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CHAIRMAN'S STATEMENT

I am pleased to report significant progress during the half-year to 31 January 2006 in developing the market opportunities in our two mainstream market sectors – Government and Aviation (civil and military), and Telehealth and Video Communications. Since the period-end we have strengthened the Group's balance sheet and improved its cash position by means of a share placing.

Results

Turnover for the half year was £2,686,000 compared with £1,847,000 for the equivalent period last year. The loss after tax for the half year was £2,326,000 after charging goodwill amortisation of £490,000, compared with a loss after tax of £2,529,000 in the equivalent period last year without any amortisation charge. The loss per share was 0.3p compared with 0.4p in the equivalent period. The Board is not recommending the payment of a dividend.

Review

The Group continues to make very encouraging progress in its two core markets.

In the government, aviation and military markets, SCOTTY has developed, together with Eurocopter, an in-flight satellite-based video and data communications solution for the CH53 helicopter fleet, which Eurocopter is currently upgrading for the German military. The flight trials of this equipment were successfully completed in August 2005 and in March 2006 we announced our first significant order from Eurocopter, worth approximately £4.6 million, and a further order, worth approximately £2.9 million, is expected to follow. The Directors are confident that this order will lead to SCOTTY satellite-based communications solutions being rolled out over the coming years in other models for Eurocopter and for other manufacturers of helicopters and fixed-wing aircraft.

SCOTTY's land-based satellite technology solutions also continue to generate increasing interest – in Europe, North America and the Far East. Since the start of 2006 the Group has secured new orders from the governments and armed forces of several countries for these products.

In the telehealth market, SCOTTY's first major system has been operating in the Netherlands since July 2005 and is generating significant interest from other healthcare providers.

In February 2006 we announced a substantial initial order from our Indian distributor, Altosys Software Technology Ltd, for a telecare solution that enables a private hospital chain to improve the after-treatment of its patients. The package is worth approximately £2 million in the calendar year 2006 and includes videophones, call centre set-ups and peripheral equipment including wireless ECG belts, stethoscopes, glucose monitoring systems, weight scales and other equipment.

CHAIRMAN'S STATEMENT – continued

We believe that these initial orders for our telehealth solutions will lead to an increasing revenue stream for these products over the coming years.

Post the period-end we have taken important steps to strengthen the cash position of the Group.

As we have previously reported, the delays in securing the initial orders from Eurocopter created further working capital requirements during 2005 and an additional convertible loan facility of up to £800,000 was arranged with Headstart Global Funds in September 2005, the terms involving conversion into ordinary shares or repayment within 60 days. The facility was drawn down in tranches between September 2005 and February 2006. Redemption of these loans has been effected partly by the issue of ordinary shares to Headstart under the facility agreement and partly by a variation of the agreement that resulted in a placing of 32,538,560 shares by the Group's Nominated Adviser and broker, HB Corporate, in April 2006. As a result, the convertible loans from Headstart have now been fully redeemed or repaid. The Board is appreciative of the support the Group received from Headstart in providing these short-term financial facilities.

In addition to the share placing to repay the Headstart loans, HB Corporate placed 160,000,000 new ordinary shares of 1p each at 1.25p, to raise £2.0 million before expenses also in April 2006. The funds raised have considerably strengthened the Group's balance sheet and will enable SCOTTY to enhance its relationships with its key suppliers.

Outlook

The good progress made in the Group's two core businesses in recent months demonstrates that our strategy of concentrating on the Government and Telehealth sectors is well-founded. We are confident that the significant orders received in both sectors represent the first steps in our growth in these markets and will lead to further opportunities. Sales for the second half of this financial year will improve markedly due to the roll out of the recently announced Eurocopter contract. With cash resources strengthened by the recent share placing, the Group is now well placed to exploit these opportunities.

Finally, in this my first statement as Chairman, I would like to express my gratitude on behalf of the Directors to all our staff for their professionalism and commitment and to our suppliers and shareholders for their support during a difficult period. I believe SCOTTY has now turned the corner with the business on a sound footing. The Board faces the future with confidence.

Derham O'Neill

Chairman

28 April 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the half year ended 31 January 2006

| | <i>Half year to</i> | <i>Period from</i> | <i>Period from</i> |
|----------------------------------------------------------|---------------------|----------------------|----------------------|
| | <i>31 January</i> | <i>7 August 2004</i> | <i>7 August 2004</i> |
| | <i>2006</i> | <i>to 31 January</i> | <i>to 31 July</i> |
| | <i>(unaudited)</i> | <i>2005</i> | <i>2005</i> |
| | <i>(unaudited)</i> | <i>(unaudited)</i> | <i>(audited)</i> |
| | <i>£000</i> | <i>£000</i> | <i>£000</i> |
| Turnover | 2,686 | 1,847 | 4,092 |
| Cost of sales | (1,614) | (1,114) | (2,191) |
| Gross profit | 1,072 | 733 | 1,901 |
| Exceptional items included in administrative expenses | – | – | (464) |
| Goodwill amortisation | (490) | – | (980) |
| Other administrative expenses | (3,245) | (3,665) | (6,367) |
| Administrative expenses | (3,735) | (3,665) | (7,811) |
| Other operating income | 429 | 409 | 710 |
| Operating loss | (2,234) | (2,523) | (5,200) |
| Interest receivable | 19 | 27 | 76 |
| Interest payable | (56) | (16) | (238) |
| Loss on ordinary activities before taxation | (2,271) | (2,512) | (5,362) |
| Tax (charge)/credit on loss on ordinary activities | (55) | (17) | 187 |
| Loss for the period | (2,326) | (2,529) | (5,175) |
| Loss per share (basic and diluted) | (0.3p) | (0.4p) | (0.8p) |

