

CHEERFUL SCOUT PLC
CONSOLIDATED DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

CHEERFUL SCOUT PLC

COMPANY INFORMATION

Directors	S Appleton (Non-Executive Chairman) P Litten (Chief Executive) N J Newman R L Owen
Secretary	N J Newman
Company number	4314540
Registered office	65 New Cavendish Street London W1G 7LS
Financial advisers	Harris & Trotter LLP 65 New Cavendish Street London W1G 7LS
Stockbrokers	Seymour Pierce Ellis Limited Talisman House Jubilee Walk Three Bridges Crawley West Sussex RH10 1LQ
Nominated adviser	Seymour Pierce Limited Bucklersbury House 3 Queen Victoria Street London EC4N 8EL
Auditors	HLB Vantis Audit plc 66 Wigmore Street London W1U 2SB
Solicitors	Finers Stephens Innocent 179 Great Portland Street London W1W 5LS Ross & Craig 12a Upper Berkeley Street London W1H 7PE
Bankers	Barclays Bank plc P O Box 32106 London NW1 2ZH
Registrar and transfer office	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield West Yorkshire HD8 OLA

CHEERFUL SCOUT PLC

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CHEERFUL SCOUT PLC

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

It gives me great pleasure to report on Cheerful Scout's progress and I believe your Company has much to celebrate in its tenth year. The period under review has been extremely positive resulting in an exciting turnaround in our core business of corporate programming and DVD production. Several prestigious awards have been won - CIB and IVCA in UK and recently at the FEIFA Grand Prix awards in Vienna, which underline our commitment to quality and the use of innovation and further solidify our position and reputation in our market place. Importantly, we have strengthened our portfolio of blue-chip clients, secured a solid pipeline of new business and enhanced our technology and service offering - primarily through the launch of nVision. I therefore believe we have a healthy business that will now be in a position to deliver value to shareholders and realise our full potential.

Financial Results

As confirmation of our improvement and ongoing success, I am delighted to report an inaugural pre-tax profit of £259,032 before goodwill amortisation and reorganisation costs (2005: loss £219,865 before goodwill amortisation and impairment) on a turnover of £2,173,163 (2005: £898,492). Cash balances stand at £885,559. We are encouraged that our existing core business has made the most significant impact on the numbers and as we anticipate an increased potential contribution from our new divisions - we can look forward to the future with keen anticipation.

No Dividend will be payable this year, but the Directors will continue to review this position closely as our financial situation improves.

Operations

Cheerful Scout is a multidisciplinary creative consultancy that specialises in devising and delivering corporate communications solutions. Its business is divided into three areas; (1) film and video programme production; (2) DVD Authoring; (3) nVision Technology - which incorporates the events division.

(1) Programme Production

The programme productions division - which builds entire projects from initial ideas through to implementation - continues to perform well. While much of our work has traditionally been from long standing contracts with clients such as Allen & Overy and Deloitte, we have now secured a number of new contracts with other leading organisations. In particular we recently won two branding contracts, the first a project with the Health, Work and Wellbeing Strategy Department and the second a project to create the imagery and characters for the new Tesco Direct service. This increase in client base not only bodes well for the future but underlines that our attention to detail, creativity and quality of work is paying off, as new business increases from both old and new clients.

(2) DVD

In the same vein, our DVD division is also performing well. We have been an active participator in the DVD market for several years and have worked on a number of major features as well as many well known television series such as Spooks and Life On Mars. Our customers recognise our consistently high standard of work, enabling us to build an extensive and loyal customer base which includes 2 Entertain, Contender Entertainment Group and Fremantle. This high standard has once again been endorsed by our DVD department being singled out by Televisual for its menu designs as some of the best for 2006.

