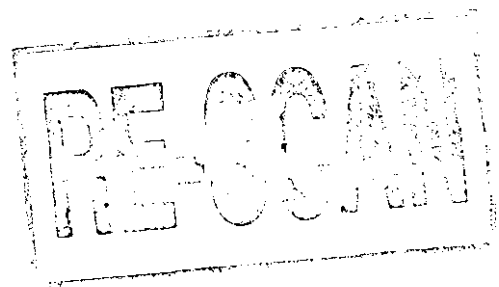


Company number : 02844161

KESTREL FINANCIAL MANAGEMENT LIMITED

FINANCIAL STATEMENTS

31 August 1998



241 5/5/99

DIRECTORS AND OFFICERS

DIRECTORS

J Brocklebank
W Lovell
J Mash (Chairman)
K McDonagh
S Yamada

SECRETARY

J Mash

REGISTERED OFFICE

Kestrel House
North Parade
Horsham
West Sussex RH12 2DB

AUDITORS

Baker Tilly
Chartered Accountants
The Clock House
140 London Road
Guilford
Surrey GU1 1UW

DIRECTORS' REPORT

The directors submit their report and the financial statements of Kestrel Financial Management Limited for the year ended 31 August 1998.

PRINCIPAL ACTIVITIES

The principal activity of the company during the year was the provision of financial services.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The company has had another successful year of continued growth and rising profits. This trend is anticipated to continue into the coming year.

RESULTS AND DIVIDENDS

The trading profit for the year after taxation was £244,984 (1997:£255,747). This result has been achieved despite the requirement to provide £114,852 (1997:£239,425) for debt arising on commission clawback, which may prove irrecoverable.

The company also suffered from the disciplinary action of the PIA to the sum of £101,000.

A final dividend on ordinary shares of £50,000 (1997:£70,000), and an interim dividend of £24,800 (1997:£3,000) have been paid during the year leaving a profit of £170,184 (1997:£182,747) to be taken to reserves.

DIRECTORS

The following directors have held office since 1 September 1997:-

J Brocklebank

W Lovell

J Mash

K McDonagh

S Yamada (appointed 26 August 1998)

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SHARES

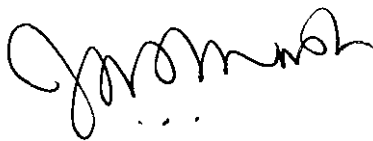
Directors' interest in the shares of the company, including family interests, were as follows:-

	Ordinary shares of £1 each	
	31 August 1998	1 September 1997
W Lovell	3,333	3,333
J Mash	5,000	5,000
K McDonagh	5,000	5,000

AUDITORS

A resolution to reappoint Baker Tilly, Chartered Accountants, as auditors will be put to the members at the annual general meeting.

By order of the board



J Mash
Secretary

5 November 1998

**DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF
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 profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. prepare the financial statements on the going concern basis unless it is inappropriate to presume that 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 requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

**AUDITORS' REPORT TO THE MEMBERS OF KESTREL FINANCIAL
MANAGEMENT LIMITED**

We have audited the financial statements on pages 6 to 19.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those 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 company's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of the company's affairs at 31 August 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



BAKER TILLY
Registered Auditor
Chartered Accountants
The Clock House
140 London Road
Guildford
Surrey GU1 1UW

18 November 1998

PROFIT AND LOSS ACCOUNT
for the year ended 31 August 1998

	Notes	1998	1997
TURNOVER	1	13,367,620	7,958,734
Cost of sales		11,738,792	6,892,855
GROSS PROFIT		<u>1,628,828</u>	<u>1,065,879</u>
Other Operating Expenses (net)	2	1,133,923	726,131
Exceptional Items:			
PIA Disciplinary Fine		85,000	-
Associated Legal Costs		16,000	-
Net Provision for Pension			
Transfer Compensation		20,000	-
OPERATING PROFIT		<u>373,905</u>	<u>339,748</u>
Interest receivable	3	50,760	11,441
Interest payable	4	24,326	10,765
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	<u>400,339</u>	<u>340,424</u>
Taxation	7	155,355	84,677
PROFIT AFTER TAXATION		<u>244,984</u>	<u>255,747</u>
Dividends	8	74,800	73,000
RETAINED PROFIT FOR THE YEAR	15 £	<u><u>170,184</u></u> £	<u><u>182,747</u></u>

The operating profit for the year arises from the company's continuing activities.

