

**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 1997 together with comparative figures for the year to 31st December 1996.

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 £52,765 (1996: £26,382) 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	Chairman
P T Black	Managing Director
S J Lockley	
R Paston	
R J J Wickham	

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

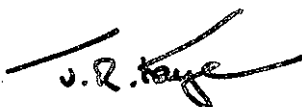
	At 31st December 1997	At 1st January 1997
P T Black	30,000	30,000

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
18th March, 1998

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 affairs 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 1997 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

7 April 1998

Arbuthnot Commercial Finance Limited

PROFIT AND LOSS ACCOUNT

For the Year ended 31st December

		1997	1996
	Notes	£	£
Turnover	2	615,821	449,394
Administrative Expenses		(458,157)	(357,939)
Operating Profit	3	157,664	91,455
Profit on sale of assets		3,086	0
Interest Receivable		8,886	0
Interest Payable	6	(88,682)	(48,897)
Profit on ordinary activities before tax		80,954	42,558
Tax on profit on ordinary activities	7	(28,189)	(16,176)
Retained profit for the period	12	52,765	26,382

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.

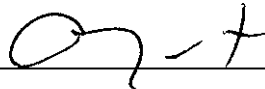
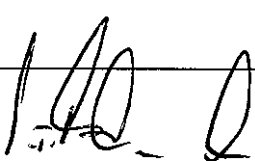
Arbuthnot Commercial Finance Limited

BALANCE SHEET

As at 31st December

	Notes	1997 £	1996 £
Tangible fixed assets	8	68,712	69,726
Current assets			
Debtors and Prepayments	9	3,515,987	2,651,879
Cash at Bank		185,076	0
		<u>3,701,063</u>	<u>2,651,879</u>
Creditors			
Amounts falling due within one year	10	<u>(3,330,909)</u>	<u>(2,335,504)</u>
<i>Net current assets</i>		370,154	316,375
Net assets		<u><u>438,866</u></u>	<u><u>386,101</u></u>
Capital and Reserves			
Called up share capital	11	500,000	500,000
Profit and Loss Account	12	(61,134)	(113,899)
Equity shareholders' funds	13	<u><u>438,866</u></u>	<u><u>386,101</u></u>

The financial statements on pages 4 to 12 were approved by the board of directors on 18th March, 1998 and are signed on its behalf by:

	H Angest	} Directors
	P T Black	

Arbuthnot Commercial Finance Limited

CASH FLOW STATEMENT

	Notes	1997 £	1996 £
Reconciliation of operating profit to net cash outflow from operating activities			
Operating profit		157,664	91,455
Depreciation charges		36,781	28,777
Increase in Factor debtors		(863,575)	(1,070,341)
Increase in other debtors & prepayments		(533)	(6,660)
Increase in Factor creditors		486,233	573,425
Increase in other creditors & accruals		(4,379)	24,603
Net cash outflow from operating activities		(187,809)	(358,741)
 Servicing of finance	16A	 (79,796)	 (48,897)
Taxation		(14,536)	42,087
Capital expenditure	16A	(32,681)	(43,258)
		<u>(314,822)</u>	<u>(50,068)</u>
Equity dividends paid		0	0
		<u>(314,822)</u>	<u>(50,068)</u>
Management of liquid resources		0	0
Financing	16A	900,000	300,000
 Increase in cash		 <u>585,178</u>	 <u>249,932</u>

Reconciliation of net cashflow to movement in net debt (note 16B)

Increase in cash in period	585,178	249,932
Loan from parent	(400,000)	(300,000)
Other Loans	<u>(500,000)</u>	<u>0</u>
Change in debt	(314,822)	(50,068)
 Net debt at 1st January	 <u>(900,102)</u>	 <u>(491,293)</u>
Net debt at 31st December	<u>(1,214,924)</u>	<u>(541,361)</u>

Arbuthnot Commercial Finance Limited

Notes to the Financial Statements for the year ended 31st December 1997

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 of the Company is stated after charging the following items

	1997		1996
	£		£
Staff costs, including directors' remuneration	222,409		180,567
Depreciation of Tangible Fixed Assets	36,781		28,777
Auditors' remuneration for: Audit	9,000	8,000	
Other	1,990	1,650	9,650
Operating Lease Rentals	7,500		7,500

Arbuthnot Commercial Finance Limited

Notes to the Financial Statements for the year ended 31st December 1997

4. Staff Costs

	1997	1996
	£	£
Wages and Salaries	192,036	154,676
Social security Costs	16,833	13,601
Pension Costs	13,540	12,290
	<u>222,409</u>	<u>180,567</u>

The number of full time staff (including an executive director) employed at the year end was 13 (1996:12) and the average number during the trading period was 12 (1996:10).

