Interim Report 2005
SCOTTY Group plc

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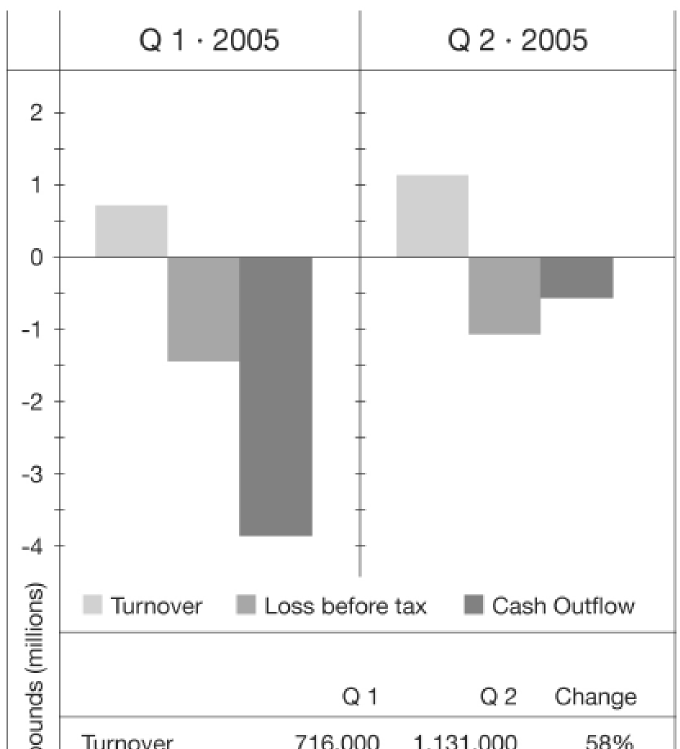
Chairman's Statement

The Directors are confident that solid foundations for SCOTTY's continued progress in its worldwide growth markets have been firmly established. However, revenue growth for the period under review has been slower than anticipated. This was due to customer delays in the delivery of several major contracts. Currently, the Company is predominantly a contract driven business, with a significant customer base among government departments and agencies. As a consequence, the delay or postponement of one or more orders can have a material effect on the results for any single period.

The delays to firm orders in the period under review particularly affected the first quarter of the financial year, whilst the second quarter saw an acceleration of revenue growth. This trend has been maintained in the current quarter and initial indications are that it will continue into the final quarter of the year.



	Q 1	Q 2	Change
Turnover	716,000	1,131,000	58%
Loss before tax	(1,439,000)	(1,073,000)	-25%
Cash Outflow	(3,882,000)	(570,000)	-85%

RESULTS

Turnover for the six months to 31 January 2005 was £1,847,000 (£689,000 for the seven months to 6 August 2004, which included the results of Motion Media PLC alone for all but six days of the period). The loss before tax for the period was £2,512,000 (£3,953,000 for the seven months to 6 August 2004). The Directors do not propose to declare a dividend in the period under review.

The outturn for the period reflected an improving trend in quarter-on-quarter profitability as a result of increased sales revenues in the second quarter. Turnover increased from £716,000 in the first quarter to £1,131,000 in the second quarter (an increase of 58 per cent). The loss before tax reduced from £1,439,000 in the first quarter to £1,073,000 in the second (a reduction of 25 per cent). The Company's cash outflow reduced from £3,882,000 in the first quarter (including costs associated with the merger and reorganisation costs) to £570,000 in the second quarter.

The delays in the full delivery and invoicing of customer orders has had an adverse effect on the Company's short-term working capital requirements. This has resulted in the Headstart equity finance facility being used with the issue to Headstart of 28,228,678 new ordinary shares in SCOTTY Group Plc as at the date of this report. However, investment has continued in sales, marketing and administration functions, aiming to improve our long-term profitability and efficiency. The board recognises the dilutive effect of utilising the Headstart facility and will seek to minimise further dilution.

