

Registration Number 4050380

ForcesGroup Limited
Annual Report
for the year ended 31 December 2004



ForcesGroup Limited

Directors, officers and advisors

Directors	W C Cooney Sir P Hine D Kane Sir R Wheeler S Shumway J Cooney	Appointed 18th February 2004 Appointed 1st July 2004
Secretary	R S Conder	
Company Number	4050380	
Registered Office	Enterprise Units Ordnance Road Tidworth Wiltshire SP9 7QD	
Auditors	Rothman Pantall & Co. 229 West Street Fareham Hampshire PO16 0HZ	
Bankers	Lloyds TSB Bank plc Gracechurch House 23/35 Castle Way Southampton SO14 2BW	

ForcesGroup Limited

Annual Report for the year ended 31 December 2004

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ForcesGroup Limited

Directors' Report for the year ended 31 December 2004

The directors present their annual report, together with the audited financial statements of the company and the group, for the year ended 31 December 2004.

Principal Activity and Review of the Business

The principal activities of the group are the supply of personal insurance lines to the Armed Forces.

Results And Dividends

The results for the year are set out on page 5. The loss for the year after taxation was £74,941.

The directors do not recommend payment of a final dividend.

Directors and their Interests

The directors who served during the year and their interests in the company are as stated below:

	Ordinary shares		Preference A1 series shares	
	31 December 2004	1 January 2004	31 December 2004	1 January 2004
W C Cooney	12,000	12,000	58,758,082	58,758,082
Sir P Hine	2,000	2,000	20,000,000	20,000,000

The options held by directors are detailed below:

	Number of shares	Earliest exercise date	Latest exercise date	Option price per share £
Sir Rodger Wheeler	100,000	20 August 2004	19 August 2011	0.2588

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 the affairs of the company and of the group and of the profit or loss of the company and of the group for that year. In preparing these the directors are required to:

- select suitable accounting policies and 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 company and 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 of 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 of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ForcesGroup Limited

**Directors' Report
for the year ended 31 December 2004**

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Rothman Pantall & Co. be reappointed as auditors of the company will be put to the Annual General Meeting.

This report was approved by the Board on ^{19th August 2005} and signed on its behalf by



**R S Conder
Secretary**

ForcesGroup Limited

Independent auditors' report to the shareholders of ForcesGroup Limited

We have audited the financial statements of ForcesGroup Limited for the year ended 31 December 2004 which comprise the Group profit and loss account, Group balance sheet, Company balance sheet, the Group cash flow statement and the related notes. These financial statements have been prepared in accordance with the Financial Reporting Standards and under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's shareholders, 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 shareholders those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders 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 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 directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 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.

ForcesGroup Limited

Independent auditors' report to the shareholders of ForcesGroup Limited continued

Fundamental uncertainty

In forming our opinion we have also considered the adequacy of the disclosures made in the financial statements concerning the group's ability to continue trading. The financial statements have been prepared on the going concern basis, the validity of which depends on the achievement of predicted revenue growth. The financial statements do not include any adjustment that would result from failure to achieve this predicted growth. Details of the circumstances relating to this fundamental uncertainty are described in note 1.

Our opinion is not qualified in respect of this matter.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs and of the group as at 31 December 2004 and of the result of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Rothman Pantall & Co.
Chartered Accountants and
Registered Auditor**

**229 West Street
Fareham
Hampshire
PO16 0HZ**

18th October 2005.

ForcesGroup Limited

Group Profit and Loss Account for the year ended 31 December 2004

		Continuing operations	
		2004	2003
	Notes	£	£
Turnover	2	186,933	211,661
Administrative expenses		(267,117)	(818,794)
Group operating loss	3	(80,184)	(607,133)
Interest receivable and similar income	4	2,850	12,289
Interest payable and similar charges	5	(7)	-
Loss on ordinary activities before taxation		(77,341)	(594,844)
Tax on loss on ordinary activities	8	2,400	-
Loss on ordinary activities after taxation		(74,941)	(594,844)
Additional finance costs of non equity shares		(852,291)	(788,355)
(Loss) for the group		(927,232)	(1,383,199)

There are no recognised gains or losses other than the profit or loss for the above two financial years.