(3) nVision

Cheerful Scout is building a name for itself as a developer of pioneering technologies and for pushing the boundaries of on-screen visual communication.

nVision technology is our latest development, of which there are two versions: nVision Presenter, a unique communications product targeted at organisers of live events, and nVision Strategy, a high end product directed at organisations requiring complex problem solving tools.

nVision Presenter was the first to launch in 2006 and is establishing itself in the market place. With such a unique offering, we decided that your Company could increase the business potential and benefits of nVision Presenter by establishing an events division to help organise and execute live events. We have subsequently organised a number of events both in the UK and in Europe which I am happy to report, were very well received.

The Business Intelligence Market is growing rapidly and I am delighted that nVision Strategy provides an entry point into what is an entirely new market for Cheerful Scout. We believe that nVision Strategy will provide considerable opportunities for us in the future. Furthermore, to develop the product further, we are co developing with a visualisation company that deals in strategy for large retail corporates. We believe by working with partners we can increase both the value of our proposition as well as the uptake.

CHEERFUL SCOUT PLC

CHAIRMAN'S STATEMENT (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2006

Our People

Our people are crucial to the success of Cheerful Scout. We have 18 full time people all who are well trained, able to adapt to the changing needs of our clients and who understand the Cheerful Scout ethos. The culture of Cheerful Scout remains as solid today as it did when it was founded by Gary and Peter 10 years ago. It remains flexible, innovative and creative and offers the best service possible at all times to all clients. We understand the importance of client relationships and will continue to employ and hopefully retain the very best of people.

We are proud of our retention of staff, which I believe can be put down to the management, innovative environment and the opportunities for those involved in the business as we continue to grow. Good people are essential and I'd like to take this opportunity to thank everyone for their hard work in building Cheerful Scout to what it is today.

Consolidation of Share Capital

Your Board is aware that, due to the large number of shares in issue and low unit price per share, the Company's shares have traded with a relatively wide bid-offer spread compared to other companies of similar size. Your Board believes that consolidating the share capital of the Company will reduce trading costs for shareholders without having an adverse effect on liquidity, and will result in a more appropriate number of shares in issue.

Consequently, your approval is sought for a consolidation of the ordinary shares of 0.5p each, such that all shareholders will receive one new ordinary share of 12.5p each for every 25 ordinary shares of 0.5p. Subject to the passing of resolution 6 of the notice of the AGM, fractions of new ordinary shares resulting from the consolidation will not be issued to shareholders. The Board may decide that any fractions shall be consolidated into consolidated shares which the Board may sell for the best price that can be reasonably obtained. The net proceeds of any such sale after deduction of expenses will be distributed in due proportion among holders of fractional entitlements (except that any amount due which is less than £3 may be retained for the benefit of the Company). Based on the shareholdings at the date of this letter, it is not expected that any fractional entitlements will be above £3 and so it is not expected that any distribution will be made to shareholders in relation to fractional entitlements.

Except in relation to fractional entitlements, the proportion of each shareholder's interest in the Company will remain the same, and except for the increase in nominal value, the new ordinary shares will be identical in all respects to the ordinary shares. The new ordinary shares will rank *pari passu* in respect of dividends.

As a result of the consolidation of ordinary shares the existing warrants to subscribe for ordinary shares will also be consolidated such that each consolidated warrant would entitle the holder to subscribe for one new ordinary share of 12.5 p at 62.5 p per share.

The record date for the consolidation of both the ordinary shares and the warrants is close of business on 23 November 2006. Crest accounts will be credited with new ordinary shares and/or new warrants in uncertificated form on 24 November 2006. Dealings will commence in new ordinary shares and new warrants on 24 November 2006. Persons holding ordinary shares and warrants in certificated form will be issued with new share certificates and new warrant certificates on 7 December 2006. Existing share certificates and warrant certificates will remain valid pending the issue of new share certificates and new warrant certificates. Upon receipt of new share certificates and new warrant certificates, the existing share certificates and warrant certificates will become invalid and should be destroyed.

Outlook

As the results demonstrate, our previous investment in both technology and a highly experienced team has enabled us to build a strong position in a competitive market. I am confident that our success will continue and that the future stability and growth of the Company is in safe hands. Importantly, our core business and nVision are beginning to interact, creating new business prospects for each other, thus further strengthening our investment case. Through leveraging the team's creative abilities and exploiting our unique technology, we have created a solid platform from which to further develop the business and in turn generate increased shareholder value and fulfil the potential of what I believe to be a very exciting company.

