



SCOTTY™

SCOTTY Group plc / Annual Report 2007

**LOOK. LISTEN.
COMMUNICATE.**

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



The SCOTTY
"Roll-On-Roll-off"
communication system on
CH-53GS

a milestone in helicopter
communication

The SCOTTY
"Satcom BO105"
demonstrated to the
German Army

SCOTTY sets the future in
airborne communication



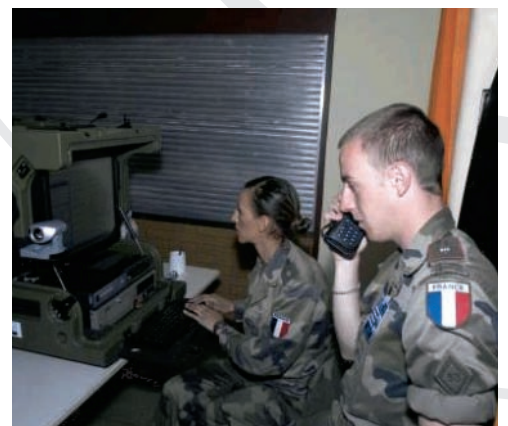
The SCOTTY secure
communication system

A new SCOTTY product
born as a result of a customer
project for the US Army



A successful co-operation
between THALES and
SCOTTY

with the integration of
SCOTTY VTC technology in
a THALES communication
system for the French Army



SCOTTY™: We listen to our customers, analyse their requirements,
then plan and implement the solution that best fits their environment.

CONTENTS

2	Officers and professional advisers
3	Chairman's statement
5	Operating review
10	Corporate governance
12	Report on directors' remuneration
13	Directors' profiles
14	Directors' report
17	Statement of directors' responsibilities
18	Independent auditors' report
19	Consolidated profit and loss account
19	Consolidated statement of total recognised gains and losses
20	Consolidated balance sheet
21	Company balance sheet
22	Consolidated cash flow statement
23	Notes to the financial statements
39	Notice of annual general meeting

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 Kerschhat (Chief Executive Officer) H F Edmonds, FCA (Finance Director)
SECRETARY	H F Edmonds, FCA
REGISTERED OFFICE	Motion Media Technology Centre Severn Bridge Aust Bristol BS35 4BL
BANKERS	The Royal Bank of Scotland PLC London City Office 62-63 Threadneedle Street London EC2R 8LA Steiermarkische Bank und Sparkassen AG Graz Austria
SOLICITORS	Burges Salmon LLP Narrow Quay House Prince Street Bristol BS1 4AH
REGISTRARS	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA
NOMINATED ADVISERS AND STOCKBROKERS	HB Corporate 40 Marsh Wall London E14 9TP
AUDITORS	Deloitte & Touche LLP Reading
FINANCIAL PUBLIC RELATIONS	Threadneedle Communications Limited 107-111 Fleet Street London EC4A 2AB

CHAIRMAN'S STATEMENT

I am pleased to report the results of SCOTTY Group plc for the year ended 31 July 2007.

The year saw considerable technical success in completing the first phase of aero-certified satellite communications systems installations for Eurocopter, with follow-on contracts being awarded during the year. Enormous progress has also been made in adapting SCOTTY systems for use in other aircraft and our level of quotations and order book are both at an all-time high. The sale of our telehealth business in June has enabled us to focus on the government, military and aerospace markets and the new year has started well, with a profit in the first quarter and a much reduced cost base going forward.

Results

Turnover for the year ended 31 July 2007 was £5,923,000, compared with £6,435,000 for the previous year. The loss after tax for the year under review was £6,060,000, compared with £3,950,000 (as restated upon adoption of FRS 20 "Share-based payments") in the previous period, and the loss per share was 0.6p compared with 0.5p in the previous period, but this result included an exceptional loss of £2,744,000 arising on the sale of the Group's telehealth activities. The Group's operating loss reduced from £3,919,000 (as restated) in 2006 to £3,162,000 this year. Turnover was less than last year owing to the delay in awarding the follow-on Eurocopter PV upgrade contract, but gross profit increased on the back of stronger margins.

Your directors are not recommending payment of a dividend.

Review

During the year the Group made further excellent progress in the government aviation and military markets.

The success of SCOTTY's in-flight satellite-based video and data communications solution for the CH53 helicopter fleet, which Eurocopter is upgrading for the German military, has continued. The first quarter of the financial year saw the completion of deliveries under the £4.6 million order announced last year and there have been further orders for upgrades this year.

This led on to the long-anticipated PV contract, a product improvement plan for the CH53, worth approximately 13.3 million Euros. The contract award had been anticipated in late 2006 but it was not until July 2007 that we were able to announce signature of the research and development phase, with the main contract following in August 2007.

As we anticipated in last year's Annual Report, the success of the CH53 programme has indeed led to other projects to install similar technology in other helicopter models and fixed wing aircraft. A system was developed during the year for the BO105 helicopter for Eurocopter and has been operating successfully in a demonstrator aircraft. SCOTTY's communications upgrade is part of a major upgrade programme for the BO105 for the German Army and the programme as a whole is awaiting final go-ahead.

Last year we announced a co-operation agreement with Diamond Aircraft Industries GmbH, the world's second-largest manufacturer of light aeroplanes, for the installation of SCOTTY equipment in Diamond DA42 fixed wing aircraft. Here too SCOTTY equipment is now operating successfully in a demonstrator aircraft and is generating a high degree of interest from the security, surveillance and government sectors.

The Group's land-based ruggedised satellite technology solutions are also generating useful revenue, not least in North America. Increasingly we are able to capitalise on our ability to combine a high degree of customisation with short delivery lead times, generating a strong competitive position and increasing interest worldwide, in both military and civilian disaster relief co-ordination.

As the year progressed it became clear that the combination of government and telehealth businesses was denying each business the management focus and funding it deserved. In February 2007 we re-branded the telehealth business under the Zydacron name, with its own separate management structure, and Georg Weber and Andreas Boedenauer stepped down from the SCOTTY board to concentrate on the telehealth business.

In our Interim Report in April we reported that, in the light of the success of SCOTTY's aero-certified communications systems, we had decided that it was in the best interests of shareholders to focus our attention on the government, military and aviation sector. Discussions were being held with various outside parties with a view to a possible spin-off of the telehealth activity for several months but these remained inconclusive and in June 2007 the Group concluded an agreement for the sale of its telehealth activities in a management buy-out led by the two former directors of the Company.

CHAIRMAN'S STATEMENT – continued

The consideration for the sale was a maximum of £5.3 million, divided into three parts: an initial cash consideration of £200,000 payable on completion, a further consideration of £600,000 payable in instalments over a period not exceeding five years, and a deferred consideration based on the gross turnover of Zydacron in excess of specified annual thresholds up to 31 December 2013 with a maximum of £4.5 million. Only the initial consideration of £200,000 has been recognised in these financial statements. The Board concluded that this was the best deal for the shareholders, ending the short and medium-term funding requirements for telehealth whilst retaining a stake in the future success of the telehealth business under its new ownership.

The sale of our telehealth activities will enable us to concentrate our assets and resources on the increasing opportunities in our core business in the government, military and aviation sector. It will also reduce our annual overheads by some £1.6 million, in addition to the reductions achieved by the measures described more fully in the Operating Review.

The delay in completing the signature of the Eurocopter PV project and the spin-off of telehealth meant that our cash flow was adversely affected for much of the year, nevertheless the negative cash flow before financing was limited to £140,000, compared with £2,645,000 the previous year, a significant improvement, and no further share issues were required during the year. The resumption of regular income on the PV programme, together with a number of smaller orders coming to fruition at the start of the new year, is improving the Group's cash position.

Board, management and staff

As mentioned above Andreas Boedenauer and Georg Weber stepped down as directors of SCOTTY Group plc in February 2007 in order to involve themselves in the management of the Zydacron telehealth business. I would like to thank them both for their contributions to the Group over a number of years.

Also in February, the Board was strengthened by the appointment of Dr Ernst Wustinger as an additional non-executive Director. Ernst brings considerable business and legal experience and I am delighted to welcome him to the Board.

One of our priorities, in the second half-year in particular, has been to improve communications with our shareholders. Bryan Smart, who joined the Board in December 2006 as a non-executive director, has been designated as the Board's main point of contact with our shareholders, leaving the executive directors free to focus on running the business.

Outlook

The sale of our telehealth activities enables us to concentrate on our specialist government, military and aerospace markets. In those markets our margins are strong and our aero-certified encrypted satellite communications systems, together with our fast turnaround customised ground-based systems, are key differentiators of our products and provide high barriers to entry.

A significant reduction of goodwill, and recognition of other costs arising from the sale of telehealth, together with the overhead savings from that sale and our other cost reduction measures, has created a sound platform for future years and enables us to move forward with a reduced cost base. Our order book and quotation banks are both at an all-time high and the Board is extremely encouraged by the prospects that lie ahead.

On behalf of the Directors I would once again like to thank all our staff for their hard work, professionalism and commitment, and our suppliers and shareholders for their support. The year has been a challenging one in the short term, but we have created a strong foundation for our future expansion and I believe that SCOTTY's future has never been so promising.

Rt Hon The Lord Trefgarne PC

Chairman

13 December 2007

OPERATING REVIEW

Results

Turnover for the year ended 31 July 2007 was £5,923,000, compared with 6,435,000 for the previous year. The loss after tax for the year under review was £6,060,000 compared with £3,950,000 (as restated) in the previous year and the loss per share was 0.6p compared with 0.5p in the previous period. The loss for the year was impacted by the exceptional loss of £2,744,000 arising on the sale of the Group's telehealth activities, described more fully below. The Group's operating loss improved from £3,919,000 (as restated for the adoption of FRS 20 "Share-based payments") in 2006 to £3,162,000 this year.

