



SCOTTY™

SCOTTY Group plc / Interim Report 2008

**LOOK. LISTEN.
COMMUNICATE.**

SCOTTY PROVIDES INTEGRATED COMMUNICATION SOLUTIONS FOR VIDEO, AUDIO AND DATA TRANSMISSION OVER ANY KIND OF NETWORK.

SINCE SELLING ITS TELEHEALTH ACTIVITIES IN 2007, SCOTTY IS NOW FOCUSED ON THE GOVERNMENT, MILITARY AND AEROSPACE MARKETS, AREAS WHERE WE HAVE MORE THAN TEN YEARS OF EXPERIENCE AND UNRIVALLED KNOW-HOW. WE HAVE CONSISTENTLY DELIGHTED OUR CUSTOMERS WITH SOLUTIONS THAT MEET THE NEEDS OF VIDEO, AUDIO AND DATA COMMUNICATION. OUR SOLUTIONS ARE PERFECTLY ADAPTED TO THEIR LAND, MARITIME OR AEROSPACE ENVIRONMENTS, PARTICULARLY OUR SPECIALISED ENCRYPTED SATELLITE COMMUNICATIONS SYSTEMS FOR HELICOPTERS AND FIXED-WING AIRCRAFT.

OUR STRENGTHS:

Unique customisation is our strength, which we have cultivated over the years. We listen carefully to our customers, thoroughly analyse their problems and requirements, then plan and implement their resolution – a one-stop solution, no matter the size of the project.

OUR RESOURCES:

SCOTTY's engineering team has the experience to deliver a range of satcom-based solutions and video communications systems. Our specific know-how of protocols, interfaces, integration of encryption technology and satcom enables us to custom-tailor solutions for our customers.

OUR DRIVE:

Passion for real time interactive communication drives us. We provide the access to information, advice and decisions that people need immediately.

CHAIRMAN'S STATEMENT

I am pleased to report the half-year results of SCOTTY Group plc for the six months to 31 January 2008. During the period the Group's trading activity was profitable and we made strong progress in the government, military and aviation markets, building on the platform created by the disposal of our telehealth activities in June last year.

The Group has for the first time prepared its financial statements under International Financial Reporting Standards (IFRS). There have been a number of changes affecting the presentation of the information, particularly relating to the reversal of goodwill amortisation. Reconciliations of the previous UK GAAP formats to the new IFRS format are included in note 3 to the interim financial statements and the Group's principal accounting policies are set out in note 2.

Results and cash flow

The result for the first half-year was a pre-tax profit of £304,000, compared with a restated loss of £379,000 in the corresponding period last year.

Turnover for the first half-year was £2,459,000. This compares with £3,996,000 for the first half last year, which included £650,000 relating to the telehealth activities sold in June 2007. The first few months of last year also contained final deliveries under the first Eurocopter contract, whereas the first half of this financial year saw the start of the PV research and development contract for Eurocopter, with higher gross profitability.

Administration expenses in the half-year fell sharply, to £1,751,000 from £2,872,000 in the first half of 2007, reflecting lower overheads following the disposal of telehealth, together with the other reductions in the overhead base achieved during 2007 and referred to in the Annual Report.

The result after tax for the half-year was significantly improved, from a restated loss of £423,000 in 2007, to a profit of £261,000 this half-year, after taking into account a taxation charge of £43,000 in respect of deferred tax arising in Austria. Earnings per share were 0.03p compared with a restated loss of 0.04p in the corresponding period last year.

Your directors are not recommending payment of a dividend at this stage in the Group's development.

Cash flow in the period was £179,000 positive at the operating level but saw a reduction of £68,000 overall. Net cash balances at 31 January 2008 amounted to £60,000, compared with £128,000 at 31 July 2007. However, since the period-end the Group's cash position has improved significantly and cash balances were approximately £600,000 at the date of publishing this report, following the first payments received under the Diamond contract referred to below.

