of the group. The company's Inland Revenue approved and unapproved option schemes were adopted at the 2000 EGM and amended at the 2002 AGM. The company adopted an Enterprise Management Incentives (EMI) option scheme at the 2002 AGM. All option schemes comply fully with the Association of British Insurers (ABI) guidelines apart from the percentage of equity which has been made available under the schemes in the first three years. This amount is five per cent rather than three per cent as recommended by the ABI in order to assist the company's ability to attract new employees during the next few years.

The remuneration committee has set performance targets for exercise of options related to financial targets of the group over a three year period. The performance targets for the main options scheme established in 2000 relate to sales growth.

**Pensions**

With the exception of the chairman, the executive directors are members of the Group Personal Pension Plan or equivalent in the USA. During the year, the group contributed up to eight per cent of each individual's basic salary to their pension.

**Fees**

The fees for the non-executive directors are determined by the Board within the limits stipulated in the Articles of Association. Non-executive directors are not involved in any discussions or decision about their own remuneration.

**Service contracts**

The non-executive Chairman and non-executive director are currently on three months entitlement to notice by either party. The Executive Directors, Kurt Kerschhat and Georg Weber are on 12 month notice on three months entitlement to notice by either party.

**CORPORATE GOVERNANCE (continued)**

**REPORT ON DIRECTORS' REMUNERATION (continued)**

**Directors' emoluments**

The emoluments of the directors (including compensation for loss of office) are as follows:

	Salary £	Fees £	Benefits in kind £	Bonus £	Total emoluments excluding pension contributions		Pension contributions	
					6 Aug 2004 £	31 Dec 2003 £	6 Aug 2004 £	31 Dec 2003 £
<b>Executive Directors</b>								
F G De Angelis <sup>1</sup>	59,150	-	4,175	-	63,325	54,517	624	3,465
R F Thorne, OBE <sup>2</sup>	-	11,667	-	-	11,667	20,000	-	-
A Aldridge <sup>3</sup>	4,583	-	-	-	4,583	-	367	-
G D Brown <sup>4</sup>	-	-	-	-	-	102,874	-	3,876
I C Silvester <sup>4</sup>	-	-	-	-	-	71,463	-	3,000
<b>Non-Executive Directors</b>								
A R MacKenzie <sup>5</sup>	-	8,750	-	-	8,750	15,000	-	-
	<u>63,733</u>	<u>20,417</u>	<u>4,175</u>	<u>-</u>	<u>88,325</u>	<u>263,854</u>	<u>991</u>	<u>10,341</u>

<sup>1</sup> F G De Angelis was appointed director on 30 June 2003 and resigned on 28 July 2004.

<sup>2</sup> R F Thorne, OBE, became non-executive chairman on 4 August 2004

<sup>3</sup> A Aldridge was appointed director on 28 July 2004 and resigned on 4 August 2004.

<sup>4</sup> Part year to June 2003

<sup>5</sup> A R MacKenzie's fees are paid to ARM&Co. He resigned on 28 July 2004.

**Interest in share options**

The company has three share option schemes by which directors and other employees are able to subscribe for ordinary shares in the company.

The interests of the directors of the company at the period end were as follows:

	At 1 Jan 2004 No.	Granted No.	At 6 Aug 2004 No.	Exercise price per share	Date from which exercisable	Expiry date
R F Thorne, OBE	600,000	-	600,000	12.0p	18 Dec 2006	18 Dec 2013

None of the other directors who were in office at the period end had any interests in share options.

**CORPORATE GOVERNANCE (continued)**

**REPORT ON DIRECTORS' REMUNERATION (continued)**

**Interest in share options (continued)**

The directors may only exercise the options if certain performance targets related to the group's financial performance are achieved. The performance criteria are discussed in the share option section at the beginning of the remuneration report.

No other directors have been granted options over the shares of the company or other group companies.

The market price of the company's shares on 6 August 2004 was 4p per share. The high and low share prices during the period were 14.75p and 3.75p respectively.

**Approval**

The remuneration report was approved by the Board of Directors and signed on its behalf by:

**Peter Sauerzopf**  
Chairman of the Remuneration Committee

## **DIRECTORS' PROFILES**

### **Executive Directors**

Kurt Kerschhat - Chief Executive Officer (aged 42)

Mr Kerschhat is a co-founder of SCOTTY and the chief executive officer of its worldwide operations. He also acts as the key account manager for German and Dutch military forces. Prior to founding SCOTTY he worked at the Joanneum Research Institute on the Multipoint Videoconference System for the European Space Agency and designed and implemented the videoconference networks for the AUSTROMIR 91, MIR 92, Euromir 94 and Euromir 95 missions. He is a graduate of the Technical University of Graz, Austria, where he read Electrical Engineering.

Georg Weber - Chief Finance Officer (aged 39)

Mr Weber is the Chief Financial Officer of SCOTTY. Prior to joining SCOTTY he managed and developed several leisure centres. He also carried out studies for tourism development within Steiermärkische Landesholding GmbH and was involved as Financial Director in the development of several technology companies. He is a management consultant and quality manager and a graduate of the University of Graz, where he studied Economics.

### **Non-Executive Directors**

Rex Thorne, OBE - Chairman (aged 77)

Mr Thorne was appointed non-executive Chairman of Motion Media Technology Limited in 1993. He became non-executive Chairman of Motion Media PLC in 1996. Mr Thorne has a degree in telecommunications and is a Fellow of the Institute of Management and has an extensive career background in the telecommunications and electronics industries extending over 50 years where he held a number of senior executive directorships with various major companies in the communications industry. He is also non executive chairman of APC plc and Marcom Limited. He was awarded an OBE in 1990 for services to the Radio Communications industry.

Dr Hans Peter Sauerzopf - Non-Executive Director (aged 44)

Dr Sauerzopf is the chairman of SCOTTY's supervisory board. He is a director of two private foundations and a director of a number of private companies. Since 2003 he has been a partner of Sauerzopf and Partner attorneys at law and prior to that he was a partner of Hopmeier, Sauerzopf and Partner attorneys at law. In 1993 Dr Sauerzopf entered the Chamber of Lawyers list in Austria. He is a law faculty graduate from the University of Vienna and was promoted to Doctor of Law in 1986.

**DIRECTORS' PROFILES (continued)**

**Other Senior Management**

Andreas Bödenauer (aged 41)

Mr Bödenauer was a co-founder of SCOTTY in 1994 and serves as the US Chief Executive Officer. He was responsible for designing and leading the installation of “Radio Max” and “Radio Bipa”, twin satellite-based radio stations for a large food chain in Austria. He previously managed the Vienna office of Schwabel & Co, a professional partner of Sony Corporation from 1989 to 1994. He is a graduate of the Weiner Neustadt Engineering School in Austria.

Walter Müller (aged 43)

Mr Müller is SCOTTY'S Development Director, with responsibility for the electronic and software design of the company's communication systems. Prior to joining SCOTTY in 1995, he was responsible for the software development of the Multipoint Videoconferencing System used by the European Space Agency. He was a visiting engineer at the Rutherford Appleton Laboratory working on ATM interfaces and videoconferencing equipment for the EU funded Charisma Project. He is a graduate of the Technical University of Graz, Austria, where he read Telematics.