Whilst gross turnover was less than last year, gross profit increased by 16 per cent in volume terms, with gross margins increasing to 50.3 per cent for the year, compared with 39.7 per cent last year, mainly as a result of changes in the product mix. The reduction in turnover reflected the delay between the end of the first phase of the Eurocopter CH53 supply contract, the remaining deliveries of which took place in the first quarter, and the follow-on PV upgrade contract, which had been anticipated in late 2006 but was not finally announced until July 2007.

Excluding amortisation, gross administration expenses amounted to £5,972,000 for the year, compared with £6,390,000 (as restated) last year. Against this figure must be offset the Group's other income, which included rent and service charges received from the Group's sub-tenants of its leasehold property in Bristol; other income totalled £812,000 in the year under review, compared with £896,000 in 2006. The Group's net overheads were thus reduced from £5,494,000 in 2006 to £5,160,000 in 2007, continuing a trend started in 2004. The Group's headcount has reduced from 75 in August 2004, immediately following the merger between Motion Media PLC and SCOTTY, to 39 at 31 July 2007 and the Group has reduced its sites from seven to four. During the financial year under review the Group closed its Beijing representative office and also the research and development base in Wilmington, North Carolina, both at the end of the calendar year 2006.

Divestment of Telehealth business

The Group's telehealth activity continued to make progress during the year as the success of the first phase of the project for Sensire in 2005 in the Netherlands led to follow-up orders from KPN, a fellow member of the Government-funded KOALA consortium and the leading Dutch telecommunications provider. The first tranche of deliveries under this order were delivered in September 2006 and the remainder in May 2007. It also led to increasing interest from other parts of Europe, North America and Asia, with strategic telehealth partnerships being formed in France, Spain and Sweden and trials established at a number of sites in these countries, together with the UK and Austria.

As reported at the half year, the delivery programme for the initial order from Altosys Software Technology Ltd, for a telecare package for a private hospital chain in India, proved to be more drawn-out than expected, as the customer required more time for establishing the logistics for rolling out larger volumes.

Following the closure of the Wilmington research and development centre, the development of further enhancements to the product range was concentrated in Graz, with a new dedicated and experienced team of engineers recruited in December 2007. This team worked on further enhancements to the telehealth offering, which already included blood pressure and glucose monitoring, wireless ECG belts, stethoscopes, weight scales and other equipment designed for the remote monitoring of patients' health and well-being.

In February 2007 we announced that the Group's telehealth activities were to be re-structured and re-branded under the Zydacron name. These structural changes were intended to enable both our telehealth and government activities to benefit from the management focus that they each deserved.

In our Interim Report in April we reported that in the light of the success of the Eurocopter CH53 programme and the increasing opportunities for similar systems on other aircraft, we had decided to focus our attention on the government, military and aviation sector and as such we no longer considered telehealth to be part of our core business going forward. On 22 June 2007 the Group concluded an agreement for the sale of its telehealth activities to Zydacron Holding Limited ('Zydacron') in a management buy-out led by two former directors of the Company, Georg Weber and Andreas Boedenauer.

The consideration for the sale was a maximum of £5.3 million, divided into three parts: an initial cash consideration of £200,000 payable on completion, a further consideration of £600,000 payable in

OPERATING REVIEW – continued

instalments over a period not exceeding five years, and a deferred consideration based on the gross turnover of Zydacron in excess of specified annual thresholds up to 31 December 2013 with a maximum of £4.5 million. Only the initial consideration of £200,000 has been recognised in this year's financial statements.

In addition SCOTTY concluded a manufacturing agreement with Zydacron, to manufacture existing telehealth products for an initial period of one year, renewable thereafter by mutual agreement.

The Board of SCOTTY is satisfied, having consulted its Nominated Advisor, HB Corporate, that the terms of the transaction are fair and reasonable insofar as its shareholders are concerned. Having conducted discussions with other interested parties the Board concluded that this transaction was the best deal for shareholders, in that it will enable them to share in the downstream success of the telehealth business under its new ownership.

Review of Government aviation and military market

CH53

During the first half year the Group successfully completed its first phase of deliveries to Eurocopter Deutschland of SCOTTY's in-flight satellite-based video and data communications solution for the German military's CH53 helicopter fleet.

In September 2006 SCOTTY secured the first part of a follow-on order from Eurocopter for additional racks, worth approximately £750,000 out of a total follow-on order value of £2.9 million that had also been announced in March 2006. At the same time the Group received an additional order from Eurocopter, worth approximately £850,000, for upgrades to the racks ordered in March.

This led to the follow-up PV contract, a product improvement program for the CH53. The contract is in two distinct parts:

The first part is the development work, which will be completed in 2008 and will be funded by bi-monthly payments.

The second part is expected to start in 2008 and to run through to 2012 at the latest. The minimum expected sales value from this contract for Scotty is 12 million Euros out of the estimated 520 million Euros total budget for this project, but there is a very significant upside potential which could double this value, dependent on ongoing military budget negotiations and precise specifications.

SCOTTY was the first sub-contractor to sign its contract with Eurocopter under the PV program[me]; nonetheless the whole programme's contract negotiations took longer than anticipated. The initial order for the R&D phase (3.7 million Euros) was announced on 19 July 2007 and the full contract on 7 August 2007, taking the total value to 13.3 million Euros.

BO105

As we reported at the half-year, a similar satcom installation is currently being developed for Eurocopter on the BO105 helicopter and it is anticipated that the German Army's BO105 fleet will receive an upgrade program similar to that of the CH53. The work is likely to involve the upgrade of up to 40 helicopters, using existing equipment concepts that need very little additional development. As previously reported, demonstrators are already operating successfully and detailed discussions for supply are continuing. SCOTTY's BO105 project is part of a major upgrade programme for that helicopter for the German Army and the programme as a whole is awaiting the go-ahead.

The potential sales value for the German Army and other BO105 users worldwide remains around 15 million Euros, but at this stage it is still difficult to predict the precise timing for the start of this project.

Diamond Aircraft

In last year's Annual Report we reported that we had signed a co-operation agreement with a subsidiary of Diamond Aircraft Industries GmbH, the world's second-largest manufacturer of light fixed-wing aircraft. The Group's video/satcom solution on the Diamond DA42 fixed wing aircraft is continued to generate an increasingly high level of interest from the worldwide government security and surveillance market. SCOTTY recently successfully completed a wireless video link into DA42 aircraft.

As reported at the half year, we believe that this project could generate over 20 systems with a sales value up to 10 million Euros, but again the exact timing of this potential business is hard to predict.

OPERATING REVIEW – continued

Other aero business

The Group is actively working on a variety of additional satellite communication solutions for other helicopter and fixed wing aircraft models. These solutions are particularly applicable to pipeline and border surveillance and related markets.

Ground-based communications products

SCOTTY's mobile ground-based ruggedised satellite communications equipment, used in military, search and rescue and disaster control situations, continues to generate useful revenue, in Europe, Australasia and North America. The latter market in particular has seen an increasing trend of SCOTTY supplying its Mobile and ProMax units with a high level of customisation, yet achieving short turnaround times. This achieves a particularly strong competitive position.

The Group's development of new products for the mobile/vehicular government market is progressing well and this is another aspect of the Group's technology that is attracting increasing interest from a number of potential users in a number of countries.

Operations

During the year the Group continued its strategy of streamlining the Group's operations, improving its efficiency and effectiveness, eliminating duplicated resources and reducing the overhead base.

The following further steps were taken during the year.

- The former Motion Media research and development centre in Wilmington, North Carolina was closed at the end of November 2006.
- The remainder of the Group's research and development, operations and production facilities were consolidated into Graz, Austria.
- The Group's office in Beijing was closed in February 2007, in order to rationalise the costs of running the Group's operations in the Far East.

The level of the Group's overheads was further reduced towards the end of the financial year, in June 2007, by the divestment of the Group's telehealth activities, referred to above. The annual saving from the divestment is estimated to be in the region of £1.6 million.

As a result of the rationalisation actions outlined above, including the sale of telehealth, the Group's global headcount was reduced from 53 at 31 July 2006, to 39 at 31 July 2007.

Motion Media Technology Centre

Last year we reported on the Group's move of its UK office to Bracknell, Berkshire, from its premises at the Motion Media Technology Centre (MMTC), Aust, Bristol (which remains the Group's registered office). In March 2007 we completed the grant of a sub-lease for the whole of the MMTC building to one of our existing sub-tenants. The lease is for a period of ten years, with an optional tenant's break after five years, an agreement that will be to the mutual benefit of both parties.

Cash flow

The year ended 31 July 2007 saw a significant improvement in the net cash flow from operating activities, a positive inflow of £108,000 compared with an outflow of £2,588,000 for the previous period. Cash flow benefited for the third successive year from a reduction in stock levels, £756,000 in 2006 compared with a £688,000 reduction in the previous period. After capital investment and financing there was a decrease in net cash of £134,000. The comparison last year was a net increase of £103,000, but that was after share placings, which yielded £2,825,000.

The main causes of the cash decrease were the delay in the start of the PV upgrade contract for Eurocopter, finally awarded in July 2007, and the funding required for the group's telehealth activities, prior to their sale in June 2007.

Capital expenditure

The total expenditure on tangible fixed assets during the year was £317,000 (2006 – £34,000), mostly relating to plant and equipment to carry out research and development activities.

OPERATING REVIEW – continued

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. There were no derivative transactions during the year. Throughout the year under review it has been the group's policy that no trading in financial instruments shall be undertaken. A significant part of the group's sales and expenses are denominated in Euros through its subsidiary in Austria and in US dollars, through its subsidiaries in the USA and the Far East. 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. However, since the centralisation of most of the Group's operations in Graz, the currency flows have gradually become more balanced, with a growing proportion of both the revenue streams and the cost base being denominated in Euros.

