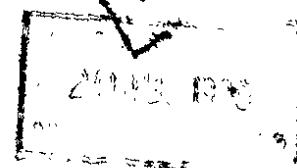


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ALAN PATRICO ASSOCIATES LIMITED

ACCOUNTS -- 31 DECEMBER 1988
TOGETHER WITH DIRECTORS' AND AUDITORS' REPORTS



ALAN PATRICOF ASSOCIATES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 1988

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 1988.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW:

The company provides investment management and investment advisory services to venture capital funds, investing primarily in the United Kingdom. It works closely with companies using the APA name in the USA and France and uses the investment banking services of its fellow subsidiary, MMG Patricof & Co. Ltd., and other companies using the MMG name in other countries. These other companies have certain directors and shareholders in common.

The increase in turnover and costs reflects the growth of activity following the successful launch of the APA Ventures III venture capital fund in September 1987.

The directors expect turnover and profits to improve further in 1989.

RESULTS AND DIVIDENDS:

Results are as follows-

Retained profit at 31 December 1987	£ 35,356
Profit for the year	212,266

Retained profit at 31 December 1988	£247,622
	=====

The directors do not recommend payment of a dividend.

DIRECTORS AND THEIR INTERESTS:

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

Ordinary shares of £1 each
31 December 1988 1 January 1988

A.J. Patricof	-	-
M. Tchenio	-	-
R.M. Cohen	1	1
P. Englander	58	58
R.J. Williams	-	-

DIRECTORS' REPORT (Continued)

DIRECTORS AND THEIR INTERESTS (Continued):

	<u>Ordinary shares of £1 each</u>	
	<u>31 December 1988</u>	<u>1 January 1988</u>
P.A.B. Beecroft	117	117
P. Troughton	-	-
C.R. Sherling (appointed 4 January 1988)	-	-
A.J. Hale (appointed 14 March 1988)	-	-
J.V. Wilkinson (appointed 14 March 1988)	-	-
	====	====

Subsequent to the year end, the following directors have been appointed-

C.W. Freedman (9 January 1989)
J.R. Porter (17 April 1989)

P. Troughton resigned as executive director on 22 February 1988 whilst remaining on the Board as a non-executive director. An ex gratia payment to him of £20,000 was approved by the directors on the same date.

Details of the directors' interests in the transactions of the company are given in Note 13.

The directors' interests in the shares of the ultimate holding company are shown in the accounts of that company.

CLOSE COMPANY STATUS:

The company is a close company within the provision of the Income and Corporation Taxes Act 1988.

FIXED ASSETS:

Information relating to changes in tangible fixed assets is given in Note 6 to the accounts.

AUDITORS:

The directors will place a resolution before the annual general meeting to re-appoint Arthur Andersen & Co. as auditors for the ensuing year.

BY ORDER OF THE BOARD,

24 Upper Brook Street
London W1Y 1PD

M. Cohen
Secretary

29 April 1989

ARTHUR ANDERSEN & Co.

1 SURREY STREET
LONDON WC2R 2PS

To the Members of ALAN PATRICOFF ASSOCIATES LIMITED:

We have audited the accounts set out on pages 4 to 12 in accordance with approved Auditing Standards.

In our opinion, the accounts, which have been prepared under the historical cost convention, give a true and fair view of the state of affairs of the company at 31 December 1988 and of the profit and source and application of funds for the year then ended, and comply with the Companies Act 1985.

London

Arthur Andersen

28 April 1989

ALAN PATRICOF ASSOCIATES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1988

	<u>Notes</u>	<u>1988</u>	<u>1987</u>
TURNOVER	1d	£ 2,463,868	£ 1,240,845
Administrative expenses		(2,203,424)	(1,283,700)
OPERATING PROFIT (LOSS)		260,444	(42,855)
Interest receivable		73,653	17,708
Interest payable and similar charges	2	(980)	(3,173)
PROFIT (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	3	333,117	(28,320)
Tax on profit (loss) on ordinary activities	5	(120,851)	12,547
PROFIT (LOSS) FOR THE FINANCIAL YEAR		212,266	(15,773)
RETAINED PROFIT at 31 December 1987		35,356	51,129
RETAINED PROFIT at 31 December 1988		£ 247,622	£ 35,356

The accompanying notes are an integral part of this profit and loss account.