The notes on pages 9 to 21 form an integral part of these financial statements.


ForcesGroup Limited

**Group Balance Sheet
as at 31 December 2004**

		2004		2003	
	Notes	£	£	£	£
Fixed Assets					
Intangible assets	10		86,000		98,000
Tangible assets	11		1,530		1,619
			<u>87,530</u>		<u>99,619</u>
Current Assets					
Debtors	13	73,555		92,648	
Cash at bank and in hand		60,849		165,778	
		<u>134,404</u>		<u>258,426</u>	
Creditors: amounts falling due within one year	14	<u>(57,698)</u>		<u>(118,868)</u>	
Net Current Assets			<u>76,706</u>		<u>139,558</u>
Total Assets Less Current Liabilities			<u>164,236</u>		<u>239,177</u>
Capital and Reserves					
Called up share capital	15		61,969		61,969
Share premium account	16		9,349,902		9,349,902
Profit and loss account	16		(9,247,635)		(9,172,694)
Equity Shareholders' Funds	17		<u>164,236</u>		<u>239,177</u>
Equity interests			<u>(11,984,958)</u>		<u>(11,057,726)</u>
Non-equity interests			<u>12,149,194</u>		<u>11,296,903</u>

The financial statements were approved by the Board on 19th August 2005
behalf by

and signed on its


W C Cooney
Director

The notes on pages 9 to 21 form an integral part of these financial statements.

ForcesGroup Limited

**Company Balance Sheet
as at 31 December 2004**

		2004		2003	
	Notes	£	£	£	£
Fixed Assets					
Tangible assets	11		1,530		1,619
Investments	12		5		5
			<u>1,535</u>		<u>1,624</u>
Current Assets					
Debtors	13	45,398		60,059	
Cash at bank and in hand		23,323		68,323	
		<u>68,721</u>		<u>128,382</u>	
Creditors: amounts falling due within one year	14	<u>(182,298)</u>		<u>(87,592)</u>	
Net Current Assets			<u>(113,577)</u>		<u>40,790</u>
Total Assets Less Current Liabilities			<u>(112,042)</u>		<u>42,414</u>
Capital and Reserves					
Called up share capital	15		61,969		61,969
Share premium account	16		9,349,902		9,349,902
Profit and loss account	16		(9,523,913)		(9,369,457)
Equity Shareholders' Funds	17		<u>(112,042)</u>		<u>42,414</u>
Equity interests			<u>(12,261,236)</u>		<u>(11,254,489)</u>
Non-equity interests			<u>12,149,194</u>		<u>11,296,903</u>

19th August 2005

The financial statements were approved by the Board on and signed on its behalf by


W C Cooney
Director

The notes on pages 9 to 21 form an integral part of these financial statements.

ForcesGroup Limited

**Group Cash Flow Statement
for the year ended 31 December 2004**

	Notes	2004 £	2003 £
Reconciliation of operating loss to net cash outflow from operating activities			
Operating loss		(80,184)	(607,133)
Depreciation		11,711	33,649
Decrease in debtors		19,093	84,905
(Decrease) in creditors		(61,177)	(192,956)
Movement in provision		2,400	-
Net cash outflow from operating activities		<u>(108,157)</u>	<u>(681,535)</u>
CASH FLOW STATEMENT			
Net cash outflow from operating activities		(108,157)	(681,535)
Returns on investments and servicing of finance	19	2,850	12,289
Capital expenditure	19	378	(139)
Decrease in cash in the year		<u>(104,929)</u>	<u>(669,385)</u>
Reconciliation of net cash flow to movement in net debt (Note 20)			
Decrease in cash in the year		(104,929)	(669,385)
Net funds at 1 January 2004		<u>165,778</u>	<u>835,163</u>
Net funds at 31 December 2004		<u>60,849</u>	<u>165,778</u>

ForcesGroup Limited

Notes to Financial Statements for the year ended 31 December 2004

1. Accounting Policies

1.1. Accounting convention

The financial statements are prepared under the historical cost convention.

