

Registration Number: 04050380

**FORCESGROUP LIMITED**

**Report and Financial Statements**

**For the year ended 31 December 2003**



# ForcesGroup Limited

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Registered No: 4050380

## **DIRECTORS**

Wilson Charles Cooney (US)

Simon Philip Guy Lee

(resigned 1 April 2003)

Sir Patrick Hine

Donald Glenwood Kane (US)

Sanjay Hiralel Patel (US)

Matthew Grayson (US)

Sir Roger Wheeler

Derek Wanless

(resigned 28 March 2003)

## **SECRETARY**

Rupert Stewart Conder

## **AUDITORS**

Rothman Pantall

229 West Street

Fareham

Hampshire

PO16 0HZ

## **BANKERS**

Lloyds TSB Bank plc

Gracechurch House

23/35 Castle Way

Southampton

SO14 2BW

## **REGISTERED OFFICE**

Enterprise Units

Ordance Road

Tidworth

Wiltshire

SP9 7QD

# ForcesGroup Limited

## DIRECTORS' REPORT

The directors present their report and the group financial statements for the year ended 31 December 2003.

### RESULTS AND DIVIDENDS

The loss for the period, after taxation, amounted to £594,848. The directors do not recommend the payment of a dividend.

### PRINCIPAL ACTIVITY, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The company is the holding company of the group. The group's principal activities during the year were the supply of personal insurance lines to the armed forces.

### DIRECTORS AND THEIR INTERESTS

The directors who served during the year are disclosed on page 1.

The directors' interests in the issued share capital as at 31 December 2003 were as follows:

	<i>Ordinary shares of £0.0001 each No.</i>	<i>Preferred shares of £0.0001 No.</i>
Wilson Charles Cooney	12,000,000	58,758,082
Sir Patrick Hine	2,000,000	20,000,000
	<hr/>	<hr/>

The options held by directors are detailed below:

<i>Option holder</i>	<i>Number of shares</i>	<i>Earliest exercise date</i>	<i>Latest exercise date</i>	<i>Option price per share £</i>
Sir Roger Wheeler	100,000 <sup>1</sup>	20 August 2004	19 August 2011	0.2588

<sup>1</sup> Granted under unapproved share option scheme.

ForcesGroup Limited

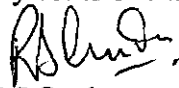
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DIRECTORS' REPORT

**AUDITORS**

Rothman Pantall & Co were appointed auditors to the company and in accordance with Section 385 of the Companies Act 1985, a special resolution will be put to the Annual General Meeting.

By order of the board



R S Conder  
Secretary

28.10.04

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE  
FINANCIAL STATEMENTS

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- 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. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
FORCESGROUP LIMITED

We have audited the company's financial statements for the year ended 31 December 2003 which comprise the Group Profit and Loss Account, Group Balance Sheet, Balance Sheet and the related notes 1 to 16. These financial statements have been prepared on the basis of the accounting policies set out therein.

**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 United Kingdom law and 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 group 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to 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.

**Going concern**

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 adjustments that would result from a failure to achieve this predicted revenue growth. Details of the circumstances relating to this fundamental uncertainty are described in note 1.

Our opinion is not qualified in respect of the above matter.

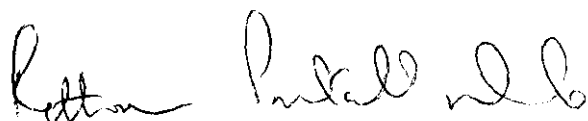
ForcesGroup Limited

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
FORCESGROUP LIMITED

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2003 and of the loss 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 Auditors**

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

28<sup>th</sup> October 2004

# ForcesGroup Limited

## GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2003

	Notes	Year to 31 December 2003 £	Year to 31 December 2002
<b>TURNOVER</b>			
Group and share of joint ventures' turnover		211,661	588,614
Less: share of joint ventures' turnover		-	(302,273)
Group turnover		211,661	286,341
Administrative expenses		(818,798)	(4,601,537)
<b>GROUP OPERATING LOSS</b>	2	(607,137)	(4,315,196)
Share of operating profit in Joint Venture		-	167,944
<b>TOTAL OPERATING LOSS</b>		(607,137)	(4,147,252)
Bank interest receivable		12,289	25,976
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(594,848)	(4,121,276)
Tax on loss on ordinary activities	5	-	(1,200)
<b>LOSS FOR THE FINANCIAL PERIOD</b>	12	(594,848)	(4,122,476)
Additional finance costs of non equity shares	12	(788,355)	(696,117)
<b>RETAINED LOSS FOR THE FINANCIAL PERIOD</b>		(1,383,203)	(4,818,593)

There are no recognised gains and losses other than the loss attributable to the shareholders of the company of £1,383,203.

