



**CHEERFUL SCOUT** plc

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**ANNUAL REPORT & ACCOUNTS  
FOR THE YEAR ENDED 30 JUNE 2004**



# CHEERFUL SCOUT PLC

## COMPANY INFORMATION

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<b>Directors</b>	S Appleton (Non-Executive Chairman) P Litten (Chief Executive) N J Newman R L Owen
<b>Secretary</b>	N J Newman
<b>Company number</b>	4314540
<b>Registered office</b>	65 New Cavendish Street London W1G 7LS
<b>Financial advisers</b>	Harris & Trotter LLP 65 New Cavendish Street London W1G 7LS
<b>Stockbrokers</b>	Seymour Pierce Ellis Limited Talisman House Jubilee Walk Three Bridges Crawley West Sussex RH10 1LQ
<b>Nominated adviser</b>	Seymour Pierce Limited Bucklersbury House 3 Queen Victoria Street London EC4N 8EL
<b>Auditors</b>	HLB AV Audit plc 66 Wigmore Street London W1U 2HQ
<b>Solicitors</b>	Finers Stephens Innocent 179 Great Portland Street London W1W 5LS  Ross & Craig 12a Upper Berkeley Street London W1H 7PE
<b>Bankers</b>	Barclays Bank plc P O Box 32106 London NW1 2ZH
<b>Registrar and transfer office</b>	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TH

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# CHEERFUL SCOUT PLC

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# CHEERFUL SCOUT PLC

## CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30 JUNE 2004

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We shall be presenting to shareholders for their approval at our third Annual General Meeting the Audited Accounts for the year ended 30 June 2004.

The results for the year show a loss of £249,636 (2003: Loss £69,242) before taxation and goodwill amortisation.

The year ended 30 June 2004 was disappointing. Turnover at £607,042 was some 17% lower than the previous year. In the year, we experienced difficulties in generating economic levels of turnover in our sectors for corporate video; animations and graphics. Sales generated in the DVD sector were satisfactory. During the year, we were able to secure a number of new prestige accounts which we have continued to develop and where we see the potential for further growth.

In view of the disappointing results, we would like our shareholders to have a clear re-statement of what we do; how we do it; and why – by introducing the new nVision technology into our Offer to the communications industry - we have confidence in our future.

### **What we do**

Basically, if it's something on screen that you want, then that is what we do.

Cheerful Scout seeks to deliver engaging, informative and entertaining results across the full spectrum of modern communications tools from video, CD-ROM and DVD, to web streaming, intranet and internet.

We provide full service production and post production from our five floor facility in London's West End.

As pioneers in visual technologies (we were among the first to invent in DVD), we are developing new ideas all the time – to push the boundaries of visual communication.

Our core business areas involve offering a complete service in two specific areas:

- Programme production
- DVD

### **Programme Production**

We have the full range of capabilities and facilities in-house which are needed to produce finished programmes for internal and external events – on video, CD-ROM, DVD, intranet or internet.

We work with our customers from initial ideas through scripting, creative development, shoots, graphic design and post-production.

### **DvD**

We bring our creativity to bear on DVD production, adding exciting additional elements and interest to DVD authoring for the retail DVD market.

We have the resources and the expertise to deliver a flexible and cost-effective response.

Cheerful is one of the leading design companies for retail DVD, voted one of the top new media makers by Televisual magazine in 2003.

# CHEERFUL SCOUT PLC

## CHAIRMAN'S STATEMENT (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2004

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### How do we do it

Our approach is based on two key factors. Working in partnership with our customers and delivering innovative solutions that meet their needs.

All our projects are treated as a collaborative effort – between the in-house team and the customer.

We believe this produces better results – and we can be sure that we have explored every avenue, and that we are all working towards the same goal.

We also like things to be innovative. The team approach allows us to explore possibilities, whether those are to do with the technology or creative thoughts.

### nVision Technology

Because we have an ongoing desire to improve visual communications and our expertise in new technology, we have pioneered the development of nVision technology. In the year to 30 June 2004 this has involved a considerable development expenditure of more than £175,000 which is carried in our Balance Sheet as the cost of development to date.