The company has consistently applied all relevant accounting standards.

1.2. Basis of Consolidation

The group financial statements consolidate the accounts of ForcesGroup Limited and all its subsidiary undertakings made up to 31 December 2004 each year; the group profit and loss account includes the results of all subsidiary undertakings for the period from the date of their acquisition and up to the date of disposal.

Turnover and profits arising on trading between group companies are excluded.

1.3. Turnover

Turnover represents the total commission earned during the year.

1.4. Goodwill

Acquired goodwill is written off in equal instalments over its estimated useful economic life of 10 years.

1.5. Tangible fixed assets and depreciation

Depreciation is provided at rates calculated to write off the cost less residual value of each asset over its expected useful life, as follows:

Fixtures, fittings and equipment	- 20% - 33.33% Straight Line
-------------------------------------	------------------------------

1.6. Pensions

The group operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

ForcesGroup Limited

Notes to Financial Statements for the year ended 31 December 2004

1.7. Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable;

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

1.8. Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies are recorded at the date of the transactions. All differences are taken to the Profit and Loss account.

1.9. Going Concern

The financial statements have been prepared on a going concern basis, which assumes that the group will continue trading for the foreseeable future. During the period the group incurred a loss of £74,941 (2003: £594,848). The cost reduction measures taken in the previous year have significantly reduced the annual losses, however the desired revenue growth did not materialize. As a consequence of which the company have now entered into a mutually beneficial trading arrangement with a third party to take advantage of it's sales team's expertise. The directors are confident that these actions will enable the group to continue its activities for the 12 months from the date of approval of these financial statements. Given this position, the directors consider it is appropriate to prepare these financial statements on a going concern basis.

ForcesGroup Limited

Notes to Financial Statements for the year ended 31 December 2004

2. Turnover

Turnover represents the amounts derived from commissions and fees from insurance companies.

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

3. Operating loss	2004 £	2003 £
Operating loss is stated after charging:		
Depreciation of intangible assets	12,000	12,000
Depreciation of tangible assets	(228)	11,629
Auditors' remuneration	10,781	11,250
	<u> </u>	<u> </u>
and after crediting:		
Profit on disposal of tangible fixed assets	61	(10,020)
Profit on foreign currencies	-	1,386
	<u> </u>	<u> </u>
4. Interest receivable and similar income	2004 £	2003 £
Bank interest	2,813	12,289
Interest on PAYE/NI refund	37	-
	<u> </u>	<u> </u>
	2,850	12,289
	<u> </u>	<u> </u>
5. Interest payable and similar charges	2004 £	2003 £
On bank loans and overdrafts	7	-
	<u> </u>	<u> </u>

ForcesGroup Limited

Notes to Financial Statements for the year ended 31 December 2004

6. Employees

Number of employees

The average monthly numbers of employees (including the directors) during the year were:

	2004	2003
Sales	1	5
Management and administration	6	8
	<u>7</u>	<u>13</u>

Employment costs

	2004 £	2003 £
Wages and salaries	79,663	417,405
Social security costs	7,360	32,679
Other pension costs	6,991	19,523
	<u>94,014</u>	<u>469,607</u>

6.1. Directors' emoluments

	2004 £	2003 £
Remuneration and other emoluments	-	121,543
Pension contributions	-	2,250
Compensation for loss of office	-	29,544
	<u>-</u>	<u>153,337</u>
	Number	Number
Number of directors to whom retirement benefits are accruing under a money purchase scheme	<u>-</u>	<u>1</u>

7. Pension costs

The company operates a defined contribution pension scheme in respect of the directors. The scheme and its assets are held by independent managers. The pension charge represents contributions due from the company and amounted to £6,991 (2003 - £19,523).