Review of Government aviation and military market

Following completion of equipment deliveries under its first contract for upgrading Eurocopter's CH53 helicopter fleet, SCOTTY announced the PV research and development contract in August 2007. This is a product improvement programme for the CH53, worth approximately 13.3 million Euros. I am pleased to report that this programme is running on time and the progress payments are a significant contributor to the improved cash flow since 31 January, as mentioned above.

The first CH53s upgraded by SCOTTY have now been operating for approximately 18 months and as they return to base for their annual maintenance we are providing them with an upgrade to increase their communications systems bandwidth from two to four channels. This is part of a growing revenue stream that is beginning to emerge, for maintenance and support activities for aircraft fitted with our equipment.

As reported in last year's Annual Report, the first project to install similar technology in other aircraft, for Eurocopter's BO105 for the German Army, led to a successful demonstrator aircraft. This project is part of a major upgrade programme for the German Army, the whole of which still awaits the go-ahead.

On 30 January 2008 the Company announced an order worth 3.2 million Euros from Diamond Aircraft Industries for six high tech mission gear solutions for aircraft ordered by the Venezuelan Government. All six of these units are due for delivery in the current financial year and we have already received an advance payment, which has significantly improved our cash flow since 31 January.

At the time we were optimistic that this would lead to further contracts of a similar nature for Diamond. This optimism was borne out by the announcement on 17 March that we had won a further order, worth some 1.0 million Euros, for similar systems for Africa, with delivery scheduled for July of this year. Several other potential projects are also under discussion with Diamond.

Interest in SCOTTY's aero-certified Satcom Mission Gear system is increasing steadily. On 27 February our CEO, Kurt Kersch, was invited to demonstrate the system to a group of high-ranking purchasing officers, representing all 26 NATO countries, at a meeting in Brussels called specifically to address the needs of equipping helicopter fleets. Delegates viewed a live interactive link between NATO headquarters and an airborne helicopter, using SCOTTY's system. This was an excellent platform to demonstrate the SCOTTY Mission Gear capabilities to a large influential user group.

Sales of our land-based satellite communications products produced useful revenue in the period, particularly in North America. The latest series of enhancements to features of the SCOTTY mobile products have been well received by customers, particularly our ability to carry out a high degree of customisation to users' requirements in a short timeframe.

CHAIRMAN'S STATEMENT – continued

We are also seeing increasing business from maritime installations, for applications including remote monitoring of shipboard maintenance, security surveillance of fishing fleets and border patrols.

Outlook

Cash flow in the third quarter (to 30 April) has already made a major contribution to strengthening the balance sheet since the half year-end, but it is the fourth quarter that is expected to see the greatest advance in our profitability for this financial year. As reported above, both Diamond contracts are due for delivery in the fourth quarter and there are some further smaller projects that may crystallise during the same period. The exact timing of the revenue from these projects makes turnover for the year difficult to predict, but the Board continues to anticipate that the market expectation of an operating profit of £600,000 will be exceeded.

All in all, I believe that the decision to sell our telehealth activities, in order to concentrate on the government, military and aerospace markets, is already being vindicated. Our specialised satellite communications systems are generating a growing momentum and I am excited by the future ahead for SCOTTY at a time when national security and border control are increasingly important for governments globally.

Rt Hon The Lord Trefgarne PC

Chairman

17 April 2008

CONSOLIDATED INCOME STATEMENT

for the half year ended 31 January 2008

	<i>Half year ended 31 January 2008 (unaudited)</i>	<i>Half year ended 31 January 2007 (unaudited) restated</i>	<i>Year ended 31 July 2007 (unaudited) restated</i>
Note	£000	£000	£000
Continuing operations			
Revenue	2,459	3,996	4,770
Cost of sales	(646)	(1,853)	(2,138)
Gross profit	1,813	2,143	2,632
Administration expenses	(1,751)	(2,872)	(4,179)
Other operating income	282	352	812
Operating profit/(loss)	344	(377)	(735)
Finance costs	(40)	(2)	(30)
Profit/(loss) before tax	304	(379)	(765)
Income tax charge	(43)	(44)	(84)
Profit/(loss) for the period from continuing operations	261	(423)	(849)
Discontinued operations			
Loss for the period from discontinued operations	4	–	(5,211)
Profit/(loss) for the period	261	(423)	(6,060)
Earnings/(loss) per share (basic and diluted)	5	0.03p	(0.60p)

