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## **FORM 10-K**

**Caladrius Biosciences, Inc. - CLBS**

**Filed: April 29, 1997 (period: March 31, 1996)**

Annual report with a comprehensive overview of the company

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the fiscal year ended March 31, 1996

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-10909

CORNICHE GROUP INCORPORATED  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

22-2343568  
(I.R.S. employer  
Identification No.)

Wayne Interchange Plaza I  
145 Route 46 West, Wayne, NJ  
(Address of principal executive offices)

07974  
(Zip code)

Registrant's telephone number, including area code: (201) 785-3338

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.10 par value  
(title of class)

Indicate by check mark whether registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that  
registrant was required to file such reports), and (2) has been subject to  
such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to  
Item 405 of Regulation S-K is not contained herein, and will not be contained,  
to the best of registrant's knowledge, in definitive proxy or information  
statements incorporated by reference in Part III of this Form 10-K or any  
amendment to this Form 10-K.

[Cover page 1 of 2]

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[Exhibit Index at page 59]

\$904,604 as of March 19, 1997  
(Aggregate market value of the voting stock  
held by non-affiliates of registrant)

2,412,278 shares, \$.10 par value, as of March 19, 1997

(Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date)

DOCUMENTS INCORPORATED BY REFERENCE

Annual Reports on Forms 10-K of Registrant for the years ended March 25, 1995 and September 30, 1994

Proxy Statement of Registrant --  
September 28, 1995 Annual Meeting of Stockholders

[Cover Page 2 of 2 pages]

PART I

ITEM 1. BUSINESS

History

Registrant was incorporated in Delaware on September 18, 1980 under the name Fidelity Medical Services, Inc. On July 28, 1983 Registrant changed its name to Fidelity Medical, Inc. From its inception through March 1995 Registrant was engaged in the development, design, assembly, marketing and sale of medical imaging products through its wholly-owned subsidiary, Fidelity Medical, Inc., a New Jersey corporation ("FMI"). On March 2, 1995 Registrant acquired Corniche Distribution Ltd. ("CDL"), a United Kingdom ("UK") corporation established in 1992. At such time, CDL was a holding company for two operating subsidiaries, Chessbourne International Ltd. ("Chessbourne"), a distributor/supplier of stationery products and office furniture, and The Stationery Company Limited ("TSCL"), a stationery retailer. The acquisition of CDL resulted in the former shareholders of CDL, Brian J. Baylis and Susan A.M. Crisp, owning a majority of the outstanding common shares of Registrant after the acquisition and was treated as a recapitalization of CDL with CDL being treated as the acquirer. Accordingly, Registrant changed its fiscal year to the last Saturday in March of each year in order to conform to the fiscal years of its UK operating subsidiaries and, unless otherwise indicated, the financial information and data thereafter contained in Registrant's financial reports related to the operations of CDL alone for periods prior to March 2, 1995. At the time of the CDL acquisition, CDL owned 51% of the common stock of Chessbourne, the other 49% being owned by an unrelated entity, Ronatree Limited ("Ronatree"), a property investment company. In connection with the CDL acquisition, Registrant acquired the 49% interest of Ronatree in Chessbourne by issuing to Ronatree 25,000 shares of its common stock. At such time and in furtherance of the CDL acquisition, Registrant also issued 215,150 shares of its common stock to Chester Holdings, Ltd ("Chester"), a Colorado corporation, in order to induce Chester to agree to terminate a pre-existing agreement giving Chester the right to acquire CDL and to further induce Chester to forgive approximately \$71,000 of net indebtedness owing to Chester by CDL and its subsidiaries.

Effective March 25, 1995, Registrant sold its wholly-owned medical imaging products subsidiary, FMI, to Chester in exchange for the 215,150 shares of Registrant's common stock previously issued to Chester in connection with Registrant's acquisition of CDL and Chester's Promissory Note and Option Agreement dated as of March 25, 1995 (the "Note and Option Agreement"). The Note and Option Agreement contained an 8% promissory note from Chester to Registrant in the principal amount of \$200,000 due October 1, 1995 (the "Note"). It also included an option, in favor of Registrant, to apply the unpaid principal balance and accrued interest due on the Note to the purchase of shares of FMI, Chester or any other parent company to which Chester may have transferred the FMI stock, at the fair market value of such shares.

Registrant's medical imaging products business had been generating significant losses for a number of years resulting in the decision to dispose of the medical imaging products business and to focus Registrant's business operations on the development and expansion of its stationery operations. The Note was not paid by Chester on its due date. However, during the period May 1996 through July 1996 Chester paid Registrant \$125,000 of the principal sum due Registrant under the Note. All accrued interest due under the Note and the remaining principal balance of \$75,000 has not been paid as of the date hereof. Registrant expects to exercise the option applicable to the unpaid balance on the Note to purchase voting shares of Medical Laser Technologies, Inc., the corporate parent of FMI, although no assurance can be given that this will prove to be the case.

Following the sale of FMI, Registrant's business operations consisted of the retail stationery operations and brand marketing and stationery wholesale operations of TSCL and Chessbourne respectively. These operations were funded in large part from loans made by the Bank of Scotland, Registrant's primary lender, to each of CDL, TSCL and Chessbourne over a period of several years. In accordance with customary UK practice, the Bank of Scotland, when making such loans obtained security for these loans by means of mortgages over fixed assets ("Fixed Assets") and debentures over pools of assets which by their nature will

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change from time to time ("Floating Charges"). Such security interests in the assets of each of CDL, TSCL and Chessbourne were reflected in documents known as Fixed and Floating Charges. The Bank of Scotland executed Fixed and Floating Charges with CDL, TSCL and Chessbourne on April 7, 1995, November 16, 1993 and March 27, 1987, respectively. The Fixed and Floating Charges contained powers for the Bank of Scotland to appoint an administrative receiver for the assets covered by the security interests. Registrant experienced large operating losses and net cash outflows from operating activities during fiscal 1996 resulting in severe liquidity problems. Registrant was unable to secure badly needed interim financing either in the form of additional loans or the conversion of bank debt to equity. Consequently, the Bank of Scotland had Chessbourne and TSCL placed into receivership in the UK on February 7, 1996 and had CDL placed into receivership in the UK on February 28, 1996. Since such time, Registrant has been inactive.

#### General

During the period March 26, 1995 through February 7, 1996 Registrant was engaged in the retail sale and wholesale distribution of stationery and related office products, including office furniture, in the UK through Chessbourne and TSCL. Chessbourne's operations consisted of the distribution and sale at wholesale of a wide variety of branded stationery products in England and Scotland, including products distributed under Chessbourne's proprietary "Style" brand. TSCL's business consisted of the operation of retail stationery stores in England. Prior to March 25, 1995, Registrant was engaged in the development, design, assembly, marketing and sale of medical imaging products through its wholly-owned subsidiary, FMI. As of March 25, 1995, Registrant discontinued those operations and sold that business to Chester. Such sale was intended to enable Registrant to terminate the significant cash outflows and operating losses being realized from the operation of the medical imaging products business and to permit it to focus its efforts and resources on its newly-acquired U.K. stationery business.

On March 31, 1995 TSCL acquired seven fully operational retail stationery stores. The consideration paid totaled approximately \$772,000 and was paid substantially by way of the assumption of liabilities. The assets acquired were independently valued at approximately \$374,000 and in addition to assumption of liabilities in the amount of approximately \$1,121,000, TSCL also paid \$25,000 in cash. The liabilities assumed comprised a bank loan

(\$320,000), trade payables (\$383,000) and amounts due to Chessbourne and TSCL of approximately \$418,000. The bank loan carried an interest rate of 2% over the lending bank's primary rate and was collateralized by the assets of TSCL.

In June 1995, CDL acquired a freehold interest in a Leek, Staffordshire warehouse and office facilities for a cash consideration of approximately \$240,000. The consideration was partly funded by a \$152,000 fifteen year business loan from Lloyds Bank Plc, banker and secured lender to CDL. The loan was secured by a mortgage on the property which became due following the institution of receivership proceedings. The loan carried a variable interest rate which was .85% per month at the time the loan was made. Principal and interest due on the loan were repayable in equal monthly installments over the term of the loan. The Leek facilities had been occupied by TSCL under lease from a non-affiliated landlord since July 1994. These facilities were used for the storage and distribution of inventory for TSCL and also housed the marketing, buying and administrative functions of Chessbourne and TSCL.

#### Operations of Chessbourne

CDL's wholesale stationery operations commenced in October 1993 with its acquisition of Chessbourne. At the time of such acquisition, Chessbourne's business was being operated as a traditional wholesale distribution operation with Chessbourne purchasing and distributing stationery products, office supplies and office furniture manufactured by third parties. Shortly thereafter, Chessbourne's wholesale operations were expanded to include both traditional wholesale distribution activities as well as the

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development of a line of stationery products to be marketed and sold under Chessbourne's proprietary "Style" brand.

The customers of Chessbourne's wholesale operations were primarily small, independently-owned stationery and office supply stores, other stationery wholesalers and distributors, several small chain stationery stores and specialist and non-specialist retailers and retail groups. During the 40 week period ended December 30, 1995, approximately 15% of Chessbourne's sales were made to TSCL's retail stores.

Until April 1995, Chessbourne maintained a large warehouse and filled and shipped orders for stationery and office supply products using its own personnel. In April 1995, however, Chessbourne closed its stationery and office supplies warehouse and entered into an agreement with a third-party warehouse operator to provide warehouse space and order filling and shipping services for its products on a fee-for-service basis. Chessbourne's outsourcing of its warehousing operations was intended both to reduce its costs of operations and to permit Chessbourne to devote a greater portion of its resources to the development and marketing of its "Style" brand products.

Notwithstanding the closure of its stationery and office supplies warehouse, Chessbourne continued to maintain a warehouse and showroom from which it filled and shipped orders for office furniture using its own personnel. Chessbourne sold its office furniture products to retail sellers of office supplies and office furniture, to designers of office interiors, and to commercial end users. Chessbourne's wholesale stationery business generally shipped goods to fill small orders within five days of receiving orders therefor. Large orders from major customers were generally received well in advance of the requested date. Chessbourne's wholesale sales were primarily made on open account with payment generally being due within 35 days of shipment.

Through February 1996, when it was placed into receivership, Chessbourne devoted substantial resources to the development and marketing of its line of stationery products and office supplies being marketed and sold under Chessbourne's proprietary "Style" brand. The "Style" brand line of products was intended to be value-oriented while still maintaining a high level of

quality. As of February 1996, Chessbourne was using the "Style" brand name on a wide variety of stationery and office supplies and was marketing approximately 500 items under the "Style" brand. Sales of Chessbourne's "Style" brand products accounted for approximately 90% of the Registrant's wholesale sales for the 40 week period ended December 30, 1995 (85% for the comparable period during fiscal 1995). Further development of the "Style" brand was adversely impacted by the Registrant's operating losses and working capital limitations which ultimately resulted in a shortage of key inventory lines.

Chessbourne did not manufacture any of its "Style" brand products. Instead, Chessbourne designed such products and contracted with various third party manufacturers to manufacture and/or print those products to Chessbourne's specifications. Chessbourne utilized short-term contracts and limited or single production run purchase orders and was not a party to any long-term manufacturing contracts. Chessbourne's customer base for its "Style" brand products included a number of specialist and non-specialist retailers, including TSCL, and distributors and other wholesalers.

Chessbourne maintained an in-house marketing department to promote its wholesale business and products. Customer awareness of Chessbourne's wholesale operations and its products was achieved through promotional literature, incentives, catalogs, trade shows and in the case of furniture products, brochures. A team of in-house account managers was utilized to increase sales to existing customers and expand the customer base through telemarketing and sales calls. Advertising consisted of brand promotions, seasonal support and direct offers to customers. During the 40 week period ended December 30, 1995, Chessbourne employed approximately 9 people full-time in its wholesale marketing department.

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#### Operations of TSCL

In addition to Chessbourne's wholesale operations, Registrant, through TSCL, operated a chain of retail stationery stores in the UK which sold social and commercial stationery products, gift items, greeting cards and writing instruments to individuals and large and small businesses. TSCL's stores were primarily designed and operated as traditional stationery and office supplies retail stores. Throughout TSCL's existence as a subsidiary of Registrant, Registrant was constantly seeking to expand the operations of TSCL through the acquisition of similar retail chains and the opening of additional stores in target market areas of the UK. These expansion plans were adversely impacted, however, by Registrant's operating losses and working capital deficiency which ultimately lead to TSCL being placed into receivership on February 7, 1996.

TSCL's retail stores offered a wide range of social and commercial stationery products. These retail stores sold approximately 2,500 products, including a selection of Chessbourne's "Style" brand products, with approximately 14,000 other products being available within 24 hours by special order. In addition, many of the stores provided business services including printing, binding, photocopying and facsimile transmission and receipt, while others sold a limited range of office furniture. Approximately 80% of the merchandise sold in each store consisted of products sold by all of the retail stores. The balance of approximately 20% of the merchandise offered and sold was specifically tailored to perceived needs of the customers of each individual store.

Through February 1996, TSCL was attempting to implement a policy to divide its retail stores into two different but related store concepts, each operating under a different trade name. Certain of TSCL's stores were being converted to operate under the trade name "Memo". Each of these stores was operated as conventionally-merchandised stationery store of approximately 1,500 square feet. Each Memo store contained conventional stationery products and standard retail fixturing and relied on conventional merchandising techniques, stylish displays and appropriate point of sale material. These stores were located primarily in more affluent areas within TSCL's geographic

retail market.

The balance of TSCL's stores were being converted to operate as price and value oriented stationery stores under the name "Memo Express". Initially, these stores were approximately the same size as the Memo stores, although TSCL believed that the Memo Express concept and style was adaptable to larger, warehouse-style stores. Memo Express stores featured metal racking in TSCL's corporate colors and "cut case" presentations of products with the intention of highlighting pricing and enhancing the appearance of value. Memo Express stores were intended to be primarily located in areas of significant commercial activity and more working class neighborhoods and marketed to businesses and other cost-conscious buyers. Both retail concepts featured products marketed and sold under the proprietary "Memo" and "Style" brands.

In addition to promoting uniformity of store design, TSCL was also in the process of developing a value priced line of stationery products to be marketed under its proprietary "Memo" brand. Like Chessbourne's "Style" brand of products, TSCL's "Memo" brand of products was intended to include a broad array of stationery and office supply products. Also, like the "Style" products, TSCL intended to attempt to promote brand loyalty through the use of uniform product packaging. Unlike Chessbourne's "Style" brand products, however, the "Memo" brand products were exclusive to TSCL's retail stores and were planned to be fundamental to generating customer loyalty to those stores. At the time of the February 1996 receivership, TSCL's "Memo" brand product line was still under development and only a limited number of such products had become available in its stores.

TSCL's retail operations attempted to increase sales by the use of seasonal promotions, in-store promotions, such as sale pricing, and advertising. All of TSCL's promotional activities were conducted by TSCL's management with input from store managers. TSCL also entered into arrangements with manufacturers for special promotions, such as the sale of advertising space on TSCL's retail stores' shopping bags and by special introductory promotions.

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#### Annual Meeting of Shareholders

On September 28, 1995 Registrant conducted its Annual Meeting of Stockholders. At such meeting (i) Brian J. Baylis, Susan A.M. Crisp, James Fyfe, George Lombardi and Mathew P. Pazaryna were elected as directors of Registrant; (ii) Registrant received approval to change its name from Fidelity Medical, Inc. to Corniche Group Incorporated; (iii) Registrant received approval for a ten for one reverse split of its outstanding common stock to be effective October 1, 1995 and an increase in the par value of each share of common stock from \$.01 to \$.10; and (iv) Registrant received approval to increase the number of shares of its authorized preferred stock from 1,000,000 shares to 5,000,000 shares. To effectuate the name change, change in par value of common stock, and increase in number of authorized shares of preferred stock, Registrant amended its Certificate of Incorporation on September 28, 1995.

#### Receivership Proceedings

As the result of Registrant's inability to overcome its liquidity problems and reverse the trend of recurring and significant operating losses, the Bank of Scotland, Registrant's primary banker and secured lender in the UK, appointed receivers to Chessbourne and TSCL on February 7, 1996 and to CDL on February 28, 1996. (See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations). The receiverships resulted in the discontinuation of all of Registrant's business operations.

Under UK law, Registrant is not liable for the liabilities of CDL, TSCL and Chessbourne absent a guarantee or other enforceable promise by Registrant to pay such liabilities. (See "Opinion Letter of Smithsons Solicitors"

included herewith and filed with the Securities and Exchange Commission as Exhibit 99(a).) Registrant has given no such guarantee or promise and as such has no liability for the payment thereof. Similarly, the appointment of an administrative receiver in respect of the assets of CDL, TSCL and Chessbourne has no effect on the assets of Registrant. Notwithstanding the foregoing, the receivers for CDL made certain claims against Registrant for sums allegedly owed to CDL by Registrant in connection with a contested share issue. To resolve such dispute, a Compromise Agreement dated March 4, 1996 between Registrant, CDL and the receivers for CDL was entered into which had the effect of releasing Registrant from any and all liability to CDL upon performance by Registrant of its obligations under that agreement. In connection therewith Registrant issued a promissory note to the Bank of Scotland, the secured creditor of CDL, in the principal amount of 50,000 pounds sterling (£50,000). On January 30, 1997, Registrant paid off the Note in full, including all interest accrued thereon through the date of payment and executed a Mutual Release with the Bank of Scotland (See Item 1. Business - Subsequent Events).

In connection with the receiverships, Brian J. Baylis and Susan A.M. Crisp, Registrant's then chief executive officer and chief financial officer, who collectively owned approximately 45% of Registrant's outstanding common stock entered into pledge agreements (the "Pledge Agreements") whereby they pledged their common shares of Registrant to the Bank of Scotland as collateral against the shortfall which was to be realized by the Bank of Scotland in the receivership proceedings. Pursuant to Pledge Agreements dated February 19, 1996 and February 21, 1996 Brian J. Baylis and Susan A.M. Crisp pledged 877,800 shares and 219,450 shares, respectively, of Registrant's common stock to the Bank of Scotland. The shares were pledged to collateralize the February 19, 1996 personal guarantees of Brian J. Baylis and Susan A.M. Crisp to the Bank of Scotland with respect to certain liabilities of CDL, TSCL and Chessbourne to the Bank of Scotland.

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#### Reverse Stock Split

On October 1, 1995, Registrant effected a one for ten reverse split of its common stock. In connection therewith Registrant increased the par value of such common stock from \$.01 to \$.10 per share. Registrant had 24,083,075 shares of common stock issued and outstanding prior to reverse stock split and approximately 2,408,307 shares of common stock issued and outstanding following the effectiveness of the reverse stock split. Additionally, Registrant had 3,806,128 shares of common stock reserved for issuance prior to the reverse split and approximately 380,613 shares of common stock reserved for issuance following the effectiveness of the reverse stock split. In connection with the reverse split, Registrant did not issue fractional shares choosing instead to pay shareholders otherwise entitled to a fractional share the cash value thereof. Except where specifically noted, all references in this Form 10-K to Registrant's common shares give effect, and in some cases retroactive effect, to Registrant's October 1, 1995 one for ten reverse split.

The purpose of effecting the reverse split was twofold. First and foremost, it was done in an effort to avoid having Registrant's common stock delisted from the NASDAQ Small Cap Market by reason of not maintaining a minimum share bid price of \$3 per share. Despite the effectuation of the reverse split, however, Registrant's common stock was delisted from the Small Cap Market on October 11, 1995 due to Registrant's failure to maintain a minimum share bid price of \$3 per share and failure to maintain a required minimum level of capital and surplus. The secondary reason for the reverse split was to significantly reduce the number of Registrant's common shares issued and outstanding and the number of common shares reserved for issuance thereby granting the Registrant the flexibility of engaging in future equity financings or acquisitions utilizing Registrant's common stock without having to amend its Certificate of Incorporation to increase the number of authorized common shares.



## Increase In Authorized Number of Preferred Shares

Effective September 28, 1995, Registrant amended its certificate of Incorporation to, among other things, increase the number of shares of its authorized preferred stock, \$.001 par value per share, from 1,000,000 to 5,000,000. At the time of such amendment, Registrant had 946,069 shares of its Series A \$.07 Convertible Preferred Stock issued and outstanding leaving few additional shares of preferred stock available for issuance. The increase was deemed necessary and desirable by Registrant to permit Registrant the flexibility of engaging in future equity financings or acquisitions utilizing preferred stock.

## Securities Offerings

Simultaneously with Registrant's acquisition of CDL on March 2, 1995, NWCM Limited, a Hong Kong investment banker ("NWCM"), agreed, on a staggered basis, to raise up to \$5,000,000 of new equity capital for Registrant on a "best efforts" basis. The offering was conducted pursuant to the requirements of Regulation S of the Securities Act of 1933, as amended, and was made solely to experienced, sophisticated investors who were "non-U.S. persons". An initial offering of up to 600,000 shares of Registrant's common stock was made at a price of \$2.00 per share. Through the conclusion of the offering on September 8, 1995, 528,600 of such shares were sold at an aggregate purchase price of \$1,057,200, which resulted in net proceeds to Registrant of \$880,336 after the payment of a \$50,000 due diligence fee, 10% sales commissions and 2% non-accountable expense allowance to NWCM. No additional equity capital was raised by NWCM on behalf of Registrant subsequent to September 8, 1995 and there are no existing plans for NWCM to undertake any further equity offerings on behalf of Registrant.

On March 13, 1995 NWCM negotiated the conversion of a promissory note of Registrant in the amount of \$300,000 payable to Avalon Investments Ltd. on November 30, 1995, into 150,000 shares of the

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common stock of Registrant. NWCM was paid a commission of \$36,000 in respect of such conversion. The promissory note had been entered into pursuant to a bridge financing agreement in December 1994.

## Other Matters

Registrant currently has no employees and pays no salaries, wages, or similar compensation. James Fyfe is Registrant's sole executive officer and director.

## Subsequent Events

### Transfer of Pledged Securities

Effective January 30, 1997 Registrant entered into a Stock Purchase Agreement with the Bank of Scotland and twelve unrelated persons whereby 1,042,250 of the 1,097,250 shares of Registrant's common stock pledged to the Bank of Scotland by Brian J. Baylis and Susan A.M. Crisp to secure certain debts of Registrant to the Bank of Scotland (See Item I. Business - Receivership Proceedings) were sold by the Bank of Scotland, following a default in the obligation secured by the pledge, to such twelve persons, at a price of \$.12 per share or \$125,070 on an aggregated basis.

## Resignation of Director

In September 1996, Mathew P. Pazaryna, a director of Registrant since 1993, was deemed to have resigned his position as such. (See Item 10. Directors and Executive Officers of Registrant).

## Payment on Promissory Note to Bank of Scotland

On January 30, 1997 Registrant paid the Bank of Scotland \$89,374.49 in full satisfaction of all principal and interest due under Registrant's February 1996 promissory note to the Bank of Scotland in the principal amount of fifty thousand pounds sterling (£50,000). The note had been issued to settle a disputed claim with the receivers for CDL. (See Item 1. BUSINESS-Receivership Proceedings). In consideration thereof, the parties executed a Mutual Release dated as of January 30, 1997 whereby the Bank of Scotland released Registrant and James Fyfe, Registrant's sole officer and director, from all liabilities, accounts, courses of action, sums of money, reckonings, contracts, controversies, agreements, damages, judgments, executions, claims, demands, debts, obligations, promises, covenants, actions and undertakings which against Registrant or Fyfe the Bank of Scotland ever had, had at the time of the release, or could thereafter have by reason of any matter up to and through the date of the release and Registrant and Fyfe released the Bank of Scotland in similar fashion.

## Consulting Agreement

On September 23, 1996 Registrant entered into a six month consulting agreement with Albermarle Investments & Consulting S.A. ("Albermarle"), a financial consulting firm. The consulting agreement, which ran from October 1, 1996 through March 31, 1997, required Albermarle to provide Registrant with advisory and investment banking services which included, among other things, (i) reviewing and reorganizing Registrant's stock structure to facilitate a viable future financing strategy for Registrant; (ii) assisting Registrant to secure interim financing to settle outstanding liabilities; (iii) assisting Registrant in completing outstanding

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regulatory filings; (iv) analyzing and evaluating potential public and private financing options; and (v) identifying and evaluating acquisitions.

The consulting agreement provided for Registrant to pay Albermarle a fee of \$10,000 per month or an aggregate of \$60,000. Due to its financial situation, Registrant has not been able to make any payments due to Albermarle pursuant to the consulting agreement.

## Securities Offerings

During the fiscal year ended March 31, 1997 Registrant conducted two private securities offerings pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended, one of which is still in progress. The purpose of each of such offerings was, in part, to provide Registrant with the ability to settle and pay off certain of its outstanding liabilities thereby making it a desirable acquisition candidate. The first of such offerings commenced in July 1996 and was completed in December 1996 upon the sale of 4 Units resulting in \$100,000 in gross proceeds to Registrant. This offering, of up to \$300,000 in Units, was conducted on a "best-efforts" basis through Robert M. Cohen & Co., Inc., a New York based broker dealer ("RMCC") and was offered and sold in the form of \$25,000 units. Each unit consisted of one \$25,000 face amount, 90 day, 8% convertible promissory note and one redeemable common stock purchase warrant to purchase 60,000 shares of Registrant's common stock at a price of \$.50 per share during a period of three years from issuance. All of the notes issued in such offering were subsequently paid in full and all of the warrants issued in such offering were subsequently redeemed by the Registrant at a price of \$.075 per underlying share. The second of such offerings commenced in January 1997 and is still in progress. Similar to the prior offering, it is being conducted on a "best-efforts" basis through RMCC and consists of \$25,000 units, each consisting of one \$25,000

face amount, 90 day, 8% convertible promissory note and one redeemable common stock purchase warrant to purchase 60,000 shares of Registrant's common stock at a price of \$.50 per share during a period of three years from issuance. This offering will involve the sale of up to 19 units resulting in gross proceeds to Registrant of \$475,000 if all of the Units offered are sold. As of the date, hereof 14 Units have been sold by RMCC. In connection with each of the offerings, Registrant has paid or is paying RMCC a sales commission equal to 10% of the subscription price for each Unit sold.

## ITEM 2. PROPERTIES

Registrant currently utilizes approximately 200 square feet of office space, rent free, at the offices of its former subsidiary, FMI, as its corporate office. These accommodations are made available under an informal arrangement with FMI and are terminable at will by FMI.

Prior to on or about February 7, 1996, CDL was leasing approximately 1670 square feet of office space at 272 London Road, Wallington, Surrey in England. In addition, a portion of Chessbourne's telemarketing staff servicing southern England was based at these offices.

Through April 15, 1995 Chessbourne operated from 60,000 square feet of warehouse and office space in Dundee, Scotland. On April 15, 1995 the lease was canceled by agreement with the landlord. On that date, the marketing, buying and administrative offices of Chessbourne were transferred to the TSCL facilities at Leek, Staffordshire. In connection with the relocation of Chessbourne's administrative offices, Chester also entered into a lease in April 1995, in Dundee, Scotland, on a month to month basis, of approximately 1,800 square feet of office space to house certain of its telesales and its legal and secretarial staff. Throughout the period of its ownership by CDL, Chessbourne also leased 10,500 square feet of office, showroom and warehousing space in Glasgow, Scotland which was used primarily for the sale of office furniture.

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Prior to on or about February 7, 1996 TSCL operated from 20,000 square feet of warehouse and office space in Leek, Staffordshire. That facility was used for the storage and distribution of inventory and housed the administrative offices of TSCL, including marketing, buying and finance functions. From April 15, 1995 through on or about February 7, 1996 this facility was also used to house the administrative and marketing offices of Chessbourne. The Leek facility had been occupied under lease from an unaffiliated landlord pending the June 1995 consummation of purchase by CDL of the freehold interest in the property.

All of TSCL's retail outlets were located in leased facilities on standard terms and with varying expiration dates. As a result of the receivership proceedings involving Registrant's U.K. operations, which were instituted in February 1996, all of the CDL, Chessbourne and TSCL properties were handed over to the receivers and subsequently handed back to the landlord or sold and the sale proceeds remitted to the secured lenders.

## ITEM 3. LEGAL PROCEEDINGS

Registrant and certain of its former officers and directors were involved in a shareholders' derivative action filed in Delaware Chancery Court filed on April 7, 1995. The causes of action asserted included breach of fiduciary duty, breach of duty of care and trust to the Registrant's shareholders, gross negligence and mismanagement, as well as common law conspiracy and aiding and abetting. The court granted Registrant's motion to dismiss by Opinion and Order dated May 2, 1995. Registrant's litigation counsel thereafter advised Registrant in June 1995 that the time for appeal regarding the derivative action had expired.

Registrant filed a complaint in the Superior Court of New Jersey against its former chief executive officer, Efriam Landa on May 4, 1995 alleging breach of fiduciary duty. Mr. Landa answered the complaint on October 16, 1995 and asserted counterclaims. On December 5, 1996 (the "Release Date"), Registrant and Landa entered into a Release Agreement dismissing the action and releasing one another from any claims or rights each may have had against the other based on circumstances created or arising before the Release Date.

On April 14, 1994, a former officer and director of Registrant, Rone H. Lewis, filed suit against Registrant in Superior Court, Law Division, Morris County (MRS-L-781-94), seeking damages for Registrant's alleged failure to timely permit him to sell certain shares of Registrant's restricted common stock. The complaint asserted consequential damages of approximately \$100,000. In December 1994, Registrant agreed to settle this claim for \$32,000. An initial settlement payment of \$15,000 was made in January 1995, and Registrant issued a two year 8% promissory note to Mr. Lewis dated January 12, 1995 with respect to the \$17,000 principal balance. The note provided for 24 equal payments of \$768.87 each. Registrant made the first 8 monthly payments required under the note during the period February 1995 through September 1995 leaving due a balance of 16 payments in the aggregate amount of \$12,301.92. Due to its financial problems, however, Registrant was thereafter unable to make any further payments to Mr. Lewis on the note. In March 1997 Registrant and Mr. Lewis entered into a settlement agreement whereby Mr. Lewis agreed to accept \$5,000 in full satisfaction of all remaining sums due to him under the note including accrued interest.

No other material legal proceedings are pending to which Registrant or any of its property is subject, nor to the knowledge of Registrant are any such legal proceedings threatened.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Registrant submitted no matters to a vote of its security holders during the fourth quarter of the fiscal year ended March 31, 1996.

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#### PART II

#### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

From April 4, 1994 until October 11, 1995 Registrant's common stock was traded on NASDAQ's SmallCap Market under the symbol "FMSI". On October 11, 1995 Registrant's common stock was deleted from that system by reason of Registrant's failure to meet required NASDAQ Small Cap Market listing standards relating to minimum bid price per share and minimum capital and surplus. Prior thereto, Registrant's common stock had been trading on NASDAQ's National Market System. Since October 11, 1995 Registrant's common stock has been listed for trading on the OTC Bulletin Board under the symbol "CGII". The following table sets forth the range of high and low bid prices of Registrant's common stock for periods since April 4, 1994. The quotations represent prices between dealers in securities, do not include retail mark-ups, mark-downs, or commissions and do not necessarily represent actual transactions. The quarters referred to are based on Registrant's fiscal year which for fiscal year 1995 ended on the last Saturday in March (March 25, 1995) and which for fiscal years thereafter, 1996 and beyond, ended on March 31.

Bid Prices	
High	Low

Fiscal 1995(1)

First Quarter	\$8.40	\$3.10
Second Quarter	5.00	3.80
Third Quarter	4.70	2.50
Fourth Quarter	5.00	2.50

Fiscal 1996(1)

First Quarter	\$7.19	\$3.12
Second Quarter	5.00	2.66
Third Quarter	4.00	.25
Fourth Quarter	.50	.1875

Fiscal 1997(1)

First Quarter	\$ .25	\$ .1875
Second Quarter	.375	.1875
Third Quarter	.30	.1250
Fourth Quarter*	.375	.1875

(1)All prices shown give effect, and in some cases retroactive effect, to Registrant's 1 for 10 reverse stock split which was effected on October 1, 1995.

\*Through March 19, 1997

At March 19, 1997, there were approximately 1,851 record holders of Registrant's common stock. Holders of common stock are entitled to dividends when, as, and if declared by the Board of Directors out of funds legally available therefor. Registrant has not paid any cash dividends on its common stock and, for the foreseeable future, intends to retain earnings, if any, to finance the operations, development, and expansion of its business. Future dividend policy is subject to the discretion of Registrant's Board of Directors.

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ITEM 6. SELECTED FINANCIAL DATA

The selected statements of operations and balance sheet data set forth below are derived from the financial statements of Registrant, which were examined by Simontacchi & Co., independent certified public accountants, for the year ended March 31, 1996 and by Mahoney Cohen & Company, PC, independent certified public accountants, for each of the three years in the period ended March 25, 1995. Mahoney Cohen & Company, PC did not audit Registrant's UK subsidiaries, the financial statements of which were audited by another auditor whose report was furnished to Mahoney Cohen & Company, PC. The information set forth below should be read in conjunction with the audited financial statements of Registrant and related notes appearing elsewhere in this Report (See Item 8. Financial Statements and Supplemental Data).

FISCAL YEAR ENDING

	March 31, 1996	March 25, 1995	March 27, 1994	March 31, 1993
Statement of Operations:				
Net Sales	\$ 0	\$21,048,151	\$7,585,360	\$336,779
Cost of Sales	0	15,531,102	5,121,884	20,381
Gross Profit	0	5,517,049	2,463,476	316,398
Operating (Loss) Income	(593,207)	(2,821,339)	207,300	16,436
Net (Loss) Income	(664,348)	(3,394,652)	1,804	496
Net (Loss) Income per common share:	(.29)	(2.05)	0	0
Weighted average number of shares outstanding	2,296,829	1,656,903	1,669,784	1,670,232

March 31, 1996

March 25, 1995

## Balance Sheet Data:

Working capital (deficiency)	\$ (661,078)	\$ (1,863,138)
Total assets	136,201	9,822,570
Current liabilities	796,144	9,122,665
(Accumulated deficit) Retained earnings	(2,457,623)	(3,827,879)
Stockholders' equity (deficiency)	(659,943)	(2,879,165)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

During the fiscal year ended March 31, 1996 Registrant financed its activities from sales revenues, increased bank loans, net proceeds from the issuance of shares of its common stock and trade credit to meet its working capital requirements and other operating needs. However, due to recurring and significant operating losses Registrant still suffered material reductions in working capital and eventually encountered great difficulty in replenishing the inventory of its key product lines. Efforts to achieve alternative sources of

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financing proved unsuccessful as did efforts to convert a significant portion of Registrant's bank debt to equity. Registrant took several steps to reduce its required cash outlays including relocating its corporate facilities and reducing personnel and other operating expenses but was unable to overcome its liquidity problems. Consequently, the Bank of Scotland, Registrant's primary banker and secured lender in the UK, appointed receivers to Chessbourne and TSCL on February 7, 1996 and to CDL on February 28, 1996. The receiverships resulted in the discontinuation of all of Registrant's business operations.

At the time of the appointment of an administrative receiver to each of CDL, Chessbourne, and TSCL, each of these companies was insolvent. The liabilities of these companies to the Bank of Scotland, secured by the respective Fixed and Floating Charges, far outweighed the value of the assets in each of the three companies. The administrative receiver, in each of these instances, collected and realized upon the secured assets to repay the Bank of Scotland. Given that the liabilities exceed the assets, all of the assets of CDL, TSCL and Chessbourne were paid to the Bank of Scotland by the receiver.

