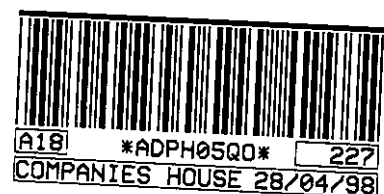


KESTREL FINANCIAL MANAGEMENT LIMITED

FINANCIAL STATEMENTS

31 AUGUST 1997

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



DIRECTORS AND OFFICERS

DIRECTORS

J Brocklebank
W Lovell
J Mash (Chairman)
K McDonagh

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
Guildford
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 1997.

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 £255,747 (1996:£75,041). This result has been achieved despite the requirement to provide £305,093 (1996:£65,611) for debt arising on commission clawback, which may prove irrecoverable. In particular, £189,044 has been provided in respect of amounts due from Financial Exchange.

The directors recommend the payment of a final dividend on ordinary shares of £70,000 (1996:£Nil), and after interim dividends paid of £3,000 (1996:£18,000), a profit of £182,747 (1996:£57,041) has been taken to reserves.

DIRECTORS

The following directors have held office since 1 September 1996:-

J Brocklebank	(appointed 1 January 1997)
W Lovell	
J Mash	
K McDonagh	

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SHARES

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

	Ordinary shares of £1 each	
	31 August 1997	1 September 1996
J Brocklebank	-	-
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

22-12-1997

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 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 requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT TO THE MEMBERS OF KESTREL FINANCIAL MANAGEMENT LIMITED

We have audited the financial statements on pages 6 to 18.

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 1997 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

22 December 1997

PROFIT AND LOSS ACCOUNT
for the year ended 31 August 1997

	Notes	1997	1996
TURNOVER	1	7,958,734	3,075,084
Cost of sales		6,892,855	2,600,736
Gross profit		<u>1,065,879</u>	<u>474,348</u>
Other operating expenses	2	726,131	369,529
OPERATING PROFIT		<u>339,748</u>	<u>104,819</u>
Interest receivable	3	11,441	2,469
		<u>351,189</u>	<u>107,288</u>
Interest payable	4	10,765	2,247
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	<u>340,424</u>	<u>105,041</u>
Taxation	7	84,677	30,000
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u>255,747</u>	<u>75,041</u>
Dividends	8	73,000	18,000
RETAINED PROFIT FOR THE YEAR	14	<u>£ 182,747</u>	<u>£ 57,041</u>

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

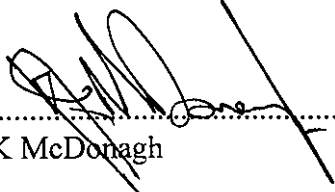
No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the Profit and Loss Account.

BALANCE SHEET

31 August 1997

	Notes	1997	1996
FIXED ASSETS			
Tangible assets	9	132,367	58,021
CURRENT ASSETS			
Debtors	10	285,191	174,312
Cash at bank and in hand		716,126	193,774
		<u>1,001,317</u>	<u>368,086</u>
CREDITORS			
Amounts falling due within one year	11	396,658	95,126
NET CURRENT ASSETS		<u>604,659</u>	<u>272,960</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>737,026</u>	<u>330,981</u>
CREDITORS			
Amounts falling due after more than one year	12	453,336	230,038
		<u>£ 283,690</u>	<u>£ 100,943</u>
CAPITAL AND RESERVES			
Called up share capital	13	13,333	13,333
Share premium account		16,667	16,667
Profit and loss account	14	253,690	70,943
SHAREHOLDERS' FUNDS	15	<u>£ 283,690</u>	<u>£ 100,943</u>

Approved by the board on 22/12/ 1997


Director
 K McDonagh

CASH FLOW STATEMENT

for the year ended 31 August 1997

	Notes	1997	1996
NET CASH FLOW FROM OPERATING ACTIVITIES	17	625,894	139,087
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received		11,441	2,469
Interest paid		(10,765)	(2,247)
		<u>676</u>	<u>222</u>
TAXATION			
Corporation tax		(31,906)	1,084
CAPITAL EXPENDITURE			
Payments to acquire tangible fixed assets		(85,052)	(34,901)
Receipts from sale of tangible fixed assets		42,650	11,743
		<u>(42,402)</u>	<u>(23,158)</u>
		<u>552,262</u>	<u>117,235</u>
EQUITY DIVIDENDS PAID		(3,000)	(18,000)
		<u>549,262</u>	<u>99,235</u>
FINANCING			
Issue of ordinary share capital		-	20,000
Directors' loans		-	13,400
Capital element of finance lease payments		(15,609)	(4,461)
Loan finance		-	8,000
Loan repayments		(5,521)	(4,774)
		<u>(21,130)</u>	<u>32,165</u>
INCREASE IN CASH	18	<u>£ 528,132</u>	<u>£ 131,400</u>

Financial statements for the year ended 31 August 1997**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 cost.