ALAN PATRICOF ASSOCIATES LIMITED

BALANCE SHEET -- 31 DECEMBER 1988

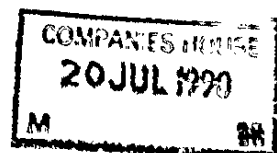
	<u>Notes</u>	<u>1988</u>	<u>1987</u>
FIXED ASSETS			
Tangible assets	1b&6	E 89,354	E 99,386
CURRENT ASSETS			
Debtors			
Cash at bank and in hand	7	393,451 596,285	86,596 359,706
		989,736	446,302
CREDITORS: Amounts falling due within one year	8	(803,834)	(480,048)
NET CURRENT ASSETS (LIABILITIES)		185,902	(33,746)
TOTAL ASSETS LESS CURRENT LIABILITIES		275,256	65,640
PROVISIONS FOR LIABILITIES AND CHARGES	9	(3,439)	(6,089)
NET ASSETS		E 271,817	E 59,551
CAPITAL AND RESERVES			
Called-up share capital		E 1,175	E 1,175
Share premium account		23,020	23,020
Profit and loss account		247,622	35,356
TOTAL CAPITAL EMPLOYED		E 271,817	E 59,551

SIGNED ON BEHALF OF THE BOARD

Peter Cyhlar, *Peter Cyhlar*
Directors
Oliver Seely

23 April 1989

The accompanying notes are an integral part of this balance sheet.



ALAN PATRICO ASSOCIATES LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED 31 DECEMBER 1988

	<u>1988</u>	<u>1987</u>
SOURCE OF FUNDS		
Profit on ordinary activities after taxation	£ 212,266	£ -
Add (deduct) items not involving the movement of funds		
- movement in deferred income	19,511	-
- depreciation	40,533	-
- gain on disposals of fixed assets	(1,198)	-
	-----	-----
Total funds from operations	271,112	-
Proceeds from disposals of tangible fixed assets	13,400	-
Proceeds from issue of shares	-	23,195
	-----	-----
	£ 284,512	£ 23,195
	=====	=====
APPLICATION OF FUNDS		
Loss on ordinary activities after taxation	£ -	£ 15,773
(Add) deduct items not involving the movement of funds		
- movement in deferred income	-	11,095
- depreciation	-	(35,654)
- movement in deferred taxation	2,650	3,390
	-----	-----
	2,650	(5,396)
Decrease in creditors due after more than one year	-	8,746
Purchase of tangible fixed assets at cost	42,703	31,343
Increase (decrease) in net current assets, as shown below	239,159	(11,498)
	-----	-----
	£ 284,512	£ 23,195
	=====	=====
INCREASE (DECREASE) IN NET CURRENT ASSETS		
Debtors	£ 306,855	£ (67,317)
Creditors falling due within one year (other than bank loans and overdrafts and deferred income)	(304,275)	(353,524)
	-----	-----
	2,580	(420,841)
Movement in net liquid funds		
- cash at bank and in hand	236,579	338,953
- bank loans and overdrafts and deferred income)	-	70,390
	-----	-----
	£ 236,579	£ (11,498)
	=====	=====

The accompanying notes are an integral part of this statement.

ALAN PATRICOF ASSOCIATES LIMITED

NOTES TO ACCOUNTS -- 31 DECEMBER 1988

1. ACCOUNTING POLICIES:

The principal accounting policies are-

a) Basis of accounting

The accounts are prepared under the historical cost convention.

b) Tangible fixed assets

Fixed assets are shown at cost, less accumulated depreciation.

Depreciation is provided at rates calculated to write off the cost less estimated residual value of fixed assets on a straight-line basis over their estimated useful lives as follows-

Fixtures and fittings	-	20%
Motor vehicles	-	25%
Leasehold improvements	-	20%

c) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation represents the amounts required to allow for the effect of certain items of income and expense (primarily depreciation) being attributable for tax purposes to periods different from those in which credits or charges are recorded in the accounts, and is computed using the rate of tax expected when the accumulated timing differences reverse.

d) Turnover

Turnover comprises the value (excluding VAT) of services in the normal course of business and the partnership income share referred to in Note 14.

The analysis of turnover by geographical area has been omitted.

e) Deferred income

Deferred income represents amounts received in respect of fees due for periods subsequent to the balance sheet date.