The first nVision product will allow changes in conference elements up to the last minute. Of course, you can update Powerpoint quite quickly, you can even edit video quite quickly. But incorporating it into a presentation – one that fills the auditorium, one that runs in real time, and is designed to grab the attention – has not been possible up to now.

We anticipate that nVision technology will go further than that. It is not just a presentation tool, nVision will also have a strategic application.

We believe that powerful visualisation capabilities which allow a client to show a picture of complex ideas and numbers and not just the dry facts is important. So, we have, in nVision, developed an entirely new, real time interactive system for board level strategic planning.

Combining state of the art software with compelling visual capabilities, means that a nVision system can be incorporated into major studies and will save literally hundreds of million pounds in time, study and negotiation on a collective basis.

As it becomes accepted in the market place nVision will create its own environment, because it is flexible and is capable of being developed in real time in front of an audience. As such, we are confident that nVision will deliver a whole new way of looking at visual presentations and the visualisation of complex ideas.

We are very confident that nVision technology will place Cheerful Scout at an advantage as we compete in our crowded and creative industry. nVision will demonstrate that we are both different and individual, as we deliver a complete communications solution to a wider range of clients.

We hope that our disappointments are now behind us. We anticipate that by combining our core business activities with the new nVision technology, we will be better placed to achieve our corporate objectives in the years ahead.

S Appleton

Chairman

23 September 2004

# CHEERFUL SCOUT PLC

## DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2004

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The directors present their report and financial statements for the year ended 30 June 2004.

### **Principal activities and review of the business and future developments**

The principal activity of the group is the provision of business communication services. Within this field the group specialises in editing programmes, creating graphics, designing animations and special video effects, commercial DVD including designing, encoding and authoring a variety of well-known DVD titles for high-street distribution.

The results for the year show a loss before taxation and goodwill amortisation of £249,636.

### **Results and dividends**

The consolidated profit and loss account for the year is set out on page 7.

The directors do not recommend payment of a final dividend. Once the company is able to do so, it is the intention of the directors to pursue a progressive dividend policy, subject to the need to retain sufficient earnings for the growth of the group.

It is proposed that the loss is transferred to the group's reserves.

### **Directors**

The following directors have held office since 1 July 2003:

P Litten  
S Appleton  
N J Newman  
R L Owen

In accordance with regulation 122 of the company's Articles of Association, one third of the directors retire by rotation or if their number is not three or a multiple of three, the nearest to but not exceeding one third, and, being eligible, offer themselves for re-election.

### **Fixed assets**

The significant changes in fixed assets during the year are explained in notes 8, 9 and 10 to the financial statements.

As pioneers in visual technologies, the group has utilised its resources to develop unique and highly innovative communications products. Expenditure relating to these projects has been capitalised as development costs.

# CHEERFUL SCOUT PLC

## REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2004

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### Directors' interests

The directors' interests in the shares of the company were as stated below:

	Ordinary shares of 0.5p each	
	30 June 2004	30 June 2003
P Litten	110,196,000	110,196,000
S Appleton	2,808,000	2,808,000
N J Newman	6,996,000	6,996,000
R L Owen	-	-

None of the directors had any interest in the subsidiary company, Centralfix Limited.

The directors' interests in warrants issued by the company were as follows:-

	30 June 2004	30 June 2003
P Litten	11,937,900	11,937,900
S Appleton	304,200	304,200
N J Newman	757,900	757,900
R L Owen	-	-

Details of the warrants and share options granted are given in note 14 to the financial statements.

### Shareholdings

At 30 June 2004 the directors were aware that the following were the beneficial owners of 3% or more of the company's issued share capital:

	Number of shares	Percentages held
Reverse Take-Over Investments Plc	20,000,000	10.26
Fiske Nominees Limited	7,710,000	3.95

R L Owen is a director and shareholder of Reverse Take-Over Investments Plc.

### Corporate governance

Although not required to do so, the company seeks within the practical confines of being a small company to act in compliance with the principles of good governance and the code of best practice (the "Combined Code") appended to the Listing Rules of the Financial Services Authority.

