

C O N T E N T S

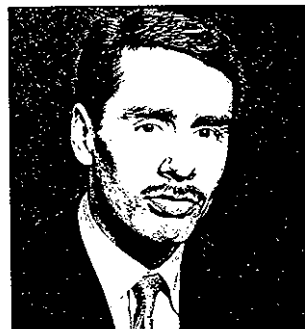
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DIRECTORS AND ADVISERS



W G FOSSICK
Chairman
Non-Executive



S P EWING
Managing Director

R C MCGUIRE MSI
Non-Executive

N TALBOT-RICE
Non-Executive

D B BAILEY MSI AHMR
Non-Executive

**SECRETARY AND
REGISTERED OFFICE**
D B Bailey
Bell Court House
11 Blomfield Street
London
EC2M 1LB

**PRINCIPAL
BANKERS**
Royal Bank of
Scotland plc
36/38 Baldwin Street
Bristol
BS1 1NR

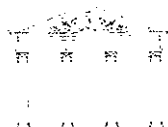
NOMINATED BROKER
Hichens, Harrison
& Co. plc
Bell Court House
11 Blomfield Street
London
EC2M 1LB

AUDITORS
Solomon Hare
Oakfield House
Oakfield Grove
Clifton
Bristol BS8 2BN

SOLICITORS
Watson, Farley
& Williams
15 Appold Street
London
EC2A 2HB

NOMINATED ADVISOR
Teather, Greenwood
12-20 Camomile Street
London
EC3A 7NN

**COMPANY
REGISTRATION
NUMBER**
2356184 in England
and Wales



F A R L A K E G R O U P P L C - A N I N T R O D U C T I O N

Farlake Group is an investment management Group offering independent investment advice and administration services to private and corporate clients.

Our objective is to enhance shareholder value by providing high quality, professional advice and services to clients, the aim of which is to increase their wealth on a medium to long term basis.

We pride ourselves on the high level of expertise throughout the Group. We place great emphasis on delivering quality client service through professionally qualified personnel, utilising where necessary a strong independent research facility.

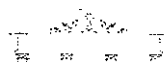
The strength of our Group lies in its ability to react to both client and market demands, as is our ability to manage change as it occurs in the consolidation of the investment management industry.

F I N A N C I A L H E A D L I N E S

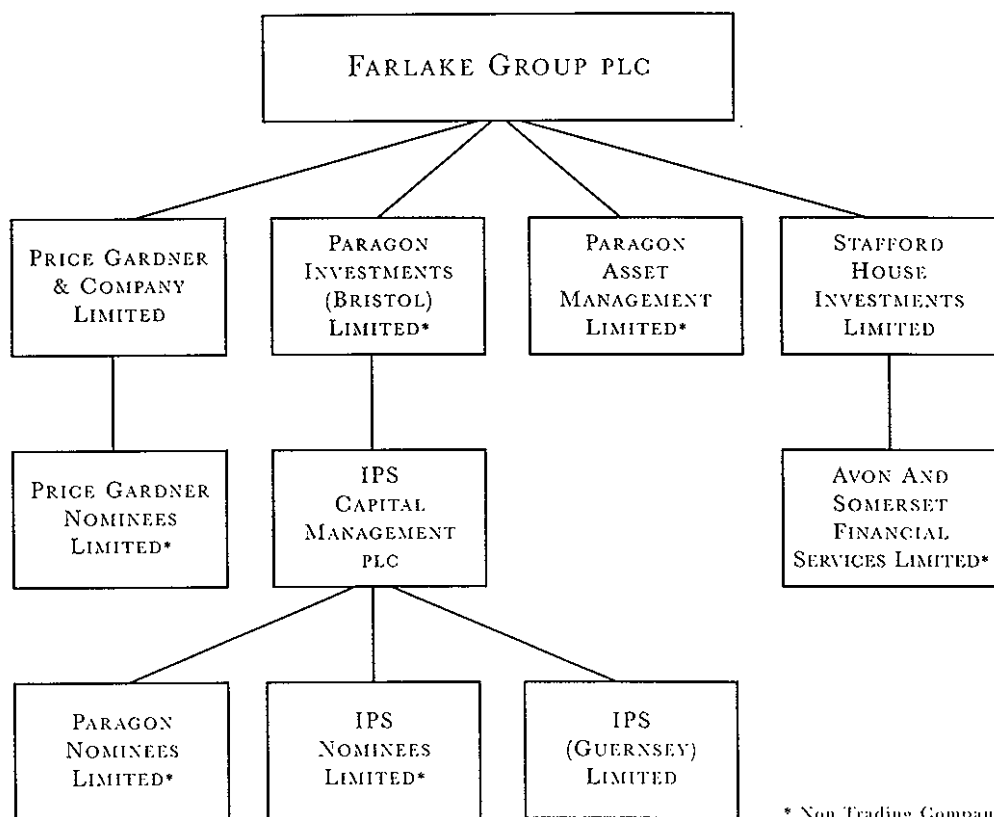
	1997	1996
	£'000	£'000
Turnover	2,029	1,472
Profit Before Tax	507	438
Net Assets	2,268	1,720
Earnings per Share (pence)		
Basic	14.16p	15.02p
Fully Diluted	13.56p	14.01p
Pro-Forma	15.44p	-
Dividend per Share (pence)	2.00p	-

O B J E C T I V E

To consistently provide an appropriate return for our shareholders on the capital employed by concentrating efforts on our core business activities of quality professional advice and investment management performance.