Details of the movements on reserves are set out in note 12.



# ForcesGroup Limited

## GROUP BALANCE SHEET at 31 December 2003

	Notes	2003 £	2002 £
<b>FIXED ASSETS</b>			
Intangible assets	6	98,000	110,000
Tangible assets	7	1,619	23,131
		<u>99,619</u>	<u>133,131</u>
<b>CURRENT ASSETS</b>			
Debtors	9	92,648	177,553
Cash at bank and in hand		165,776	835,163
		<u>258,424</u>	<u>1,012,716</u>
<b>CREDITORS: amounts falling due within one year</b>	10	(118,868)	(311,824)
<b>NET CURRENT ASSETS</b>		<u>139,556</u>	<u>700,892</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>239,175</u>	<u>834,023</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	11	61,968	61,968
Share premium account	12	9,349,902	9,349,902
Profit and loss account	12	(9,172,695)	(8,577,847)
<b>SHAREHOLDERS' FUNDS</b>			
Equity shareholders' funds		(11,256,458)	(9,873,254)
Non equity shareholders' funds	13	11,495,633	10,707,277
<b>TOTAL SHAREHOLDERS' FUNDS</b>		<u>239,175</u>	<u>834,023</u>

The financial statements were approved by the Board on 28<sup>th</sup> October 2004 and signed on its behalf by



Director

# ForcesGroup Limited

## BALANCE SHEET at 31 December 2003

	Notes	2003 £	2002 £
<b>FIXED ASSETS</b>			
Investments	8	4	4
Tangible assets		1,619	-
		<u>1,623</u>	<u>4</u>
<b>CURRENT ASSETS</b>			
Debtors	9	60,059	8,280,129
Cash at bank and in hand		68,322	763,006
		<u>128,381</u>	<u>9,043,135</u>
<b>CREDITORS: amounts falling due within one year</b>	10	<u>(87,592)</u>	<u>(106,839)</u>
<b>NET CURRENT ASSETS</b>		<u>40,789</u>	<u>8,936,296</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>42,412</u>	<u>8,936,300</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	11	61,968	61,968
Share premium account	12	9,349,902	9,349,902
Profit and loss account	12	(9,369,458)	(475,570)
<b>SHAREHOLDERS' FUNDS</b>			
Equity shareholders' funds		(11,453,220)	(1,770,977)
Non-equity shareholders' funds	13	11,495,632	10,707,277
<b>TOTAL SHAREHOLDERS' FUNDS</b>		<u>42,412</u>	<u>8,936,300</u>

The financial statements were approved by the Board on ~~28th October 2004~~ and signed on its behalf by



Director

NOTES TO THE FINANCIAL STATEMENTS  
at 31 December 2003

**1. ACCOUNTING POLICIES**

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

*Basis of preparing the financial statements – 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 £594,848 (2002: £4,122,476).

During the year the group undertook a number of measures to stabilize the group's position through the reduction in its costs; such measures included the cessation of the unprofitable subsidiaries ForcesServe Ltd, Forces Technology Ltd and Affinitas Networks Ltd. The directors are confident that these actions together with predicted revenue growth 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 that it is appropriate to prepare these financial statements on a going concern basis.

If the financial statements were not able to be prepared on a going concern basis, adjustments would be required to write down the value of assets and recognise contingent and other liabilities. The financial statements do not include any adjustments that would result if the going concern basis was not appropriate.

*Statement of cashflows*

The company qualifies as a small company, under section 247 of the Companies Act 1985, and is not required to prepare a statement of cashflows.

*Basis of consolidation*

The group financial statements consolidate the financial statements of ForcesGroup Limited and its subsidiary undertakings drawn up to 31 December 2003.

*Turnover*

Turnover represents the amounts (excluding value added tax) derived from fees for careers advice and commissions and fees from insurance companies.