### The Board

The aim of the Board is to function at the head of the company's management structures, leading and controlling its activities and setting a strategy for enhancing shareholder value.

The Board currently consists of 1 executive director and 3 non-executive directors. The company does not have a Nomination Committee as such; the Board collectively undertakes the functions of such a committee.

### Internal control

The Board has overall responsibility for ensuring that the group maintains systems and internal financial controls that provide them with reasonable assurance regarding the financial information both for use within the business and for external publication and that the assets are safeguarded.



# CHEERFUL SCOUT PLC

## REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2004

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### Audit committee

There is an Audit Committee consisting of the Chairman, for the time being, and a non-executive director. The terms of reference of the Audit Committee are to assist the Board in the discharge of its responsibilities for corporate governance, financial reporting and internal control. Its duties include maintaining an appropriate relationship with the company's auditors, keeping under review the scope and the results of the audit and its effectiveness.

### Going concern

After making appropriate enquiries, the directors have a reasonable expectation that the Group and the company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group's financial statements.

### Charitable contributions

During the year the group made charitable donations of £881 (2003: £300).

### Creditor payment policy

The company's and the group's current policy concerning the payment of trade creditors is to:

- settle the terms of payment with suppliers when agreeing the terms of each transaction;
- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts;
- pay in accordance with the company's contractual and other legal obligations; and
- on average, trade creditors at the year end represented 37 (2003 - 22) days' purchases.

### Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that HLB AV Audit plc be re-appointed as the auditors, will be put to the Annual General Meeting.

### Directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the board

N J Newman  
Director

23 September 2004

# CHEERFUL SCOUT PLC

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CHEERFUL SCOUT PLC

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We have audited the financial statements of Cheerful Scout Plc on pages 7 to 19 for the year ended 30 June 2004. These financial statements have been prepared under the historical cost convention and 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

As described in the statement of directors' responsibilities on page 5 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

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

### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and the group'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 of the state of the company's and the group's affairs as at 30 June 2004 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**HLB AV Audit plc**

5 October 2004

**Registered Auditor**

66 Wigmore Street  
London  
W1U 2HQ

# CHEERFUL SCOUT PLC

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2004

	Notes	2004			2003		
		Pre goodwill amortisation £	Goodwill amortisation £	Total £	Pre goodwill amortisation £	Goodwill amortisation £	Total £
<b>Turnover</b>	<b>2</b>	607,042	-	607,042	733,347	-	733,347
Cost of sales		(431,842)	-	(431,842)	(398,572)	-	(398,572)
<b>Gross profit</b>		175,200	-	175,200	334,775	-	334,775
Administrative expenses		(446,027)	(136,415)	(582,442)	(426,615)	(136,415)	(563,030)
<b>Operating (loss)</b>	<b>3</b>	(270,827)	(136,415)	(407,242)	(91,840)	(136,415)	(228,255)
Interest receivable		21,284	-	21,284	22,598	-	22,598
Interest payable and similar charges	<b>4</b>	(93)	-	(93)	-	-	-
<b>(Loss) on ordinary activities before taxation</b>		(249,636)	(136,415)	(386,051)	(69,242)	(136,415)	(205,657)
Tax on (loss) on ordinary activities	<b>5</b>	16,946	-	16,946	19,164	-	19,164
<b>Retained (loss) for the year</b>	<b>15</b>			(369,105)			(186,493)
<b>Earnings per ordinary shares:</b>							
<b>Basic</b>	<b>7</b>			(0.205474)p			(0.107)p
<b>Diluted</b>	<b>7</b>			(0.205474)p			(0.107)p

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains or losses other than those passing through the profit and loss account.