ForcesGroup Limited

Notes to Financial Statements for the year ended 31 December 2004

8. Taxation	2004	2003
	£	£
Prior years		
Jersey Income Tax	(2,400)	-
	<u>(2,400)</u>	<u>-</u>

9. Profit for the year attributable to shareholders

As permitted by Section 230 of the Companies Act 1985 the Profit and Loss Account of ForcesGroup Limited has not been presented with the financial statements.

The results after taxation of the parent undertaking for the year ended 31 December 2004 showed a loss of £154,454 (31 December 2003 - £8,893,886).

10. Intangible fixed assets

	Goodwill	Total
	£	£
Group		
Cost		
At 1 January 2004		
At 31 December 2004	<u>120,000</u>	<u>120,000</u>
Provision for		
diminution in value		
At 1 January 2004	22,000	22,000
Charge for year	<u>12,000</u>	<u>12,000</u>
At 31 December 2004	<u>34,000</u>	<u>34,000</u>
Net book values		
At 31 December 2004	<u>86,000</u>	<u>86,000</u>
At 31 December 2003	<u>98,000</u>	<u>98,000</u>

The goodwill represents the amount paid for the Armed Forces Financial Advisory Service in February 2002. An off the self company was bought, being AFFAS Limited and all income and expenses are accounted for in the new company.

ForcesGroup Limited

Notes to Financial Statements for the year ended 31 December 2004

11. Tangible fixed assets

	Fixtures, fittings & equipment £	Total £
Group		
Cost		
At 1 January 2004	31,412	31,412
Additions	-	-
Revaluation	(29,567)	(29,567)
Disposals	(315)	(315)
At 31 December 2004	1,530	1,530
Depreciation		
At 1 January 2004	29,793	29,793
Revaluation	(30,643)	(30,643)
Charge for the year	850	850
At 31 December 2004	-	-
Net book values		
At 31 December 2004	1,530	1,530
At 31 December 2003	1,619	1,619
Company		
Cost		
At 1 January 2004	7,627	7,627
Additions	-	-
Revaluation	(5,782)	(5,782)
Disposals	(315)	(315)
At 31 December 2004	1,530	1,530
Depreciation		
At 1 January 2004	6,008	6,008
Revaluation	(6,858)	(6,858)
Charge for the year	850	850
At 31 December 2004	-	-
Net book values		
At 31 December 2004	1,530	1,530
At 31 December 2003	1,619	1,619

The assets were revalued in the year to a revised residual value by the directors. This up lift in the carrying value of the assets was reflected in an adjustment to the depreciation charge within the profit and loss account.

ForcesGroup Limited

Notes to Financial Statements for the year ended 31 December 2004

12. Fixed Asset Investments

Company	2004	2003
	£	£
Subsidiary undertakings	5	5

Holdings of 20% or more

The group or the company holds 20% or more of the nominal value of the share capital of the following companies:

Company	Country of incorporation or operation	Holding	Proportion Held
Subsidiary undertaking			
ForcesServe Limited	UK	Ordinary	100%
Forces Technology Company Limited	UK	Ordinary	100%
Affinitas Limited (Jersey)	Jersey	Ordinary	100%
Affinitas Limited	UK	Ordinary	100%
*Affinitas Networks Limited	UK	Ordinary	100%
*AFFAS Limited	UK	Ordinary	100%

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows:

	Capital and reserves	Profit/loss for the year
	£	£
ForcesServe Limited	(1,801,274)	-
Forces Technology Company Limited	(2,719,175)	-
Affinitas Limited (Jersey)	(3,685,538)	(14,355)
Affinitas Limited	1	-
Affinitas Networks Limited	(141,859)	-
AFFAS Limited	63,085	4,922

The principal business activity of the trading group companies, which includes AFFAS Limited and Affinitas Limited (Jersey), is that of insurance intermediary. The remaining companies are dormant.