2. INTEREST PAYABLE AND SIMILAR CHARGES:

	<u>1988</u>	<u>1987</u>
Interest on hire purchase contracts	£ (95)	£ 1,732
Interest on bank loans and overdrafts payable within five years not by instalments	1,075	1,441
	=====	=====
	£ 980	£ 3,173
	=====	=====

NOTES TO ACCOUNTS (Continued)

3. PROFIT (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION:

Profit (loss) on ordinary activities before taxation is stated after charging-

	<u>1988</u>	<u>1987</u>
a) Depreciation and amounts written off tangible fixed assets	£ 40,533	£ 35,654
b) Auditors' remuneration	7,950	4,000
c) Staff costs (see Note 4)	783,122	499,757
	=====	=====

4. STAFF COSTS:

Particulars of employee costs (including executive directors) are as shown below-

	<u>1988</u>	<u>1987</u>
Employee costs during the year amounted to-		
Wages and salaries	£714,913	£424,451
Social security costs	53,902	39,380
Other pension costs	14,307	35,926
	-----	-----
	£783,122	£499,757
	=====	=====

The average weekly number of persons employed by the company during the year was as follows-

	<u>Number</u>	<u>Number</u>
Investment advice	7	5
Administration	5	7
	==	==

In addition to the above persons, the company has access to the services of the chairman (investment advice) and seven other staff (administration) employed by the MMG Patricof Group PLC, which makes a charge for their services.

Directors' remuneration-

Directors' remuneration was paid in respect of directors of the company as follows-

	<u>1988</u>	<u>1987</u>
Fees	£ -	£ -
Other emoluments (including pension contributions)	544,074	320,328
Compensation for loss of office	20,000	-
	-----	-----
	£564,074	£320,328
	=====	=====

NOTES TO ACCOUNTS (Continued)

4. STAFF COSTS (Continued):

The directors' remuneration shown above (excluding pensions and pension contributions) included-

	<u>1988</u>	<u>1987</u>
Chairman	£226,694	£ 83,333
	=====	=====

The chairman is remunerated by the holding company, which makes a charge for his services to the company.

	<u>1988</u>	<u>1987</u>
Highest paid director	£189,633	£ 83,333
	=====	=====

Other directors received emoluments (excluding pensions and pension contributions) in the following ranges-

	<u>1988</u> <u>Number</u>	<u>1987</u> <u>Number</u>
Up to £ 5,000	3	4
£ 10,001 - £15,000	1	-
£ 15,001 - £20,000	1	-
£ 50,001 - £55,000	-	1
£ 70,001 - £75,000	1	1
£ 75,001 - £80,000	-	1
£110,001 - £115,000	1	-
£130,001 - £135,000	1	-
	===	===

Higher paid employees-

Employees of the company other than directors, whose duties were wholly or mainly discharged in the United Kingdom, received remuneration (excluding pension contributions) in the following ranges-

	<u>1988</u> <u>Number</u>	<u>1987</u> <u>Number</u>
£40,001 - £45,000	-	1
£50,001 - £55,000	1	-
	===	===

5. TAX ON PROFIT (LOSS) ON ORDINARY ACTIVITIES:

The tax charge (credit) is based on the profit (loss) for the year and comprises-

	<u>1988</u>	<u>1987</u>
Corporation tax 35%	£ 123,500	£ (6,071)
Deferred tax arising from		
- capital allowances	(2,650)	(3,390)
Adjustment in respect of prior year	1	(3,086)
	=====	=====
	£ 120,851	£ (12,947)
	=====	=====

NOTES TO ACCOUNTS (Continued)

6. TANGIBLE FIXED ASSETS:

The movement in the net book value of tangible fixed assets for the year was as follows-

	<u>Short leasehold buildings</u>	<u>Motor vehicles</u>	<u>Furniture and fittings</u>	<u>Total</u>
COST-				
Beginning of year	£ 2,000	£ 56,500	£132,681	£191,181
Additions	-	-	42,703	42,703
Disposals	-	(25,500)	-	(25,500)
	-----	-----	-----	-----
End of year	2,000	31,000	175,384	208,384
	-----	-----	-----	-----
DEPRECIATION-				
Beginning of year	1,600	37,548	52,647	91,795
Charge	400	6,750	33,383	40,533
Disposals	-	(13,298)	-	(13,298)
	-----	-----	-----	-----
End of year	2,000	31,000	86,030	119,030
	-----	-----	-----	-----
NET BOOK VALUE				
Beginning of year	£ 400	£ 18,952	£ 80,034	£ 99,386
	-----	-----	-----	-----
NET BOOK VALUE				
End of year	£ -	£ -	£ 89,354	£ 89,354
	-----	-----	-----	-----