The appointment of receivers in the UK effectively suspended the power of Registrant, CDL, TSCL and Chessbourne and their respective officers and directors to deal with the assets which were subject to the respective Fixed and Floating Charges. Since, in the present instance, all of the assets of CDL, TSCL and Chessbourne were subject to a Fixed and Floating Charge, the respective companies are unable to operate as the result of the receiverships and the officers and directors thereof have no control over such entities. Further, Registrant, as the direct or indirect shareholder of each of these three companies, has no further control over them during the entire period of the receivership and Registrant has been advised that it will never regain control, since, upon the termination of the respective receiverships, the companies will be left with material liabilities and no assets. Given the foregoing, Registrant has been further advised that at the conclusion of the receiverships, each of CDL, Chessbourne and TSCL will be liquidated and their existence terminated. Additionally, it has become effectively impossible for each of CDL, Chessbourne and TSCL to be audited for the year ended March 31, 1996 given that the respective receivers have possession and control over the books, records and documents of each of the corporations and will not make

them available to Registrant or any auditor retained on its behalf. (See "Opinion Letter of Smithsons Solicitors" included herewith and filed with the Securities and Exchange Commission as Exhibit 99(a).) Consequently, Registrant has treated each of CDL, Chessbourne and TSCL as no longer being subsidiaries of Registrant, as reflected in Registrant's financial statements for the year ended March 31, 1996.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

The financial statements of Registrant, itemized in the subtopic, "Financial Statements" under Item 14 hereof, are set forth below. The audit reports of Coopers & Lybrand dated August 3, 1995 and March 31, 1995 respectively, included with the financial statements and previously filed in connection with Registrant's Annual Report on Form 10-K for the year ended March 25, 1995 have not been re-signed by Coopers & Lybrand for reasons relating to the institution of receivership proceedings against Registrant's former operating subsidiaries. (See "Letter of James J. Fyfe regarding Unavailability of Re-Signed Audit Report from Coopers & Lybrand" included herewith and filed with the Securities and Exchange Commission as Exhibit 99(b)). The audit report of Mahoney Cohen & Company, PC dated July 25, 1995 included with the financial statements and previously filed in connection with Registrant's Annual Report on Form 10-K for the year ended March 25, 1995 has not been re-signed by Mahoney Cohen Rashba & Pokart, CPA, PC, formerly Mahoney Cohen & Company, PC, due to such reports reliance on the audit of Registrant's former operating subsidiaries performed by Coopers & Lybrand and Coopers & Lybrand's not re-signing their audit report (See "Letter of Mahoney Cohen Rashba & Pokart, CPA, PC Regarding Their Inability to Re-Sign Their July 25, 1995 Audit Report" included herewith and filed with the Securities and Exchange Commission as Exhibit 99(c)).

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SIMONTACCHI & COMPANY, LLP  
CERTIFIED PUBLIC ACCOUNTANTS

9 LAW DRIVE  
FAIRFIELD, NEW JERSEY 07004  
TEL (201) 575-5040  
FAX (201) 575-5044

To The Stockholders and  
Board of Directors  
Corniche Group Incorporated  
Wayne, New Jersey

#### INDEPENDENT AUDITOR'S REPORT

We have audited the accompany balance sheet of Corniche Group Incorporated as of March 31, 1996 and the related statements of operations, stockholders' deficiency, and cash flows for the year then ended. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements and the financial statement schedule of Corniche Distribution Limited and Subsidiaries, a former consolidated subsidiary, as of March 31, 1996 and for the year then ended. These statements and schedules were not audited as the corporations were in receivership in the United Kingdom (see Note 3 of the Financial statements), and the records are unavailable for audit. The financial statements of Corniche Group Incorporated and Subsidiary at March 25, 1995 and for the year then ended were audited by other auditors whose report, dated July 25, 1995, was unqualified.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit

also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit the financial statements referred to above present fairly, in all material respects, the financial position of Corniche Group Incorporated as of March 31, 1996, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

/s/ SIMONTACCHI & COMPANY, LLP

Fairfield, New Jersey  
April 1, 1997

MEMBER, AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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#### INDEPENDENT AUDITOR'S REPORT

To the Stockholders and  
Board of Directors  
Fidelity Medical, Inc. and Subsidiary  
Wayne, New Jersey

We have audited the accompanying consolidated balance sheet of Fidelity Medical, Inc. and Subsidiary as of March 25, 1995, and the related consolidated statements of operations, stockholders' deficiency, and cash flows for the year then ended. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement financial statements schedule based on our audit. We did not audit the financial statements and the financial statement schedule of Corniche Distribution Limited and Subsidiaries, a consolidated subsidiary, as of March 25, 1995 and for the year then ended, which statements reflect total assets and results of operations constituting 99.8% and 81.8%, respectively, of the related consolidated totals. Those statements and schedule were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Corniche Distribution Limited and Subsidiaries for the year ended March 25, 1995 is based solely on the report of the other auditor.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditor provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditor, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fidelity Medical, Inc. and Subsidiary as of March 25, 1995, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming, that the Company will continue as a going concern. As discussed in



Note 2 to the consolidated financial statements. the Company has suffered recurring losses from operations and its total liabilities exceed its total assets. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described Note 2. The consolidated financial statement do not include any adjustments that might result from the outcome of this uncertainty.

New York, New York  
July 25, 1995

/s/ Mahoney Cohen & Company PC

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REPORT OF THE AUDITORS TO THE DIRECTORS OF  
CORNICHE DISTRIBUTION LIMITED

We have audited the attached consolidated balance sheet of Corniche Distribution Limited and subsidiaries ("the Company") as at March 25, 1995 and the related consolidated statements of operations, cashflows and changes in stockholders' equity for the period then ended, included in the Company's consolidation package which we have initialled for the purposes of identification. Our audit also included the financial statement schedule listed on item 14(a) for the periods ended March 25, 1995, March 27, 1994 and March 31, 1993.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The company's directors are responsible for the preparation of the consolidation package. It is our responsibility to express an opinion on the consolidation package based on our audit and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidation package is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidation package. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTIES

In forming our opinion we have considered the adequacy of the disclosures made in the consolidation package concerning the Company's dependence on the renewal of banking facilities on or shortly after July 31, 1995 and on substantially meeting the Company's forecasts or, if not achieved, its dependence on gaining additional funding. In addition the financial statements include £2, 131,770 due from the ultimate parent company, Fidelity Medical, Inc, ("FMI") in settlement of unpaid calls on shares issued as at the end of this year. The receipt of these monies is dependent upon the outcome of a planned equity placing by FMI. The consolidation package has been prepared on a going concern basis and the validity of this depends on successful outcomes of the above matters. The consolidation package does not include any adjustments that would be required if the above matters are not successfully achieved. Details of the circumstances relating to these fundamental uncertainties are described in the consolidation package.

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OPINION

Subject to any adjustments that might be, required as a result of the

fundamental uncertainties described above, in our opinion the consolidation package, which has been prepared in accordance with the accounting policies stated therein and in conformity with USGAAP, contains financial information suitable for inclusion in the consolidated financial statements of FMI as of March 25, 1995 and for the period from March 28, 1994 to March 25, 1995 except that the consolidation package does not include adjustments required to reflect the reverse acquisition of FMI by the Company.

/s/ Coopers & Lybrand  
Chartered Accountants and Registered Auditors  
London

August 3, 1995

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CORNICHE DISTRIBUTION LIMITED

Report of Independent Accountants

To the stockholders of Corniche Distribution Limited

We have audited the accompanying consolidated balance sheets of Corniche Distribution Limited, and Subsidiaries as of March 27, 1994 and March 31, 1993 and the related consolidated statements of operations, cash flows and changes in stockholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Corniche Distribution Limited, and Subsidiaries as of March 27, 1994 and March 31, 1991, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Coopers & Lybrand

Plumtree Court  
London  
3rd March 1995

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CORNICHE GROUP INCORPORATED  
BALANCE SHEET

ASSETS

	March 31, 1996	March 25, 1995	Proforma March 25, 1995
<b>Current Assets:</b>			
Cash	\$66	\$ 108,438	\$100
Accounts Receivable, net of allowances for doubtful accounts of \$345,108 in 1995	0	3,393,594	0
Notes Receivable	125,000	200,000	200,000
Inventory	0	3,146,307	0
Prepaid Expenses-and Other Receivables	10,000	411,188	18,422
<b>Total Current Assets</b>	<b>135,066</b>	<b>7,259,527</b>	<b>218,522</b>
<b>Other Assets:</b>			
Property and Equipment - at cost, net	135,066	7,259,527	0
Intangible Assets - at cost, net	0	1,206,495	0
Investment in and Advances to UK Subsidiary	----- 0	----- 0	----- 514,322
<b>Total Assets</b>	<b>\$136,201</b> =====	<b>\$9,822,570</b> =====	<b>\$732,844</b> =====

See Accompany Notes

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CORNICHE GROUP INCORPORATED  
BALANCE SHEET

LIABILITIES AND STOCKHOLDERS' (DEFICIENCY) EQUITY

	March 31, 1996	March 25, 1995	Proforma March 25, 1995
<b>Current Liabilities:</b>			
Notes Payable	\$ 5,000	\$2,521,452	\$ 16,292
Note Payable on Debt Compromise	77,630	0	0
Trade Accounts Payable	183,123	4,065,439	55,366
Current Portion of Long-Term Debt	0	415,177	0
Dividends Payable - Preferred Stock	84,749	21,954	21,954
Accrued Liabilities	104,804	1,512,873	555,874
Deferred Income	0	23,570	0
Payroll and Sales Tax Payable	0	562,200	0
<b>Total Current Liabilities</b>	<b>455,306</b>	<b>9,122,665</b>	<b>649,486</b>
<b>Long-Term Liabilities:</b>			
Long-Term Debt	0	3,323,565	0
Deferred Income	0	57,159	0
Deferred Credit	0	37,998	0
<b>Total Long-Term Liabilities</b>	<b>0</b>	<b>3,418,722</b>	<b>0</b>
<b>Total Liabilities</b>	<b>455,306</b>	<b>12,541,387</b>	<b>\$649,486</b>
Cumulative Redeemable Preference Shares and Class B Ordinary Shares	0	160,348	0
<b>Stockholders' (Deficiency) Equity:</b>			

7% Cumulative Convertible Preferred Stock authorized 5,000,000 shares, and issued outstanding 909,267 shares (March 31, 1996) and 946,069 (March 25, 1995)	909,267	946,069	946,069
Common Stock, \$0.10 par value, authorized - 30,000,000 shares, issued 2,630,378 (March 31, 1996) and 2,119,857 (March 25, 1995)	263,037	211,985	211,985
Additional Paid-In Capital	830,086	0	0
(Accumulated Deficit) Retained Earnings	(2,116,785)	(3,827,879)	(869,986)
	(114,395)	(2,669,825)	288,068
Cumulative Translation Adjustment	0	(4,630)	0
Treasury Stock - at cost, 218,100 shares	(204,710)	(204,710)	(204,710)
Total Stockholders' (Deficiency) Equity	(319,105)	(2,879,165)	83,358
Total Liabilities and Stockholders' (Deficiency) Equity	\$ 136,201	\$9,822,570	\$732,844

See Accompanying Notes

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CORNICHE GROUP INCORPORATED  
STATEMENT OF OPERATIONS

	March 31, 1996	March 25, 1995	March 27, 1994
Net Sales	\$ 0	\$21,048,151	\$7,585,360
Cost of Sales	0	15,531,102	5,121,884
Gross Profit	0	5,517,049	2,463,476
Selling, General and Administrative Expenses	257,073	8,338,388	2,256,176
Operating Loss	(257,073)	(2,821,339)	207,300
(Loss) on Sale of Assets	(3,042)	(22,221)	(40,017)
Interest (Net)	(600)	(538,646)	164,070
(Loss) Income before Income Tax	(260,715)	(3,382,206)	3,213
Income Tax Benefit (Expense)	0	9,508	(1,409)
Net (Loss) Income before Pref. Dividend	(260,715)	(3,372,698)	1,804
Preferred Stock Dividend	(62,795)	(21,954)	0
Net (Loss) Income from Continuing Operations	(323,510)	(3,394,652)	1,804
Loss from Discontinued Operations	(3,432,032)	0	0
Excess of UK Subsidiary Cumulative Losses over Investment	5,466,636	0	0
Net Income (Loss)	\$1,711,094	\$ (3,394,652)	\$1,804
Profit / (Loss) per share of Common Stock			
Income (Loss) from Continuing Operations	(0.14)	(2.05)	0.00
Profit (Loss) from Discontinued Operations	0.88	0.00	0.00
Net Profit (Loss) per share	\$ 0.74	\$ (2.05)	0.00
Weighted Average Number of Common Shares Outstanding	2,300,289	1,656,903	1,669,784

CORNICE GROUP INCORPORATED  
STATEMENT OF STOCKHOLDERS' (DEFICIENCY) EQUITY

Common Stock

	Preferred Stock	Number of Shares	Additional Amount	Paid-In Capital	Cumulative Accumulated Deficit	Translation Adjustment	Treasury Stock	Total
Balance - April 1, 1993	\$ 0	572,981	\$ 57,298	150,127	\$ (23,644)	61	\$ (183,196)	\$ 646
Recision of Common Stock Sale	-	(895)	(90)	24,041	24,131	-	-	-
Recapitalization Adjustment	-	-	-	(9)	-	-	-	(9)
Net Income	-	-	-	-	1,804	-	-	1,804
Balance - March 27, 1994	0	572,086	57,208	126,077	2,291	61	(183,196)	2,441
Issuance of Preferred Stock	1,000,000	-	-	-	-	-	-	1,000,000
Conversion of Preferred Stock	(53,931)	10,371	1,037	52,894	-	-	-	-
Preferred Stock Dividends	-	-	-	-	(21,954)	-	-	(21,954)
Purchase of Treasury Stock	-	-	-	-	-	-	(21,514)	(21,514)
Issuance of Common Stock	-	1,337,400	133,740	99,000	-	-	-	232,740
Conversion of Note, net	-	150,000	15,000	235,000	-	-	-	250,000
Issuance of Common Stock	-	50,000	5,000	(95,000)	-	-	-	100,000
Costs Related to Sale of Common Stock	-	-	-	(50,000)	-	-	-	(50,000)
Recapitalization Adjustment	-	-	-	(557,971)	(435,518)	-	-	(993,489)
Net Loss	-	-	-	-	(3,372,879)	-	-	(3,372,698)
Cumulative Translation Adjustment	-	-	-	-	-	(4,691)	-	(4,691)
Balance - March 25, 1995	946,069	2,119,857	211,985	0	(3,827,879)	(4,630)	(204,710)	(2,879,165)
Conversion of Preferred Stock	(36,802)	7,077	708	36,094	-	-	-	-
Adjustment to Common Stock	-	(156)	(16)	16	-	-	-	-
Issuance of Common Stock	-	478,600	47,860	909,340	-	-	-	957,200
Costs Related to Sale of Common Stock	-	-	-	(162,864)	-	-	-	(162,864)
Issuance of Common Stock	-	25,000	2,500	47,500	-	-	-	50,000
Preferred Stock Dividends	-	-	-	-	(62,795)	-	-	(62,795)
Elimination of UK Subsidiaries	-	-	-	-	2,034,604	4,630	-	2,036,234
Net Loss	-	-	-	-	(260,715)	-	-	(260,715)
Balance - March 31, 1996	\$909,267	\$2,630,378	\$263,037	\$830,086	\$(2,116,785)	\$ 0	\$(204,710)	\$(319,105)

See Accompanying Notes

CORNICHE GROUP INCORPORATED  
STATEMENT OF CASH FLOWS

	March 31, 1996	March 25, 1995	March 27, 1994
Cash Flows from Operation Activities:			
Net Loss Income from Continuing Operations in 1996 and Net (Loss) Income in 1995 and 1994	\$(260,715)	\$(3,372,698)	\$1,804
Adjustments to reconcile Net Loss from Continuing Operations to Net Cash used in Operating Activities in 1996 and Net (Loss) Income to Net Cash provided by (used in) Operating Activities in 1995 and 1994:			
Depreciation	1,749	346,668	82,026
Amortization of Goodwill	-	97,651	19,261
Amortization of Trademarks	-	1,248	2,104
Amortization of Development Costs	-	18,524	-
Amortization of Deferred Credit	-	(4,223)	(675)
Loss on Sale of Property and Equipment	3,042	22,220	40,017
Allowance for Bad Debts	-	349,231	131,692
Changes in Assets and Liabilities Net of Effects from Acquisitions:			
Decrease (Increase) in Accounts Receivable	-	(217,151)	167,940
Decrease in Notes Receivable	75,000	-	-
Decrease in Inventory	-	561,291	292,519
Decrease (Increase) in Prepaid Expenses and Other Receivables	8,422	(59,268)	(72,400)
Decrease in Notes Payable	(11,292)	-	-
Increase (Decrease) in Trade Accounts Payable	127,757	286,501	(359,536)
Increase (Decrease) in Accrued Liabilities	(451,070)	893,946	7,255
Increase (Decrease) in Deferred Credit	-	(23,138)	53,912
Increase in Taxes Payable	-	259,217	104,891
Net Cash used by Continuing Activities in 1996 and Net Cash provided by (Used In) Operating Activities in 1995 and 1994	(507,107)	(839,981)	470,810
Net Cash used in Discontinued Operations	(331,337)	-	-

Net Cash used in Operating Activities	(838,444)	(839,981)	470,810
Cash Flows from Investing Activities:			
Payments to Acquired Fixed Assets	(8,926)	(439,169)	(499,592)
Proceeds from Sale of Equipment	3,000	54,607	641,946
Payments for Acquisition of Business	-	-	(5,267,364)
Net Cash used in Investing Activities	(5,926)	(384,562)	(5,125,010)
Balance Carried Forward	\$ (844,370)	\$ (1,224,543)	\$ (4,654,200)

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CORNICHE GROUP INCORPORATED  
STATEMENT OF CASH FLOWS

	March 31, 1996	March 25, 1995	March 27, 1994
Balance Brought Forward	\$ (844,370)	\$ (1,224,543)	\$ (4,654,200)
Cash Flows from Financing Activities:			
Net Proceeds from Issuance of Common Stock for Cash	794,336	50,000	-
Net Proceeds from Issuance of Common Stock for Services	50,000	-	-
Net Borrowings under Line of Credit Agreement	-	1,018,536	1,397,606
Principal Payments under Capital Lease Obligations	-	(106,369)	(32,864)
Proceeds from Issuance of Long-Term Debt	-	-	3,151,155
Net Cash Provided by Financing	844,336	962,167	4,515,897
Effect of Exchange Rate on Cash	-	(7,725)	(515)
Net Decrease in Cash	(34)	(270,101)	(138,818)
Cash at Beginning of Period	100	9,940	148,758
Cash received from FMI	-	368,599	-
Cash at End of Period	\$ 66	\$ 108,438	\$ 9,940
Supplemental Disclosures of Cash Flow Information			
Cash Paid during the Year for:			
Interest	\$ 600	\$ 538,646	\$ 167,946
Income Taxes	\$ -	\$ -	\$ 3,451

See Accompany Notes

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CORNICHE GROUP INCORPORATED  
STATEMENT OF CASH FLOWS (CONCLUDED)

Supplemental Schedule of Non-Cash Investing  
and Financing Activities

During the year ended March 31, 1996 the Company accrued preferred stock dividends of \$62,795 and (1995 - \$21,954).

During the year ended March 31, 1996 holders of 36,802 shares of preferred stock converted such shares into 7,077 shares of CGI's common stock. In March 1995, holders of 53,931 shares of preferred stock converted such shares into 10,371 shares of CGI's common stock (Note 11).

On March 2, 1995 CGI issued 1,097,250 shares of its common stock for 100% of the issued and outstanding common stock of Corniche (Note 2). Additionally, it issued 25,000 shares to the 49 shareholder of Chessbourne (Note 11) and 215,150 shares to Chester Holdings, Ltd.

On March 25, 1995, Chester Holdings, Ltd. returned the 215,150 shares to CGI in exchange for the medical imaging subsidiary of CGI (Note 11).

In March 1995, holders of a promissory note in the amount of \$300,000 converted such note into common stock of CGI (Note 11).

During the year ended March 25, 1995, Corniche acquired a company through the assumption of debt as follows:

March 27, 1995	
Fair Value of Assets Acquired	\$2,046,000
Cash Paid	0
Liabilities Assumed and Incurred	\$2,046,000

In connection with the reverse acquisition on March 2, 1995, cash of \$368,599 was received.

See Accompanying Notes

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CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 1 THE COMPANY

Corniche Group Incorporated, formerly Fidelity Medical, Inc. (hereinafter referred to as the "Company" or "CGI") as result of a reverse acquisition with Corniche Distribution Limited and its Subsidiaries ("Corniche") (see "Reverse Acquisition" below), was engage in the retail sale and wholesale distribution of stationery products and related office products, including office furniture, in the United Kingdom. The operating subsidiaries of Corniche were Chessbourne International Limited ("Chessbourne") and The Stationery Company Limited ("TSCL").

Corniche experienced large operating losses and net cash outflows from operating activities in fiscal 1995 and 1996 resulting in a significant reduction in working capital during that period. The Company was unsuccessful in its efforts to raise interim financing to resolve its liquidity problems. Additionally, the Company was not able to convert a significant portion of its bank debt to equity. As a result, receivers were appointed to Corniche's subsidiaries Chessbourne and TSCL on February 7, 1996 by their primary bankers

and secured lender, Bank of Scotland. Corniche Distribution Limited was placed in receivership on February 28, 1996 (See Notes 2 & 3).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reverse Acquisition

On March 2, 1995, the stockholders of Corniche exchanged all of their common stock for 1,097,250 shares of CGI. Since the former stockholders' of Corniche owned a majority of the outstanding stock of CGI after the acquisition, such purchase transaction was accounted for as a reverse acquisition. The acquired company (Corniche) was deemed to have acquired the acquiring company (CGI). Accordingly, CGI changed its fiscal year to the last Saturday in March of each year in order to conform to the fiscal year of its operating subsidiary. Historical stockholders' equity of Corniche has been retroactively restated to give effect to the recapitalization. The historical financial statements prior to March 2, 1995 are those of Corniche. Further, on March 2, 1995, CGI acquired a 49 % interest in the outstanding shares of Chessbourne.

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CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

UK Receivership Proceeding

Significant losses were incurred during the forty weeks to December 30, 1995, and in the fiscal year ended March 25, 1995, resulting in a working capital and a stockholders deficiency as of December 30, 1995 and March 25, 1995. Management of Corniche had taken several steps to reduce the amount of cash used by operations, including relocation of its corporate facilities and reduce staffing levels and other operating expenses. However, a receivership proceeding involving the operating subsidiaries of the Company was commenced on February 7, 1996 and the UK holding company, Corniche Distribution Limited, was placed in receivership on February 28, 1996. The receiverships resulted in the loss of all of the Company's operations and operating assets and eliminated most liabilities. Accordingly, the operating activities of the UK subsidiaries have been classified as a discontinued operation and the excess of the UK subsidiary's cumulative losses over the Company's investment is included in the income statement for the year ended March 31, 1996. In addition, the UK Subsidiaries have been removed from the balance sheet as of March 31, 1996 and the audited balance sheet as of March 25, 1995 has been restated on a proforma basis to reflect the removal of the UK subsidiaries as of that date. This significantly reduces the Company's stockholder equity deficiency. The adjustments necessary to eliminate the UK subsidiaries are set out in Note 3.

Basis of Presentation

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company's ability to continue as a going concern may depend on its ability to obtain outside financing sufficient to support it pending identification and completion of a suitable acquisition or acquisitions and its ability to obtain financing and consummate such acquisition or acquisitions. There can be no assurance given that the Company will obtain such short-term or long-term outside financing or complete the acquisition of new business operations.



Effective October 1, 1995, the Company declared a one-for-ten reverse stock split and all numbers of shares and share values stated herein reflect such reverse split unless otherwise noted.

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CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Consolidation Policy

The consolidated financial statements for the fiscal years ended March 25, 1995 and March 27, 1994 include the accounts of CGI and its subsidiary, Corniche. All significant intercompany accounts and transactions have been eliminated in consolidation.

Inventories

Inventories were valued at the lower of cost (first-in, First-out method) or market for wholesale inventories (\$1,906,300 in 1995). The retail inventory method (\$1,240,007 in 1995) was used for inventory in retail stores.

Property and Equipment

Machinery and equipment, furniture and fixtures and motor vehicles are depreciated by the straight-line method over the estimated useful lives of the assets, which range principally from two to five years. Leasehold improvements were amortized over the lesser of the estimated useful lives or the remaining lease term.

Repairs and maintenance which did not materially extend the useful lives of the assets were expensed as incurred. The cost of assets sold or retired and the related accumulated depreciation or amortization are removed from the accounts with any resulting gain or loss included in the statement of operations.

Intangible Assets

Goodwill

Goodwill arising on acquisitions represents the cost in excess of the fair value of net assets acquired and was amortized on the straight-line method over ten years.

Trademarks

Trademarks were being carried at cost and were amortized over a period of two years.

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CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible Assets (Cont'd)

Intangible Assets are as follows:

	March 31 1996	March 25 1995
Goodwill	\$ 0	\$1,321,363
Trademarks	0	11,374
	0	1,332,737
Less: Accumulated Amortization	0	126,242
	\$ 0	\$1,206,495

Income Taxes

Effective October 1993, the Company adopted SFAS 109, "Accounting for Income Taxes", which recognizes (a) the amount of taxes payable or refundable for the current year and, (b) deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an enterprise's financial statement or tax returns.

Income tax expense/benefit is calculated on a separate company basis between CGI and Corniche.

Reverse Premiums and Rent Free Periods

Reverse premiums received on the inception of lease agreements and rent free periods were accounted for as deferred income and were amortized over the lease term on a straight-line basis.

New Accounting Standards

Effective fiscal 1996, the Company adopted Statement of Financial Accounting Standards No. 107, "Disclosure About Fair Value of Financial Instruments", and Statement of Position 94-6, "Disclosure of Certain Significant Risks and Uncertainties".

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CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Translation of Foreign Currency

Corniche's functional currency was pounds sterling. Assets and liabilities of non-U.S. operations were translated into U.S. dollars at year end exchange rates. Revenue and expenses were translated using average exchange rates. The resulting translation adjustment was reported as a separate component of stockholders' equity. Gains and losses from non-U.S. currency transactions were included in results of operations.

Concentrations of Credit Risk

Financial instruments which subject the Company to credit risk consist of deposits with financial institutions and in the case of Corniche, trade receivables. Corniche's deposits were primarily held with a single financial institution and its trade receivables were due from retailers and mass merchants. Corniche performed ongoing credit evaluations of its customers.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may take in the future, they may ultimately differ from actual results.

Per Share Information

Per share information has been computed based on the weighted average number of shares and dilutive common stock equivalents outstanding during each respective period. Common stock equivalents were excluded from the loss per common share computation in fiscal 1995 as the effect of their inclusion would be anti-dilutive and for fiscal 1994 the dilutive effect was less than 3%. Retroactive effect has been given to the recapitalization discussed in Note 2.

CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 3 UK SUBSIDIARY RECEIVERSHIP PROCEEDING

Receivers were appointed to Chessbourne and TSCL on February 7, 1996 and to Corniche Distribution Limited on February 28, 1996. Corniche had prepared unaudited financial statements as of December 30, 1995. No financial statements were prepared for the period from December 31, 1995 to the date of the receivership proceedings as none were required under UK corporate laws nor generally accepted accounting standards. In addition, as a result of the receivership proceedings no audit of the financial statements of Corniche for their period from March 25, 1995 will be carried out. Accordingly, proforma financial statements reflecting the impact of the receiverships and adjustments necessary to eliminate these companies from the balance sheet of CGI were prepared as of December 30, 1995 and are as follows:

PROFORMA BALANCE SHEET

	Consolidated December 30, 1995	Elimination of subsidiary	Proforma December 30, 1995
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash	\$ 45,433	\$ 45,223	\$ 210
Accounts receivable	679,297	679,297	0
Allowances for doubtful accounts	(34,146)	(34,146)	0
Notes receivable	200,000	0	200,000
Inventory	2,120,367	2,120,367	0
Prepaid expenses	1,372,141	1,229,356	142,785

Other receivables	86,067	0	86,067
Total Current Assets	4,469,159	4,040,097	429,062
Other Assets:			
Property and equipment at cost, net	1,781,126	1,779,894	1,232
Intangible Assets at cost, net	1,788,499	1,788,499	0
Total Assets	\$8,038,784	\$7,608,490	\$430,294

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CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 3 UK SUBSIDIARY RECEIVERSHIP PROCEEDING (Cont'd)

PROFORMA BALANCE SHEET (Cont'd)

Liabilities	Consolidated December 30, 1995	Elimination of subsidiary	Proforma December 30, 1995
Current Liabilities:			
Notes Payable	\$ 2,026,387	\$ 2,014,708	\$ 11,679
Note Payable on Debt Compromise	0	(77,630)	77,630
Trade-Accounts Payable	4,792,996	4,467,350	325,646
Current Portion of Long-term Debt	700,476	700,476	0
Dividends Payable	72,897	0	72,897
Accrued Liabilities	1,581,497	1,245,677	335,820
Deferred Income	69,067	69,067	0
Payroll and Sales Tax Payable	994,342	994,342	0
Total Current Liabilities	10,237,662	9,413,990	823,672
Long-term Liabilities:			
Long-term Debt	3,258,962	3,258,962	0
Deferred Income	212,108	212,108	0
Deferred Credit	33,805	33,805	0
Total Long-term Liabilities	3,504,875	3,504,875	0
Total Liabilities	\$13,742,537	\$12,918,865	\$823,672
Cumulative Redeemable Preference Shares and Class B Ordinary Shares			
	156,261	156,261	0

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CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 3 UK SUBSIDIARY RECEIVERSHIP PROCEEDING (Cont'd)

PROFORMA BALANCE SHEET (Cont'd)

	Consolidated December 30, 1995	Elimination of subsidiary	Proforma December 30, 1995
Liabilities			
Stockholders' (deficiency) equity:			
7% Cumulative Convertible Preferred Stock authorized 5,000,000. shares, issued and outstanding 909,267 (December 30, 1995) and 946,069 (March 25, 1995)	946,069	0	946,069
Common Stock, \$0.10 par value, authorized 30,000,000 shares, issued 2,623,457 (December 30, 1995) and 2,119,857 (March 25, 1995)	262,345	0	262,345
Additional Paid-in Capital	793,976	0	793,976
Accumulated Deficit	(7,754,330) (5,751,940)	(5,563,272) (5,563,272)	(2,191,058) (188,668)
Cumulative Translation Adjustment	96,636	96,636	0
Treasury Stock at cost, 218,100 shares	(204,710)	0	(204,710)
Total Stockholders' Deficiency	(5,860,014)	(5,466,636)	(393,378)
Total Liabilities and Stockholders' (Deficiency) Equity	\$ 8,038,784	\$ 7,608,490	\$ 430,294

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CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 3 UK SUBSIDIARY RECEIVERSHIP PROCEEDING (Cont'd)

Consolidated Statement of Operations

The "Consolidated Statement of Operations" for the forty weeks ended December 30, 1995 and for the corresponding period in 1994, before the impact of the receivership proceedings involving the UK subsidiaries, was as follows:

	----- 40 Weeks Ended-----	
	December 30, 1995	December 30, 1994
Net Sales	\$12,370,716	\$16,311,552
Cost of Sales	(8,554,569)	(11,667,351)
Gross Profit	3,816,147	4,644,201
Selling, general & admin. expenses	(7,086,773)	(5,527,519)
Operating Loss	(3,270,626)	(883,318)

(Loss) gain on sale of equipment	(6,563)	1,308
Interest expense, net	(501,683)	(391,178)
Net Loss before preferred stock dividend	(3,778,872)	(1,273,188)
Preferred stock dividend	(50,943)	0
Net Loss	\$ (3,829,815)	\$ (1,273,188)
Loss per share of common stock	\$ (1.69)	\$ (0.76)
Weighted average number of common shares outstanding	2,260,599	1,669,336

Although financial statements for Corniche for the period December 31, 1995 to the date of receivership are not available, had such financial statements been available the impact on the Company's balance sheet as of March 31, 1996 and on the results of operations for the year then ended would have remained unchanged as any profit earned or loss incurred by Corniche in the period would have been offset by a corresponding increase or decreased in the excess of the UK subsidiary cumulative losses over the Company's investment.

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CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 4 NOTES RECEIVABLE

Notes Receivable comprise a 180-day promissory note in the principal amount of \$200,000 due from Chester Holdings, Ltd. ("Chester") as part consideration for the Company's former medical imaging subsidiary sold to Chester on March 25, 1995. The note was due on October 1, 1995 and includes an option to apply any unpaid balance of such note to purchase voting securities of Chester's operating subsidiary, or any new parent company of such operating subsidiary, at the fair market value of such securities. As of March 31, 1996 Chester was in default on the note and no principal or interest had been received. Subsequent to March 31, 1996, the company received payments of principal in the aggregate sum of \$125,000. Accordingly, a provision of \$75,000 has been made at March 31, 1996 and no interest has been accrued. The Company may exercise the option applicable to the unpaid balance of the Note to purchase voting shares of Medical Laser Technologies, Inc., the corporate parent of the operating subsidiary.

NOTE 5 PROPERTY AND EQUIPMENT

Property and Equipment consists of the following:

	March 31, 1996	March 25, 1995
Leasehold Property	\$ 0	\$ 652,950
Machinery and Equipment	0	925,500
Motor Vehicles	0	287,588
Furniture and Fixtures	1,426	538,409
	1,426	2,404,447
Less: Accumulated Depreciation	291	1,047,899
	\$ 1,135	\$1,356,548

Motor Vehicles and Machinery and Equipment include assets held under capital leases as follows:

	March 31, 1996	March 25, 1995
Cost	\$ 0	\$ 311,385
Less: Accumulated Depreciation	0	102,409
Net book value	\$ 0	\$ 208,976

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CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 6 NOTE PAYABLE ON DEBT COMPROMISE

Notes Payable on debt compromise comprise a 180-day promissory note in the principal amount of 50,000 pounds sterling (approximately \$77,630 as of March 31, 1996) in favor of the Bank of Scotland, primary banker to Corniche. The note was issued to settle certain claims involving Corniche and the Company following the receivership proceeding involving the Company's UK Subsidiary. The note was paid in full, including accrued interest, on January 30, 1997 and simultaneously the Company was released from any further obligation.

NOTE 7 REVOLVING LINE OF CREDIT - BANK

TSCL and Chessbourne had separate revolving lines of credit with a bank of approximately \$400,000 and \$1,740,000, respectively. The facilities were reviewed annually and interest was payable at 3% over the bank's base rate (9.75 % at March 25, 1995) for TSCL and 2 % over the bank's base rate (8.75 % at March 25, 1995) for Chessbourne.

NOTE 8 LONG-TERM DEBT

Long-term Debt as of March 25, 1995 consisted of:

Chessbourne bank loan payable over 12 years from October 12, 1993 eliminated by UK receivership proceeding	\$3,186,400
Corniche bank loan payable in monthly installments through June 16, 2004 eliminated by UK receivership proceeding	266,071
Corniche bank loan due on October 31, 1995 eliminated by UK receivership proceeding	159,320
Capital lease obligations payable through July 1997 eliminated by UK receivership proceeding	126,951
	-----
	3,738,742
Less: Current portion	415,177
	\$3,323,565
	=====

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CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 8 LONG-TERM DEBT (Cont'd)

These notes and the revolving lines of credit (see Note 7) were secured by substantially all of the assets of Corniche, which security interest was demanded in February 1996 and resulted in the receivership proceeding.

NOTE 9 ACQUISITIONS

On March 31, 1995 Corniche acquired seven retail stationery stores. The consideration paid totalled approximately \$772,000 and was paid substantially by way of assumption of liabilities. The acquisition was accounted for under the purchase method of accounting.

The results of operations of those stores from the date of acquisition had been included in the Company's consolidated statement of operations to December 30, 1995 (See Note 3).

The assets acquired and liabilities assumed (in thousands) on acquisition were as follows:

Fair Value of Assets Acquired	\$ 374
Goodwill	772
Cash Paid	(25)
	-----
Liabilities Assumed	\$1,121

NOTE 10 PENSION PLANS

Corniche operated a self-administered money purchase pension plan for directors and senior employees. Contributions to the plan were determined by the board of directors. The plan commenced on January 1, 1994. In addition, Chessbourne operated an insured defined contribution employee benefit pension plan available to all full-time employees. Contributions were set at 4% of salary by Chessbourne and 4% by the employee. Pension costs charged to operations for the year ended March 25, 1995 were \$45,536 and \$22,529 for the year ended March 27, 1994.

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CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 11 STOCKHOLDERS EQUITY

Effective October 1, 1995 the Company declared a one-for-ten reverse stock split and all numbers of shares and share values stated herein reflect such reverse split unless otherwise noted.

In connection with the settlement of the securities class action litigation (see Note 13), the Company issued 1,000,000 shares of 7% cumulative convertible preferred stock with an aggregate value of \$1,000,000. The preferred stock has a liquidation value of \$1 per share, is non-voting and convertible into common stock of the Company at a price of \$5.20 per share. Preferred stockholders are entitled to receive a cash dividend of 7% paid semi-annually. The preferred shares are callable by the Company at any time after the first anniversary of issuance, at prices ranging from 101% to 105% of face value. In addition, if the closing price of the Company's common stock exceeds \$13.80 per share for a period of 20 consecutive trading days, the preferred shares are callable by the Company at a price equal to 1% of face value. In March 1995, the holders of 53,931 shares of preferred stock exercised their rights to convert and, accordingly, 10,371 shares of common stock were issued. During the year ended March 31, 1996, holders of 36,802



shares of preferred stock converted such shares into 7,077 shares of CGI's common stock.