Financing

As reported above, the Group financed its activities in 2007 entirely from trading income and there was no repetition of the share placings the previous year.

At the Annual General Meeting shareholders will be asked to approve special resolutions to allow the Group to maintain flexibility in the funding of its operations:

- first, an increase in the amount of shares for which it can disapply pre-emption rights, to continue the Group's policy of maintaining sufficient headroom.
- second, a general authority for the Company to buy back its own shares. It is the board's current intention that this authority will be used only if to do so would result in an increase in earnings per share and if it would be in the best interests of shareholders generally.

Current trading

The new financial year has started encouragingly, the first quarter yielding an unaudited pre-tax profit of approximately £250,000. The directors are optimistic for the year as a whole but, as we reported last year, a significant portion of SCOTTY's business is contract-based and as such the revenue flow over the coming months will continue to be uneven and its timing difficult to predict. Nonetheless, the PV contract is now providing regular income and cash flow and is a sound platform for the current year's operations.

Outlook

The year under review once again saw a substantial research and development and technical sales effort, as a result of which the number of aero and ground based projects in which the Group is involved continues to increase.

SCOTTY's mobile ground-based ruggedised satellite communications equipment is finding itself in an increasingly strong competitive position, given the ability to provide a high level of customisation, tailored to the customer's needs, whilst maintaining short turnaround times. The group's strategy is to concentrate its resources to maintain this advantage, further developing its field-based technology to meet its customers' requirements.

SCOTTY's communications solution for the aero industry remains unique and has a wide range of potential applications, in both helicopters and fixed-wing aircraft. The barriers to entry in this sector remain high and the Group's success with its CH53 programme means that it is attracting interest from an increasing number of governments and is well-placed to win further orders. SCOTTY solutions are currently installed onboard CH53 helicopters (by Eurocopter), Sikorsky helicopters and De Havilland Dash-8s aircraft, as well as in a demonstrator BO105 helicopter (by Eurocopter) and a Diamond 42 MPP aircraft.

The group is refining its aero solutions to operate in other helicopter and fixed wing aircraft types. To this end a key element of SCOTTY's strategy is to develop co-operation agreements with key players in the aviation markets, in military applications and, increasingly, surveillance (borders, pipelines etc). As well as its current partners, Eurocopter and Diamond Aircraft, SCOTTY has started working with other companies responsible for helicopter and fixed wing aircraft maintenance and upgrade programmes.

OPERATING REVIEW – continued

The sale of telehealth activities leaves SCOTTY free to focus on the government, military and aerospace markets, where its aero-certified encrypted satellite communications systems are key differentiators and provide a significant barrier to entry. We are pleased to report that the Group's order book is currently worth approximately £10 million (not all for delivery in this financial year) and the level of quotations is also at an all time high. Historically over half of SCOTTY's quotations have been converted to orders owing to its unique product offering.

The new financial year has started strongly, with the Eurocopter PV contract development work progressing on time. The first quarter, ended on 31 October 2007, was profitable and the Board is optimistic that the full year will also see a return to profit, with positive cash generation, assisted by a decrease in the cost base of some 30 per cent as a result of the sale of telehealth.

SCOTTY has achieved a great deal in the past year and the future is an exciting prospect.

Kurt Kersch
Chief Executive Officer

Hugh Edmonds FCA
Finance Director

13 December 2007

CORPORATE GOVERNANCE

As an AIM-listed company, SCOTTY Group plc is not covered by the July 2003 Combined Code and accordingly is not required to make specific disclosures regarding compliance. At this stage of the Group's development it is not in a position to comply with all of the provisions of the 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. The Board started the year with four executive directors, reducing to two following the separation of the Group's telehealth activities. During the year the Board was strengthened by the appointment of additional non-executive directors, increasing their number from two to four, including the Chairman. 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 11. The directors have access to the Company Secretary who is responsible to the Board for ensuring that Board procedures are followed, together with applicable rules and regulations. All directors are able to take independent professional advice in furtherance of their duties if necessary.

There are not less than ten formal Board meetings scheduled each year. Other meetings are held as necessary. The Board has a formal schedule of reserved matters. 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 Bryan Smart, non-executive director. Its other members are the Deputy Chairman, Peter Sauerzopf, and Ernst Wustinger, non-executive director. The committee meets annually with a representative of the Group'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, Deputy Chairman. It also includes the Chairman, Lord Trefgarne, and the Chief Executive Officer, Kurt Kersch. 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.

Remuneration Committee

The Remuneration Committee is chaired by Peter Sauerzopf, Deputy Chairman, and includes the Chairman, Lord Trefgarne, and Ernst Wustinger. The committee decides, 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.

Relations with shareholders

The Group is committed to maintaining good relations with its shareholders through the provision of interim and annual reports, Regulatory News Service (RNS) press releases, through its web site www.scottgroup.com and through meetings with shareholders in general meetings. There is regular dialogue with institutional shareholders including presentations after the Group's preliminary announcement of the year-end results and at the half-year. During the year Bryan Smart was appointed as a non-executive director and has taken responsibility for investor relations. He has been designated as the Board's main point of contact with shareholders, leaving the executive directors free to focus on running the business.

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.

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

Strategy

The strategic plans of the Group remain a key priority of the Board. Following the major strategic review of the business in 2005, the Board continued to review and develop the Group's strategy during 2007. This process culminated in the sale of the telehealth operations in June 2007. 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, with senior management representatives from UK, Austria, Asia and US operations in regular contact to discuss progress in delivering the group's business plan.

Financial Controls

Each subsidiary company produces monthly results and these are consolidated and compared with budget for review by the Board.

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.

Going Concern basis

On the basis of the information currently available to directors concerning future sales opportunities of the SCOTTY Group, the directors have prepared working capital forecasts, which demonstrate that no further funding is expected to be required for at least the next twelve months from the date of approving the financial statements.

The working capital forecasts include sales from new orders that 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 Group to meet the working capital forecasts. Working capital finance will be provided out of profits generated from these new orders.

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.

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, Deputy Chairman, and includes the non-executive Chairman and Ernst Wustinger, non-executive director. The committee decides, 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 and benefits, and, where appropriate, 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 directors receive certain benefits-in-kind, including insurance for medical expenses.

Share options

Share options are awarded to directors and other employees of the group. The company's Inland Revenue approved and unapproved option schemes were adopted at the 2000 Extraordinary General Meeting. They were amended at the 2002 Annual General Meeting, at which time the company also adopted an Enterprise Management Incentives (EMI) option scheme. All option schemes comply fully with the Association of British Insurers (ABI) guidelines apart from the percentage of equity that was made available under the schemes in the first three years. This amount was 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.

Outstanding share options are set out in note 19 to the financial statements.

Pensions

Apart from employers' contributions to state pension schemes in the countries where the group has operations, the group made a contribution to one director's pension scheme during the year under review.

Fees

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

Service contracts

The non-executive Chairman and non-executive directors are currently entitled to three months notice by either party. The Executive Directors are currently entitled to twelve months notice by either party.

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

Hugh Edmonds FCA

Secretary

DIRECTORS' PROFILES

EXECUTIVE DIRECTORS

Kurt Kerschats – Chief Executive Officer (aged 44)

Mr Kerschats 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 Austrian 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.

Hugh Edmonds, FCA – Finance Director (aged 59)

Mr Edmonds was appointed Company Secretary of SCOTTY Group plc in April 2005 and became Finance Director in August 2005. He qualified as a Chartered Accountant in the United Kingdom, with Peat, Marwick, Mitchell (now KPMG), following which he spent ten years in financial management roles with Schlumberger, the oilfield services and electronics multinational. Since then he has held senior financial management positions with UK technology companies including eight years as Finance Director and Company Secretary of Advanced Power Components plc, a company listed on the Alternative Investment Market. He is a graduate of the University of Bristol, where he read French, Economics and Commercial Law.

NON-EXECUTIVE DIRECTORS

Rt Hon The Lord Trefgarne PC (aged 66)

Lord Trefgarne was educated at Haileybury College and Princeton University, USA. He succeeded to the peerage in his early twenties, which made him one of the youngest peers with a seat in the House of Lords. In 1979 he joined the Government, held ministerial office at the Department of Trade, the Foreign Office and the Department of Health and Social Security. He moved to the Ministry of Defence as Under Secretary of State for the Armed Services in 1983 and in 1986 was promoted to Minister of State as Minister for Defence Procurement. He was appointed to Her Majesty's Privy Council in January 1989 and moved from the Ministry of Defence back to the Department of Trade in the same year as Minister for Trade. After leaving Government at his own request he pursued a business career and became Director of Siebe plc and AWD Bedford. He was also Chairman of SEMTA (Sector Skills Council for Science, Engineering and Manufacturing Technology) and its predecessors between 1994 and 2006. He is also a consultant to Marshall Aerospace.

Dr Hans Peter Sauerzopf – Non-Executive Director (aged 46)

Dr Sauerzopf was the chairman of SCOTTY's supervisory board prior to the merger with Motion Media plc. 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.

Bryan Smart, FCA – Non-Executive Director (aged 55)

Mr Smart joined the Board of SCOTTY in December 2006. His career started with Deloitte & Touche, where he qualified as a Chartered Accountant. In 1981 he joined Daimler Chrysler UK Ltd to establish an internal audit function. He then progressed through financial management roles with this £3 billion company, finally becoming Chief Financial Officer in 1996, a post he held until he left the company in September 2006.