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED INCOME AND EXPENSE

for the half year ended 31 January 2008

	<i>Half year ended 31 January 2008 (unaudited)</i>	<i>Half year ended 31 January 2007 (unaudited) restated</i>	<i>Year ended 31 July 2007 (unaudited) restated</i>
	£000	£000	£000
Currency translation differences on foreign currency investments	28	215	127
Profit/(loss) for the period	261	(423)	(6,060)
Total recognised income and expense for the period	289	(208)	(5,933)

CONSOLIDATED BALANCE SHEET

at 31 January 2008

	31 January 2008 (unaudited)	31 January 2007 (unaudited) restated	31 July 2007 (unaudited) restated
	£000	£000	£000
Non-current assets			
Goodwill	6,000	9,802	6,000
Other intangible assets	84	105	69
Property, plant and equipment	356	366	212
Investments	188	188	188
	6,628	10,461	6,469
Current assets			
Inventories	443	931	382
Trade and other receivables	1,054	1,041	1,339
Cash and cash equivalents	60	640	128
	1,557	2,612	1,849
Total assets	8,185	13,073	8,318
Current liabilities			
Trade and other payables	(2,068)	(1,613)	(2,505)
Current tax liabilities	(11)	–	(1)
Obligations under finance leases	(5)	–	(3)
	(2,084)	(1,613)	(2,509)
Net current (liabilities)/assets	(527)	999	(660)
Non-current liabilities			
Deferred tax liabilities	(200)	(151)	(214)
Accruals and deferred income	(42)	(50)	(29)
Obligations under finance leases	–	–	(6)
	(242)	(201)	(249)
Total liabilities	(2,326)	(1,814)	(2,758)
Net assets	5,859	11,259	5,560
Capital and reserves			
Called up share capital	10,106	10,106	10,106
Share premium account	37,385	37,385	37,385
Capital redemption reserve	183	183	183
Share option valuation reserve	60	–	50
Profit and loss account	(41,875)	(36,415)	(42,164)
Total shareholders' funds	5,859	11,259	5,560

CONSOLIDATED CASH FLOW STATEMENT

for the half year ended 31 January 2008

	<i>Half year ended 31 January 2008 (unaudited)</i>	<i>Half year ended 31 January 2007 (unaudited) restated</i>	<i>Year ended 31 July 2007 (unaudited) restated</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Net cash from operating activities	179	536	107
Additions to property, plant and equipment	(217)	(225)	(317)
Additions to intangible assets	(35)	(13)	(127)
Proceeds on disposal of property, plant and equipment	9	47	197
Net cash used in investing activities	(243)	(191)	(247)
Other financing cash flows	(4)	33	6
Net cash (used in)/from financing activities	(4)	33	6
Net (decrease)/increase in cash and cash equivalents	(68)	378	(134)
Cash and cash equivalents at start of period	128	262	262
Cash and cash equivalents at end of period	60	640	128
Reconciliation of profit/(loss) for the period to net cash from operating activities			
Profit/(loss) for the period	261	(423)	(6,060)
Currency translation adjustment	28	215	127
Amortisation of intangible assets	20	11	40
Depreciation of property, plant and equipment	73	84	176
Profit on disposal of property, plant and equipment	(9)	(39)	(158)
Loss on sale of discontinued operations	–	–	3,724
Share-based payments charge	10	–	26
(Increase)/decrease in inventories	(61)	207	756
Decrease in trade and other receivables	285	2,556	2,273
Decrease in trade and other payables	(428)	(2,075)	(797)
Net cash from operating activities	179	536	107

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

International Financial Reporting Standards ("IFRS") will apply for the first time in the Group's Annual Report for the year ended 31 July 2008. Consequently the Group's interim results for the six months to 31 January 2008 are prepared using recognition and measurement criteria consistent with IFRS, together with restated information for the six months ended 31 January 2007 and the year ended 31 July 2007. Further information on the Group's adoption of IFRS is given in note 3 of this interim statement.