*Fixed assets*

All fixed assets are recorded at cost.

*Depreciation*

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset evenly over its expected useful life as follows:

Office and computer equipment - between 3 and 5 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

NOTES TO THE FINANCIAL STATEMENTS  
at 31 December 2003

1. ACCOUNTING POLICIES (continued)

*Foreign currencies*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

*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.

*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 THE FINANCIAL STATEMENTS at 31 December 2003

### 2. GROUP OPERATING LOSS

This is stated after charging/crediting:

	<i>Year ended 31 December 2003</i>	<i>Year ended 31 December 2002</i>
	<i>£</i>	<i>£</i>
Depreciation of owned fixed assets	11,629	222,642
Auditors' remuneration:		
- audit	11,250	19,200
- non-audit	12,925	78,502
Loss on disposal of fixed assets	10,020	90,269
Amortisation of goodwill	12,000	10,000
	<u>          </u>	<u>          </u>

### 3. DIRECTORS' EMOLUMENTS

	<i>Year ended 31 December 2003</i>	<i>Year ended 31 December 2002</i>
	<i>£</i>	<i>£</i>
Remuneration and other emoluments	125,822	222,307
Compensation for loss of office	29,544	-
	<u>          </u>	<u>          </u>
	155,366	222,307
	<u>          </u>	<u>          </u>
Company contributions to money purchase pension schemes	2,250	19,000
	<u>          </u>	<u>          </u>
	<i>No.</i>	<i>No.</i>
Members of money purchase pension schemes	1	2
	<u>          </u>	<u>          </u>

The emoluments, including benefits, of the highest paid director were £58,705 (2002 - £162,707) Pension contributions amounted to £1,250 (2002 - £15,000).

NOTES TO THE FINANCIAL STATEMENTS  
at 31 December 2003

4. STAFF COSTS

	<i>Year ended 31 December 2003</i>	<i>Year ended 31 December 2002</i>
	<i>£</i>	<i>£</i>
Wages and salaries	382,989	715,944
Social security costs	32,354	73,837
Other pension costs	22,094	56,757
	<u>437,437</u>	<u>846,538</u>

The monthly average number of employees during the period was as follows:

	<i>Year ended 31 December 2003</i>	<i>Year ended 31 December 2002</i>
	<i>No.</i>	<i>No.</i>
Sales	5	9
Management and administration	2	7
Service	-	4
	<u>7</u>	<u>20</u>

5. TAXATION

*Tax on loss on ordinary activities*

	<i>Year ended 31 December 2003</i>	<i>Year ended 31 December 2002</i>
	<i>£</i>	<i>£</i>
Foreign tax	-	1,200
	<u>-</u>	<u>1,200</u>

The group has accumulated tax losses of £5,382,447 (2002 £5,223,972) available to carry forward against future trading profits, subject to the agreement of the Inland Revenue.

5A. LOSS FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS

As permitted by Section 230 of the Companies Act 1985 the Profit & Loss Account of ForcesGroup Limited has not been presented with the accounts. The results after taxation of the parent undertaking for the year to 31<sup>st</sup> December 2003 showed a loss of £8,893,888 (2002 – £289,924).

NOTES TO THE FINANCIAL STATEMENTS  
at 31 December 2003

**6. INTANGIBLE ASSETS**

	£
Cost:	
At 1 January 2002	120,000
Additions	-
	<hr/>
At 31 December 2003	120,000
	<hr/>
Amortisation:	
At 1 January 2002	10,000
Charge for year	12,000
	<hr/>
At 31 December 2003	22,000
	<hr/>
Net book value:	
At 31 December 2003	98,000
	<hr/>
	<hr/>
At 1 January 2003	110,000
	<hr/>

The asset relates to goodwill arising from the purchase of an insurance intermediary.