# CHEERFUL SCOUT PLC

## BALANCE SHEETS AS AT 30 JUNE 2004

	Notes	Group		Company	
		2004 £	2003 £	2004 £	2003 £
<b>Fixed assets</b>					
Intangible assets	8	2,611,152	2,569,141	-	-
Tangible assets	9	294,136	402,684	-	-
Investments	10	-	-	3,144,213	3,144,212
		<u>2,905,288</u>	<u>2,971,825</u>	<u>3,144,213</u>	<u>3,144,212</u>
<b>Current assets</b>					
Debtors	11	226,369	244,818	259,893	68,161
Stock		1,472	1,338	-	-
Cash at bank and in hand		585,965	557,552	612,454	554,181
		<u>813,806</u>	<u>803,708</u>	<u>872,347</u>	<u>622,342</u>
<b>Creditors: amounts falling due within one year</b>	12	(137,638)	(100,845)	(5,951)	(300)
<b>Net current assets</b>		<u>676,168</u>	<u>702,863</u>	<u>866,396</u>	<u>622,042</u>
<b>Total assets less current liabilities</b>		<u>3,581,456</u>	<u>3,674,688</u>	<u>4,010,609</u>	<u>3,766,254</u>
<b>Provisions for liabilities and charges</b>	13	-	(16,946)	-	-
		<u>3,581,456</u>	<u>3,657,742</u>	<u>4,010,609</u>	<u>3,766,254</u>
<b>Capital and reserves</b>					
Called up share capital	14	975,000	870,000	975,000	870,000
Share premium account	15	3,111,419	2,923,600	3,111,419	2,923,600
Profit and loss account	15	(504,963)	(135,858)	(75,810)	(27,346)
<b>Shareholders' funds – equity interests</b>	16	<u>3,581,456</u>	<u>3,657,742</u>	<u>4,010,609</u>	<u>3,766,254</u>

The financial statements were approved by the Board on 23 September 2004.

P Litten  
Director

N J Newman  
Director

# CHEERFUL SCOUT PLC

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2004

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	2004		2003	
	£	£	£	£
<b>Net cash (outflow)/inflow from operating activities</b>		(71,311)		26,044
<b>Returns on investments and servicing of finance</b>				
Interest received	21,284		22,598	
Interest paid	(93)		-	
	<hr/>		<hr/>	
<b>Net cash inflow for returns on investments and servicing of finance</b>		21,191		22,598
<b>Taxation</b>		17,375		(59,373)
<b>Capital expenditure and financial investment</b>				
Payments to acquire intangible assets	(178,426)		-	
Payments to acquire tangible assets	(53,235)		(280,723)	
Receipts from sales of tangible assets	-		5,000	
	<hr/>		<hr/>	
<b>Net cash outflow for capital expenditure</b>		(231,661)		(275,723)
<b>Net cash outflow before management of liquid resources and financing</b>		<hr/>		<hr/>
		(264,406)		(286,454)
<b>Management of liquid resources</b>				
Bank deposits		-		79,290
<b>Financing</b>				
Net proceeds from issue of ordinary share capital	301,875		-	
Expenses relating to issue of share capital	(9,056)		(3,887)	
	<hr/>		<hr/>	
<b>Net cash inflow/(outflow) from financing</b>		292,819		(3,887)
<b>Increase/(Decrease) in cash in the year</b>		<hr/>		<hr/>
		28,413		(211,051)
		<hr/>		<hr/>

# CHEERFUL SCOUT PLC

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2004

### 1 Reconciliation of operating (loss) to net cash inflow from operating activities

	2004 £	2003 £
Operating (loss)	(407,242)	(228,255)
Depreciation of tangible assets	161,783	136,415
Amortisation of intangible assets	136,415	126,305
Decrease in debtors	1,074	30,552
Decrease/(Increase) in creditors within one year	36,793	(35,972)
Profit on disposal of fixed assets	-	(1,663)
Increase in stock	(134)	(1,338)
	<hr/>	<hr/>
<b>Net cash inflow from operating activities</b>	<b>(71,311)</b>	<b>26,044</b>
	<hr/>	<hr/>

### 2 Analysis of net funds

	1 July 2003 £	Cash flow £	30 June 2004 £
Net cash:			
Cash at bank and in hand	1,842	(27,929)	(26,087)
	<hr/>	<hr/>	<hr/>
Liquid resources:			
Bank deposits	555,710	56,342	612,052
	<hr/>	<hr/>	<hr/>
Net funds	557,552	28,413	585,965
	<hr/>	<hr/>	<hr/>