GROUP STRUCTURE



* Non Trading Company

EXECUTIVE DIRECTORS

FARLAKE GROUP PLC

Mr Sean Ewing BA DMS MBA

IPS CAPITAL MANAGEMENT PLC

Mr Sean Ewing BA DMS MBA
 Mr Simon Temple-Pedersen IMC
 Mr Paul Tarran BSc FCA
 Mr Tim Charman BSc

PRICE GARDNER & CO. LIMITED

Mr Sean Ewing BA DMS MBA
 Mr Simon Temple-Pedersen IMC
 Mr Paul Tarran BSc FCA
 Mr David Woodburn MSFA

STAFFORD HOUSE INVESTMENTS LIMITED

Mr Sean Ewing BA DMS MBA
 Mr Jeremy Wake MLIA (Dip) FLIA
 Mr Louis Crooks RD
 Mr David Bret BA



CHAIRMAN'S STATEMENT

In what has proved to be a difficult year, the Board is pleased to announce an increase in profits before taxation of 15.8%, up from £438,000 to £507,000, and an increase in shareholders funds of 31.9%, up from £1.72 million to £2.27 million. After taking account of the cancellation of the shares returned to the Company by the vendors of Paragon Investments (Bristol) Limited on the final calculation of the purchase price, the earnings per share show a small increase of approximately 2.8%. Your directors have decided that these results justify the payment of a dividend of 2p per share which shareholders will be asked to approve at the Annual General Meeting. This will be paid on 27th February 1998 to shareholders on the register as at 13th February 1998.

As I said in my Interim Statement, the first half of the year suffered considerable disruption, mainly from the departure of key staff. The effects continued to be felt into the second half of the year but gave us the opportunity to make improvements to our business.

At Price Gardner & Co., we have been able to recruit new and better qualified staff who, in the event, have not only maintained a substantial part of our existing business but have also introduced new business to us.

At IPS Capital Management, an intensive review of the way in which our investment management is conducted has led to a more systematic method of investment and an improved performance. Although we have suffered, as have our competitors, in the recent turmoil of world-wide stockmarkets, we can be pleased at the defensive position which we had already adopted. We have been strengthened by the appointment of a consultant to advise us on asset allocation in order to assist our performance.

Stafford House Investments was acquired during the year and its results are included for 10 months. It has had a satisfactory start as part of our Group, increasing its own funds under management and introducing new business to our investment management company.

Overall then, a more satisfactory period than had once seemed likely. We have a well qualified team of people working in our businesses, an improving investment performance and the capability of servicing further funds under management and additional businesses. Your Board feels that improved results can be achieved from our existing businesses and will be seeking to obtain these in the coming year by examining the constituent parts of those businesses. We also need to develop additional business, both internally and by acquisition, to make more cost effective use of our present capabilities and we continue to look for suitable opportunities.

In this context, shareholders should be aware that your Board has been approached by a number of parties interested in making an investment in the Group. To date no formal proposal has resulted from these approaches but your Directors are mindful of the need to develop the Group and to increase shareholder value.

At the time of writing this report, the Group had over £250 million of funds under management and approximately £2 million of uncommitted cash. This is a sound base for the development of the Group and the Directors view the future with confidence. On behalf of all shareholders, the Directors would like to thank all our staff who have worked so hard during a difficult period.

WILLIAM FOSSICK

CHAIRMAN

28th January 1998



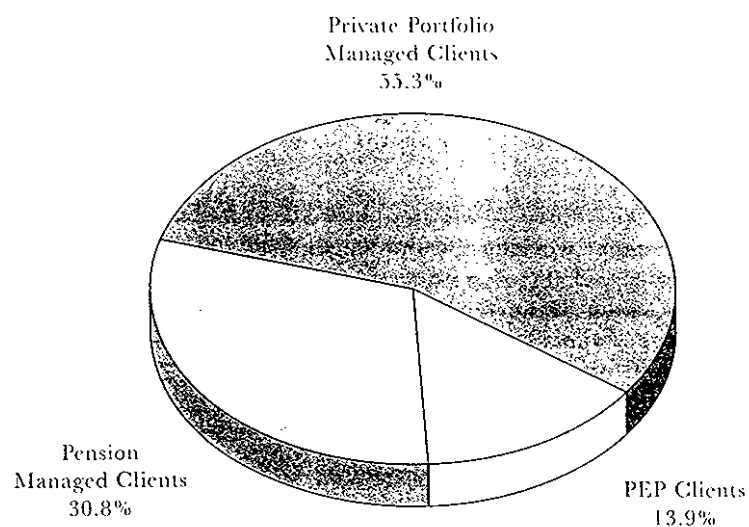
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ANALYSIS OF FUNDS UNDER MANAGEMENT

The nature of our clients and funds under management at 1st December 1997 is detailed as follows:

	Funds
Pension Managed Clients	£77.1m
PEP Clients	£34.9m
Private Portfolio Managed Clients	£138.7m
	<hr/> £250.7m <hr/>

BREAKDOWN OF TOTAL CLIENT FUNDS OF £250.7M
AT 1ST DECEMBER 1997



Excludes client assets invested directly in Insurance Company Life and Pension Products



MANAGING DIRECTOR'S REPORT

INVESTMENT BACKGROUND

Over recent years the UK economy has been growing at a robust rate whilst inflationary pressures have remained subdued. This has produced buoyant investment markets in the UK coupled with a remarkably strong performance from the US and latterly many European markets.

The election of a Labour government during the year did nothing to alter this favourable environment as, after being elected, Labour announced that the Bank of England would be solely responsible for setting interest rates and that it would address in a more positive way joining the European Monetary Union.

The continuing support in the strength of Sterling has reduced overseas returns for domestic investors. The recent uncertainties in South East Asia, Hong Kong and Japan have focussed many investors on not only prudent asset allocation but an increased need to be "stock specific". It is in such an environment that an independent investment group can provide real added value over and above investment tracking alternatives.

Within the industry debate over the Personal Investment Authority 'Paper 21' relating to "Broker Funds" has once again identified the further regulatory pressures influencing the direction of many organisations. In addition, recent industry activity has seen further consolidation of domestic fund management and investment groups. This consolidation has not confined itself to the smaller players and recently large organisations such as BZW, Mercury Asset Management and Union Bank of Switzerland have formed part of ever enlarging groups. It is our belief that the rate of consolidation will continue to increase and many opportunities will be available to those select groups in the domestic market with the platform and the ability to engage in profitable integration.

FINANCIAL REVIEW

The profit before taxation for the year ended 30th September 1997 was £507,000. This represents an increase of 15.8% on ordinary activities before taxation up from £438,000. Profit for the second half of 1997 showed a 30.5% increase over that of the first half.