S Appleton
Chairman
16 October 2006

CHEERFUL SCOUT PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2006

The directors present their report and financial statements for the year ended 30 June 2006.

Principal Activities

Cheerful Scout is a multidisciplinary creative consultancy that specialises in devising and delivering corporate communication solutions.

Performance Review – Results and Financial Position

Results

The results for the year show a profit before taxation, goodwill amortisation and reorganisation costs of £259,032 (2005 loss £219,865). It is proposed that the retained profit after taxation of £154,533 is transferred to the group's reserves.

Summary of Income Statement Total

Revenue for the year grew 142% to £2,173,163 (2005 - £898,492), with an operating profit before goodwill amortisation and reorganisation costs of £228,970.

The net goodwill, amortisation and reorganisation costs were £50,499, compared to £2,003,882 in the previous year.

Continuing Operations

Gross profit increased 224% to £864,551 with continued growth from nVision presenter and new customer contacts. This growth, plus sound operational controls, increased EBITDA (earnings before interest, tax, depreciation, goodwill amortisation, impairment and reorganisation costs) to £414,854 from £33,385.

Dividend

The Company has not declared or paid a dividend on its share capital (2005: £Nil).

Capital Expenditure

Total capital expenditure, including expenditure on intangible assets, was £97,469 compared with £243,980 last year.

Cashflows

Net cash from operating activities was £256,232 compared with £(136,242) for the year ended 30 June 2005. Free cashflow, representing operating cashflow after taxation, interest, capital expenditure and issue of ordinary share capital increased by £163,802 compared to £135,792 last year.

The key financial highlights are as follows:

	2006 £	2005 £	2004 £	2003 £
Turnover	2,173,163	898,492	607,042	733,347
Operating profit/(loss) before goodwill amortisation, and reorganisation costs	228,970	(237,129)	(270,827)	(91,840)
Operating profit/(loss) margin before goodwill amortisation, and reorganisation costs	10.54%	N/A	N/A	N/A

Further information can be found within the Chairman's statement on pages 1 and 2.

CHEERFUL SCOUT PLC

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2006

Reorganisation

During the year, the company successfully applied to the High Court of Justice to transfer to a special reserve the sum of £3,360,169 being the balance of the share premium account. In addition accumulated losses of £1,612,753 to 30 November 2005 were also transferred to the special reserve with the approval of the High Court of Justice.

Employees

Our priority is to attract and retain talented employees and to harness their creativity to drive growth through development and delivery of services that bring value to our customers' business operations.

We continue to focus on ensuring that the performance of staff is measured against clear, business focused objectives and behavioural criteria through continuous appraisals.

Reward

The Group benchmarks employee salaries against the market and reviews salaries annually to ensure that we are paying at a level to attract and retain high-quality employees.

All staff are offered access to a share option scheme further details of which are provided in Note 15 to the financial statements.

Equal Opportunities

We are committed to ensuring equal opportunities for our staff. We have introduced training which covers equal opportunities legislation and best practice. Our policy in respect of employment of disabled persons is the same as that relating to all other employees in matters of training, career development and promotion. Where employees become disabled during the course of their employment, we make every effort to make reasonable adjustments to their working environment to enable their continued employment.

Safety, Health and Environment

The commitment and participation of all employees is vital to efficient and effective occupational risk control. In order to meet our responsibility to protect the environment, staff and the business, the Group continues to focus on maintaining a risk aware culture.

We believe the Group maintains a low environmental impact. We therefore continue to work on the potential environmental impacts of energy consumption, waste and travel.

Charitable and Political Donations

During the year, the Group made a charitable donation amounting to £3,095 (2005 - £1,290). The Group made no donations for political purposes.

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 49 (2005 - 32) days' purchases.