Stuart Ross (aged 45)

Mr Ross is Chief Technical Officer of Motion Media Technology Inc. Prior to joining Motion Media he served as Vice President of Engineering and Director for C-Phone Corporation, a videocommunications business quoted on NASDAQ from 1994 to 2001. Mr Ross joined C-Phone from New Potato Technologies, Inc, a consultancy firm he founded in 1986. Between 1984 and 1986 he was Manager of Research and Development at GridComm Inc, a local area network manufacturer and previously was employed at the CBS Technology Center. He holds a B.S.E.E. with High Distinction from Worcester Polytechnic Institute.

## **DIRECTORS' REPORT**

The directors present their annual report and the audited consolidated financial statements for the period from 1 January 2004 to 6 August 2004.

## **PRINCIPAL ACTIVITY**

The principal activity for the group during the period continued to be the design and development of video telecommunications equipment and technology.

The principal activity of the company continued to be to act as a holding company for the group.

## **RESULTS AND DIVIDENDS**

The group's loss for the year on ordinary activities before taxation was £4.0 million including restructuring costs (31 December 2003: £3.6 million). Costs of research and development undertaken in the year totalling £0.1 million (31 December 2003: £1.1 million) have been written off as detailed in note 4. A review of activities and future prospects is included in the Chairman's Statement on page 2 and the Operations and Financial Review on pages 3 to 5.

The directors do not recommend the payment of a dividend (31 December 2003: £nil) at this stage in the company's development.

## **DISABLED EMPLOYEES**

The group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Disabled employees, and employees who may become disabled during employment, are provided with training and such assistance as is necessary to allow them to develop their careers with the group.

## **EMPLOYEE INVOLVEMENT**

The group operates a policy of providing employees with information concerning the performance of the business. Various initiatives are in place to ensure all group employees are kept informed of developments within the business and are actively encouraged to present their suggestions and views on the group's performance. SCOTTY Group plc's executive directors are actively involved in employee discussion forums at least monthly. Employees are encouraged to invest in the group through participation in share option schemes.

## **ENVIRONMENTAL POLICY**

The group recognises its obligation to stakeholders and the environment to be responsible for environmental issues. The group's environmental policy document sets out its obligations to ensure its employees are trained and provided with the necessary facilities to protect the environmental impact of their employment. This includes the use of videotelephony to minimise the necessity for travel and its adverse impact on the environment. In addition, the group's products are designed to minimise environmental damage during manufacture, use and disposal.

The group affirms that it does not permit the use of chlorofluorocarbons and ozone depleting substances in the manufacture of its products. This requirement is a condition of selection of primary subcontractors, and is confirmed through the audit conducted by the group's Quality Department.

**DIRECTORS' REPORT (continued)**

**POLICY ON PAYMENT OF CREDITORS**

The group policy on payment to suppliers is that balances owing are paid according to the terms and conditions agreed with each supplier, providing that all trading terms and conditions have been complied with. This policy is not based on any specific code or standard payment practice.

The average number of days purchases included within trade creditors of the group at the period end was 167 days (31 December 2003: 47 days).

The average number of days purchases included within trade creditors of the company at the period end was 187 days (31 December 2003: 183 days).

**DIRECTORS AND THEIR INTERESTS**

The current membership of the Board is set out on page 1. The directors who served during the period and to date were as follows:

*Executive directors*

K Kerschats (appointed 4 August 2004)  
G Weber (appointed 4 August 2004)  
A Aldridge (appointed 28 July 2004, resigned 4 August 2004)  
F G De Angelis (resigned 28 July 2004)

*Non-executive directors*

R F Thorne, OBE  
P Sauerzopf (appointed 4 August 2004)  
A R MacKenzie (resigned 28 July 2004)

The interests of the directors of the company in the ordinary share capital of the company at 6 August 2004 and 31 December 2003 or date of appointment were:

	<b>1p Ordinary shares</b>		<b>1p Ordinary shares</b>	
	<b>6 August 2004</b>	<b>Percentage</b>	<b>31 December 2003 or date of appointment</b>	<b>Percentage</b>
R F Thorne, OBE	1,292,800	0.21%	1,167,800	0.52%
K Kerschats	25,602,674	4.11%	25,602,674	4.17%
P Sauerzopf	3,076,894	0.49%	3,076,894	0.50%
G Weber	1,368,604	0.22%	1,368,604	0.22%

None of the directors had any interests in any of the shares of any of the other group companies.

**DIRECTORS' REPORT (continued)**

**SUBSTANTIAL SHAREHOLDINGS**

The company has been notified or is aware of holdings of 3% or more of the issued ordinary share capital as at 31 January 2005:

	<b>Ordinary shares</b>	<b>Percentage of existing ordinary share capital</b>
Thrice Capital Management Limited	38,881,497	6.25%
A Bödenauer	27,395,176	4.40%
W Müller	25,602,647	4.11%
C Blackburn	25,505,000	4.10%
Hargreave Hale Nominees Limited	24,615,000	3.96%
Barclayshare Nominees Limited	24,187,577	3.89%
Chase Nominees Limited	18,822,409	3.02%

Save as disclosed above, no other person has notified the company in accordance with Sections 198 to 208 of the Companies Act 1985.

**AUDITORS**

A resolution to reappoint Deloitte & Touche LLP as the company's auditors will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
and signed on behalf of the Board

**Peter Sauerzopf**  
Secretary

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF**

### **SCOTTY GROUP PLC**

We have audited the consolidated financial statements of SCOTTY Group PLC for the period from 1 January 2004 to 6 August 2004 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the balance sheets, the consolidated cash flow statement, and the related notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the directors' report and the other information contained in the annual report for the above period as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

#### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

#### **Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the company and the group as at 6 August 2004 and of the loss of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

#### **DELOITTE & TOUCHE LLP**

Chartered Accountants and Registered Auditors  
Bristol, United Kingdom

9 February 2005

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
For the period from 1 January 2004 to 6 August 2004

	Note	Period from 1 January 2004 to 6 August 2004 £'000	Year ended 31 December 2003 £'000
<b>TURNOVER</b>	2	689	1,911
Cost of sales		(1,075)	(1,183)
<b>GROSS (LOSS)/PROFIT</b>		(386)	728
Exceptional items included within administrative expenses	5	(1,242)	(141)
Other administrative expenses		(2,721)	(4,296)
<b>Administrative expenses</b>		(3,963)	(4,437)
Other operating income		378	99
<b>OPERATING LOSS</b>	4	(3,971)	(3,610)
Loss on sale of tangible fixed assets		-	(70)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST</b>		(3,971)	(3,680)
Interest receivable	7	21	56
Interest payable	7	(3)	-
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAX</b>		(3,953)	(3,624)
Tax credit on loss on ordinary activities	8	147	293
<b>LOSS FOR THE FINANCIAL YEAR</b>		<u>(3,806)</u>	<u>(3,331)</u>
Loss per share (basic and diluted)	22	<u>1.6p</u>	<u>1.6p</u>

All of the activities of the group are classed as continuing.