In July the final consideration in respect of the purchase of Paragon Investments (Bristol) Ltd., the holding company of IPS Capital Management was agreed. This was effected at the EGM on 23rd October 1997 and the number of ordinary shares in issue reduced to 2,343,802 to give adjusted earnings per share for the financial year, calculated on a pro forma basis, to 15.44p.

The need to improve the quality of income through fees and renewal income continued and forms the basis for the continuing strategy within the Group. The funds under management amount to £250.7 million.

In the Balance Sheet our Net Assets after providing for the dividend increased by 31.9% to £2,268,000. This strong position, predominantly cash, should enable the Group to examine all suitable strategic acquisitions. The pre tax profit of £507,000 represents a return of 25.0% on overall turnover.



MANAGING DIRECTOR'S REPORT

GROUP TRADING REVIEW

As reported in the 1996 Report & Accounts, on 28th November 1996 the Group acquired the Taunton based company, Stafford House Investments Limited. The acquisition reported as a post year end event in our last Accounts extended the geographic presence of the Group and provided wider professional expertise. The acquisition has increased Group profits and provides a return of 23.8% on capital employed for the 10 month period.

Since acquisition Stafford House Investments has increased its core funds under management and has been instrumental in introducing discretionary funds to the Group. As a result of its integration, Stafford House Investments is now able to offer greater investment expertise to both its clients and professional introducers alike.

In a year of change for Price Gardner & Co. a dedicated and focused search for experienced, qualified investment managers, brought with it a number of individuals who are now actively contributing to Group income and client retention. This client retention and, in particular, the retention of funds under management during the course of the year required a much greater investment in client servicing at the expense of new business initiatives.

The departure of the old and the enthusiasm of the new brought further opportunity for both IPS Capital Management and Price Gardner & Co.. Price Gardner & Co. gained authorisation to undertake discretionary fund management activities for the first time and it is intended that this competitive advantage will be exploited in the forthcoming financial year.

During the year the management team embarked on a specific structural change to the investment management process within IPS Capital Management. This followed detailed analysis of the investment process and a focused, analytical and benchmarked approach was introduced for the management of clients' assets. The recruitment of an external asset allocation consultant to assist in the quality of investment advice and external research available to our fund managers and clients has already proved successful. This combined with the new responsibility on key individuals has brought both improved performance and consistency throughout our discretionary funds and the initial results of these changes are encouraging.

Further investment and development in the Group established a suitable back office platform which combined the integration of all client data into one system for Price Gardner & Co. and IPS Capital Management.

SUMMARY

The Directors' aim during the last year of integrating the recently acquired business of Price Gardner & Co. with IPS Capital Management is now largely complete.

During this period we took the opportunity of reviewing the business process within the Group and restructured areas of weakness which included the appointment, where necessary, of appropriately qualified and competent staff. The Directors believe that such an investment is necessary to provide a suitable platform for future expansion.

1996 1995 1994 1993

MANAGING DIRECTOR'S REPORT

The integration of Price Gardner & Co. has required more investment in both financial and management resources than anticipated in our last report. The executives now in place bring with them many years of experience together with formal qualifications and have, since joining, worked as a team and contributed substantially to the maintaining of valuable business assets. The benefits of this effort should be seen in the next financial year.

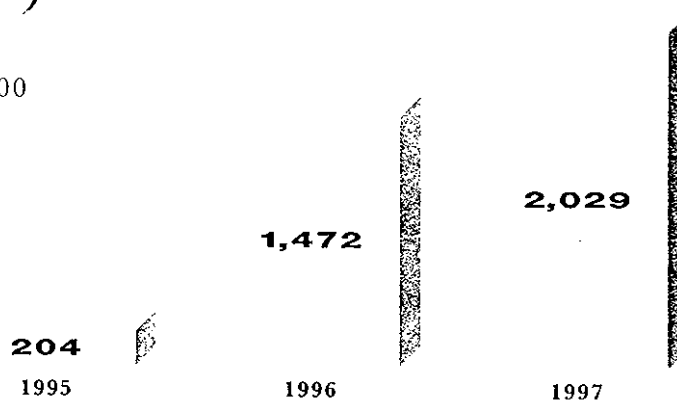
There are no economic or industry factors which suggest the strategy for the future development of the Group should change, in fact, recent events within the industry confirm our previous opinion. The future for our Group lies in its ability to change, integrate and form relationships with other investment organisations as a result of further consolidation and industry pressure.

The high standards set and aspired to within the Group demonstrate the commitment of staff who collectively, through their efforts, turned a difficult year into a good year. It is hoped that the year ahead will provide more visible results of their efforts and permit structured reform to allow future expansion.

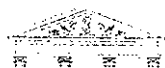
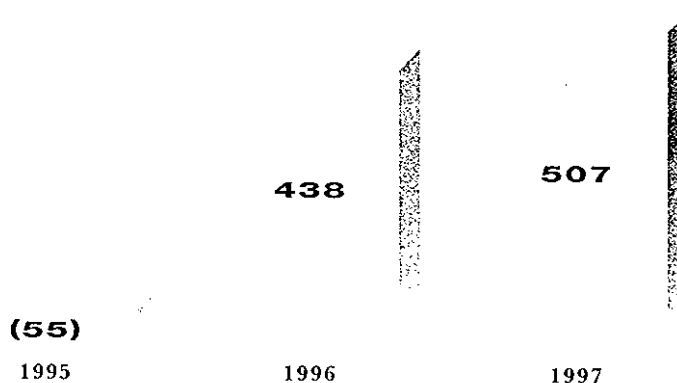
In conclusion, we look forward to what should turn out to be a dynamic and interesting year for the Group and with the support of our talented and committed employees, one which should provide further growth in shareholder value.