The transition balance sheet, as at 1 August 2006, has not been presented, on the basis that there are no adjustments to the balance sheet at that date previously prepared and published under UK Generally Accepted Accounting Principles ("UK GAAP").

The financial information for the six months ended 31 January 2008 and the comparative figures for the six months ended 31 January 2007 have not been reviewed or audited by the Group's auditors and have been prepared on the basis of the accounting policies adopted by the Group under IFRS. These accounting policies are set out in note 2.

The unaudited comparative figures for the 12 months to 31 July 2007 have been prepared under IFRS. They do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The unqualified audited accounts for the 12 months ended 31 July 2007, previously prepared under UK GAAP, have been filed with the Registrar of Companies and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

The reconciliation between the figures for the comparative periods, as previously reported under UK GAAP and as reported in this interim statement under IFRS, is set out in note 3.

The Directors have formed a judgement, at the time of approving the interim financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

The financial statements of the overseas subsidiary companies are translated into sterling at the closing rate of exchange and the differences arising on the opening net investment and on inter-company loans, at the closing rate, are taken directly to reserves.

2. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable International Accounting Standards. The particular accounting policies adopted are described below.

Historical cost convention

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 respective accounting periods and exclude all intra-group transactions.

Revenue

The revenue shown in the profit and loss account represents amounts invoiced during the respective accounting periods, net of value added tax. Revenue on sales of technology products is recognised on either despatch or delivery of the goods in question, dependent upon the terms and conditions of sale. Where applicable, revenue in relation to maintenance contracts is amortised over the period of the maintenance contract.

Intangible assets – goodwill

Goodwill arising on consolidation represents the excess of the costs of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of profit or loss on disposal.

2. ACCOUNTING POLICIES (CONTINUED)

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

Intangible assets – licences

Licences relating to Intellectual Property Rights are amortised on a straight line basis over the expected future product sales to which the Intellectual Property Rights relates.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's product development is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Investments

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

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any recognised impairment loss. 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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Inventories

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

Taxation

Current taxation, including UK corporation tax and foreign company taxes, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date.

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS – continued

2. ACCOUNTING POLICIES (CONTINUED)

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.

Share issue costs

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

Share options

The Group has applied the requirements of IFRS 2 "Share-based payments". The Group issues equity-settled share-based payments to certain directors and employees in the form of share options over shares in the parent company. Equity-settled share-based payments are measured at fair value at the date of grant, calculated using an independent valuation model, taking into account the terms and conditions upon which the options were granted. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

3. EXPLANATION OF TRANSITION TO IFRS

Consolidated income statement

	Half year ended 31 January 2007			Year ended 31 July 2007		
	As previously reported £000	Adjustments £000	As reported under IFRS £000	As previously reported £000	Adjustments £000	As reported under IFRS £000
Continuing operations						
Revenue	3,996	–	3,996	4,770	–	4,770
Cost of sales	(1,853)	–	(1,853)	(2,138)	–	(2,138)
Gross profit	2,143	–	2,143	2,632	–	2,632
Goodwill amortisation	(490)	490	–	(980)	980	–
Administration expenses	(2,872)	–	(2,872)	(4,179)	–	(4,179)
Operating profit	(1,219)	490	(729)	(2,527)	980	(1,547)
Other income	352	–	352	812	–	812
Finance costs	(2)	–	(2)	(30)	–	(30)
Loss before tax	(869)	490	(379)	(1,745)	980	(765)
Income tax charge	(44)	–	(44)	(84)	–	(84)
Loss for the period from continuing operations	(913)	490	(423)	(1,829)	980	(849)
Discontinued operations						
Loss for the period from discontinued operations	–	–	–	(4,231)	(980)	(5,211)
Loss for the period	(913)	490	(423)	(6,060)	–	(6,060)

NOTES TO THE INTERIM FINANCIAL STATEMENTS – continued

3. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

The adoption by the Group of IFRS, as set out in note 1, has resulted in the following adjustments:

For the six months to 31 January 2007, the amortisation of goodwill previously charged under UK GAAP, amounting to £490,000, has been reversed, in accordance with IFRS 3.