**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**For the period from 1 January 2004 to 6 August 2004**

	<b>Period from 1 January 2004 to 6 August 2004 £'000</b>	<b>Year ended 31 December 2003 £'000</b>
Loss for the financial year	(3,806)	(3,331)
Currency translation differences on foreign currency investments	992	(157)
<b>Total recognised gains and losses relating to the period</b>	<b>(2,814)</b>	<b>(3,488)</b>

**CONSOLIDATED BALANCE SHEET**  
**At 6 August 2004**

	Note	At 6 August 2004		At 31 December 2003	
		£'000	£'000	£'000	£'000
<b>FIXED ASSETS</b>					
Intangible assets	9		12,147		49
Tangible assets	10		612		427
			<u>12,759</u>		<u>476</u>
<b>CURRENT ASSETS</b>					
Stocks	13	2,346		2,026	
Debtors	14	1,150		1,475	
Short-term investments		214		210	
Cash at bank and in hand		4,699		1,275	
			<u>8,409</u>	<u>4,986</u>	
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	15	(4,518)		(1,278)	
<b>NET CURRENT ASSETS</b>			<u>3,891</u>		<u>3,708</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			16,650		4,184
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>	16		(120)		-
<b>PROVISION FOR LIABILITIES AND CHARGES</b>	17		(319)		-
<b>NET ASSETS</b>			<u>16,211</u>		<u>4,184</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	18		6,134		2,251
Share premium account	19		36,301		25,343
Capital redemption reserve	19		183		183
Profit and loss account	19		(26,407)		(23,593)
<b>EQUITY SHAREHOLDERS' FUNDS</b>			<u>16,211</u>		<u>4,184</u>

These financial statements were approved by the Board of Directors on 8 February 2005

Signed on behalf of the Board of Directors

**Rex Thorne, OBE**  
Chairman

**COMPANY BALANCE SHEET**  
**At 6 August 2004**

	Note	At 6 August 2004		At 31 December 2003	
		£'000	£'000	£'000	£'000
<b>FIXED ASSETS</b>					
Investments	11		23,834		26,731
<b>CURRENT ASSETS</b>					
Debtors	14	19		18	
Short-term investments		214		210	
Cash at bank and in hand		4,589		1,118	
			<u>4,822</u>		<u>1,346</u>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>					
	15	(982)		(124)	
<b>NET CURRENT ASSETS</b>					
			<u>3,840</u>		<u>1,222</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>					
			<u>27,674</u>		<u>27,953</u>
<b>NET ASSETS</b>					
			<u><u>27,674</u></u>		<u><u>27,953</u></u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	18		6,134		2,251
Share premium account	19		36,301		25,343
Capital redemption reserve	19		183		183
Profit and loss account	19		(14,944)		176
<b>EQUITY SHAREHOLDERS' FUNDS</b>					
			<u><u>27,674</u></u>		<u><u>27,953</u></u>

These financial statements were approved by the Board of Directors on 8 February 2005

Signed on behalf of the Board of Directors

**Rex Thorne, OBE**  
Chairman

**CONSOLIDATED CASH FLOW STATEMENT**  
For the period from 1 January 2004 to 6 August 2004

	Note	Period from 1 January 2004 to 6 August 2004		Year ended 31 December 2003	
		£'000	£'000	£'000	£'000
<b>Net cash outflow from operating activities</b>	<b>23</b>		(1,835)		(3,603)
<b>Returns on investments and servicing of finance</b>					
Interest received		21		56	
Interest paid		(3)		-	
		<u>          </u>		<u>          </u>	
<b>Net cash inflow from returns on investments and servicing of finance</b>			18		56
<b>Taxation</b>					
Corporation tax credit			147		41
<b>Capital expenditure and financial investment</b>					
Purchase of tangible fixed assets		(15)		(39)	
Sale of tangible fixed assets		-		323	
Net cash outflow on acquisition of business		(229)		-	
		<u>          </u>		<u>          </u>	
<b>Net cash (outflow)/inflow from capital expenditure</b>			(244)		284
<b>Management of liquid resources</b>					
Increase in short-term deposits			(4)		(210)
			<u>          </u>		<u>          </u>
<b>Net cash outflow before financing</b>			(1,918)		(3,432)
<b>Financing</b>					
Issue of ordinary share capital		5,028		1,115	
Share issue costs		(679)		(405)	
		<u>          </u>		<u>          </u>	
<b>Net cash inflow from financing</b>			4,349		710
			<u>          </u>		<u>          </u>
<b>Increase/(decrease) in cash in the period</b>	<b>24</b>		<u>          </u> <u>          </u> 2,431		<u>          </u> <u>          </u> (2,722)

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the period from 1 January 2004 to 6 August 2004**

**1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable United Kingdom accounting standards, which have been applied consistently throughout the year. The particular accounting policies adopted are described below.

**Basis of preparation**

The financial statements are prepared under the historical cost convention.

**Consolidation**

The consolidated financial statements incorporate the financial statements of the company and its subsidiaries for the period ended 6 August 2004 and exclude all intra-group transactions.

The acquisition method of accounting has been used and the results of the subsidiaries are included from the date of acquisition. The company has taken advantage of the exemption provided by Section 230 of the Companies Act 1985 from presenting its own profit and loss account. The company's loss after tax for the period was £15,120,000 (2003: loss of £141,000).

**Intangible assets - goodwill**

Goodwill arising on acquisitions prior to 1 January 1998 has been written off to reserves on acquisition as a matter of accounting policy. Under the transitional arrangements of FRS10 the balance of the goodwill write off reserve has been transferred to the profit and loss account reserve. Such goodwill will be included in the calculation of profit or loss on disposal of the business to which it relates.

Goodwill arising on the acquisition of SCOTTY Group as of 28 July 2004, representing the excess of the fair value of the consideration given over the fair value of identifiable assets and liabilities acquired is capitalised and written off on a straight-line basis over its useful economic life.

**Intangible assets - licences**

Licences relating to Intellectual Property Rights acquired from C-Phone Corporation, which is core to current Telehealth and Security products being sold in the US, are amortised on a straight line basis over the expected future product sales to which the Intellectual Property Rights relates.

**Investments**

Investments held as fixed assets are stated at cost less provision for impairment.

**Tangible fixed assets**

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset, as follows:

Fixtures, fittings, tools and equipment	25% on cost
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**NOTES TO THE FINANCIAL STATEMENTS**  
**For the period from 1 January 2004 to 6 August 2004**

**1. ACCOUNTING POLICIES (continued)**

**Stocks**

Stocks are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

**Turnover**

The turnover shown in the profit and loss account represents amounts invoiced during the year, net of value added tax. Revenue on sales of technology products is recognised on despatch of the goods in question. Where applicable, revenue in relation to maintenance contracts is amortised over the period of the maintenance contract.