Dr Ernst Wustinger – Non-Executive Director (aged 54)

Dr Wustinger joined the Board of SCOTTY in February 2007. He studied Law in Vienna, obtaining a doctorate in 1979. Between 1980 and 1991 he worked for the Styrian Economic Cluster and was also a partner of a Marketing agency. From 1991 to 1997 he worked as restructuring Manager at Stoelzle Oberglas and Schladminger Brauerei GmbH. He started as Chief Financial Officer with Pankl Racing Systems GmbH and acquired a stake in this company. In 1998 the company was listed on EASDAQ and in 1999 on the Frankfurt Stock Exchange. In February 2003 he became Chief Executive Officer of Pankl Racing Systems. He sold his interest in the company and resigned from his position as Chief Executive Officer at the end of January 2007.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended 31 July 2007.

Principal activity

The principal activity for the Group during the year continued to be the design and development of video telecommunications equipment and systems.

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 after taxation was £6,060,000 (2006 restated: £3,950,000). A review of activities and future prospects is included in the Chairman's Statement on pages 3 to 4 and the Operating Review on pages 5 to 9.

The directors do not recommend the payment of a dividend (31 July 2006: £nil) at this stage in the Group's development.

Research and development

Costs of research and development undertaken in the year, amounting to £804,000 (2006: £547,000), were charged to the profit and loss account.

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. As SCOTTY Group plc is a small group, employees have ready day-to-day access to its executive directors to discuss technical and business issues.

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 the selection of primary subcontractors, and is confirmed through the audit conducted by the Group's Quality Department.

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 year-end was 48 days (2006: 104 days).

The average number of days purchases included within trade creditors of the Company at the year-end was 145 days (2006: 29 days).

Risk

The directors have assessed the level of risk within the business. Working capital management and good purchaser and customer relations are essential to the future well being of the Group. The directors believe that the current controls and processes within the business are adequate to achieve this position.

DIRECTORS' REPORT – continued

The main risks arising from the Group's operations are exchange rate risk, liquidity risk, customer risk and political risk. The Board reviews and agrees the policies for managing each of these risks and they are summarised below.

Exchange rate risk

The Group's operations are geographically spread. However, the significant majority of operations are carried out through Euro denominated transactions, thereby restricting the level of exposure to exchange rate fluctuations. The Group does not believe the risk to be sufficiently significant to warrant the undertaking of hedging activities.

Liquidity risk

The Group's policy throughout the year has been that committed facilities are maintained at levels to ensure all planned requirements are met. Detailed cashflow forecasts are prepared and reviewed and approved by the board on a regular basis.

Customer risk

At present the Group's customer base is concentrated with a relatively small number of customers and the Group is therefore reliant on the timing of contracts and deliveries for those customers.

Political risk

Much of the Group's current business is dependent upon public sector procurement programmes and would be impacted in the event of curtailment of those programmes. Conversely, the resultant customer profile indicates a low level of exposure to bad debts.

Directors and their interests

The current membership of the Board is set out on page 2. The directors who served during the year and to date were as follows:

Executive directors

K Kerschat
H F Edmonds, FCA
G Weber (resigned 13 February 2007)
A Boedenauer (resigned 13 February 2007)

Non-executive directors

Rt Hon The Lord Trefgarne PC (appointed 25 October 2006)
Dr H P Sauerzopf
F B Smart FCA (appointed 14 December 2006)
Dr E Wustinger (appointed 1 February 2007)
D O'Neill (resigned 25 October 2006)

The directors who held office at 31 July 2007 had the following interests in the ordinary share capital of the company at 31 July 2006 and 31 July 2007.

	31 July 2007		31 July 2006	
	Ordinary shares	Percentage	Ordinary shares	Percentage
K Kerschat	25,602,674	2.53%	25,602,674	2.53%
Dr E Wustinger	6,605,757	0.65%	6,605,757	0.65%
Dr H P Sauerzopf	3,076,894	0.30%	3,076,894	0.30%
F B Smart FCA	500,000	0.05%	–	–

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

DIRECTORS' REPORT – continued

Substantial shareholdings

The Company has been notified or is aware of the following holdings of 3% or more of the ordinary share capital as at 10 December 2007:

	<i>Ordinary shares</i>	<i>Percentage of existing ordinary share capital</i>
HSBC Global Custody Nominee (UK) Limited	74,500,834	7.37%
Barclayshare Nominees Limited	67,155,572	6.64%
LR Nominees Limited	55,956,859	5.54%
JIM Nominees Limited	49,725,983	4.92%
TD Waterhouse Nominees (Europe) limited	48,768,331	4.83%
Credit Agricole Cheuvreux International Limited	47,146,334	4.66%
C.Blackbourn	40,500,000	4.01%
Chase Nominees Limited	31,277,570	3.09%

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

Auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Group will be held on Thursday 21 February 2008 at 12 noon, at the Brooklands Museum, Brooklands Road, Weybridge, Surrey KT13 0QN. The text of all of the proposed Resolutions is set out in the Notice of Annual General Meeting on page 39.

By Order of the Board

Hugh Edmonds FCA

Secretary

13 December 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible 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 year ended 31 July 2007, 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 28. 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operating Review that is cross referred from the Results and Dividends section of the Directors' Report.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, Chairman's Statement and the Operating Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 July 2007 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Reading, United Kingdom

13 December 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 July 2007

	<i>Note</i>	<i>Year ended 31 July 2007</i>	<i>Year ended 31 July 2006 restated</i>
		<i>£000</i>	<i>£000</i>
Turnover			
Continuing operations	2	4,770	5,860
Discontinued operations		1,153	575
		<u>5,923</u>	<u>6,435</u>
Cost of sales	2	(2,945)	(3,880)
Gross profit			
Continuing operations		2,632	2,410
Discontinued operations		346	145
		<u>2,978</u>	<u>2,555</u>
Goodwill amortisation	11	(980)	(980)
Other administration expenses	2	(5,972)	(6,390)
Administration expenses		(6,952)	(7,370)
Other operating income	3	812	896
Operating loss	4	(3,162)	(3,919)
Loss on sale of discontinued operations	10	(2,744)	–
Loss before interest and taxation		(5,906)	(3,919)
Interest receivable and similar income	6	3	8
Interest payable and similar charges	6	(73)	(46)
Loss on ordinary activities before taxation		(5,976)	(3,957)
Tax (charge)/credit on loss on ordinary activities	7	(84)	7
Loss for the financial year transferred from reserves		(6,060)	(3,950)
Loss per share (basic and diluted)	9	(0.6p)	(0.5p)

Restatement of prior periods' results

As set out in Note 28, the Company has adopted the provisions of Financial Reporting Standard FRS 20 "Share-based payments" in respect of outstanding share options. As a result an amount of £26,000 has been charged to the profit and loss account in the current year. In addition, FRS 20 requires that a retrospective charge be applied for relevant earlier accounting periods. Accordingly, the profit and loss account for the comparative year has been restated to include a charge of £24,000.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 July 2007

	<i>Note</i>	<i>Year ended 31 July 2007</i>	<i>Year ended 31 July 2006 restated</i>
		<i>£000</i>	<i>£000</i>
Loss for the year	19	(6,060)	(3,950)
Currency translation differences on foreign currency investments	19	127	(39)
Total recognised losses relating to the year		(5,933)	(3,989)

CONSOLIDATED BALANCE SHEET

at 31 July 2007

		<i>At 31 July</i> 2007	<i>At 31 July</i> 2006 <i>restated</i>
	<i>Note</i>	£000	£000
Fixed assets			
Intangible assets	11	6,069	9,906
Tangible assets	12	212	233
Investments	13	188	188
		<hr/> 6,469	<hr/> 10,327
Current assets			
Stock	14	382	1,138
Debtors	15	1,339	3,669
Cash at bank and in hand	22	128	262
		<hr/> 1,849	<hr/> 5,069
Creditors: Amounts falling due within one year	16	(2,509)	(3,811)
		<hr/> (660)	<hr/> 1,258
Net current (liabilities)/assets			
		<hr/> 5,809	<hr/> 11,585
Total assets less current liabilities			
Creditors: Amounts falling due in more than one year	17	(35)	–
Provisions for liabilities and charges	18	(214)	(118)
		<hr/> 5,560	<hr/> 11,467
Net assets			
Capital and reserves			
Called up share capital	19	10,106	10,106
Share premium account	20	37,385	37,385
Capital redemption reserve	20	183	183
Share option valuation reserve	20	50	24
Profit and loss account	20	(42,164)	(36,231)
		<hr/> 5,560	<hr/> 11,467
Total shareholders' funds			

The financial statements on pages 19 to 38 were approved by the Board of Directors on 13 December 2007 and were signed on its behalf by:

K. Kersch

H. F. Edmonds

Directors

COMPANY BALANCE SHEET

at 31 July 2007

		At 31 July 2007	<i>At 31 July 2006 restated</i>
	<i>Note</i>	£000	<i>£000</i>
Fixed assets			
Tangible fixed assets	12	–	15
Investments	13	6,188	14,263
		6,188	14,278
Current assets			
Debtors	15	3,338	2,590
Cash at bank and in hand		11	6
		3,349	2,596
Creditors: Amounts falling due within one year	16	(4,880)	(2,975)
Net current liabilities		(1,531)	(379)
Net assets		4,657	13,899
Capital and reserves			
Called up share capital	19	10,106	10,106
Share premium account	20	37,385	37,385
Capital redemption reserve	20	183	183
Share option valuation reserve	20	50	24
Profit and loss account	20	(43,067)	(33,799)
Total shareholders' funds		4,657	13,899

The financial statements on pages 19 to 38 were approved by the Board of Directors on 13 December 2007 and were signed on its behalf by:

K. Kersch

H. F. Edmonds

Directors

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 July 2007

	<i>Year ended</i> 31 July 2007	<i>Year ended</i> 31 July 2006 <i>restated</i> £000
Net cash inflow/(outflow) from operating activities	108	(2,588)
Returns on investment and servicing of finance:		
Interest received	3	8
Interest paid	(73)	(46)
Net cash outflow from returns on investment and servicing of finance	(70)	(38)
Taxation	69	(11)
Capital expenditure and financial investment:		
Payments to acquire tangible fixed assets	(317)	(34)
Payments to acquire intangible fixed assets	(127)	–
Sale of tangible fixed assets	197	6
Net cash outflow from capital expenditure and financial investment	(247)	(28)
Management of liquid resources		
Decrease in short-term deposits	–	20
Net cash outflow before financing	(140)	(2,645)
Financing:		
Issue of ordinary share capital	–	2,955
Share issue costs	–	(130)
Finance leases	6	(77)
Net cash inflow from financing	6	2,748
(Decrease)/increase in net cash	23 (134)	103
Reconciliation of operating loss to net cash inflow/(outflow) from operating activities		
Operating loss	(3,162)	(3,919)
Currency translation adjustment	127	(39)
Impairment in investments	–	62
Amortisation of goodwill	980	980
Amortisation of other intangible assets	40	101
Depreciation of tangible assets	176	171
Profit on disposal of fixed assets	(158)	(2)
FRS 20 share-based payments charge	26	24
Decrease in stocks	756	688
Decrease/(increase) in debtors	2,273	(2,811)
(Decrease)/increase in creditors	(950)	2,157
Net cash inflow/(outflow) from operating activities	108	(2,588)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2007

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards, which have been applied consistently throughout the current year and preceding year, with the exception of FRS20 "Share-based payments" which was adopted during the year as described in note 28. 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 year ended 31 July 2007 and exclude all intra-group transactions.

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 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 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, twelve years, subject to annual impairment reviews.

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.

Investments

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

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. 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
---	-------------

Stocks

Stocks 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

NOTES TO THE FINANCIAL STATEMENTS – continued

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.

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.

Share options

The Group has applied the requirements of FRS 20 "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.

NOTES TO THE FINANCIAL STATEMENTS – continued

2. TURNOVER AND SEGMENTAL INFORMATION

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

	<i>Turnover</i>		<i>Loss before tax</i>		<i>Net assets</i>	
	<i>Year ended</i>	<i>Year ended</i>	<i>Year ended</i>	<i>Year ended</i>	<i>At</i>	<i>At</i>
	<i>31 July</i>	<i>31 July</i>	<i>31 July</i>	<i>31 July</i>	<i>31 July</i>	<i>31 July</i>
<i>Geographical analysis</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
				<i>restated</i>		
<i>by origin</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
United Kingdom	–	–	(4,929)	(2,769)	4,435	8,645
Rest of Europe	5,609	5,205	(581)	(143)	945	2,490
North America	300	1,201	(315)	(753)	168	396
Asia	14	29	(151)	(292)	12	(64)
	<u>5,923</u>	<u>6,435</u>	<u>(5,976)</u>	<u>(3,957)</u>	<u>5,560</u>	<u>11,467</u>
					<i>Year ended</i>	<i>Year ended</i>
					<i>31 July</i>	<i>31 July</i>
					<i>2007</i>	<i>2006</i>
<i>Geographical analysis of turnover by destination</i>					<i>£000</i>	<i>£000</i>
United Kingdom					42	69
Rest of Europe					5,081	5,263
North America					590	886
Asia					210	217
					<u>5,923</u>	<u>6,435</u>
Cost of sales					<i>Year ended</i>	<i>Year ended</i>
					<i>31 July</i>	<i>31 July</i>
					<i>2007</i>	<i>2006</i>
					<i>£000</i>	<i>£000</i>
Continuing operations					2,138	3,450
Discontinued operations					807	430
					<u>2,945</u>	<u>3,880</u>
Administration expenses					<i>Year ended</i>	<i>Year ended</i>
					<i>31 July</i>	<i>31 July</i>
					<i>2007</i>	<i>2006</i>
					<i>£000</i>	<i>£000</i>
Continuing operations					4,179	4,400
Discontinued operations					1,793	1,990
					<u>5,972</u>	<u>6,390</u>
3. OTHER OPERATING INCOME					<i>Year ended</i>	<i>Year ended</i>
					<i>31 July</i>	<i>31 July</i>
					<i>2007</i>	<i>2006</i>
					<i>£000</i>	<i>£000</i>
Rent and service charges receivable					776	815
Other income					36	81
					<u>812</u>	<u>896</u>

NOTES TO THE FINANCIAL STATEMENTS – continued

4. OPERATING LOSS

	<i>Year ended</i> 31 July 2007 £000	<i>Year ended</i> 31 July 2006 £000
Operating leases – land and buildings	616	645
Operating leases – plant and machinery	16	–
Depreciation – owned assets	176	171
Amortisation of goodwill	980	980
Amortisation of other intangible assets	40	101
Auditors' remuneration – group audit	45	43
Auditors' remuneration – company audit fees	25	20
Auditors' remuneration – other fees	19	7
Research and development costs	804	547
FRS 20 share-based payments charge	26	24
Impairment in investments	–	62
Profit on disposal of fixed assets	(158)	(2)

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

Included in auditors' remuneration for non-audit work is £19,000 (2006: £7,000) in respect of taxation advice and compliance.

5. STAFF COSTS

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

	<i>Group</i>		<i>Company</i>	
	31 July 2007 Number	<i>31 July</i> <i>2006</i> <i>Number</i>	31 July 2007 Number	<i>31 July</i> <i>2006</i> <i>Number</i>
Research and development	14	16	–	–
Production and operations	14	15	–	–
Sales and marketing	16	17	–	–
Finance and administration	9	10	3	3
	53	58	3	3

The aggregate payroll costs of these persons (including directors) were as follows:

	<i>Group</i>		<i>Company</i>	
	31 July 2007 £000	<i>31 July</i> <i>2006</i> <i>restated</i> <i>£000</i>	31 July 2007 £000	<i>31 July</i> <i>2006</i> <i>restated</i> <i>£000</i>
Wages and salaries	2,201	2,509	270	336
Social security costs	448	359	40	50
Other pension costs	11	20	8	8
Share-based payments (note 27)	26	24	26	24
	2,686	2,912	344	418

NOTES TO THE FINANCIAL STATEMENTS – continued

5. STAFF COSTS – continued

Directors' emoluments

The emoluments of the directors were as follows:

	Salary £000	Fees £000	Benefits in kind £000	Compen- sation for loss of office £000	Total emoluments excluding pension contributions		Pension contributions	
					31 July 2007 £000	31 July 2006 £000	31 July 2007 £000	31 July 2006 £000
Executive Directors								
K Kerschatt	116	–	6	–	122	129	–	–
H F Edmonds	73	–	9	–	82	78	8	8
G Weber (resigned 13 February 2007)	62	–	4	137	203	129	–	–
A Boedenauer (resigned 13 February 2007)	68	–	–	–	68	118	–	–
Non-Executive Directors								
Rt Hon The Lord Trefgarne PC (appointed 25 October 2006)	–	34	–	–	34	–	–	–
H P Sauerzopf	–	44	–	–	44	30	–	–
F B Smart (appointed 14 December 2006)	–	13	–	–	13	–	–	–
E Wurstinger (appointed 1 February 2007)	–	10	–	–	10	–	–	–
D O'Neill (resigned 25 October 2006)	–	12	–	13	25	49	–	–
R F Thorne OBE (resigned 3 February 2006)	–	–	–	–	–	19	–	–
G Lee (resigned 22 September 2005)	–	–	–	–	–	7	–	–
	319	113	19	150	601	559	8	8

Interest in share options

The interests of the directors of the Company, who were serving 31 July 2007 in share options at that date were as follows:

	Date granted	Number of shares	Exercise price per share	Date from which exercisable	Expiry date
H P Sauerzopf	13 January 2006	3,000,000	1.70p	31 July 2006	31 July 2011
		3,000,000	2.25p	31 July 2007	31 July 2012
		3,000,000	3.00p	31 July 2008	31 July 2013

In addition, D O'Neill, who resigned on 25 October 2006, was granted options on 13 January 2006, which remain exercisable, as follows:

	Date granted	Number of shares	Exercise price per share	Date from which exercisable	Expiry date
D O'Neill	13 January 2006	4,000,000	1.70p	31 July 2006	31 July 2011
		4,000,000	2.25p	31 July 2007	31 July 2012
		4,000,000	3.00p	31 July 2008	31 July 2013

None of the other directors who were in office at 31 July 2007 had any interests in share options.

NOTES TO THE FINANCIAL STATEMENTS – continued

6. INTEREST

	<i>Year ended</i> 31 July <i>2007</i> £000	<i>Year ended</i> <i>31 July</i> <i>2006</i> <i>£000</i>
Interest receivable		
Bank interest	<u>3</u>	<u>8</u>
Interest payable		
Bank interest	(73)	(44)
Interest on finance leases	–	(2)
	<u>(73)</u>	<u>(46)</u>

7. TAXATION

	<i>Year ended</i> 31 July <i>2007</i> £000	<i>Year ended</i> <i>31 July</i> <i>2006</i> <i>£000</i>
(a) Analysis of tax credit on ordinary activities		
Current tax:		
UK Corporation tax	(1)	(9)
Adjustments in respect of prior years	<u>13</u>	<u>55</u>
Total current tax credit (Note 7b)	<u>12</u>	<u>46</u>
Deferred tax:		
Increase in deferred tax provision (note 18)	<u>(96)</u>	<u>(39)</u>
Total deferred tax charge (note 18)	<u>(96)</u>	<u>(39)</u>
Tax (charge)/credit on loss on ordinary activities	<u>(84)</u>	<u>7</u>

The corporation tax rate for the current year and previous years is 30 per cent, the rate ruling throughout the respective periods.