There is no difference between the loss as stated in the profit and loss account and the historical cost loss for the period.

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

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the half year ended 31 January 2006

| | <i>Half year to</i> | <i>Period from</i> | <i>Period from</i> |
|---------------------------------------------------------------------|---------------------|----------------------|----------------------|
| | <i>31 January</i> | <i>7 August 2004</i> | <i>7 August 2004</i> |
| | <i>2006</i> | <i>to 31 January</i> | <i>to 31 July</i> |
| | <i>(unaudited)</i> | <i>2005</i> | <i>2005</i> |
| | <i>(unaudited)</i> | <i>(unaudited)</i> | <i>(audited)</i> |
| | <i>£000</i> | <i>£000</i> | <i>£000</i> |
| Loss for the period | (2,326) | (2,529) | (5,175) |
| Currency translation differences on foreign currency investments | (85) | 262 | (660) |
| Total recognised gains and losses relating to the period | (2,411) | (2,267) | (5,835) |

CONSOLIDATED BALANCE SHEET

at 31 January 2006

| | <i>At 31 January 2006 (unaudited) £000</i> | <i>At 31 January 2005 (unaudited) £000</i> | <i>At 31 July 2005 (audited) £000</i> |
|------------------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------|---------------------------------------------------|
| Fixed assets | | | |
| Intangible assets | 10,470 | 12,077 | 10,987 |
| Investments | 250 | - | 250 |
| Tangible assets | 237 | 460 | 374 |
| | <u>10,957</u> | <u>12,537</u> | <u>11,611</u> |
| Current assets | | | |
| Stock | 998 | 2,798 | 1,826 |
| Debtors | 1,451 | 1,824 | 801 |
| Short-term investments | - | - | 20 |
| Cash at bank and in hand | 4 39 | 509 | 159 |
| | <u>2,488</u> | <u>5,131</u> | <u>2,806</u> |
| Creditors: Amounts falling due within one year | <u>(2,241)</u> | <u>(2,804)</u> | <u>(1,631)</u> |
| Net current assets | <u>247</u> | <u>2,327</u> | <u>1,175</u> |
| Total assets less current liabilities | <u>11,204</u> | <u>14,864</u> | <u>12,786</u> |
| Creditors : Amounts falling due in more than one year | - | (84) | (100) |
| Convertible loans | 5 (500) | (324) | - |
| Provisions for liabilities and charges | (303) | (370) | (79) |
| Net assets | <u>10,401</u> | <u>14,086</u> | <u>12,607</u> |
| Capital and reserves | 5 | | |
| Called up share capital | 3 7,929 | 6,204 | 7,783 |
| Share premium account | 3 36,942 | 36,372 | 36,883 |
| Capital redemption reserve | 3 183 | 183 | 183 |
| Profit and loss account | 3 (34,653) | (28,673) | (32,242) |
| Total equity shareholders' funds | <u>10,401</u> | <u>14,086</u> | <u>12,607</u> |

