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**ARBUTHNOT COMMERCIAL
FINANCE LIMITED**

REG. NO: 2885198



Arbuthnot Commercial Finance Limited

Directors Report

The Directors submit their report and the financial statements for the year ended 31st December 1996 together with comparative figures for the year to 31st December 1995.

1. Activities

The principal activity of the Company is the factoring of book debts.

2. Results for the Year

The profit for the year was £26,382 (1995: £45,090 - loss) which has been transferred to reserves. The directors do not recommend payment of a dividend.

The Company's target market continues to be the small business sector

3. Directors and Their Interests

The directors who served on the Board during the year were:

H Angest
P T Black
S J Lockley
R Paston
R J J Wickham

Chairman
Managing Director

The interests of directors in the ordinary £1 shares of the Company were as follows

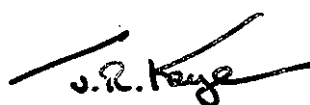
	At 31st December 1996	At 1st January 1996
P T Black	30,000	30,000

H Angest, S J Lockley, R Paston and R J J Wickham are directors of Secure Trust Group PLC, the ultimate holding company, and accordingly their interests are dealt with in the report of that company.

4. Auditors

In accordance with Section 384 of the Companies Act 1985 a resolution for the reappointment of Coopers & Lybrand as auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board



J R Kaye
Secretary
12th March, 1997

Arbuthnot Commercial Finance Limited

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 the Company and of the profit and loss of the Company 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 a going concern basis unless inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for the taking reasonable steps for the prevention and detection of fraud and other irregularities.

Arbuthnot Commercial Finance Limited

Report of the auditors to the members of Arbuthnot Commercial Finance Limited

We have audited the financial statements on pages 4 to 12

Responsibilities of directors and auditors

As described on page 2 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.

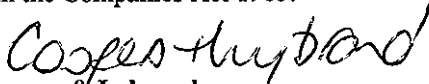
Basis of opinion

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 Company's affairs at 31st December 1996 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Coopers & Lybrand
Chartered Accountants and Registered Auditors
Maidstone 15 April 1997

Arbuthnot Commercial Finance Limited

PROFIT AND LOSS ACCOUNT

For the Year ended 31st December

		1996	1995
	Notes	£	£
Turnover	2	449,394	272,764
Administrative Expenses		<u>(357,939)</u>	<u>(303,054)</u>
Operating Profit /(Loss)	3	91,455	(30,290)
Interest Receivable		0	74
Interest Payable	6	<u>(48,897)</u>	<u>(22,962)</u>
Profit/(Loss) on ordinary activities before tax		42,558	(53,178)
Tax on profit on ordinary activities	7	<u>(16,176)</u>	<u>8,088</u>
Retained profit/(loss) for the period	12	<u><u>26,382</u></u>	<u><u>(45,090)</u></u>

The results above are all in respect of continuing activities.

The Company has no recognised gains and losses other than the gains above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the period stated above, and their historical cost equivalents.

The notes on pages 7 to 12 form part of these accounts.

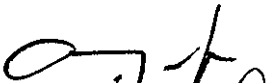

Arbuthnot Commercial Finance Limited

BALANCE SHEET

As at 31st December

	Notes	1996 £	1995 £
Tangible fixed assets	8	69,726	55,246
Current assets			
Debtors & Prepayments	9	2,651,879	1,616,964
Cash at Bank		0	546
		<u>2,651,879</u>	<u>1,617,510</u>
Creditors			
Amounts falling due within one year	10	<u>(2,335,504)</u>	<u>(1,313,037)</u>
<i>Net current assets</i>		316,375	304,473
Net assets		<u><u>386,101</u></u>	<u><u>359,719</u></u>
Capital and Reserves			
Called up share capital	11	500,000	500,000
Profit and Loss Account	12	(113,899)	(140,281)
Equity shareholders' funds	13	<u><u>386,101</u></u>	<u><u>359,719</u></u>

The financial statements on pages 4 to 12 were approved by the board of directors on 12th March, 1997 and are signed on its behalf by:

	H Angest	} Directors
	P T Black	

Arbuthnot Commercial Finance Limited

CASH FLOW STATEMENT

	1996 £	1995 £
Operating Activities		
Net cash outflow from operating activities	(358,741)	(326,997)
Returns on investments & servicing of finance		
Interest received	0	74
Interest paid	<u>(48,897)</u>	<u>(22,962)</u>
Net cash outflow from returns on investments and servicing of finance	(48,897)	(22,888)
Taxation		
Cash received in respect of group relief	42,087	0
Investing activities		
Payments to acquire tangible fixed assets	(43,258)	(6,829)
Net cash outflow before financing	<u>(408,809)</u>	<u>(356,714)</u>
Financing		
Issue of share capital	0	0
Loan from parent	<u>300,000</u>	<u>200,000</u>
Net cash inflow from financing	300,000	200,000
Decrease in cash & cash equivalents	<u><u>(108,809)</u></u>	<u><u>(156,714)</u></u>

See note 16

Arbuthnot Commercial Finance Limited

Notes to the Financial Statements for the year ended 31st December 1996

1. Accounting Policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

(a) Basis of Accounting

The accounts of the company have been prepared in accordance with section 226 of, and Schedule 4 to, the Companies Act 1985.

(b) Depreciation

Depreciation is charged on a straight line basis, from the month of purchase, to write down the cost of fixed assets over their estimated useful lives, at an annual rate of 25%.

(c) Pensions

The company contributes to individual personal pension schemes for the benefit of certain employees. The contributions are charged against profits in the year they are made.

(d) Operating Leases

Operating lease rentals are charged to profit and loss account as incurred.

(e) Provision for bad and doubtful debts

Specific provisions are made against amounts which are recognised to be bad or doubtful. In addition, general provisions are maintained to cover bad and doubtful debts which may be present at the year end but have not been specifically identified.

(f) Deferred Taxation

Deferred taxation is provided, at the current rate of corporation tax, to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

2. Turnover

Turnover represents administrative and discount income on debts purchased.

3. Operating Profit

The operating profit/(loss) of the Company is stated after charging the following items

	1996		1995
	£		£
Staff costs, including directors' remuneration	180,567		157,211
Depreciation of Tangible Fixed Assets	28,777		22,448
Auditors' remuneration for: Audit	8,000	7,500	
Other	<u>1,650</u>	<u>300</u>	7,800
Operating Lease Rentals	7,500		7,500

Arbuthnot Commercial Finance Limited

Notes to the Financial Statements for the year ended 31st December 1996

4. Staff Costs

	1996 £	1995 £
Wages and Salaries	154,676	134,360
Social security Costs	13,601	11,310
Pension Costs	12,290	11,541
	<u>180,567</u>	<u>157,211</u>

The number of full time staff (including an executive director) employed at the year end was 12 (1995: 9) and the average number during the trading period was 10 (1995: 8).

5. Directors' Remuneration

	1996 £	1995 £
a) Remuneration of directors' service to the Company:		
Management remuneration	58,513	57,104
Pension contributions	5,458	5,208
b) Remuneration, excluding pension contributions		
Chairman	Nil	Nil
Highest paid director	58,513	57,104
Bandings	Number of Directors	
	1996	1995
£0 - £5,000	4	4
£55,001 - £60,000	1	1

The emoluments of Messrs Angest, Lockley, Paston & Wickham are paid by the immediate parent company which makes no re-charge to the Company. Their emoluments are included in the aggregate of directors' emoluments disclosed in the financial statements of the parent company

6. Interest Payable

	1996 £	1995 £
On Bank overdrafts and Loans	<u>48,897</u>	<u>22,962</u>

Arbuthnot Commercial Finance Limited

Notes to the Financial Statements for the year ended 31st December 1996

7. Taxation

	1996 £	1995 £
United Kingdom corporation tax at 33%	16776	~
Group relief for taxation	~	(11,500)
Prior year adjustment	(600)	3,412
	<u>16,176</u>	<u>(8,088)</u>

8. Tangible Fixed Assets

Cost	Motor Cars	Computer Equipment	Furniture & Equipment	Premises Improvements	Total
At 1st January 1996	21,296	62,174	9,334	1,136	93,940
Additions	24,075	15,678	3,811	0	43,564
Disposals	0	0	(700)	0	(700)
At 31st December 1996	<u>45,371</u>	<u>77,852</u>	<u>12,445</u>	<u>1,136</u>	<u>136,804</u>
Accumulated Depreciation					
At 1st January 1996	10,003	24,943	3,444	304	38,694
Disposals	0	0	(393)	0	(393)
Charge for Year	6,829	18,995	2,668	285	28,777
Depreciation at 31st December 1996	<u>16,832</u>	<u>43,938</u>	<u>5,719</u>	<u>589</u>	<u>67,078</u>
Net book value at 31st December 1996	<u>28,539</u>	<u>33,914</u>	<u>6,726</u>	<u>547</u>	<u>69,726</u>
Net book value at 31st December 1995	<u>11,293</u>	<u>37,231</u>	<u>5,890</u>	<u>832</u>	<u>55,246</u>