Subject to agreement with the appropriate tax authorities, the result for the current year has created a loss for tax purposes, which can be carried forward to offset against taxable profits arising in future years.

The unprovided deferred tax asset at 31 July 2007 is £5,700,000 (2006: £6,292,000). A deferred tax asset has not been recognised because, in the opinion of the directors, it is not certain that appropriate future profits will be achieved in order to recover such losses.

NOTES TO THE FINANCIAL STATEMENTS – continued

7. TAXATION – continued

(b) Factors affecting tax charge in period

The tax credit for the period is lower than the standard rate of corporation tax in the UK (30 per cent).

The differences are explained below:

	<i>Year ended</i> 31 July 2007	<i>Year ended</i> 31 July 2006 <i>restated</i>
	<i>£000</i>	<i>£000</i>
Loss on ordinary activities before tax	(5,976)	(3,957)
Tax thereon at 30 per cent	(1,793)	(1,187)
Effects of:		
Expenses non deductible for tax purposes	1,022	379
Capital allowances in excess of depreciation	(134)	(90)
Prior year adjustments	(13)	(55)
Non-taxable income	22	–
Effects of different tax rates	(11)	–
Loss carried forward – deferred tax asset not recognised	895	907
Current tax credit for the period (Note 7a)	(12)	(46)

Factors which may affect the future tax charge

For the next financial year, the applicable corporation tax rate in the UK will be 28 per cent.

8. PROFITS OF HOLDING COMPANY

In accordance with the exemption allowed by Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account. The loss after tax for the year in the accounts of the parent company was £9,275,000 (2006: £16,067,000), after making an impairment charge against investments in, and loans to, subsidiary companies.

9. LOSS PER SHARE

The calculation of basic loss per share is based on the loss after taxation for the year and the weighted average number of shares in issue during the year.

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 year and the weighted average number of shares used in the calculations are set out below:

	<i>Year ended</i> 31 July 2007	<i>Year ended</i> 31 July 2006 <i>restated</i>
	<i>£000</i>	<i>£000</i>
Loss attributable to ordinary shareholders	(6,060)	(3,950)
	<i>No.</i>	<i>No.</i>
Weighted average number of shares	1,010,646,897	855,750,158
Loss per share (pence)	(0.6p)	(0.5p)

NOTES TO THE FINANCIAL STATEMENTS – continued

10. SALE OF TELEHEALTH ACTIVITIES

On 22 June 2007 the Company concluded an agreement for the sale of its telehealth activities to Zydacron Holding Limited in a management buy-out led by two former directors of the Company.

The consideration for the sale is a maximum of £5.3 million, divided into three parts:

- an initial cash consideration of £200,000 paid on completion
- a further consideration of £600,000 payable in instalments over a period not exceeding five years, and
- a deferred consideration based on the gross turnover of Zydacron's telehealth business in excess of specified annual thresholds up to 31 December 2013, subject to a maximum of £4.5 million.

Only the initial consideration has been recognised in these financial statements.

The loss on the sale of the telehealth activities is calculated as follows:

	<i>Year ended</i> <i>31 July</i> <i>2007</i> <i>£000</i>
Initial cash consideration as above	200
Net liabilities of telehealth activities transferred to Zydacron	437
Goodwill	(2,822)
Provision for obsolete stock and other exceptional costs	(532)
Legal and other costs associated with the transaction	(27)
	<hr/> (2,744) <hr/>

To the extent that sale consideration may crystallise in future years, any chargeable gain arising is expected to be set against brought forward losses.

11. INTANGIBLE FIXED ASSETS

Group	<i>Goodwill</i> <i>£000</i>	<i>Licences</i> <i>£000</i>	<i>Total</i> <i>£000</i>
Cost			
As at 1 August 2006	11,762	554	12,316
Additions	–	127	127
Disposals	–	(361)	(361)
Disposal on sale of subsidiary	(3,762)	(18)	(3,780)
As at 31 July 2007	<hr/> 8,000 <hr/>	<hr/> 302 <hr/>	<hr/> 8,302 <hr/>
Aggregate amortisation			
As at 1 August 2006	1,960	450	2,410
Charge for year	980	40	1,020
Disposals	–	(253)	(253)
Disposal on sale of subsidiary	(940)	(4)	(944)
As at 31 July 2007	<hr/> 2,000 <hr/>	<hr/> 233 <hr/>	<hr/> 2,233 <hr/>
Net book value			
As at 31 July 2006	<hr/> 9,802 <hr/>	<hr/> 104 <hr/>	<hr/> 9,906 <hr/>
As at 31 July 2007	<hr/> 6,000 <hr/>	<hr/> 69 <hr/>	<hr/> 6,069 <hr/>

The Group's goodwill arises from the acquisition by Motion Media plc of SCOTTY Tele-Transport AG in July 2004. Its estimated economic life is twelve years and up to 31 July 2007 amortisation of £980,000 per annum has been charged to profit and loss account. On the sale of the Group's telehealth activities in June 2007, the directors undertook a review of the Group's goodwill, which concluded that the net book value of the goodwill relating to the discontinued activities amounted to £2,822,000, which has been charged to the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS – continued

12. TANGIBLE FIXED ASSETS

	<i>Company</i> Fixtures, fittings tools and equipment £000	<i>Group</i> Fixtures, fittings tools and equipment £000
Cost		
As at 1 August 2006	16	2,835
Additions	–	317
Disposals	(1)	(302)
Disposal on sale of subsidiary	–	(150)
As at 31 July 2007	15	2,700
Depreciation		
As at 1 August 2006	1	2,602
Charge for year	14	176
Disposals	–	(263)
Disposal on sale of subsidiary	–	(27)
As at 31 July 2007	15	2,488
Net book value		
As at 31 July 2006	15	233
As at 31 July 2007	–	212

Included within fixed assets are assets held under finance leases with a net book value of £nil (2006: £nil).

13. INVESTMENTS

Group	<i>Trade</i> <i>Investment</i> £000			
Cost				
As at 1 August 2006 and 31 July 2007	250			
Provision for impairment				
As at 1 August 2006 and 31 July 2007	62			
Net book value				
As at 31 July 2006 and 31 July 2007	188			
Company				
Cost				
As at 1 August 2006	250	28,557	15,572	44,379
Additions	–	–	350	350
As at 31 July 2007	250	28,557	15,922	44,729
Provision for impairment				
As at 1 August 2006	62	16,980	13,074	30,116
Impairment charge	–	5,577	2,848	8,425
As at 31 July 2007	62	22,557	15,922	38,541
Net book value				
As at 31 July 2006	188	11,577	2,498	14,263
As at 31 July 2007	188	6,000	–	6,188

The Company's trade investment consists of a holding of 11.4 per cent of the equity share capital of Aupix Limited, a company registered in England.

NOTES TO THE FINANCIAL STATEMENTS – continued

13. INVESTMENTS – continued

The Company holds more than 10 per cent of the equity (and no other share capital) of the following subsidiary undertakings:

Subsidiary undertaking	<i>Country of incorporation or principal place of business</i>	<i>Proportion directly held</i>	<i>Proportion indirectly held</i>
SCOTTY Group Europe Ltd (formerly Motion Media Technology Limited)	England & Wales	100%	–
SCOTTY Group Austria GmbH (formerly SCOTTY Tele-Transport Corporation Radio- und Videoelektronik GmbH)	Austria	100%	–
SCOTTY Group of the Americas, Inc.	USA	100%	–
SCOTTY Tele-Transport Corporation of the Americas, Inc.	USA	–	100%
SCOTTY Technology of the Americas, Inc. (formerly Motion Media Technolgy, Inc.)	USA	–	100%
SCOTTY Teletransport Corporation of Asia, Inc.	Philippines	–	100%
Zydacron Inc. (dormant)	USA	–	100%
Zydacron (Europe) Limited (dormant)	England & Wales	–	100%
Investments disposed of during the year			
Zydacron Austria GmbH (sold 22 June 2007)	Austria	–	100%
Zydacron Holding Limited (sold 8 June 2007)	England & Wales	100%	–

Except where indicated, the nature of business of all the subsidiary undertakings is the design and installation of video telecommunications equipment.

14. STOCK

	Group		Company	
	<i>At 31 July 2007</i>	<i>At 31 July 2006</i>	<i>At 31 July 2007</i>	<i>At 31 July 2006</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Raw materials	80	718	–	–
Work in progress	92	118	–	–
Finished goods and goods for resale	210	302	–	–
	<u>382</u>	<u>1,138</u>	<u>–</u>	<u>–</u>

There is no material difference between the value of stock included in the balance sheet and its replacement cost.