### 3 Reconciliation of net cash flow to movement in net funds

	2004 £	2003 £
(Decrease) in cash in the year	(27,929)	(211,051)
Cash (outflow)/inflow from movement in liquid resources	56,342	(79,290)
	<hr/>	<hr/>
Change in net funds resulting from cash flows	28,413	(290,341)
	<hr/>	<hr/>
<b>Movement in net fund in the year</b>	<b>28,413</b>	<b>(290,341)</b>
Opening net funds	557,552	847,893
	<hr/>	<hr/>
<b>Closing net funds</b>	<b>585,965</b>	<b>557,552</b>
	<hr/>	<hr/>

# CHEERFUL SCOUT PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

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### 1 Accounting policies

#### 1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

#### 1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable accounting standards.

#### 1.3 Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertaking made up to 30 June 2004. The results of subsidiaries sold or acquired are included in the profit and loss account up to, or from the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

#### 1.4 Turnover

Turnover represent amounts receivable for goods and services, net of VAT and trade discounts.

#### 1.5 Goodwill

Goodwill arising on acquisition is written off in equal annual instalments over its estimated useful economic life of 20 years.

#### 1.6 Development costs

Development expenditure is written off to the profit and loss account in the year in which it is incurred, unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period during which the company is expected to benefit. Development costs of current projects are amortised over 4 years.

#### 1.7 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Leasehold land and buildings	straight line over the life of the lease
Fixtures, fittings and equipment	25% straight line

#### 1.8 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

#### 1.9 Investments

Fixed asset investments are stated at cost less provision for diminution in value.

#### 1.10 Stock

Stock is valued at the lower of cost and net realisable value.

#### 1.11 Deferred taxation

The accounting policy in respect of deferred tax reflects the requirements of FRS19 – Deferred tax. Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is measured on a non-discounted basis.

#### 1.12 Pensions

The pension costs charged in the financial statements represent the contributions payable by the company during the year in accordance with FRS17.

#### 1.13 Financial instruments

The group does not enter into derivative transactions and does not trade in financial instruments. For the purpose of note 22, short term debtors and creditors are not treated as financial assets or financial liabilities.

# CHEERFUL SCOUT PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2004

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### 2 Turnover

The total turnover of the group for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

### 3 Operating (loss)

	2004 £	2003 £
Operating (loss) is stated after charging:		
Amortisation of intangible assets	136,415	136,415
Depreciation of tangible assets	161,783	126,305
Auditors' remuneration (company £4,250)	12,250	12,250
Operating leases	75,950	50,479
	<hr/>	<hr/>

### 4 Interest payable

	2004 £	2003 £
Other interest	93	-
	<hr/>	<hr/>

### 5 Taxation

	2004 £	2003 £
<b>Domestic current year tax</b>		
U.K. corporation tax	-	-
Adjustments for prior years	-	(17,344)
	<hr/>	<hr/>
	-	(17,344)
Deferred tax	(16,946)	(1,820)
	<hr/>	<hr/>
	(16,946)	(19,164)
	<hr/>	<hr/>

The group has estimated losses of £198,943 (2003: £nil) available for carry forward against future trading profits.

### 6 Loss for the financial year

As permitted by section 230 of the Companies Act 1985, the holding company's profit and loss account has not been included in these financial statements. The loss for the financial year is made up as follows:-

	2004 £	2003 £
Holding company's loss for the financial year	(48,464)	(24,823)
	<hr/>	<hr/>



# CHEERFUL SCOUT PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2004

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### 7 Earnings per ordinary share

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders of (£369,105) (2003: £186,493) using a weighted average of 186,250,000 (2003: 174,000,000) ordinary shares in issue during the year.

Diluted earnings per share are adjusted for warrants and share options granted to employees where the exercise price is less than the average price of the Company's ordinary shares during the year. These adjustments give rise to no increase in weighted average ordinary shares.