CHEERFUL SCOUT PLC

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2006

Directors' Policies for Managing Principal Risks

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the business. Risk reviews are undertaken regularly by the respective business areas throughout the year to identify and assess the key risks associated with the achievement of our business objective.

Financial instruments

Details of financial instruments are given in note 22 to the accounts.

Directors

The following directors have held office since 1 July 2005:

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 the development of nVision Strategy 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 2006	1 July 2005
P Litten	110,196,000	110,196,000
S Appleton	3,308,000	3,308,000
N J Newman	6,996,000	6,996,000
R L Owen (see below)	-	-

None of the directors had any interest in the subsidiary companies.

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

	30 June 2006	1 July 2005
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.

CHEERFUL SCOUT PLC

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2006

Shareholdings

At 30 June 2006 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
Addworth PLC	10,000,000	4.08

R L Owen is a director and has an interest in Reverse Take-Over Investments Plc through its parent company Westside Acquisitions 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 one executive director and three 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.

Auditors

On 1 April 2006, HLB AV Audit plc changed its name to HLB Vantis Audit plc.

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

CHEERFUL SCOUT PLC

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2006

Statement of Disclosure To Auditor

- (a) So far as the directors are aware, there is no relevant information of which the company's auditors are unaware, and;
- (b) They have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

United Kingdom 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 year. 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, detection of fraud and other irregularities and for the maintenance and integrity of the corporate and financial information included within the company's website.

On behalf of the Board

N J Newman
Director
16 October 2006

CHEERFUL SCOUT PLC

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CHEERFUL SCOUT PLC

We have audited the group and parent company financial statements (the "financial statements") of Cheerful Scout Plc for the year ended 30 June 2006 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and the related notes 1 to 23. 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 7 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 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 transactions with the company is not disclosed.

We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. Our responsibilities do not extend to any other information.

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 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's and the group's affairs as at 30 June 2006 and of the group's profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statement.

HLB Vantis Audit plc

16 October 2006

**Chartered Accountants
Registered Auditor**

66 Wigmore Street
London W1U 2SB

CHEERFUL SCOUT PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2006

	Notes	Pre goodwill amortisation and reorganisation costs	Goodwill Amortisation and reorganisation costs	2006 Total	Pre goodwill amortisation and impairment	Goodwill Amortisation and impairment	2005 Total
		£	£	£	£	£	£
Turnover	2	2,173,163	-	2,173,163	898,492	-	898,492
Cost of sales		(1,308,612)	-	(1,308,612)	(631,550)	-	(631,550)
Gross profit		864,551	-	864,551	266,942	-	266,942
Administrative expenses		(635,581)	(50,499)	(686,080)	(504,071)	(136,415)	(640,486)
Operating Profit/(loss)	3	228,970	(50,499)	178,471	(237,129)	(136,415)	(373,544)
Exceptional item	4	-	-	-	-	(1,867,467)	(1,867,467)
Interest receivable		30,104	-	30,104	17,268	-	17,268
Interest payable and similar charges	5	(42)	-	(42)	(4)	-	(4)
Profit/(Loss) on ordinary activities before taxation		259,032	(50,499)	208,533	(219,865)	(2,003,882)	(2,223,747)
Tax on profit/(loss) on ordinary activities	6	-	-	(54,000)	54,000	-	54,000
Retained profit/(loss) for the year	16			154,533			(2,169,747)
Earnings per ordinary shares:							
Basic	8			<u>0.063075p</u>			<u>(1.045661)p</u>
Diluted	8			<u>0.062814p</u>			<u>(1.045661)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 2006