In March 1995, the Company issued a total of 1,312,400 shares of common stock to acquire all of the issued and outstanding stock of Corniche. Brian J. Baylis was issued 877,800 shares of common stock and Susan A.M. Crisp was issued 219,450 shares of common stock in exchange for their holdings representing 100% of the issued common stock of Corniche, and the balance of 215,150 shares were issued to Chester in connection with the acquisition. In addition, the Company issued 25,000 shares of the Company's common stock to Ronatree in exchange for the remaining 49% of the common shares of Chessbourne.

Simultaneous with the Company's acquisition of Corniche on March 2, 1995, NWCM Limited ("NWCM"), a Hong Kong investment banker, agreed on a staggered basis, to raise up to \$5,000,000 of new equity capital on a "best efforts" basis. This offer was limited to experienced, sophisticated investors who are "non-U.S. persons" under Regulation S of the United States Securities Act of 1933. An initial tranche of 600,000 shares was offered at a price of \$2.00 per share. Pursuant to the transaction, the Company paid NWCM a fee of \$50,000. In addition, NWCM was paid a sales commission of 10% and a non-accountable expense allowance equal to 2% of the total dollars raised, a total of \$162,864. The offering was closed on September 8, 1995 and the Company raised a total of \$957,200 gross, \$794,336 net of sales commission and expense allowance in the year ended March 31, 1996 and \$100,000 March 25, 1995. The Company has agreed to indemnify NWCM for certain liabilities arising from the transaction.

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CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 11 STOCKHOLDERS EQUITY (Cont'd)

During the year ended March 31, 1996, the Company issued 25,000 shares of common stock to Trisec Holdings, Ltd. for consulting services in connection with the "Reverse Acquisition" (see Note 2) of Corniche on March 2, 1995.

On March 13, 1995, the Company converted a promissory note in the amount of \$300,000 payable on November 10, 1995, which had been entered into pursuant to a bridge finance agreement in December 1994, into 150,000 shares of the common stock of the Company. In connection with the conversion, the Company paid NWCM a fee of \$36,000.

The Company has issued common stock purchase warrants from time to time to investors in private placements, certain vendors, underwriters, and directors and officers of the Company.

A total of 150,175 shares of common stock are reserved for issuance upon exercise of warrants. Warrants issued are summarized as follows:

	Shares Issuable on Exercise	Exercise Price	Expiration Date
February 1991	48,867	\$36.00	1/98
September 1993	9,375	\$46.40	4/99
March 1995	91,933	\$3.20 - \$8.10	1/99 - 11/03

In March 1995, as a result of the sale by the Company of its medical imaging subsidiary, stock options held by certain directors, officers and employees under the Company's 1986 Stock Option Plan were converted to

warrants on substantially the same terms as the previously held stock options, except these warrants are immediately vested.

### Stock Option Plans

CGI has two stock option plans. The 1986 Stock Option Plan provides for the grant of options to purchase shares of the Company's common stock to employees. The 1992 Stock Option Plan provides for the grant of options to directors.

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## CORNICHE GROUP INCORPORATED NOTES TO FINANCIAL STATEMENTS

### NOTE 11 STOCKHOLDERS EQUITY (Cont'd)

#### Stock Option Plans (cont'd)

The 1986 Stock Option Plan allows for the grant of incentive stock options (ISO), non-qualified stock options (NQSO) and stock appreciation rights (SAR). The maximum number of shares of the Company's common stock that may be granted, as amended in April 1993, is 140,000 shares. The terms of the plan provide that options are exercisable for a period of up to ten years from the date of grant or a period of five years with respect to incentive stock options if the holder owns more than 10% of the Company's outstanding common stock. The exercise price and grantees of options are established by the Stock Option Committee. The exercise price of ISO's must be at least 100% of the fair market value of the common stock at the time of grant. For holders of more than 10% of the Company's outstanding -common stock, the exercise price must be at least 10% of fair market value. The exercise price of NQSO's must be not less than 80% of the fair market value of the common stock at the time of grant. An option is exercisable not earlier than six months from the date of grant.

In April 1992, the Company adopted the 1992 Stock Option Plan to provide for the granting of options to directors. According to the terms of this plan, each director is granted options to purchase 1,500 shares each year. The maximum amount of the Company's common stock that may be granted under this plan is 20,000 shares. Options are exercisable at the fair market value of the common stock on the date of grant and have five year terms.

Information with respect to options under the 1986 and 1992 Stock Option Plans is summarized as follows:

	----- Year Ended -----			
	March 31, 1996	March 25, 1995	Sept. 30, 1994	Sept. 30, 1993
Outstanding, Beginning of Year	28,980	131,367	82,900	22,875
Granted	9,000	15,896	69,117	86,000
Converted	0	(91,933)	0	0
Expired	(30,480)	(26,350)	(20,650)	(25,975)
Exercised	0	0	0	0
Outstanding, End of Year	700	28,980	131,367	82,900

CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

## NOTE 11 STOCKHOLDERS EQUITY (Cont'd)

## Stock Option Plans (cont'd)

The Company reclassified 18,000 options shown as expired in its 1994 financial statements to be outstanding as of March 25, 1995.

Outstanding options expire 90 days after termination of holder's status as employee or director. Included in the outstanding options at March 31, 1996 were 1,500 shares which expired in April 1996 and 3,000 shares which expired in June 1996.

At March 31, 1996, there were 1,500 exercisable outstanding options and 152,500 shares avoidable for grant. Exercise prices of outstanding options ranged from \$3.80 to \$32.50.

On May 1, 1996, 3,000 options were granted at an exercise price of \$0.40625 per share.

CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

## NOTE 12 RELATED PARTY TRANSACTIONS

B.R. Linton, a director of Chessbourne until April 28, 1995, is also a director of Ash Property Company Limited, a property investment company. During the year ended March 25, 1995, a property was leased by Corniche from Ash Property Company Limited at a rental of approximately \$94,000.

B.R. Linton is also a director of Ronatree. Until March 2, 1995, Ronatree beneficially owned a 49% interest in the ordinary share capital of Chessbourne. On March 2, 1995, CGI purchased such interest from Ronatree in exchange for the issuance of 25,000 shares of CGI.

On March 2, 1995, Chester acquired 215,150 common shares of CGI. CGI issued the shares in order to induce Chester to agree to terminate a pre-existing agreement to acquire Corniche and in forgiveness by Chester of approximately \$71,000 of indebtedness owed to Chester and its subsidiaries by Corniche.

Effective March 25, 1995, CGI sold its wholly-owned medical imaging products subsidiary to Chester in exchange for the 215,150 shares of the Company's common stock previously issued to Chester in connection with the Company's acquisition of Corniche and a 180-day promissory note in the principal amount of \$200,000. The promissory note also includes an option to apply the unpaid balance of such note to purchase securities of Chester or such operating subsidiary, or any other parent company of such operating subsidiary at the fair market value of such securities.

During the year ended March 25, 1995, the Company charged fees of \$261,211 to Chester for management services provided by its directors and employees to Chester. These fees were still owed by Chester as of March 25, 1995. The Company fully provided against this receivable.

During the year ended March 25, 1995, the Company sold inventory totalling \$732,367 to a subsidiary of Chester. In addition, the Company purchased inventory from a subsidiary of Chester for \$204,323.

On March 31, 1995, an agreement was completed whereby seven retail stores were acquired from a subsidiary of Chester. The consideration paid totalled \$772,000 (see Note 9).

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CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 13 COMMITMENTS, CONTINGENCIES AND OTHER

Legal Proceedings

During fiscal 1994, the Company disclosed irregularities in its revenue recognition practices which led to the restatement of the Company's financial statements for fiscal years ended September 30, 1989, 1990, and 1991, and the first quarter of fiscal 1992. As a result, nine class action securities complaints (the "lawsuits") were filed against the Company and certain other persons which were settled in January 1994. Pursuant to the settlement, the Company paid \$2,560,000 in cash in 1995 and issued \$1,000,000 in 7% cumulative convertible preferred stock. The preferred stock is convertible into common stock at a price of \$5.20 per share, and will be callable for five years. The preferred stock has been included in stockholders' equity at March 31, 1996 and at March 25, 1995. Stockholders who purchased CGI's shares between January 3, 1989 and May 7, 1992 have been included within the plaintiff class for purposes of the settlement.

CGI and certain of its former officers and directors were involved in a shareholders' derivative action filed in Delaware Chancery Court. The causes of action asserted included breach of fiduciary duty, breach of duty of care and trust of the Company's shareholders, gross negligence and mismanagement, as well as common law conspiracy and aiding and abetting. The Court granted the Company's motion to dismiss by Opinion and Order dated May 2, 1995. The Company instituted its own action in State Court in New Jersey against its former chief executive officer, Efram Landa. The complaint was filed on May 4, 1995. Mr. Landa answered on October 16, 1995 and asserted counterclaims seeking (a) reimbursement of defense costs in the derivative action and related investigations by the Securities and Exchange Commission ("SEC") and the United States Attorney for the District of New Jersey and (b) damages for breach of his employment contract. This matter was settled by exchange of mutual releases on December 5, 1996.

In the opinion of management, there are no other lawsuits or claims pending against the Company.

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CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 14 INCOME TAXES

Income Tax Expense (benefit) represents United Kingdom corporation tax (benefit) for the years ended March 25, 1995 and March 27, 1994. There were no significant differences between the financial statement and tax basis of assets and liabilities that were expected to give rise to taxable income in the future in view of the Company's substantial tax losses available for

carryforward.

Earnings (loss) before income taxes and preferred stock dividend is attributable to the following sources:

	Years Ended In		
	1996	1995	1994
United Kingdom	\$ 0	\$ (2,786,689)	\$3,213
United States	(596,849)	(595,517)	0
	\$ (596,849)	\$ (3,382,206)	\$3,213

In the United States the Tax Reform Act of 1986 enacted a complex set of rules limiting the utilization of net operating loss carryforwards to offset future taxable income following a corporate ownership change. The Company's ability to utilize its NOL carryforwards is limited following a change in ownership in excess of fifty percentage points. The Company has fully reserved the balance of tax benefits of its operating losses because the likelihood of realization of the tax benefits cannot be determined.

The Company is delinquent in the filing of Federal and State Income Tax returns for the fiscal year ended September 30, 1994, short period ended March 25, 1995 and the fiscal year ended March 31, 1996.

NOTE 15 S.E.C. FILINGS

The Company is delinquent in its filing of the following reports with the S.E.C:

- \* Annual Report on Form 10-K for the fiscal year ended March 31, 1996.
- \* Quarterly Report on Form IO-Q for the quarter ended June 30, 1996.
- \* Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.
- \* Quarterly Report on Form 10-Q for the quarter ended December 31, 1996.

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CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 16 SUBSEQUENT EVENTS

Transfer of Pledged Securities

Effective January 30, 1997 the Company entered into a Stock Purchase Agreement with the Bank of Scotland and twelve unrelated persons whereby 1,042,250 of the 1,097,250 shares of the Company's common stock pledged to the Bank of Scotland by Brian J. Baylis and Susan A.M. Crisp to secure certain debts of Corniche Distribution Limited and subsidiaries to the Bank of Scotland were sold by the Bank of Scotland following a default in the

obligation secured by the pledge to such twelve persons for an aggregate consideration of \$125,070.

#### Mutual Release

On January 30, 1997 the Company paid the Bank of Scotland \$89,374.49 in full satisfaction of all principal and interest due under a Promissory Note dated February 1996 to the Bank of Scotland in the principal amount of fifty thousand sterling (see Note 6). In consideration thereof, the parties executed a Mutual Release dated as of January 30, 1997 whereby the Bank of Scotland released the Company and James J. Fyfe, the Company's sole officer and director, from all liabilities, accounts, courses of action, sums of money, reckonings, contracts, controversies, agreements, damages, judgements, executions, claims, demands, debts, obligations, promises, covenants, actions and undertakings which the Company or James J. Fyfe the Bank of Scotland ever had at the time of the release or could thereafter have by reason of any matter up to and through the date of the release and the Company and James J. Fyfe released the Bank of Scotland in similar fashion.

#### Equity Offerings

During the period July 1996 through December 1996 the Company engaged in a private offering of securities pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended. The offering of up to \$300,000 - was conducted on a "best efforts" basis through Robert M. Cohen & Co., Inc. ("RMCC"), a New York based broker-dealer and was offered and sold in the form of \$25,000 units. Each unit consisted of one \$25,000 face amount 90-day, 8% promissory note and one redeemable common stock purchase warrant to purchase 60,000 shares of the Company's common stock at a price of \$ .50 per share during a period of three years from issuance. The offering was terminated in January 1997 upon sale of 4 units resulting in \$100,000 in gross proceeds. In connection with such offering, RMCC was paid sales commissions equal to 10% of the aggregate purchase price of the units sold resulting in aggregate sales commissions of \$10,000.

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#### CORNICHE GROUP INCORPORATED NOTES TO FINANCIAL STATEMENTS

#### NOTE 16 SUBSEQUENT EVENTS (Cont'd)

##### Equity Offerings (Cont'd)

During the period January 1997 through date hereof, the Company engaged in a private offering of securities pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended. The offering consists of up to 19 units being sold at an offering price of \$25,000 per unit. Each unit consists of one \$25,000 face amount 90-day, 8% promissory note and one redeemable common stock purchase warrant to purchase 60,000 shares of the Company's common stock at a price of \$ .50 per share during a period of three years from issuance. The offering of up to \$475,000 is being conducted on a "best efforts" basis through RMCC. In connection with such ' offering, RMCC is being paid sales commissions equal to 10% of the purchase price for each unit sold or \$2,500 per unit. To date RMCC has sold 14 units.

##### Settlement of Accounts Payable

The Company has settled its Accounts Payable with its major creditors. The settlement resulted in a reduction of selling general and administrative expenses in the amount of \$175,637.

## Settlement of Note Payable

The Company has settled its Note Payable for \$5,000 in full satisfaction of all remaining sums due including accrued interest. The adjustment has been reflected in the Financial Statements.

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### CORNICHE GROUP INCORPORATED SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS FOR THE YEARS ENDED MARCH 31, 1996, MARCH 25, 1995 AND MARCH 27, 1994

COL. A	COL. B.	COL. C ADDITIONS		COL. D	COL. E
Description	Balance at Beginning of Period	Charges to Costs and expenses	Acquisitions of Subsidiaries	Deductions Describe	Balance at End of Period
Allowance for Doubtful Account					
1994	\$ 0	\$ 71,832	\$59,860	\$ 0	\$131,692
1995	131,692	349,231	0	135,815 (1)	345,108
1996	345,108	0	0	345,108 (3)	0
Reserve against Notes Receivable					
in Default					
1994	0	0	0	0	0
1995	0	0	0	0	0
1996	0	75,000	0	0	75,000
Inventory Reserve					
1994	0	56,659	29,930	0	86,589
1995	86,589	9,758	0	56,123 (2)	40,224
1996	40,224	0	0	40,224 (3)	0

- (1) Elimination of reserve on bad debt write-off.  
(2) Release of provision no longer required.  
(3) Elimination of UK subsidiary following receivership proceeding.

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#### ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On April 5, 1995, Registrant terminated its relationship with the accounting firm of Ernst & Young, LLP ("Ernst & Young") as Registrant's independent auditors responsible for the audit of Registrant's financial statements. This action was recommended by Registrant's Audit Committee and approved by its Board of Directors. The decision to terminate Ernst & Young as Registrant's principal independent auditors was made because another accounting firm, Coopers & Lybrand LLP ("Coopers"), had been the auditor for Registrant's then recently-acquired subsidiary, CDL, for some time.

In connection with the audits of Registrant's financial statements for the fiscal year ended September 30, 1994, and in the subsequent interim period, there were no disagreements with Ernst & Young on any matters of accounting principles or practices, financial statement disclosure, or auditing scope and procedures which, if not resolved to the satisfaction of Ernst & Young, would have caused Ernst & Young to make reference to such matter in their report. Ernst & Young's report on Registrant's financial statements for its fiscal year ended September 30, 1994 expressed an unqualified opinion on those financial statements based on their audit but included an explanatory paragraph noting a "substantial doubt about Registrant's ability to continue as a going concern" based upon the several matters summarized in such report.

During the period April 1995 through on or about July 6, 1995 Registrant negotiated with Coopers regarding the preparation of Registrant's audited financial statements for the year ended March 25, 1995. Coopers subsequently declined to act as Registrant's independent auditors even though Coopers' U.K. office continued to act as auditor for Registrant's subsidiary, CDL, and provided audited financial statements for CDL for the year ended March 25, 1995. Coopers decision not to act as Registrant's auditors was not based on any disagreements with Registrant on any matters of accounting principles or practices, financial statement disclosure or auditing scope and procedures which, if not resolved to Coopers satisfaction, would have caused Coopers to make reference to such matters in their reports. Coopers never offered Registrant a formal reason for declining to act as Registrant's auditors although Registrant was led to believe that Coopers' U.S. offices did not want to act for a company with a recent experience of significant losses coupled with prior shareholder litigation.

On July 20, 1995, Registrant appointed Mahoney Cohen & Company, PC ("Mahoney Cohen") as Registrant's independent auditors responsible for the audit of Registrant's financial statements. This action was recommended by Registrant's Audit Committee and approved by its Board of Directors. Registrant had not consulted Mahoney Cohen regarding any accounting or financial reporting issues prior to that firm being retained by Registrant.

In connection with its audit of Registrant's financial statements for the fiscal year ended March 25, 1995, and in the subsequent interim period through on or about April 17, 1997 when the relationship was formally terminated and it resigned as Registrant's independent auditors, there were no disagreements between Mahoney Cohen and Registrant on any matters of accounting principles or practices, financial statement disclosure or auditing scope and procedures which, if not resolved to the satisfaction of Mahoney Cohen, would have caused Mahoney Cohen to make reference to such matters in their report. Mahoney Cohen's report on Registrant's financial statements for the fiscal year ended March 25, 1995 expressed an unqualified opinion on those financial statements based upon their audit but included a paragraph noting a "substantial doubt about Registrant's ability to continue as a going concern" based upon the several matters summarized in such report.

In February 1997 Registrant appointed Simontacchi & Co., P.A. ("Simontacchi") as Registrant's independent auditors responsible for the audit of Registrant's financial statements. This action was approved by Registrant's board of directors. Registrant had not consulted Simontacchi regarding any accounting or financial reporting issues prior to that firm being retained by Registrant.

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### PART III

#### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

##### Directors

The following sets forth, as at March 31, 1996, the directors of Registrant, their respective ages, the year in which each was first elected or appointed a director, and any other office in Registrant held by each director. Each director holds office until the next annual meeting of shareholders and until their successors have been elected and qualified.

Other Offices

Director



Name	Held	Age	Since
James J. Fyfe	Vice President, Chief Operating Officer	42	1995
Mathew P. Pazaryna	None	54	1993

In September 1996, Mathew P. Pazaryna ceased all his activities relating to his engagement as a director of Registrant. Efforts to contact him proved unsuccessful and consequently, his association with Registrant was terminated. Although no written resignation was provided to Registrant by Mr. Pazaryna, Registrant, based upon the actions of Mr. Pazaryna, treated Mr. Pazaryna as having resigned effective September 1996. During the fiscal year ended March 31, 1996 several other directors of Registrant resigned their positions as such including George Lombardi (January 1996), Manfred Pfeiler (May 28, 1995), Werner Haas (June 27, 1995), Brian J. Baylis (March 6, 1996), and Susan A.M. Crisp (March 6, 1996). None of the foregoing resignations were the result of any disagreements with Registrant on any matter relating to Registrant's operations, policies or practices. The resignations of Brian J. Baylis and Susan A.M. Crisp were the result of the receivership proceedings instituted against Registrant's operating subsidiaries.

#### Executive Officers

The following sets forth the executive officers of Registrant, their respective ages, the year in which each was first appointed an executive officer of Registrant and all positions and offices in Registrant held by each such person as at March 31, 1996.

Name	Offices Held	Age	Office Held Since
James J. Fyfe	Vice President	42	May 1995

During the fiscal year ended March 31, 1996 all of Registrant's executive officers, with the exception of James J. Fyfe, resigned. Brian J. Baylis and Susan A. M. Crisp resigned on March 6, 1996 as the result of the receivership proceedings instituted against Registrant's operating subsidiaries. At the time of their resignations, Mr. Baylis had been serving as Registrant's president and chief executive and Ms. Crisp had been serving as Registrant's vice president for finance and administration, chief financial officer, treasurer and secretary. Mr. Baylis and Ms. Crisp had been serving in such capacities as of March 25, 1995 when they replaced Werner Haas and George Lombardi, respectively, following Registrant's sale of its medical imaging products subsidiary, FMI, to Chester.

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#### Family Relationships

No family relationship exists between any director, executive officer of Registrant or any person contemplated to become such.

#### Business Experience

The following summarizes the occupation and business experience during at least the five years preceding March 31, 1996 of each person who served as a director and/or executive officer of Registrant at March 31, 1996.

JAMES J. FYFE has been a director, vice president and the chief operating officer of Registrant since May 1995. From January 1991 to May 1995, he was an independent business consultant. Prior to January 1991 he was chairman and chief executive officer of the Lewis Group, a UK based chain of department stores and specialty retail outlets.

MATHEW P. PAZARYNA was a director of Registrant from December 1993 until September 1996. From May 1995 through September 1996, Mr. Pazaryna was an independent business consultant. From 1992 until April 1995, he was the senior vice president and chief financial officer of Bio-Technology General Corp. From 1966 until 1992, he held positions in finance, accounting, and strategic planning for several subsidiaries and divisions of Johnson & Johnson, a consumer products manufacturer.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth the aggregate compensation paid during the three years ended March 31, 1996 to each person who served as Registrant's Chief Executive Officer during fiscal 1996 and any other executive officer of Registrant earning in excess of \$100,000 for services rendered during fiscal 1996.

Name and Principal Position	Year	Summary Compensation Table						All Other Compensation (\$ (2))
		Annual Compensation		Other Annual Compensation (\$ (1))	Long-Term Compensation Awards Payouts			
		Salary (\$)	Bonus (\$)		Rest. Stock Awards (\$)	Options SARs (#)	LTIP Payouts (\$)	
Brian J. Baylis	1996	79,335	0	10,311	0	1,500	0	0
CEO(3)	1995	78,200	0	16,198	0	0	0	17,204
	1994	37,500	0	9,808	0	0	0	16,500

- (1) Includes car allowance.
- (2) Includes pension contributions.
- (3) Compensation includes amounts paid to Mr. Baylis by CDL and its subsidiaries prior to their acquisition by Registrant in March 1995. Mr. Baylis resigned as Registrant's chief executive officer on March 6, 1996.

Option/SAR Grants During The Fiscal Year Ended March 31, 1996  
Individual Grants

Name	Number Shares of Common Stock Underlying Options/SARs Granted (#)	% of Total Options/SARs Granted to Employees in Fiscal Year	Exercise Price (\$/Sh)	Expiration Date
Brian J. Baylis	1,500	16.67%	.48	June 6, 1996

Aggregate Options/SAR Exercises During Fiscal Year Ended March 31, 1996  
and Fiscal Year-End Options/SAR/Values

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Unexercised Options/SARs At FY-End (#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options/SARs At FY-End (\$) Exercisable/ Unexercisable
Brian J. Baylis	0	0	1,500 (unexercisable)	N/A

Compensation of Directors

Directors who are not full-time members of management receive \$300 per Board of Directors meeting attended, in addition to reimbursement of travel expenses. Directors are also compensated for special assignments from time to time. No special compensation was paid in fiscal 1996.

All directors receive options to purchase 1,500 shares of Registrant's common stock each May under Registrant's 1992 Stock Option Plan for Directors.

Compliance with Section 16(a) of the Exchange Act

Any person who is an officer, director, or the beneficial owner, directly or indirectly, of more than 10% of the outstanding common stock of Registrant is required under Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") to file certain reports with the Securities and Exchange Commission (the "Commission") disclosing his or her holdings or transactions in any securities of Registrant. For purposes of this discussion, all such persons required to file such reports will be referred to as "Reporting Persons". Every Reporting Person must file an initial statement of his or her beneficial ownership of Registrant's securities on the Commission's Form 3 within ten days after he or she becomes a Reporting Person. Thereafter (with certain limited exceptions), all changes in his or her beneficial ownership of Registrant's securities must be reported on the Commission's Form 4 on or before the 10th day after the end of the month in which such change occurred. Certain changes in beneficial ownership are exempt from the

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Form 4 reporting requirements, but are required to be reported on a Form 5 within 45 days of the end of the fiscal year in which such changes occurred. The Registrant knows of no person who was a Reporting Person during the fiscal year ended March 31, 1996, who has failed to file any reports required to be filed during such period on Forms 3 and 4 with respect to his holdings or transactions in the Company's securities.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS  
AND MANAGEMENT

Security Ownership of Certain Beneficial Owners

As of March 19, 1997 there were no persons known to Registrant to be the beneficial owners of more than 5% of Registrant's common stock, \$.10 par value.

Security Ownership of Management

The following table sets forth information concerning the beneficial ownership of Registrant's common stock, as of March 19, 1997, by (i) each

person who was a director or a nominee to become a director, (ii) Registrant's executive officers, and (iii) all persons who were directors and officers of Registrant, as a group, and the percentage of Registrant's issued and outstanding stock represented by such beneficial ownership.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
James J. Fyfe 145 Route 46 West Wayne, NJ 07974	-0- (1)	-0-
All directors and officers as a group (1 person)	-0- (1)	-0-

(1) Does not include 1,500 shares of common stock which may be issued to Mr. Fyfe upon the exercise of 1,500 stock options issued to Mr. Fyfe as of May 1996 in connection with his services as a director of Registrant. These options were issued in connection with Registrant's 1992 Stock Option Plan and are not exercisable until May 1997. Each option is exercisable at an exercise price of \$.40625 per share.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

##### Transactions With Management and Others

During the fiscal year ended March 31, 1996 and all subsequent periods there have been no material transactions between Registrant and any member of management or any principal shareholder of Registrant.

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#### PART IV

#### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

##### Financial Statements

The financial statements filed as a part of this report are as follows:

Report of independent accountants

Balance Sheets - March 31, 1996 and March 25, 1995

Statements of Operations - Years ended March 31, 1996,  
March 25, 1995 and March 27, 1994

Statement of Changes in Stockholders' (Deficiency)/Equity -  
Years ended March 31, 1996, March 25, 1995 and March 27, 1994

Statements of Cash Flows - Years ended March 31, 1996,  
March 25, 1995 and March 27, 1994

Notes to consolidated financial statements

##### Financial Statement Schedules

The financial statement schedule filed as a part of this report is as follows:

Valuation and Qualifying Accounts for the years ended March 31, 1996,  
March 25, 1995 and March 27, 1994.

Other financial statement schedules have been omitted for the reason that they are not required or are not applicable, or the required information is shown in the financial statements or notes thereto.

## Exhibits

The exhibits filed as a part of this report are as follows:

		Exhibit No. as filed with registration statement or report specified below
3	(a) Certificate of Incorporation filed September 18, 1980 (1)	3
	(b) Amendment to Certificate of Incorporation filed September 29, 1980 (1)	3
	(c) Amendment to Certificate of Incorporation filed July 28, 1983 (2)	3(b)
	(d) Amendment to Certificate of Incorporation filed February 10, 1984 (2)	3(d)
	(e) Amendment to Certificate of Incorporation filed March 31, 1986 (3)	3(e)
	(f) Amendment to Certificate of Incorporation filed March 23, 1987 (4)	3(g)
	(g) Amendment to Certificate of Incorporation filed June 12, 1990 (5)	3.8
	(h) Amendment to Certificate of Incorporation filed September 27, 1991 (6)	3.9
	(i) Certificate of Designation filed November 12, 1984 (7)	3.8
	(j) Amendment to Certificate of Incorporation filed September 28, 1995	*
	(k) By-laws of the Registrant, as amended on December 22, 1983 (2)	3(c)
	(l) By-laws of the Registrant, as amended on December 5, 1985 (3)	3(f)
	(m) By-laws of the Registrant, as amended on April 25, 1991 (6)	3.10
4	(a) Form of Underwriter's Warrant (6)	4.9.1
	(b) Form of Promissory Note - 1996 Offering	*
	(c) Form of Promissory Note - 1997 Offering	*
	(d) Form of Common Stock Purchase Warrant - 1996 Offering	*
	(e) Form of Common Stock Purchase Warrant - 1997 Offering	*
10	(a) Form of Financial Advisory Agreement between Registrant and Commonwealth Associates (6)	10.13
	(b) Underwriting Agreement among Registrant, Commonwealth Associates and Selling Stockholders, dated November 15, 1991 (8)	10.14
	(c) 1986 Stock Option Plan, as amended (7)	10.6
	(d) 1992 Stock Option Plan (9)	B
	(e) Novation Agreement relating to a Share Sale and Purchase Agreement dated April 24, 1994 among Brian John Baylis, Susan Ann Meadows Crisp and Fidelity Medical, Inc. dated March 2, 1995 (10)	2(a)
	(f) Supplemental Agreement relating to a Share Sale and Purchase Agreement dated April 24, 1994 among Brian John Baylis, Susan Ann Meadows Crisp and Fidelity Medical, Inc. dated March 2, 1995 (10)	2(b)
	(g) Agreement for sale and purchase of the entire issued share capital of Corniche Distribution Limited among	

- (h) Brian John Baylis, Susan Ann Meadows Crisp and Fidelity Medical, Inc. dated March 2, 1995 (10) 2(c)
- (i) Letter of Agreement between Fidelity Medical, Inc. and NWCM Limited dated as of March 6, 1995 (10) 2(d)
- (j) Supplemental Agreement with respect to Options dated March 2, 1995 (10) 9(b)
- (k) Stock Purchase Agreement dated as of March 25, 1995 by and between Fidelity Medical, Inc. and Chester Holdings, Ltd (11) 2(a)
- (l) Promissory Note and Option Agreement dated as of March 25, 1995 from Chester Holdings, Ltd. to Fidelity Medical, Inc. (11) 2(b)

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- (1) Form of Warrant of Fidelity Medical, Inc. to be issued to employees of Fidelity Medical, Inc., a New Jersey corporation, in replacement of stock options (11) 2(c)
- (m) Stock Purchase Agreement dated as of January 30, 1997 by and among Registrant, the Bank of Scotland and 12 Buyers \*
- (n) Mutual Release dated as of January 30, 1997 by and among Registrant, James Fyfe and the Bank of Scotland \*
- 27 Financial Data Schedule
- 99 (a) Opinion Letter of Smithsons Solicitors dated March 7, 1997 regarding the status of Registrant's former subsidiaries as the result of the February 1996 receivership proceedings. \*
- 99 (b) Letter of James J. Fyfe Regarding Unavailability of Re-signed Audit Reports from Coopers & Lybrand LLP \*
- 99 (c) Letter of Mahoney Cohen Rashba & Pokart, CPA, PC Regarding Their Inability to Re-Sign Their July 25, 1995 Audit Report \*

\* Filed herewith

Notes:

(1) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the registration statement of Registrant on Form S-18, File No. 2-69627, which exhibit is incorporated herein by reference.

(2) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the registration statement of Registrant on Form S-2, File No. 2-88712, which exhibit is incorporated herein by reference.

(3) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the registration statement of Registrant on Form S-2, File No. 33-4458, which exhibit is incorporated herein by reference.

(4) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the annual report of Registrant on Form 10-K for the year ended September 30, 1987, which exhibit is incorporated herein by reference.

(5) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the registration statement of Registrant on Form S-3, File No. 33-42287, which exhibit is incorporated herein by reference.

(6) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the registration statement of Registrant on Form S-1, File No. 33-42154, which exhibit is incorporated herein by reference.

(7) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the annual report of Registrant on Form 10-K for the

year ended September 30, 1994, which exhibit is incorporated herein by reference.

(8) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the annual report of Registrant on Form 10-K for the year ended September 30, 1991, which exhibit is incorporated herein by reference.

(9) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the proxy statement of Registrant dated March 30, 1992, which exhibit is incorporated herein by reference.

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(10) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the current report of Registrant on Form 8-K, dated March 2, 1995, which exhibit is incorporated herein by reference.

(11) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the current report of Registrant on Form 8-K, dated April 5, 1995, which exhibit is incorporated herein by reference.

#### Reports on Form 8-K

No reports on Form 8-K have been filed by Registrant during the last quarter of the period covered by this report other than Registrant's Report on Form 8-K dated February 7, 1996 reporting on Item 3, Bankruptcy or Receivership, and relating to the appointment of a receiver for Registrant's operating subsidiaries, Chessbourne and TSCL.

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#### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CORNICHE GROUP INCORPORATED

By /s/ James J. Fyfe  
JAMES J. FYFE, Vice President

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of Registrant and in the capacities and on the dates indicated:

Signatures	Title	Date
Principal Executive Officer:		
/s/ James J. Fyfe JAMES J. FYFE	Vice President	April 24, 1997
Principal Financial and Accounting Officer:		
/s/ James J. Fyfe JAMES J. FYFE	Vice President	April 24, 1997

A Majority of the board of directors:

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EXHIBITS

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CORNICHE GROUP INCORPORATED

FORM 10-K  
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Exhibit Index

The exhibits indicated below as having heretofore been filed with another document with the Securities and Exchange Commission are incorporated herein by reference.

		Exhibit No. as filed with registration statement or report specified below	Page No.
3	(a)	Certificate of Incorporation filed September 18, 1980 (1)	3
	(b)	Amendment to Certificate of Incorporation filed September 29, 1980 (1)	3
	(c)	Amendment to Certificate of Incorporation filed July 28, 1983 (2)	3(b)
	(d)	Amendment to Certificate of Incorporation filed February 10, 1984 (2)	3(d)
	(e)	Amendment to Certificate of Incorporation filed March 31, 1986 (3)	3(e)
	(f)	Amendment to Certificate of Incorporation filed March 23, 1987 (4)	3(g)
	(g)	Amendment to Certificate of Incorporation filed June 12, 1990 (5)	3.8
	(h)	Amendment to Certificate of Incorporation filed September 27, 1991 (6)	3.9
	(i)	Certificate of Designation filed November 12, 1984 (7)	3.8
	(j)	Amendment to Certificate of Incorporation filed September 28, 1995	*
	(k)	By-laws of the Registrant, as amended on December 22, 1983(2)	3(c)
	(l)	By-laws of the Registrant, as amended on December 5, 1985(3)	3(f)
	(m)	By-laws of the Registrant, as amended on April 25, 1991(6)	3.10
4	(a)	Form of Underwriter's Warrant (6)	4.9
	(b)	Form of Promissory Note - 1996 Offering	*
	(c)	Form of Promissory Note - 1997 Offering	*
	(d)	Form of Common Stock Purchase Warrant - 1996 Offering	*
	(e)	Form of Common Stock Purchase Warrant - 1997 Offering	*

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10	(a)	Form of Financial Advisory Agreement between Registrant and Commonwealth Associates (6)	10.13
	(b)	Underwriting Agreement among Registrant, Commonwealth Associates and Selling Stockholders, dated November 15, 1991 (8)	10.14
	(c)	1986 Stock Option Plan, as amended (7)	10.6
	(d)	1992 Stock Option Plan (9)	B
	(e)	Novation Agreement relating to a Share Sale and Purchase Agreement dated April 24, 1994 among Brian John Baylis, Susan Ann Meadows Crisp and Fidelity	



	Medical, Inc. dated March 2, 1995 (10)	2 (a)	
(f)	Supplemental Agreement relating to a Share Sale and Purchase Agreement dated April 24, 1994 among Brian John Baylis, Susan Ann Meadows Crisp and Fidelity Medical, Inc. dated March 2, 1995 (10)	2 (b)	
(g)	Agreement for sale and purchase of the entire issued share capital of Corniche Distribution Limited among Brian John Baylis, Susan Ann Meadows Crisp and Fidelity Medical, Inc. dated March 2, 1995 (10)	2 (c)	
(h)	Letter of Agreement between Fidelity Medical, Inc. and NWCM Limited dated as of March 6, 1995 (10)	2 (d)	
(i)	Supplemental Agreement with respect to Options dated March 2, 1995 (10)	9 (b)	
(j)	Stock Purchase Agreement dated as of March 25, 1995 by and between Fidelity Medical, Inc. and Chester Holdings, Ltd (11)	2 (a)	
(k)	Promissory Note and Option Agreement dated as of March 25, 1995 from Chester Holdings, Ltd. to Fidelity Medical, Inc. (11)	2 (b)	
(l)	Form of Warrant of Fidelity Medical, Inc. to be issued to employees of Fidelity Medical, Inc., a New Jersey corporation, in replacement of stock options (11)	2 (c)	
(m)	Stock Purchase Agreement dated as of January 30, 1997 by and among Registrant, the Bank of Scotland and 12 Buyers	*	93
(n)	Mutual Release dated as of January 30, 1997 by and among Registrant, James Fyfe and the Bank of Scotland	*	115
27	Financial Data Schedule	*	118
99	(a) Opinion Letter of Smithsons Solicitors dated March 7, 1997 regarding the status of Registrant's former subsidiaries as the result of the February 1996 receivership proceedings.	*	119
99	(b) Letter of James J. Fyfe Regarding Unavailability of Re-signed Audit Reports from Coopers & Lybrand LLP	*	206
99	(c) Letter of Mahoney Cohen Rashba & Pokart, CPA, PC Regarding Their Inability to Re-Sign Their July 25, 1995 Audit Report	*	210

\* Filed herewith

Notes:

(1) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the registration statement of Registrant on Form S-18, File No. 2-69627, which exhibit is incorporated herein by reference.