### 8 Intangible fixed assets

Group	Goodwill	Development Costs	Total
	£	£	£
<b>Cost</b>			
At 1 July 2003	2,728,292	-	2,728,292
Additions	-	178,426	178,426
	<hr/>	<hr/>	<hr/>
At 30 June 2004	2,728,292	178,426	2,906,718
	<hr/>	<hr/>	<hr/>
<b>Amortisation</b>			
At 1 July 2003	159,151	-	159,151
Charge for the year	136,415	-	136,415
	<hr/>	<hr/>	<hr/>
At 30 June 2004	295,566	-	295,566
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
At 30 June 2004	2,432,726	178,426	2,611,152
	<hr/>	<hr/>	<hr/>
At 30 June 2003	2,569,141	-	2,569,141
	<hr/>	<hr/>	<hr/>

# CHEERFUL SCOUT PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2004

### 9 Tangible fixed assets

Group	Leasehold land and buildings £	Fixtures, fittings and equipment £	Total £
<b>Cost</b>			
At 1 July 2003	142,218	590,375	732,593
Additions	-	53,235	53,235
At 30 June 2004	142,218	643,610	785,828
<b>Depreciation</b>			
At 1 July 2003	25,434	304,475	329,909
Charge for the year	26,442	135,341	161,783
At 30 June 2004	51,876	439,816	491,692
<b>Net book value</b>			
At 30 June 2004	90,342	203,794	294,136
At 30 June 2003	116,784	285,900	402,684

### 10 Fixed asset investments

#### Company

	Shares in subsidiary £
<b>Cost</b>	
At 1 July 2003	3,144,212
Additions	1
At 30 June 2004	3,144,213

In the opinion of the directors, the aggregate value of the company's investment in subsidiary undertakings is not less than the amount included in the balance sheet.

#### Holdings of more than 20%

The company holds more than 20% of the share capital of the following company:

Company	Country of registration or incorporation	Shares held Class	%
<b>Subsidiary undertakings</b>			
Centralfix Limited	England and Wales	Ordinary	100
nVision Technology Limited	England and Wales	Ordinary	100

The principal activity of these undertakings for the last relevant financial year was as follows:

	Principal activity
Centralfix Limited	Video and film production
nVision Technology Limited	Dormant

# CHEERFUL SCOUT PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2004

### 11 Debtors

	Group		Company	
	2004 £	2003 £	2004 £	2003 £
Trade debtors	122,578	128,275	-	-
Amounts owed by group undertakings	-	-	251,765	57,013
Corporation tax	-	17,375	-	31
Other debtors	37,287	35,473	-	-
Prepayments and accrued income	66,504	63,695	8,128	11,117
	<u>226,369</u>	<u>244,818</u>	<u>259,893</u>	<u>68,161</u>

Other debtors include £35,473 (2003: £35,473) rental deposit which is secured by a charge in favour of the landlords.

### 12 Creditors: amounts falling due within one year

	Group		Company	
	2004 £	2003 £	2004 £	2003 £
Trade creditors	68,451	36,863	-	-
Amounts due to group undertakings	-	-	1	-
Taxes and social security costs	12,276	18,564	-	-
Accruals and deferred income	56,911	45,418	5,950	300
	<u>137,638</u>	<u>100,845</u>	<u>5,951</u>	<u>300</u>

### 13 Provisions for liabilities and charges

#### Group

Deferred taxation provided in the financial statements is as follows:

	Profit and loss charge £	Group		Company	
		2004 £	2003 £	2004 £	2003 £
Accelerated capital allowances	16,946	-	16,946	-	-
	<u>16,946</u>	<u>-</u>	<u>16,946</u>	<u>-</u>	<u>-</u>

# CHEERFUL SCOUT PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2004

### 14 Share capital

	2004 £	2003 £
<b>Authorised</b>		
700,000,000 Ordinary shares of 0.5p each	3,500,000	3,500,000
<b>Allotted, called up and fully paid</b>		
195,000,000 Ordinary shares of 0.5p each	975,000	870,000

During the year 21,000,000 new ordinary shares of 0.5p each were issued at 1.4375 pence per share to provide additional working capital.

On 1 May 2002 34,500,000 warrants were issued at the time of the company's listing on the Alternative Investment Market.

