

# FORCESGROUP LIMITED

ANNUAL REPORT  
FOR THE YEAR ENDED  
31<sup>ST</sup> DECEMBER 2006

Company Registration Number 04050380



**FORCESGROUP LIMITED**

**FINANCIAL STATEMENTS  
YEAR ENDED 31<sup>ST</sup> DECEMBER 2006**

<b>CONTENTS</b>	<b>Page</b>
Company information	<b>1</b>
Directors' report	<b>2</b>
Profit and Loss account	<b>4</b>
Group Balance Sheet	<b>5</b>
Company Balance Sheet	<b>6</b>
Group Cash Flow Statement	<b>7</b>
Notes to the Financial Statements	<b>8</b>

**FORCESGROUP LIMITED**

**FINANCIAL STATEMENTS  
YEAR ENDED 31<sup>ST</sup> DECEMBER 2006**

**DIRECTORS**

W C Cooney  
Sir P Hine  
Sir R Wheeler  
J Cooney  
S Shumway (resigned 31<sup>st</sup> May 2007)  
D Kane (resigned 31<sup>st</sup> May 2007)  
S P Black III (appointed 16<sup>th</sup> November 2006)  
G Hirschfield (appointed 15<sup>th</sup> May 2007)

**SECRETARY**

R S Conder

**COMPANY NUMBER**

04050380

**REGISTERED OFFICE**

1, Wayside Cottage (to 4<sup>th</sup> July 2007)  
Newbury Road  
Hurstbourne Tarrant  
Andover  
Hampshire  
SP11 0AR  
  
65 Leadenhall Street (from 4<sup>th</sup> July 2007)  
London  
EC3A 2AD

**BANKERS**

Bank of Scotland  
35 Princes Street  
Ipswich  
Suffolk  
IP1 1AE

**FORCESGROUP LIMITED****DIRECTOR'S REPORT  
YEAR ENDED 31<sup>st</sup> DECEMBER 2006**

The directors present their annual report, together with the audited financial statements of the company and the group, for the year ended 31<sup>st</sup> December 2006

**PRINCIPAL ACTIVITIES**

The principal activity of the group is the supply of personal insurance lines to the Armed Forces

**RESULTS AND DIVIDENDS**

The results for the year are set out on page 4 The loss for the year, after taxation and minority interests, amounted to £5,688 (2005 – Loss of £30,848) The directors do not recommend payment of a final dividend

**THE DIRECTORS AND THEIR INTERESTS**

The directors who served the company during the year together with their beneficial interests in the shares of the company were as follows

<b>Ordinary Shares of £1 each</b>			
	<b>At 31 December 2006</b>	<b>At 1 January 2006</b>	
W C Cooney	<b>12,000</b>	12,000	
Sir Patrick Hine	<b>2,000</b>	2,000	
J V Cooney	<b>500</b>	500	
	<u>          </u>	<u>          </u>	
<b>Preference A1 series shares</b>			
	<b>At 31 December 2006</b>	<b>At 1 January 2006</b>	
W C Cooney	<b>58,758,082</b>	58,758,082	
Sir Patrick Hine	<b>20,000,000</b>	20,000,000	
J V Cooney	<b>11,000,000</b>	11,000,000	
S P Black III	<b>351,298,572</b>	-	
	<u>          </u>	<u>          </u>	

Majority shareholder in Masthead Group

The options held by directors are detailed below

	<b>Number of Shares</b>	<b>Earliest exercise date</b>	<b>Latest exercise date</b>	<b>Option Price per Share</b>
Sir Roger Wheeler	100,000	20 Aug 2004	19 Aug 2011	0.2588

## **FORCESGROUP LIMITED**

### **DIRECTOR'S REPORT YEAR ENDED 31<sup>st</sup> DECEMBER 2006**

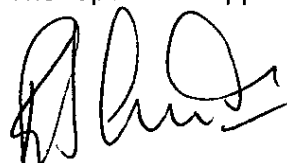
#### **DIRECTORS' RESPONSIBILITIES**

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 company and 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 company 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The report was approved by the Board on 3<sup>rd</sup> October 2007 and signed on its behalf by