5. Directors' Remuneration

	1997	1996
	£	£
a) Remuneration of directors' service to the Company:		
Management remuneration	62,555	58,513
Pension contributions	5,750	5,458
b) Remuneration, excluding pension contributions		
Chairman	Nil	Nil
Highest paid director	62,555	58,513

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

	1997	1996
	£	£
On overdrafts and loans	<u>88,682</u>	<u>48,897</u>

Arbuthnot Commercial Finance Limited

Notes to the Financial Statements for the year ended 31st December 1997

7. Taxation

	1997 £	1996 £
United Kingdom corporation tax at 31.5% (1996 33%)	29,829	16,776
Prior year adjustment	(1,640)	(600)
	<u>28,189</u>	<u>16,176</u>

8. Tangible Fixed Assets

Cost	Motor Cars	Computer Equipment	Furniture & Equipment	Premises Improvements	Total
At 1st January 1997	45,371	77,852	12,445	1,136	136,804
Additions	34,988	3,475	0	0	38,463
Disposals	(21,296)	0	0	0	(21,296)
At 31st December 1997	<u>59,063</u>	<u>81,327</u>	<u>12,445</u>	<u>1,136</u>	<u>153,971</u>
Accumulated Depreciation					
At 1st January 1997	16,832	43,938	5,719	589	67,078
Disposals	(18,600)	0	0	0	(18,600)
Charge for Year	13,489	19,897	3,111	284	36,781
Depreciation at 31st December 1997	<u>11,721</u>	<u>63,835</u>	<u>8,830</u>	<u>873</u>	<u>85,259</u>
Net book value at 31st December 1997	<u>47,342</u>	<u>17,492</u>	<u>3,615</u>	<u>263</u>	<u>68,712</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>

9. Debtors

	1997 £	1996 £
Factor Debtors	3,487,593	2,624,018
Amount due from fellow subsidiaries	1,511	11,500
Prepayments and accrued income	26,883	16,361
	<u>3,515,987</u>	<u>2,651,879</u>

Arbuthnot Commercial Finance Limited

Notes to the Financial Statements for the year ended 31st December 1997

10. Creditors

	1997 £	1996 £
Bank Overdraft	0	400,102
Amounts due to clients	1,836,288	1,350,055
Due to Parent Company	900,000	500,000
Corporation Tax	29,829	16,176
Other taxation & Social Security	12,995	13,580
Bank Loan	500,000	0
Other creditors	4,719	1,694
Accruals	47,078	53,897
	<u>3,330,909</u>	<u>2,335,504</u>

11. Called up share capital

	1997 £	1996 £
Authorised:		
1,000,000 ordinary shares of £1 each	<u>1,000,000</u>	<u>1,000,000</u>
Alloted, 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 1997	(113,899)
Profit for the financial year	52,765
At 31st December 1997	<u>(61,134)</u>

13. Reconciliation of movements in shareholders funds

	1997 £	1996 £
Opening shareholders' funds	386,101	359,719
Profit for the year	52,765	26,382
Closing shareholders' funds	<u>438,866</u>	<u>386,101</u>

Arbuthnot Commercial Finance Limited

Notes to the Financial Statements for the year ended 31st December 1997

16. Notes to the Cashflow Statement (continued)

B. Analysis Of Changes In Net Debt

	At 1st Jan 1997 £	Cash flows £	Other Changes £	At 31st Dec 1997 £
Cash at bank	0	185,076	0	185,076
Overdrafts	(400,102)	400,102	0	0
	(400,102)	585,178	0	185,076
Debt due within 1 year	(500,000)	(900,000)	0	(1,400,000)
Balance at 31st December 1997	(900,102)	(314,822)	0	(1,214,924)

17. Related Party Transactions

The Company has taken advantage of the exemptions available under Financial Reporting Standard No. 8 Related Party Transactions from disclosing transactions and balances which eliminate on consolidation in the ultimate parent company's accounts.

18. Ultimate Parent Company

The directors regard Secure Trust Group PLC, a company registered in England and Wales, as the ultimate parent company since it 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.

Arbuthnot Commercial Finance Limited

Notes to the Financial Statements for the year ended 31st December 1997

14. Operating Lease commitments

	1997 £	1996 £
Land & Buildings - expiring less than 1 year	3,750	3,750
- 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. Gross Cash Flows

	1997 £	1996 £
Returns on investments and servicing of finance		
Interest received	8,886	0
Interest paid	(88,682)	(48,897)
	<u>(79,796)</u>	<u>(48,897)</u>
Capital expenditure		
Payments to acquire tangible fixed assets	(38,463)	(43,258)
Receipts from sale of tangible fixed assets	5,782	0
	<u>(32,681)</u>	<u>(43,258)</u>
Financing		
Issue of ordinary share capital	0	0
Increase in loans from parent company	400,000	300,000
Increase in other loans	500,000	0
	<u>900,000</u>	<u>300,000</u>