15. DEBTORS

	Group		Company	
	<i>At 31 July 2007</i>	<i>At 31 July 2006</i>	<i>At 31 July 2007</i>	<i>At 31 July 2006</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Trade debtors	1,073	2,369	–	–
Corporation tax recoverable	–	57	–	–
Amounts owing from subsidiary companies	–	–	3,305	2,577
Other debtors	140	1,050	8	9
Prepayments and accrued income	126	193	25	4
	<u>1,339</u>	<u>3,669</u>	<u>3,338</u>	<u>2,590</u>

NOTES TO THE FINANCIAL STATEMENTS – continued

16. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	At 31 July	At 31 July	At 31 July	At 31 July
	2007	2006	2007	2006
	£000	£000	£000	£000
Obligations under finance leases	3	3	–	–
Trade creditors	833	1,767	292	78
Amounts owing to subsidiary companies	–	–	4,255	2,637
Other creditors	262	1,171	12	7
Corporation tax payable	1	–	–	–
Other taxes and social security	161	35	19	40
Accruals and deferred income	1,249	835	302	213
	2,509	3,811	4,880	2,975

17. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	At 31 July	At 31 July	At 31 July	At 31 July
	2007	2006	2007	2006
	£000	£000	£000	£000
Obligations under finance leases	6	–	–	–
Accruals and deferred income	29	–	–	–
	35	–	–	–
Finance leases are repayable as follows:				
Between one and two years	–	–	–	–
Between two and five years	6	–	–	–
	6	–	–	–
On demand or within a year (note 16)	3	3	–	–
	9	3	–	–

Finance leases are secured on the related assets

18. PROVISIONS FOR LIABILITIES

	Group		Company	
	At 31 July	At 31 July	At 31 July	At 31 July
	2007	2006	2007	2006
	£000	£000	£000	£000
Deferred taxation	214	118	–	–

The movements in the provisions are as follows:

	<i>Deferred taxation</i>
	<i>£000</i>
Balance at 31 July 2006	118
Charged to the profit and loss account	96
Balance at 31 July 2007	214

NOTES TO THE FINANCIAL STATEMENTS – continued

19. SHARE CAPITAL

		<i>At 31 July 2007 £000</i>	<i>At 31 July 2006 £000</i>
Authorised :			
1,500,000,000 ordinary shares of 1p each		15,000	15,000
		<hr/>	<hr/>
Allotted, issued and fully paid:			
	<i>No of shares</i>		
At 31 July 2006	1,010,646,897	10,106	7,783
Issued during the year (2006 – 232,346,897 shares)	–	–	2,323
	<hr/>	<hr/>	<hr/>
At 31 July 2007	1,010,646,897	10,106	10,106
	<hr/>	<hr/>	<hr/>

No new ordinary shares were issued during the year.

Share options

The following options over the Company's ordinary shares were outstanding at 31 July 2007:

Exercise period	<i>No of shares 31 July 2007</i>	<i>No of shares 31 July 2006</i>	<i>Exercise price (pence)</i>
Between June 2003 and December 2006	–	750,000	2.68
Between May 2004 and May 2011	–	37,200	86.50
Between October 2004 and October 2011	–	50,000	43.50
Between September 2004 and June 2007	–	320,000	12.00
Between May 2005 and May 2012	–	295,000	26.25
Between May 2005 and June 2012	–	50,000	25.00
Between December 2005 and December 2012	–	75,000	3.50
Between November 2006 and December 2013	–	2,095,000	12.00
Between July 2008 and July 2015	2,750,000	3,750,000	3.00
Between September 2005 and September 2006	–	2,666,000	3.00
Between July 2006 and July 2011	7,000,000	7,000,000	1.70
Between July 2007 and July 2012	7,000,000	7,000,000	2.25
Between July 2008 and July 2013	7,000,000	7,000,000	3.00
	<hr/>	<hr/>	
	23,750,000	31,088,200	
	<hr/>	<hr/>	

The market price of the Company's shares on 31 July 2007 was 1.20p per share.

The high and low share prices during the year were 1.67p and 1.05p respectively.

The Company has adopted the provisions of Financial Reporting Standard FRS 20 "Share-based payments" in respect of outstanding share options. As a result an amount of £26,000 has been charged to the profit and loss account in the current year.

In addition, FRS 20 requires that a retrospective charge be applied for relevant earlier accounting periods. Accordingly the profit and loss account for the comparative year has been restated to include a charge of £24,000.

NOTES TO THE FINANCIAL STATEMENTS – continued

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

	<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>	Total 31 July 2007 £000	<i>Total 31 July 2006 £000</i>
Group							
At beginning of year	10,106	37,385	183	–	(36,207)	11,467	12,607
Restated by FRS 20 share-based payment charge in prior years	–	–	–	24	(24)	–	–
At beginning of year (restated)	10,106	37,385	183	24	(36,231)	11,467	12,607
Shares issued	–	–	–	–	–	–	2,955
Share issue costs	–	–	–	–	–	–	(130)
Exchange gains/(losses)	–	–	–	–	127	127	(39)
FRS 20 share-based payment charge for current year	–	–	–	26	–	26	–
Loss for the year	–	–	–	–	(6,060)	(6,060)	(3,926)
At end of year	<u>10,106</u>	<u>37,385</u>	<u>183</u>	<u>50</u>	<u>(42,164)</u>	<u>5,560</u>	<u>11,467</u>
Company							
At beginning of year	10,106	37,385	183	–	(33,775)	13,899	27,137
Restated by FRS 20 share-based payment charge in prior years	–	–	–	24	(24)	–	–
At beginning of year (restated)	10,106	37,385	183	24	(33,799)	13,899	27,137
Shares issued	–	–	–	–	–	–	2,955
Share issue costs	–	–	–	–	–	–	(130)
Exchange gains/(losses)	–	–	–	–	7	7	4
FRS 20 share-based payment charge for current year	–	–	–	26	–	26	–
Loss for the year	–	–	–	–	(9,275)	(9,275)	(16,067)
At end of year	<u>10,106</u>	<u>37,385</u>	<u>183</u>	<u>50</u>	<u>(43,067)</u>	<u>4,657</u>	<u>13,899</u>

21. OPERATING LEASE OBLIGATIONS

At 31 July 2007 the Group had annual commitments under non-cancellable operating leases expiring as shown below:

	Land and buildings	
	<i>Year ended 31 July 2007 £000</i>	<i>Year ended 31 July 2006 £000</i>
Operating leases which expire		
Within one year	–	–
In two to five years	464	469
	<u>464</u>	<u>469</u>

NOTES TO THE FINANCIAL STATEMENTS – continued

22. ANALYSIS OF NET FUNDS

	<i>At 31 July</i> 2006 £000	<i>Cash</i> <i>Flow</i> £000	<i>At 31 July</i> 2007 £000
Cash at bank and in hand	262	(134)	128
Finance leases falling due within one year	(3)	–	(3)
	<u>259</u>	<u>(134)</u>	<u>125</u>
Finance leases falling due in more than one year	–	(6)	(6)
	<u>259</u>	<u>(140)</u>	<u>119</u>

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

	<i>Year ended</i> <i>31 July</i> 2007 £000	<i>Year ended</i> <i>31 July</i> 2006 £000
(Decrease)/increase in cash during the year	(134)	103
Short-term investments	–	(20)
Finance leases	(6)	77
Net funds at 31 July 2006	<u>259</u>	<u>99</u>
Net funds at 31 July 2007	<u>119</u>	<u>259</u>

24. FINANCIAL INSTRUMENTS

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

It is the Group's policy to finance its operations through cash and to utilise overdraft or short-term loan 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.

The majority of the Group's sales and purchases are priced in Euros and US Dollars. Foreign currency exposure arises on certain trading balances that are denominated in currencies other than the functional currency of the respective Group company.

The table set out below summarises the Group's net foreign currency assets/(liabilities):

	<i>Year ended</i> <i>31 July</i> 2007 £000	<i>Year ended</i> <i>31 July</i> 2006 £000
US Dollars	(35)	(727)
Euros	(7)	–
Sterling	–	11
	<u>(42)</u>	<u>(716)</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 be undertaken.

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

NOTES TO THE FINANCIAL STATEMENTS – continued

25. CAPITAL COMMITMENTS

Capital expenditure commitments at 31 July 2007, authorised and contracted for but not provided for in these financial statements, were £nil (2006: £nil).

26. RELATED PARTY TRANSACTIONS

During the year, the Group has occasionally utilised the legal services of Sauerzopf and Partner, an Austrian legal firm of whom Dr H. P Sauerzopf is a partner. Legal fees paid in respect of these services during the year were approximately £10,000 (2006: £10,000).

SCOTTY Group plc has taken advantage of the exemption under Financial Reporting Standard 8 “Related Party Transactions” Paragraph 3c not to disclose any transactions within the Group due to the inclusion of all subsidiaries within these consolidated financial statements.

27. SHARE-BASED PAYMENTS

The Company has granted share options to certain directors and employees of the Group. Options have various vesting periods and are exercisable at various fixed pre-determined prices that are equal to, or greater than, the average quoted market price on the date of grant. If the options remain unexercised after a given period from the date of grant the options expire. Options are normally forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows:

	<i>31 July 2007</i>	<i>31 July 2006</i>
	<i>Number of share options</i>	<i>Number of share options</i>
Outstanding at beginning of year	31,088,200	11,134,688
Granted during the year	–	23,666,000
Forfeited during the year	(3,602,200)	(2,147,488)
Exercised during the year	–	–
Expired during the year	(3,736,000)	(1,565,000)
Outstanding at the end of the year	<u>23,750,000</u>	<u>31,088,200</u>
Exercisable at the end of the year	<u>14,000,000</u>	<u>11,243,200</u>

The options outstanding at 31 July 2007 had a weighted average exercise price of 2.395 pence and a weighted average remaining contractual life of 4.46 years. In 2007, no options were granted. In 2006, options were granted on 31 January 2006 and the aggregate of the estimated fair values of the options granted on that date is £50,000. The estimated fair values were calculated using a Black-Scholes Option Pricing Model, using actual exercise prices, expected volatility determined by calculating the Group's share price since August 2004, adjusted for issues of additional shares since that date.

NOTES TO THE FINANCIAL STATEMENTS – continued

28. PRIOR YEAR ADJUSTMENT

The Group policy for calculating the cost of share-based payments was adopted during the year to give effect to the requirements of Financial Reporting Standard FRS 20 “Share-based payments”. The comparative figures in the primary statements and notes have been restated to reflect the new policy.