**Deferred taxation**

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised only to the extent that they are expected to be recoverable without replacement by equivalent debit balances. Tax losses carried forward are not recognised as it is not assured beyond reasonable doubt that future taxable profits will be sufficient to offset the current loss during the carry forward period prescribed by tax legislation. Deferred tax assets and liabilities are not discounted.

**Foreign exchange**

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

The financial statements of foreign subsidiaries are translated into sterling at the closing rates of exchange and the differences arising from the translation of the opening net investment in subsidiaries at the closing rate are taken direct to reserves.

**Leases**

Assets held under hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over the shorter of the period of the lease and the estimated useful economic lives of the assets. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged to the profit and loss account.

Operating lease rentals are charged to profit and loss in equal annual amounts over the lease term.

Amounts due to the group under sub-leases are credited to the profit and loss account in equal annual amounts over the lease term.

**Pension costs**

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group. Contributions are charged to the profit and loss account as they fall due.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the period from 1 January 2004 to 6 August 2004**

**1. ACCOUNTING POLICIES (continued)**

**Research and development**

Research and development expenditure, including all software tools, is written off in the year in which it is incurred.

**Share issue costs**

Costs related to the issue of new shares are charged to the share premium account.

**2. ANALYSIS OF TURNOVER, LOSS BEFORE TAX AND NET ASSETS**

The turnover and loss before tax are attributable to the one principal activity of the group.

	Turnover		Loss before tax		Net assets	
	Period from 1 Jan 2004 to 6 Aug 2004 £'000	Year ended 31 Dec 2003 £'000	Period from 1 Jan 2004 to 6 Aug 2004 £'000	Year ended 31 Dec 2003 £'000	At 6 Aug 2004 £'000	At 31 Dec 2003 £'000
<b>Geographical analysis by origin:</b>						
United Kingdom	314	1,015	(1,876)	(2,691)	16,584	7,977
USA	375	896	(2,043)	(933)	824	(3,793)
Austria	-	-	(34)	-	(1,335)	-
Asia	-	-	-	-	138	-
	689	1,911	(3,953)	(3,624)	16,211	4,184
	689	1,911	(3,953)	(3,624)	16,211	4,184

	Period from 1 January 2004 to 6 August 2004 £'000	Year ended 31 December 2003 £'000
<b>Geographical analysis of turnover by destination:</b>		
United Kingdom	298	804
Other European countries	16	96
Rest of the World	375	1,011
	689	1,911
	689	1,911

**NOTES TO THE FINANCIAL STATEMENTS**  
For the period from 1 January 2004 to 6 August 2004

<b>3. OTHER OPERATING INCOME</b>	<b>Period from 1 January 2004 to 6 August 2004 £'000</b>	<b>Year ended 31 December 2003 £'000</b>
Grant receivable	-	99
Rent receivables	301	-
Foreign exchange gains	77	-
	<hr/>	<hr/>
	378	99
	<hr/>	<hr/>

<b>4. OPERATING LOSS</b>	<b>Period from 1 January 2004 to 6 August 2004 £'000</b>	<b>Year ended 31 December 2003 £'000</b>
Operating loss is arrived at after charging/(crediting):	<b>£'000</b>	<b>£'000</b>
Depreciation - owned assets	167	277
Amortisation of intangible assets	10	16
Auditors' remuneration:		
- group audit fees	45	16
- company audit fees	5	5
- non-audit services	18	18
Operating leases - land and buildings	285	450
Profit on disposal of tangible fixed assets	-	(2)
Research and development costs	819	1,072
	<hr/>	<hr/>

Research and development costs include the costs of staff employed in those activities.

In addition to the amounts disclosed above, the auditors' remuneration for 2004 includes £90,000 of non-audit fees in relation to the recent share issue and acquisition of SCOTTY Tele-transport AG, which were charged against the share premium account and cost of acquisition. Included in auditors' remuneration for non-audit work is £18,000 (2003: £18,000) in respect of taxation advice and compliance.

<b>5. EXCEPTIONAL ITEMS INCLUDED WITHIN ADMINISTRATIVE EXPENSES</b>	<b>Period from 1 January 2004 to 6 August 2004 £'000</b>	<b>Year ended 31 December 2003 £'000</b>
Within other operating expenses are exceptional items as follows:	<b>£'000</b>	<b>£'000</b>
Restructuring costs	322	141
Provision against obsolete stock components	618	-
Provision against specific old debtors	84	-
Provision against prepaid licences for discontinued products	218	-
	<hr/>	<hr/>
	1,242	141
	<hr/>	<hr/>

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the period from 1 January 2004 to 6 August 2004**

<b>6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES</b>	<b>Period from 1 January 2004 to 6 August 2004 £'000</b>	<b>Year ended 31 December 2003 £'000</b>
Directors' emoluments	88	204
Directors' compensation for loss of office	-	60
Directors' pension contribution	1	10
	<u>89</u>	<u>274</u>

During the year, two directors were members of a defined contribution pension scheme (2003: three).

The highest paid director in 2003 received emoluments of £103,000 and contributions to a defined contribution pension scheme of £4,000.

The average number of persons employed by the group (including directors) during the period was as follows:

	<b>No.</b>	<b>No.</b>
Management and office	<u>41</u>	<u>43</u>

The aggregate payroll costs of these persons were as follows:

	<b>£'000</b>	<b>£'000</b>
Wages and salaries	1,216	2,188
Social security costs	142	187
Other pension costs	39	80
	<u>1,397</u>	<u>2,455</u>

<b>7. INTEREST RECEIVABLE AND INTEREST PAYABLE</b>	<b>Period from 1 January 2004 to 6 August 2004 £'000</b>	<b>Year ended 31 December 2003 £'000</b>
Bank interest receivable	<u>21</u>	<u>56</u>
	<b>£'000</b>	<b>£'000</b>
Bank interest payable	<u>(3)</u>	<u>-</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**For the period from 1 January 2004 to 6 August 2004**

**8. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES**

**Analysis of tax charge on ordinary activities**

The corporation tax credit of £147,000 (31 December 2003: £293,000) relates to a research and development tax credit received in the period, all of which relates to 2003. No provision has been made in the profit and loss account for the tax credit in relation to the period 1 January to 6 August 2004.