SEAN EWING MBA
MANAGING DIRECTOR


GROUP TURNOVER £'000



GROUP PROFIT £'000



C O R P O R A T E G O V E R N A N C E

The Company's shares are traded on the Alternative Investment Market of the London Stock Exchange and the Company is not therefore required to report on compliance with the Code of Best Practice of the Committee on the Financial Aspects of Corporate Governance ("the Cadbury Code"). However, the Board of Directors supports the Cadbury Code and also the recommendations of the City Group for Smaller Companies ("CISCO") in its bulletin "The Financial Aspects of Corporate Governance: Guidance for Smaller Companies." The bulletin identified areas of the Cadbury Code which may initially prove difficult for smaller companies and suggests minimum standards in those areas.

Accordingly the Board has established an Audit Committee chaired by D B Bailey with R C McGuire and W G Fossick, and a Remuneration Committee chaired by N Talbot-Rice with R C McGuire and W G Fossick.

The Directors acknowledge their responsibilities for the Company's system of internal financial control. In fulfilling these responsibilities the Board has reviewed the effectiveness of the system of internal financial control on the basis of the criteria set out in the Guidance for Directors "Internal Control and Financial Reporting." The Board considered major business and financial risks.

The Board meets monthly and reviews all relevant matters. All strategic decisions are referred to the Board for approval. Accepting that no system of financial control can provide absolute assurance against material misstatement or loss, the Directors believe that the established systems of internal control within the Company are appropriate to the business. No weaknesses have resulted in any material losses, contingencies or uncertainties which would require disclosure as recommended by the Guidance for Directors.

A N N U A L G E N E R A L M E E T I N G

The Annual General Meeting will be held on 25th February 1998 at 10.30am at the offices of Watson, Farley & Williams, 15 Appold Street, London EC2A 2HB.

W A T S O N
F A R L E Y & W I L L I A M S

D I R E C T O R S ' R E P O R T

DIRECTORS' REPORT

The Directors submit their report and the audited financial statements of the Company for the year ended 30 September 1997.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activity of the Group is investment management. A review of the year and future prospects is contained in the Managing Director's Report on pages 7 to 9.

The Directors recommend the payment of a net dividend of 2p per Ordinary share.

DIRECTORS

The Directors of the Company during the year and their interests in the Ordinary share capital of the Company were:

	Ordinary shares of £1 each	
	At 30/9/97	At 1/10/96
W G Fossick	20,000	20,000
* D B Bailey	597,000	597,000
* R C McGuire	597,000	597,000
N C Talbot Rice	30,000	30,000
S P Ewing	3,000	3,000
P G Leonard (resigned 21st March 1997)	-	1,000

*The holdings of each of R C McGuire and D B Bailey represent the total interest of Hichens, Harrison & Co. plc in the capital of the Company. Messrs. R C McGuire and D B Bailey are the joint owners of Hichens, Harrison & Co. plc.

As at 30th September 1997 and 30th September 1996, the following Director has been granted share options over Ordinary shares exercisable between 30th June 1997 and 30th June 2004:

	Number	Price
S P Ewing	68,700	£3.15

SIGNIFICANT SHAREHOLDINGS

At 23 January 1998, the Directors are aware of the following interests in the Ordinary shares of the Company of 3% or more:

	No. of shares	Share of Issued Capital
Hichens, Harrison & Co. plc	597,000	25.47%
Eaglet Investment Trust PLC	460,833	19.66%
AIM Trust Plc	176,500	7.53%
Nomura International plc	175,000	7.47%
Knox D'Arcy Investment Limited	166,666	7.11%
Banque Privee Edmond De Rothschild SA	86,667	3.70%



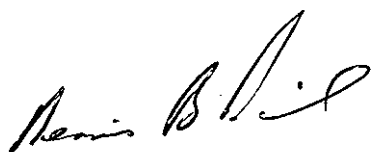
DIRECTORS' REPORT

CREDITOR PAYMENT POLICY AND CREDITOR DAYS

The Group seeks to maintain good relations with all of its trading parties. In particular, it is the Group's policy to abide by the terms of payment agreed with each of its suppliers. As an investment management business, the group does not deal with trade suppliers and therefore the calculation of creditor days is not appropriate.

AUDITORS

In accordance with Section 385 of the Companies Act 1985, a resolution for the reappointment of Solomon Hare will be proposed at the Annual General Meeting.



BY ORDER OF THE BOARD

D B BAILEY

SECRETARY

28th January 1998

STATEMENT OF 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 the Group as at the end of the financial year 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.
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



AUDITORS' REPORT

We have audited the financial statements on pages 14 to 29 which have been prepared under the historical cost convention and the accounting policies set out on page 18.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 12, the Directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with 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 circumstances of the Group and the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

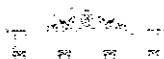
In our opinion the financial statements give a true and fair view of the state of the affairs of the Group and the Company as at 30 September 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



SOLOMON HARE

Registered Auditors
Chartered Accountants
Oakfield House
Oakfield Grove
Clifton
Bristol
BS8 2BN

Date 28th January 1998



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FARLAKE GROUP PLC
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 SEPTEMBER 1997

	Note	Continuing Operations £'000	Acquisitions £'000	1997 Total £'000	1996 Total £'000
TURNOVER	2	1,712	317	2,029	1,472
Cost of sales		(88)	(39)	(127)	(78)
GROSS PROFIT		1,624	278	1,902	1,394
Administrative expenses		(1,269)	(242)	(1,511)	(1,010)
OPERATING PROFIT	3	355	36	391	384
Interest receivable				183	91
Interest payable	4			(67)	(37)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION				507	438
Taxation	5			(145)	(141)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION				362	297
Dividend	6			(47)	-
PROFIT FOR THE YEAR TRANSFERRED TO RESERVES	17			315	297
Earnings per share	7				
- basic				14.16p	15.02p
- fully diluted				13.56p	14.01p
- pro forma				15.44p	-

There are no recognised gains or losses for the current or previous period other than those shown in the profit and loss account. Accordingly, no statement of total recognised gains and losses has been prepared.

