



**CONSOLIDATED DIRECTORS' REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2005**

# 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 2SB
<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 2005

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Cheerful Scout has made significant progress over the past year. After a period of consolidation and retrenchment, the Company is focused upon the achievement of prudent and profitable growth. The Company's results for the year ended 30 June 2005 represent a small turnaround in comparison to the previous year. The management and workforce have been strengthened and, with a focus on cash generation, the Company now has a solid infrastructure on which to build future growth.

In line with the Board's expectations, the Company reports pre-tax losses before taxation, goodwill amortisation and impairment for the year ended 30 June 2005 of £219,865 (2004: loss of £249,636) on turnover of £898,492 up 48 per cent. on the previous year (2004: £607,042). In April the Company raised gross funds of £525,000 through a placing with institutions. Cash at bank and in hand at the year end was £721,757 (2004: £585,965) which is sufficient to invest further in our products and team. Net current assets increased by 33 per cent. to £899,172 (2004: £676,168).

Our core business has performed well with new contracts won with new as well as existing clients. Following positive indications that the industry was seeing a turnaround, we have continued to invest in both personnel and technology including interactive DVD. The programme production division, which produces entire projects, has continued to strengthen its relationships with key corporates including Allen & Overy, Getronics and several leading management consultancy. It has also won further contracts with Centrica, Deloitte and the Central Office of Information. The Company's DVD department is expanding rapidly, and we are now pleased to be working with Freemantle, BBC, Universal, Contender and other major independents.

Last year we updated our shareholders on our new communications technology – nVision. This software has two applications; the first is nVision Presenter which provides the seamless and high speed integration of several live event elements. The roll out has taken longer than anticipated but, since the fundraising in April and subsequent investment in its marketing and management team, interest and sales momentum have gathered steadily. We now have a dedicated events team that has recently managed a number of extremely successful high profile conferences. We currently have a variety of other projects in the pipeline with international blue-chip companies.

Our emphasis remains on the continuing development of nVision and improving its capabilities through the integration of new hardware and software technology.

nVision's second application is a high end strategic version, nVision Strategy, focussed at more sophisticated organisations which require complex problem solving tools. This product is now fully developed and is being looked at by global organisations, investment companies and various government departments for long term strategy.

We remain focused on providing cutting edge creative work and were therefore delighted to receive both gold and bronze awards at the annual ceremony held by the International Visual Communication Association ('IVCA'), the professional body for companies using film, video, interactive media and live events as part of the communication process.

As a result of continuing trading losses following the Company's acquisition of Centralfix Limited, the sole trading company within the Group, the Directors have undertaken an impairment review on the goodwill arising from the acquisition of that subsidiary.

This has been carried out in accordance with Financial Reporting Standard 11.

As a result, a one-off impairment charge of £1,867,467 has been provided for in the accounts of the Group and has been shown as an exceptional item.

# CHEERFUL SCOUT PLC

## CHAIRMAN'S STATEMENT (CONTINUED) *FOR THE YEAR ENDED 30 JUNE 2005*

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Your attention is drawn to the circular which accompanies the Report and Financial Statements. This document outlines the proposed share premium account cancellation subject to the passing of a special resolution to be proposed at an EGM to be convened immediately after the AGM. Full details of the resolution are contained in the circular but the overall result, subject to approval by the High Court, should enable the Company to pay dividends as and when the Board considers it appropriate to do so.

Looking forward, Cheerful Scout is beginning to see a number of attractive opportunities present themselves across the group. With its broad product platform and growing population of talented individuals I believe that the Group's prospects are very encouraging.

S Appleton

Chairman

25 November 2005

# CHEERFUL SCOUT PLC

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2005

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The directors present their report and financial statements for the year ended 30 June 2005.

### 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 £219,865.

### 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 2004:

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 9, 10 and 11 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.

### Directors' interests

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

	Ordinary shares of 0.5p each	
	30 June 2005	30 June 2004
P Litten	110,196,000	110,196,000
S Appleton	3,308,000	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 companies.

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# CHEERFUL SCOUT PLC

## REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005

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

	30 June 2005	30 June 2004
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 15 to the financial statements.

### Shareholdings

At 30 June 2005 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	8.16

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.