**Factors affecting tax credit for the current period**

	<b>Period from 1 January 2004 to 6 August 2004 £'000</b>	<b>Year ended 31 December 2003 £'000</b>
Losses on ordinary activities before tax	(3,953)	(3,624)
	<u>£'000</u>	<u>£'000</u>
Tax at 30% thereon	(1,186)	(1,087)
Effects of:		
Expenses non deductible for tax purposes	681	2
Capital allowances in excess of depreciation	-	76
No relief for current year losses	388	774
Enhanced R&D relief	(7)	(92)
Chargeable gain	-	54
Loss utilised (R&D tax credit)	-	276
Effect of different tax rates	(23)	-
Prior period adjustments in respect of R&D repayments	-	(296)
<b>Current tax credit for period</b>	<u>(147)</u>	<u>(293)</u>

**Factors that may affect the future tax charge**

As a result of the acquisition of SCOTTY Group by Motion Media the availability of tax losses carried forward by Zydacron Inc, USA, is restricted to 10% of the carried forward losses in any one year.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the period from 1 January 2004 to 6 August 2004**

**9. INTANGIBLE FIXED ASSETS**

<b>Group</b>	<b>Goodwill £'000</b>	<b>Licences £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
At 1 January 2004	-	84	84
Translation difference	-	(2)	(2)
Additions	11,762	-	11,762
Acquired in SCOTTY acquisition	-	472	472
	<hr/>	<hr/>	<hr/>
At 6 August 2004	11,762	554	12,316
	<hr/>	<hr/>	<hr/>
<b>Accumulated amortisation</b>			
At 1 January 2004	-	35	35
Translation difference	-	(2)	(2)
Charge for period	-	10	10
Acquired in SCOTTY acquisition	-	126	126
	<hr/>	<hr/>	<hr/>
At 6 August 2004	-	169	169
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
<b>At 6 August 2004</b>	<u>11,762</u>	<u>385</u>	<u>12,147</u>
	<hr/>	<hr/>	<hr/>
At 31 December 2003	-	49	49
	<hr/>	<hr/>	<hr/>

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the period from 1 January 2004 to 6 August 2004**

**10. TANGIBLE FIXED ASSETS**

<b>Group</b>	<b>Fixtures, fittings, tools and equipment £'000</b>
<b>Cost</b>	
At 1 January 2004	1,404
Translation differences	(3)
Additions	15
Disposals	(18)
Acquired in SCOTTY acquisition	1,262
	2,660
<b>At 6 August 2004</b>	
<b>Accumulated depreciation</b>	
At 1 January 2004	977
Translation differences	(2)
Charge for the period	167
Disposals	(18)
Acquired in SCOTTY acquisition	924
	2,048
<b>At 6 August 2004</b>	
<b>Net book value</b>	
<b>At 6 August 2004</b>	612
At 31 December 2003	427

Included within fixed assets acquired with the SCOTTY acquisition are assets held under finance leases with a net book value of £31,000 (2003: £nil). No depreciation was charged on these assets during the period 28 July 2004 to 6 August 2004.

The company held no fixed assets during the period.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the period from 1 January 2004 to 6 August 2004**

**11. INVESTMENTS**

Company	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
<b>Cost</b>			
At 1 January 2004	17,751	8,980	26,731
Additions/movements (see note 12)	10,806	1,297	12,103
At 6 August 2004	28,557	10,277	38,834
<b>Provision for impairment</b>			
At 1 January 2004	-	-	-
Impairment charge	15,000	-	15,000
At 6 August 2004	15,000	-	15,000
<b>Net book value</b>			
<b>At 6 August 2004</b>	<u>13,557</u>	<u>10,277</u>	<u>23,834</u>
At 31 December 2003	<u>17,751</u>	<u>8,980</u>	<u>26,731</u>

The company holds more than 10% of the equity (and no other share capital) of the following undertakings:

Subsidiary undertaking	Country of incorporation or principal place of business	Proportion directly held	Proportion indirectly held	Nature of business
Motion Media Technology Limited	England & Wales	100%	-	Video telecommunications equipment
Motion Media Technology, Inc.	USA	100%	-	Video telecommunications equipment
SCOTTY Tele-Transport Corporation Radio-und Videoelektronik AG	Austria	100%	-	Video telecommunications equipment
SCOTTY Tele-Transport Corporation of the Americas, Inc.	USA	-	100%	Video telecommunications equipment
SCOTTY Tele-Transport Corporation of Asia, Inc.	Philippines	-	100%	Video telecommunications equipment
Zydacron, Inc.	USA	-	100%	Video telecommunications equipment
Zydacron Europe Limited	England & Wales	-	100%	Video telecommunications equipment

**NOTES TO THE FINANCIAL STATEMENTS**

**For the period from 1 January 2004 to 6 August 2004**

**12. ACQUISITION OF SUBSIDIARY UNDERTAKING**

On 28 July 2004 the company acquired 100% of the issued share capital of SCOTTY Tele-transport Corporation Radio-und Videoelektronik AG ("SCOTTY") for consideration comprising the issue of 262,302,387 ordinary shares at 1p each and acquisition costs of £314,000.

	Book value £'000	Adjustments £'000	Fair value £'000
<b>Net assets acquired</b>			
<b>Fixed assets</b>			
Intangible assets	963	(617)	346
Tangible assets	338	-	338
<b>Current assets</b>			
Stock	870	-	870
Debtors	681	-	681
Cash	85	-	85
	2,937	(617)	2,320
<b>Liabilities</b>			
Creditors: amounts falling due within one year	(2,986)	164	(2,822)
Creditors: amounts falling due after one year	(136)	-	(136)
Provisions	(318)	-	(318)
	(3,440)	164	(3,276)
<b>Net liabilities</b>	(503)	(453)	(956)
Goodwill			11,762
			10,806
<b>Satisfied by</b>			
Shares issued			10,492
Acquisition costs			314
			10,806

The fair value adjustments, which are provisional on the grounds that the acquisition was very close to the period end, relate to the following items:

- Non-recognition of capitalised development costs where the fair value of the asset cannot be separately determined (£617,000).
- Release of provisions included within creditors which are not compliant with FRS12, *Provisions, Contingent Liabilities and Contingent Assets*.

**NOTES TO THE FINANCIAL STATEMENTS**  
For the period from 1 January 2004 to 6 August 2004

**12. ACQUISITION OF SUBSIDIARY UNDERTAKINGS (continued)**

SCOTTY earned a profit after taxation of £250,000 in the year ended 31 December 2003. The summarised profit and loss account for the period from 1 January 2004 to 28 July 2004 is as follows:

<b>Profit and loss account</b>	<b>£'000</b>
<b>Turnover</b>	1,353
Cost of sales	(1,238)
	<hr/>
<b>Gross profit</b>	115
Administrative expenses	(2,437)
Other operating income	156
	<hr/>
<b>Operating loss</b>	(2,166)
Interest payable and similar charges	(73)
	<hr/>
<b>Loss on ordinary activities before tax</b>	(2,239)
Tax credit on loss on ordinary activities	(12)
	<hr/>
<b>Loss for the period</b>	<u>(2,251)</u>

There were no other recognised gains and losses for the SCOTTY business in the periods disclosed above.

The post acquisition results and cashflows for the acquired SCOTTY business between 28 July 2004 and 6 August 2004 are not material and have not been disclosed separately.

**13. STOCKS**

	<b>Group</b>		<b>Company</b>	
	<b>6 August 2004 £'000</b>	<b>31 December 2003 £'000</b>	<b>6 August 2004 £'000</b>	<b>31 December 2003 £'000</b>
Raw materials and consumables	1,147	1,265	-	-
Work in progress	276	216	-	-
Finished good and goods for resale	923	545	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	2,346	2,026	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

There is no material difference between the balance sheet value of goods and their replacement value.