REVIEW

The demand for SCOTTY's products and services remains good and the introduction of new competitive commercial products, including the Porsche Design videophones, are on schedule for introduction to the market during the first half of our next financial year.

Furthermore, the Company has recently introduced a new product called the Tempest Promax, a ruggedised combined video communication system, PC and integrated rack mounted unit. This is aimed at the defence and security industries.

A new strategic partnership in the satellite communication market has been signed with Canadian satellite communication equipment provider, EMS. SCOTTY and EMS will focus on providing aircraft and vehicles with customised encrypted video, audio and data communications. The first successful implementation of this product is currently in the testing phase with Eurocopter. The Directors believe that this sector could become a major contributor to revenue growth during the coming years.

SCOTTY is also pleased to announce that it has been awarded a contract to begin satellite communications installations on incident command vehicles on a trial basis for a regional police force in the UK. The solution includes high-speed data, video, internet, fax, and audio from moving vehicles. These vehicles will be deployed to establish the local command infrastructure and liaise with decision makers in headquarters. If the trial is successful, the project could be rolled out on a national level.

The most recent order received in the Telehealth market was in March 2005 and was one of the first orders from the Netherlands for Telehealth equipment. The order is valued at €500,000 for the initial requirement, for which delivery is expected to be made in May 2005. Negotiations for further significant contracts are in progress.

Recent new sectors within video communications include a demand for SCOTTY's integrated solutions in the television and broadcasting industries, providing live video content broadband networks.

BOARD AND MANAGEMENT

The Board has pleasure in announcing that it has appointed a new Company Secretary, Hugh Edmonds. Hugh will be based in the UK and brings a wealth of experience of financial management and reporting within the electronics industry, including, most recently, a UK quoted company. We continue to seek an appropriate person as another non-executive director with a view to eventually succeeding me as Chairman.

OUTLOOK

Although revenue growth has been slower than anticipated, the Company is now in a good position to exploit the market opportunities available to it and the Directors believe that long-term prospects are encouraging.

Rex Thorne, OBE
Chairman
27 April 2005

Overview of SCOTTY's Core Product Lines

AVIATION

This industry is an emerging market and has only recently begun to integrate live video, voice and data communication solutions into aircrafts and helicopters. With strategic partnerships, SCOTTY acts as an expert provider of integrated communication solutions.

Product solutions for this market consist of SCOTTY's video communication hard and software integrated into a rack-mounted unit. The rack provides space for additional communication equipment, such as encryption devices and satellite communication equipment, and is therefore perfectly suited for customisation.

SCOTTY's Rack solution

GOVERNMENT

SCOTTY Group supplies communication solutions for applications such as disaster relief, emergency response, security and surveillance, as well as for mission critical operations. The latest products available are communication units for vehicles.

The ruggedized, multi-feature and versatile product range includes the SCOTTY Mobile, a portable all-in-one PC and video communication system, the SCOTTY ProMax, a rack-mountable system for headquarters and ships, the SCOTTY APL-B, a portable office for the field with built-in printer and scanner, as well as a variety of additional communication equipment, such as the I-Adapters providing interfaces between ISDN systems and various encryption or Inmarsat setups.

TELEHEALTH

SCOTTY Group is committed to providing superior products tailored to the specific needs of Telehealth.

The CareStation product line encompasses products that operate over ordinary phone lines and broadband IP networks, as well as PC-based software for device management and patient record keeping. Our CareStation 126s and CareStation 156s videophones are, at present, the only videoconferencing products with FDA 510k Class II Medical Device certification. Specially adapted and newly designed versions of the cs140 and cs150 are in the process of being rolled out in larger quantities. They operate via TV sets, and provide ease of use and secure communication.

SCOTTY’s CareStation 140

VIDEO COMMUNICATION

SCOTTY’s portfolio of videophones and videoconferencing systems has evolved to operate over increasingly available and affordable networks such as Broadband, PSTN, and ISDN and new protocols to offer a practical solution for Telecoms and ISPs.