### 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.

# CHEERFUL SCOUT PLC

## REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005

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### Charitable contributions

During the year the group made charitable donations of £1,290 (2004: £881).

### 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; and
- pay in accordance with the company's contractual and other legal obligations.

On average, trade creditors at the year end represented 32 (2004 - 37) 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  
25 November 2005



# 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 for the year ended 30 June 2005 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and the related notes 1 to 24. 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 2005 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**

25 November 2005

**Registered Auditor**

66 Wigmore Street  
London  
W1U 2SB

# CHEERFUL SCOUT PLC

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2005

		2005			2004		
	Notes	Pre goodwill amortisation and impairment £	Goodwill amortisation and impairment £	Total £	Pre goodwill amortisation and impairment £	Goodwill amortisation and impairment £	Total £
<b>Turnover</b>	<b>2</b>	898,492	–	898,492	607,042	–	607,042
Cost of sales		(631,550)	–	(631,550)	(431,842)	–	(431,842)
<b>Gross profit</b>		266,942	–	266,942	175,200	–	175,200
Administrative expenses		(504,071)	(136,415)	(640,486)	(446,027)	(136,415)	(582,442)
<b>Operating loss</b>	<b>3</b>	(237,129)	(136,415)	(373,544)	(270,827)	(136,415)	(407,242)
Exceptional item	<b>4</b>	–	(1,867,467)	(1,867,467)	–	–	–
Interest receivable		17,268	–	17,268	21,284	–	21,284
Interest payable and similar charges	<b>5</b>	(4)	–	(4)	(93)	–	(93)
<b>Loss on ordinary activities before taxation</b>		(219,865)	(2,003,882)	(2,223,747)	(249,636)	(136,415)	(386,051)
Tax on loss on ordinary activities	<b>6</b>	54,000	–	54,000	16,946	–	16,946
<b>Retained loss for the year</b>	<b>16</b>			<u>(2,169,747)</u>			<u>(369,105)</u>
<b>Earnings per ordinary shares:</b>							
<b>Basic</b>	<b>8</b>			<u>(1.045661)p</u>			<u>(0.205474)p</u>
<b>Diluted</b>	<b>8</b>			<u>(1.045661)p</u>			<u>(0.205474)p</u>

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 2005

		2005	Group 2004	2005	Company 2004
	Notes	£	£	£	£
<b>Fixed assets</b>					
Intangible assets	9	799,135	2,611,152	–	–
Tangible assets	10	212,152	294,136	–	–
Investments	11	–	–	1,700,000	3,144,213
		<u>1,011,287</u>	<u>2,905,288</u>	<u>1,700,000</u>	<u>3,144,213</u>
<b>Current assets</b>					
Debtors	12	295,946	226,369	542,057	259,893
Stock		1,211	1,472	–	–
Cash at bank and in hand		721,757	585,965	770,451	612,454
		<u>1,018,914</u>	<u>813,806</u>	<u>1,312,508</u>	<u>872,347</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>(119,742)</u>	<u>(137,638)</u>	<u>(7,851)</u>	<u>(5,951)</u>
<b>Net current assets</b>		<u>899,172</u>	<u>676,168</u>	<u>1,304,657</u>	<u>866,396</u>
<b>Total assets less current liabilities</b>		<u>1,910,459</u>	<u>3,581,456</u>	<u>3,004,657</u>	<u>4,010,609</u>
		<u><u>1,910,459</u></u>	<u><u>3,581,456</u></u>	<u><u>3,004,657</u></u>	<u><u>4,010,609</u></u>
<b>Capital and reserves</b>					
Called up share capital	15	1,225,000	975,000	1,225,000	975,000
Share premium account	16	3,360,169	3,111,419	3,360,169	3,111,419
Profit and loss account	16	<u>(2,674,710)</u>	<u>(504,963)</u>	<u>(1,580,512)</u>	<u>(75,810)</u>
<b>Shareholders' funds – equity interests</b>	17	<u>1,910,459</u>	<u>3,581,456</u>	<u>3,004,657</u>	<u>4,010,609</u>