* Held by a subsidiary undertaking

ForcesGroup Limited

**Notes to Financial Statements
for the year ended 31 December 2004**

13. Debtors

	2004	2003
	£	£
Group		
Other debtors	38,280	62,652
Prepayments and accrued income	35,275	29,996
	<u>73,555</u>	<u>92,648</u>
Company		
Other debtors	37,210	94,804
Prepayments and accrued income	8,188	2,407
	<u>45,398</u>	<u>97,211</u>

14. Creditors: amounts falling due within one year

	2004	2003
	£	£
Group		
Trade creditors	22,560	44,521
Other taxes and social security costs	1,903	4,047
Other creditors	708	2,689
Accruals and deferred income	32,527	67,611
	<u>57,698</u>	<u>118,868</u>
Company		
Trade creditors	13,334	26,145
Amounts owed to group undertaking	142,157	260
Other taxes and social security costs	1,903	41,199
Other creditors	708	939
Accruals and deferred income	24,196	56,201
	<u>182,298</u>	<u>124,744</u>

ForcesGroup Limited

Notes to Financial Statements for the year ended 31 December 2004

15. Share capital	2004 £	2003 £
Authorised equity		
- Ordinary shares of £0.0001 each	8,822	8,822
- Preference shares Series A1 of £0.0001 each	148,746	148,746
- Preference shares Series A2 of £0.0001 each	206	206
	<u>157,774</u>	<u>157,568</u>
Equity interest	8,822	8,822
Non-equity interest	<u>148,746</u>	<u>148,746</u>
Allotted, called up and fully paid equity		
- Ordinary shares of £0.0001 each	2,317	2,317
- Preference shares Series A1 of £0.0001 each	59,446	59,446
- Preference shares Series A2 of £0.0001 each	206	206
	<u>61,969</u>	<u>61,969</u>
Equity interest	2,317	2,317
Non-equity interest	<u>59,446</u>	<u>59,446</u>

The issued share capital of the company has been adjusted in the comparative figure for a rounding error in the 2003 accounts of £1 through the comparative P & L reserves.

Rights of preference shares are as follows:

Dividend rights

Subject to the declaration of such dividends by the board, the holders of the Series A1 preference shares shall be entitled to be paid out of the profits of the company available for distribution and resolved to be distributed (in priority to the payment of any dividend to the holders of the ordinary shares) to a fixed cumulative preferential dividend of 8% per annum on the Issue Price of each preference share. Holders of Series A2 preference shares have no dividend rights.

Conversion

Series A1 preference shares may be converted into ordinary shares at any time. The number of ordinary shares received will depend on the date, the issue price and other provisions detailed in the Articles. Holders of Series A2 preference shares may convert their shares to Series A1 after successful completion of Series B financing. (Series B financing means the subscription of at least £350,000 new shares by way of a private placement).

ForcesGroup Limited

Notes to Financial Statements for the year ended 31 December 2004

Redemption

Any Series A1 preference shares held after 28 December 2005 acquire redemption rights. On request, the company must endeavour to redeem at a price determined in accordance with the Articles. Payment is due over a 2 year period in three equal instalments. Series A2 preference shares may be converted to Series A1 after successful completion of Series B financing.

Since the year end date the shareholders have signed an agreement that has postponed the redemption date until 28 December 2008.

Rights on the sale, merger or winding up of the company

Any unconverted Series A1 preference shares shall first be repaid at a multiple of between 1.2 and 2 times the sum of the issue price and any accrued unpaid dividends. The actual multiple will depend on the date of redemption. Series A2 preference shares must be repaid before any other class of share.

Ordinary shareholders will then be repaid the balance of any remaining capital and assets on a pro rata basis.

Voting rights

Ordinary shareholders have only one vote for each ordinary share held. Series A1 preference shareholders have a number of votes calculated by applying a multiple to the number of shares held. The multiple is determined in accordance with the Articles. Series A2 preference shares have no voting rights.