SCOTTY’s range of videophones includes the mm745 IP videophone with integrated web browser, the mm156 IP/PSTN videophone, the mm225 ISDN videophone and the IP only videophone mm146. The new generation of phones is redesigned by Porsche Design and will include a platform based on the TI-Processor with state of the art features. The roll out of the first version under the SCOTTY brand, followed by the Porsche Design branded phone, is expected in the first half of our next financial year.

Consolidated Profit and Loss Account

For the period from 7 August 2004 to 31 January 2005

	Period from 7 August 2004 to 31 January 2005 (unaudited) £´000	Period from 1 January 2004 to 6 August 2004 (audited) £´000
Turnover	1,847	689
Cost of sales	(1,114)	(1,075)
Gross profit/(loss)	733	(386)
Exceptional items included within administrative expenses	-	(1,242)
Other administrative expenses	(3,665)	(2,721)
Administrative Expenses	(3,665)	(3,963)
Other operating income	409	378
Operating loss	(2,523)	(3,971)
Interest receivable	27	21
Interest payable	(16)	(3)
Loss on ordinary activities before tax	(2,512)	(3,953)
Tax credit on loss on ordinary activities	(17)	147
Loss for the financial period	(2,529)	(3,806)
Loss per share (basic and diluted)	(0.4p)	(1.6p)

Consolidated Statement of Total Recognised Gains and Losses

For the period from 7 August 2004 to 31 January 2005

	Period from 7 August 2004 to 31 January 2005 (unaudited) £´000	Period from 1 January 2004 to 6 August 2004 (audited) £´000
Loss for the financial period	(2,529)	(3,806)
Currency translation differences on foreign currency investments	262	992
Total recognised losses relating to the period	(2,267)	(2,814)

Consolidated Balance Sheet

At 31 January 2005

	At 31 January 2005 (unaudited)	At 6 August 2004 (audited)
	£´000	£´000
Fixed Assets		
Intangible assets	12,077	12,147
Tangible assets	460	612
	12,537	12,759
Current Assets		
Stocks	2,798	2,346
Debtors due within one year	1,824	1,150
Short term investments - treasury deposits	-	214
Cash at bank and in hand	509	4,699
	5,131	8,409
Creditors: amounts falling due within one year	(2,804)	(4,518)
Net current assets	2,327	3,891
Total assets less current liabilities	14,864	16,650
Creditors: amounts falling due after more than one year	(84)	(120)
Unsecured loan	(324)	-
Provisions for liabilities and charges		
	(370)	(319)
Net assets	14,086	16,211
Capital and reserves		
Called up share capital	6,204	6,134
Share premium account	36,372	36,301
Capital redemption reserve	183	183
Profit and loss account	(28,673)	(26,407)
Equity shareholders` funds	14,086	16,211

Consolidated Cash Flow Statement

For the period from 7 August 2004 to 31 January 2005

	Period from 7 August 2004 to 31 January 2005 (unaudited) £´000	Period from 1 January 2004 to 6 August 2004 (audited) £´000
Net cash outflow from operating activities	(5,056)	(1,835)
Returns on investments and servicing of finance		
Interest received	27	21
Interest paid	(16)	(3)
	11	18
Taxation		
Corporation tax credit	(17)	147
	(17)	147
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(70)	(15)
Sale of tangible fixed assets	24	-
Purchase of intangible fixed assets	(21)	-
Net cash acquired on acquisition of business	-	(229)
	(67)	(244)
Management of liquid resources		
Increase in short term deposits	214	(4)
Net cash outflow before financing	(4,915)	(1,918)
Financing		
Proceeds from unsecured loan	324	-
Issue of ordinary share capital	150	5,028
Share issue costs	(11)	(679)
	463	4,349
(Decrease)/ increase in cash in the period	(4,452)	2,431

Notes to the Interim Financial Statements

1. BASIS OF PREPARATION

These interim financial statements, which are neither audited nor reviewed, have been prepared on the basis of accounting policies set out in the Group's Annual Report and Accounts for the year ended 6 August 2004.