	Notes	2006 £	Group 2005 £	2006 £	Company 2005 £
Fixed assets					
Intangible assets	9	793,194	799,135	-	-
Tangible assets	10	129,678	212,152	-	-
Investments	11	-	-	1,700,000	1,700,000
		<u>922,872</u>	<u>1,011,287</u>	<u>1,700,000</u>	<u>1,700,000</u>
Current assets					
Stock		2,268	1,211	-	-
Debtors	12	615,914	295,946	519,669	542,057
Cash at bank and in hand		885,559	721,757	742,811	770,451
		<u>1,503,741</u>	<u>1,018,914</u>	<u>1,262,480</u>	<u>1,312,508</u>
Creditors: amounts falling due within one year	13	(361,621)	(119,742)	(11,276)	(7,851)
Net current assets		<u>1,142,120</u>	<u>899,172</u>	<u>1,251,204</u>	<u>1,304,657</u>
Total assets less current liabilities		<u>2,064,992</u>	<u>1,910,459</u>	<u>2,951,204</u>	<u>3,004,657</u>
		<u>2,064,992</u>	<u>1,910,459</u>	<u>2,951,204</u>	<u>3,004,657</u>
Capital and Reserves					
Called up share capital	15	1,225,000	1,225,000	1,225,000	1,225,000
Share premium account	16	-	3,360,169	-	3,360,169
Special Reserves	16	1,747,416	-	1,747,416	-
Profit and loss account	16	(907,424)	(2,674,710)	(21,212)	(1,580,512)
Shareholders' funds – equity interests	17	<u>2,064,992</u>	<u>1,910,459</u>	<u>2,951,204</u>	<u>3,004,657</u>

The financial statements were approved by the Board on 16 October 2006.

P Litten
Director

N J Newman
Director

CHEERFUL SCOUT PLC

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	£	2006 £	£	2005 £
Net cash inflow/(outflow) from operating activities		231,209		(136,242)
Returns on investments and servicing of finance				
Interest received	30,104		17,268	
Interest paid	(42)		(4)	
	<hr/>		<hr/>	
Net cash inflow for returns on investments and servicing of finance		30,062		17,264
Taxation		-		-
Capital expenditure and financial investment				
Payments to acquire intangible assets	(66,052)		(191,865)	
Payments to acquire tangible assets	(31,417)		(52,115)	
	<hr/>		<hr/>	
Net cash outflow for capital expenditure		(97,469)		(243,980)
		<hr/>		<hr/>
Net cash inflow/(outflow) before management of liquid resources and financing		163,802		(362,958)
Financing				
Net proceeds from issue of ordinary share capital	-		525,000	
Expenses relating to issue of share capital	-		(26,250)	
	<hr/>		<hr/>	
Net cash inflow from financing		-		498,750
		<hr/>		<hr/>
Increase in cash in the year		163,802		135,792
		<hr/>		<hr/>

CHEERFUL SCOUT PLC

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

1 Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities

	2006 £	2005 £
Operating profit/(loss)	178,471	(373,544)
Depreciation of tangible assets	113,891	134,099
Amortisation of intangible assets	71,993	136,415
Increase/(decrease) in debtors	(373,968)	(15,577)
Decrease/(increase) in creditors within one year	241,879	(17,896)
Decrease/(increase) in stock	(1,057)	261
Net cash inflow/(outflow) from operating activities	231,209	(136,242)

2 Analysis of net funds

	1 July 2005 £	Cash flow £	30 June 2006 £
Net cash:			
Cash at bank and in hand	-	158,916	158,916
Liquid resources:			
Bank deposits	721,757	4,886	726,643
Net funds	<u>721,757</u>	<u>163,802</u>	<u>885,559</u>

3 Reconciliation of net cash flow to movement in net funds

	2006 £	2005 £
Increase in cash in the year	158,916	26,087
Cash inflow from movement in liquid resources	4,886	109,705
Change in net funds resulting from cash flows	<u>163,802</u>	<u>135,792</u>
Movement in net funds in the year	163,802	135,792
Opening net funds	721,757	585,965
Closing net funds	<u>885,559</u>	<u>721,757</u>

CHEERFUL SCOUT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

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 2006. 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 and has been derived from its principal activity.

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 2006

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.