The financial statements were approved by the Board on 25 November 2005

P Litten  
Director

N J Newman  
Director

# CHEERFUL SCOUT PLC

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2005

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	£	2005 £	£	2004 £
<b>Net cash (outflow)/inflow from operating activities</b>		(136,242)		(71,311)
<b>Returns on investments and servicing of finance</b>				
Interest received	17,268		21,284	
Interest paid	(4)		(93)	
	<u>17,268</u>		<u>21,191</u>	
<b>Net cash inflow for returns on investments and servicing of finance</b>		17,264		21,191
<b>Taxation</b>		–		17,375
<b>Capital expenditure and financial investment</b>				
Payments to acquire intangible assets	(191,865)		(178,426)	
Payments to acquire tangible assets	(52,115)		(53,235)	
	<u>(243,980)</u>		<u>(231,661)</u>	
<b>Net cash outflow for capital expenditure</b>		(243,980)		(231,661)
<b>Net cash outflow before management of liquid resources and financing</b>		(362,958)		(264,406)
<b>Financing</b>				
Net proceeds from issue of ordinary share capital	525,000		301,875	
Expenses relating to issue of share capital	(26,250)		(9,056)	
	<u>498,750</u>		<u>292,819</u>	
<b>Net cash inflow/(outflow) from financing</b>		498,750		292,819
<b>Increase/(Decrease) in cash in the year</b>		<u>135,792</u>		<u>28,413</u>

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# CHEERFUL SCOUT PLC

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2005

### 1. Reconciliation of operating loss to net cash outflow from operating activities

	2005 £	2004 £
Operating loss	(373,544)	(407,242)
Depreciation of tangible assets	134,099	161,783
Amortisation of intangible assets	136,415	136,415
Increase/(decrease) in debtors	(15,577)	1,074
Decrease/(increase) in creditors within one year	(17,896)	36,793
Decrease/(increase) in stock	261	(134)
<b>Net cash outflow from operating activities</b>	<u>(136,242)</u>	<u>(71,311)</u>

### 2. Analysis of net funds

	1 July 2004 £	Cash flow £	30 June 2005 £
Net cash:			
Cash at bank and in hand	(26,087)	26,087	–
Liquid resources:			
Bank deposits	612,052	109,705	721,757
Net funds	<u>585,965</u>	<u>135,792</u>	<u>721,757</u>

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

	2005 £	2004 £
Increase in cash in the year	26,087	(27,929)
Cash (outflow)/inflow from movement in liquid resources	109,705	56,342
Change in net funds resulting from cash flows	<u>135,792</u>	<u>28,413</u>
<b>Movement in net funds in the year</b>	135,792	28,413
Opening net funds	585,965	557,552
<b>Closing net funds</b>	<u>721,757</u>	<u>585,965</u>

# CHEERFUL SCOUT PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

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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 undertakings made up to 30 June 2005. 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 and impairment

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

The carrying value of goodwill is reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable. These reviews assess the recoverable amount by reference to the net present value of expected future cash flows of the relevant income generating unit at a discount rate of 2.8%. Impairment losses are recognised in the period in which they are identified.

#### 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 will be 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.

# CHEERFUL SCOUT PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005

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### 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 assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. 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 23, short term debtors and creditors are not treated as financial assets or financial liabilities.

### 1.14 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

## 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

	2005 £	2004 £
Operating loss is stated after charging:		
Amortisation of intangible assets	136,415	136,415
Depreciation of tangible assets	134,099	161,783
Auditors' remuneration (company £4,250)	12,250	12,250
Operating leases	75,950	75,950
	<u>                    </u>	<u>                    </u>

## 4 Exceptional item

	2005 £	2004 £
Impairment of goodwill	<u>1,867,467</u>	<u>                    </u>

A detailed review of the carrying value of goodwill has been performed which has resulted in an impairment charge in respect of the goodwill relating to the company's investment in Centralfix Limited.