The Directors have formed a judgment, at the time of approving the interim financial statements that there is a reasonable expectation 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 difference arising from the translation of the opening net investment and of inter company loans, at the closing rate, are taken direct to reserves.

The figures for the year ended 6 August 2004 are an abridged version of the Group's published financial statements, which have been reported on by the Group's auditors. The report of the auditors was unqualified. The financial information in this statement does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.

2. TAXATION

The corporation tax credit 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. At 31 January 2005 the Group has significant unagreed tax losses in both the US and UK available to use against future profits. Accordingly no provision has been made for tax at 31 January 2005. 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.

3. DIVIDENDS

The Directors do not recommend the payment of a dividend.

4. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss for each period by the weighted average number of shares in issue during the period (614,322,853 for the period from 7 August 2004 to 31 January 2005; 241,221,569 for the period from 1 January 2004 to 6 August 2004).

There are no dilutive potential ordinary shares as defined in IFRS 33 and therefore basic and diluted loss per share are the same. According to the agreement the potential ordinary shares issued to Headstart Funds (see Note 5) have to be in line with market prices and thus are not to be taken into account as dilutive.

5. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER’S FUNDS

	Called up share capital	**Share premium account**	**Capital redemption reserve**	**Profit and loss account**	**Total 31 January 2005**	**Total 6 August 2004**
	£´000	£´000	£´000	£´000	£´000	£´000
At the beginning of the period	6,134	36,301	183	(26,406)	16,212	4,184
Shares issued	70	80	-	-	150	15,520
Share issue costs	-	(9)	-	-	(9)	(679)
Exchange gains	-	-	-	262	262	993
Loss for the period	-	-	-	(2,529)	(2,529)	(3,806)
At the end of the period	6,204	36,372	183	(28,673)	14,086	16,212

SCOTTY Group plc secured a new financing facility with Headstart Funds which is structured as follows: first, the immediate provision of an unsecured loan of £324,000; second, 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. For this purpose the Company has issued and allotted 7,017,544 ordinary shares of 1p each to Headstart Funds (together with a further 1,875,000 ordinary shares issued to Headstart Funds as an arrangement fee).

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 shares of SCOTTY Group plc by Headstart Funds. £150,000 has been drawn down in the period.

6. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Period from 7 August 2004 to 31 January 2005 (unaudited) £´000	Period from 1 January 2004 to 6 August 2004 (audited) £´000
Operating loss	(2,523)	(3,971)
Amortisation of intangible assets	196	10
Amortisation of tangible fixed assets	94	167
(Increase)/decrease in stocks	(452)	550
(Increase)/decrease in debtors	(673)	1,002
(Decrease)/increase in creditors	(1,698)	407
Net cash outflow from operating activities	(5,056)	(1,835)

7 . RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Period from 7 August 2004 to 31 January 2005 (unaudited) £'000	Period from 31 January 2004 to 6 August 2004 (audited) £'000
(Decrease)/increase in cash in the year	(4,452)	2,431
Movement in net funds in the year	(4,452)	2,431
Translation difference	262	993
Net funds at the beginning of the period	4,699	1,275
Net funds at the end of the period	509	4,699

8. ANALYSIS OF NET FUNDS

	At 6 August 2004 (audited) £'000	Cash flow £'000	Exchange Movement £'000	At 31January 2005 (unaudited) £'000
Cash at bank and in hand	4,699	(4,452)	262	509

9. DISTRIBUTION

Copies of the interim financial statement are being sent to shareholders. Further copies are available from the Company's Registered Office at Motion Media Technology Centre, Severn Bridge, Aust, Bristol BS35 4BL.

Officers and Professional Advisers

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K Kerschat (Chief Executive Officer)
G Weber (Chief Finance Officer)
H P Sauerzopf (Non-executive Director)

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H F Edmonds, FCA

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