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 1997**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 contributions 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 1997

**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 £305,093 (1996:£65,611) for debt arising on commission clawback, which may prove irrecoverable. In particular, £189,044 has been provided in respect of amounts due from Financial Exchange.

	1997	1996
2. OTHER OPERATING EXPENSES		
Administration expenses	£ 726,131	£ 369,529
	=====	=====
3. INTEREST RECEIVABLE		
Bank interest	11,441	2,441
Other interest	-	28
	£ 11,441	£ 2,469
	=====	=====
4. INTEREST PAYABLE		
On bank loans and overdrafts and other loans wholly repayable within 5 years:		
Bank interest	868	1,310
Finance lease interest	3,667	937
Interest on directors' loans	4,142	-
Other loan interest	2,088	-
	£ 10,765	£ 2,247
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 August 1997

	1997	1996
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	25,076	15,885
leased assets	8,378	3,903
Profit on disposal of fixed assets	(228)	(2,964)
Operating lease rentals:		
Land and buildings	22,144	17,037
Auditors' remuneration:		
Audit fees	2,350	2,350
Other services	22,325	9,926
	<u>=====</u>	<u>=====</u>

6. EMPLOYEES

The average weekly number of persons (including directors) employed by the company during the year was:	No.	No.
Office and administration	17	10
	<u>=====</u>	<u>=====</u>

Staff costs for the above persons:

Wages and salaries	349,111	177,307
Social security costs	39,293	15,569
Other pension costs	11,048	11,513
	<u>£ 399,452</u>	<u>£ 204,389</u>
	<u>=====</u>	<u>=====</u>

DIRECTORS' REMUNERATION

Aggregate emoluments	169,949	114,182
Company contributions to money purchase pension schemes	10,648	11,268
	<u>£ 180,597</u>	<u>£ 125,450</u>
	<u>=====</u>	<u>=====</u>

Retirement benefits are accruing to three directors under money purchase pension schemes.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 August 1997

1997 1996

7. **TAXATION**

Based on the profit for the year:

UK Corporation tax at 24.4% (1996:25%) 88,000 30,000

Over provided in earlier years (3,323) -

£ 84,677 £ 30,000

8. **DIVIDENDS**

Interim paid:

£0.225 per ordinary share (1996:£1.35) 3,000 18,000

Final proposed:

£5.25 per ordinary share (1996:£Nil) 70,000 -

£ 73,000 £ 18,000

9. **TANGIBLE FIXED ASSETS**

	Office equipment	Motor vehicles	TOTAL
Cost:			
1 September 1996	27,065	53,580	80,645
Additions	48,443	110,779	159,222
Disposals	-	(75,194)	(75,194)
31 August 1997	75,508	89,165	164,673
Depreciation:			
1 September 1996	8,758	13,866	22,624
Charge in the year	13,274	20,180	33,454
Disposals	-	(23,772)	(23,772)
31 August 1997	22,032	10,274	32,306
Net book value:			
31 August 1997	53,476	78,891	£ 132,367
31 August 1996	18,307	39,714	£ 58,021

The net book value of motor vehicles includes £71,080 (1996:£14,832) in respect of assets held under finance leases.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 August 1997

	1997	1996
10. DEBTORS		
Due within one year:		
Trade debtors	107,818	107,528
Corporation tax	-	4,500
Other debtors	12,952	20,693
Prepayments and accrued income	146,921	41,591
	<u>267,691</u>	<u>174,312</u>
Due after more than one year:		
Corporation tax	17,500	-
	<u>£ 285,191</u>	<u>£ 174,312</u>
11. CREDITORS		
Amounts falling due within one year:		
Bank loans	3,683	4,894
Bank overdrafts	-	5,780
Obligations under finance leases	13,013	4,867
Clawback retentions	35,731	-
Trade creditors	78,806	16,824
Corporation tax	100,271	34,500
Other taxation and social security costs	15,396	11,312
Other creditors	32,990	-
Accruals and deferred income	46,768	16,949
Proposed dividends	70,000	-
	<u>£ 396,658</u>	<u>£ 95,126</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 August 1997