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(2) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the registration statement of Registrant on Form S-2, File No. 2-88712, which exhibit is incorporated herein by reference.

(3) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the registration statement of Registrant on Form S-2, File No. 33-4458, which exhibit is incorporated herein by reference.

(4) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the annual report of Registrant on Form 10-K for the year ended September 30, 1987, which exhibit is incorporated herein by reference.

(5) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the registration statement of Registrant on Form S-3, File No. 33-42287, which exhibit is incorporated herein by reference.

(6) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the registration statement of Registrant on Form S-1, File No. 33-42154, which exhibit is incorporated herein by reference.

(7) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the annual report of Registrant on Form 10-K for the year ended September 30, 1994, which exhibit is incorporated herein by reference.

(8) Filed with the Securities and Exchange Commission as an exhibit, numbered

as indicated above, to the annual report of Registrant on Form 10-K for the year ended September 30, 1991, which exhibit is incorporated herein by reference.

(9) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the proxy statement of Registrant dated March 30, 1992, which exhibit is incorporated herein by reference.

(10) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the current report of Registrant on Form 8-K, dated March 2, 1995, which exhibit is incorporated herein by reference.

(11) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the current report of Registrant on Form 8-K, dated April 5, 1995, which exhibit is incorporated herein by reference.

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STATE OF DELAWARE Page 1

OFFICE OF THE SECRETARY OF STATE

I, EDWARD J. FREEL, secretary of state of the state of delaware, do hereby certify the attached is a true copy and correct copy of the certificate of amendment of "fidelity medical, inc.", changing its name from "fidelity medical, inc.", to "corniche group incorporated", filed in this office on the twenty-eighth dat of September, a.d. 1995, at 9 o'clock a.m.

a certified copy of this certificate has been forwarded to the kent county recorder of deeds for recording.

[DELAWARE'S STATE SEAL APPEARS AS WATERMARK]

/s/ Edward J. Freel  
Edward J. Freel, Secretary of State  
AUTHENTICATION: 7659162  
DATE: 09-29-95

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950223828

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CERTIFICATE OF AMENDMENT

OF

CERTIFICATE OF INCORPORATION

OF

FIDELITY MEDICAL, INC.

(Under Section 242 of the General Corporation Law)

The undersigned, being the President and Secretary, respectively, of Fidelity Medical, Inc., a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), do hereby amend and certify as follows:

1. The name of the Corporation is Fidelity Medical, Inc.
2. The Certificate of Incorporation of the Corporation is hereby amended effective October 1, 1995 to effect the following amendments which were set forth in a resolution adopted by the board of directors and adopted by the holders of a majority of the outstanding shares of common stock of the Corporation entitled to vote thereon, in accordance with the provisions of Section 242 of the Delaware General Corporation Law: (a) to change the name of the Corporation, (b) to reduce the number of shares of common stock, par value \$.01 per share ("Common Stock"), issued and outstanding by means of a reverse stock split of one share for every ten shares outstanding on October 1, 1995 (without reducing the number of authorized common shares), and (c) to increase the number of authorized shares of Preferred Stock.

3. To accomplish the second of the foregoing amendments, Article FIRST of the Restated Certificate of Incorporation is hereby amended to change the name of the corporation as follows: "The name of the Corporation is CORNICHE GROUP INCORPORATED."

4. To accomplish the second of the foregoing amendments, Article FOURTH of the Restated Certificate of Incorporation is amended by adding the following clause at the end of such Article, which reads in its entirety as follows:

Immediately prior to the date of filing this Certificate of Amendment, there were 24,083,075 shares of Common Stock outstanding. The Corporation hereby is reducing the number of shares of Common Stock issued and outstanding by means of a reverse stock split of one for every ten shares outstanding on October 1, 1995. Upon surrender to the Corporation of certificates (duly endorsed in blank) representing shares of common Stock to be converted, certificates representing the appropriate number of

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shares of Common Stock will be issued. with respect to any resulting fractional shares, the Corporation shall (i) arrange for the disposition of fractional interests by those entitled thereto and (ii) pay in cash the fair value of fractions of a share as of the time when those entitled to receive such fractions are determined.

5. To accomplish the third of the foregoing amendments, Article FOURTH of the Restated Certificate of Incorporation is restated in its entirety as follows (with the preceding paragraph to follow):

FOURTH: The total number of shares of stock which the Corporation shall have authority to issue is THIRTY FIVE MILLION (35,000,000) consisting of (i) Thirty Million (30,000,000) shares of Common Stock of the par value of \$.10 per share and (ii) Five Million (5,000,000) shares of Preferred Stock of the par value of \$.01 per share.

The designations and the powers, preferences and right, and the qualifications, limitations or restrictions thereof of the Preferred Stock, and the Common Stock are as follows:

A. Preferred Stock.

The Board of Directors is authorized, subject to limitations prescribed by law and the provisions of this Article FOURTH, to provide for the issuance of the Preferred Stock in series and by filing a Certificate pursuant to the Delaware General Corporation Law to establish the number of shares to be included in each such series. The Preferred Stock may be issued either as a class without series, or as so determined from time to time by the Board of Directors, either in whole or in part in one or more series, each series to be appropriately designated by a distinguishing number, letter or title prior to the issue of any shares thereof. Whenever the term "Preferred Stock" is used in this Article FOURTH, it shall be deemed to mean and include Preferred Stock issued as a class without series, or one or more series thereof, or both unless the context shall otherwise require. There is hereby expressly granted to the Board of Directors of the Corporation authority, subject to the limitations provided by law, to fix the voting power, the designations, and the relative preferences, powers, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, of the shares of each series of said Preferred Stock and the variations in the relative powers, rights, preferences and limitations as between series, and to increase the number of shares constituting each series, and to decrease such number of shares (list not to less than tile number of

outstanding shares of the series), in the resolution or resolutions adopted by the Board of Directors providing for the issue of said Preferred stock.

The authority of the Board of Directors of the corporation with respect to each series shall include, but shall not be limited to, the authority to determine the following:

1. The designation of the series;
2. The number of shares initially constituting such series;

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3. The increase, and the decrease to a number not less than the number of the outstanding shares of such series, of the number of shares constituting such series theretofore, fixed;

4. The rate or rates and the times and conditions under which dividends on the shares of such series shall be paid, and, (i) if such dividends are payable in preference to, or in relation to, the dividends payable on any other class or classes of stock, the terms and conditions of such payment, and (ii) if such dividends shall be cumulative, the date or dates from and after which they shall accumulate;

5. Whether or not the shares of such series shall be redeemable, and, if such shares shall be redeemable, the terms and conditions of such redemption, including, but not limited to, the date or dates upon or after which such shares shall be redeemable and the amount per share which shall be payable upon such redemption, which amount may vary under conditions and at different redemption dates;

6. The amount payable on the shares of such series in the event of the dissolution of, or upon any distribution of the assets of, the Corporation;

7. Whether or not the shares of such series may be convertible into, or exchangeable for, shares, of any other class or series and the price or prices and the rates of exchange and the terms of any adjustments to be made in connection with such conversion or exchange;

8. Whether or not the shares of such series shall have voting rights in addition to the voting rights provided by law, and, if such shares shall have such voting rights, the terms and conditions thereof, including but not limited to, the right of the holders of such shares to vote as a separate class either alone or with the holders of shares of one or more other series of Preferred Stock and the right to have more or less than one vote per share;

9. Whether or not a purchase fund shall be provided for the shares of such series, and, if such a purchase fund shall be provided, the terms and conditions thereof;

10. Whether or not a sinking fund shall be provided for the redemption of the shares of such series and if such a sinking fund shall be provided, the terms and conditions thereof; and

11. Any other powers, preferences and relative, participating, optional, or other special rights, and qualifications, limitations or restrictions thereof, as shall not be inconsistent with the provisions of this Article FOURTH or the limitations provided by law.

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B. Common Stock.

1. Subject to the rights of the Preferred stockholders, the holders of the Common Stock shall be entitled to receive such dividends as may be declared thereon by the Board of Directors of the Corporation in its discretion, from

time to time, out of any funds or assets of the Corporation lawfully available for the payment of such dividends.

2. In the event of any liquidation, dissolution or winding up of the Corporation, or any reduction of its capital, resulting in a distribution of its assets to its stockholders, whether voluntary or involuntary, then, after there shall have been paid or set apart for the holders of the Preferred Stock the full preferential amounts to which they are entitled, the holders of the Common Stock shall be entitled to receive as a class, pro rata, the remaining assets of the Corporation available for distribution to its stockholders.

3. For any and all purposes of this Certificate of Incorporation neither the merger or consolidation of the Corporation into or with any other corporation, nor the merger or consolidation of any other corporation into or with the Corporation, nor a sale, transfer or lease of all or substantially all of the assets of the Corporation, or any other transaction or series of transactions having the effect of a reorganization shall be deemed to be a liquidation, dissolution or winding-up of the Corporation.

4. Except as otherwise expressly provided by, law or in a resolution of the Board of Director, providing voting rights to the holders of the Preferred Stock, the holders of the Common Stock shall possess exclusive voting power for the election of directors and for all other purposes and each holder thereof shall be entitled to one vote for each share thereof.

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IN WITNESS WHEREOF, the undersigned being duly elected officers of the above-named corporation, have executed this Certificate of Amendment and affirm the statements herein contained on this 28th day of September, 1995.

FIDELITY MEDICAL INC.

By: /s/ Brian J. Baylis  
Brian J. Baylis, President

ATTEST:

/s/ Susan A.M. Crisp  
Susan A. M. Crisp, Secretary

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NEITHER THIS PROMISSORY NOTE NOR THE SECURITIES ISSUABLE UPON THE CONVERSION THEREOF HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY STATE SECURITIES LAW, AND MAY BE TRANSFERRED ONLY IF REGISTERED PURSUANT TO THE PROVISIONS OF THAT ACT OR ANY APPLICABLE STATE SECURITIES LAW OR IF AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE

## PROMISSORY NOTE

No. NA- \_\_\_\_\_

\$25,000

Dated: \_\_\_\_\_, 1996

Wayne, New Jersey

FOR VALUE RECEIVED, CORNICHE GROUP INCORPORATED, a Delaware corporation (hereinafter called the "Company"), hereby promises to pay

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Street and No.)

\_\_\_\_\_  
(City, State and Zip Code)

\_\_\_\_\_  
(Social Security No. or Federal Employer ID No.)

\_\_\_\_\_  
(Date of Birth)

(herein called the "Holder"), or to his order, the sum of TWENTY-FIVE THOUSAND DOLLARS (\$25,000), together with interest thereon at the rate of eight percent (8%) per annum from the date hereof on \_\_\_\_\_, \_\_\_\_\_. Interest shall be payable at maturity, and shall be computed on the balance of principal outstanding from time to time based on actual number of days elapsed.

Both principal hereof and interest thereon are payable in lawful money of the United States of America at the Holder's address above or such other address as the Holder shall designate in writing delivered to the Company from time to time.

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## ARTICLE ONE

## EVENTS OF DEFAULT

If any of the following events of default (each, an "Event of Default") shall occur, the Holder hereof, at its option, may declare the sum of principal then remaining unpaid hereon immediately due and payable.

1.01 Event of Default

For purposes of this instrument, an Event of Default will be deemed to have occurred if:

(a) the Company shall fail to pay the principal of or interest due on this Promissory Note on the due date and such non-payment shall continue for a period of five (5) days from the date due; or

(b) a receiver, liquidator or trustee of the Company or of any property of the Company, shall be appointed by court order and such appointment shall remain in effect for 60 days; or the Company shall be adjudged bankrupt or insolvent; or any of the property of the Company shall be sequestered by court order and such order shall remain in effect for more than 60 days; or a petition to reorganize the Company under any bankruptcy, reorganization or insolvency law shall be filed against the Company and shall not be dismissed within 60 days after such filing; or

(c) the Company shall file a petition in voluntary bankruptcy or requesting reorganization under any provision of any bankruptcy, reorganization or insolvency law or shall consent to the filing of any petition against it under any such law; or

(d) the Company shall make a formal or informal assignment for the benefit of its creditors or admit in writing its inability to pay its debts generally when they become due or shall consent to the appointment of a receiver, trustee or liquidator of the Company or of all or part of the property of the Company after the date hereof.

#### 1.02 Remedies on Default

If an Event of Default shall have occurred, in addition to its rights and remedies under this Promissory Note, and any other instruments, the Holder may at its option by written notice to the Company declare all indebtedness to the Holder hereunder to be due and payable, together with all reasonable expenses of enforcement of the Holder's rights including legal fees and related disbursements, whereupon the same shall forthwith mature and become due and payable without any further notice to and without presentment, demand, protest or notice of protest, all of which are hereby waived.

The Holder may proceed to protect and enforce its rights by suit in equity, action at law or other appropriate proceedings, including, without limitation action for specific performance of any agreement contained herein or in any other instrument, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any right, power or remedy granted hereby or by law, equity or otherwise.

### ARTICLE TWO

#### CONVERSION PRIVILEGE

The Company hereby grants to the Holder of this Promissory Note the right to convert the principal and interest on this Promissory Note into fully paid and non-assessable shares of the Company's Common Stock, \$0.10 par value, at the "Conversion Price" per share. The "Conversion Price" is defined as ten cents (\$0.10).

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The right to convert may be exercised at any time after an Event of Default up to and including \_\_\_\_\_, \_\_\_\_\_. The right to convert may only be exercised with respect to the entire amount due on this Promissory Note at the exercise date. The Company will reserve 300,000 (three hundred thousand) shares of its Common Stock for the foregoing purpose.

#### 2.01 Exercise Procedure

(a) The Conversion privilege shall be deemed to have been



exercised (the "Exercise Time") when the Company shall have received all of the following:

(i) a properly completed Exercise Agreement in the form set out in Section 2.02 below executed by the Holder; and

(ii) this Promissory Note.

(b) Certificates for the underlying shares acquired shall be delivered to the purchaser within 20 days after the Exercise Time.

## 2.02 Exercise Agreement

Upon exercise, the undersigned shall execute an agreement stating as follows: "An event of default has occurred which has not been cured and therefore the undersigned irrevocably elects to subscribe for and purchase shares of the Company's Common Stock as provided in the Promissory Note, and makes payment in full therefor by conversion. The undersigned hereby represents and warrants that the shares of Common Stock to be acquired upon exercise are being acquired for its own account, without any present intention of reoffering, reselling or distributing such Common Stock, except to the extent permitted under the Securities Act of 1993, as amended".

## 2.03 Changes in Capital Structure

(a) In the event that the outstanding shares of Common Stock of the Company are hereafter increased or decreased, or changed into or exchanged for a different number or kind of shares or other securities of the Company, or of any other corporation, by reason of reorganization, merger, consolidation, recapitalization, reclassification, stock split-up, combination of shares, or dividends payable in capital stock of the Company, appropriate adjustments shall be made by the Company in the number and kind of shares to be purchased upon exercise of this conversion right to the end that the Holder's proportionate interest shall not be altered. All such adjustments made by the Board of Directors of the Company shall be conclusive, absent manifest error.

(b) Until this Promissory Note has been paid in full or the conversion privilege has been exercised, the Company will not issue any shares of its Common Stock for a price less than the then fair market value of the stock.

## ARTICLE THREE

### RESTRICTIONS ON TRANSFER

The Holder, by execution of the acknowledgment at the end of this Promissory Note, acknowledges that it understands that the Company will rely upon the representations set forth herein in issuing the Promissory Note and the Underlying Shares, if any, without registration under the Securities Act of 1933, as amended, the New Jersey Uniform Securities Law, or any other state securities law.

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Accordingly, the Holder, by acceptance of the Promissory Note, represents and warrants that this offering is being made pursuant to the exemption from registration with the Securities and Exchange Commission ("SEC") afforded by Sections 3(b) and/or 4(2) of the Securities Act of 1933, as amended ("Act") relating to transactions by an issuer not involving any public offering. The Holder understands that the Company has no present intention, and is under no obligation to, register the Promissory Note or the Underlying Shares under the Act, or any applicable state law.

The Holder understands that due to lack of registration, the Promissory Note and the Underlying Shares will be restricted securities, that the holder

must bear the economic risk of the investment for an indefinite period, that the Promissory Note and the Underlying Shares may not be sold, pledged or otherwise disposed of unless they are registered under the Act and any applicable state securities law, or an exemption from such laws is available and the Company is supplied with an opinion of counsel to the Holder, satisfactory to the Company, that registration is not required under any of such laws, and in the opinion of counsel for the Company, such sale, transfer, or pledge will not cause the Company to fail to be in compliance with the exemption provisions under which the Promissory Note or the Underlying Shares were issued.

The Holder has such knowledge and experience in financial and business affairs that it is capable of evaluating the merits and risks of the prospective investment.

The Holder is able to bear the economic risk of this investment. An investment in the Promissory Note and the Underlying Shares is suitable for the Holder in light of its financial position and investment objectives, with full knowledge that this investment could result in a complete loss. The Holder recognizes that the Promissory Note represents a HIGH-RISK, SPECULATIVE INVESTMENT and that there is no assurance that any return will be received thereon. The Holder can afford a total loss of this investment.

The Holder is an Accredited Investor" as that term is defined in Regulation D under the Securities Act of 1933 as amended.

The Promissory Note is being, and the Underlying Shares will be, purchased for the Holder's own account for investment purposes and not with a view to the resale or distribution thereof by the Holder.

The Holder has reviewed the Company's Annual Report on Form 10-K for the year ended March 25, 1995; its quarterly reports on Form 10-Q for the quarters ended June 17, October 6, and December 30, 1995; its proxy statement for an annual meeting held on September 28, 1995; and all current reports on Form 8-K filed on or after March 25, 1995, including but not limited to, the Form 8-K filed on February 12, 1996. The Holder has also been informed that the proceeds of this investment shall be used for general corporate purposes, including the settlement of accrued past due liabilities due to the Company's professional advisors, suppliers of goods and corporate services, director and officer liability insurance premiums and director and officer fees and expenses. Prior to the date hereof, the Holder has had ample opportunity to ask questions of and receive answers from the officers and directors of the Company, concerning the Company, the Promissory Note and the Company's business and to obtain any additional information which was considered necessary to verify the information supplied by those individuals.

The Holder understands that a restrictive legend in substantially the following form shall be placed on the certificates representing the Underlying Shares:

"The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended ("Act"). Such shares have been acquired for investment and may not be publicly offered or sold in the absence of (1) an effective registration for such shares under the Act; (2) opinions of counsel to the Company and to the holder hereof and presented to the Company prior to any proposed transfer to the effect that registration is not required under the Act; or (3) a letter presented to the Company, prior to any proposed

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transfer, from the staff of the Securities and Exchange Commission, to the effect that it will not take enforcement action if the proposed transfer is made without registration under the Act"

Except as set forth in the documents which the Holder has reviewed, no representations or warranties have been made to the Holder by the Company. In entering into this transaction, the Holder is not relying upon any

information, other than the results of its own independent investigation.

#### ARTICLE FOUR

##### PIGGY-BACK REGISTRATION RIGHTS

If this Promissory Note has been converted to Common Stock, and if the Company proposes to file a registration statement under the Securities Act with respect to an offering by the Company of Company Common Stock (other than a registration statement on Form S-4 or S-8 or any form substituting therefor) the Company shall in each such case give written notice of such proposed filing and the proposed method of distribution of securities covered by such proposed filing to the Holder of shares issued upon conversion of this Promissory Note at least ten (10) days before the anticipated filing date. The Company will use its best efforts to include in the registration statement proposed to be filed by the Company all shares issued upon conversion hereof and other Promissory Notes in this series with respect to which the Company has received written requests for inclusion therein prior to the anticipated filing date. Notwithstanding the foregoing, if the managing underwriter or underwriters of such offering deliver a written opinion to the holders of securities to be included therein to the effect that the total amount of securities intended to be included in such offering would materially and adversely affect the success of such offering, then the amount of securities to be offered for the account of the participating holders shall be reduced (pro rata among the participating holders) to the extent necessary to reduce the total amount of securities to be included in such offering to the amount recommended by such managing underwriter or underwriters. The Holder shall provide the Company and any underwriters with any further documents and assurances reasonably required to effect such registration. Notwithstanding anything to the contrary herein, if the Company determines, in its business judgment, that there are business reasons to delay the effectiveness of, or to withdraw, a registration statement prior to it becoming effective under the Securities Act, the Company shall not be deemed to have breached any of its obligations hereunder.

#### ARTICLE FIVE

##### MISCELLANEOUS

##### 5.01 Failure or Delay Not Waiver

No failure or delay on the part of the Holder hereof in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude, other or further exercise thereof or of any other right, power or privilege. All rights and remedies existing hereunder are cumulative to, and not exclusive of, any rights or remedies otherwise available.

##### 5.02 Notices

Any notice herein required or permitted to be given shall be given by federal express or similar overnight courier or by same day courier service or by certified mail, return receipt requested, if to the Holder, at the address set forth on the first page hereof, or, if to the Company:

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Corniche Group Incorporated, Wayne Interchange Plaza 1, 145 Route 46 West, Wayne, New Jersey 07470.

##### 5.03 Amendments

The term "Promissory Note" or "this Promissory Note" and all reference thereto, as used through this instrument, shall mean this instrument as originally executed or, if later amended or supplemented, then, as so amended or supplemented

5.04 Assignability

This Promissory Note shall be binding on the Company, its successors and assigns, and shall inure to the benefit of the Holder, its successors and assigns.

5.05 Governing Law and Jurisdiction

This Promissory Note has been executed in and shall be governed by the laws of the State of New Jersey and any proceeding brought to enforce its terms shall be brought in a federal or state court located in the State of New Jersey.

5.06 No Personal Liability

No officer, director, shareholder, employee, consultant or agent of the Company shall be personally liable for repayment of this Promissory Note.

IN WITNESS WHEREOF, the Company has caused this Promissory Note to be signed in its name by its duly authorized officer and its-corporate seal to be affixed hereto.

CORNICHE GROUP INCORPORATED

-----  
James J. Fyfe  
Director and Vice President

I acknowledge the accuracy of the representations in Article Three of this Promissory Note.

By: \_\_\_\_\_

NEITHER THIS PROMISSORY NOTE NOR THE SECURITIES ISSUABLE UPON THE CONVERSION THEREOF HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY STATE SECURITIES LAW, AND MAY BE TRANSFERRED ONLY IF REGISTERED PURSUANT TO THE PROVISIONS OF THAT ACT OR ANY APPLICABLE STATE SECURITIES LAW OR IF AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE

PROMISSORY NOTE

No. NA- \_\_\_\_\_ \$25,000

Dated: \_\_\_\_\_, 1997 Wayne, New Jersey

FOR VALUE RECEIVED, CORNICHE GROUP INCORPORATED, a Delaware corporation (hereinafter called the "Company"), hereby promises to pay

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Street and No.)

\_\_\_\_\_  
(City, State and Zip Code)

\_\_\_\_\_  
(Social Security No. or Federal Employer ID No.)

\_\_\_\_\_  
(Date of Birth)

(herein called the "Holder"), or to his order, the sum of TWENTY-FIVE THOUSAND DOLLARS (\$25,000), together with interest thereon at the rate of eight percent (8%) per annum from the date hereof on \_\_\_\_\_, 1997. Interest shall be payable at maturity, and shall be computed on the balance of principal outstanding from time to time based on actual number of days elapsed.

Both principal hereof and interest thereon are payable in lawful money of the United States of America at the Holder's address above or such other address as the Holder shall designate in writing delivered to the Company from time to time.

ARTICLE ONE

EVENTS OF DEFAULT

If any of the following events of default (each, an "Event of Default") shall occur, the Holder hereof, at its option, may declare the sum of principal then remaining unpaid hereon immediately due and payable.

## 1.01 Event of Default

For purposes of this instrument, an Event of Default will be deemed to have occurred if:

(a) the Company shall fail to pay the principal of or interest due on this Promissory Note on the due date and such non-payment shall continue for a period of five (5) days from the date due; or

(b) a receiver, liquidator or trustee of the Company or of any property of the Company, shall be appointed by court order and such appointment shall remain in effect for 60 days; or the Company shall be adjudged bankrupt or insolvent; or any of the property of the Company shall be sequestered by court order and such order shall remain in effect for more than 60 days; or a petition to reorganize the Company under any bankruptcy, reorganization or insolvency law shall be filed against the Company and shall not be dismissed within 60 days after such filing; or

(c) the Company shall file a petition in voluntary bankruptcy or requesting reorganization under any provision of any bankruptcy, reorganization or insolvency law or shall consent to the filing of any petition against it under any such law; or

(d) the Company shall make a formal or informal assignment for the benefit of its creditors or admit in writing its inability to pay its debts generally when they become due or shall consent to the appointment of a receiver, trustee or liquidator of the Company or of all or part of the property of the Company after the date hereof.

## 1.02 Remedies on Default

If an Event of Default shall have occurred, in addition to its rights and remedies under this Promissory Note, and any other instruments, the Holder may at its option by written notice to the Company declare all indebtedness to the Holder hereunder to be due and payable, together with all reasonable expenses of enforcement of the Holder's rights including legal fees and related disbursements, whereupon the same shall forthwith mature and become due and payable without any further notice to and without presentment, demand, protest or notice of protest, all of which are hereby waived.

The Holder may proceed to protect and enforce its rights by suit in equity, action at law or other appropriate proceedings, including, without limitation action for specific performance of any agreement contained herein or in any other instrument, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any right, power or remedy granted hereby or by law, equity or otherwise.

## ARTICLE TWO

### CONVERSION PRIVILEGE

The Company hereby grants to the Holder of this Promissory Note the right to convert the principal and interest on this Promissory Note into fully paid and non-assessable shares of the Company's Common Stock, \$0.10 par value, at the "Conversion Price" per share. The "Conversion Price,, is defined as ten cents (\$0.10). The right to convert may be exercised at any time after an Event of Default up to and including \_\_\_\_\_, 1997. The right to convert may only be exercised with respect to the entire amount due on this Promissory Note at the exercise date. The Company will reserve 300,000 (three hundred thousand) shares of its Common Stock for the foregoing purpose.

## 2.01 Exercise Procedure

(a) The Conversion privilege shall be deemed to have been

exercised (the "Exercise Time") when the Company shall have received all of the following:

(i) a properly completed Exercise Agreement in the form set out in Section 2.02 below executed by the Holder; and

(ii) this Promissory Note.

(b) Certificates for the underlying shares acquired shall be delivered to the purchaser within 20 days after the Exercise Time.

## 2.02 Exercise Agreement

Upon exercise, the undersigned shall execute an agreement stating as follows: "An event of default has occurred which has not been cured and therefore the undersigned irrevocably elects to subscribe for and purchase shares of the Company's Common Stock as provided in the Promissory Note, and makes payment in full therefor by conversion. The undersigned hereby represents and warrants that the shares of Common Stock to be acquired upon exercise are being acquired for its own account, without any present intention of reoffering, reselling or distributing such Common Stock, except to the extent permitted under the Securities Act of 1993, as amended".

## 2.03 Changes in Capital Structure

(a) In the event that the outstanding shares of Common Stock of the Company are hereafter increased or decreased, or changed into or exchanged for a different number or kind of shares or other securities of the Company, or of any other corporation, by reason of reorganization, merger, consolidation, recapitalization, reclassification, stock split-up, combination of shares, or dividends payable in capital stock of the Company, appropriate adjustments shall be made by the Company in the number and kind of shares to be purchased upon exercise of this conversion right to the end that the Holder's proportionate interest shall not be altered. All such adjustments made by the Board of Directors of the Company shall be conclusive, absent manifest error.

(b) Until this Promissory Note has been paid in full or the conversion privilege has been exercised, the Company will not issue any shares of its Common Stock for a price less than the then fair market value of the stock.

## ARTICLE THREE

### RESTRICTIONS ON TRANSFER

The Holder, by execution of the acknowledgment at the end of this Promissory Note, acknowledges that it understands that the Company will rely upon the representations set forth herein in issuing the Promissory Note and the Underlying Shares, if any, without registration under the Securities Act of 1933, as amended, the New Jersey Uniform Securities Law, or any other state securities law.

Accordingly, the Holder, by acceptance of the Promissory Note, represents and warrants that this offering is being made pursuant to the exemption from registration with the Securities and Exchange Commission ("SEC") afforded by Sections 3(b) and/or 4(2) of the Securities Act of 1933, as amended ("Act") relating to transactions by an issuer not involving any public offering. The Holder understands that the

Company has no present intention, and is under no obligation to, register the Promissory Note or the Underlying Shares under the Act, or any applicable state law.

The Holder understands that due to lack of registration, the Promissory Note and the Underlying Shares will be restricted securities, that the holder must bear the economic risk of the investment for an indefinite period, that the Promissory Note and the Underlying Shares may not be sold, pledged or otherwise disposed of unless they are registered under the Act and any applicable state securities law, or an exemption from such laws is available and the Company is supplied with an opinion of counsel to the Holder, satisfactory to the Company, that registration is not required under any of such laws, and in the opinion of counsel for the Company, such sale, transfer, or pledge will not cause the Company to fail to be in compliance with the exemption provisions under which the Promissory Note or the Underlying Shares were issued.

The Holder has such knowledge and experience in financial and business affairs that it is capable of evaluating the merits and risks of the prospective investment.

The Holder is able to bear the economic risk of this investment. An investment in the Promissory Note and the Underlying Shares is suitable for the Holder in light of its financial position and investment objectives, with full knowledge that this investment could result in a complete loss. The Holder recognizes that the Promissory Note represents a HIGH-RISK, SPECULATIVE INVESTMENT and that there is no assurance that any return will be received thereon. The Holder can afford a total loss of this investment.

The Holder is an Accredited Investor" as that term is defined in Regulation D under the Securities Act of 1933 as amended.

The Promissory Note is being, and the Underlying Shares will be, purchased for the Holder's own account for investment purposes and not with a view to the resale or distribution thereof by the Holder.

The Holder has reviewed the Company's Annual Report on Form 10-K for the year ended March 25, 1995; its quarterly reports on Form 10-Q for the quarters ended June 17, October 6, and December 30, 1995; its proxy statement for an annual meeting held on September 28, 1995; and all current reports on Form 8-K filed on or after March 25, 1995, including but not limited to, the Form 8-K filed on February 12, 1996. The Holder has also been informed that the proceeds of this investment shall be used for general corporate purposes, including the settlement of accrued past due liabilities due to the Company's professional advisors, suppliers of goods and corporate services, director and officer liability insurance premiums and director and officer fees and expenses. Prior to the date hereof, the Holder has had ample opportunity to ask questions of and receive answers from the officers and directors of the Company, concerning the Company, the Promissory Note and the Company's business and to obtain any additional information which was considered necessary to verify the information supplied by those individuals.

The Holder understands that a restrictive legend in substantially the following form shall be placed on the certificates representing the Underlying Shares:

"The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended ("Act"). Such shares have been acquired for investment and may not be publicly offered or sold in the absence of (1) an effective registration for such shares under the Act; (2) opinions of counsel to the Company and to the holder hereof and presented to the Company prior to any proposed transfer to the effect that registration is not required under the Act; or (3) a letter presented to the Company, prior to any proposed transfer, from the staff of the Securities and Exchange Commission, to the effect that it will not take enforcement action if the proposed transfer is made without registration under the Act"

Except as set forth in the documents which the Holder has reviewed, no representations or warranties have been made to the Holder by the Company. In



entering into this transaction, the Holder is not relying upon any information, other than the results of its own independent investigation.

#### ARTICLE FOUR

##### PIGGY-BACK REGISTRATION RIGHTS

If this Promissory Note has been converted to Common Stock, and if the Company proposes to file a registration statement under the Securities Act with respect to an offering by the Company of Company Common Stock (other than a registration statement on Form S-4 or S-8 or any form substituting therefor) the Company shall in each such case give written notice of such proposed filing and the proposed method of distribution of securities covered by such proposed filing to the Holder of shares issued upon conversion of this Promissory Note at least ten (10) days before the anticipated filing date. The Company will use its best efforts to include in the registration statement proposed to be filed by the Company all shares issued upon conversion hereof and other Promissory Notes in this series with respect to which the Company has received written requests for inclusion therein prior to the anticipated filing date. Notwithstanding the foregoing, if the managing underwriter or underwriters of such offering deliver a written opinion to the holders of securities to be included therein to the effect that the total amount of securities intended to be included in such offering would materially and adversely affect the success of such offering, then the amount of securities to be offered for the account of the participating holders shall be reduced (pro rata among the participating holders) to the extent necessary to reduce the total amount of securities to be included in such offering to the amount recommended by such managing underwriter or underwriters. The Holder shall provide the Company and any underwriters with any further documents and assurances reasonably required to effect such registration. Notwithstanding anything to the contrary herein, if the Company determines, in its business judgment, that there are business reasons to delay the effectiveness of, or to withdraw, a registration statement prior to it becoming effective under the Securities Act, the Company shall not be deemed to have breached any of its obligations hereunder.

#### ARTICLE FIVE

##### MISCELLANEOUS

###### 5.01 Failure or Delay Not Waiver

No failure or delay on the part of the Holder hereof in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude, other or further exercise thereof or of any other right, power or privilege. All rights and remedies existing hereunder are cumulative to, and not exclusive of, any rights or remedies otherwise available.

###### 5.02 Notices

Any notice herein required or permitted to be given shall be given by federal express or similar overnight courier or by same day courier service or by certified mail, return receipt requested, if to the Holder, at the address set forth on the first page hereof, or, if to the Company:

Corniche Group Incorporated, Wayne Interchange Plaza 1, 145 Route 46  
West, Wayne, New Jersey 07470.

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###### 5.03 Amendments

The term "Promissory Note" or "this Promissory Note" and all reference thereto, as used through this instrument, shall mean this instrument as originally executed or, if later amended or supplemented, then, as so amended

or supplemented

5.04 Assignability

This Promissory Note shall be binding on the Company, its successors and assigns, and shall inure to the benefit of the Holder, its successors and assigns.

5.05 Governing Law and Jurisdiction

This Promissory Note has been executed in and shall be governed by the laws of the State of New Jersey and any proceeding brought to enforce its terms shall be brought in a federal or state court located in the State of New Jersey.

5.06 No Personal Liability

No officer, director, shareholder, employee, consultant or agent of the Company shall be personally liable for repayment of this Promissory Note.

IN WITNESS WHEREOF, the Company has caused this Promissory Note to be signed in its name by its duly authorized officer and its-corporate seal to be affixed hereto.

CORNICHE GROUP INCORPORATED

\_\_\_\_\_  
James J. Fyfe  
Director and Vice President

I acknowledge the accuracy of the representations in Article Three of this Promissory Note.

By: \_\_\_\_\_

NEITHER THIS WARRANT NOR THE SHARES ISSUABLE ON THE EXERCISE THEREOF HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"); AND THIS WARRANT IS NOT TRANSFERABLE EXCEPT ON DEVOLUTION OF SUCH WARRANT BY OPERATION OF THE LAWS OF DESCENT AND DISTRIBUTION IN THE EVENT OF THE DEATH OR ADJUDICATED INCOMPETENCE OF THE HOLDER.

No. WA-\_\_\_\_\_ 3-Year Warrant to purchase  
\*60,000\* shares (subject to adjustment)  
Dated: \_\_\_\_\_, 1996 of common stock, \$.10 par value, of  
Corniche Group Incorporated

VOID AFTER \_\_\_\_\_, 1999

CORNICHE GROUP INCORPORATED

Non-Transferable, Redeemable Common Stock Purchase Warrant

Corniche Group Incorporated (hereby called the "Company"), a Delaware corporation, hereby certifies that, for and in consideration of the sum of \$1,000:

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Street and No.)

\_\_\_\_\_  
(City, State and Zip Code)

\_\_\_\_\_  
(Social Security No. or Federal Employer ID No.)

\_\_\_\_\_  
(Date of Birth)

is entitled to purchase from the Company, at any time or from time to time, subsequent to the date of issuance hereof and before 3:00 P.M. New York local time on \_\_\_\_\_, 1999 (the "Exercise Period"), subject to prior redemption by the Company, an aggregate of up to 60,000 fully paid and non-assessable shares (the number or character of such shares being subject to adjustment as provided below) of the common stock, \$.10 par value per share, of the Company (the "Underlying Shares") on the payment therefor of \$.50 for each share of the common stock subscribed for and purchased, upon the surrender of this warrant duly signed by the registered holder hereof or assigns at the time of subscription, accompanied by payment of the total subscription price in cash or by certified check or bank draft payable to the order of the Company, upon the terms and subject to the conditions hereinafter set forth.