For the year to 31 July 2007, the amortisation of goodwill previously charged under UK GAAP, amounting to £980,000, has been reversed.

The directors made an assessment of the need to impair goodwill in accordance with the requirements of IAS 38 and concluded that an appropriate value for the goodwill held in the Group at 31 July 2007, following the sale of the telehealth activities, was £6,000,000.

Accordingly an impairment charge of £980,000 has been attributed to the loss from the sale of the telehealth activities, resulting in the goodwill valuation of £6,000,000 at 31 July 2007 remaining unchanged.

Consolidated Balance Sheet

	Half year ended 31 January 2007			Year ended 31 July 2007		
	As previously reported £000	Adjustments £000	As reported under IFRS £000	As previously reported £000	Adjustments £000	As reported under IFRS £000
Non-current assets						
Goodwill	9,312	490	9,802	6,000	–	6,000
Other intangible assets	105	–	105	69	–	69
Property, plant and equipment	366	–	366	212	–	212
Investments	188	–	188	188	–	188
	<u>9,971</u>	<u>490</u>	<u>10,461</u>	<u>6,469</u>	<u>–</u>	<u>6,469</u>
Current assets						
Inventories	931	–	931	382	–	382
Trade and other receivables	1,041	–	1,041	1,339	–	1,339
Cash and cash equivalents	640	–	640	128	–	128
	<u>2,612</u>	<u>–</u>	<u>2,612</u>	<u>1,849</u>	<u>–</u>	<u>1,849</u>
Total assets	<u>12,583</u>	<u>490</u>	<u>13,073</u>	<u>8,318</u>	<u>–</u>	<u>8,318</u>
Current liabilities						
Trade and other payables	(1,613)	–	(1,613)	(2,505)	–	(2,505)
Current tax liabilities	–	–	–	(1)	–	(1)
Obligations under finance leases	–	–	–	(3)	–	(3)
	<u>(1,613)</u>	<u>–</u>	<u>(1,613)</u>	<u>(2,509)</u>	<u>–</u>	<u>(2,509)</u>
Net current assets	<u>999</u>	<u>–</u>	<u>999</u>	<u>(660)</u>	<u>–</u>	<u>(660)</u>
Non-current liabilities						
Deferred tax liabilities	(151)	–	(151)	(214)	–	(214)
Accruals and deferred income	(50)	–	(50)	(29)	–	(29)
Obligations under finance leases	–	–	–	(6)	–	(6)
	<u>(201)</u>	<u>–</u>	<u>(201)</u>	<u>(249)</u>	<u>–</u>	<u>(249)</u>
Total liabilities	<u>(1,814)</u>	<u>–</u>	<u>(1,814)</u>	<u>(2,758)</u>	<u>–</u>	<u>(2,758)</u>
Net assets	<u>10,769</u>	<u>490</u>	<u>11,259</u>	<u>5,560</u>	<u>–</u>	<u>5,560</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS – continued

3. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

Consolidated Balance Sheet

	Half year ended 31 January 2007			Year ended 31 July 2007		
	As previously reported £000	Adjustments £000	As reported under IFRS £000	As previously reported £000	Adjustments £000	As reported under IFRS £000
Capital and reserves						
Called up share capital	10,106	–	10,106	10,106	–	10,106
Share premium account	37,385	–	37,385	37,385	–	37,385
Capital redemption reserve	183	–	183	183	–	183
Share option valuation reserve	–	–	–	50	–	50
Profit and loss account	(36,905)	490	(36,415)	(42,164)	–	(42,164)
Total shareholders' funds	<u>10,769</u>	<u>490</u>	<u>11,259</u>	<u>5,560</u>	<u>–</u>	<u>5,560</u>