Share options

The company has both an approved and an unapproved scheme. At 31 December 2004 the following options had been issued and had not lapsed:

	Number of shares	Earliest exercise date	Latest exercise date	Price per share
Approved scheme	30,000	20 August 2004	19 August 2011	£0.2588
Approved scheme	30,000	22 February 2005	21 February 2012	£0.3750
Unapproved scheme	100,000	20 August 2004	19 August 2011	£0.2588
Unapproved scheme	23,200	20 August 2004	19 August 2011	£0.2588

ForcesGroup Limited

Notes to Financial Statements for the year ended 31 December 2004

As at 31 December 2004, issued share options totalled £16 over 160,000 shares representing 0.03% of the allotted and fully paid capital. Options allocated to employees and officers were as follows:

	Employee numbers	Options
Approved share option plan:		
Brought forward and carried forward	<u>1</u>	<u>60,000</u>
Unapproved share option plan:		
Brought forward and carried forward	<u>1</u>	<u>100,000</u>

16. Equity Reserves

	Share premium account £	Profit and loss account £	Total £
Group			
At 1 January 2004	9,349,902	(9,172,694)	177,208
(Loss) for the year		(927,232)	(927,232)
Additional finance costs of non equity shares	-	852,291	852,291
At 31 December 2004	<u>9,349,902</u>	<u>(9,247,635)</u>	<u>102,267</u>
Non-equity interests	<u>9,299,921</u>	<u>2,789,621</u>	<u>12,089,542</u>
Company			
At 1 January 2004	9,349,902	(9,369,458)	(19,556)
(Loss) for the year		(1,006,745)	(1,006,745)
Additional finance costs of non equity shares	-	852,291	852,291
At 31 December 2004	<u>9,349,902</u>	<u>(9,523,912)</u>	<u>(174,010)</u>
Equity interests	49,981	(12,313,533)	(12,263,552)
Non-equity interests	<u>9,299,921</u>	<u>2,789,621</u>	<u>12,089,542</u>

FRS 4 states that when a company issues redeemable preference shares it should build up over the redemption period a separate reserve for the finance cost (redemption value less price paid). The directors have decided that no such reserve should be provided in the accounts as the company does not possess sufficient financial resources to settle such a liability. The total redemption payable currently equates to about £24m and this would have required a redemption reserve of about £15m.

The redemption date was due to fall on 28 December 2005, however since the year end date the preference shareholders have signed an agreement to postpone this until 28th December 2008.

ForcesGroup Limited

Notes to Financial Statements for the year ended 31 December 2004

17. Reconciliation of movements in shareholders' funds

	2004 £	2003 £
Group		
Loss for the year	(74,941)	(594,844)
Additional finance costs of non equity shares	(852,291)	(788,355)
	<u>(927,232)</u>	<u>(1,383,199)</u>
Additional finance costs of non equity shares	852,291	788,355
	<u>(74,941)</u>	<u>(594,844)</u>
Net addition to shareholders' funds	239,177	834,021
Opening shareholders' funds	<u>164,236</u>	<u>239,177</u>

18. Related party transactions

At the year end the group owes The Cooney group £10,334 (2003 £10,334). Mr W C Cooney, the chairman of ForcesGroup Limited, who is a partner in this US business.

19. Gross Cash Flows

	2004 £	2003 £
Returns on investments and servicing of finance		
Interest received	<u>2,850</u>	<u>12,289</u>
Capital expenditure		
Payments to acquire tangible assets	-	(139)
Receipts from sales of tangible assets	<u>378</u>	<u>(139)</u>

ForcesGroup Limited

**Notes to Financial Statements
for the year ended 31 December 2004**

20. Analysis of changes in net funds

	Opening balance	Cash flows	Closing balance
	£	£	£
Cash at bank and in hand	165,778	(104,929)	60,849
Net funds	<u>165,778</u>	<u>(104,929)</u>	<u>60,849</u>