1. Notice of Exercise. Notice of intention to exercise any of the purchase rights evidenced by this warrant must be given during the Exercise Period by written notice addressed to the Company at its principal office or by written notice addressed to its duly designated and acting agent, if any, at least 10 days prior to any intended exercise. Such notice shall specify

the date on which purchase rights are to be exercised and the number of shares of the common stock to be purchased on that date.

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2. Exercise of Warrant. On or before the date of exercise specified in such notice given during the Exercise Period, the holder shall surrender this warrant (in negotiable form, if not surrendered by the holder named above) to the principal office of the Company, or to that of its duly designated and acting agent with the exercise form attached to this warrant duly signed together with the purchase price of the common stock represented by certified or official bank check on New York Clearing House funds payable to the order of the Company, in the amount of the said purchase price.

3. Delivery of Stock Certificates on Exercise. As soon as practicable after the exercise of this warrant and payment of the purchase price, and in any event no later than 10 days thereafter, the Company or its duly designated and acting agent, if any, will cause to be issued in the name of and delivered to the holder hereof, or such holder's nominee or nominees, a certificate or certificates for the number of full shares of the common stock of the Company to which such holder shall be entitled upon such exercise. In case, between the date of such exercise and the date on which such certificate or certificates are issued, the record holder of such shares shall become entitled to any dividend or other right, the Company will forthwith pay or cause to be paid in cash to the holder hereof the amount of such dividend, or transfer to the holder hereof such right, as the case may be. No fraction of a share or scrip certificate for such fraction shall be issued upon the exercise of this warrant; in lieu thereof, the Company will pay or cause to be paid to such holder cash equal to a like fraction at the then prevailing market price for such share as determined by the Company.

4. Partial Exercise of a Warrant. In case this warrant shall be exercised for less than the full number of shares to which the holder is entitled the Company, at its expense, will issue, or will cause to be issued and delivered to the holder hereof, a new warrant or warrants of like tenor issued in said holder's name, representing the unexercised warrants.

5. Dividends in Stock, Property, Reclassifications. In case at any time or from time to time the holders of the common stock of the Company (or any other shares of stock or other securities at that time receivable upon exercise of this warrant) shall have received, or as of a record date shall have become entitled to receive other or additional or less stock or other securities or property (other than cash) without payment therefor (whether through a dividend in stock of any class of stock of the Company or any other corporation, or a dividend in any securities or property other than cash, or through stock split, spin-off, reclassification, combination, of shares or otherwise), then and in each such case the holder of this warrant upon the exercise thereof and upon the payment of the sum obtained by multiplying (a) the number of shares of the common stock of the Company called for on the face of this warrant by (b) the purchase price per share obtaining on the date of such event, as hereinabove provided, shall be entitled to receive, in lieu of the shares called for hereby, the stock or other securities of property which said holder would hold on the date of such exercise, if, from the date hereof to and including such date, he had been the holder of record of the number of shares of the common stock of the Company called for on the face of this warrant and had retained such shares and all such other or additional or less stock and other securities and property receivable in respect of such shares. In case of the partial exercise of this warrant under such circumstances, the number of shares of stock which would have been receivable upon the full exercise of this warrant, computed as provided above, shall be proportionately reduced.

6. Reorganization, Consolidations, Mergers. In case of any reorganization of the Company, or any other corporation, the stock or securities of which are at the time deliverable on the exercise of this warrant, or in case the Company or such other corporation shall consolidate

with or merge into another corporation, or convey all or substantially all of its assets to another corporation, the holder of this warrant, upon the exercise hereof and upon the payment of the sum obtained by multiplying (a) the number of shares of the Company called for on the face of the warrant by (b) the purchase price per share obtaining on the date of such event, as hereinabove provided, shall be entitled to receive, in lieu of the shares theretofore called for hereby, the stock or other securities or property to which such holder would have been entitled upon the consummation of such reorganization, consolidation, merger or conveyance if he had purchased the shares

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called for hereby immediately prior thereto; and in such case, the provisions of this warrant shall be applicable to the shares of stock or other securities or property thereafter deliverable upon the exercise of this warrant. In the case of the partial exercise of this warrant under such circumstances, the number of shares of stock or other securities or property which would have been receivable upon the full exercise of this warrant, and the sum payable therefor, shall be proportionately reduced.

7. Redemption Of Warrants. The unexercised portions, if any, of the warrants are redeemable at the option of the Company at a price of \$.075 per Underlying Share at any time during a period of one hundred twenty days commencing on the date hereof (the "Redemption Period"). If the Company shall elect to redeem warrants as permitted by this Section 7, notice of redemption shall be given to the holders of all outstanding warrants to whom the redemption shall apply by mailing, by regular first class or certified mail or by recognized courier service, a notice of such redemption, accompanied by payment in full therefor by check or draft at the rate herein provided, to their last addresses as they shall appear upon the Company's registry books. The date of the mailing of such notice and payment shall be deemed the effective date of such redemption (the "Redemption Date") whereupon, as of the close of business on the Redemption Date, the warrants which shall have been thus redeemed shall be null, void and of no further force and effect.

8. Lost, Stolen, Destroyed or Mutilated Warrants. Upon receipt by the Company or its duly designated and acting agent, if any, of evidence satisfactory (in the exercise of reasonable discretion) to each of them of the ownership of and the loss, theft or destruction or mutilation of this or any warrant and (in the case of loss, theft or destruction) of indemnity satisfactory (in the exercise of reasonable discretion) to each of them, and (in the case of mutilation) upon the surrender and cancellation thereof, the Company or its duly designated and acting agent will issue and deliver, in lieu thereof, a new warrant of like tenor.

9. Transferability. This warrant has not been registered under the Securities Act; and is not transferable except on devolution of such warrant by operation of the laws of descent and distribution in the event of the death or adjudicated incompetence of the holder. Neither this warrant nor any shares of common stock issued by reason of the exercise thereof shall be pledged, hypothecated, made the subject of a security interest or otherwise lodged as collateral to secure or guaranty the payment or performance of any debt, indemnity, cause, claim, demand or other obligation of any kind, in furtherance of which the certificate(s) evidencing any such shares of common stock shall bear a restrictive legend reciting the proscription set forth above.

10. Piggyback Registration Rights. If at any time, or from time to time, commencing on the date of issuance hereof and ending three years after the date of issuance hereof, the Company proposes to file a registration statement with the Securities and Exchange Commission with respect to the sale of any securities of the Company, the Company will, at least thirty (30) days prior to such filing, give written notice thereof to the holders of this warrant and the holders of the Underlying Shares and if, within twenty (20) days after receipt of such notice, such holders request inclusion in such registration statement of the Underlying Shares, the Company will use its best

efforts to include the Underlying Shares in such registration statement. The Company will pay and bear all costs and expenses in connection with registering such Underlying Shares.

11. Miscellaneous. This warrant shall not be valid for any purpose unless signed by an authorized officer of the Company and countersigned by the duly designated and acting agent, if any. This warrant does not confer upon the holder any right to vote or to consent or to receive notice as a stockholder of the Company.

12. Headings. The headings in this warrant are for purposes of reference only, and shall not limit or otherwise affect the meaning hereof.

13. Expiration. This warrant will be wholly void and of no effect after 3 P.M., New York local time, on the expiration date set forth on the first page hereof.

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14. Law Governing. This warrant shall be construed and enforced in accordance with and governed by the laws of the State of New Jersey.

15. Savings Clause. If any provision of this warrant, or the application of such provision to any person or circumstance, shall be held invalid, the remainder of this warrant, or the application of such provision to persons or circumstances other than those as to which it is held invalid, shall not be affected thereby.

CORNICHE GROUP INCORPORATED

By \_\_\_\_\_  
JAMES J. FYFE, Vice President

ATTEST:

\_\_\_\_\_  
, Secretary

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NEITHER THIS WARRANT NOR THE SHARES ISSUABLE ON THE EXERCISE THEREOF HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"); AND THIS WARRANT IS NOT TRANSFERABLE EXCEPT ON DEVOLUTION OF SUCH WARRANT BY OPERATION OF THE LAWS OF DESCENT AND DISTRIBUTION IN THE EVENT OF THE DEATH OR ADJUDICATED INCOMPETENCE OF THE HOLDER.

No. WA- \_\_\_\_\_ 3-Year Warrant to purchase  
\*60,000\* shares (subject to adjustment)  
Dated: \_\_\_\_\_, 1997 of common stock, \$.10 par value, of  
Corniche Group Incorporated

VOID AFTER \_\_\_\_\_, 2000

CORNICHE GROUP INCORPORATED

Non-Transferable, Redeemable Common Stock Purchase Warrant

Corniche Group Incorporated (hereby called the "Company"), a Delaware corporation, hereby certifies that, for and in consideration of the sum of \$1,000:

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Street and No.)

\_\_\_\_\_  
(City, State and Zip Code)

\_\_\_\_\_  
(Social Security No. or Federal Employer ID No.)

\_\_\_\_\_  
(Date of Birth)

is entitled to purchase from the Company, at any time or from time to time, subsequent to the date of issuance hereof and before 3:00 P.M. New York local time on \_\_\_\_\_, 2000 (the "Exercise Period"), subject to prior redemption by the Company, an aggregate of up to 60,000 fully paid and non-assessable shares (the number or character of such shares being subject to adjustment as provided below) of the common stock, \$.10 par value per share, of the Company (the "Underlying Shares") on the payment therefor of \$.50 for each share of the common stock subscribed for and purchased, upon the surrender of this warrant duly signed by the registered holder hereof or assigns at the time of subscription, accompanied by payment of the total subscription price in cash or by certified check or bank draft payable to the order of the Company, upon the terms and subject to the conditions hereinafter set forth.

1. Notice of Exercise. Notice of intention to exercise any of the purchase rights evidenced by this warrant must be given during the Exercise Period by written notice addressed to the Company at its principal office or

by written notice addressed to its duly designated and acting agent, if any, at least 10 days prior to any intended exercise. Such notice shall specify the date on which purchase rights are to be exercised and the number of shares of the common stock to be purchased on that date.

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2. Exercise of Warrant. On or before the date of exercise specified in such notice given during the Exercise Period, the holder shall surrender this warrant (in negotiable form, if not surrendered by the holder named above) to the principal office of the Company, or to that of its duly designated and acting agent with the exercise form attached to this warrant duly signed together with the purchase price of the common stock represented by certified or official bank check on New York Clearing House funds payable to the order of the Company, in the amount of the said purchase price.

3. Delivery of Stock Certificates on Exercise. As soon as practicable after the exercise of this warrant and payment of the purchase price, and in any event no later than 10 days thereafter, the Company or its duly designated and acting agent, if any, will cause to be issued in the name of and delivered to the holder hereof, or such holder's nominee or nominees, a certificate or certificates for the number of full shares of the common stock of the Company to which such holder shall be entitled upon such exercise. In case, between the date of such exercise and the date on which such certificate or certificates are issued, the record holder of such shares shall become entitled to any dividend or other right, the Company will forthwith pay or cause to be paid in cash to the holder hereof the amount of such dividend, or transfer to the holder hereof such right, as the case may be. No fraction of a share or scrip certificate for such fraction shall be issued upon the exercise of this warrant; in lieu thereof, the Company will pay or cause to be paid to such holder cash equal to a like fraction at the then prevailing market price for such share as determined by the Company.

4. Partial Exercise of a Warrant. In case this warrant shall be exercised for less than the full number of shares to which the holder is entitled the Company, at its expense, will issue, or will cause to be issued and delivered to the holder hereof, a new warrant or warrants of like tenor issued in said holder's name, representing the unexercised warrants.

5. Dividends in Stock, Property, Reclassifications. In case at any time or from time to time the holders of the common stock of the Company (or any other shares of stock or other securities at that time receivable upon exercise of this warrant) shall have received, or as of a record date shall have become entitled to receive other or additional or less stock or other securities or property (other than cash) without payment therefor (whether through a dividend in stock of any class of stock of the Company or any other corporation, or a dividend in any securities or property other than cash, or through stock split, spin-off, reclassification, combination, of shares or otherwise), then and in each such case the holder of this warrant upon the exercise thereof and upon the payment of the sum obtained by multiplying (a) the number of shares of the common stock of the Company called for on the face of this warrant by (b) the purchase price per share obtaining on the date of such event, as hereinabove provided, shall be entitled to receive, in lieu of the shares called for hereby, the stock or other securities or property which said holder would hold on the date of such exercise, if, from the date hereof to and including such date, he had been the holder of record of the number of shares of the common stock of the Company called for on the face of this warrant and had retained such shares and all such other or additional or less stock and other securities and property receivable in respect of such shares. In case of the partial exercise of this warrant under such circumstances, the number of shares of stock which would have been receivable upon the full exercise of this warrant, computed as provided above, shall be proportionately reduced.

6. Reorganization, Consolidations, Mergers. In case of any reorganization of the Company, or any other corporation, the stock or securities of which are at the time deliverable on the exercise of this



warrant, or in case the Company or such other corporation shall consolidate with or merge into another corporation, or convey all or substantially all of its assets to another corporation, the holder of this warrant, upon the exercise hereof and upon the payment of the sum obtained by multiplying (a) the number of shares of the Company called for on the face of the warrant by (b) the purchase price per share obtaining on the date of such event, as hereinabove provided, shall be entitled to receive, in lieu of the shares theretofore called for hereby, the stock or other securities or property to which such holder would have been entitled upon the consummation of such reorganization, consolidation, merger or conveyance if he had purchased the shares

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called for hereby immediately prior thereto; and in such case, the provisions of this warrant shall be applicable to the shares of stock or other securities or property thereafter deliverable upon the exercise of this warrant. In the case of the partial exercise of this warrant under such circumstances, the number of shares of stock or other securities or property which would have been receivable upon the full exercise of this warrant, and the sum payable therefor, shall be proportionately reduced.

7. Redemption Of Warrants. The unexercised portions, if any, of the warrants are redeemable at the option of the Company at a price of \$.075 per Underlying Share at any time during a period of one hundred twenty days commencing on the date hereof (the "Redemption Period"). If the Company shall elect to redeem warrants as permitted by this Section 7, notice of redemption shall be given to the holders of all outstanding warrants to whom the redemption shall apply by mailing, by regular first class or certified mail or by recognized courier service, a notice of such redemption, accompanied by payment in full therefor by check or draft at the rate herein provided, to their last addresses as they shall appear upon the Company's registry books. The date of the mailing of such notice and payment shall be deemed the effective date of such redemption (the "Redemption Date") whereupon, as of the close of business on the Redemption Date, the warrants which shall have been thus redeemed shall be null, void and of no further force and effect.

8. Lost, Stolen, Destroyed or Mutilated Warrants. Upon receipt by the Company or its duly designated and acting agent, if any, of evidence satisfactory (in the exercise of reasonable discretion) to each of them of the ownership of and the loss, theft or destruction or mutilation of this or any warrant and (in the case of loss, theft or destruction) of indemnity satisfactory (in the exercise of reasonable discretion) to each of them, and (in the case of mutilation) upon the surrender and cancellation thereof, the Company or its duly designated and acting agent will issue and deliver, in lieu thereof, a new warrant of like tenor.

9. Transferability. This warrant has not been registered under the Securities Act; and is not transferable except on devolution of such warrant by operation of the laws of descent and distribution in the event of the death or adjudicated incompetence of the holder. Neither this warrant nor any shares of common stock issued by reason of the exercise thereof shall be pledged, hypothecated, made the subject of a security interest or otherwise lodged as collateral to secure or guaranty the payment or performance of any debt, indemnity, cause, claim, demand or other obligation of any kind, in furtherance of which the certificate(s) evidencing any such shares of common stock shall bear a restrictive legend reciting the proscription set forth above.

10. Piggyback Registration Rights. If at any time, or from time to time, commencing on the date of issuance hereof and ending three years after the date of issuance hereof, the Company proposes to file a registration statement with the Securities and Exchange Commission with respect to the sale of any securities of the Company, the Company will, at least thirty (30) days prior to such filing, give written notice thereof to the holders of this warrant and the holders of the Underlying Shares and if, within twenty (20) days after receipt of such notice, such holders request inclusion in such

registration statement of the Underlying Shares, the Company will use its best efforts to include the Underlying Shares in such registration statement. The Company will pay and bear all costs and expenses in connection with registering such Underlying Shares.

11. Miscellaneous. This warrant shall not be valid for any purpose unless signed by an authorized officer of the Company and countersigned by the duly designated and acting agent, if any. This warrant does not confer upon the holder any right to vote or to consent or to receive notice as a stockholder of the Company.

12. Headings. The headings in this warrant are for purposes of reference only, and shall not limit or otherwise affect the meaning hereof.

13. Expiration. This warrant will be wholly void and of no effect after 3 P.M., New York local time, on the expiration date set forth on the first page hereof.

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14. Law Governing. This warrant shall be construed and enforced in accordance with and governed by the laws of the State of New Jersey.

15. Savings Clause. If any provision of this warrant, or the application of such provision to any person or circumstance, shall be held invalid, the remainder of this warrant, or the application of such provision to persons or circumstances other than those as to which it is held invalid, shall not be affected thereby.

CORNICHE GROUP INCORPORATED

By \_\_\_\_\_  
JAMES J. FYFE, Vice President

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## STOCK PURCHASE AGREEMENT

THIS AGREEMENT, entered into as of January 30, 1997, by and among:

The Governor and Company of  
The Bank of Scotland  
(the "Bank")

Those persons named in  
Schedule A annexed hereto  
(collectively, jointly and  
severally "Buyers")

and

Corniche Group Incorporated  
a Delaware corporation  
(the "Company")

Whereas:

A. Pursuant to an agreement dated February 21, 1996, Susan A. Crisp has pledged 219,450 shares, \$.01 par value per share, of the issued and outstanding common stock of the Company (the "Shares") to the Bank in order to secure certain obligations to the Bank.

B. Pursuant to an agreement dated February 19, 1996, Brian J. Baylis has pledged 877,800 Shares to the Bank in order to secure certain obligations to the Bank.

C. Buyers desire to purchase 1,042,250 of the pledged Shares (the "Sale Shares").

D. The Bank is willing to exercise its rights as pledgee of the Shares to sell all right, title and interest of Ms. Crisp and Mr. Baylis in the Sale Shares to the Buyers.

Now, Therefore, for the mutual consideration set out herein, the parties agree as follows:

1. Purchase And Sale Of Company Shares

1.1 The Bank shall sell to Buyers and Buyers shall purchase from the Bank, in the respective amounts set forth in Schedule A, all of the right, title and interest of Ms. Crisp and Mr. Baylis in and to the Sale Shares at a closing of such sale (the "Closing") to be held at the place and on the date hereinafter provided (the "Closing Date").

1.2 The purchase price (the "Price") shall be \$.12 per Sale Share or \$125,070 on an aggregated basis.

1.3 The Price shall be paid at the Closing to the Bank by wire transfer of immediately available funds to an account in London or Edinburgh designated by the Bank.

1.4 At the Closing Date, the Bank will deliver the certificates purportedly representing the Sale Shares which were delivered to the Bank by

Crisp and Baylis and purportedly represent the Sale Shares. Such certificates shall be accompanied by stock powers executed by Baylis and Crisp indicating appropriate signature guarantees. Since the number of Shares purportedly represented by such certificates exceeds the number of Sale Shares, the Bank and the Buyers shall make reasonable arrangements to cause certificates

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representing the excess number of Shares to be issued in the names of Brian J. Baylis (44,000 Shares) and Susan A. Crisp (11,000 Shares) and delivered to the Bank. The Company has advised the Bank and the Buyers that: (a) the Sale Shares are not registered under the Securities Act of 1933 as amended (the "'33 Act"); (b) the Sale Shares are subject to usual and appropriate stop transfer orders on the books and records of the Company's transfer agent pertaining to securities not registered under the '33 Act; (c) the certificates for the Sale Shares delivered by the Bank bear and all new certificates for the Sale Shares to be delivered to Buyers shall bear on their face the following restrictive legend:

"No sale, offer to sell or transfer of the shares represented by this certificate shall be made unless a registration statement under the Federal Securities Act of 1933, as amended, with respect to such shares is then in effect or an exemption from the registration requirements of such Act is then in fact applicable to such shares."

## 2. Representations And Covenants Of Bank

The Bank hereby represents and warrants, to the extent of the facts known to the Bank, that, effective this date and the Closing Date, the representations listed below are true and correct except to the extent specifically set forth in a schedule annexed hereto and numbered in accordance with the subsection number in which the relevant representation is made.

2.1 The certificates purportedly representing the Sale Shares are the certificates heretofore delivered by Crisp and Baylis to the Bank pursuant to the Pledge Agreements between the Bank and each of Crisp and Baylis.

2.2 The execution of this Agreement will not violate or breach any agreement, contract, or commitment to which the Bank is a party, the Bank has been duly authorized by all appropriate and necessary action to enter into and perform this Agreement, and this Agreement is fully enforceable against the Bank under English law.

2.3 The Bank will have no claim or lien on the Sale Shares upon payment of the Price indefeasibly and in full.

2.4 The representations and warranties of the Bank contained in this Section 2 shall survive the Closing Date.

The Bank makes no other representation or warranty of any nature whatsoever. The Buyers have agreed to purchase the Sale Shares without recourse to the Bank and, insofar as the Bank is concerned, the Sale Shares will be sold "AS IS AND WHERE IS" and without representation or warranty (including any representation or warranty as to condition, value or any other matter concerning the Sale Shares or the Company, including the suitability of the Sale Shares as an investment). Without limiting the foregoing, the Bank has no basis to believe that the Sale Shares have a value equal to the Price, and the Sale Shares' value could be less than the Price and the Sale Shares could have no value.

## 3. Representations and Covenants of the Company

The Company hereby represents and warrants, to the extent of the facts known to the Company, that, effective this date and the Closing Date, the representations listed below are true and correct except to the extent

specifically set forth in a schedule annexed hereto and numbered in accordance with the subsection number in which the relevant representation is made.

3.1 A copy of the audited financial statements of the Company dated March 25, 1995 and the unaudited financial statements of the Company dated December 31, 1995 and September 30, 1996 (collectively the "Financial Statements") are attached hereto as Schedule 3.1. Except as noted therein, the Financial Statements fairly present the financial position of the Company for the periods indicated in conformity

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with generally accepted accounting principles consistently applied for such periods. Except as disclosed in Schedule 3.1 there has not been and will not be, prior to the Closing Date, any material changes in the financial position of the Company as reflected in the Financial Statements.

3.2 The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware, has all requisite corporate power and authority to own or lease and operate its properties and to carry on its business as presently conducted. The Company is duly qualified as a foreign corporation, and is in good standing, in each jurisdiction listed on the Schedule 3.2 attached hereto, and in each other jurisdiction where the character of its properties owned or held under lease require it to be so qualified. Attached to Schedule 3.2 is a complete and correct copy of the Company's Certificate of Incorporation, as amended to date, certified by the Secretary of the State of Delaware, and the Company's By-Laws, as currently in effect. This Agreement has been duly executed and delivered on behalf of the Company and constitutes the valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to general equitable principles and except as the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws of general application relating to creditors' rights.

3.3 The authorized capital stock of the Company consists of 30,000,000 shares of Common Stock, \$.01 par value per share, of which 2,405,357 shares are issued and outstanding, 1,097,250 of which are owned of record and beneficially by Crisp and Baylis and were pledged to the Bank to secure certain obligations. The Company has further authorized capital stock consisting of 1,000,000 shares of 7% cumulative convertible preferred stock, of which 946,069 shares are issued and outstanding.. All outstanding shares have been duly authorized and validly issued, are fully paid and non-assessable and were not issued in violation of any preemptive rights. There is outstanding no security, option, warrant, right, call, subscription, agreement, commitment or understanding of any nature whatsoever, fixed or contingent, that directly or indirectly (i) calls for the issuance, sale, pledge or other disposition of any shares or of any other capital stock of the Company or any securities convertible into, or other rights to acquire, any such shares or other capital stock of the Company or (ii) obligates the Company to grant, offer or enter into any of the foregoing or (iii) relates to the voting or control of such shares, capital stock, securities or rights except as disclosed in Schedule 3.3 attached hereto. No person has any right to require the Company to register any of its securities under the '33 Act, except as disclosed in Schedule 3.3 attached hereto.

3.4 Except as set forth in Schedule 3.4 attached hereto, the Company is not involved in any pending litigation or governmental investigation or proceeding and, to the best knowledge of the Company, no litigation, claims, assessments, or governmental investigation or proceeding is threatened against the Company, or its assets.

3.5 The Company has good and marketable title to all of the assets and properties which it purports to own and which are reflected on the Financial Statements contained in Schedule 3.1 hereof, free and clear of all encumbrances, except for (a) liens for current taxes not yet due and payable or for taxes the validity of which is being contested in good faith by

appropriate proceedings, and (b) encumbrances which individually or in the aggregate do not materially and adversely affect the business, operations or financial condition of the Company.

3.6 The Company has no debts, obligations or liabilities of whatever kind or nature, either direct or indirect, absolute or contingent, matured or unmatured, except debts, obligations and liabilities that are fully reflected in, or reserved against on, the Financial Statements contained in Schedule 3.1 hereof.

3.7 Except as set forth in Schedule 3.7 attached hereto, or except as otherwise contemplated by this Agreement, since the date of the Financial Statements contained in Schedule 3.1 there has not been (a) any damage, destruction or casualty loss to the physical properties of the Company (whether covered by insurance or not); (b) any material change in the business, operations or financial condition of the Company; (c) any entry into any transaction, commitment or agreement including without limitation any borrowing or capital expenditure) material to the Company's course of business; (d) any redemption or other acquisition by the Company of the Company's capital stock or any declaration, setting aside or payment of any dividend or other distribution in cash, stock or property with respect to the Company's capital stock; (e) any increase

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in the rate or terms of compensation payable or to become payable by the Company to its directors, officers or employees or any increase in the rate or terms of any bonus, pension, insurance or other employee benefit plan, payment or arrangement made to, for or with any such directors, officers or key employees; (f) any change in production schedules, acceleration of sales, or reduction of aggregate administrative, marketing, advertising and promotional expenses or research and development expenditures other than in the ordinary course of business; (g) any sale, transfer or other disposition of any asset of the Company to any party except for payment of third-party obligations incurred in the ordinary course of business in accordance with the Company's regular payment practices; (h) any termination or waiver of any rights of value to the business of the Company; or (i) any failure by the Company to pay its accounts payable or other obligations in the ordinary course of business consistent with past practice.

3.8 Except as otherwise disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended March 25, 1995, the Company has complied with all state, federal and local laws in connection with its formation, issuance of securities, organization, capitalization and operations, and no contingent liabilities have been threatened or claims made, and no basis for the same exists with respect to said operations, formations or capitalization, including claims for violation of any state or federal securities laws, except that the Company is delinquent in its filings with the Securities and Exchange Commission as set forth in Schedule 3.8 hereof.

3.9 Except as otherwise disclosed in Schedule 3.9 hereof, the Company has filed and as of the Closing Date will have filed, all state, federal, and local tax or related returns and reports due or required to be filed and has paid and as of the Closing Date will have paid, all taxes or assessments which have become due.

3.10 The Company has no subsidiary corporations other than as disclosed in Schedule 3.10 attached hereto.

3.11 The execution of this Agreement will not violate or breach any agreement, contract, or commitment to which the Company is a party and has been duly authorized by all appropriate and necessary action.

3.12 The Company is registered under Section 12(g) of the Securities Exchange Act of 1934 (the "Exchange Act") and its common stock is listed for quotation by the OTC Bulletin Board.

#### 4. REPRESENTATIONS AND COVENANTS OF BUYERS

EACH OF THE BUYERS HEREBY REPRESENTS AND WARRANTS THAT, EFFECTIVE THIS DATE AND THE CLOSING DATE, THE REPRESENTATIONS LISTED BELOW ARE TRUE AND CORRECT.

4.1 BUYER HAS MADE ALL REASONABLE INQUIRIES WITH RESPECT TO THE COMPANY AND THE SALE SHARES AND IS FULLY AWARE OF THE CONDITION AND PROSPECTS, FINANCIAL AND OTHERWISE, OF THE COMPANY, HAVING BEEN SUPPLIED WITH SUCH FINANCIAL AND OTHER DATA RELATING TO THE COMPANY AS BUYER CONSIDERED NECESSARY AND ADVISABLE TO ENABLE BUYER TO FORM A DECISION CONCERNING THE PURCHASE HEREIN PROVIDED.

4.2 BUYER IS FULLY AWARE THAT THE SALE SHARES, WHEN DELIVERED, WILL NOT HAVE BEEN REGISTERED UNDER THE ACT; THAT ACCORDINGLY NO SALE, OFFER TO SELL OR TRANSFER OF THE SALE SHARES SHALL BE MADE BY BUYER UNLESS A REGISTRATION STATEMENT UNDER THE '33 ACT WITH RESPECT TO THE SALE SHARES IS THEN IN EFFECT OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE '33 ACT IS THEN IN FACT APPLICABLE TO THE SALE SHARES OR, IN THE OPINION OF COMPANY'S COUNSEL, REGISTRATION IS NOT REQUIRED.

4.3 BUYER HAS BEEN FULLY ADVISED BY THE BANK THAT THE BANK WILL SELL THE SALE SHARES TO BUYER WITHOUT REGISTRATION UNDER THE '33 ACT ON THE BASIS OF A STATUTORY EXEMPTION IN SECTION 4 OF THE '33 ACT AND THAT THE BANK'S RELIANCE UPON THE STATUTORY EXEMPTION IS BASED IN LARGE PART UPON BUYER'S REPRESENTATIONS MADE IN THIS AGREEMENT.

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4.4 BUYER IS ACQUIRING THE SALE SHARES FOR INVESTMENT FOR BUYER'S OWN ACCOUNT AND NOT WITH A VIEW TO RESELL OR OTHERWISE DISTRIBUTE THE SALE SHARES. IN MAKING THE FOREGOING REPRESENTATIONS, BUYER UNDERSTANDS THAT, IN THE VIEW OF THE SECURITIES AND EXCHANGE COMMISSION, THE STATUTORY EXEMPTION UNDER SECTION 4 OF THE '33 ACT WOULD NOT BE AVAILABLE IF, NOTWITHSTANDING BUYER'S REPRESENTATIONS, BUYER HAD IN MIND MERELY ACQUIRING THE SALE SHARES FOR RESALE UPON THE OCCURRENCE OR NONOCCURRENCE OF SOME PREDETERMINED EVENT.

4.5 BUYER HAS THE FULL RIGHT, POWER AND AUTHORITY TO PURCHASE THE SALE SHARES IN ACCORDANCE WITH THE TERMS OF THIS AGREEMENT AND OTHERWISE TO CONSUMMATE AND CLOSE THE TRANSACTION PROVIDED FOR IN THIS AGREEMENT IN THE MANNER AND UPON THE TERMS HEREIN SPECIFIED.

4.6 EACH BUYER LISTED ON SCHEDULE A ATTACHED HERETO IS ACTING INDEPENDENTLY OF EACH OTHER BUYER AND NONE OF THEM ARE ACTING JOINTLY OR IN CONCERT FOR THE PURPOSE OF ACQUIRING OF THE SALE SHARES. ALL SUCH BUYERS HAVE ACTED IN THE PREMISES THROUGH A BROKER-DEALER, ROBERT M. COHEN & CO., INC. ("RMCC") ACTING ON THEIR BEHALF. THE BANK HAS NO LIABILITY TO RMCC FOR COMMISSIONS, FINDERS FEES, OR OTHERWISE IN CONNECTION WITH RMCC'S PARTICIPATION IN THIS TRANSACTION. FOLLOWING SUCH PURCHASE OF THE SALE SHARES, EACH BUYER WILL CONTINUE TO ACT INDEPENDENTLY, ONE FROM THE OTHER, AND WILL NOWISE ACT JOINTLY OR IN CONCERT IN THE VOTING, PLEDGING, SALE OR OTHER ACTIVITY OF ANY KIND RELATING TO THE SALE SHARES.

4.7 BUYER IS A SOPHISTICATED BUYER WITH RESPECT TO THE PURCHASE OF THE SALE SHARES AND HAS ADEQUATE INFORMATION CONCERNING THE BUSINESS AND FINANCIAL CONDITION OF THE COMPANY TO MAKE AN INFORMED DECISION REGARDING THE PURCHASE OF THE SALE SHARES AND HAS INDEPENDENTLY AND WITHOUT RELIANCE UPON THE BANK AND BASED ON SUCH INFORMATION BUYER HAS DEEMED APPROPRIATE, MADE HIS OWN ANALYSIS AND DECISION TO ENTER INTO THIS AGREEMENT, EXCEPT THAT BUYER HAS RELIED UPON THE REPRESENTATIONS, WARRANTIES, AGREEMENTS AND COVENANTS OF THE COMPANY CONTAINED IN THIS AGREEMENT.

4.8 BUYER ACKNOWLEDGES AND AGREES TO THE BANK'S REPRESENTATIONS AND STATEMENTS CONTAINED IN THE PARAGRAPH FOLLOWING SECTION 2.4 OF THIS AGREEMENT. BUYER IS NOT RELYING ON ANY REPRESENTATIONS OF THE BANK, EXCEPT AS EXPRESSLY PROVIDED IN SECTION 2. BUYER UNDERSTANDS THAT IT MAY LOSE ITS

ENTIRE INVESTMENT AND REPRESENTS THAT IT IS ECONOMICALLY ABLE TO SUSTAIN SUCH LOSS. BUYER REPRESENTS THAT IT HAS HAD ADEQUATE OPPORTUNITY TO CONSULT WITH COUNSEL AND OTHER SOPHISTICATED ADVISORS IN CONNECTION WITH THE PURCHASE OF THE SALE SHARES. THE REPRESENTATIONS AND WARRANTIES OF BUYER CONTAINED IN THIS SECTION 4 SHALL SURVIVE THE CLOSING DATE.

5. Closing Date

The Closing Date herein referred to shall be upon such date as the parties hereto may mutually agree upon. At the Closing, Buyers will be provided with and accept delivery of the Sale Shares, and in connection therewith, will make payment of all sums due to the Bank. Certain closing documents may be delivered subsequent to the Closing Date upon the mutual agreement of the parties hereto.

In the event the Closing Date has not occurred on or prior to January 31, 1997, each party to this Agreement will have the right to terminated this Agreement at any time thereafter upon written notice to the other parties and thereafter no party to this Agreement will have any liability or obligation to any other party to this Agreement.

6. Conditions Precedent To The Obligations Of The Bank

All obligations of the Bank under this Agreement are subject to the fulfillment, prior to or at the closing on the Closing Date, of each of the following conditions:

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6.1 The representations and warranties by Buyers and the Company contained in this Agreement shall be true in all material respects at and as of the time of Closing as though such representations and warranties were made at and as of such time.

6.2 Buyers and the Company shall have performed and complied with all covenants, agreements, and conditions required by this Agreement to be performed or complied with by Buyers and the Company prior to or at the Closing including the payment of the Price by Buyers in accordance with the terms hereof, including the allocations set forth on Schedule A hereto.

7. Conditions Precedent To The Obligations Of Buyer

All obligations of Buyers under this Agreement are subject to the fulfillment, prior to or at the Closing on the Closing Date, of each of the following conditions:

7.1 The representations and warranties by the Bank and the Company contained in this Agreement shall be true at and as of the time of Closing as though such representations and warranties were made at and as of such time.

7.2 The Company and the Bank shall have performed and complied with all covenants, agreements, and conditions required by this Agreement to be performed or complied with by them prior to or at the Closing.

8. Documents At Closing

At the Closing, the following transactions shall occur, all of such transactions being deemed to occur simultaneously:

8.1 The Bank will deliver the certificates and stock powers referred to in Section 1.4 hereof.

8.2 The Company will deliver, or cause to be delivered, to Buyers the



following:

a.a copy of the most recent shareholder list of the Company in the Company's possession certifying the number of shares outstanding. In the event additional shares of the Company have been issued since the date of such shareholder list, such issuances will be identified on a schedule attached to the shareholder list.

b.such other instruments, documents and certificates, if any, as are required to be delivered pursuant to the provisions of this Agreement or which may be reasonably requested in furtherance of the provisions of this Agreement;

8.3 Buyer will deliver or cause to be delivered to the Bank:

a.the Price.

b.such other instruments and documents as are required to be delivered pursuant to the provisions of this Agreement or which may be reasonably requested in furtherance of the provisions of this Agreement.

8.4 The Company will deliver or cause to be delivered to the Bank and the Company's transfer agent, Continental Stock Transfer & Trust Company, an opinion of counsel to the effect that the sale of the Sale Shares by the Bank to the Buyers will be exempt from the registration requirements of the '33 Act.