7. DEBTORS:

The following amounts are included in debtors falling due within one year-

	<u>1988</u>	<u>1987</u>
Trade debtors	£ 42,437	£ 52,159
Amounts owed by group companies	314,796	-
Amounts owed by affiliated companies	575	2,712
Other debtors	29,025	-
Prepayments	6,618	31,725
	-----	-----
	£393,451	£ 86,596
	-----	-----

8. CREDITORS- AMOUNTS FALLING DUE WITHIN ONE YEAR:

The following amounts are included in creditors falling due within one year-

	<u>1988</u>	<u>1987</u>
Trade creditors	£101,179	£152,262
Due to group companies	391,608	255,181
Due to affiliated companies	-	4,892
Other creditors		
- UK corporation tax payable	123,500	6,963
- VAT	17,415	-
- social security and PAYE	17,152	24,211
Accruals	123,830	26,300
Deferred income (Note 1c)	29,750	10,239
	-----	-----
	£803,834	£480,048
	-----	-----

NOTES TO ACCOUNTS (Continued)

9. PROVISIONS FOR LIABILITIES AND CHARGES:

The provision for liabilities and charges comprises deferred taxation attributable to the excess of tax allowances over book depreciation of fixed assets. Full provision has been made for all timing differences.

The movement on deferred taxation comprises-

	<u>1988</u>	<u>1987</u>
Beginning of year	£ 6,089	£ 9,479
Credited to profit and loss in respect of-	(2,650)	(3,390)
- capital allowances	<u>£ 3,439</u>	<u>£ 6,089</u>
End of year	<u>=====</u>	<u>=====</u>

10. CALLED-UP SHARE CAPITAL:

	<u>1988</u>	<u>1987</u>
Authorised-		
10,000 ordinary shares of £1 each	<u>£ 10,000</u>	<u>£ 10,000</u>
	<u>=====</u>	<u>=====</u>
Allotted, called-up and fully-paid-		
Ordinary shares of £1 each	<u>£ 1,175</u>	<u>£ 1,175</u>
	<u>=====</u>	<u>=====</u>

In the event that the company makes a further issue of ordinary shares or places ordinary shares under option, The MMG Patricof Group PLC has contracted to offer certain directors the opportunity to maintain their percentage interest in the company by subscribing for shares or acquiring options, or by purchasing shares already in issue.

In addition in certain circumstances The MMG Patricof Group PLC may be obliged to purchase the directors' shares and may require the directors to sell their shares to itself.

11. GUARANTEES AND OTHER FINANCIAL COMMITMENTS:

a) Capital commitments

There were no capital commitments at the end of the year (1987 - EN11).

b) Lease commitments

The company has entered into lease agreements with respect to motor vehicles, the payments of which extend up to 3 years. The agreements provide that the company will pay the insurance. Maintenance and repairs are covered by the lease agreements. The minimum annual rentals under the foregoing basis are as follows-

Operating leases which expire
- 2 - 3 years

Motor
vehicles

£ 16,686

£ 16,686

=====

NOTES TO ACCOUNTS (Continued)

11. GUARANTEES AND OTHER FINANCIAL COMMITMENTS (Continued):

c) VAT

The company is registered for VAT purposes in a group of companies which share a common registration number. As a result, it has jointly guaranteed the VAT liability of the group, and failure by other members of the group would give rise to additional liabilities for the company. The directors have no reason to expect that the group companies will fail to meet their VAT obligations.

12. PENSION COMMITMENTS:

The company operates a defined contribution pension scheme in respect of one (1987 - three) director and one other employee (1987 - none). The current annual contributions amount to £14,307 (1987 - £35,926).

13. TRANSACTIONS WITH RELATED PARTIES:

Certain directors of the company (Messrs. Cohen, Patricof and Tchenio) have interests in affiliated companies using the MMG and Alan Patricof Associates names. £885,115 (1987 - £828,604) of the turnover of the company was generated by the provision of services to APA Venture Capital Managers (Jersey) Limited, an affiliated company incorporated in Jersey.

14. PARTNERSHIP PROFIT SHARE AND CONTINGENT LIABILITY:

The company is the general partner in two limited partnerships operating as venture capital investment funds. The company is entitled to a guaranteed income participation, but does not otherwise participate in the partnership assets. If, upon the winding up of the partnerships, the liabilities of either partnership exceed the limited partners' capital and loans, the company is liable for the shortfall of assets.

15. ULTIMATE HOLDING COMPANY:

The company is a subsidiary of The MMG Patricof Group PLC, incorporated in England.