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the Profit and Loss Account.

BALANCE SHEET**31 August 1998**

	Notes	1998	1997
FIXED ASSETS			
Tangible assets	9	150,529	132,367
CURRENT ASSETS			
Debtors	10	290,780	285,191
Cash at bank and in hand		1,435,627	716,126
		<u>1,726,407</u>	<u>1,001,317</u>
CREDITORS			
Amount falling due within one year	11	587,014	396,658
NET CURRENT ASSETS		<u>1,139,393</u>	<u>604,659</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>1,289,922</u>	<u>737,026</u>
CREDITORS			
Amounts falling due in more than one year	12	796,048	453,336
PROVISION FOR LIABILITIES AND CHARGES			
Provision for pension transfer compensation	13	40,000	-
	£	<u>453,874</u>	<u>£ 283,690</u>
CAPITAL AND RESERVES			
Called up share capital	14	13,333	13,333
Share premium account		16,667	16,667
Profit and loss account	15	423,874	253,690
SHAREHOLDERS' FUND	16	<u>£ 453,874</u>	<u>£ 283,690</u>

Approved by the Board on

5 November 1998

K McDonagh

Director

CASH FLOW STATEMENT
for the year ended 31 August 1998

	Notes	1998	1997
NET CASH FLOW FROM OPERATING ACTIVITIES	18	1,024,292	625,894
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received		50,760	11,441
Interest paid		(24,326)	(10,765)
		<u>26,434</u>	<u>676</u>
TAXATION			
Corporation tax		(106,826)	(31,906)
CAPITAL EXPENDITURE			
Payments to acquire tangible fixed assets		(52,050)	(85,052)
Receipts from sale of tangible fixed assets		8,500	42,650
		<u>(43,550)</u>	<u>(42,402)</u>
		<u>900,350</u>	<u>552,262</u>
EQUITY DIVIDENDS PAID		(144,800)	(3,000)
		<u>755,550</u>	<u>549,262</u>
FINANCING			
Capital element of finance lease payments		(17,358)	(15,609)
Loan repayments		(18,691)	(5,521)
		<u>(36,049)</u>	<u>(21,130)</u>
INCREASE IN CASH	£	<u>719,501</u>	<u>528,132</u>
		=====	=====

Financial statements for the year ended 31 August 1998**ACCOUNTING POLICIES**

BASIS OF ACCOUNTING

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

TANGIBLE FIXED ASSETS

Fixed assets are stated at historical costs.

Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows:-

Office equipment	over 4 years
Motor vehicles	over 4 years

LEASED ASSETS AND OBLIGATIONS

Where assets are financed by leasing agreements that give rights approximating to ownership ("finance leases"), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor.

Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss account in proportion to the remaining balance outstanding.

All other leases are "operating leases" and the annual rentals are charged to the profit and loss on a straight line basis over the lease term.

CLAWBACK RETENTIONS

Shared commissions on indemnity business are passed on to the relevant appointed representative after deduction of a clawback retention. These retentions are held for a period of three years, and are then repaid net of any clawback which arises in that period.

Financial statements for the year ended 31 August 1998**ACCOUNTING POLICIES**

DEFERRED TAXATION

Provision is made for taxation deferred or accelerated by the effect of timing differences to the extent that it is probable that a liability will crystallise, at the rate expected to be ruling at that date.

TURNOVER

Turnover represents the value of services provided to customers and includes commission income in respect of life policies and pension contracts recognised when receivable, subject to provisions made in respect of commission on indemnity business which may be repayable.

PENSION CONTRIBUTIONS

Pension costs charged in the financial statements represent the contribution payable by the company during the year into defined contribution and money purchase schemes on behalf of employees.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 August 1998

**1. TURNOVER AND PROFIT ON ORDINARY
ACTIVITIES BEFORE TAXATION**

The company's turnover and profit before taxation are derived from its principal activity and are generated wholly within the United Kingdom.

The gross profit has been achieved despite the requirement to provide £114,852 (1997:£239,425) for debt arising on commission clawback, which may prove irrecoverable.

The company also suffered from the disciplinary action of the PIA to the sum of £101,000.