Each warrant entitles the warrant holder to subscribe for an ordinary share at the issue price of 2.5p per share. The warrants are exercisable at any time until the expiry of 5 years from 1 May 2002.

The company has entered into a scheme to provide share option incentives for staff. A total of 1,800,000 ordinary shares of 0.5p each have been offered at an option price of 2.5p per share exercisable between 3 and 10 years after the date of grant, which was 1 May 2002.

### 15 Statement of movements on reserves Group

	Share premium account £	Profit and loss account £
Balance at 1 July 2003	2,923,600	(135,858)
Retained loss for the year	-	(369,105)
Premium on shares issued during the year	196,875	-
Expenses relating to issue of shares	(9,056)	-
Balance at 30 June 2004	3,111,419	(504,963)

### Company

	Share premium account £	Profit and loss account £
Balance at 1 July 2003	2,923,600	(27,346)
Retained loss for the year	-	(48,464)
Premium on shares issued during the year	196,875	-
Expenses relating to issue of shares	(9,056)	-
Balance at 30 June 2004	3,111,419	(75,810)

# CHEERFUL SCOUT PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2004

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### 16 Reconciliation of movements in shareholders' funds Group

	<b>2004</b>
	<b>£</b>
Loss for the financial year	(369,105)
Proceeds from issue of shares	301,875
Expenses relating to issue of shares	(9,056)
	<hr/>
Net depletion to shareholders' funds	(76,286)
Opening shareholders' funds	3,657,742
	<hr/>
Closing shareholders' funds	3,581,456

### Company

	<b>2004</b>
	<b>£</b>
Loss for the financial year	(48,464)
Proceeds from issue of shares	301,875
Expenses relating to issue of shares	(9,056)
	<hr/>
Net addition to shareholders' funds	244,355
Opening shareholders' funds	3,766,254
	<hr/>
Closing shareholders' funds	4,010,609

### 17 Financial commitments

At 30 June 2004 the group had annual commitments under non-cancellable operating leases as follows:

	<b>Land and buildings</b>	
	<b>2004</b>	<b>2003</b>
	<b>£</b>	<b>£</b>
Expiry date:		
Within one year	-	-
Between two and five years	-	-
In over five years	78,843	75,950
	<hr/>	<hr/>
	78,843	75,950
	<hr/>	<hr/>

# CHEERFUL SCOUT PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2004

### 18 Capital commitments

	Group		Company	
	2004 £	2003 £	2004 £	2003 £
Authorised and contracted for	75,000	20,000	-	-

### 19 Directors' emoluments

	2004 £	2003 £
Emoluments for qualifying services	107,000	54,500

Directors remuneration includes £34,218 (2003: £nil) which has been capitalised as development costs.

### 20 Related party transactions

During the year, £18,000 (2003: £12,800) was charged by Harris & Trotter LLP in respect of professional services. N J Newman is a member of that firm.

Cheerful Scout Plc is a guarantor for the lease entered into by Centralfix Limited.

### 21 Employees

#### Number of employees

The average monthly number of employees (including directors) during the year was:

	2004 Number	2003 Number
Production	7	4
Administration	2	3
	9	7

#### Employment costs

	£	£
Wages and salaries	268,038	239,139
Social security costs	28,848	24,515
Pension costs	121	172
	297,007	263,826

Wages and salaries totalling £34,218 (2003: £nil) have been capitalised as development costs.

# CHEERFUL SCOUT PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2004

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### 22 Treasury activities and financial instruments

The group's financial instruments comprise cash and liquid resources.

The main risks arising from the group's financial instruments are the interest rate risks. The Board reviews and agrees policies for managing these risks.

#### Interest rate risk profile of financial assets

The interest rate profile of the financial assets of the group at 30 June 2004 is as follows:

	Financial assets on which no interest is earned £	Floating rate financial assets £	Total £
Sterling	5,000	580,965	585,965

The floating rate financial assets comprise cash deposits on money market deposits at monthly rates.

#### Fair value of financial assets

The group's book value of the financial assets equates to their fair values.