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9. Miscellaneous

9.1 Further Assurances. At any time, and from time to time, after the effective date, each party will execute such additional instruments and take such action as may be reasonably requested by the other party to carry out the intent and purposes of this Agreement.

9.2 Waiver. Any failure on the part of any party hereto to comply with any of its obligations, agreements or conditions hereunder may be waived in writing by the party to whom such compliance is owed.

9.3 Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been given if delivered in person or sent by prepaid first class registered or certified mail, return receipt requested, fax or recognized courier to the following addresses:

To the Bank:

The Governor and Company  
of the Bank of Scotland  
The Mound  
Edinburg, Scotland Attention: Legal Services

With copies to:

Sullivan & Worcester LLP  
767 Third Avenue  
New York, NY 10017  
Attention: Paul R. Wiener, Esq.  
Telephone: 212-486-8200  
Fax: 212-758-2151

To the Company:

Corniche Group Incorporated  
a Delaware corporation  
Wayne Interchange Plaza I  
145 Route 46 West  
Wayne, NJ 07974

To Buyer:

See Schedule A

With copies to:

The Law Offices of John L. Milling  
115 River Road, Bldg. 12  
Edgewater, NJ 07020  
Telephone: 201-313-1600  
Fax: 201-313-7249

9.4 Headings. The section and subsection headings in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

9.5 Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

9.6 Governing Law a. With respect to any suit, action, or proceedings relating to this Agreement, each party irrevocably submits to the exclusive jurisdiction of the English courts. This Agreement shall be governed by English law.

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b. Each party waives any objection which it may have at any time to the laying of venue of any proceedings in any such court, waives any claim that such proceedings have been brought in an inconvenient forum and further waives the right to object with respect to such proceedings, that such court does not have jurisdiction over such party.

9.7 Binding Effect. This Agreement shall be binding upon the parties hereto and inure to the benefit of the parties, their respective heirs, administrators, executors, successors and assigns.

9.8 Entire Agreement. This Agreement is the entire agreement of the parties covering everything agreed upon or understood in the transaction. There are no oral promises, conditions, representations, understandings, interpretations or terms of any kind as conditions or inducements to the execution hereof.

9.9 Severability. If any part of this Agreement is deemed to be unenforceable the balance of this Agreement shall remain in full force and effect.

In Witness Whereof, the parties have executed this Agreement as of the day and year first above written.

THE GOVERNOR AND COMPANY  
OF THE BANK OF SCOTLAND

By /s/ John Kelly

CORNICHE GROUP INCORPORATED

By /s/ James F. Fyfe  
JAMES FYFE, Vice President

BUYERS

/s/ David Abrams  
/s/ Anthony J. Blazej  
/s/ Ethel Blazej/AIB  
/s/ Betty Charlson

/s/ Dr. Lawrence R. Gluck  
/s/ Robert Gmuer  
/s/ Lou Hammer  
/s/ Danny Jacobson & Estelle Jacobson, JTWROS  
/s/ Jeff Klein  
/s/ Steve Miner  
/s/ Wilfred Saint Jr.  
/s/ Mary S. Saint

Sutton West Realty Pension Plan

By /s/ Steve Wachter - Trustee

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Schedule A - List of Buyers

Buyer	Number of Shares to be Purchased
Lou Hammer 2 Cranberry Street Parsipanny, NJ 07054	120,000
Steve Miner 193 Steele Road West Hartford, CT 06119	120,000
Jeff Klein 52 Greenlawn Road Clifton, NJ 07013	50,000
Wilfred Saint & Mary Sue Saint 14325 Shoreham Drive Silver Spring, MD 20905	50,000
Robert Gmuer 3137 Holl Avenue Bronx, NY 10467	100,000
Betty Chalson 53 Normandy B Delray Beach, FL 33484	100,000
Ethel Blazej 62 Green Drive Toms River, NJ 08755	50,000
Anthony Blazej 70 Lakeview Avenue New Canaan, CT 06840	100,000
Danny & Estelle Jacobsen, JTWROS 17268 Hampton Blvd. Boca Raton, FL 33496	100,000
Dave Abrams 35 E Cheryl Road Pine Brook, NJ 07058	50,000
Larry Gluck 220 Currier Drive Orange, CT 06477	100,000

Sutton West Realty Inc. Pension Plan	102,250
Steve Wachter - Trustee	
100 E. 64th Street, Suite 270	
New York, NY 10021	-----
Total Shares to be Purchased	1,042,250

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SCHEDULE 3.1

- 3.1.1 MARCH 25, 1995 AUDITED FINANCIAL STATEMENT (1)
- 3.1.2 DECEMBER 31, 1995 UNAUDITED FINANCIAL STATEMENTS (2)
- 3.1.3 SEPTEMBER 30, 1996 UNAUDITED FINANCIAL STATEMENTS

(1) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended March 25, 1995 filed with the Securities and Exchange Commission.

(2) Incorporated by reference to the Company's Current Report on Form 10-Q for the quarter ended December 31, 1995 filed with the Securities and Exchange Commission.

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SCHEDULE 3.1.3

SEPTEMBER 30, 1996 UNAUDITED FINANCIAL STATEMENTS

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CORNICHE CROUP INCORPORATED  
Balance Sheet  
(Unaudited)

ASSETS

	September 30, 1996	March 31, 1996
Current assets:		
Cash	\$398	\$66
Notes receivable	0	125,000
Other receivables	0	10,000
Total current assets	398	135,066
Other assets:		
Property and equipment, net	941	1,135

Total assets	\$1,339	\$136,201
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LIABILITIES AND STOCKHOLDERS' (DEFICIENCY) EQUITY

Current liabilities:

Notes Payable	\$86,679	\$11,679
Note Payable on debt compromise	77,630	77,630
Trade account payable	260,484	358,760
Dividends payable - preferred stock	122,565	89,453
Accrued liabilities	223,121	258,622
Total current liabilities	770,479	796,144

Stockholders' (deficiency) equity:

7% cumulative convertible preferred stock authorized and issued 1,000,000 shares, and outstanding 946,069 shares	946,069	946,069
Common stock, \$0.10 par value, authorized - 30,000,000 shares, issued 2,623,457	262,345	262,345
Additional paid-in capital	793,976	793,976
(Accumulated deficit) retained earnings	(2,566,820)	(2,457,623)
Treasury stock-at cost, 218,100 shares.	( 204,710)	( 204,710)
Total stockholders' (deficiency) equity	( 769,140)	( 659,943)
Total liabilities and stockholders' (deficiency) equity	\$1,339	\$136,201

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CORNICHE CROUP INCORPORATED  
Statement of Operations  
(UNAUDITED)

	-- 3 Months Ended -- Sept 30, 1996	Sept 30, 1995	-- 6 Months Ended -- Sept 30, 1996	Sept 30, 1995
Net sales	\$ 0	\$ 0	\$ 0	\$ 0
Cost of sales	0	0	0	0
Gross profit	0	0	0	0
General & administrative expenses	(37,610)	(183,503)	(71,860)	(271,201)
Operating loss	(37,610)	(183,503)	(71,860)	(271,201)
Interest (net)	( 2,425)	8,329	( 4,225)	8,329
Net loss before Preferred Dividends	(40,035)	(175,174)	(76,085)	(262,872)
Preferred dividends	(16,556)	( 20,377)	(33,112)	( 35,660)
Net loss	\$ (56,591)	\$ (195,551)	\$ (109,197)	\$ (298,532)

Loss per share of common stock	\$ (0.02)	\$ (0.73)	\$ (0.05)	\$ (1.39)
Weighted average Number of common shares outstanding	2,405,357	2,298,136	2,405,357	2,195,336

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CORNICHE GROUP INCORPORATED AND SUBSIDIARY

Consolidated Statement of Cash Flows

(Unaudited)

----- 6 Months Ended -----  
Sept 30, Sept 30,  
1996 1995

Cash flows from operations:

Net loss	\$ (109,197)	\$ (298,532)
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Adjusted to reconcile net loss  
to net cash used in operations  
activities:

Depreciation	194	858
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Changes in assets and liabilities:

(Inc)/Dec in notes receivable	125,000	0
(Inc)/Dec in other receivables	10,000	( 66,465)
(Inc)/Dec in prepaid expenses	0	( 64,124)
(Inc)/Dec in accounts payable	( 98,276)	271,241
(Inc)/Dec in accrued liabilities	( 35,501)	(266,038)
(Inc)/Dec in notes payable	75,000	( 4,613)
Increase in dividends payable	33,112	35,660
Advances to subsidiary	0	(441,800)

Net cash used in operations	322	(833,813)
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Cash flows from investing activities:

Payments to acquired fixed assets	0	( 8,926)
-----------------------------------	---	----------

Net cash used in investing activities	0	( 8,926)
---------------------------------------	---	----------

Cash flows from financing activities:

Issuance of common stock for cash	0	794,336
-----------------------------------	---	---------

Issuance of common stock for settlement of liabilities	0	50,000
---	---	--------

Net cash provided by financing activities	0	844,336
---	---	---------

Net increase in cash	322	1,597
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Cash at beginning of period	66	100
-----------------------------	----	-----

Cash at end of period	\$398	\$1,697
	====	=====

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SCHEDULE 3.2

The Company is qualified to do business and is in good standing in the State of New Jersey. A copy of the Company's Certificate of Incorporation, as amended, and a copy of the Company's By-Laws, as amended, are incorporated by reference to the Company's Annual Report on Form 10-K for the year ended March 31, 1996 (Exhibit 3(j)) and by reference to the Company's registration statement on Form S-1 (File No. 33-42154) (Exhibit 3.10), respectively, as filed with the Securities and Exchange Commission.

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SCHEDULE 3.3

OUTSTANDING STOCK OPTIONS AND WARRANTS

WARRANTS

Issue Date	Exercise Price \$	# of Shares	Expiration Date
February 1991	36.00	48,867	1/98
September 1993	46.40	9,375	4/99
March 1995	3.20 - 8.10	91,933	1/99 - 11/03

1986 Stock Option Plan

Issue Date	Exercise Price \$	# of Shares	Expiration Date
August 1992	32.50	18,000	

1992 Stock Option Plan

Issue Date	Exercise Price \$	# of Shares	Expiration Date
May 1996	.18	1,500	2001

## SCHEDULE 3.4

Pending Litigation, Governmental Investigations, Etc.

1. There are no outstanding legal proceedings. All matters referred to in the Company's December 30, 1995 Report on Form 10-Q have been settled.
2. The IRS is currently conducting an audit of the Company's books and records for the fiscal year ended September 30, 1993, with regard to the Company's then wholly-owned subsidiary, Fidelity Medical Inc.

## SCHEDULE 3.7

3.7 (i) Since the receivership proceedings in February 1996 involving the Company's UK subsidiaries, the Company has not been able to settle its liabilities in a timely fashion. Accordingly, the liabilities included in the Company's most recent financial statements are considerably past due.

## SCHEDULE 3.8

Delinquent SEC Filings

The Company is delinquent in its filing of the following reports with the SEC:

1. Annual Report on Form 10-K for the fiscal year ended March 31, 1996.
2. Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.
3. Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.

## SCHEDULE 3.9

Delinquent Federal, State and Local Tax Returns

The Company is delinquent in the filing of Federal and State tax returns for the fiscal years ended September 30, 1994 and September 30, 1995.



SCHEDULE 3.10

Subsidiaries

Through February 1996 the following UK corporations were wholly-owned subsidiaries of the Company:

Corniche Distribution Limited ("CDL")

The Stationery Company Limited (owned by CDL)

Chessbourne International Limited (owned by CDL)

All of the foregoing corporations are in receivership in the UK and have either been liquidated or will be liquidated shortly. The Company has not received and will not receive cash or any other assets or items of value in connection with these liquidations.

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## MUTUAL RELEASE

KNOW ALL MEN BY THESE PRESENTS:

That Whereas:

A. Corniche Group Incorporated, a Delaware corporation ("CGI") borrowed UK£50,000 from The Bank of Scotland (the "Bank") and in consideration therefor issued to the Bank CGI's promissory note dated in February 1996 (the "Note") providing for, among other things, maturity in August 1996 and an annual rate of interest calculated at 2% above the 3-month London Interbank Offered Rate ("LIBOR") ascertained at specified times ; and

B. The Bank advised CGI that it would accept in full satisfaction and discharge of all principal, accrued interest and any and all others sums which may be due under the Note the sum of US\$ 89,374.49, payable in lawful money of the United States and in same day funds on the date hereof; and

C. CGI has this day made payment herewith to the Bank of the amount set forth in Preamble B above, in accordance with the terms specified therein, and in full satisfaction and discharge of the obligations specified therein.

Now, Therefor:

CORNICHE GROUP INCORPORATED  
JAMES FYFE

(the said corporation and individuals,  
together with their respective  
executors, administrators, successors  
and assigns collectively jointly, and  
severally the "CGI Group")

and

THE GOVERNOR AND COMPANY OF  
THE BANK OF SCOTLAND

(the said corporation together with its  
successors and assigns, collectively,  
jointly, and severally the "Bank Group")

for good and valuable consideration, the receipt of which is acknowledged each from the other, have entered into the agreements of release set forth below.

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1. The CGI Group and each and every one of them respectively do, by these presents, remise, release and forever discharge the Bank Group and each and every one of them from all liabilities, accounts, causes of action, sums of money, reckonings, contracts, controversies, agreements, damages, judgments, executions, claims, demands, debts, obligations, promises, covenants, actions and undertakings, in law or in equity, which against the Bank Group and each and every one of them the CGI Group and each and every one of them ever had, now have or hereafter can, shall or may have, for or by reason of any matter, cause or thing whatsoever, up to and through the date hereof.

2. The Bank Group and each and every one of them respectively do, by these presents, remise, release and forever discharge the CGI Group and each and every one of them from all liabilities, accounts, causes of action, sums of money, reckonings, contracts, controversies, agreements, damages, judgments, executions, claims, demands, debts, obligations, promises, covenants, actions and undertakings, in law or in equity, which against the CGI Group and each and every one of them the Bank Group and each and every one of them ever had, now have or hereafter can, shall or may have, for or by reason of any matter, cause or thing whatsoever, up to and through the date hereof.

3. In the event the payment to the Bank referred to in Preamble B must be returned, repaid or disgorged to the CGI Group, a trustee or any other person, in whole or in part, Sections 1 and 2 hereof shall be null and void and of no force or effect.

In Witness Whereof, the parties have caused these presents to be executed by the following persons thereunto duly authorized as of January 30, 1997.

CORNICHE GROUP INCORPORATED

By: /s/ James Fyfe  
JAMES FYFE, Vice President

/s/ James Fyfe  
JAMES FYFE

THE GOVERNOR AND COMPANY OF  
THE BANK OF SCOTLAND

By /s/ John Kelly

<ARTICLE> 5

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Smithsons  
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S O L I C I T O R S

79 Mosley Street  
Manchester  
M2 3LT

Telephone: 0161 237 9283  
Facsimile: 0161 237 9284  
DX: 18574 Manchester 7

Our Ref: AGS/AS/C31-1/cgil  
Your Ref:

7 March 1997

J J Fyfe Esq  
Corniche Group Incorporated  
Wayne Interchange Plaza I  
3rd Floor  
145 Route 46 West  
WAYNE, NJ 07470, USA

Dear Sir

Corniche Distribution Limited (In Administrative Receivership)  
The Stationery Company Limited (In Administrative Receivership)

We have been asked to give a legal opinion as to the status of the above subsidiary companies of Corniche Group Incorporated ("CGI") as a result of receivership proceedings. This opinion is based upon the information and copy documents supplied by CGI and the other sources referred to in this opinion.

1 Background

Corniche Distribution Limited (In Administrative Receivership) ("CDL") and The Stationery Company Limited (In Administrative Receivership) ("TSCL") borrowed considerable sums of money from The Bank of Scotland. It is the normal practice in England for banks, when advancing sums of money to limited companies, to obtain security for those borrowings by means of mortgages over fixed assets ("Fixed Charges") and debentures over pools of assets which by their nature will change from time to time ("Floating Charges"). This security is taken in one document known as a Fixed and Floating Charge. CDL executed a Fixed and Floating Charge in favour of The Bank of Scotland dated 7 April 1995 and TSCL similarly executed such a document in favour of The Bank of Scotland dated 16 November 1993.

A copy of the charge executed by TSCL has been supplied by CGI and is annexed to this opinion. We are informed by officers of CGI that the charges executed by CDL and Chessbourne International Limited ("CIL") are in substantially the same form. We refer to paragraph 3.1 of the charge and are of the opinion that all the assets set out in the Summaries referred to below are caught by the security created by those charges.

We have considered the copy document supplied to us and on the basis that all charges are in the form annexed, we are of the opinion that all the assets of CDL and TSCL are the subject of security in favour of The Bank of Scotland as a result of such charges.

We have been supplied with copy Summaries of Assets and Liabilities at the date of the appointment of the relevant administrative receiver of CDL, TSCL and CIL by CGI and it can be seen that the liabilities secured by the charge in favour of the Bank far outweigh the value of the assets in each of the two companies. In the case of CDL the estimated deficiency was £4,276,456, in the case of TSCL the estimated deficiency was £4,041,333 and in the case of CIL the estimated deficiency was £5,137,617. The administrative receivers referred to in paragraph 2 below prepared statutory reports on the companies. Copies of these reports are annexed to this opinion together with a copy of the report on CIL which is referred to in paragraph 10 below. These reports, while disagreeing with certain of the figures on the Summaries, conclude that there will be deficiencies in the receiverships. We have also been supplied with this information in the case of CIL and it is reported by the administrative receivers (who are common to all three companies) that there is a deficiency of assets over liabilities in CIL.

## 2. Administrative Receivership

The two Fixed and Floating Charges executed by CDL and TSCL in favour of The Bank of Scotland plc ("the Charges") contain powers for the bank to appoint an administrative receiver of the assets covered by the security.

The appointment of an administrative receiver was effected on 7 February 1996 in the case of TSCL and 28 February 1996 in the case of CDL.

The role of administrative receivers is to collect and realize the assets of the security to the extent necessary to repay the chargeholder (i.e. Bank of Scotland). Given that the liabilities exceed the assets, all the assets of CDL and TSCL are to be realized by the administrative receivers under the charge and the net proceeds of disposal are to be paid to the bank as payment against the liabilities owed to the bank by CDL and TSCL.

## 3 Effect of Receivership on the Officers of the Company

The officers of companies in England and Wales comprise the company secretary (whose function is purely administrative) and the directors who are the officers charged with the day to day management of the company. The powers of the directors are set out in the Company's memorandum and articles of association, and in the case of CDL and TSCL, the Companies Act 1985.

Statute is silent as to the effect of administrative receivership on the powers of the directors of companies placed in administrative receivership but the matter fell to be decided by the English Courts on a number of occasions and the most recent case, Gomba Holdings UK Limited -v- Homa in 1986, held that the appointment of a receiver suspends the powers of a company and its directors to deal with the assets which are the subject of the charge. The effect of the suspension of the powers of CDL, TSCL and their respective directors, were complete since all the assets of the two companies were caught by the Charges.

The powers of administrative receivers are contained partly in the Charges and are also contained in statute, namely the Insolvency Act 1986, s.42 (1) and Schedule 1. The powers contained in the Charges and Schedule I Insolvency Act 1986 are far reaching and replace in all material respects the powers formerly enjoyed by CDL, TSCL and their directors for the duration of the receivership.

#### 4 Effect of Receivership on CGI

CGI is the holder of the entire issued share capital of CDL and through CDL it is the holder of the entire issued share capital of TSCL. Such a relationship does not create any obligations on the part of CGI in respect of the liabilities secured by the Charges save insofar as any guarantee of the obligations of CDL and TSCL were given by CGI to the bank. We are informed by the officers of CGI that no such guarantees have been given to the bank by CGI and consequently we confirm that no liability can attach to CGI by virtue of the charges.

We have been supplied with a copy of a mutual release which the officers of CGI inform us has been executed by The Bank of Scotland and CGI. A copy of this mutual release, in the form signed by CGI, is attached to this opinion and clause 2 of that document releases CGI from any liabilities to The Bank of Scotland.

Similarly, the appointment of administrative receivers in respect of the assets of CDL and TSCL have no effect on the assets of CGI. We acted for CGI in connection with claims made against CGI by the receivers of CDL in connection with sums allegedly owed by CGI to CDL on the intercompany accounts. All such liabilities were compromised between CGI and CDL. We attach a copy of the compromise agreement and are of the opinion that the agreement is enforceable on its terms and has the effect of releasing CGI from all liability to CDL on performance by CGI of its obligations under that agreement. It is open to a subsequently appointed liquidator to question transactions carried out by a receiver. The only basis upon which the compromise agreement could be attacked would be that it was a transaction at an under value. The valuation letter from Baker Tilley makes any such attack most unlikely. Even if such an attack were launched we are of the opinion that it would be unsuccessful.

#### 5. Statutory Obligations of the Companies

The status and nature of the company does not change in law upon the appointment of an administrative receiver, and consequently strictly speaking the company remains liable to file annual returns and statutory accounts. In practice this is not done and the Registrar of Companies (the government official in England and Wales responsible for overseeing companies) will not enforce such an obligation. It would be normal for directors to resign shortly after receivership although their obligation to assist with the process continues. A receiver would have no responsibility for compliance with the regulatory requirements and consequently in practice there is no one against whom the Registrar could proceed for a breach of the company's filing requirements. Even if the directors remained in office the Registrar, as a matter of practice, does not require the filing of annual returns or statutory accounts since to take enforcement proceedings in that regard might adversely affect the receivership. The Registrar takes the view that such proceedings would be inappropriate.

This is a matter of practice and there is nothing in statute which relieves the company from these filing obligations. We have, in providing this opinion, spoken with the appropriate regulatory authorities at Companies House who have confirmed this practice to us over the telephone.

The obligation to file accounts on a company is one on the officers of the company and there is no responsibility on the part of CGI, as holding company, to ensure that returns and accounts are filed with Companies House by either CDL or TSCL.

It follows therefore that the preparation of financial statements is impractical since the receivers have control of the books and papers of the

companies. Preparation of such financial statements will also be costly and in practice no auditor could be found to prepare the financial statements.

## 6 Length of Receivership

There is no minimum or maximum time specified for a receivership and as a result some receiverships can go on for a number of years. The receivership will end when the receivers have disposed of all the assets under the Charges and applied the proceeds of such disposals.

## 7 Position post-receivership

Once the receivership of CDL and TSCL is at an end the companies will have no assets remaining. CDL and TSCL will therefore be placed into liquidation after the conclusion of the receivership. The liquidation will be a liquidation by order of the Court, known as a compulsory winding up, and the powers of the directors of CDL and TSCL cease upon the Court making a compulsory winding up order. Upon liquidation there will be restrictions under Companies Act 1985 which will prevent CGI from dealing with or disposing of the shares in CDL and TSCL without consent of either the liquidator or the Court as appropriate. After liquidation, CDL and TSCL will be dissolved automatically by virtue of the Insolvency Act 1986 s.205 at the end of the period of three months beginning with the day of registration of a notice of the final meeting of creditors and vacation of office by the liquidator. Dissolution of a company results in the company ceasing to exist as a legal entity.

## 8 Trading post-receivership

We have specifically been asked to advise whether or not the business of CDL and TSCL ran continue during the receivership. The business may be continued by the administrative receiver within a specific power so to do contained in the Insolvency Act 1986 Schedule 1 paragraph 14. The power of the directors of CDL and TSCL, having been suspended by virtue of the receivership, prevents them from continuing to trade CDL or TSCL.

The summaries of the assets and liabilities of CDL and TSCL demonstrate that the liabilities of both companies exceed the assets. As a result, the receivership is insolvent. CDL was a holding company and never traded. TSCL was a trading company and the receiver ceased trading in TSCL on the date of their appointment, namely 7 February 1996 following a sale of 18 of the 22 shops to Stationery Box Limited. There are consequently no circumstances in which either CDL or TSCL could re-commence trading given the net deficiency in assets over liabilities. In the event that, at the end of the receivership of CDL and TSCL, there is no application made for an appointment of a liquidator, the receiver should report the situation to the Registrar of Companies. Under Companies Act 1985 s.652 the Registrar of Companies will initiate proceedings resulting in the company being struck off the Register of Companies and thereby ceasing to exist.

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In practice the receiver is almost certain to hand the resulting empty husk of CDL and TSCL to a government official known as the Official Receiver who will act as liquidator of the companies. The reason that receivers take this course of action is that they no longer have any power to destroy or dispose of books and records of the Company and this power now lies solely with the liquidator. The appointment of a liquidator, albeit the Official Receiver, is in the interests of receivers so as to dispose of unwanted books and records.

## 9. Summary

We can confirm that the effect of the above is that the shareholders of an English company placed in receivership in England have no further control of



any kind over the company during the entire period that the administrative receivership continues and that such shareholders will never regain effective control of the company where, upon the termination of the administrative receivership, the company will be left with material liabilities and no assets. Under such circumstances it would follow that the company would be liquidated and thereafter the company's existence would be terminated.

The position in summary, therefore, is that:-

(i) CDL and TSCL have lost control of their assets

(ii) It is effectively impossible for the companies to prepare financial statements for the year ended 31 March 1996 or any period thereafter

(iii) In the light of the deficiency in assets over liabilities and the fact that the companies do not trade, the winding up of the companies is inevitable.

10 Chessbourne International Limited

CIL was a company within the CGI group of companies. CIL is registered in Scotland and accordingly the laws of England do not apply to such a company. As English solicitors we can give no opinion on Scots law. As a general matter we can however state that all material provisions of the Companies Act 1985 are common to companies registered in England and Scotland. The provisions of the Insolvency Act relating to administrative receivership are not common in the two jurisdictions and there are separate provisions for England and Scotland.

We have reviewed the different provisions in the Insolvency Act and, without giving any opinion as to Scots law, can see nothing in the provisions of Chapter 11 Insolvency Act 1986 (s.50 to 71 inclusive) which contain the provisions which relate exclusively to Scotland, that would lead to any different result in Scotland. The only exception to this is that it would appear that, whereas in England receivership will be completed before liquidation takes place, it is possible for liquidation to have taken place in Scotland and for the receivership to take place in parallel with the liquidation.

The powers of administrative receivers in England and Wales are set out in Schedule 1 Insolvency Act 1986 and the powers for administrative receivers in Scotland are set out in Schedule 2 Insolvency Act 1986. The powers are identical in many respects save for differences arising from the powers necessary to effect dispositions of land in the two

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jurisdictions. Furthermore, in England the receivers have power to create subsidiaries and transfer assets within newly created subsidiaries. This power does not exist in Scotland.

Finally, it should be noted that the two jurisdictions are sufficiently similar for there to be provision in s.72 Insolvency Act 1986 which states that where a receiver is appointed in either part of Great Britain (i.e. in England and Wales or Scotland) that receiver may exercise his powers which arise from a charge created in one part of Great Britain over assets situated in the other part of Great Britain.

We have been provided with a copy of the report of the receivers on CIL and can confirm from that report that the receivers were appointed on 7 February 1996. We can confirm that the receivers effectively ceased trading in CIL on the date of their appointment save for asset disposals referred to in the report.

Yours faithfully

/S/ Smithsons  
Smithsons

encs

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D E B E N T U R E

by

THE STATIONERY COMPANY LIMITED

in favor of

THE GOVERNOR AND COMPANY OF  
THE BANK OF SCOTLAND

GFL2W463/15

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1. THE STATIONERY COMPANY LIMITED (registered in England and Wales with No. 02731602) (hereinafter called "the Company") whose registered office is at 79 MOSLEY STREET, MANCHESTER, M2 3LT hereby covenants that it will, on demand in writing made to the Company, pay or discharge to the Governor and Company of the Bank of Scotland (hereinafter called "the Bank") all moneys liabilities which shall for the time being (and whether on or at any time after such demand) be due, owing or incurred in whatsoever manner to the Bank by the Company, whether actually or contingently and whether solely or jointly with any other person and whether as principal or surety and whether or not the Bank shall have been an original party to the including interest, discount, commission and relevant transaction, and including interest, discount, commission and other lawful charges or expenses which the Bank may in the course of its business charge in respect of any of the matters aforesaid or for keeping count, and so that interest shall be computed and the Company's account, and so that interest shall be computed and compounded according to the usual mode of the Bank as well after as before any demand made or judgment obtained hereunder.

2. A demand for payment or any other demand or notice under this Debenture may be made or given by any manager or officer of the Bank or of any branch thereof by letter addressed to the Company and sent by post to or left at the registered office of the Company or its existing or its last known place of business (or if more than one any one of such places), and so that such demand or notice if sent by post shall be deemed to have been made or given at noon on the day following the day the letter was posted.

3.1. The Company as beneficial owner hereby charges with the payment or discharge of all moneys and liabilities hereby covenanted to be paid or discharged by the Company:-

3.1.1 by way of legal mortgage, all the freehold and leasehold property of the Company now vested in it, whether or not the title thereto is registered

at H.M. Land Registry, including that which is described in the Schedule hereto, together with all buildings and fixtures (including trade and tenant's fixtures) now and hereafter thereon and all plant and machinery now and hereafter annexed thereto for whatever purpose;

3.1.2 by way of fixed charge, all freehold and leasehold property hereafter belonging to the Company together with all buildings and fixtures (including trade and tenant's fixtures) thereon and all plant and machinery annexed thereto for whatever purpose;

3.1.3 by way of fixed charge, all interests not hereinbefore effectively charged now or hereafter belonging to the Company in or over land or the proceeds of sale of land, all licences now or hereafter held by the Company to enter upon or use land, and the benefit of all other agreements relating to land to which the Company is or may become party or otherwise entitled, and all trade and tenant's fixtures, plant and machinery now and hereafter annexed for whatever purpose to all freehold and leasehold property, an interest in which stands charged hereunder;

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3.1.4 by way of fixed charge, all the goodwill and uncalled capital for the time being of the Company;

3.1.5 by way of fixed charge, all stocks, shares and other securities now or hereafter owned (whether at law or in equity) by the Company, and all rights and interests of the Company in and claims under all policies of insurance and assurance now or hereafter held by or insuring to the benefit of the Company;

3.1.6 by way of fixed charge, all patents, trade marks, patent applications, brand names, service marks, copyrights, rights in the nature of copyright, design rights, registered designs and other intellectual property rights and agreements relating to the use by the Company of patents and trade marks to which the Company is now or may hereafter become entitled and all agreements under which the Company is now or may become entitled -to the payment of any royalty fee or similar income;

3.1.7 by way of fixed charge, all book and other debts of the Company whether now or hereafter existing and whether presently payable or hereafter falling due for payment and all rights and claims of the Company against third parties now or hereafter existing and capable of being satisfied by the payment of money (save as charged under sub-clause 3.1.5. hereof);

3.1.8 by way of floating charge all the Assets (as defined in Clause 19 hereof) whatsoever and wheresoever not hereinbefore effectively charged by way of fixed charge, including (without limitation) any immovable property of the Company situate in Scotland, and any Assets falling within any of the types mentioned in sub-clauses 3.1.3 to 3.1.7 inclusive situate in Scotland but so that the Company is not to be at liberty to create otherwise than in favor of the Bank any mortgage or fixed or floating charge or other security upon and so that no lien (other than a lien arising through operation of law in the ordinary course of business) shall in any case or in any manner arise on or affect any part of such Assets either in priority to or pari passu with the floating charge hereby created, and further that the Company shall have no power without the consent of the Bank to part with or dispose of any part of such Assets except by way of sale in the ordinary course of its business.

3.2. The Bank may from time to time by notice in writing to the Company convert the floating charge created pursuant to sub-clause 3.1.8 into a fixed charge as regards any Assets thereby charged as specified in any such notice and such floating charge shall automatically be converted into a fixed charge:

3.2.1 in respect of any Assets which shall become subject to a fixed charge in favor of any other person or to a disposition otherwise than by way of sale in the ordinary course of the Company's business immediately upon such charge or disposition; and

3.2.2 in respect of all the Assets thereby charged if and when the Company shall cease to carry on business or to be a going concern;

but so that this sub-clause 3.2 shall not apply to any Assets situate in Scotland.

3.3. The Company shall not without the previous written consent of the Bank create or purport or attempt to create any mortgage, charge or encumbrance on any freehold or leasehold property of the 'Company or any other Asset subject to a fixed charge hereunder, nor in any way dispose of the equity of redemption thereof or any interest therein, and the Company hereby applies to the Chief Land Registrar for a restriction to be entered on the register of title of all present and future registered freehold and leasehold property to the Company in the following terms:-

"Except under an order of the Registrar no disposition by the proprietor of the land is to be registered without the consent of the proprietor for the time being of (the charge hereby created)".

3.4. The Company shall, subject to the rights of any prior mortgagee, deposit with the Bank and the Bank during the continuance of this security shall be entitled to hold, all deeds and documents of title relating to the Company's freehold, leasehold and heritable property and stocks, shares and other securities and all policies of insurance or assurance.

3.5. The Company shall on demand in writing made to the Company by the Bank, at the cost of the Company:

3.5.1 execute a valid legal mortgage in the Bank's standard form for the time being, or in such other form as the Bank may reasonably require, of any freehold or leasehold property presently belonging to the Company which is not by this Debenture effectively charged by way of legal mortgage and of any freehold or leasehold property hereafter acquired by the Company;

3.5.2 execute and deliver a standard security or other valid fixed security acceptable to the Bank over heritable or other property, land and buildings wherever situate;

3.5.3 execute a valid fixed charge or assignation in security in such form as the Bank may reasonably require of any Asset subject to a floating charge hereunder; and

3.5.4 do and concur in all such other acts or things as the Bank may deem necessary to vest in the Bank title to all or any of the Assets.

3.6. Any fixed mortgage, charge or other security hereafter created by the Company in favor of the Bank shall have priority over the floating charge created by this Debenture, except insofar as the Bank shall declare otherwise whether at or after the time of creation of such fixed security.

3.7. The Company shall pay into the Company's account with the Bank or as the Bank may direct all moneys which it may receive in respect of any policies of insurance or assurance, royalties or book or other debts or any other of the rights and claims hereinbefore charged to the Bank under subclauses 3.1.5, 3.1.6 and 3.1.7 and until such payment hold all moneys so received upon trust for the Bank, and shall not without the prior written consent of the Bank charge, factor, discount or assign any of the said policies, royalties, debts, rights or claims in favor of any other person or purport so to do.

4. This security shall be a continuing security to the Bank notwithstanding any

settlement of account or other matter or thing whatsoever, and shall be without prejudice and in addition to any other right, remedy or security, whether by way of mortgage equitable charge or otherwise howsoever, which the Bank may now or at any time hereafter or, but for the charges hereby created, would have on or in respect of the Assets or any part thereof for or in respect of the moneys hereby secured or any part thereof.

5. During the continuance of this security the Company shall:

5.1 furnish to the Bank copies of the trading and profit and loss account and audited balance sheet in respect of each financial year of the Company, its holding company (if any) and every subsidiary of the Company, forthwith upon the same becoming available and not in any event later than the expiration of three months from the end of such financial year, and also from time to time such other financial statements and information respecting the assets and liabilities of the Company, its holding company and every such subsidiary as the Bank may reasonably require;

5.2 maintain the aggregate value of the Company's book debts (excluding debts owing by any Group Company (as defined in Clause 19 hereof) or any other company from time to time specified by the Bank) and cash in hand as appearing in the Company's books and of its stock according to the best estimate that can be formed without it being necessary to take stock for the purpose, at a level to be fixed by the Bank from time to time and whenever required by the Bank shall obtain from the Managing Director of the Company for the time being or, if there shall be no Managing Director, then from one of the Directors of the Company and furnish to the Bank a certificate showing the said aggregate value;

5.3 forthwith notify the Bank of the acquisition of any freehold, leasehold or heritable property by the Company;

5.4 not, without the previous written consent of the Bank, redeem or purchase any of its own shares or issue any redeemable shares.

6.1. The Company hereby covenants with the Bank that the Company will.

6.1.1 keep all buildings and all fixtures and fittings, plant, machinery and other effects in good and substantial repair and in good working order and condition, and will maintain all such insurances as are normally maintained by prudent companies carrying on similar

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businesses, and in particular will insure and keep insured such of its Assets as are insurable with an insurance office or underwriters to be approved by the Bank in writing from time to time in the name of the Company with the interest of the Bank noted on the policy, or, at the option of the Bank, in the joint names of the Company and the Bank, against loss or damage by fire and such other risks (and with the policy containing such provisions for the protection of the Bank) as the Bank may from time to time require in their full replacement value for the time being.

6.1.2 pay all premiums and other moneys necessary for effecting and keeping up such insurances within one week of the same becoming due, and will on demand produce to the Bank the policy or policies of such insurance and the receipt for every such payment.