R S Conder  
Secretary

**FORCESGROUP LIMITED****GROUP PROFIT AND LOSS ACCOUNT  
YEAR ENDED 31<sup>st</sup> DECEMBER 2006**

		<b>2006</b>	<b>2005</b>
		<b>£</b>	<b>£</b>
<b>TURNOVER</b>			
Continuing operations	<b>2</b>	<b>115,303</b>	168,989
Administrative expenses		<b>(119,460)</b>	(200,660)
<b>OPERATING LOSS</b>	<b>3</b>	<b>(4,157)</b>	(31,671)
Interest receivable and similar income	<b>4</b>	<b>539</b>	1,176
Interest payable and similar charges	<b>5</b>	<b>(62)</b>	(353)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>(3,680)</b>	(30,848)
Tax on Loss on ordinary activities	<b>8</b>	<b>(650)</b>	-
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION</b>		<b>(4,330)</b>	(30,848)
Additional finance costs on non equity shares		-	-
<b>GROUP LOSS FOR THE FINANCIAL YEAR</b>		<b>(4,330)</b>	(30,848)

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

## FORCESGROUP LIMITED

GROUP BALANCE SHEET  
AS AT 31<sup>ST</sup> DECEMBER 2006

	Note	2006 £	2005 £
<b>FIXED ASSETS</b>			
Intangible assets	10	62,000	74,000
Tangible assets	11	881	1,175
		<u>62,881</u>	<u>75,175</u>
<b>CURRENT ASSETS</b>			
Debtors	13	53,095	42,322
Cash at bank and in hand		18,070	25,275
		<u>71,165</u>	<u>67,597</u>
<b>CREDITORS: Amounts falling due within one year</b>	14	(4,988)	(9,384)
<b>NET CURRENT ASSETS</b>		<u>66,177</u>	<u>58,213</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>129,058</u>	<u>133,388</u>
<b>CAPITAL AND RESERVES</b>			
Called-up equity share capital	15	61,969	61,969
Share premium account	16	9,349,902	9,349,902
Profit and loss account	16	(9,282,813)	(9,278,483)
<b>EQUITY SHAREHOLDERS' FUNDS</b>	17	<u>129,058</u>	<u>133,388</u>
<b>EQUITY INTERESTS</b>		<u>(12,020,136)</u>	<u>12,015,806</u>
<b>NON-EQUITY INTERESTS</b>		<u>12,149,194</u>	<u>12,149,194</u>

**AUDIT EXEMPTION STATEMENT**

For the year ended 31<sup>st</sup> December 2005 the Company was entitled to exemption from the requirement to have an audit under the provision of Section 249AA(1) of the Companies Act 1985

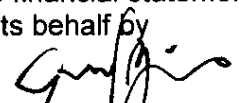
No notice has been deposited with the company under Section 249B(2) of that Act requiring an audit to be carried out

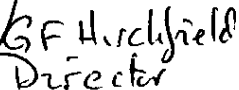
The director acknowledges responsibility for

(a) Ensuring the Company keeps accounting records which comply with Section 221 of the Companies Act 1985, and

(b) Preparing accounts which give a true and fair view of the state of affairs of the company as at the end of its financial year and of its profit/loss for that financial year in accordance with Section 226 of the Companies Act 1985 and which otherwise comply with the accounting requirements of that Act relating to accounts so far as applicable to the company

The financial statements were approved by the Board on 3rd October 2007 and signed on its behalf by

  
W.C. Gooney  
Director

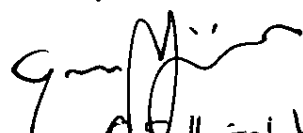
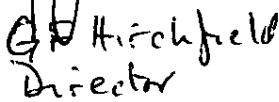
  
G.F. Hinchfield  
Director

## FORCESGROUP LIMITED

COMPANY BALANCE SHEET  
AS AT 31<sup>ST</sup> DECEMBER 2006

	Note	2006 £	2005 £
<b>FIXED ASSETS</b>			
Tangible assets	11	881	1,175
Investments	12	5	5
		<u>886</u>	<u>1,180</u>
<b>CURRENT ASSETS</b>			
Debtors	13	38,704	46,095
Cash at bank and in hand		801	4,846
		<u>39,505</u>	<u>50,941</u>
<b>CREDITORS: Amounts falling due within one year</b>	14	<u>(231,579)</u>	<u>(259,720)</u>
<b>NET CURRENT ASSETS</b>		<u>(192,074)</u>	<u>(208,779)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>(191,188)</u>	<u>(207,599)</u>
<b>CAPITAL AND RESERVES</b>			
Called-up equity share capital	15	61,969	61,969
Share premium account	16	9,349,902	9,349,902
Profit and loss account	16	(9,603,059)	(9,619,470)
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>(191,188)</u>	<u>(207,599)</u>
<b>EQUITY INTERESTS</b>		<u>(11,958,006)</u>	<u>12,356,793</u>
<b>NON-EQUITY INTERESTS</b>		<u>12,149,194</u>	<u>12,149,194</u>