**14. DEBTORS**

	<b>Group</b>		<b>Company</b>	
	<b>6 August 2004 £'000</b>	<b>31 December 2003 £'000</b>	<b>6 August 2004 £'000</b>	<b>31 December 2003 £'000</b>
Trade debtors	550	590	-	-
Other debtors	313	343	6	15
Prepayments and accrued income	287	542	13	3
	<hr/>	<hr/>	<hr/>	<hr/>
	1,150	1,475	19	18
	<hr/>	<hr/>	<hr/>	<hr/>

**NOTES TO THE FINANCIAL STATEMENTS**  
For the period from 1 January 2004 to 6 August 2004

**15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>Group</b>		<b>Company</b>	
	<b>6 August 2004 £'000</b>	<b>31 December 2003 £'000</b>	<b>6 August 2004 £'000</b>	<b>31 December 2003 £'000</b>
Obligations under finance leases	54	-	-	-
Trade creditors	1,093	898	609	79
Other creditors	140	18	-	-
Other taxes and social security	187	32	-	-
Accruals and deferred income	3,044	330	373	45
	<u>4,518</u>	<u>1,278</u>	<u>982</u>	<u>124</u>

**16. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR**

	<b>Group</b>		<b>Company</b>	
	<b>6 August 2004 £'000</b>	<b>31 December 2003 £'000</b>	<b>6 August 2004 £'000</b>	<b>31 December 2003 £'000</b>
Obligations under finance leases	76	-	-	-
Accruals and deferred income	44	-	-	-
	<u>120</u>	<u>-</u>	<u>-</u>	<u>-</u>

Finance leases are repayable as follows:

Between one and two years	42	-	-	-
Between two and five years	34	-	-	-
	<u>76</u>	<u>-</u>	<u>-</u>	<u>-</u>
On demand or within a year	54	-	-	-
	<u>130</u>	<u>-</u>	<u>-</u>	<u>-</u>

Finance leases are secured on the related assets.

**17. PROVISIONS FOR LIABILITIES AND CHARGES**

<b>Group</b>	<b>6 August 2004 £'000</b>	<b>31 December 2003 £'000</b>
Deferred tax	271	-
Austrian severance payments	48	-
	<u>319</u>	<u>-</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the period from 1 January 2004 to 6 August 2004**

**17. PROVISIONS FOR LIABILITIES AND CHARGES (continued)**

The movements on provisions are as follows:

	<b>Total £'000</b>	<b>Deferred tax £'000</b>	<b>Austrian Severance Payments £'000</b>
Balance at 31 December 2003	-	-	-
Acquired in SCOTTY acquisition	319	271	48
	319	271	48
Balance at 6 August 2004	319	271	48

According to Austrian labour regulations, employees who joined the Company prior to 31 December 2002, are entitled to receive severance payments equal to a multiple of their monthly compensation which comprises fixed plus variable amounts such as overtime and bonus payments. Maximum severance is equal to a multiple of twelve times the eligible monthly compensation. In case of death, the heirs of eligible employee will receive part of the severance benefit.

The obligation for such severance payments is measured using the projected unit credit method and is discounted to its present value. The discount rate is the yield at the balance sheet date on AAA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations.

**18. SHARE CAPITAL**

	<b>6 August 2004 £'000</b>	<b>31 December 2003 £'000</b>
<b>Authorised</b>		
662,302,387 Ordinary share of 1p each (2003: 275,000,000 shares)	6,623	2,750
	<b>£'000</b>	<b>£'000</b>
<b>Allotted and fully paid</b>		
613,317,322 Ordinary share of 1p each (2003: 225,118,935 shares)	6,134	2,251

On 28 July 2004 387,302,387 new ordinary shares of 1p each were issued at 4p per share (125,000,000 shares for cash; 262,302,387 shares in exchange for shares of SCOTTY Tele-transport Corporation AG, Austria).

During the period ended 6 August 2004, employee options over 950,000 new ordinary shares of 1p were exercised (2003: 1,545,000).

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the period from 1 January 2004 to 6 August 2004**

**18. SHARE CAPITAL (continued)**

At 6 August 2004 the following options over ordinary share capital have been granted, but not exercised:

Number of shares		Exercise price (pence)	Exercise period
2004	2003		
40,000	40,000	14.50	Between April 2001 and May 2005
7,142	26,569	140.00	Between April 2003 to April 2010
17,999	21,784	140.00	Between April 2003 to May 2005
31,900	31,900	85.00	Between June 2003 to November 2004
270,000	270,000	25.00	Between June 2003 to November 2005
460,000	130,000	3.50	Between June 2003 to June 2006
1,650,000	1,650,000	2.68	Between June 2003 to December 2006
282,600	282,600	86.50	Between May 2004 to May 2011
150,988	150,988	85.00	Between May 2004 to May 2011
375,000	-	3.50	Between September 2004 to December 2004
330,000	-	3.50	Between October 2004 to June 2006
50,000	50,000	43.50	Between October 2004 to October 2011
505,000	-	25.00	Between September 2004 to November 2005
320,000	-	12.00	Between September 2004 to June 2007
325,000	325,000	26.25	Between May 2005 to May 2012
225,000	800,000	25.00	Between May 2005 to June 2012
225,000	1,395,000	3.50	Between December 2005 to December 2012
3,275,000	3,660,000	12.00	Between November 2006 to December 2013

**19. COMBINED RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENTS ON RESERVES**

Group	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total 6 August 2004 £'000	Total 31 December 2003 £'000
At beginning of period	2,251	25,343	183	(23,593)	4,184	6,592
Shares issued	3,883	11,637	-	-	15,520	1,130
Share issue costs	-	(679)	-	-	(679)	(50)
Exchange gains/(losses)	-	-	-	992	992	(157)
Loss for the period	-	-	-	(3,806)	(3,806)	(3,331)
<b>At end of period</b>	<b>6,134</b>	<b>36,301</b>	<b>183</b>	<b>(26,407)</b>	<b>16,211</b>	<b>4,184</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 1 January 2004 to 6 August 2004

**19. COMBINED RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENTS ON RESERVES (continued)**

Company	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total 6 August 2004 £'000	Total 31 December 2003 £'000
At beginning of period	2,251	25,343	183	176	27,953	27,014
Shares issued	3,883	11,637	-	-	15,520	1,130
Share issue costs	-	(679)	-	-	(679)	(50)
Loss for the period	-	-	-	(15,120)	(15,120)	(141)
<b>At end of period</b>	<b>6,134</b>	<b>36,301</b>	<b>183</b>	<b>(14,944)</b>	<b>27,674</b>	<b>27,953</b>

Included in both the company and the group share premium is an amount of £7,689,000 (2003: £nil) relating to premium arising on shares issued subject to the provisions of section 131 of the Companies Act 1985.

Included in the profit and loss account is goodwill totalling £755,082 (2003: £755,082) which has been written off against reserves.