### 23 Control

The ultimate controlling party is P Litten.

### 24 Pension costs

Defined contribution

The group makes pre-defined contributions to employees personal pension plans.

Contributions payable by the group for the year were £121 (2003: £172).

# CHEERFUL SCOUT PLC

*(Incorporated in England and Wales with registered number 4314540)*

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Cheerful Scout plc will be held at 25-27 Riding House Street, London W1W 7DU on 1 November 2004 at 10.30 a.m. for the transaction of the following business:

As Ordinary Business to consider, and, if thought fit, pass the following resolutions which will be proposed as Ordinary Resolutions:

1. To receive and adopt the report of the directors of the Company and the audited accounts for the Company for period ended 30 June 2004.
2. To approve the recommendation of the board of Directors of the Company not to pay a final dividend for the period ended 30 June 2004.
3. To reappoint Peter Litten as a Director of the Company, who retires in accordance with Article 122 of the Company's Articles of Association.
4. To reappoint HLB AV Audit plc as auditors of the Company and to authorise the Directors to fix their remuneration.

As Special Business to consider and, if thought fit, to pass resolution numbered 5 which will be proposed as an ordinary resolution and resolution numbered 6 which will be proposed as a special resolution:

5. That for the purposes of section 80 of the Companies Act 1985 ("the Act") (and so that expressions used in this Resolution shall bear the same meanings as in the said section 80) the Directors of the Company be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount of £1,000,000 for the period expiring at the earlier of the conclusion of the next Annual General Meeting or the date 15 months from the date this Resolution 5 comes into effect, (unless previously revoked or varied by the Company in general meeting and provided that the Company may before such expiry make an offer or agreement which would or might require such shares to be allotted after such expiry and the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority conferred hereby had not expired) and so that all previous authorities given by the Company in general meeting pursuant to Section 80 of the Act are revoked (save to the extent relied upon prior to the passing of this Resolution).
6. That subject to the passing of Resolution 5 set out above the Directors of the Company be hereby empowered, during the period expiring on the earlier of the conclusion of the next Annual General Meeting of the Company and the date 15 months from the date that this Resolution comes into effect (save that the Company may before such expiry make an 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 the offer or agreement as if the power conferred by this Resolution had not expired), to allot or make offers or agreements to allot equity securities pursuant to the authority granted by Resolution 6 above as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited:
  - 6.1 to the allotment of equity securities in connection with a rights issue in favour of the holders of relevant shares and relevant employee shares, or in connection with any other form of issue of such securities in which such holders are offered the right to participate, in proportion (as nearly as may be) to their respective holdings but subject to such exclusion or other arrangements as the Directors consider necessary or expedient in connection with shares representing fractional entitlements or on account of either legal or practical problems arising in connection with the laws of any territory, or of the requirements of any generally recognised regulatory body or stock exchange in any territory; and



# CHEERFUL SCOUT PLC

(Incorporated in England and Wales with registered number 4314540)

## NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

- 6.2 to the allotment (otherwise than pursuant to sub-paragraph 6.1 above) of equity securities up to an aggregate nominal amount of £1,000,000.

By order of the Board  
**Neville Newman**  
Company Secretary

*Registered office:*  
65 New Cavendish Street  
London W1G 7LS

5 October 2004

### Notes

- (1) A member entitled to attend and vote at the above meeting is entitled to appoint a proxy or proxies to attend and vote instead of him. A proxy need not be a member of the Company.
- (2) A Form of Proxy is enclosed for your use if desired. The instrument appointing a proxy must reach the Company's Registrars, Capita Registrars (Proxies), PO Box 25, Beckenham, Kent BR3 4BR not less than 48 hours before the time of holding of the meeting.
- (3) A copy of the register of Directors' interests in shares in the Company and copies of the Directors' service contracts of more than one year's duration will be available for inspection at the registered office of the Company during business hours only on any weekday (excluding Saturdays, Sundays and public holidays) from the date of this Notice until the date of the Annual General Meeting and at the place of the Annual General Meeting for at least 15 minutes prior to and during the Annual General Meeting.