The financial statements were approved by the Board on *31 October 2007* and are signed on its behalf by

  
  
 W.C. Cooney      G.P. Hinchfield  
 Director      Director



**FORCESGROUP LIMITED**  
**GROUP CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2006**

	Note	2006 £	2005 £
<b>Reconciliation of operating loss to net cash outflow from operating activities</b>			
Operating loss		(4,157)	(30,848)
Depreciation		12,294	12,000
(Increase)/ decrease in debtors		(11,423)	31,233
(Decrease) in creditors		(4,396)	(48,314)
<b>Net Cash outflow from operating activities</b>		<b>(7,682)</b>	<b>(35,929)</b>

**CASH FLOW STATEMENT**

Net cash outflow from operating activities		(7,682)	(35,929)
Returns on investments and servicing of finance	19	477	1,176
Capital expenditure	19	-	-
<b>Decrease in cash in the year</b>		<b>(7,205)</b>	<b>(34,753)</b>

**Reconciliation of net cash flow to movements in net debt (note 20)**

Decrease in cash in the year	(7,205)	(35,574)
Net funds at 1 <sup>st</sup> January 2006	25,275	60,849
<b>Net funds at 31<sup>st</sup> December 2006</b>	<b>18,070</b>	<b>25,275</b>

**FORCESGROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2006**

**1. ACCOUNTING POLICIES**

**1.1 Accounting convention**

The financial statements have been prepared under the historical cost convention, and in accordance with applicable 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<sup>st</sup> December 2006. The group profit and loss account includes the results of all subsidiary undertakings for the period from the date of 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**

Goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight-line basis over its useful economic life, presumed to be 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 Pension**

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

**FORCESGROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2006**

**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 or 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 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 £5,688 (2005 loss £30,848). The cost reduction measures taken in the previous year have significantly reduced the annual losses, however the desired growth did not materialise. As a consequence the company has now entered into a mutually beneficial trading arrangement with a third party to take advantage of its 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 the position, the directors consider it appropriate to prepare these financial statements on a going concern basis

**FORCESGROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2006**

**2. Turnover**

Turnover represents the amount 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

<b>3. Operating Loss</b>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Operating loss is stated after charging		
Depreciation of intangible assets	12,000	12,000
Depreciation of tangible assets	294	-
	<u>          </u>	<u>          </u>
 <b>4. Interest receivable and similar income</b>	 <b>2006</b>	 <b>2005</b>
	<b>£</b>	<b>£</b>
Bank Interest	539	1,176
	<u>          </u>	<u>          </u>
 <b>5. Interest payable and similar income</b>	 <b>2006</b>	 <b>2005</b>
	<b>£</b>	<b>£</b>
On loans and overdrafts	62	353
	<u>          </u>	<u>          </u>
 <b>6. Employees</b>	 <b>2006</b>	 <b>2005</b>
	<b>Number</b>	<b>Number</b>
The average monthly numbers of employees (including the directors) during the year were		
Sales	1	1
Management and administration	7	6
	<u>          </u>	<u>          </u>
	<u>8</u>	<u>7</u>

**FORCESGROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2006**

	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
<b>Employment costs</b>		
Wages and salaries	<b>54,135</b>	60,812
Social security costs	<b>5,476</b>	6,035
Other Pension Costs	<b>4,569</b>	7,810
	<b><u>64,180</u></b>	<b><u>74,657</u></b>

	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
<b>6.1 Directors' emoluments</b>		
Remuneration and other emoluments	-	-
Pension Contributions	-	-
Compensation for loss of office	-	-
	<b><u>-</u></b>	<b><u>-</u></b>

	<b>Number</b>	<b>Number</b>
Number of directors to whom retirement benefits are accruing under a money purchase scheme	-	-
	<b><u>-</u></b>	<b><u>-</u></b>