The effects of the change in policy are summarised below:

	<i>2007</i>	<i>2006</i>
	<i>£000</i>	<i>£000</i>
Profit and loss account		
Administration expenses	<u>26</u>	<u>24</u>
Increase in loss for the financial year	<u>(26)</u>	<u>(24)</u>
Balance sheet		
Share option valuation reserve	26	24
Profit and loss account	<u>(26)</u>	<u>(24)</u>
Change in net assets	<u>–</u>	<u>–</u>

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of SCOTTY Group plc (the Company) will be held at Brooklands Museum, Brooklands Road, Weybridge, Surrey KT13 0QN, on Thursday 21 February 2008 at 12.00 noon, for the purpose of considering and, if thought fit, passing the following Resolutions, of which Resolutions 1 to 6 will be proposed as Ordinary Resolutions and Resolutions 7 to 9 will be proposed as Special Resolutions:

AS ORDINARY BUSINESS

1. To receive and, if thought fit, adopt the report of the directors and the financial statements for the year ended 31 July 2007, with the auditors' report thereon.
2. To elect Dr Ernst Wustinger who, having been appointed by the Board since notice was given of the last Annual General Meeting, retires under the terms of the Articles and who, being eligible, offers himself for re-election, as a director of the Company.
3. To re-elect Dr Hans Peter Sauerzopf, who retires by rotation in accordance with the Company's Articles of Association and who, being eligible, offers himself for re-election, as a director of the Company.
4. To re-elect Kurt Kersch, who retires by rotation in accordance with the Company's Articles of Association and who, being eligible, offers himself for re-election, as a director of the Company.
5. To re-appoint Deloitte & Touche LLP as auditors of the Company and to authorise the directors to fix their remuneration.

AS SPECIAL BUSINESS

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

"That the directors be and are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985, to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the said Act) up to an aggregate nominal amount of £4,893,531.03, this authority to expire at the conclusion of the Annual General Meeting of the Company in 2009 or on 21 May 2009 whichever is the earlier (save that the Company may before such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired)."
7. To consider and, if thought fit, to pass the following resolution as a special resolution:

"That subject to the passing of Resolution 6 above, the directors be and are hereby empowered to allot equity securities (as defined in section 94(2) of the Companies Act 1985) for cash pursuant to the authority conferred by Resolution 6 above as if section 89(1) of the said Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

 - (a) in connection with an offer by way of rights or otherwise in favour of ordinary shareholders where the equity securities are proportionate (as nearly as practicable) to the respective number of ordinary shares of 1p each held by such holders but subject to such exclusions or other arrangements as the directors may deem necessary or desirable in relation to fractional entitlements or legal or practical problems arising in, or pursuant to, the laws of any territory or the requirements of any regulatory body or stock exchange in any territory; and
 - (b) otherwise than pursuant to (a) above, up to an aggregate nominal amount of £2,500,000.

and this power shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2009 or on 21 May 2009 whichever is the earlier (save that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired)."

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

"THAT subject to the passing of Resolution 6 above, the directors be and are hereby empowered to allot equity securities (as defined in section 94(2) of the Companies Act 1985) for cash pursuant to the authority conferred by Resolution 6 above as if section 89(1) of the said Act did not apply to any such allotment, provided that this power (which shall be in addition to any power granted by Resolution 7) shall be limited to:

NOTICE OF ANNUAL GENERAL MEETING – continued

- (a) the allotment of equity securities with an aggregate nominal value of up to £7,681.82 to enable the Company to satisfy its obligations in connection with a warrant instrument constituted by a deed poll dated 14 December 2004; and
- (b) the allotment of equity securities with an aggregate nominal value of up to £50,000 to enable the Company to satisfy its obligations in connection with a warrant instrument constituted by a deed poll dated 8 September 2005:

and this power shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2009 or on 21 May 2009 whichever is the earlier (save that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired).”

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

“THAT the Company be and is generally and unconditionally authorised for the purposes of section 166 of the Companies Act 1985 to make one or more market purchases (within the meaning of section 163(3) of the said Act) on the London Stock Exchange of ordinary shares of 1p each in the capital of the company provided that:

- (a) the maximum aggregate number of ordinary shares of 1p each authorised to be purchased is 101,064,689 (representing 10 per cent. of the company’s issued ordinary share capital;
- (b) the minimum price which may be paid for such shares is 1p per share;
- (c) the maximum price which may be paid for an Ordinary Share shall not be more than 5 per cent. above the average of the middle market quotation for an ordinary share of 1p as derived from the London Stock Exchange Daily Office List for the five business days immediately preceding the date on which the ordinary share of 1p is purchased;
- (d) unless previously renewed or revoked, the authority conferred shall expire at the conclusion of the company’s next Annual General Meeting or 12 months from the date of passing this resolution if earlier; and
- (e) the company may make a contract or contracts to purchase ordinary shares of 1p under the authority conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may purchase of ordinary shares of 1p in pursuance of any such contract or contracts.”

By Order of the Board
H. F. Edmonds
Secretary

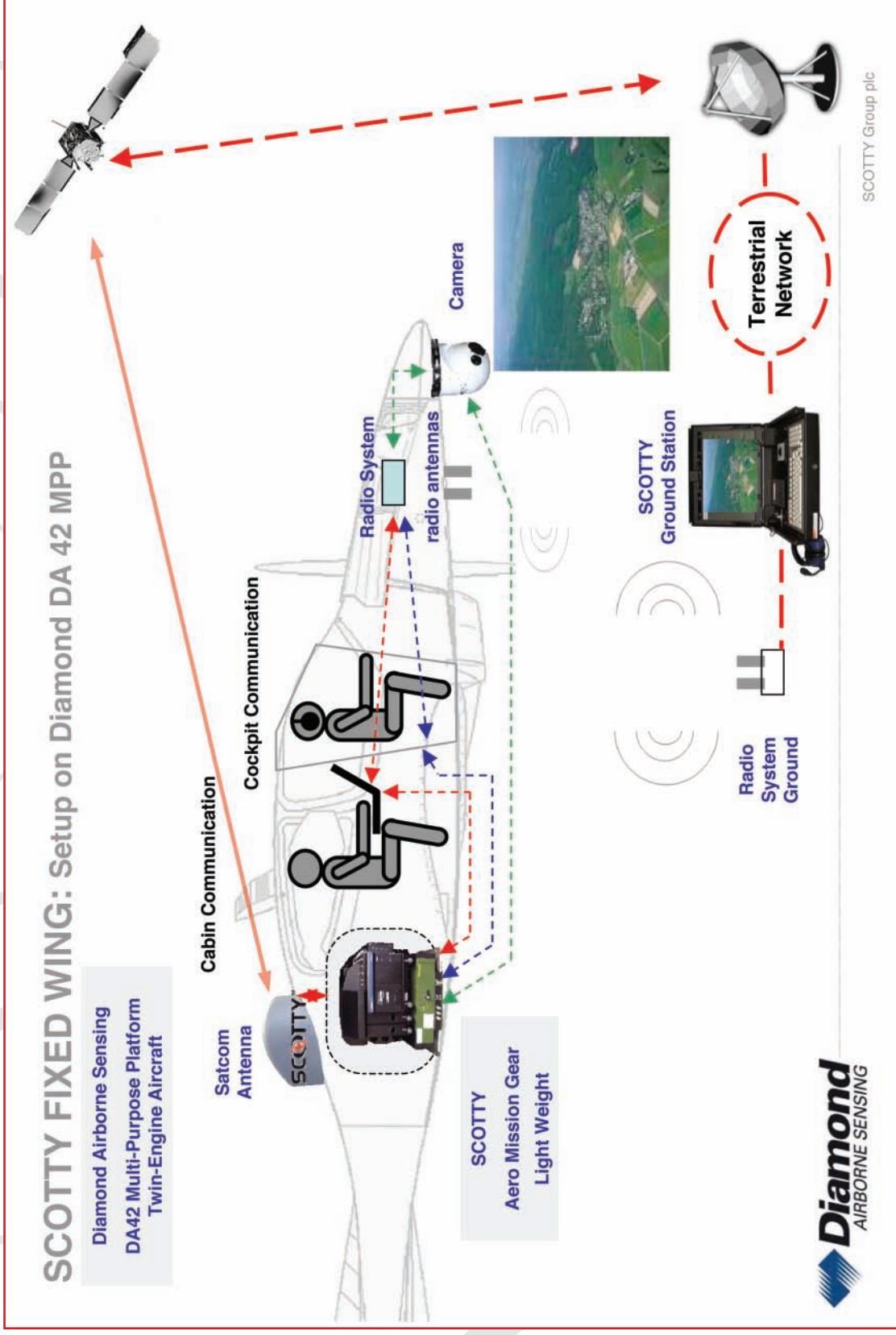
13 December 2007

Registered Office:
Motion Media Technology Centre
Severn Bridge
Aust
Bristol
BS35 4BL

NOTES:

1. Only holders of ordinary shares, or their duly authorised representatives, are entitled to attend and vote at this meeting. A member so entitled may appoint one or more proxies to attend and (on a poll) vote instead of him. A proxy need not be a member of the Company. The appointment of a proxy will not prevent a shareholder from subsequently attending and voting at the meeting in person.
2. A pre-paid Form of Proxy is enclosed for holders of ordinary shares. Forms of proxy need to be deposited with the Company’s registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 48 hours before the time of the meeting.
3. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that, in order to have the right to attend and vote at the meeting (and also for the purpose of calculating how many votes a person entitled to vote and attend may cast), a person must be entered on the register of holders of the ordinary shares of the Company by no later than 12.00 noon on 19 February 2008, being 48 hours before the time fixed for the meeting. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

The SCOTTY "Eye in the Sky" on a Diamond DA42MPP



- Outstanding technical and quality performance
- Lowest operating cost
- Unbeatable endurance