4. DISCONTINUED OPERATIONS

On 22 June 2007 the Group sold its telehealth activities. The loss from these activities for the year ended 31 July 2007 can be analysed as follows:

	Half year ended 31 January 2008 (unaudited) £000	Half year ended 31 January 2007 (unaudited) restated £000	Year ended 31 July 2007 (unaudited) restated £000
Telehealth activities loss for the period	–	–	(1,487)
Loss on disposal of telehealth activities.	–	–	(3,724)
	<u>–</u>	<u>–</u>	<u>(5,211)</u>

The results of the discontinued activities for the relevant period were as follows:

	Half year ended 31 January 2008 (unaudited) £000	Half year ended 31 January 2007 (unaudited) restated £000	Year ended 31 July 2007 (unaudited) restated £000
Revenue	–	–	1,153
Cost of sales	–	–	(807)
Gross profit	–	–	346
Administration expenses	–	–	(1,793)
Operating loss	–	–	(1,447)
Finance costs	–	–	(40)
Loss before tax	–	–	(1,487)
Income tax expense	–	–	–
Loss after tax	<u>–</u>	<u>–</u>	<u>(1,487)</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS – continued

5. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit/(loss) after taxation for the period and the weighted average number of shares in issue during the period.

None of the share options give rise to a dilution in the loss per share due to the current level of the Company's share price. As a result, the basic and diluted earnings per share are the same.

The profit/(loss) for the period and the weighted average number of shares used in the calculations are set out below:

	<i>Half year ended 31 January 2008 (unaudited) £000</i>	<i>Half year ended 31 January 2007 (unaudited) restated £000</i>	<i>Year ended 31 July 2007 (unaudited) restated £000</i>
Profit/(loss) attributable to ordinary shareholders	261	(423)	(6,060)
	<i>Number</i>	<i>Number</i>	<i>Number</i>
Weighted average number of shares	1,010,646,897	1,010,646,897	1,010,646,897
Earnings/(loss) per share (pence)	0.03p	(0.04p)	(0.60p)

6. COMBINED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENTS IN RESERVES

	<i>Half year ended 31 January 2008 (unaudited)</i>					<i>Total</i>	<i>Year ended 31 July 2007 (unaudited) £000</i>
	<i>Called up share capital £000</i>	<i>Share premium account £000</i>	<i>Capital redemption reserve £000</i>	<i>Share option valuation reserve £000</i>	<i>Profit and loss account £000</i>	<i>31 January 2008 £000</i>	
At start of period	10,106	37,385	183	50	(42,164)	5,560	11,467
Exchange gains	–	–	–	–	28	28	127
Share-based payment charge for current year	–	–	–	10	–	10	26
Profit/(loss) for the period	–	–	–	–	261	261	(6,060)
At end of period	10,106	37,385	183	60	(41,875)	5,859	5,560

Included in the profit and loss reserve at 31 January 2008 is a foreign currency translation reserve of £155,000.

7. DISTRIBUTION OF INTERIM REPORT

Copies of this Interim Report are being sent to shareholders. Further copies are available from the Company's United Kingdom office at Building A, Trinity Court, Wokingham Road, Bracknell, Berkshire RG42 1PL.

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Rt Hon The Lord Trefgarne PC (Chairman)
Dr H P Sauerzopf (Non-executive Director)
F B Smart, FCA (Non-executive Director)
Dr E Wustinger (Non-executive Director)
K Kerschat (Chief Executive Officer)
H F Edmonds, FCA (Finance Director)

SECRETARY

H F Edmonds, FCA

REGISTERED OFFICE

Motion Media Technology Centre
Severn Bridge
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Bristol BS35 4BL

Company registration number: 2908288

BANKERS

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

Steiermarkische Bank und Sparkassen AG
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SOLICITORS

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REGISTRARS

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**NOMINATED ADVISERS
AND STOCKBROKERS**

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AUDITORS

Deloitte & Touche LLP
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**FINANCIAL PUBLIC
RELATIONS**

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