# ForcesGroup Limited

## NOTES TO THE FINANCIAL STATEMENTS at 31 December 2003

### 7. TANGIBLE FIXED ASSETS

<i>Group</i>	<i>Office and computer equipment £</i>	<i>Total £</i>
Cost:		
At 1 January 2003	56,712	56,712
Additions	79,695	79,695
Disposals	(104,995)	(104,995)
At 31 December 2003	31,412	34,412
Depreciation:		
At 1 January 2003	(33,581)	(33,581)
Provided during the period	(69,834)	(69,834)
Adjustment on disposal	73,622	73,622
At 31 December 2003	(29,793)	(29,793)
Net book value:		
At 31 December 2003	1,619	1,619
At 1 January 2003	23,131	23,131
<i>Company</i>	<i>Office and computer equipment £</i>	<i>Total £</i>
Cost:		
At 1 January 2003	-	-
Additions	11,041	11,041
Disposals	(3,414)	(3,414)
At 31 December 2003	7,627	7,627
Depreciation:		
At 1 January 2003	-	-
Provided during the period	(6,008)	(6,008)
Adjustment on disposal	-	-
At 31 December 2003	(6,008)	(6,008)
Net book value:		
At 31 December 2003	1,619	1,619
At 1 January 2003	-	-



# ForcesGroup Limited

## NOTES TO THE FINANCIAL STATEMENTS at 31 December 2003

### 8. INVESTMENT

<i>Group</i> <i>Name of company</i>	<i>Holding</i>	<i>Proportion held</i> <i>%</i>	<i>Nature of business</i>
ForcesServe Limited	£1 ordinary	100	Employment services*
Forces Technology Co Limited	£1 ordinary	100	Software development*
Affinitas (Jersey)Limited	£1 ordinary	100	Insurance intermediary
Affinitas Limited	£1 ordinary	100	Dormant
Affinitas Networks Limited	£1 ordinary	100	Careers advice*
AFFAS Limited	£1 ordinary	100	Insurance intermediary

\* Ceased trading during the year.

### 9. DEBTORS

	<i>Group</i> <i>2003</i> <i>£</i>	<i>Company</i> <i>2003</i> <i>£</i>	<i>Group</i> <i>2002</i> <i>£</i>	<i>Company</i> <i>2002</i> <i>£</i>
Trade debtors	—	—	68,008	—
Prepayments	29,247	2,407	27,056	1,095
Other debtors	26,249	20,500	48,355	—
VAT recoverable	37,152	37,152	34,134	10,587
Amount owed by subsidiary undertakings	—	—	—	8,268,447
Called up share capital not paid	—	—	—	—
	<u>92,648</u>	<u>60,059</u>	<u>177,553</u>	<u>8,280,129</u>

At the year end the company made a bad debt provision for inter-company debtor balances that it deemed were unlikely to be recovered of £8,472,099, as a consequence of 3 group companies ceasing their trading activities in the year.

Last year's comparative for Amounts owed by subsidiary undertakings has been re-stated by £1 in respect of the shareholding in Affinitas Networks Limited that had been incorrectly treated as a subsidiary of ForcesGroup Limited, when it is actually held by ForcesServe Limited, a wholly owned subsidiary of ForcesGroup Limited.

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2003

10. CREDITORS: amounts falling due within one year

	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>2003</i>	<i>2003</i>	<i>2002</i>	<i>2002</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Trade creditors	(44,521)	(26,145)	(90,064)	(36,239)
Other taxes and social security	(4,047)	(4,047)	(27,607)	-
Corporation tax	(1,750)	-	(2,400)	-
Accruals and other creditors	(68,550)	(57,140)	(191,753)	(70,600)
Amount owed to subsidiary undertakings	-	(260)	-	-
	<u>(118,868)</u>	<u>(87,592)</u>	<u>(311,284)</u>	<u>(106,839)</u>

11. SHARE CAPITAL

*Authorised*

		<i>2003</i>	<i>2002</i>
	<i>No.</i>	<i>£</i>	<i>£</i>
Ordinary shares of £0.0001 each	88,224,557	8,822	8,822
Series A1 preferred shares of £0.0001 each	1,487,455,806	148,746	148,746
Series A2 preferred shares of £0.0001 each	2,058,823	206	206
		<u>157,774</u>	<u>157,774</u>

*Allotted, called up and fully paid*

		<i>2003</i>	<i>2002</i>
	<i>No.</i>	<i>£</i>	<i>£</i>
Ordinary shares of £0.0001 each	23,168,209	2,317	2,317
Series A1 preferred shares of £0.0001 each	594,457,616	59,445	59,445
Series A2 preferred shares of £0.0001 each	2,058,823	206	206
		<u>61,968</u>	<u>61,968</u>

The rights attached to the various classes of share are as follows:

In May 2002, 2,058,823 authorised but unissued preference shares were redesignated as Series A2 preference shares. All remaining preference shares were redesignated as Series A1. The Series A2 preference shares have different rights as summarised below. In May and July 2002 a total of 2,058,823 Series A2 preference shares were issued for a consideration of £350,000.