9. Debtors

	1996 £	1995 £
Factor Debtors	2,624,018	1,553,677
Amount due from fellow subsidiary	11,500	53,587
Prepayments and accrued income	16,361	9,700
	<u>2,651,879</u>	<u>1,616,964</u>

Arbuthnot Commercial Finance Limited

Notes to the Financial Statements for the year ended 31st December 1996

10. Creditors

	1996 £	1995 £
Bank Overdraft	400,102	291,839
Amounts due to clients	1,350,055	776,630
Due to Parent Company	500,000	200,000
Corporation Tax	16,176	0
Other taxation & Social Security	13,580	7,948
Other creditors	1,694	130
Accruals	53,897	36,490
	<u>2,335,504</u>	<u>1,313,037</u>

11. Called up share capital

	1996 £	1995 £
Authorised:		
1,000,000 ordinary shares of £1 each	<u>1,000,000</u>	<u>1,000,000</u>
Allotted, called up and fully paid:		
500,000 ordinary shares of £1 each	<u>500,000</u>	<u>500,000</u>

12. Profit and Loss Account

	£
At 1st January 1996	(140,281)
Profit for the financial year	26,382
At 31st December 1996	<u>(113,899)</u>

13. Reconciliation of movements in shareholders funds

	1996 £	1995 £
Opening shareholders' funds	359,719	404,809
Profit/(Loss) for the year	26,382	(45,090)
Closing shareholders' funds	<u>386,101</u>	<u>359,719</u>

Arbuthnot Commercial Finance Limited

Notes to the Financial Statements for the year ended 31st December 1995

14. Operating Lease commitments

	1996 £	1995 £
Land & Buildings - expiring less than 1 year	3,750	5,624
- expiring between one and five years	Nil	Nil

15 Capital Commitments

The Company had no commitments to purchase capital equipment.

16 Notes to the Cashflow Statement

A. Reconciliation of operating Profit/(Loss) to net cash inflow from operating activities

	1996 £	1995 £
Operating Profit/(Loss)	91,455	(30,290)
Depreciation	28,777	22,448
Increase in factor debtors	(1,070,341)	(812,193)
Increase in prepayments & accrued income	(6,660)	(1,712)
Increase in amounts due to clients	573,425	471,639
Increase in accruals & other creditors	24,603	23,111
Net cash outflow from operating activities	<u><u>(358,741)</u></u>	<u><u>(326,997)</u></u>

B. Analysis of changes in cash and cash equivalents during the year

	£
Balance at 1st January 1996	(291,293)
Net cash outflow	(108,809)
Balance at 31st December 1996	<u><u>(400,102)</u></u>

C. Analysis of the balances of cash and cash equivalents shown in the balance sheet

	1996 £	1995 £	Change in Year £
Cash at bank and in hand	Nil	546	(546)
Bank overdrafts	(400,102)	(291,839)	(108,263)
	<u><u>(400,102)</u></u>	<u><u>(291,293)</u></u>	<u><u>(108,809)</u></u>

Arbuthnot Commercial Finance Limited

Notes to the Financial Statements for the year ended 31st December 1996

16 Notes to the Cashflow Statement (continued).

D. Analysis of changes in financing during the year

	Share Capital £	Loan £
Balance at 1st January 1996	500,000	200,000
Increase in loan from parent company	0	300,000
Balance at 31st December 1996	<u>500,000</u>	<u>500,000</u>

17 Related Party Transactions

There were no material transactions, during the year, between the Company and any of the directors or any other related party.

18. Ultimate Parent Company

The directors regard Secure Trust Group PLC, a company registered in England and Wales, as the ultimate parent company, and also as the company's ultimate controlling party by virtue of the fact that the ultimate parent holds 90% of the company's issued equity capital. Copies of the parent's consolidated financial statements may be obtained from The Secretary, Secure Trust Group PLC, 23-27 Heathfield Road, Kings Heath, Birmingham, B14 7BY.