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

Geographical market

	2006 £	2005 £
United Kingdom	2,008,332	678,335
Europe	144,061	220,157
Rest of the world	20,770	-
	<u>2,173,163</u>	<u>898,492</u>

3 Operating profit/(loss)

	2006 £	2005 £
Operating profit /(loss) is stated after charging:		
Amortisation of intangible assets	71,993	136,415
Depreciation of tangible assets	113,891	134,099
Auditors' remuneration (company £4,750)	13,000	12,250
Operating leases	83,545	75,950
	<u>272,429</u>	<u>368,714</u>

4 Exceptional item

	2006 £	2005 £
Impairment of goodwill		1,867,467
	<u>0</u>	<u>1,867,467</u>

CHEERFUL SCOUT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2006

5 Interest payable

	2006 £	2005 £
Other interest	42	4

6 Taxation

	2006 £	2005 £
Current year tax	-	-
Deferred tax		
Deferred tax charge/(credit) for the year	54,000	(54,000)

Factors affecting the tax charge for the year

Profit/(loss) on ordinary activities before taxation	208,533	(2,223,747)
Profit/(loss) on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 19% (2005 – 19%)	39,621	(422,512)
Effects of:		
Non deductible expenses	232	181
Depreciation add back	21,683	25,478
Capital allowances	(12,140)	(14,984)
Research and development allowances	(20,825)	-
Other tax adjustments	(28,571)	411,837
	(39,621)	422,512
Current tax charge	-	-

The group has estimated losses of £154,329 (2005: £363,079) 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:-

	2006 £	2005 £
Holding company's loss for the financial year	(53,453)	(1,504,702)
Transfer to special reserves (See Note 16)	32,241	-
Retained loss for the year	(21,212)	(1,504,702)

This figure is stated after an exceptional charge for permanent diminution in the value of the investment in the subsidiary undertaking of £ nil (2005: £1,444,213).

CHEERFUL SCOUT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2006

8 Earnings per ordinary share

Basic earnings per share are calculated by dividing the profit attributable to ordinary shareholders of £154,533 (2005: £2,169,747) using a weighted average of 245,000,000 (2005: 207,500,000) 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 price of the Company's ordinary shares during the year. These adjustments give rise to an increase of 1,015,804 ordinary shares.

9 Intangible fixed assets

Group	Goodwill	Development Costs	Total
	£	£	£
Cost			
At 1 July 2005	2,728,292	370,291	3,098,583
Additions	-	66,052	66,052
	<hr/>	<hr/>	<hr/>
At 30 June 2006	2,728,292	436,343	3,164,635
	<hr/>	<hr/>	<hr/>
Amortisation			
At 1 July 2005	2,299,448	-	2,299,448
Charge for the year	25,476	46,517	71,993
	<hr/>	<hr/>	<hr/>
At 30 June 2006	2,324,924	46,517	2,371,441
	<hr/>	<hr/>	<hr/>
Net book value			
At 30 June 2006	403,368	389,826	793,194
	<hr/>	<hr/>	<hr/>
At 30 June 2005	428,844	370,291	799,135
	<hr/>	<hr/>	<hr/>

CHEERFUL SCOUT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2006

10 Tangible fixed assets

Group	Leasehold land and buildings £	Fixtures, fittings and equipment £	Total £
Cost			
At 1 July 2005	142,218	695,725	837,943
Additions	-	31,417	31,417
At 30 June 2006	142,218	727,142	869,360
Depreciation			
At 1 July 2005	78,319	547,472	625,791
Charge for the year	26,442	87,449	113,891
At 30 June 2006	104,761	634,921	739,682
Net book value			
At 30 June 2006	37,457	92,221	129,678
At 30 June 2005	63,899	148,253	212,152

11 Fixed asset investments

Company	Shares in subsidiary £
Cost	
At 1 July 2005 and 30 June 2006	3,144,213
Impairment	
At 1 July 2005 and 30 June 2006	(1,444,213)
Valuation as at 30 June 2006	1,700,000

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	%
Subsidiary undertakings			
Centrafix 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
Centrafix Limited	Provision of business communication services
nVision Technology Limited	Dormant

CHEERFUL SCOUT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2006

12 Debtors

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Trade debtors	516,023	113,942	-	-
Amounts owed by group undertakings	-	-	511,681	534,167
Other debtors	39,014	38,464	-	-
Prepayments and accrued income	60,877	89,540	7,988	7,890
Deferred tax asset (see note 14)	-	54,000	-	-
	<u>615,914</u>	<u>295,946</u>	<u>519,669</u>	<u>542,057</u>

Other debtors include £35,473 (2005: £35,473) rental deposit which is secured by a charge in favour of the landlords.