**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 £4,569 (2005 £6,171)

	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
<b>8. Taxation</b>		
Jersey Income Tax	-	-
	<b><u>-</u></b>	<b><u>-</u></b>

**9. Profit for the year attributable to shareholders**

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

The results after taxation of the parent undertaking for the year ended 31 December 2006 showed a profit of £16,411 (2005 - Loss £95,557)

**FORCESGROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2006**

**10. Intangible Fixed Assets**

	<b>Goodwill £</b>	<b>Total £</b>
<b>Group Cost</b>		
At 1 January 2006	<u>120,000</u>	<u>120,000</u>
<b>Provision for diminution in value</b>		
At 1 January 2006	46,000	46,000
Charge for the year	<u>12,000</u>	<u>12,000</u>
At 31 December 2006	<u>58,000</u>	<u>58,000</u>
<b>Net Book Value</b>		
At 31 December 2006	<u>62,000</u>	<u>62,000</u>
At 31 December 2005	<u>74,000</u>	<u>74,000</u>

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

**11. Tangible Fixed Assets**

	<b>Fixtures Fittings &amp; Equipment £</b>	<b>Total £</b>
<b>Group Cost</b>		
At 1 January and 31 December 2006	<u>1,530</u>	<u>1,530</u>
<b>Depreciation</b>		
At 1 January 2006	355	355
Charge for the year	<u>294</u>	<u>294</u>
At 31 December 2006	<u>649</u>	<u>649</u>
<b>Net Book Values</b>		
At 31 December 2006	<u>881</u>	<u>881</u>
At 31 December 2005	<u>1,175</u>	<u>1,175</u>

**FORCESGROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2006**

**11. Tangible Fixed Assets (continued)**

	<b>Fixtures Fittings &amp; Equipment £</b>	<b>Total £</b>
<b>Company Cost</b>		
At 1 January 2006	<u>1,530</u>	<u>1,530</u>
At 31 December 2006	<u>1,530</u>	<u>1,530</u>
<b>Depreciation</b>		
At 1 January 2006	<u>355</u>	<u>355</u>
Charge for the year	<u>294</u>	<u>294</u>
At 31 December 2006	<u>649</u>	<u>649</u>
<b>Net Book Values</b>		
At 31 December 2006	<u>881</u>	<u>881</u>
At 31 December 2005	<u>1,175</u>	<u>1,175</u>

The directors revalued the assets in 2004 to a revised residual value

**12. Fixed Asset Investments**

	<b>2006 £</b>	<b>2005 £</b>
<b>Company</b>		
Subsidiary Undertakings	<u>5</u>	<u>5</u>

**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

<b>Name of company</b>	<b>Country of incorporation or operation</b>	<b>Holding</b>	<b>Proportion held</b>
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%
<i>Held by a subsidiary undertaking</i>			
AFFAS Limited	UK	Ordinary	100%
<i>Held by a subsidiary undertaking</i>			

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

**FORCESGROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2006**

**12. Fixed Asset Investments (*continued*)**

	<b>Capital &amp; Reserves</b>	<b>Profit/(Loss) for the Year</b>
	<b>£</b>	<b>£</b>
ForcesServe Limited	(1,801,274)	-
Forces Technology Company Limited	(2,719,175)	-
Affinitas Limited (Jersey)	(3,711,057)	(9,430)
Affinitas Limited	1	-
Affinitas Networks Limited	(141,859)	-
AFFAS Limited	134,054	(9,830)

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

**13. Debtors**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Other debtors	<b>37,590</b>	990	<b>37,590</b>	37,524
Prepayments and accrued income	<b>15,505</b>	41,332	<b>1,114</b>	8,571
	<b><u>53,095</u></b>	<b><u>42,322</u></b>	<b><u>38,704</u></b>	<b><u>46,095</u></b>

**14. Creditors: Amounts falling due within one year**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Trade Creditors	<b>312</b>	11,972	-	12,670
Amounts owed to group undertakings	-	-	<b>231,579</b>	231,019
Corporation tax	-	-	-	-
Other taxes and social security costs	<b>1,656</b>	(650)	-	-
Other Creditors	<b>635</b>	(29,873)	-	688
Accruals and deferred income	<b>2,385</b>	27,935	-	15,343
	<b><u>4,988</u></b>	<b><u>9,384</u></b>	<b><u>231,579</u></b>	<b><u>259,720</u></b>



**FORCESGROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2006**

**15. Share Capital**

	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
<b>Authorised Equity</b>		
- Ordinary Shares of £0 0001 each	<b>8,822</b>	8,822
- Preference Shares Series A1 of 0 0001 each	<b>148,746</b>	148,746
- Preference Shares Series A2 of 0 0001 each	<b>206</b>	206
	<b><u>157,774</u></b>	<b><u>157,774</u></b>
Equity interest	<b>8,822</b>	8,822
Non-Equity interest	<b><u>148,746</u></b>	<b><u>148,746</u></b>
 <b>Allotted, called up and fully paid</b>		
- Ordinary Shares of £0 0001 each	<b>2,317</b>	2,317
- Preference Shares Series A1 of 0 0001 each	<b>59,446</b>	59,446
- Preference Shares Series A2 of 0 0001 each	<b>206</b>	206
	<b><u>61,969</u></b>	<b><u>61,969</u></b>
Equity interest	<b>2,317</b>	2,317
Non-Equity interest	<b><u>59,652</u></b>	<b><u>59,652</u></b>

Rights of preference shares are as follows

**Dividends 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).

**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.

Shareholders have signed an agreement that has postponed the redemption until 28<sup>th</sup> December 2008.

**FORCESGROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2006**

**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 and any accrued unpaid dividends. The actual multiple will depend on the date of the 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 2006 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 Aug 2004	19 Aug 2011	0.2588
Approved Scheme	30,000	22 Feb 2005	22 Feb 2012	0.3750
Unapproved Scheme	100,000	20 Aug 2004	19 Aug 2011	0.2588
Unapproved Scheme	23,200	20 Aug 2004	19 Aug 2011	0.2588

As at 31 December 2006, 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>

**FORCESGROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2006**

**16. Equity Reserves**

	Share premium account £	Profit and Loss account £	Total £
<b>Group</b>			
<b>At 1 January 2006</b>	9,349,902	(9,278,483)	71,419
Loss for the Year	-	(4,330)	(4,330)
Additional Finance Costs	-	-	-
<b>At 31 December 2006</b>	<u>9,349,902</u>	<u>(9,282,813)</u>	<u>67,089</u>
Non-Equity interests	<u>9,299,921</u>	<u>2,789,621</u>	<u>12,089,542</u>
<b>Company</b>			
<b>At 1 January 2006</b>	9,349,902	(9,619,470)	(269,568)
Profit for the Year	-	16,411	16,411
Additional Finance Costs	-	-	-
<b>At 31 December 2006</b>	<u>9,349,902</u>	<u>(9,603,059)</u>	<u>(237,157)</u>
Equity interests	49,981	(12,392,680)	(12,342,699)
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 liability. The total redemption payable currently equates to about £24m and this would have required a redemption reserve of about £15m.

The redemption date is 28<sup>th</sup> December 2008

**17. Reconciliation of movements in shareholders' funds**

	2006 £	2005 £
<b>Group</b>		
Loss for the year	(5,688)	(30,848)
Additional finance costs of non equity shares	-	-
	<u>(4,330)</u>	<u>(30,848)</u>
Additional finance costs of non equity shares	-	-
Net addition to shareholders' funds	<u>(4,330)</u>	<u>(30,848)</u>
Opening shareholders' funds	<u>133,388</u>	<u>164,236</u>
	<u>129,058</u>	<u>133,388</u>

**FORCESGROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2006**

**18. Related party transactions**

At the year end the group owes the Cooney Group £10,334 (2005, £10,334) Mr W C Cooney, the chairman of ForcesGroup Limited, is a partner in this US business

**19. Gross Cash Flows**

	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
<b>Returns on Investments and servicing of finance</b>		
Interest received	<u>539</u>	<u>1,176</u>
<b>Capital expenditure</b>		
Payments to acquire tangible assets	-	-
Receipts from sales of tangible assets	<u>-</u>	<u>-</u>
Net addition to shareholders' funds	<u>539</u>	<u>1,176</u>

**20. Analysis of changes in net funds**

	<b>Opening</b>	<b>Cash</b>	<b>Closing</b>
	<b>Balance</b>	<b>Flows</b>	<b>Balance</b>
Cash at bank and in hand	<u>25,275</u>	<u>7,205</u>	<u>18,070</u>
<b>Net funds</b>	<u>25,275</u>	<u>7,205</u>	<u>18,070</u>