	1998	1997
2. OTHER OPERATING EXPENSES (NET)		
Administration expenses	£ 1,133,923	£ 726,131
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 August 1998

	1998	1997
3. INTEREST RECEIVABLE		
Bank interest	49,506	11,441
Other interest	1,254	-
	<u>£ 50,760</u>	<u>£ 11,441</u>
	=====	=====
4. INTEREST PAYABLE		
Bank interest	262	868
Finance lease interest	9,089	3,667
Directors' loan interest	7,668	4,142
Other loan interest	7,307	2,088
	<u>£ 24,326</u>	<u>£ 10,765</u>
	=====	=====
5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation and amounts written off tangible fixed assets:		
Charge for the year:		
owned assets	23,745	25,076
leased assets	29,730	8,378
Loss/(profit) on disposal of fixed assets	7,664	(228)
Operating lease rentals:		
Land and buildings	35,708	22,144
Auditors' remuneration:		
Audit fees	10,000	2,350
Other services	15,206	22,325
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 August 1998

	1998	1997
6. EMPLOYEES		
The average weekly number of persons (including directors) employed by the company during the year was:	No.	No.
Office and administration	23	17
	=====	=====
Staff costs for the above persons:		
Wages and salaries	561,264	349,111
Social security costs	60,353	39,293
Other pension costs	13,936	11,048
	£ 635,553	£ 399,452
	=====	=====
DIRECTORS' REMUNERATION		
Aggregate emoluments	244,532	169,949
Company contributions to money purchase pension schemes	9,896	10,648
	£ 254,428	£ 180,597
	=====	=====
Highest paid director:		
Aggregate emoluments	74,712	49,718
Company contributions to money purchase pension schemes	2,750	3,000
	£ 77,462	£ 52,718
	=====	=====
The highest paid director did not exercise any share options or receive any shares under a long-term incentive scheme during the year.		
7. TAXATION		
Based on the profit for the year:		
UK Corporation tax at 28.4% (1997:24.4%)	155,000	88,000
Under/(over) provided in earlier years	355	(3,323)
	£ 155,355	£ 84,677
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 August 1998

		1998		1997
8. DIVIDENDS				
Interim paid:				
£1.86 per ordinary share (1997:£0.225)		24,800		3,000
Final paid:				
£3.75 per ordinary share (1997:£5.25)		50,000		70,000
	£	<u>74,800</u>	£	<u>73,000</u>
		=====		=====
9. TANGIBLE FIXED ASSETS				
	Office equipment	Motor vehicles		TOTAL
Cost:				
1 September 1997	75,508	89,165		164,673
Additions	43,050	44,751		87,801
Disposals	(11,132)	(14,995)		(26,127)
31 August 1998	107,426	118,921		226,347
Depreciation:				
1 September 1997	22,032	10,274		32,306
Charge in the year	23,745	29,730		53,475
Disposals	(2,779)	(7,184)		(9,963)
31 August 1998	42,998	32,820		75,818
Net book value:				
31 August 1998	64,428	86,101	£	150,529
	=====	=====		=====
31 August 1997	53,476	78,891	£	132,367
	=====	=====		=====

The net book value of motor vehicles includes £86,101 (1997: £71,080)
in respect of assets held under finance leases.

NOTES TO THE MANAGEMENT ACCOUNTS
for the year ended 31 August 1998

	1998	1997
10. DEBTORS		
Due within one year:		
Trade debtors	99,490	107,818
Other debtors	34,301	12,952
Prepayments and accrued income	156,989	146,921
	<u>290,780</u>	<u>267,691</u>
Due after more than one year:		
Corporation tax	-	17,500
	<u>£ 290,780</u>	<u>£ 285,191</u>
	<u><u>£ 290,780</u></u>	<u><u>£ 285,191</u></u>
11. CREDITORS		
Amount falling due within one year:		
Bank loans	257	3,683
Obligation under finance leases	17,857	13,013
Trade creditors	80,123	78,806
Clawback retention	132,936	35,731
Corporation tax	131,300	100,271
Other tax and social security costs	24,932	15,396
Other creditors	54,110	32,990
Accruals and deferred income	145,499	46,768
Proposed dividends	-	70,000
	<u>£ 587,014</u>	<u>£ 396,658</u>
	<u><u>£ 587,014</u></u>	<u><u>£ 396,658</u></u>