6.2. If the Company shall make default in keeping such buildings, . fixtures and fittings, plant, machinery and other effects in good and substantial repair and in good working order and condition, or in effecting or keeping up such insurances as aforesaid, the Bank may, as it shall think fit, repair and keep in repair the said buildings and other Assets or any of them (with liberty for that purpose by itself or its agents to enter upon the freehold and leasehold property of the Company) or effect or renew any such insurances as aforesaid.

6.3. The Bank shall be entitled to be paid the proceeds of any such policy of

insurance (other than in respect of employers' or public liability) and the Company hereby irrevocably instructs any insurer in respect of any such policy to pay such proceeds to the Bank and undertakes to the Bank to issue such further instructions to that effect as the Bank may require.

6.4. All moneys received on any insurance whatsoever (other than as., aforesaid) shall, as the Bank requires, be applied either in. making good the loss or damage in respect of which the money is received, or in or towards discharge of the moneys for the time being hereby secured.

6.5. The Company will permit any authorized representative of the Bank at all reasonable times to enter upon any part of the freehold and leasehold property of the Company and of any other property where the Company may be carrying out any contract or other works.

7.1. The Company will at all times observe and perform, and ensure the observance and performance by any other person or company at any time occupying the freehold and leasehold property of the Company or any part thereof of, all restrictive and other covenants to which the same or any part thereof may from time to time be subject, all obligations on the part of the Company in any lease or tenancy agreement, all building regulations, and all restrictions, conditions and stipulations for the time being affecting the same or any part thereof or the mode of user or enjoyment of the same and provide to the Bank on request such evidence of such

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observance or performance as the Bank shall require, and within three days will deliver to the Bank any notice or proceedings served by any landlord and relating to any alleged breach of the terms of the relevant lease or tenancy.

7.2. The Company will on request produce to or provide for the Bank such documents or information relating to the freehold and leasehold Property of the Company or the development thereof as the Bank shall require.

8.1. At any time after the Bank shall have demanded payment of any moneys hereby secured (and whether or not the Company shall have been accorded sufficient or any time in which to satisfy the same) or (notwithstanding the terms of any other agreement between the Company and the Bank save only an express exclusion of this provision by reference to this Debenture) after the presentation of a petition applying for an administration order to be made in relation to the Company pursuant to Section 9 of the Insolvency Act 1986, or if requested by the Company, the Bank may appoint by writing any person or persons to be an administrative receiver or administrative receivers (hereinafter called "the Receiver" which expression shall where the context so admits include the plural, and any substituted administrative receiver or administrative receivers, and so that where more than one administrative receiver is appointed they shall have power to act severally unless the Bank shall in the appointment specify to the contrary) of all or any part of the Assets hereby charged. Such an appointment over part only of the Assets hereby charged shall not preclude the Bank from making any subsequent appointment of a Receiver over any part of the Assets over which an appointment has not previously been made by the Bank.

8.2. The Bank may from time to time determine the remuneration of the Receiver and may (subject to the application of Sections 45 of the Insolvency Act 1986) remove the Receiver from all or any part of the Assets of which he is the Receiver, and, at any time after the Receiver shall have vacated office or ceased to act in respect of any of the Assets, appoint a further Receiver over all or any part of the Assets or of the part thereof in respect of which he shall have ceased to act.

8.3. The Receiver shall be the agent of the Company (which shall be solely liable for his acts, defaults and remuneration) unless and until the Company goes into liquidation, whereafter he shall act as principal and shall not become the agent of the Bank, and shall have and be entitled to exercise in

relation to the Company all the powers set out in Schedule 1 to the Insolvency Act 1986 and all the powers conferred from time to time on Receivers by statute and in particular by way of addition to but without hereby limiting such powers (and without prejudice to the Bank's powers) the Receiver shall have powers to do the following things namely:

8.3.1 to sell, let or lease or concur in selling, letting or leasing and to vary the terms or determine, surrender or accept surrenders of leases or tenancies of, or grant options and licences over, all or any part of the Assets and so that any such sale may be made for cash payable by instalments or for shares or securities of another company and the Receiver may promote or concur in promoting a company to purchase the Assets to be sold;

8.3.2 to sever any fixtures from the property of which they form part;

8.3.3 to exercise all voting and other rights attaching to stocks, shares and other securities owned by the Company;

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8.3.4 to make and effect all repairs and improvements;

8.3.5 to redeem any prior encumbrance and to settle and pass the accounts of the encumbrancer; any accounts so settled and passed shall (subject to any manifest error) be conclusive and binding on the Company and the moneys so paid shall be deemed to be an expense properly incurred by the Receiver;

8.3.6 to do all such other acts and things as may be considered by the Receiver to be incidental or conducive to any of the matters or powers aforesaid, or otherwise incidental or conducive to the preservation, improvement or realization of the Assets.

8.4. A person dealing with the Receiver in good faith and for value shall not be concerned to enquire whether the Receiver is validly appointed or acting within his powers.

9. The Company hereby irrevocably appoints the Bank (whether or not the Receiver has been appointed) and also (as a separate appointment) the Receiver severally the Attorney and Attorneys of the Company, for the Company and in its name and on its behalf and as its act and deed or otherwise to execute and deliver and otherwise perfect any deed, assurance, agreement, instrument or act which may be required of the Company hereunder or may be deemed proper for any of the purposes aforesaid, and to convey or transfer a legal estate to any purchaser of any freehold, leasehold or heritable property hereby charged.

10. Any moneys received under the powers hereby conferred shall, subject to the repayment as far as necessary of any claims having priority to this Debenture, be paid or applied in the following order of priority:-

10.1 in satisfaction of all costs, charges and expenses properly incurred and payments properly made by the Bank or the Receiver, and of the remuneration of the Receiver;

10.2 in or towards satisfaction of the moneys outstanding and secured by this Debenture in such order as the Bank may at its discretion require;

10.3 as to the surplus (if any), to the person or persons entitled thereto.

Provided that the Receiver may retain any moneys in his hands for so long as he shall think fit, and the Bank is also to be at liberty, without prejudice to any other rights the Bank may have at any time and from time to time, to place and keep for such time as the Bank may think prudent, any moneys received, recovered or realized under or by virtue of this Debenture to or at a separate or suspense account to the credit either of the Company or of the Bank, as the Bank shall think fit without any intermediate obligation on the Bank's part to apply the same or any part thereof in or towards the discharge of the moneys due or owing to the Bank as aforesaid by the Company.

11. During the continuance of this security:

11.1 no statutory or other power of granting or agreeing to grant or of accepting or agreeing to accept surrenders of leases or tenancies of the freehold and leasehold property hereby charged or any part thereof shall be capable of being exercised by the Company without the previous written consent of the Bank;

11.2 the Company shall not be entitled to part with possession (otherwise than on the determination of any lease, tenancy or licence) of any property hereby charged, or to share the occupation thereof with any other person or persons, or to surrender or purport to surrender or permit to be forfeited the lease of any leasehold property hereby charged without such consent as aforesaid;

11.3 Section 93 of the Law of Property Act 1925 dealing with the consolidation of mortgages shall not apply to this security.

12.1 Section 103 of the Law of Property Act 1925 shall not apply to this security but the statutory power of sale, shall as between the Bank and a purchaser from the Bank, arise on and be exercisable at any time after the execution of this security, provided that the Bank shall not exercise the said power of sale until payment of moneys hereby secured has been demanded or the Receiver has been appointed, but this proviso shall not affect a purchaser or put him upon inquiry whether such demand or appointment has been validly made.

12.2 The statutory powers of sale, leasing and accepting surrenders exercisable by the Bank hereunder are hereby extended so as to authorize the Bank, whether in its own name or in that of the Company to grant a lease or leases of the whole or any part or parts of the freehold and leasehold property of the Company with such rights relating to other parts thereof and containing such covenants on the part of the Company and generally on such terms and conditions (including the payment of money to a lessee or tenant or on a surrender) and whether or not at a premium as the Bank shall think fit.

13. All costs, charges and expenses incurred hereunder by the Bank, and all other moneys paid by the Bank or by the Receiver in perfecting or otherwise in connection with this security or in respect of the Assets, including (without prejudice to the generality of the foregoing) all moneys expended by the Bank under Clauses 6 and 17 hereof and all costs of the Bank (on a solicitor and own client basis) of all proceedings for the enforcement of this security or for obtaining payment of moneys hereby secured or arising out of or in connection with the acts authorized by Clause 8 hereof and all costs and losses to the Bank arising in consequence of any default by the Company in the performance of its obligations and all administrative charges of the Bank based on the time spent by it in connection with any of the foregoing shall be recoverable from the Company as a debt and may be debited to any account of the Company and shall bear interest accordingly and shall be charged on the Assets.

14. On receiving notice that the Company has encumbered or disposed of the Assets or any part thereof the Bank shall be entitled to close the Company's then current account or accounts and to open a new account or accounts

with the Company, and (without prejudice to any right of the Bank to combine accounts) no money paid in or carried to the Company's credit in any such new account shall be appropriated towards or have the effect of discharging any part of the amount due to the Bank on any such closed account. If the Bank does not open a new account or accounts immediately on receipt of such notice it shall nevertheless be treated as if it had done so at the time when it received such notice and as from that time all payments made by the Company to



the Bank shall be credited or be treated as having been credited to such new account or accounts and shall not operate to reduce the amount due from the Company to the Bank at the time when it received such notice.

15. The Company agrees that any moneys from time to time standing to its credit on any account with the Bank may be retained as cover for and, at any time without notice to the Company, applied by the Bank in or towards payment or satisfaction of any moneys or liabilities now or hereafter from time to time due owing or incurred by the Company to the Bank in whatsoever manner whether presently payable or not, whether actually or contingently, whether solely or jointly with any other person And whether as principal or surety.

16. The Bank may from time to time seek from any other person having dealings with the Company such information about the Company and its affairs as the Bank may think fit, and the Company hereby authorizes and requests any such person to provide any such information to the Bank and agrees to provide such further authority in this regard as the Bank may from time to time require.

17. The Company shall at its own cost at any time if so requested by the Bank appoint an accountant or firm of accountants nominated by the Bank to investigate the financial affairs of the Company and/or any subsidiary of the Company and report thereupon to the Bank, and hereby authorizes the Bank itself at any time to make such appointment on behalf of the -Company or on its own account as it shall think fit, and in every such case the fees and expenses of such accountant or firm shall be paid by the Company and may be paid by the Bank on behalf of the Company, and the Bank may at the time of such appointment or thereafter guarantee payment by the Company of such fees and expenses.

18. It is hereby certified that the security created by this Debenture, both in respect of freehold and leasehold property of which the Company is registered at H.M. Land Registry as proprietor and otherwise, does not contravene any of the provisions of the Memorandum and Articles of Association of the Company.

19. In this Debenture where the context so admits:-

19.1 the expression "the Bank" shall include persons deriving title under the Bank;

19.2 any reference to any statute or any section of any statute shall be deemed to include reference to any statutory modification or re-enactment thereof for the time being in force;

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19.3 "Assets" shall mean all the undertaking, property and assets of the Company whatsoever and wheresoever present and future;

19.4 "Group Company" shall mean any company which is a subsidiary company or a holding company (as such terms are defined in Section 736 of the Companies Act 1985 which definitions shall apply for all the purposes hereof) of the Company or a subsidiary of any such holding company or any company which has 50% or more of the holders of its equity share capital in common with the Company.

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IN WITNESS WHEREOF this Debenture has been executed by the Company as a deed and signed on behalf of the Bank this sixteenth day of November 1993.

THE SCHEDULE ABOVE REFERRED TO

County and District (or London Borough)	Title No.(s) (if registered land)	Address or Description
--	--------------------------------------	------------------------

EITHER

THE COMMON SEAL of the Company was hereunto affixed pursuant to a resolution of the Board of Directors in the presence of:

Director /s/ Brain John Baylis

Director/Secretary /s/ Susan A.M. Crisp

OR

Executed and Delivered as a deed by the Company (pursuant to a resolution of its Board of Directors) acting by

Director\_\_\_\_\_

Director/Secretary\_\_\_\_\_

Signed on behalf of the Bank by

/s/ Anne Mc Queen  
Anne Mc Queen

The address for service of the Bank in the case of any registered land is:

Bank of Scotland,  
Legal Services Department  
Teviot House  
41 South Gyle Crescent  
EDINBURGH  
EH12 9DR  
Revised 21.9.93

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[REGISTRAR SEAL]

CERTIFICATE OF THE REGISTRATION  
OF A MORTGAGE OR CHARGE

Pursuant to section 401(2) of the Companies Act 1985

COMPANY No.02731602

THE REGISTRAR OF COMPANIES FOR ENGLAND AND WALES HEREBY CERTIFIES THAT A DEBENTURE DATED THE 16th NOVEMBER 1993 AND CREATED BY THE STATIONERY COMPANY LIMITED FOR SECURING ALL MONIES DUE OR TO BECOME DUE FROM THE COMPANY TO THE GOVERNOR AND THE COMPANY OF THE BANK OF SCOTLAND ON ANY ACCOUNT WHATSOEVER WAS REGISTERED PURSUANT TO CHAPTER 1 PART XII OF THE COMPANIES ACT 1985 ON THE 30th NOVEMBER 1993.

GIVEN AT COMPANIES HOUSE, CARDIFF THE 2nd DECEMBER 1993.

/s/ P. Jones

for the Registrar of Companies

[DEPARTMENT STAMP APPEARS  
HERE DATED 6 DECEMBER 1996]

CH  
COMPANIES HOUSE

HC026

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CHESSBOURNE INTERNATIONAL

SECTION 4

4.1 Statement of Affairs

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Rule 3.2 The Insolvency Act of 1986 Form 3.1 (scot)

NOTICE REQUIRING SUBMISSION OF RECEIVERSHIP  
STATEMENT OF AFFAIRS

Pursuant To Section 66(1) and (4) of the Insolvency Act 1986 and  
Rule 3.2(1) of the Insolvency (Scotland) Rules 1986

- (a) Insert name of the company in receivership (a) CHESSBOURNE INTERNATIONAL LIMITED  
-----
- (b) Insert full name of receiver Take note that I, (b) IAIN T WATTERS  
require you (c) \_\_\_\_\_  
to submit statement as to the affairs of the company by
- (c) Insert date by which statement required to submit statement (d) 6 MARCH 1996
- (d) Insert date by which statement must be submitted under section 66(a) and (5) The statement shall be in the prescribed form of which a copy is attached.

Dated this 13th day of the FEBRUARY 1996

Signed \_\_\_\_\_

Warning

If without reasonable excuse you fail to comply with any obligation under Section 66, you will be liable:

- (i) On summary conviction to fine not exceeding the statutory maximum and, for the continued contravention, to a daily default fine not exceeding one-tenth of the statutory maximum.  
(ii) On conviction on indictment to a fine.

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Pursuant to sections 95, 99 and 131 of the Insolvency Act 1986 and Rule 4.7 and 4.8 of the Insolvency (Scotland) Rules 1986

Insert name of the company  
Statement as to affairs of  
CHESSBOURNE INTERNATIONAL LTD.

Affidavit  
This affidavit must be sworn/affirmed before Notary Public, Justice of the Peace or Commissioner for Oaths or other person duly authorised to administer oaths, when you have completed the rest of this form.

(a) Insert full name(s) and occupation(s) of deponents  
I/WE (a) BRIAN JOHN BAYLIS

(b) Insert full address(es)  
of (b) DARAT ALKHAIT, BEECHCROFT, CHISLEHURST, KENT, BR7 5DB

do swear/affirm that the statement set out overleaf and the list A to G annexed and signed as relative hereto are to the best of my/our knowledge and belief a full, true and complete statement as to the affairs of the above named company as at  
(c) 7th February 1996.

(c) Insert date of commencement of the winding up which is:  
(i) in a voluntary winding up the date of the resolution by the company for winding up [section 86]. and  
(ii) in a winding up by the court, the date of the presentation of the petition for winding up unless it is preceded by a resolution for voluntary winding up under (1) [section 129], but in the case of a creditors' voluntary winding up the date inserted should be the nearest practicable date before the date of the meeting of creditors under section 98.

Sworn/affirmed at 30 High Street Chislehurst in the London Borough of Bromley  
Date 19th day of March 1996  
Signature(s) of deponent(s) /s/ Brian John Baylis

Before me /s/ John Harrison  
Person administering the oath of affirmation

JOHN HARRISON  
A SOLICITOR EMPOWERED  
TO ADMINISTER OATHS

The person administering the oaths or affirmation IS particular requested, before swearing the affidavit, to make sure that the full name, address and description of the Deponent(s) are stated, and to ensure that any crossings-out or alterations in the printed form are initialled.

NOTE  
This affidavit should be sworn/affirmed and the statement made out and submitted:  
(1) in a winding up by the court by any person required to do so under section 131 of the Act by the Liquidator;  
(2) in a members' voluntary winding up which becomes a creditors' voluntary winding up section 95 and 96, by the Liquidator under Section 95; and  
(3) in a creditors' voluntary winding up by the directors.

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Rule 4.7  
4.8

Form 4.4 (Scot)  
(contd)

STATEMENT as to affairs of the company as at

Estimated  
Realisable Value  
£

[INSTRUCTIONS]  
Please do not  
write in

Assets

£

the margin

Assets not specifically secured (as per List "A")

554,800

Please complete  
legibly, preferably in  
black type, or  
bold black lettering

Assets specifically secured (as per List "B")

Estimated realisable value

196,176

Less: Amount due to secured creditors

196,176

Estimated surplus	---
Estimated Total Assets available for preferential creditors, holders of floating charges and unsecured creditors	554,800
LIABILITIES	
Preferential creditors (as per List "C")	129,193
Estimated balance of assets available for holders of floating charges and unsecured creditors	430,607
Holders of floating charges (as per List "D")	3,155,635
Estimated surplus/deficiency as regards holders of floating charges	(2,725,028)
Unsecured Creditors	
Trade accounts (as per List "E")	£ 738,500
Bills payable (as per List "F")	---
Contingent or other liabilities (as per List "G")	147,274
Total unsecured creditors	885,834
Estimated Surplus/Deficiency as regards creditors Issued and Called-up Capital	(3,610,867)
Estimated Surplus/Deficiency as regards members	1,526,750
	5,137,617

These figures must be read subject to the following:-

- [(a) There is no unpaid capital liable to be called up]: delete as appropriate  
 [(b) The nominal amount of unpaid capital liable to be called up is £ \_\_\_\_\_ estimated to produce £ \_\_\_\_\_ which is/is not charged in favour of the holders of Floating Charges

The estimates are subject to expenses of the Liquidation and to any surplus or deficiency on trading pending realisation of the Assets.

Page 2

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Please do not write in the margin Please complete legibly, preferably in black type, or bold black lettering

Statement of Affairs LIST "A"  
 Assets not specifically secured

Particulars of assets	Book Value £	Estimated to produce £
Balance at bank	---	---
Cash in hand	---	---
Marketable Securities (as per schedule I)	---	---
Bills receivable (as per schedule II)	---	---
Trade debtors (as per schedule III)	333,139	136,000
Loans and advances (as per schedule IV)	1,428,872	---
Unpaid calls (as per schedule V)	---	---
Stock in trade	659,343	400,000
other debts and prepayment	111,359	8,800
Work in progress	----	----
Heritable property		
Leasehold property	241	---
Plant, machinery and vehicles	92,258	15,000
Furniture and Fittings, etc.	---	---
Patents, trade marks, etc.	---	---
Investments other than marketable securities	---	---
Other property	---	---
Total	2,625,212	554,800

Signed /s/ Brian John Baylis      Dated 18/3/96  
 Brian John Baylis

THIS AND THE FOLLOWING 21 PAGES IS LIST A REFERRED TO IN THIS AFFIDAVIT OF BRIAN JOHN BAYLIS SWORN BEFORE ME ON THE 19TH DAY OF MARCH 1996

/S/ JOHN HARRISON

JOHN HARRISON

A SOLICITOR EMPOWERED  
TO ADMINISTER OATHS

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Please do not  
write in  
the margin

Please complete  
legibly, preferably  
in black type, or  
bold black lettering

SCHEDULE I TO LIST "A"  
Statement of Affairs  
Marketable Securities

Names to be arranged in alphabetical order and numbered  
consecutively

No	Name of organization in which securities are held	Details of securities held	Book Value £	Estimated to produce &pound:
			----	----

Signed /s/ Brian John Baylis      Dated 18/3/96  
Brian John Baylis

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Please do not  
write in  
the margin

Please complete  
legibly, preferably  
in black type, or  
bold black lettering

SCHEDULE I TO LIST "A"  
Statement of Affairs  
Bills of exchange, promissory notes, etc. available as  
assets

Names to be arranged in alphabetical order and numbered  
consecutively

No	Name and address of acceptor of bill or note	Amount of bill or note £	Date when due £	Estimated to produce of bill or note	Particulars of any property held as security for payment
				----	

Signed /s/ Brian John Baylis      Dated 18/3/96  
Brian John Baylis

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CHESSBOURNE INTERNATIONAL LTD

Minutes of a meeting of the Board of Directors  
held on Monday 18th March 1995

Present Mr.B.J.Baylis  
Mrs.S.A.M.Crisp  
Mr M.Holland  
Mrs. K.Sparkes

1. BJB reminded the Board that under section 66 of the Insolvency Act 1986 that they were required to submit a Statement of Affairs of the Company. With the agreement of the Receivers, a Statement had been prepared by Ian Mills which to the best of our knowledge is a true and fair representation of the Company's affairs as at 7th February 1996.

2. In the interests of expediency BJB had consulted Mr. Alan Pepper, The Receivers representative who after in turn consulting their own legal advisers confirmed that it would be in order for one member to swear the statement on behalf of The Board.

3. IT WAS RESOLVED that the Statement of Affairs as prepared be adopted and that BJB be instructed to Swear on behalf of the Board.

4. The being no other business, the meeting ended.

/s/ B.J.Baylis  
B.J.Baylis

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Please complete SCHEDULE III TO LIST "A"  
legibly, preferably Statement of Affairs  
in black type, or Trade debtors  
bold black lettering  
Names to be arranged in alphabetical order and numbered  
consecutively

No	Name and address of debtor	Particulars of any Securities held for debt	Amount of debt £            £	Estimated to produce
	As per Listing		333,139	136,000

Note:

If the debtor to the company is also a creditor, but for a lesser amount than his indebtedness, the gross amount due to the company and the amount of the contra account should be shown in the third column and only the balance be inserted in the fourth column. No such claim should be included in List "E"

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CORNICHE DISTRIBUTION

SECTION 4

4.1 Statement of Affairs

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AA&Co  
Intraoffice memorandum

To  
THE FILES

To (for reply)

From	Ext.	Date	From	Ext.	Date
NEIL A BOYD		21/10/96			

Subject  
ATTACHED STATEMENT OF AFFAIRS: CORNICHE

- |  |  |   |
|--|--|---|
| <input type="checkbox"/> Follow up please  | <input type="checkbox"/> Prepare reply for   | <input type="checkbox"/> As requested         |
| <input type="checkbox"/> Note and return   | my signature                                 | <input type="checkbox"/> For your review      |
| <input type="checkbox"/> Note and forward  | <input type="checkbox"/> Send me information | <input type="checkbox"/> For your information |
| to files                                   | required to answer                           | <input type="checkbox"/> As per conversation  |
| <input type="checkbox"/> See (phone) me re | <input type="checkbox"/> For signature, if   |   |
| attached                                   | you approve                                  |   |

The attached statement of affairs has been marked "COPY" in error.

This is the ORIGINAL.

=====

Disregard the over-writing of "COPY".

/s/ Neil

Please call me - extension [ ]

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COPY COPY COPY COPY COPY COPY COPY COPY



Statement of Affairs  
No. 2.9 (incorporating  
Forms 2.9, 3.2, 4.18  
and 4.19) (Rules 2.12,  
3, 4, 4.34 - CVL)  
(1) (1) Delete title of the  
Court and number  
where appropriate.

IN THE HIGH COURT OF JUSTICE  
  
Chancery Division  
  
Companies Court

(2) Insert name of  
Company.

IN THE MATTER OF (2) CORNICHE DISTRIBUTION LTD.

AND

IN THE MATTER of the Insolvency Act of 1986.

(3) Delete as  
appropriate.

Statement as to Affairs of (2) CORNICHE DISTRIBUTION LTD.

[WHAT IS IN  
UPPERCASE IS  
WHAT THE COMPANY  
CHOOSE OR FILLED IN.]

on the 28th February 1996 the date of the (3)  
[administration order] [THE ADMINISTRATIVE  
RECEIVER'S APPOINTMENT] [resolution for winding-up]  
[opinion formed by the liquidator under Section 95 of the  
Insolvency Act 1986].

Affidavit

This affidavit must be SWORN or affirmed before a Solicitor or  
Commissioner of Oaths when you have completed the rest of this form

(4) Insert name and  
occupation.

I (4) BRIAN JOHN BAYLIS - COMPANY DIRECTOR

(5) Insert full address.

of DARAT ALKHAIR, BEECHCROFT, CHISLEHURST, KENT, BR7 5DE

make oath and say that the several pages exhibited hereto and marked

are to the best of my knowledge and belief a full, true and complete  
statement as to the affairs of the above named company as at 28th FEBRUARY  
1996, the date (3) [of the administration order] [of the appointment of the  
Administrative Receiver] [of the resolution for winding-up] [I formed the  
opinion that the company would be unable to pay its debts in full (together  
with interest) within the period stated in the directors' declaration of  
solvency made under Section 89 of the Insolvency Act 1986]

and that the said company carried on business as

Sworn at 30 High Street Chislehurst  
in the London Borough of Bromley  
Date 19th March 1996 /s/ B Baylis  
Before me /s/ John Harrison  
JOHN HARRISON

A SOLICITOR or Commissioner of Oaths A SOLICITOR EMPOWERED  
TO ADMINISTER OATHS

Before swearing the affidavit the SOLICITOR or Commissioner is  
particularly requested to make sure that the full name,  
address and description of the Deponent are stated, and to initial  
any crossings-out or other alterations in the printed form. A deficiency in  
the affidavit in any of the above respects will mean that it  
is refused by The court, and will need to be re-sworn.

602.94 1 of 4

SUED 01/94

150

Corniche Distribution Limited (in Administrative Receivership)

A1 - Summary of Liabilities

Estimated to  
Realise  
£

Estimated total assets available for preferential creditors  
(carried forward from Page A)

£ (118,098)

Liabilities	
Preferential creditors:	
	£
Employees	4,566
Inland Revenue	51,501
Customs & Excise	3,825
	59,892
Estimated deficiency/surplus as regards preferential creditor	£ (177,990)
Debts secured by a floating charge:	
	£
	-----
Estimated deficiency/surplus of assets available for non-	
preferential creditors	(177,990)
Non-preferential claims:	
	£
Trade creditors	290,597
Other creditors	164,534
Amounts due to group companies	195,562
Royal Bank of Scotland	16,579
Employees	776,934
Directors Loan	100,000
	1,544,206
Estimated deficiency/surplus as regards creditors	£ (1,722,196)
Issued and called up capital:	
	£
Ordinary shares	2,500,000
	2,500,000
Estimated total deficiency/surplus as regards members	£ (4,222,196)

Signature /s/ B Baylis Date 18/3/96

151

Corniche Distribution Limited (in Administrative Receivership)

A - Summary of Assets

	Book Value	Estimated to Realise
	£	£
Assets		
Assets specifically pledged:		
Lloyds Bank PLC:		
Freehold property - Old Bank Mill, Leek	164,000	150,000
Mortgage loan	(86,162)	(86,162)
	£ 63,838	
Bank of Scotland plc:		
Investment in Chessbourne International Limited	291,360	---
Investment in The Stationery Company Limited	1,000,000	---
Investment in Kassel Limited	9,597	---
Other debtors and prepayments	22,432	---
Amount due from Corniche Group, Inc.	1,990,112	---
Bank of Scotland loan account	(191,936)	(191,936)
	£ (128,098)	
Assets not specifically pledged:		
Plant, machinery and equipment	8,800	2,000
Motor vehicles	718	8,000

Estimated total assets available for preferential creditors (118,098)

Signature /s/ B Baylis Date 18/3/96

This and the preceding page is the statement referred to in the affidavit of Brian John Baylis sworn before this 19th day of March 1996.

/s/ John Harrison  
JOHN HARRISON  
A SOLICITOR EMPOWERED  
TO ADMINISTER OATHS

152

CORNICHE DISTRIBUTION LTD.

Minutes of a meeting of the Board of Directors  
held on Monday 18th March 1995

Present Mr.B.J.Baylis  
Mrs.S.A.M.Crisp

1. BJB reminded the Board that under Section 47 of the Insolvency Act 1986 that they were required to submit a Statement of Affairs of the Company. With the agreement of the Receivers, a Statement had been prepared by Ian Mills which to the best of our knowledge is a true and fair representation of the Company's affairs as at 28th February 1996.

2. In the interests of expediency BJB had consulted Mr. Alan Pepper, The Receivers representative who after in turn consulting their own legal advisers confirmed that it would be in order for one member to swear the statement on behalf of The Board.

3. IT WAS RESOLVED that the Statement of Affairs as prepared be adopted and that BJB be instructed to Swear on behalf of the Board.

4. The being no other business, the meeting ended.

/s/ B.J.Baylis  
B.J.Baylis

153

Corniche Distribution Limited (in Administrative Receivership)

A - Summary of Assets

	Book Value £	Estimated to Realize £
Assets		
Assets specifically pledged:		
Lloyds Bank PLC:		
Freehold property - Old Bank Mill, Leek	164,000	164,000
Mortgage loan	(86,162)	(86,162)
	£	77,838
Bank of Scotland plc:		
Investment in Chessbourne International Limited	291,360	---
Investment in The Stationery Company	1,000,000	---
Investment in Kassel Limited	9,597	---
Plant, machinery and equipment	8,800	5,000
Motor vehicles	718	5,000
Other Debtors and prepayments	22,432	---
Amount due from Corniche Group, Inc.	1,990,112	---
Bank of Scotland loan account	(191,936)	(191,936)
	£	(104,098)

Assets not specifically pledged:

Estimated total assets available for preferential creditors (130,358)

Signature Date

154

Corniche Distribution Limited (in Administrative Receivership)

A1 - Summary of Liabilities

		Estimated to Realise £
Estimated total assets available for preferential creditors (carried forward from Page A)		(130,358)
Liabilities		
Preferential creditors:		
Employees	£	1,337
Inland Revenue		51,501
Customs & Excise		3,825
		56,663
Estimated deficiency/surplus as regards preferential creditor	£	(187,021)
Debts secured by a floating charge:	£	

Estimated deficiency/surplus of assets available for non-preferential creditors	£	(187,021)	---
Non-preferential claims:	£		
Trade creditors		290,597	
Other creditors		164,534	
Amounts due to group companies		195,562	
Royal Bank of Scotland		16,579	
Directors Loan		100,000	
			767,272
Estimated deficiency/surplus as regards creditors	£	(954,293)	
Issued and called up capital:	£		
Ordinary shares		2,500,000	
			2,500,000
Estimated total deficiency/surplus as regards members	£	(3,454,293)	

Signature \_\_\_\_\_ Date \_\_\_\_\_

155

Corniche Distribution Ltd

Statement of Affairs workings

Nominal Account	Amount
Investment in Chessbourne International	291,360.00
Investment in The Stationery Company	1,000,000.00
Investment in Kassel	9,597.45
Fixtures & fittings - cost	20,036.80
Fixtures & fittings - depn.	(17,961.08)
Plant & Machinery - cost	15,665.18
Plant & Machinery - depn.	(8,940.54)
BMW 318i - cost	15,000.00
BMW 318i - depn.	(15,000.00)
Volvo - cost	1,000.00
Volvo - depn.	(282.00)
Freehold property - cost	165,897.94
Freehold property - depn.	(1,897.94)
Other debtors	17,004.41
Loan account - E. WARD	665.81
Insurance recharge suspense	4,748.21
Petty cash	14.25
Recharges - Chessbourne	(8,451.56)
Bank of Scotland - loan	(191,936.42)
Royal Bank of Scotland - Current	(18,165.32)
Royal Bank of Scotland - High Interest	1,586.92
Royal Bank of Scotland - No. 2	(0.60)
Lloyds Bank mortgage	(86,162.21)
Creditors Control	(575,517.66)
BJB Directors Loan	(100,000.00)
VAT Paid	(27,359.52)
VAT Inputs	249.46
VAT Outputs	(4,047.71)

Salary Control	(1,337.37)
PAYE Control account	(27,099.97)
NI Control account	(24,400.63)
HP Agreement control	(485.49)
current account - Chessbourne	(21,285.23)
Current account - Stationery Company	(69,361.41)
Current account - Kassel Ltd.	(128,237.57)
Current account - Corniche Group Inc.	1,990,111.79
Ordinary shares	(2,500,000.00)
	(113,725.73)
Accrued against PL debit balances	(1,288)
	(115,014)

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Corniche Distribution Ltd

Statement of Affairs workings

Nominal Account	Amount
Investment in Chessbourne International	
Investment in The Stationery Company	
Investment in Kassel	
Fixtures & fittings - cost	
Fixtures & fittings - depn.	
Plant & Machinery - cost	
Plant & Machinery - depn.	
BMW 318i - cost	
BMW 318i - depn.	
Volvo - cost	
Volvo - depn.	
Freehold property - cost	
Freehold property - depn.	
Other debtors	
Loan account - E. WARD	
Insurance recharge suspense	
Petty cash	
Recharges - Chessbourne	(8,451.56)
Bank of Scotland - loan	
Royal Bank of Scotland - Current	
Royal Bank of Scotland - High Interest	
Royal Bank of Scotland - No. 2	
Lloyds Bank mortgage	
Creditors Control	(406,875.14)
BJB Directors Loan	
VAT Paid	(27,359.52)
VAT Inputs	249.46
VAT Outputs	(4,074.71)
Salary Control	(1,337.71)
PAYE Control account	(27,099.97)
NI Control account	(24,400.63)
HP Agreement control	(485.49)
current account - Chessbourne	
Current account - Stationery Company	69,361.43
Current account - Kassel Ltd.	(128,237.57)
Current account - Corniche Group Inc.	1,990,111.79
Ordinary shares	(2,500,000.00)

1,990,111.79  
1,990,112.00  
Accrued against PL debit balances 1,990,112.00

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THE STATIONERY COMPANY

SECTION 4

4.1 Statement of Affairs

158

No. of 19

Statement of Affairs  
No. 2.9 (incorporating  
Forms 2.9, 3.2, 4.18  
and 4.19) (Rules 2.12,  
3. 4, 4.34 - CVL)  
(1) (1) Delete title of the  
Court and number  
where appropriate.

IN THE HIGH COURT OF JUSTICE

Chancery Division

Companies Court

(2) Insert name of  
Company.

IN THE MATTER OF (2) THE STATIONERY COMPANY LTD.

AND

IN THE MATTER of the Insolvency Act of 1986.

Statement as to Affairs of (2) THE STATIONERY COMPANY LTD.

(3) Delete as  
appropriate.

on the 7th February 1996 the date of the (3) [administration order]  
[THE ADMINISTRATIVE RECEIVER'S APPOINTMENT] [resolution for winding-up]  
[opinion formed by the liquidator under Section 95 of the  
Insolvency Act 1986].

Affidavit

This affidavit must be sworn or affirmed before a Solicitor or  
Commissioner of Oaths when you have completed the rest of this form

(4) Insert name and  
occupation.

I (4) BRIAN JOHN BAYLIS - COMPANY DIRECTOR

(5) Insert full address. of DARAT ALKHAIR, BEECHCROFT, CHISLEHURST, KENT, BR7 5DE

make oath and say that the several pages exhibited hereto  
and marked are to the best of my knowledge and belief a full,  
true and complete statement as to the affairs of the above named  
company as at 7th February 1996, the date (3) [of the administration  
order] [of the appointment of the Administrative Receiver] [of the  
resolution for winding-up] [I formed the opinion that the company would  
be unable to pay its debts in full (together with interest) within  
the period stated in the directors' declaration of solvency made under  
Section 89 of the Insolvency Act 1986]

and that the said company carried on business as

Sworn at 30 High Street Chislehurst  
in the London Borough of Bromley  
Date 19th March 1996

/s/ B Baylis

Before me /s/ John Harrison

JOHN HARRISON

A Solicitor or Commissioner of Oaths

A SOLICITOR EMPOWERED  
TO ADMINISTER OATHS

Before swearing the affidavit the Solicitor or Commissioner is particularly requested to make sure that the full name, address and description of the Deponent are stated, and to initial any crossings-out or other alterations in the printed form. A deficiency in the affidavit in any of the above respects will mean that it is refused by the court, and will need to be re-sworn.