The notes on pages 18 to 29 form part of these financial statements



FARLAKE GROUP PLC
CONSOLIDATED BALANCE SHEET AT 30 SEPTEMBER 1997

	Note	1997 £'000	1996 £'000
FIXED ASSETS			
Tangible assets	10	49	68
Investments	11	45	20
		<u>94</u>	<u>88</u>
CURRENT ASSETS			
Debtors	12	559	230
Cash at bank and in hand		3,223	3,079
		<u>3,782</u>	<u>3,309</u>
Creditors (amounts falling due within one year)	13	(1,605)	(685)
		<u>2,177</u>	<u>2,624</u>
NET CURRENT ASSETS			
		<u>2,271</u>	<u>2,712</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
Creditors (amounts falling due after more than one year)	14	(3)	(992)
		<u>2,268</u>	<u>1,720</u>
NET ASSETS			
CAPITAL AND RESERVES			
Called up share capital	15	2,559	2,541
Share premium	16	3,008	2,952
Goodwill reserve	17	(3,904)	(4,063)
Profit and loss account	17	605	290
		<u>2,268</u>	<u>1,720</u>
EQUITY SHAREHOLDERS' FUNDS			

Approved by the Board:

W.C. Fossick
W.C. Fossick - Director

D.B. BAILEY
28th January 1998

S.P. Ewing
S.P. Ewing - Director

The notes on pages 18 to 29 form part of these financial statements



FARLAKE GROUP PLC
BALANCE SHEET AT 30 SEPTEMBER 1997

	Note	1997 £'000	1996 £'000
FIXED ASSETS			
Investments	11	4,427	4,431
CURRENT ASSETS			
Debtors	12	538	-
Cash at bank and in hand		2,083	2,376
		<u>2,621</u>	<u>2,376</u>
Creditors (amounts falling due within one year)	13	(1,246)	(378)
		<u></u>	<u></u>
NET CURRENT ASSETS		<u>1,375</u>	<u>1,998</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,802</u>	<u>6,429</u>
Creditors (amounts falling due after more than one year)	14	-	(989)
		<u></u>	<u></u>
NET ASSETS		<u><u>5,802</u></u>	<u><u>5,440</u></u>
CAPITAL AND RESERVES			
Called up share capital	15	2,559	2,541
Share premium	16	3,008	2,952
Profit and loss account	17	235	(53)
		<u></u>	<u></u>
EQUITY SHAREHOLDERS' FUNDS		<u><u>5,802</u></u>	<u><u>5,440</u></u>

Approved by the Board:

W G Fossick - Director

28th January 1998

S P Ewing - Director



The notes on pages 18 to 29 form part of these financial statements

... 2000 ...
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... 2000 ...

FARLAKES GROUP PLC
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 1997

	1997	1996
	£'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES (Note 20)	328	519
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest paid	(67)	(37)
Interest received	181	67
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	114	30
TAXATION		
Tax paid	(129)	(73)
INVESTING ACTIVITIES		
Purchase of tangible fixed assets	(11)	(46)
Sale of tangible fixed assets	-	8
Purchase of subsidiary undertaking (Note 23)	(74)	(494)
Redemption of loan notes	(44)	-
Purchase of investments	(25)	(4)
Additional costs relating to prior year acquisitions	(15)	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(169)	(536)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING	144	(60)
FINANCING		
Issue of shares	-	2,858
NET CASH INFLOW FROM FINANCING	-	2,858
INCREASE IN NET CASH (Note 21)	144	2,798

The notes on pages 18 to 29 form part of these financial statements



FARLAK GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 1997

1 ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention, and is in accordance with applicable accounting standards.

Turnover

Turnover represents fund management fees, commissions and other income relating to the management of funds. These are accounted for on a receivable basis.

Tangible fixed assets and depreciation

Depreciation is provided at the following rates in order to write off the cost of each asset over its estimated useful life.

Office and computer equipment 3 years

Basis of consolidation

The group financial statements consolidate the financial statements of the Company and its subsidiaries. The results of subsidiary undertakings are included from the effective date of acquisition.

No profit and loss account for the Company has been presented as permitted by Section 230 of the Companies Act 1985.

Goodwill

Goodwill is the excess of the fair value of the consideration given to acquire a business over the fair value of the separate net assets acquired. Goodwill is written off against reserves in the year of acquisition.

Investments

Fixed asset investments are stated at cost less any provision for permanent diminution in value.

Leasing commitments

Where assets are held on operating leases, their annual rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

Pension scheme

IPS Capital Management plc operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Contributions to the scheme are charged to the profit and loss account as they are payable. There were no contributions payable to the fund at the year end.

Deferred taxation

Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.



FARLAKE GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 1997

2 TURNOVER

Turnover and profit for the year before taxation is attributable to Fund Management activities arising wholly in the UK.

	1997 £'000	1996 £'000
Turnover is stated net of value added tax and represents:		
Discretionary fund management fees	913	764
Income relating to the management of funds, including commissions	1,116	708
	<hr/>	<hr/>
	2,029	1,472
	<hr/>	<hr/>

3 OPERATING PROFIT

	1997 £'000	1996 £'000
Operating profit is arrived at after charging:		
Depreciation - owned assets	37	5
- assets held under finance leases	-	2
Operating lease rentals - office and computer equipment	22	21
- buildings	11	-
Directors' remuneration (note 8)	172	66
Auditors' remuneration		
- audit services	10	14
- other services	2	2
	<hr/>	<hr/>

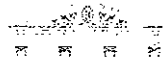
4 INTEREST PAYABLE AND SIMILAR CHARGES

	1997 £'000	1996 £'000
Interest payable on loan notes	64	33
Other interest	3	4
	<hr/>	<hr/>
	67	37
	<hr/>	<hr/>

5 TAXATION

	1997 £'000	1996 £'000
UK corporation tax at 32% (1996: 33%)	151	141
Overprovision in prior year	(6)	-
	<hr/>	<hr/>
	145	141
	<hr/>	<hr/>

At 30 September 1997 deferred tax assets not recognised in the accounts amounted to £14,000 (1996: £16,000) for the Group and £7,000 (1996: £12,000) for the Company.