## 5 Interest payable

	2005 £	2004 £
Other interest	<u>4</u>	<u>93</u>

# CHEERFUL SCOUT PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005

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### 6 Taxation

	2005 £	2004 £
<b>Domestic current year tax</b>		
U.K. corporation tax	-	-
Adjustments for prior years	-	-
	<u>-</u>	<u>-</u>
Deferred tax	(54,000)	(16,946)
	<u>(54,000)</u>	<u>(16,946)</u>

The group has estimated losses of £363,079 (2004: £198,943) available for carry forward against future trading profits.

### 7 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:-

	2005 £	2004 £
Holding company's loss for the financial year	<u>(1,504,702)</u>	<u>(48,464)</u>

This figure is stated after an exceptional charge for permanent diminution in the value of the investment in the subsidiary undertaking of £1,444,213.

### 8 Earnings per ordinary share

Basic earnings per share are calculated by dividing the loss attributable to ordinary shareholders of £2,169,747 (2004: £369,105) using a weighted average of 207,500,000 (2004: 186,250,000) 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.



# CHEERFUL SCOUT PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005

### 9 Intangible fixed assets

#### Group

	Goodwill £	Development Costs £	Total £
<b>Cost</b>			
At 1 July 2004	2,728,292	178,426	2,906,718
Additions	–	191,865	191,865
At 30 June 2005	<u>2,728,292</u>	<u>370,291</u>	<u>3,098,583</u>
<b>Amortisation</b>			
At 1 July 2004	295,566	–	295,566
Charge for the year	136,415	–	136,415
Impairment	1,867,467	–	1,867,467
At 30 June 2005	<u>2,299,448</u>	<u>–</u>	<u>2,299,448</u>
<b>Net book value</b>			
At 30 June 2005	<u>428,844</u>	<u>370,291</u>	<u>799,135</u>
At 30 June 2004	<u>2,432,726</u>	<u>178,426</u>	<u>2,611,152</u>

### 10 Tangible fixed assets

#### Group

	Leasehold land and buildings £	Fixtures, fittings and equipment £	Total £
<b>Cost</b>			
At 1 July 2004	142,218	643,610	785,828
Additions	–	52,115	52,115
At 30 June 2005	<u>142,218</u>	<u>695,725</u>	<u>837,943</u>
<b>Depreciation</b>			
At 1 July 2004	51,876	439,816	491,692
Charge for the year	26,443	107,656	134,099
At 30 June 2005	<u>78,319</u>	<u>547,472</u>	<u>625,791</u>
<b>Net book value</b>			
At 30 June 2005	<u>63,899</u>	<u>148,253</u>	<u>212,152</u>
At 30 June 2004	<u>90,342</u>	<u>203,794</u>	<u>294,136</u>

# CHEERFUL SCOUT PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005

### 11 Fixed asset investments

#### Company

	Shares in subsidiary £
<b>Cost/Valuation</b>	
At 1 July 2004	3,144,213
Permanent diminution in value	(1,444,213)
At 30 June 2005	<u>1,700,000</u>

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 companies:

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

### 12 Debtors

	2005 £	Group 2004 £	2005 £	Company 2004 £
Trade debtors	113,942	122,578	–	–
Amounts owed by group undertakings	–	–	534,167	251,765
Other debtors	38,464	37,287	–	–
Prepayments and accrued income	89,540	66,504	7,890	8,128
Deferred tax asset (see note 14)	54,000	–	–	–
	<u>295,946</u>	<u>226,369</u>	<u>542,057</u>	<u>259,893</u>

Other debtors include £35,473 (2004: £35,473) rental deposit which is secured by a charge in favour of the landlords.

# CHEERFUL SCOUT PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005

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

	Group 2005 £	Company 2004 £	2005 £	2004 £
Trade creditors	59,456	68,451	–	–
Amounts due to group undertakings	–	–	1	1
Taxes and social security costs	13,510	12,276	–	–
Accruals and deferred income	46,776	56,911	7,850	5,950
	<u>119,742</u>	<u>137,638</u>	<u>7,851</u>	<u>5,951</u>

### 14 Provisions for liabilities and charges

The deferred tax asset (included in debtors, note 12) is made up as follows:-

	2005 £	2004 £
Tax losses and accelerated capital allowances	<u>(54,000)</u>	<u>–</u>

### 15 Share capital

<b>Authorised</b>	2005 £	2004 £
700,000,000 Ordinary shares of 0.5p each	<u>3,500,000</u>	<u>3,500,000</u>

#### Allotted, called up and fully paid

245,000,000 Ordinary shares of 0.5p each	<u>1,225,000</u>	<u>975,000</u>
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During the year 50,000,000 new ordinary shares of 0.5p each were issued at 1.05 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.