CONSOLIDATED CASH FLOW STATEMENT

for the half year ended 31 January 2006

| | <i>Half year to 31 January 2006 (unaudited) £000</i> | <i>Period from 7 August 2004 to 31 January 2005 (unaudited) £000</i> | <i>Period from 7 August 2004 to 31 July 2005 (audited) £000</i> |
|---------------------------------------------------------------------------------------|----------------------------------------------------------------------|------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| Net cash outflow from operating activities | (620) | (5,056) | (5,882) |
| Returns on investment and servicing of finance: | | | |
| Interest received | 19 | 27 | 76 |
| Interest paid | (56) | (16) | (238) |
| Net cash (outflow)/inflow from returns on investment and servicing of finance | (37) | 11 | (162) |
| Taxation | – | (17) | (5) |
| Capital expenditure and financial investment: | | | |
| Payments to acquire tangible fixed assets | (31) | (70) | (211) |
| Sale of tangible fixed assets | – | 24 | 5 |
| Purchase of intangible assets | – | (21) | – |
| Net cash outflow from capital expenditure and financial investment | (31) | (67) | (206) |
| Management of liquid resources | | | |
| Decrease in short-term investments | 20 | 214 | 194 |
| Net cash outflow before financing | (668) | (4,915) | (6,061) |
| Financing: | | | |
| Issue of ordinary share capital | 205 | 150 | 2,390 |
| Share issue costs | – | (11) | (159) |
| Proceeds from unsecured loan | 500 | 324 | – |
| Finance lease repayments | (72) | – | (50) |
| Net cash inflow from financing | 633 | 463 | 2,181 |
| Decrease in net cash | (35) | (4,452) | (3,880) |
| Reconciliation of operating loss to net cash outflow from operating activities | | | |
| Operating loss | (2,234) | (2,523) | (5,200) |
| Amortisation of goodwill | 490 | – | 980 |
| Amortisation of intangible assets | 27 | 196 | 180 |
| Depreciation of tangible assets | 168 | 94 | 445 |
| Profit on disposal of fixed assets | – | – | (1) |
| Increase in investments | – | – | (250) |
| Decrease/(increase) in stocks | 828 | (452) | 520 |
| (Increase)/decrease in debtors | (650) | (673) | 349 |
| Increase/(decrease) in creditors | 751 | (1,698) | (2,905) |
| Net cash outflow from operating activities | (620) | (5,056) | (5,882) |

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These 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 for the period 7 August 2004 to 31 July 2005.

Since the half year-end the Group has undertaken a refinancing, including the issue of additional ordinary shares to raise £2,000,000 before expenses. 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 from the opening net investment and of inter-company loans, at the closing rate, are taken direct to reserves.

The figures for the period 7 August 2004 to 31 July 2005 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. LOSS PER SHARE

The calculation of basic loss per share is based on the 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 losses made in the year and the current level of the Company's share price. As a result, the basic and diluted earnings per share are the same.

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

| | <i>Period from 7 August 2004 to 31 January 2006 (unaudited) £000</i> | <i>Period from 7 August 2004 to 31 July 2005 (unaudited) £000</i> | <i>Period from 7 August 2004 to 31 July 2005 (audited) £000</i> |
|--------------------------------------------|------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| Loss attributable to ordinary shareholders | (2,326) | (2,529) | (5,175) |
| | <i>Number</i> | <i>Number</i> | <i>Number</i> |
| Weighted average number of shares | 782,177,650 | 614,322,853 | 644,445,307 |
| Loss per share (pence) | (0.3p) | (0.4p) | (0.8p) |

NOTES TO THE INTERIM FINANCIAL STATEMENTS – continued

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

| | <i>Half year to 31 January 2006 (unaudited)</i> | | | | <i>Period from 7 August 2004 to 31 July 2005 (audited)</i> | |
|---------------------|-------------------------------------------------|-----------------------------------|----------------------------------------|-------------------------------------|------------------------------------------------------------|------------------|
| | <i>Called up share capital £000</i> | <i>Share premium account £000</i> | <i>Capital redemption reserve £000</i> | <i>Profit and loss account £000</i> | <i>Total 31 January 2006 £000</i> | <i>2005 £000</i> |
| At start of period | 7,783 | 36,883 | 183 | (32,242) | 12,607 | 16,211 |
| Shares issued | 146 | 59 | – | – | 205 | 2,390 |
| Share issue costs | – | – | – | – | – | (159) |
| Exchange losses | – | – | – | (85) | (85) | (660) |
| Loss for the period | – | – | – | (2,326) | (2,326) | (5,175) |
| At end of period | <u>7,929</u> | <u>36,942</u> | <u>183</u> | <u>(34,653)</u> | <u>10,401</u> | <u>12,607</u> |

4. ANALYSIS OF NET FUNDS

| | <i>At 31 July 2005</i> | | | <i>At 31 January 2006</i> |
|--------------------------------------------------|------------------------|------------------------------------|-------------------------------|---------------------------|
| | <i>Cash £000</i> | <i>Exchange Flow movement £000</i> | <i>Exchange movement £000</i> | <i>2006 £000</i> |
| Cash at bank and in hand | 159 | (35) | (85) | 39 |
| Short-term investments | 20 | (20) | – | – |
| Finance leases falling due within one year | (48) | 40 | – | (8) |
| | <u>131</u> | <u>(15)</u> | <u>(85)</u> | <u>31</u> |
| Finance leases falling due in more than one year | (32) | 32 | – | – |
| | <u>99</u> | <u>17</u> | <u>(85)</u> | <u>31</u> |

5. POST BALANCE SHEET INCREASE IN ISSUED SHARE CAPITAL

Since the period-end the Company has issued 160,000,000 new ordinary shares, through a placing in April 2006 at 1.25 pence per share, raising £2,000,000 before share issue expenses, to provide additional working capital.

In addition the Company has issued a further 32,538,560 new ordinary shares, through a placing, also in April 2006, at 1.25 pence per share, the proceeds of which have been utilised in repaying the balance of convertible loans outstanding. These loans have now been fully redeemed or repaid.

6. DISTRIBUTION OF INTERIM REPORT

Copies of the Interim Report 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.