NOTES TO THE MANAGEMENT ACCOUNTS
for the year ended 31 August 1998

	1998	1997
12. CREDITORS		
Amounts falling due in more than one year:		
Bank loans	-	265
Obligations under finance leases	60,237	46,688
Clawback retention	722,411	377,983
Directors' loan	13,400	28,400
	<u>£ 796,048</u>	<u>£ 453,336</u>

Repayable by instalments:

Bank loans:

 between 1 and 2 years - 265

Obligations under finance leases:

 between 1 and 2 years 17,858 13,013

 between 2 and 5 years 42,379 33,675

£ 60,237 £ 46,953

13. PROVISION FOR LIABILITIES AND CHARGES

In accordance with the requirements of the PIA, full provision has been made for the compensation payable for the cases identified as relating to pension transfers. The expected recoveries of £20,000 are included in Other debtors.

14. SHARE CAPITAL

Authorised:

500,000 ordinary shares £1 each £ 500,000 £ 500,000

Allotted, issued and fully paid:

13,333 ordinary shares of £1 each £ 13,333 £ 13,333

NOTES TO THE MANAGEMENT ACCOUNTS
for the year ended 31 August 1998

	1998	1997
15. PROFIT AND LOSS ACCOUNT		
1 September 1997	253,690	70,943
Profit for the year	170,184	182,747
31 August 1998	£ 423,874	£ 253,690
	=====	=====
16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS		
Profit for the financial year	244,984	255,747
Dividends	(74,800)	(73,000)
	170,184	182,747
Opening shareholders' funds	283,690	100,943
Closing shareholders' funds	£ 453,874	£ 283,690
	=====	=====
17. COMMITMENTS UNDER OPERATING LEASES		
At 31 August 1998 the company had annual commitments under non-cancellable operating leases as follows:		
Land and buildings:		
expiring after 5 years	£ 38,000	£ 38,000
Motor vehicles:		
less than 1 year	£ 20,755	£ -
between 2 and 5 years	£ 11,322	£ -
	=====	=====

In respect of the company's previous premises, the company has a liability under its original lease if there is a default on the sub-lease. The original lease expires after five years with an annual commitment of £17,038.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 August 1998

	1998	1997
18. RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES		
Operating profit	373,905	339,748
Depreciation	53,475	33,454
(Profit)/loss on disposal of fixed assets	7,664	(228)
Increase in debtors	(23,089)	(97,879)
Increase in creditors	572,337	350,799
Increase in provisions	40,000	-
	<u>£ 1,024,292</u>	<u>£ 625,894</u>
	=====	=====
19. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT		
Increase in cash	719,501	528,132
Cash flow from movement in debt and lease financing	36,049	21,130
	<u>755,550</u>	<u>549,262</u>
Change in net funds resulting from cash flows		
New finance leases	(35,751)	(65,170)
	<u>719,799</u>	<u>484,092</u>
Change in net funds		
Net funds at 1 September 1997	624,077	139,985
	<u>£ 1,343,876</u>	<u>£ 624,077</u>
	=====	=====
Net funds at 31 August 1998		

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 August 1998

20. ANALYSIS OF NET DEBT

	At 1 September 1997	Cash flows	Non-cash changes	At 31 August 1998
Cash at bank and in hand	716,126	719,501	-	1,435,627
		<u>719,501</u>		
Debt due within one year	(3,683)	3,691	(265)	(257)
Debt due after more than one year	(28,665)	15,000	265	(13,400)
Finance leases	(59,701)	17,358	(35,751)	(78,094)
		<u>36,049</u>		
	£ <u>624,077</u>	£ <u>755,550</u>	£ <u>(35,751)</u>	£ <u>1,343,876</u>

21. MAJOR NON-CASH TRANSACTIONS

During the year, the company entered into finance lease arrangements in respect of tangible fixed assets with a total capital value at the inception of the leases of £35,751 (1997:£65,170)

22. CAPITAL COMMITMENTS

At 31 August 1998, the company had capital expenditure contracted for, but not provided in the financial statements of £20,000 (1997:£36,000)

23. CONTINGENT LIABILITIES

There are no unprovided contingent liabilities at the balance sheet date (1997:£Nil), other than those already disclosed in the financial statement.

24. PENSION CONTRIBUTIONS

Pension contributions paid into money purchase schemes during the year and charged to the profit and loss account amounted to £13,936 (1997:£11,048)