FARLAKE GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 1997

6 DIVIDEND ON EQUITY SHARES

	1997 £'000	1996 £'000
Ordinary shares - final proposed of 2p per share (1996: nil)	47	-

7 EARNINGS PER SHARE

The calculation of basic earnings per Ordinary share is based on earnings of £362,000 (1996: £297,000) and on 2,555,880 (1996: 1,977,595) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

The calculation of fully diluted earnings per Ordinary share is based on earnings of £362,000 (1996: £297,000) and on 2,670,580 (1996: 2,119,364) Ordinary shares allowing for the full exercise of share options granted.

The calculation of the basic pro forma earnings per Ordinary share is based on earnings of £362,000 and on 2,343,802 Ordinary shares, being the number of Ordinary shares in issue following the EGM held on 23 October 1997 note 26).

8 DIRECTORS' REMUNERATION

Remuneration of Directors

	Salary/Fees £'000	Benefits in kind £'000	Pension Contributions £'000	1997 Total £'000	1996 Total £'000
Executive					
S P Ewing	60	6	4	70	9
P G Leonard	38	6	3	47	22
Non-Executive					
W G Fossick	12	-	-	12	7
D B Bailey	8	-	-	8	6
R C McGuire	8	-	-	8	6
N C Talbot Rice	7	-	-	7	16
	133	12	7	152	66

In addition compensation for loss of office of £20,000 was paid to a former director during the year.

	1997 £'000	1996 £'000
Remuneration of highest paid Director (excluding pension contributions)	66	22
Amount paid to defined contribution scheme	4	-
	70	22

Directors' share options

As at 30 September 1997 and 30 September 1996, S Ewing held options over 68,700 Ordinary shares in Farlake Group PLC exercisable at a price of £3.15 per share within 7 years from 30 June 1997.



FARLAKE GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 1997

8 DIRECTORS' REMUNERATION (continued)

Directors' pensions

At 30 September 1997, one director was a member of the IPS Capital Management defined contribution scheme.

9 STAFF COSTS

	1997 £'000	1996 £'000
Wages and salaries	823	501
Social security costs	71	41
Other pension costs	14	10
	<hr/>	<hr/>
	908	552
	<hr/>	<hr/>

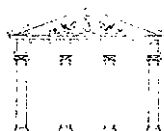
The average weekly number of employees, including directors, during the year was as follows:

	1997 No	1996 No
Office and administration	38	21
	<hr/>	<hr/>

10 TANGIBLE FIXED ASSETS

Group	Total £'000
COST	
At 1 October 1996	205
Additions on acquisition	33
Additions	11
	<hr/>
At 30 September 1997	249
DEPRECIATION	
At 1 October 1996	137
Arising on acquisition	26
Charge for year	37
	<hr/>
At 30 September 1997	200
Net book value	
At 30 September 1997	49
	<hr/>
At 30 September 1996	68
	<hr/>

Tangible fixed assets comprise office and computer equipment only.



FARLAKE GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 1997

11 INVESTMENTS

Group	1997 £'000	1996 £'000
Investment - at cost	45	20

The investment consists of 1,000 (1996: 1,000) management shares of £1 each and 4,379,211 (1996: 1,947,537) nominal shares of 1p each in Global Managed Portfolio Fund Limited, an unlisted investment.

Company

Fixed asset investments comprise ordinary shares in subsidiary undertakings. The movement during the year was as follows:

	1997 £'000	1996 £'000
At beginning of year	4,431	2,683
Acquisition	486	1,748
Adjustment to previous carrying value (note 25)	(490)	-
	<u>4,427</u>	<u>4,431</u>

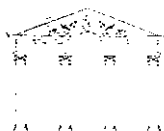
In the opinion of the Directors, the aggregate value of the Company's investment in subsidiary undertakings is not less than the amount included in the balance sheet.

The principal subsidiary undertakings (all 100% owned except where shown) at the end of the year were:

	Country of Registration or Incorporation	Principal Activity
IPS Capital Management plc*	England	Investment management
Price Gardner & Co. Limited	England	Investment management
Stafford House Investments Limited	England	Investment management
Paragon Investments (Bristol) Limited	England	Dormant
IPS (Guernsey) Limited (90%)*	Guernsey	Provision of investment management and trustee services

* Held by Paragon Investments (Bristol) Limited.

The Country of operation of each subsidiary undertaking is the same as its Country of Registration or Incorporation.



FARLAKE GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 1997

12 DEBTORS

	1997	1996
Group	£'000	£'000
Trade debtors	135	98
Other debtors	56	98
Prepayments	33	34
ACT recoverable	12	-
Deferred asset	323	-
	<hr/>	<hr/>
	559	230
	<hr/>	<hr/>
	1997	1996
Company	£'000	£'000
ACT recoverable	12	-
Amount recoverable from subsidiary undertaking	200	-
Other debtors	3	-
Deferred asset	323	-
	<hr/>	<hr/>
	538	-
	<hr/>	<hr/>

The deferred asset represents 215,050 Ordinary shares issued in July 1995 in connection with the acquisition of IPS Capital Management plc and which were cancelled pursuant to a resolution at an EGM on 23 October 1997 (see note 26).

13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1997	1996
Group	£'000	£'000
Guaranteed Loan Notes 1999	989	-
Guaranteed Loan Notes 1996/2000	155	-
6 1/2% Loan Note 1997	-	228
Trade creditors	39	23
Other taxes and social security	38	71
Other creditors	48	79
Accruals	132	155
Corporation tax	145	129
ACT payable	12	-
Dividend payable	47	-
	<hr/>	<hr/>
	1.605	685
	<hr/>	<hr/>



FARLAKES GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 1997

13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR (Continued)

Company	1997 £'000	1996 £'000
Guaranteed Loan Notes 1999	989	-
Guaranteed Loan Notes 1996/2000	155	-
6 1/2% Loan Note 1997	-	228
Taxes	5	-
Accruals	8	42
Amounts owed to subsidiary undertakings	30	108
ACT payable	12	-
Dividend payable	47	-
	<hr/>	<hr/>
	1,246	378
	<hr/>	<hr/>

The Guaranteed Loan Notes 1999 bore interest at a rate of 6 3/4% up to 30 September 1997 and thereafter at a rate of 2% below variable bank base rate. They are redeemable between 1997 and 1999 and are guaranteed by the Company's bankers against cash deposits of the Company.