13 Creditors: amounts falling due within one year

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Trade creditors	170,593	59,456	-	-
Amounts due to group undertakings	-	-	1	1
Taxes and social security costs	76,126	13,510	-	-
Accruals and deferred income	114,902	46,776	11,275	7,850
	<u>361,621</u>	<u>119,742</u>	<u>11,276</u>	<u>7,851</u>

14 Provisions for liabilities and charges

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

	2006 £	2005 £
Tax losses and accelerated capital allowances	-	54,000

CHEERFUL SCOUT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2006

15 Share capital

Authorised	2006 £	2005 £
700,000,000 Ordinary shares of 0.5p each	3,500,000	3,500,000
Allotted, called up and fully paid		
245,000,000 Ordinary shares of 0.5p each	1,225,000	1,225,000

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 6,105,000 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 2006

16 Statement of movements on reserves

Group

	Share premium account £	Special Reserves £	Profit and loss account £
Balance at 1 July 2005	3,360,169	-	(2,674,710)
Transfer in respect of the cancellation of share premium account	(3,360,169)	3,360,169	-
Transfer in respect of accumulated losses to 30 November 2005	-	(1,612,753)	1,612,753
Retained Profit for the year	-	-	154,533
	<hr/>	<hr/>	<hr/>
Balance at 30 June 2006	-	1,747,416	(907,424)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Company

	Share premium account £	Special Reserves £	Profit and loss account £
Balance at 1 July 2005	3,360,169	-	(1,580,512)
Retained loss for the year	-	-	(53,453)
Transfer in respect of the cancellation of share premium account	(3,360,169)	3,360,169	-
Transfer in respect of accumulated losses to 30 November 2005	-	(1,612,753)	1,612,753
	<hr/>	<hr/>	<hr/>
Balance at 30 June 2006	-	1,747,416	(21,212)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The company successfully applied to the High Court of Justice to transfer to a special reserve the sum of £3,360,169 being the balance of the share premium account. In addition accumulated losses of £1,612,753 to 30 November 2005 were also transferred to the special reserves with the approval of the High Court of Justice.

CHEERFUL SCOUT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2006

17 Reconciliation of movements in shareholders' funds Group

	2006 £
Profit for the financial year	154,533
Opening shareholders' funds	1,910,459
	<hr/>
Closing shareholders' funds	<u>2,064,992</u>

Company

	2006 £
Loss for the financial year	(53,453)
Opening shareholders' funds	3,004,657
	<hr/>
Closing shareholders' funds	<u>2,951,204</u>

18 Financial commitments

At 30 June 2006 the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2006 £	2005 £
Expiry date:		
In over five years	83,545	75,950
	<hr/>	<hr/>

19 Directors' emoluments

	2006 £	2005 £
Emoluments for qualifying services	127,500	106,800
	<hr/>	<hr/>

Directors remuneration includes £12,750 (2005: £48,555) which has been capitalised as development costs.

20 Related party transactions

During the year, £21,715 (2005: £15,155) 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, its subsidiary undertaking.

CHEERFUL SCOUT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2006

21 Employees

Number of employees

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

	2006 Number	2005 Number
Production	13	11
Administration	4	3
	<u>17</u>	<u>14</u>

Employment costs

	£	£
Wages and salaries	498,535	392,568
Social security costs	53,091	36,612
Pension costs	172	172
	<u>551,798</u>	<u>429,352</u>

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 2006 is as follows:

	Financial assets on which no interest is earned	Floating rate financial assets	Total
	£	£	£
Sterling	<u>5,000</u>	<u>880,559</u>	<u>885,559</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.

23 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 (2005: £172).