**20. COMMITMENTS UNDER OPERATING LEASES**

At 6 August 2004 the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	Period from 1 January 2004 to 6 August 2004 £'000	Year ended 31 December 2003 £'000	Period from 1 January 2004 6 August 2004 £'000	Year ended 31 December 2003 £'000
Operating leases which expire:				
Within one year	66	12	5	-
In two to five years	509	400	1	-
	<u>575</u>	<u>412</u>	<u>6</u>	<u>-</u>

**21. RELATED PARTY TRANSACTIONS**

SCOTTY Group PLC has taken advantage of the exemption under Financial Reporting Standard 8, 'Related Party Transactions' Paragraph 3(c), not to disclose any transactions within the group due to the inclusion of all subsidiaries within these consolidated financial statements.

During the period, a total of £439,541 (31 December 2003: £228,145) was paid to ARM Corporate Finance Limited, a company in which A R MacKenzie is a director and shareholder. The fees relate to corporate finance services provided by ARM Corporate Finance Limited, including services in connection with the raising of new equity finance (which also involved the payment of commissions to other intermediaries).

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the period from 1 January 2004 to 6 August 2004**

**22. LOSS PER SHARE**

Basic loss per share is calculated by dividing the loss for the period £3,806,000 (31 December 2003: 3,331,000) by the weighted average number of ordinary shares in issue during the period of 241,221,569 (31 December 2003: 213,700,035).

There are no dilutive potential ordinary shares as defined in FRS14 and therefore basic and diluted loss per share are the same. FRS14 requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding share options, net loss per share would only be increased by the exercise of out-of-the-money options. Since it seems inappropriate to assume that option holders would act irrationally, no adjustment has been made to diluted EPS for out of the money share options. In addition, share options that have been granted after April 2000 are subject to performance criteria, which have not been met at 6 August 2004 and are therefore not dilutive.

**23. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES**

	<b>Period from 1 January 2004 to 6 August 2004 £'000</b>	<b>Year ended 31 December 2003 £'000</b>
Operating loss	(3,971)	(3,610)
Amortisation of intangible assets	10	16
Depreciation of tangible assets	167	277
Profit on disposal of tangible fixed assets	-	(2)
Decrease/(increase) in stocks	550	(147)
Decrease/(increase) in debtors	1,002	(221)
Increase in creditors	407	84
	<hr/>	<hr/>
<b>Net cash outflow from operating activities</b>	<b>(1,835)</b>	<b>(3,603)</b>
	<hr/> <hr/>	<hr/> <hr/>

**24. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS**

	<b>Period from 1 January 2004 to 6 August 2004 £'000</b>	<b>Year ended 31 December 2003 £'000</b>
Increase/(decrease) in cash in period	2,431	(2,722)
	<hr/>	<hr/>
Movement in net funds/(debt) in period	2,431	(2,722)
Translation difference	993	(157)
Net funds at beginning of the period	1,275	4,154
	<hr/>	<hr/>
<b>Net funds at end of period</b>	<b>4,699</b>	<b>1,275</b>
	<hr/> <hr/>	<hr/> <hr/>

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the period from 1 January 2004 to 6 August 2004**

**25. ANALYSIS OF NET FUNDS**

	<b>At 31 December 2003 £'000</b>	<b>Cash flow £'000</b>	<b>Exchange movement £'000</b>	<b>At 6 August 2004 £'000</b>
Cash at bank and in hand	<u>1,275</u>	<u>2,431</u>	<u>993</u>	<u>4,699</u>

**26. FINANCIAL INSTRUMENTS**

The group's financial instruments, other than derivatives, comprise cash and liquid resources, some borrowings and various items, such as trade debtors and trade creditors that arise directly from its operations.

It is the group's policy to finance its operations through cash, and to utilise overdraft facilities after review of the projected working capital requirements of the group should a short term funding requirement arise. The group earns interest on cash balances at floating market rates.

Two finance facilities are available to the group.

- A committed overdraft facility of €750,000 (£517,000) is available, but was undrawn at 6 August 2004. The facility is renewable on an annual basis with no fixed end date and is currently committed until January 2006.
- In December 2004, an agreement was signed with a private equity investor to secure equity finance of up to £3,000,000. The funding can be drawn down in tranches of not less than £50,000, in exchange for ordinary shares. This facility is available over an indefinite period.

Certain assets acquired as part of the SCOTTY group are financed using finance leases. The leases are repayable over the next five years and accrue interest at rates of 4.7% to 5.8%.

The majority of the group's sales and purchases are priced in sterling. Foreign currency exposure arises on certain trading balances and the table set out below summarises the group's net foreign currency assets/(liabilities):

	<b>Period from 1 January 2004 to 6 August 2004 £'000</b>	<b>Year ended 31 December 2003 £'000</b>
US Dollars	(36)	83
Euros	(16)	13
Sterling	50	-
Other currencies	1	-
	<u>(1)</u>	<u>96</u>

There are no derivatives and it is and has been throughout the year under review, the group's policy that no trading in financial instruments shall be undertaken.

There is no material difference between the book value and the fair value of the group's financial instruments.

## NOTICE OF ANNUAL GENERAL MEETING

### **SCOTTY GROUP plc**

(the "Company")

(Incorporated in England and Wales under the Companies Act 1985 with registered number 2908288)

Notice is hereby given that the Annual General Meeting of the Company will be held at the offices of Tavistock Communications, 131 Finsbury Pavement, London EC2A 1NT on 11 March 2005 at 12 noon for the purpose of considering and if thought fit passing the following resolutions:

#### **As ordinary business:**

- 1 To receive the Report of the Directors and the audited accounts of the Company for the financial year ended 6 August 2004, together with the report of the auditors.
- 2 To reappoint Mr R F Thorne, who, having attained the age of 70, retires in accordance with best practice guidelines published by certain Investor Protection Committees and by rotation under the terms of the Articles and who, being eligible, offers himself for re-election, as a director.
- 3 To reappoint Mr K Kerschhat, who, having been appointed by the Board since the last Annual General Meeting, retires under the terms of the Articles and who, being eligible, offers himself for re-election, as a director.
- 4 To reappoint Mr G Weber, who, having been appointed by the Board since the last Annual General Meeting, retires under the terms of the Articles and who, being eligible, offers himself for re-election, as a director.
- 5 To reappoint Dr H P Sauerzopf, who, having been appointed by the Board since the last AGM, retires under the terms of the Articles and who, being eligible, offers himself for re-election, as a director.
- 6 To re-appoint Deloitte & Touche LLP as auditors of the Company to hold office until the conclusion of the next general meeting at which the accounts are laid before the Company, and to authorise the directors to fix their remuneration.

#### **As special business:**

- 7 To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"THAT the directors be and they are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 ("CA 1985") and in substitution for and to the exclusion of all existing authorities to allot relevant securities (within the meaning of the said section 80) up to an aggregate nominal amount of £8,796,111 to such persons at such times and on such terms as they think fit, provided that such authority shall expire fifteen months from the date of this resolution or at the conclusion of the Company's next Annual General Meeting but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require relevant securities to be allotted after such expiry and notwithstanding such expiry the directors may allot relevant securities in pursuance of such offers or agreements."