An additional 6,905,000 ordinary shares of 0.5p each have been offered at an option price of 0.75p per share exercisable between 3 and 10 years after the date of grant, which was 28 October 2004.

# CHEERFUL SCOUT PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005

### 16 Statement of movements on reserves Group

	Share premium account £	Profit and loss account £
Balance at 1 July 2004	3,111,419	(504,963)
Retained loss for the year	–	(2,169,747)
Premium on shares issued during the year	275,000	–
Expenses relating to issue of shares	(26,250)	–
Balance at 30 June 2005	<u>3,360,169</u>	<u>(2,674,710)</u>

### Company

	Share premium account £	Profit and loss account £
Balance at 1 July 2004	3,111,419	(75,810)
Retained loss for the year	–	(1,504,702)
Premium on shares issued during the year	275,000	–
Expenses relating to issue of shares	(26,250)	–
Balance at 30 June 2005	<u>3,360,169</u>	<u>(1,580,512)</u>

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

	2005 £
Loss for the financial year	(2,169,747)
Proceeds from issue of shares	525,000
Expenses relating to issue of shares	(26,250)
Net reduction in shareholders' funds	<u>(1,670,997)</u>
Opening shareholders' funds	3,581,456
Closing shareholders' funds	<u>1,910,459</u>

### Company

	2005 £
Loss for the financial year	(1,504,702)
Proceeds from issue of shares	525,000
Expenses relating to issue of shares	(26,250)
Net reduction in shareholders' funds	<u>(1,005,952)</u>
Opening shareholders' funds	4,010,609
Closing shareholders' funds	<u>3,004,657</u>

# CHEERFUL SCOUT PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005

### 18 Financial commitments

At 30 June 2005 the group had annual commitments under non-cancellable operating leases as follows:

	<b>Land and buildings</b>	
	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
Expiry date:		
In over five years	<u>75,950</u>	<u>78,843</u>

### 19 Capital commitments

	<b>2005</b>	<b>Group</b>	<b>2005</b>	<b>Company</b>
	<b>£</b>	<b>2004</b>	<b>£</b>	<b>2004</b>
		<b>£</b>		<b>£</b>
Authorised and contracted for	<u>–</u>	<u>75,000</u>	<u>–</u>	<u>–</u>

### 20 Directors' emoluments

	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
Emoluments for qualifying services	<u>106,800</u>	<u>107,000</u>

Directors remuneration includes £48,555 (2004: £34,218) which has been capitalised as development costs.

### 21 Related party transactions

During the year, £15,155 (2004: £18,000) 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.

### 22 Employees

#### Number of employees

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

	<b>2005</b>	<b>2004</b>
	<b>Number</b>	<b>Number</b>
Production	11	7
Administration	3	2
	<u>14</u>	<u>9</u>
<b>Employment costs</b>	<b>£</b>	<b>£</b>
Wages and salaries	392,568	268,038
Social security costs	36,612	28,848
Pension costs	172	121
	<u>429,352</u>	<u>297,007</u>

Wages and salaries totalling £48,555 (2004: £34,218) have been capitalised as development costs.

# CHEERFUL SCOUT PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005

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### 23 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 2005 is as follows:

	Financial assets on which no interest is earned £	Floating rate financial assets £	Total £
Sterling	<u>5,000</u>	<u>716,757</u>	<u>721,757</u>

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.

### 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 £172 (2004: £121).

# CHEERFUL SCOUT PLC

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

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Cheerful Scout plc will be held at the Company's offices at 25-27 Riding House Street, London W1W 7DU on 22 December 2005 at 09.30 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 2005.
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 2005.
3. To reappoint Neville Newman 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 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
- 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

28 November 2005

#### **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.