The Guaranteed Loan Notes 1996/2000 were issued on 28 November 1996 in connection with the acquisition of Stafford House Investments Limited (note 23) and bear interest at a rate of 1% below variable bank base rate. They are redeemable between 1998 and 2000 and are guaranteed by the Company's bankers against cash deposits of the Company.

The 6 1/2% Loan Note 1997 was redeemed on 1 August 1997. The amount redeemed of £44,084 was calculated by reference to funds under management as of 28 July 1997. In accordance with the agreement for the purchase of Paragon Investments (Bristol) Limited, the balance of the loan note was cancelled on 1 August 1997 (note 25).

14 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

Group	1997 £'000	1996 £'000
Guaranteed Loan Notes 1999	-	989
Taxation	3	3
	<hr/>	<hr/>
	3	992
	<hr/>	<hr/>
Company	1997 £'000	1996 £'000
Guaranteed Loan Notes 1999	-	989
	<hr/>	<hr/>
	-	989
	<hr/>	<hr/>

FARLAKE GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 1997

15 CALLED UP SHARE CAPITAL

	1997 £'000	1996 £'000
Authorised:		
5,000,000 ordinary shares of £1 each	5,000	5,000
Alotted, issued and fully paid:		
Ordinary shares of £1 each	2,559	2,541

The additional share capital of 17,832 Ordinary shares issued in the year was issued at its mid-market price of £4.15 as part consideration for the acquisition of Stafford House Investments Limited (note 23).

During the year, a Share Option Scheme for staff was introduced and options over 44,000 Ordinary shares in Farlake Group plc were issued at an option price of £2.70 per share. Options are exercisable at any date from 14 April 2000 to 14 April 2004.

Options over a further 70,000 Ordinary shares in Farlake Group plc at a price of £3.15 per share have been issued and are exercisable at any time between 30 June 1997 and 30 June 2004.

16 SHARE PREMIUM ACCOUNT

	1997 £'000	1996 £'000
At beginning of year	2,952	808
Arising on share issues	56	2,144
At end of year	3,008	2,952

The increase in share premium has arisen on the issue of 17,832 Ordinary shares by the Company at a premium of £3.15 per share.

17 MOVEMENTS ON RESERVES

Group	Share capital £'000	Share premium £'000	Goodwill reserve £'000	Profit & loss £'000
At 1 October 1996	2,541	2,952	(4,063)	290
Retained profit for year	-	-	-	315
Issue of shares	18	56	-	-
Adjustment to goodwill brought forward (note 25)	-	-	491	-
Goodwill arising in the year (note 23)	-	-	(332)	-
At 30 September 1997	2,559	3,008	(3,904)	605



FARLAKE GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 1997

17 MOVEMENTS ON RESERVES (continued)

Company	Share capital £'000	Share premium £'000	Profit & loss £'000
At 1 October 1996	2,541	2,952	(53)
Retained profit for year	-	-	288
Issue of shares	18	56	-
	<hr/>	<hr/>	<hr/>
At 30 September 1997	2,559	3,008	235
	<hr/>	<hr/>	<hr/>

18 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS FUNDS

Group	1997 £'000	1996 £'000
Profit for the year	362	297
Dividend	(47)	-
Issue of shares (note 15)	74	2,908
Goodwill written off	(332)	(1,541)
Goodwill adjustment	491	-
	<hr/>	<hr/>

Net movement in shareholders' funds	548	1,664
Shareholders' funds at 1 October 1996	1,720	56
	<hr/>	<hr/>
Shareholders' funds at 30 September 1997	2,268	1,720
	<hr/>	<hr/>

Company	1997 £'000	1996 £'000
Profit (loss) for the year	335	(21)
Dividend	(47)	-
Issue of shares (note 15)	74	2,908
	<hr/>	<hr/>

Net movement in shareholders' funds	362	2,887
Shareholders' funds at 1 October 1996	5,440	2,553
	<hr/>	<hr/>
Shareholders' funds at 30 September 1997	5,802	5,440
	<hr/>	<hr/>

FARLAKE GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 1997

19 LEASING COMMITMENTS

At 30 September 1997 the Group had annual commitments under non-cancellable operating leases as follows:

Expiry Date	1997 £'000	1996 £'000
Between two and five years - buildings	13	-
- other	55	55
	<u>68</u>	<u>55</u>

**20 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW
FROM OPERATING ACTIVITIES**

	1997 £'000	1996 £'000
Operating profit	391	384
Depreciation	37	7
Increase in debtors	20	29
Increase)/decrease in creditors	(120)	99
	<u>328</u>	<u>519</u>

**21 RECONCILIATION OF NET CASH FLOW TO MOVEMENTS
IN NET FUNDS**

	1997 £'000	1996 £'000
Increase in cash in the year	144	2,798
Cash outflow from debt repayment	44	-
	<u>188</u>	<u>2,798</u>
Change in net funds resulting from cash flows	188	2,798
New loan notes to fund acquisitions	(155)	(989)
Loan notes cancelled	184	-
	<u>217</u>	<u>1,809</u>
Movement in net funds	217	1,809
Net funds at beginning of year	1,862	53
	<u>2,079</u>	<u>1,862</u>

FARLAKE GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 1997

22 ANALYSIS OF NET FUNDS

	At 1 Oct 1996 £'000	Cash flows £'000	Transfer £'000	Acquisitions (excl. cash) £'000	Other (note 25) £'000	At 30 Sept 1997 £'000
Cash in hand	3,079	144	-	-	-	3,223
Debt due within one year	(228)	44	(989)	155)	184	(1,144)
Debt due after one year	(989)	-	989	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net funds	1,862	188	-	155)	184	2,079
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

23 PURCHASE OF SUBSIDIARY UNDERTAKING

Net assets acquired :	£'000
Fixed assets	7
Debtors	12
Cash at bank	183
Creditors	(48)
	<hr/>
Goodwill	154
	<hr/>
Total consideration	486
	<hr/>
Satisfied by:	£'000
Cash consideration (including acquisition costs)	257
Issue of shares	74
Issue of loan note	155
	<hr/>
Total consideration	486
	<hr/>

The purchase of Stafford House Investments Limited is shown on the face of the consolidated cash flow statements at £74,000 which is the cash consideration less the cash and cash equivalents acquired.