8 To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"THAT the maximum number of shares of the Company that may be issued pursuant to the sub-plan of the Company's unapproved Executive Share Option Scheme for employees resident in the United States upon exercise of options under section 422 of the United States Internal Revenue Code 1986 (as amended) shall be 25,000,000 ordinary shares of 1 pence each."

9 To consider and, if thought fit, to pass the following resolution as a special resolution:

"THAT the directors be and they are hereby empowered, pursuant to section 95 of the CA 1985, to allot equity securities (within the meaning of section 94 CA 1985) as if section 89(1) CA 1985 did not apply to any such allotment, provided that this power shall be limited to:

- (a) the allotment of equity securities in connection with or the subject of an offer or invitation, open for acceptance for a period fixed by the Directors, to holders of ordinary shares of £0.01 pence each and such other equity securities of the Company as the directors may determine on the register on a fixed record date in proportion ( as nearly as may be) to their respective holdings of such securities or in accordance with the rights attached thereto (including equity securities which, in connection with such offer or invitation, are the subject of such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with any legal or practical problems under the laws of, or the requirements of any recognised regulatory body or stock exchange in, any territory or otherwise howsoever); and
- (b) otherwise, up to an aggregate nominal value of £310,194,

and shall expire fifteen months from the date of the resolution or, if earlier, at the conclusion of the Company's next Annual General Meeting, except that the Company may before such expiry make offers or arrangements which would or might require equity securities to be allotted after such expiry and notwithstanding such expiry the directors may allot equity securities in pursuance of such offers or arrangements."

10 To consider and, if thought fit, to pass the following resolution as a special resolution:

"THAT the directors be and they are hereby empowered, pursuant to section 95 of CA 1985, to allot equity securities (within the meaning of section 94 CA 1985) as if section 89(1) CA 1985 did not apply to any such allotment, provided that this power (which shall be in addition to any power granted by Resolution 9) shall be limited to:

- (i) the allotment of up to 768,182 ordinary shares of £0.01 each to enable the Company to satisfy its obligations in connection with a warrant instrument constituted by a deed poll dated 14 December 2004; and
- (ii) the allotment of up to 259,950,000 ordinary shares of £0.01 each to enable the Company to satisfy its obligations pursuant to a committed share finance facilities agreement made between the Company (1) Headstart Global Fund Limited (2) and Headstart Global Aggressive Fund Limited (3) dated 14 December 2004; and
- (iii) the allotment of up to 65,000,000 ordinary shares of £0.01 each to enable the Company to satisfy its obligations pursuant to 7.5 per cent. convertible unsecured loan notes issued to Headstart Global Fund Limited (1) and Headstart Global Aggressive Fund Limited (2) on 14 December 2004,

and shall expire fifteen months from the date of the resolution or, if earlier, at the conclusion of the Company's next Annual General Meeting, except that the Company may before such expiry make offers or arrangements which would or might require equity securities to be allotted after such expiry and notwithstanding such expiry the directors may allot equity securities in pursuance of such offers or arrangements."

BY ORDER OF THE BOARD

Dr H P SAUERZOPF

Secretary

Dated February 2005

Registered Office:

Motion Media Technology Centre

Severn Bridge

Aust

Bristol BS35 4BL

Notes:

- 1 A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
- 2 A form of proxy is enclosed. The appointment of a proxy will not prevent a Shareholder from subsequently attending and voting at the meeting in person.
- 3 To be effective the instrument appointing a proxy, and any power of attorney or other authority under which it is executed (or a duly certified copy of any such power or authority), must be deposited at Capita IRG Plc, Corporate Actions, P O Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TH not less than 48 hours before the time for holding the meeting.
- 4 Copies of all contracts of service under which Directors of the Company are employed by the Company or any of its subsidiaries and the articles of association of the Company together with all documents referred to in this notice, (including those agreements referred to in Resolution 10) are available for inspection at the Company's registered office during business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice until the conclusion of the Annual General Meeting and will also be available for inspection at the place of the meeting from fifteen minutes before it is held until its conclusion.
- 5 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 only those members registered in the Register of Members of the Company as at 2pm on 9 March 2005, being not more than 48 hours before the time fixed for the meeting, are entitled to attend and vote at this meeting in respect of the number of shares registered in their name at 2pm on 9 March 2005. Changes to the Register after 2pm on 9 March 2005 shall be disregarded in determining the right to attend or vote at the meeting.

**FORM OF PROXY**

**SCOTTY GROUP plc**

(the "Company")

I/We ..... of ..... being (a) member(s) of the Company hereby appoint the chairman of the meeting/or ..... (see note 2) as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 11 March 2005 and at every adjournment thereof. I/We request such proxy to vote on the following resolutions as indicated below:

RESOLUTION	FOR	AGAINST
1. To receive the Company's accounts and the reports of the Directors and Auditors for the year ended 6 August 2004.		
2. To reappoint Mr R F Thorne as a Director		
3. To reappoint Mr K Kerschhat as a Director		
4. To reappoint Mr G Weber as a Director		
5. To reappoint Dr H P Sauerzopf as a Director		
6. To re-appoint Deloitte & Touche LLP as Auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and to authorise the Directors to fix the remuneration of the Auditors.		
7. To grant the directors authority to allot relevant securities		
8. To fix the maximum number of shares that may be issued pursuant to the sub-plan of the Company's unapproved Executive Share Option Scheme for employees resident in the United States		
9. To empower the directors to allot equity securities for cash otherwise than on a pre-emptive basis		
10. To empower the directors to allot equity securities for cash otherwise than on a pre-emptive basis in connection with committed share finance facilities		

Names of joint holders (if any) .....

Dated ..... 2005

Signature .....

Notes:

- 1 Please indicate with an 'X' in the appropriate boxes how you wish the proxy to vote. The proxy will exercise his discretion as to how he votes or whether he abstains from voting:
  - (a) on any resolution referred to above if no instruction is given in respect of that resolution; and
  - (b) on any business or resolution considered at the meeting other than the resolutions referred to above.
- 2 If you wish to appoint someone other than the chairman of the meeting as your proxy please delete the words 'the chairman of the meeting' and insert the name of the person you wish to appoint. A proxy need not be a member of the Company.
- 3 To be effective this form, and any power of attorney under which it is executed (or a duly certified copy of any such power of authority), must be deposited at Capita IRG Plc, Corporate Actions, P O Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TH not less than 48 hours before the time for holding the meeting.
- 4 Where the member is a corporation this form must be under its common seal or signed by an officer, attorney or other person duly authorised by the corporation.
- 5 In the case of joint holders only one need sign this form, but the names of the other joint holders should be shown in the space provided. The vote of the senior holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders. Seniority will be determined by the order in which the names of the holders appear in the register of members in respect of the joint holding.
- 6 Deposit of a form of proxy does not preclude you from attending and voting in person at the meeting or at any adjournment thereof.

THIRD FOLD

BUSINESS REPLY SERVICE  
Licence No. MB 122

2



Capita Registrars  
Proxy Department  
PO Box 25  
Beckenham  
Kent BR3 4BR

SECOND FOLD

FIRST FOLD