In August 2002 the authorised share capital was increased from £7,000 to £157,776.92 by the creation of a further 1,455,573,681 Series A1 preference shares and 52,195,505 ordinary shares.

In November 2002 a total of 567,699,873 Series A1 preference shares were issued for a consideration of £1,092,255.

**11. Share capital (Continued)**

*Dividend rights*

Subject to the declaration of such dividends by the Board, the holders of the Series A1 preferred 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 preferred ordinary share. Holders of Series A2 preference shares have no dividend rights.

*Conversion*

Series A1 preferred 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 preferred 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.

*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 2.0 times the sum of the issue price and any accrued but unpaid dividends. Actual multiple will depend on the date of redemption. Series A2 preference shares must be repaid before any other class of shares.

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

*Voting rights*

Ordinary shareholders have 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.

NOTES TO THE FINANCIAL STATEMENTS  
at 31 December 2003

**11. Share capital (Continued)**

*Share Options*

The company has both an approved and an unapproved scheme. At 31 December 2003 the following options had been issued and had not lapsed:

	<i>Number of shares</i>	<i>Earliest exercise date</i>	<i>Latest exercise date</i>	<i>Price per share £</i>
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	£0.01

As at 31 December 2003, 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:

	<i>Employee no's</i>	<i>Options</i>
Approved share option plan:		
Brought forward	16	870,000
Lapsed	(15)	(810,000)
Carried forward	1	60,000
Unapproved share option plan:		
Brought forward	9	2,049,500
Lapsed	(8)	(1,949,500)
Carried forward	1	100,000

# ForcesGroup Limited

## NOTES TO THE FINANCIAL STATEMENTS at 31 December 2003

### 12. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

<i>Group</i>	<i>Share capital £</i>	<i>Share premium account £</i>	<i>Profit and loss account £</i>	<i>Total share- holders funds £</i>
At 31 December 2002	61,968	9,349,902	(8,577,847)	834,023
Loss for the year	-	-	(1,383,203)	(1,383,203)
Additional finance costs of non equity shares	-	-	788,355	788,355
At 31 December 2003	61,968	9,349,902	(9,172,695)	239,175

<i>Company</i>	<i>Share capital £</i>	<i>Share premium account £</i>	<i>Profit and loss account £</i>	<i>Total share- holders funds £</i>
At 31 December 2002	61,968	9,349,902	(475,570)	8,936,300
Loss for the year	-	-	(9,682,243)	(9,682,243)
Additional finance costs of non equity shares	-	-	788,355	788,355
At 31 December 2003	61,968	9,349,902	(9,369,458)	42,412

### 13. NON-EQUITY SHAREHOLDERS' FUNDS

Analysis of non-equity shareholders funds:

	<i>2003 £</i>	<i>2002 £</i>
Convertible preference ordinary shares of £0.0001 each		
Brought forward	10,707,277	8,518,927
Net issue proceeds in the year	-	1,492,233
Unpaid preference dividends	788,355	696,117
Carried forward	11,495,632	10,707,277

FRS 4 requires the full finance cost of non-equity shares to be shown as appropriated from profits, even if the company does not have sufficient distributable reserves to pay a dividend. This appropriation has been classified as an additional finance cost in respect of non-equity shares.

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NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2003

**14. CAPITAL COMMITMENTS**

There were no amounts contracted for, but not provided for in the financial statements.

**15. PENSION COMMITMENTS**

The company operates a defined contribution pension scheme, the Forces Group Personal Pension Scheme, for its directors and employees. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions of £22,094 (2002: £56,757) were paid during the period.

**16. RELATED PARTY TRANSACTIONS**

During the period the group entered into the following transactions, in the normal course of business, with other related parties.

	2003	2002
	£	£
The Cooney Group – for services of W C Cooney	10,319	36,000

Wilson Charles Cooney, a director of ForcesGroup Limited is a partner in the Cooney Group.