No fair value adjustments were considered necessary.

The summarised profit and loss account of Stafford House Investments Limited for the period 1 February 1996 to 28 November 1996 is given below:

£	£	£	£
£	£	£	£
£	£	£	£
£	£	£	£

FARLAKE GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 1997

23 PURCHASE OF SUBSIDIARY UNDERTAKING (continued)

	£'000
TURNOVER	248
Cost of sales	-
	<hr/>
GROSS PROFIT	248
Administrative expenses	(229)
	<hr/>
OPERATING PROFIT	19
Interest receivable less interest payable	(3)
	<hr/>
PROFIT BEFORE TAXATION	16
	<hr/>
The profit after taxation of Stafford House Investments Limited for the year ended 31 January 1996 was £7,000	

24 RELATED PARTY TRANSACTIONS

During the year, the Group obtained legal services from Watson, Farley & Williams. W G Fossick is a consultant to this firm and a Director of the Company. The transactions were performed on normal commercial terms. At the year end, £16,000 was due to Watson, Farley & Williams.

Legal fees paid to Watson, Farley & Williams £31,000

During the year the group obtained stockbroking and other services from Hichens, Harrison & Co. Plc. D B Bailey and R C McGuire are directors of the Company and directors and beneficial owners of Hichens, Harrison & Co. Plc. The transactions were performed on normal commercial terms. At the year end there were no amounts owed to or due from Hichens Harrison & Co. Plc.

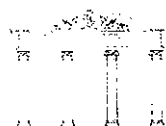
Stockbroking commission and fees paid to Hichens Harrison & Co. Plc £56,000

25 GOODWILL ADJUSTMENT

Pursuant to an agreement dated 28 July 1995 to acquire IPS Capital Management plc, part of the consideration consisted of a loan note of £227,509 and 266,732 Ordinary shares in Farlake Group plc, issued but held in escrow pending determination of the value of funds managed by IPS Capital Management plc as at 28 July 1997. The value of such funds has been determined and as a result £183,525 of the loan note was cancelled on 1 August 1997 and 215,050 Ordinary shares were cancelled on 23 October 1997 (note 26). As a result of the cancellation of part of the Loan note and the Ordinary shares, the cost of investment of the Company in IPS Capital Management plc has been reduced and the goodwill reserve on consolidation reduced accordingly.

26 POST BALANCE SHEET EVENTS

- (i) At an Extraordinary General Meeting of the Company held on 23 October 1997, the shareholders approved a special resolution reducing the number of shares in issue to 2,343,802 (note 25).
- (ii) Notice of redemption was given by holders of £989,000 of the Guaranteed Loan Notes 1999. These were redeemed in full on 31 December 1997.
- (iii) Notice of redemption was given by holders of £66,000 of the Guaranteed Loan Notes 1996/2000. These were redeemed on 1 January 1998.

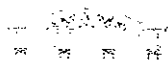


CLIENT PROTECTION

IPS Capital Management plc, Price Gardner & Co. Limited and Stafford House Investments Limited are Category 2 Members of the Personal Investment Authority (PIA), a Regulating Authority formed under the Financial Services Act 1986. The principles of the PIA require that a Member:

- Observes high standards of integrity and fair dealing.
- Acts with due skill, care and diligence.
- Observes high standards of market conduct.
- Seeks from customers it advises or for whom it exercises discretion any information about their circumstances and investment objectives which might reasonably be expected to be relevant in enabling it to fulfil its responsibilities to them.
- Takes reasonable steps to give a customer it advises, in a comprehensible and timely way, any information needed to enable him to make a balanced and informed decision.
- Avoids any conflict of interest arising or, where conflicts arise, should ensure fair treatment to all its customers by disclosure, internal rules of confidentiality, declining to act, or otherwise.
- Arranges proper protection for customer assets by way of segregation and identification of those assets or otherwise, in accordance with the responsibility it has accepted.
- Ensures that it maintains adequate financial resources to meet its investment business commitments and to withstand the risks to which its business is subject.
- Organise and control its internal affairs in a responsible manner, keeping proper records, and where the firm employs staff or is responsible for the conduct of investment business by others, should have adequate arrangements to ensure that they are suitable, adequately trained and properly supervised and that it has well-defined compliance procedures.

Group regulated companies carry PIA approved professional indemnity insurance of £5m placed through Lloyds of London and a major insurance company. In addition, IPS Capital Management plc carries employee fidelity insurance and insurance for loss of property in transit. As members of the PIA clients of Group regulated companies are covered by the Investors Compensation Scheme.



THE FUTURE

Over the past ten years, the investment management industry has witnessed a period of significant and dramatic change. Large Investment Management Companies have split individual activities, resulting in redundancy, competition, re-engineering, mergers and down-sizing. Macro economic forces will put further pressure in the years to come. As a result, more and more investment management businesses will strive towards reduced costs, improved quality of products and services and the need to identify new opportunities for growth and increase the return on capital.

The management of change as further consolidation takes place is a most important function in our business. The ability to enact this change is the challenge. The energy and dynamism within the Group together with a clear vision and a structured plan should allow us to exploit further opportunities as they arise.

In terms of Group development, our never ending search for potential relationship agreements, mergers and acquisitions will continue as will our search to integrate these businesses as profitably as possible.

Key targets already identified, together with impending pressures of competition, regulation, capital and educational requirements will require a flexible and focused approach. Farlake Group plc is determined to succeed.

GROUP SERVICES

- Discretionary Portfolio Management Services
- Fund Management and Investment Portfolio Advisory Services
- Personal Equity Plan Management
- Stockbroking Advisory and Dealing Service
- Corporate and Personal Retirement Planning
- Tax Advisory and Review Service
- Specialist Advisers to Professional Accounting and Legal Firms



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