	1997	1996
12. CREDITORS		
Amounts falling due after more than one year:		
Bank loans	265	4,575
Obligations under finance leases	46,688	5,273
Clawback retentions	377,983	191,790
Directors' loans	28,400	28,400
	<u>£ 453,336</u>	<u>£ 230,038</u>
	=====	=====
Repayable by instalments:		
Bank loans:		
between 1 and 2 years	265	4,310
between 2 and 5 years	-	265
Obligations under finance leases:		
between 1 and 2 years	13,013	4,867
between 2 and 5 years	33,675	406
	<u>£ 46,953</u>	<u>£ 9,848</u>
	=====	=====
13. SHARE CAPITAL		
Authorised:		
500,000 ordinary shares of £1 each	<u>£ 500,000</u>	<u>£ 500,000</u>
	=====	=====
Allotted, issued and fully paid:		
13,333 ordinary shares of £1 each	<u>£ 13,333</u>	<u>£ 13,333</u>
	=====	=====
14. PROFIT AND LOSS ACCOUNT		
1 September 1996	70,943	13,902
Profit for the year	182,747	57,041
	<u>£ 253,690</u>	<u>£ 70,943</u>
	=====	=====
31 August 1997		

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 August 1997

	1997	1996
15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS		
Profit for the financial year	255,747	75,041
Dividends	(73,000)	(18,000)
	<u>182,747</u>	<u>57,041</u>
Issue of ordinary share capital	-	20,000
Opening shareholders' funds	100,943	23,902
	<u>£ 283,690</u>	<u>£ 100,943</u>
16. COMMITMENTS UNDER OPERATING LEASES		
At 31 August 1997 the company had annual commitments under non-cancellable operating leases as follows:		
Land buildings:		
expiring after 5 years	£ 38,000	£ 17,037
	<u>£ 38,000</u>	<u>£ 17,037</u>
17. RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES		
Operating profit	339,748	104,819
Depreciation	33,454	19,788
Profit on disposal of fixed assets	(228)	(2,964)
Increase in debtors	(97,879)	(113,099)
Increase in creditors	350,799	157,683
Movement in provisions	-	(27,140)
	<u>£ 625,894</u>	<u>£ 139,087</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 August 1997

	1997	1996
18. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT		
Increase in cash	528,132	131,400
Cash flow from movement in debt and lease financing	21,130	(12,165)
Change in net funds resulting from cash flows	549,262	119,235
New finance leases	(65,170)	(14,600)
Change in net funds	484,092	104,635
Net funds at 1 September 1996	139,985	35,350
Net funds at 31 August 1997	<u>£ 624,077</u>	<u>£ 139,985</u>

19. ANALYSIS OF NET DEBT

	At 1 September 1996	Cash flows	Non-cash changes	At 31 August 1997
Cash at bank and in hand	193,774	522,352	-	716,126
Bank overdrafts	(5,780)	5,780	-	-
		<u>528,132</u>		
Debt due within one year	(4,894)	5,521	(4,310)	(3,683)
Debt due after more than one year	(32,975)	-	4,310	(28,665)
Finance leases	(10,140)	15,609	(65,170)	(59,701)
		<u>21,130</u>		
	<u>£ 139,985</u>	<u>£ 549,262</u>	<u>£ (65,170)</u>	<u>£ 624,077</u>

20. 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 £65,170 (1996:£14,600).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 August 1997

21. CAPITAL COMMITMENTS

At 31 August 1997, the company had capital expenditure contracted for, but not provided in the financial statements of £36,000 (1996:£Nil).

22. CONTINGENT LIABILITIES

There are no unprovided contingent liabilities at the balance sheet date (1996:£Nil).

23. PENSION CONTRIBUTIONS

Pension contributions paid into money purchase schemes during the year and charged to the profit and loss account amounted to £11,048 (1996:£11,513). There were no outstanding or prepaid contributions at the year end.

24. RELATED PARTY TRANSACTIONS

During the year, rent of £3,350 (1996:£12,148) was received from Kestrel General Insurance Limited, a company in which J Mash and K McDonagh have a significant interest.