602.94 1 of 4

SUED 01/94

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The Stationery Company Limited (in Administrative Receivership)

A - Summary of Assets

	Book Value £ £	Estimated to Realise
Assets		
Assets specifically pledged:		
Freehold	18,656	---
Short Leasehold	800,573	500,000
Plant & Equipment	5,530	---
Fixtures & Fittings Cost	334,902	---
Trademarks	1,177	---
Stocks	348,300	---
Trade Debtors	1,394,106	155,000
Other Debtors	311,560	15,000
Amounts due from Group Companies	52,175	---
	3,266,979	670,000
Debts secured by a Fixed Charge	233,170	
Bank of Scotland		233,170
	3,033,809	436,830
Assets not specifically pledged:		
New Store-set-up costs	17,858	---
Estimated total assets available for preferential creditors	3,051,394	436,830

Signature /s/ Brian John Baylis

Date 18/3/96

This and the following five pages are the statement referred to in the affidavit of Brian John Baylis sworn before me on this 19th day of March 1996.

/s/ John Harrison  
JOHN HARRISON



The Stationery Company Limited (in Administrative Receivership)

A1 - Summary of Liabilities

		Estimated to Realise £
Estimated total assets available for preferential creditors carried forward from Page A)		436,830
Liabilities		
Preferential creditors:	£	
Employees	100,475	
Inland Revenue	120,639	
Customs & Excise	165,099	
Pension Scheme	322	
	386,535	
Estimated deficiency/surplus as regards preferential creditor	£	50,295
Debts secured by a floating charge:	£	
Estimated deficiency/surplus of assets available for non-preferential creditors	£	50,295
Non-preferential claims:	£	
Trade creditors	1,634,067	
Other creditors	183,331	
Amounts due to group companies	1,274,230	
		3,091,628
Estimated deficiency/surplus as regards creditors	£	(3,041,333)
Issued and called up capital:		
Ordinary shares	1,000,000	
"B" Ordinary shares	---	
Preference shares	---	
		1,000,000
Estimated total deficiency/surplus as regards members	£	(4,041,333)

Signature /s/ Brian John Baylis      Date 18/3/96

NOTE You must identify creditors under hire-purchase, chattel leasing or conditional sale agreements and customers claiming amounts paid in advance of the supply of goods or services and creditors claiming retention of title over property in the company's possession. If there is insufficient space, continuation sheets should be used and annexed hereto securely to the rest of

the form.

Name of creditor or claimant	Address (with postcode)	Amount Of debt	Details of any security held by creditor	Date security Given	Value of security
Tippex Limited	Unit 5 Admiralty Way Southern Trade Centre Camberley Surrey	1,824.95			
Handley Printers Limited	Crosland Industrial Estate 125 Stockport Road West Bredbury Stockport	21,933.96			
Helix Limited	P.O. Box 15 Engine Lane Lye Stourbridge West Midlands	16,049.86			
Euro Packaging Plc	Unit m Waterloo Road Yardley Birmingham	6,432.54			
Artcare Limite	Challenger House 194 Clerkenwell Close London	9,934.47			
Platignum Ltd	20 Greenfield Royston Herts SG85XX	20,398.84			

Signature /s/ Brian John Baylis      Date 18/3/97

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NOTE You must identify creditors under hire-purchase, chattel leasing or conditional sale agreements and customers claiming amounts paid in advance of the supply of goods or services and creditors claiming retention of title over property in the company's possession. If there is insufficient space, continuation sheets should be used and annexed hereto securely to the rest of the form.

Name of creditor or claimant	Address (with postcode)	Amount Of debt	Details of any security held by creditor	Date security Given	Value of security
Holland Enterprises Ltd	18 Bourne Court Southend Road Woodford Green Essex IG8 8HD	614.96			
Framemaker Products Ltd	Stanley Street Buton-on-Trent Staffs.	693.73			
Maxpress Limited	Danebridge Mill Mill Street Congleton Cheshire CW12 1XX	7,424.89			
William B Harris	5 Lea Road Abingdon Northampton NN1 4PE	39,227.50			
Brown Watson Ltd	The Old Mill 76 Fleckney Road Kibworth Beauchamp Leicester LE8 0HG	8,171.95			
Kibworth Books (MacMillan Distribution Ltd)	Houndsmills Basingstoke Hants. RG1 6XS	2,667.00			
Kaleidoscope	P.O. Box 76 Raynesway Derby DE21 7BL	29,480.28			

Signature /s/ Brian John Baylis Date 18/3/97

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NOTE You must identify creditors under hire-purchase, chattel leasing or conditional sale agreements and customers claiming amounts paid in advance of the supply of goods or services and creditors claiming retention of title over property in the company's possession. If there is insufficient space, continuation sheets should be used and annexed hereto securely to the rest of the form.

Name of creditor or claimant	Address (with postcode)	Amount Of debt	Details of any security held by creditor	Date security Given	Value of security
Flipfile Limited	Unit 3, Oaktree Place Matford Business Place Exeter Devon EX2 8WA	1,019.87			
Silver Lynx Products Ltd	Lynx House 10/11 Amber Business Village Amber Close Tamworth, Staffs.	6,501.83			
Illusion	P.O. Box 481 Carshalton Surrey SM5 2AB	5,549.12			
Woolbro Distributors Ltd	Prospect House Victoria Road Morley Leeds LS27 9DB	3,405.11			
Lambourne Limited	Crossing Gates Oaston Road Nuneaton Warwickshire CV11 6JX	3,674.23			
Tollit & Harvey Ltd	Old Meadow Road Hardwick Industrial Estate Kings Lynn Norfolk PE30 4LW	4,148.37			

Signature /s/ Brian John Baylis Date 18/3/97

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Name of creditor or claimant	Address (with postcode)	Amount Of debt	Details of any security held by creditor	Date security Given	Value of security
Gustav Botkai	21 Belfield Road Didsbury Manchester M20 0BJ	995.49			
NES Arnold Limited	Ludlow Hill Road West Bridgford Nottingham NG2 6HD	1,203.98			
N Yeomans & Co Ltd	Valley Road Clacton on Sea Essex CO15 4AG	5,811.94			
Grandreams Ltd	Jadwin House 205/211 Kentish Town Road London NW5 2JU	5,236.80			
Porth Innovations Ltd	Caemawr Industrial Estate Treorchy Mid Glamorgan CF42 6EJ	14,471.68			



4. The being no other business, the meeting ended.

/s/ B.J.Baylis  
B.J.Baylis

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Arthur  
Andersen  
Arthur Andersen & Co. SC

29 March 1996

-----  
18 Charlotte Square  
Edinburgh EH2 4DF  
0131 225 4554 Telephone  
0131 226 3948 Facsimile

Direct Line 0131 469 6246

Our ref AHP/MM/CDL/U-1

Your Ref

TO ALL CREDITORS

Dear Sirs

CORNICHE DISTRIBUTION LTD  
(IN ADMINISTRATIVE RECEIVERSHIP)

Following our appointment as joint Administrative Receivers of the above company on 28 February 1996, we are required by Section 48(2) of the Insolvency Act 1986 to call a meeting of the unsecured creditors of the company. The purpose of the meeting is to formally present a report covering the events leading up to our appointment and the progress of the receivership. We enclose formal notice of that meeting along with a copy of the report which will be presented.

Please note this meeting is being convened solely to comply with the requirements of Section 48(2) of the Insolvency Act 1986. It is not for the purpose of appointing a liquidator to the company nor is it a meeting which the directors are required to attend. No information will be presented to the meeting other than that contained in the report.

We enclose a form of proxy for your use in connection with this meeting.

Yours faithfully

/s/ Alan D Pepper  
Alan D Pepper  
for Iain T Watters  
Joint Administrative Receiver

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NOTICE OF MEETING OF CREDITORS

CORNICHE DISTRIBUTION LTD  
(IN ADMINISTRATIVE RECEIVERSHIP)

NOTICE IS HEREBY GIVEN, in pursuance of Section 48 of the Insolvency, Act 1986, that a meeting of the creditors of the above-named company will be held at the Manchester Airport Hilton Hotel on Monday, the 15th of April 1996 at 1200pm for the purpose of having an account laid before them, showing the events leading up to the appointment of the Joint Administrative Receivers, the manner in which the administrative receivership has been conducted and the property of the company disposed of, and of hearing any explanation that may be given by the joint Administrative Receivers. A copy of the report is enclosed with this notice.

Creditors whose claims are wholly secured are not entitled to attend or be represented at the meeting.

A person is entitled to vote at the meeting only if

- 1. he has given to the Joint Administrative Receivers, not later than 12.00 hours on the business day before the day fixed for the meeting, details in writing of the debt that he claims to be due to him from the company, and the claim has been duly admitted.
2. there has been lodged with the Joint Administrative Receiver, any proxy which the creditor intends to be used on his behalf.

DATED this 21st day of March 1996

/s/ Iain T Watters
Iain T Watters
Joint Administrative Receiver

Notes to help completion of the form

Please give full name and address for communication Name of Creditor Address

Please insert name of person (who must be 18 or over) or the "Chairman of the meeting". If you wish to provide for alternative proxy-holders in the circumstances that your first choice is unable to attend please state the name(s) of the alternatives as well Name of proxy-holder

Please delete words in brackets if the proxy-holder is only to vote as directed he has no discretion I appoint the above person to be my/the creditors proxy-holder at the meeting of creditors to be brackets if the proxy-holder held on - or at any adjournment of that meeting. The proxy-holder is to purpose or vote as instructed below (and in respect of any resolution for which no specific instruction is given, may vote or abstain at his/her discretion)

Voting instruction for resolutions for the appointment of of representing

This form must be signed as a member of the Creditors' committee Signature Date Name in CAPITAL LETTERS

Only to be completed if the creditor has not signed in person Position with creditor or relationship to creditor or other authority for signature

FU 302.94

Issued 01/94

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Arthur  
Andersen

Arthur Andersen & Co. SC

29 March 1996

-----  
18 Charlotte Square  
Edinburgh EH2 4DF  
0131 225 4554 Telephone  
0131 226 3948 Facsimile

Direct Line 0131 469 6246

Our ref ADP/CDL/U-1 cc SE

TO ALL KNOWN CREDITORS

Your Ref

Dear Sirs

Corniche Distribution Limited (In Administrative Receivership) ("Corniche")

## 1. INTRODUCTION

1.1 I, Iain T Watters and my partner, Gordon Christie of Arthur Andersen were appointed Joint Administrative Receivers of Corniche Distribution Ltd ("the Company") by the Bank of Scotland ("the Bank") on 28 February 1996 under the powers contained in a Debenture dated 7 April 1995.

As required by Section 48 of the Insolvency Act 1986, we now present our report to the creditors. The remainder of the report is set out as follows:

2. Background to the Company
3. Events, so far as we are aware, leading to our appointment
4. Directors' Statement of Affairs
5. Carrying on of the Company's business and disposal of assets
6. Amounts due to security holders
7. Amounts payable to preferential creditors
8. Amounts likely to be available for the payment of a dividend to other creditors
9. Directors' conduct

## 2. BACKGROUND TO THE COMPANY

2.1 The principal activity of the Company was that of a holding company for its two trading subsidiaries, The Stationer), Company Limited and Chessbourne International Limited, to which we were appointed Administrative Receivers/Receivers prior to our appointment to Corniche. The Company operated from an office in Wallington, Surrey and owned a property in Leek, Staffordshire from which the subsidiaries operated.

TO ALL KNOWN CREDITORS

29 March 1996

2.2 The Company was incorporated on 30 March 1992 in order to exploit opportunities in the retail stationery and allied business sectors. Corniche subsequently acted as the holding company for two trading companies, The Stationery Company Ltd, set up in September 1992 and Chessbourne International Ltd, which became a subsidiary in October 1993. As a result of a reverse takeover in March 1995, the directors, and sole shareholders, of the Company became the majority shareholders in Corniche Group Inc., the Company's parent which is registered in the USA and quoted on the NASDAQ securities market.

2.3 Latterly, the Company was a party to a conditional sale agreement for the purchase of the shares of Kassel Ltd ("Kassel"), a small retail stationery chain. The conditions were never fulfilled and the shareholders of Kassel rescinded the agreement in January of this year.

2.4 The Directors holding, office during the period of 3 years prior to our appointment, to the best of our knowledge, were as follows:-

	Date of Appointment	Date of Resignation
Brian J Baylis	22/04/92	-
Susan A M Crisp	22/04/92	-

2.5 The shareholders of the Company at the date of our appointment and at the filing of the last accounts (27 March 1994) were as follows:-

	Date of Appointment	27 March 1994
Brian J Baylis		80
Susan A M Crisp		20
Corniche Group Inc.	2,500,000	

2.6 The following financial information has been extracted from the accounts of the Company:-

	Draft Management Accounts for the 24 weeks to 9 September 1995 £	Draft Accounts for the year ended 25 March 1995 £	Audited accounts for the year ended 27 March 1994
Directors' Remuneration	Not Available	60,932	60,932
Fixed Assets	2,155,643	1,569,158	593,624
Current Assets	1,993,968	2,653,666	17,100
Creditors and Provisions	(1,674,722)	(1,781,885)	(446,156)
NET Assets	2,474,889	2,440,939	161,568

TO ALL KNOWN CREDITORS

29 March 1996

### 3. EVENTS, SO FAR AS WE ARE AWARE, LEADING TO OUR APPOINTMENT

3.1 The Company carried out no trading activities, its sole activity being that of a holding company with its only material assets consisting of its investments in the two subsidiaries, the property at Leek and amounts receivable from its US parent company, Corniche Group Inc. ("CGI"). As a



result of the losses being made by its subsidiaries, the Company in turn had incurred losses over a number of years.

3.2 With the appointment of Administrative Receivers/Receivers to the two subsidiary companies it became obvious that the investments in these companies were worthless and with their write down to nil value, combined with doubts as to the recoverability of monies due from the parent company, the Company became insolvent on a balance sheet basis. Furthermore, the Company no longer had access to funding from its subsidiaries' operations and no other sources of finance were available.

3.3 As a result, the directors requested the Bank to appoint Administrative Receivers and, accordingly, we were appointed Joint Administrative Receivers on 28 February 1996.

#### 4. DIRECTORS' STATEMENT OF AFFAIRS

4.1 The Directors have complied with their responsibilities in accordance with Section 47 of the Insolvency Act 1986 and have provided us with a Statement of Affairs of the Company in the prescribed form, which is summarised in Appendix 1.

4.2 The following aspects of the Statement of Affairs prepared by the Directors are, in our opinion, incorrectly stated:-

- \* The valuation of the property is based on a valuation carried out in excess of one year ago. Our agents have valued the property at £100,000
- \* The Statement of Affairs does not provide for the necessary costs of preservation and realisation of the Company's assets.
- \* The figures stated for the banks' debt do not accord with the claims received from the banks as disclosed in Section 6 below.

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TO ALL KNOWN CREDITORS

29 March 1996

4.3 As a consequence of the above, the statement is inaccurate in relation to dividend prospects for the various classes of creditors. At present, notwithstanding that there are a number of substantial matters remaining outstanding in this case, it is clear that there will be no funds available to ordinary creditors.

#### 5. CARRYING ON OF THE COMPANY'S BUSINESS AND DISPOSAL OF ASSETS

5.1 The Company's sole business was that of an intermediary holding company and, with the business and assets of the subsidiary companies under the control of Receivers/Administrative Receivers, no operational business remained.

5.2 The sole substantive asset of the Company is a property located in Leek, Staffordshire, over which Lloyds Bank plc holds a fixed charge. This property was used as the operational base for both The Stationery Company Ltd and Chessbourne International Ltd. With the cessation of the business of both companies, the property is no longer in use and we are making efforts to sell it.

5.3 As at the date of our appointment, the Company's records showed a receivable from the US parent company, CGI of £1,990,112 in respect of a contested share issue. The financial position of CGI is uncertain given that it has no substantive assets other than its investments in the UK subsidiaries. and accordingly we have agreed a settlement of £50,000 in respect of the unpaid debt. This settlement figure was the subject of an affirmative opinion by an independent accountant after analysis of CGI's most recent balance sheet. There is unlikely to be any further recovery from this

source.

5.4 The remaining assets, including motor vehicles and furniture have been disposed of.

#### 6. AMOUNTS DUE TO SECURITY HOLDERS

6.1 Lloyds Bank plc holds a prior ranking fixed charge over the property at Leek. The amount outstanding at the date of our appointment was £92,464.

6.2 The amount due to Bank of Scotland plc at the date of our appointment was as follows:-

Capital	£194,635
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Interest has continued to accrue on the outstanding balance since our appointment and is covered under the Bank's Debenture.

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TO ALL KNOWN CREDITORS

29 March 1996

#### 7. AMOUNTS PAYABLE TO PREFERENTIAL CREDITORS

7.1 At the date of our appointment to the Company the preferential creditors were estimated as follows:-

	£
Inland Revenue - PAYE/NIC	51,501
H M Customs &- Excise - VAT	3,825
Employees	4,566
Total	59,892

7.2 Whilst Crown creditors have yet to lodge their formal preferential claims, we are not aware at this stage of any reason why these should significantly vary from the above.

#### 8. AMOUNTS LIKELY TO BE AVAILABLE FOR THE PAYMENT OF A DIVIDEND TO OTHER CREDITORS

8.1 Based on current estimates the prior ranking fixed charge holder will be paid in full. It is clear, however, that there will be a shortfall as regards the second fixed charge holder. In addition there is no prospect whatsoever of a dividend being available to preferential or ordinary creditors.

8.2 Creditors should note that they may recover VAT on supplies made after 1 April 1989 providing that the debt is over six months old and has been fully written off in their accounts. Full details of the reclaim procedure are available from HM Customs & Excise on request.

#### 9. DIRECTORS' CONDUCT

9.1 In terms of the Directors Disqualification Act 1986, Receivers are required to prepare a report on the conduct of those individuals who have been directors, or shadow directors, of an insolvent company in the three year period prior to their appointment. If any creditor is aware of any matters which they believe should be brought to our attention in this regard, they should supply details to us in writing.

Yours faithfully

/s/ Iain T Watters  
Iain T Watters  
Joint Administrative Receiver

Corniche Distribution Ltd. (In Administrative Receivership)  
 Directors' Statement of Affairs as at 28 February 1996

APPENDIX 1

	BOOK VALUE	ESTIMATED TO REALISE
ASSETS SPECIFICALLY PLEDGED		
Freehold Property	164,000	150,000
	164,000	150,000
MORTGAGE HOLDER - LLOYDS BANK		
	(86,162)	(86,162)
SURPLUS/DEFICIT AS REGARDS MORTGAGE HOLDER		
	77,838	63,838
ASSETS SUBJECT TO FIXED CHARGE		
Investment in Chessbourne International Limited	291,360	0
Investment in the Stationery Company Limited	1,000,000	0
Investment in Kassel Limited	9,597	0
Other debtors and prepayments	22,432	0
Amount due from Corniche Group, Inc.	1,990,112	0
	3,313,501	0
FIXED CHARGE HOLDER - BANK OF SCOTLAND		
	(191,936)	(63,838)
SURPLUS AS REGARDS FIXED CHARGE HOLDER		
	3,199,403	0
ASSETS SUBJECT TO FLOATING CHARGE		
Plant, machinery & equipment	8,800	2,000
Motor vehicles	718	8,000
	9,518	10,000
AVAILABLE TO PREFERENTIAL CREDITORS		
	3,253,609	10,000
PREFERENTIAL CREDITORS		
Inland Revenue	(51,501)	(51,501)
HMC&E	(3,825)	(3,825)
Employees	(4,566)	(4,566)
	(59,892)	(59,892)
AVAILABLE TO FLOATING CHARGE HOLDER		
	3,193,717	(49,892)
FLOATING CHARGE HOLDER - BANK OF SCOTLAND		
		(128,098)
AVAILABLE TO UNSECURED CREDITORS		
	3,193,717	(177,990)
UNSECURED CREDITORS		
	(1,544,206)	(1,544,206)
DEFICIT AS REGARDS UNSECURED CREDITORS		
	1,649,511	(1,721,196)

Arthur  
Andersen

Arthur Andersen & Co. SC

7 May 1996

18 Charlotte Square  
 Edinburgh EH2 4DF  
 0131 225 4554 Telephone  
 0131 226 3948 Facsimile

Direct Line 0131 469 6246

Our ref ADP/CDL/U-1 cc SE

TO ALL KNOWN CREDITORS

Your Ref

Dear Sirs

Corniche Distribution Limited (In Administrative Receivership)

1. Meeting of Creditors

In accordance with Section 48 of the Insolvency Act 1986 a meeting of Creditors of the above Company was held at the Manchester Airport Hilton Hotel in Manchester on 15 April 1996.

2. Committee of Creditors

The Creditors present at the meeting decided not to elect a Committee of Creditors.

3. VAT Bad Debt Relief

I refer to Section 8.2 of the Creditors Report previously circulated regarding the recovery of VAT on bad debts.

Yours faithfully

/s/ Iain T Watters  
Iain T Watters  
Joint Administrative Receiver

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Arthur  
Andersen

Arthur Andersen & Co. SC

29 March 1996

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Our ref ADP/SCL/U-1 cc SE

TO ALL KNOWN CREDITORS

Your Ref

Dear Sirs

The Stationery Company Limited (In Administrative Receivership) ('SCL')

1. INTRODUCTION

1.1 I, Iain T Watters and my partner, Gordon Christie, of Arthur Andersen were appointed Joint Receivers of The Stationery Company Limited (the Company') by the Bank of Scotland ("the Bank") on 7 February 1996 under powers contained in a Debenture dated 16 November 1993.

1.2 As required by Section 48 of the Insolvency Act 1986, we now present our report to the creditors. The remainder of the report is set out as follows:-

2. Background to the Company;
3. Events, so far as we are aware, leading to our appointment
4. Directors' Statement of Affairs;
5. Carrying on of the company's business and disposal of assets;
6. Amounts due to the Debenture Holder,
7. Amounts due to preferential creditors,
8. Amounts likely to be available for the payment of a dividend to other creditors;
9. Directors' conduct.

## 2. BACKGROUND TO THE COMPANY

2.1 The Stationery Company Limited was incorporated on 15 July 1992 with its principal activity being the retail sale of stationery products. The Company's strategy was for growth through acquisition and it subsequently acquired the businesses of two smaller retail stationery chains, Memo and Stationery Plus. Ultimately it operated from 22 leased retail sites spread throughout England and had its head office and warehouse in lease premises in Leek, Staffordshire.

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TO ALL KNOWN CREDITORS

29 March 1996

2.2 The Directors holding office during the period of 3 years prior to our appointment, to the best of our knowledge, were as follows:-

	Date of Appointment	Date of Resignation
Julie P Lucas	23/11/94	08/01/96
Brian J Baylis	16/09/92	-
Susan A M Crisp	16/09/92	-
Bruce Pearson	01/01/94	-
Martin Holland	23/11/94	-

2.3 No directors had an interest in shareholdings in the Company, except as nominee. The shareholders at the date of our appointment were:-

	Shareholding
Corniche Distribution Ltd	999,999
Corniche Distribution Ltd & Brian J Baylis	1

2.4 The following financial information has been extracted from the accounts of the Company:-

	Management Accounts for 32 Weeks to 3 November 1995 £	Draft Accounts for the year ended 25 March 1995 £	Audited Accounts for the year ended 27 March 1994
Turnover	3,150,372	4,234,117	346,816
Profit/(Loss) before Tax	(956,394)	(373,112)	(206,590)

Directors' Remuneration	Not available	47,344	27,925
Fixed Assets	659,592	709,117	692,626
Current Assets	3,561,999	2,682,592	776,690
Creditors and Provisions	(4,076,547)	(2,539,599)	(924,557)
Net Assets/ (Liabilities)	145,044	85,110	544,752

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TO ALL KNOWN CREDITORS

29 March 1996

3. EVENTS, SO FAR AS WE ARE AWARE, LEADING TO OUR APPOINTMENT

3.1 The Company had encountered trading difficulties for some considerable time and was suffering significant cash flow difficulties partly as a result of non payment of a debt due from an associated company, Kassel Ltd. As a result of these difficulties the Company was unable to stock its retail units to an appropriate level and accordingly, sales declined to the extent that many of the retail units, except for peak sales periods, could not generate sufficient funds to cover local fixed overheads. As a result, and as indicated above, the Company incurred significant trading losses in the period to 3 November 1995.

3.2 It is our understanding that from October 1995 the Directors attempted to refinance the Company with a view to ensuring the survival of the business. In this regard, the Directors held discussions with the Board of the ultimate parent company, Corniche Group Inc., a company registered in the USA, along with that company's investment bankers. Unfortunately, funds were not forthcoming from this source and the Bank was not willing to advance any further funds based on their existing security.

3.3 In the absence of any other sources of funding and in the face of mounting pressure from creditors, the Directors were forced to request the Bank to appoint Administrative Receivers under the terms of its Debenture. Accordingly, we were appointed Joint Administrative Receivers on 7 February 1996.

4. DIRECTORS' STATEMENT OF AFFAIRS

4.1 The Directors have complied with their responsibilities under Section 47 of the Insolvency Act, 1986, and provided us with a Statement of Affairs of the Company in the prescribed form which is summarised in Appendix 1.

4.2 The following aspects of the Statement of Affairs prepared by the Directors are, in our opinion, incorrectly stated:-

- \* Leasehold assets are significantly overvalued at book value due to the inclusion of a number of shops recently purchased at values significantly in excess of the assets assumed. In addition, the value of the assets includes large capital costs which are coverable. This has resulted in a significant overstatement in the reasonable value of leasehold assets.

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TO ALL KNOWN CREDITORS

29 March 1996

\* The reasonable value of stock is shown as nil. As noted below, our

subsequent sale of the business included the sale of the Company's stationery stock from both the stores and the Company's warehouse at a reasonable discount on cost.

- \* Trade debtors assumes a substantial recovery from the previously associated company, Kassel Ltd which we consider unlikely, after a review of that company's recent financial statements.
- \* The Statement of Affairs does not provide for the necessary costs of preservation and realisation of the Company's assets including specifically substantial costs associated with the sale of the business.

4.3 As a consequence of the above, the statement is inaccurate in relation to dividend prospects for the various classes of creditors. At present, notwithstanding that there are a number of substantial matters remaining outstanding in this case, there is little likelihood that there will be funds available to ordinary creditors.

## 5. CARRYING ON THE COMPANY'S BUSINESS AND DISPOSAL OF ASSETS

5.1 Immediately on appointment and because of the time constraints that existed in order to maintain the goodwill and viability of the business and thus the value of the Company's assets, we entered into negotiations with a third party who had expressed an interest in purchasing the business prior to our appointment. It became readily apparent that concluding this agreement would be in the interests of the creditors as it was at a value far higher than would have been anticipated had we been required to trade the business and to enter into negotiations with a number of parties. A quick sale also precluded the associated costs of trading the business over an extended period. Accordingly, the business and assets of 18 of the Company's 22 remaining operational stores were sold to Stationery Box Ltd with effect from the date of our appointment along with all of the Company's stock.

5.2 As stated above, the bulk of the business and assets of the Company were sold to Stationery Box Ltd. We were advised by our agents that the remaining leased retail units had no market value and we are currently in the process of surrendering these leases to the respective landlords.

5.3 There have been a number of other minor realisations including the sale of plant, machinery and equipment and the recovery of some small outstanding debts.

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TO ALL KNOWN CREDITORS

29 March 1996

## 6. AMOUNTS DUE TO THE DEBENTURE HOLDER

6.1 The amount due to the Bank of Scotland plc at the date of our appointment was as follows:-

Overdraft	£ 234,117
-----------	-----------

Interest has continued to accrue on the outstanding balance since our appointment and is covered under the Bank's Debenture.

## 7. AMOUNTS DUE TO PREFERENTIAL CREDITORS

7.1 At the date of our appointment to the Company the preferential creditors were estimated as follows:-

	£
Inland Revenue - PAYE/NIC	120,639
H M Customs & Excise - VAT	165,099

Employees	100,475
Pension Scheme	322
TOTAL	38,535

7.2 Whilst Crown creditors have yet to lodge their formal preferential claims, we are not at this stage aware of any reason why these should significantly vary from the above.

8. AMOUNTS LIKELY TO BE AVAILABLE FOR THE PAYMENT OF A DIVIDEND TO OTHER CREDITORS

8.1 Based on current estimates it is clear that the Fixed Charge holder will be paid In full. It is likely, however, that there will be a significant shortfall to the preferential creditors, Accordingly, there is little likelihood of a dividend being available to ordinary creditors.

8.2 Creditors should note however, that they may recover VAT on supplies made after 1 April 1989 providing that the debt is over six months old and has been fully written off in their accounts. Full details of the VAT reclaim procedure are available from HM Customs & Excise on request.

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TO ALL KNOWN CREDITORS

29 March 1996

9. DIRECTORS' CONDUCT

9.1 In terms of the Directors Disqualification Act 1986, Receivers are required to prepare a report on the conduct of those individuals who have been Directors, or Shadow Director, of an insolvent company in the three year period prior to their appointment. If any creditor is aware of any matters which they believe should be brought to our attention in this regard, they should supply details to us in writing.

Your faithfully

/s/ Iain T Watters  
Iain T Watters  
Joint Administrative Receiver

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The Stationery Company Ltd (In Administrative Receivership)  
Directors' Statement of Affairs as at 7 February 1996

Appendix 1

	BOOK VALUE	ESTIMATED TO REALISE
ASSETS SUBJECT TO FIXED CHARGE		
Freehold	18,656	0
Leasehold Assets	800,573	500,000
Fixtures & Fitting	344,902	0
Plant & Equipment	5,530	0
Trademarks	1,177	0
Stocks	348,300	0
Trade Debtors	1,394,106	155,000
Other debtors	311,560	15,000



Amounts due from Group Companies	52,175	0
	3,266,979	670,000
AVAILABLE TO FIXED CHARGE HOLDER	3,266,979	670,000
FIXED CHARGE HOLDER - BANK OF SCOTLAND	(233,170)	(233,170)
SURPLUS/(DEFICIT) AS REGARDS FIXED CHARGE HOLDER	3,033,809	436,830
ASSETS NOT SPECIFICALLY PLEDGED		
New store set up cost	17,585	0
AVAILABLE TO PREFERENTIAL CREDITORS	3,051,394	436,830
PREFERENTIAL CREDITORS		
Inland Revenue	(120,639)	(120,639)
HMC&E	(165,099)	(165,099)
Employees	(100,475)	(100,475)
Pension Scheme	(322)	(322)
	(368,535)	(386,535)
AVAILABLE TO UNSECURED CREDITORS	2,644,859	50,249
UNSECURED CREDITORS	(3,091,628)	(3,091,628)
DEFICIT AS REGARDS TO UNSECURED CREDITORS	(426,769)	(3,041,333)

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29 March 1996

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Our ref ADP/CHE/U-1 cc SE

TO ALL KNOWN CREDITORS

Your Ref

Dear Sirs

Chessbourne International Limited (In Receivership)

#### 1. INTRODUCTION

1.1 I, Iain T Watters and my partner, Gordon Christie, of Arthur Andersen were appointed joint Receivers of Chessbourne International Limited ('the Company') by the Bank of Scotland (the Bank) on 7 February 1996 under the powers contained in a Floating Charge dated 27 March 1987.

As required by Section 67 of the Insolvency Act 1996, we now present our report to the creditors. The remainder of the report is set out as follows:-

2. Background to the Company
3. Events, so far as we are aware, leading to our appointment
4. Directors' Statement of Affairs
5. Carrying on of the Company's business and disposal of assets
6. Amounts due to the Floating Charge Holder
7. Amounts payable to preferential creditors
8. Amounts likely to be available for the payment of a dividend to other creditors
9. Directors' conduct

## 2. BACKGROUND TO THE COMPANY

2.1 The Company was incorporated on 22 January 1987 as Hope Sixteen (No. 105) Ltd in order to acquire the wholesale stationery business of the Okhai Group in a management buyout. It subsequently became it subsidiary of Corniche Distribution Limited in October 1993.

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TO ALL KNOWN CREDITORS

29 March 1996

2.1 The principal activity of the Company continued to be the wholesale of stationery products, ultimately operating from premises in Leek, Staffordshire; Wallington, Surrey and third party warehouse facilities in Stanton, Essex.

2.2 The Directors holding office during the period of 3 years prior to our appointment, to the best of our knowledge, were as follows:-

	Date of Appointment	Date of Resignation
Martin Holland	12/03/87	-
Brian J Baylis	20/07/92	-
Susan A M Crisp	07/10/93	-
David A Crisp	07/10/93	28/04/95
David D Ferguson	01/04/95	01/12/95
Karen Sparkes	16/12/94	-
Alan Barclay	26/06/91	08/10/93
David A Walker	12/03/87	15/10/93
Bruce Linton	12/03/87	06/05/94
Alasdair MacCallum	01/05/87	06/05/94

2.3 Shareholders as at the date of our appointment were as follows:

	Ordinary	"B" Ordinary	CRPS
Ash Ltd		186,138	14,737
Bank of Scotland plc		675,000	75,000
Corniche Distribution Ltd	127,500	186,138	14,737
Dundee Property Company Ltd		199,750	9,164
Martin Holland		17,794	412
Bruce Linton		10,774	666
Ronatree Ltd	122,500		
David Walker		10,774	666
Total	250,000	1,286,386	115,382

TO ALL KNOWN CREDITORS

29 March 1996

2.4 The following financial information has been extracted from the accounts of the Company:-

	Management Accounts for 32 Weeks to 3 November 1995	Draft Accounts for the 15 months ended 26 March 1995	Audited Accounts for the year ended 27 March 1993
	£	£	£
Turnover	3,587,669	11,202,955	10,960,640
Profit/(Loss) before Tax	(804,378)	(443,609)	(5,453)
Directors' Remuneration	216,466	22,855	136,724
Fixed Assets	106,347	152,770	97,315
Current Assets	3,008,179	4,000,750	3,743,437
Creditors and Provisions	(4,370,378)	(4,590,961)	(3,834,584)
Net Assets/ (Liabilities)	(1,255,852)	(437,441)	(6,168)

### 3. EVENTS, SO FAR AS WE ARE AWARE, LEADING TO OUR APPOINTMENT

3.1 The Company had encountered trading difficulties for some considerable time, primarily as a result of large intercompany sales to its sister company, The Stationery Company Limited and to an associated company, Kassel Ltd for which payment had not been received. Consequently the Company's records at the date of our appointment showed debts due from The Stationery Company Ltd of £1,281,515 and Kassel Ltd of £147,357. As a consequence of the cash flow ties caused, the Company was unable to source an appropriate level and range of stock from its suppliers and this was reflected in a marked reduction in turnover as demonstrated in the historical financial information shown above.

3.2 It is our understanding that in the period from October 1995 until our appointment the Directors had been seeking to conclude a refinancing agreement which would have resulted in the survival of the business. However, the parties involved in these discussions, being Corniche Group Inc., the Company's ultimate parent and that company's investment bankers failed to agree a rescue package and the Directors were thus forced, due to the lack of alternative sources of funding, to request the bank to

TO ALL KNOWN CREDITORS

29 March 1996

appoint Receivers under the terms of their Floating Charge. Accordingly, we were appointed Joint Receivers on 7 February 1996.

### 4. DIRECTORS' STATEMENT OF AFFAIRS

4.1 The Directors have complied with their responsibilities in accordance with Section 66 of the Insolvency Act 1986 and provided us with a Statement of Affairs of the Company In the prescribed form, which is summarised in Appendix 1.

4.2 The following aspects of the Statement of Affairs prepared by the

Directors are, in our opinion, incorrectly stated:-

- \* Trade Debtors includes items which were intended to be written off in the Company's accounts and are irrecoverable. The book value shown also includes the debt due from Kassel which, as noted below in para 5.5, is unlikely to be recovered.
- \* Stock held at the date of our appointment was of poor quality and consisted mainly of old, non-marketable lines of which there were bulk quantities. Accordingly the amount recoverable from the disposal of this stock will be considerably less than that shown in the Statement of Affairs. Furthermore, as shown below, our estimate of the book value of this stock varies from that incorporated in the Statement of Affairs.
- \* HM Customs & Excise have submitted a preferential claim amounting to £39,489, approximately £20,000 greater than that shown on the Statement of Affairs.

4.3 As a consequence of the above, the statement is inaccurate in relation to dividend prospects for the various classes of creditors. At present, notwithstanding that there are a number of substantial matters remaining outstanding in this case, it is clear that there will be no funds available to ordinary creditors.

#### 5. CARRYING ON OF THE COMPANY'S BUSINESS AND DISPOSAL OF ASSETS

5.1 As noted above, the Company's business had been eroded to such an extent that no viable business remained. Nevertheless, we contacted it number of parties in the stationery business with a view to selling the remaining business and assets as a going concern. Unfortunately, no interest was forthcoming and we have had no option but to carry on limited trading by way of stock disposal in order to preserve the value of the assets.

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TO ALL KNOWN CREDITORS

29 March 1996

5.2 Approximately £550,000 (at cost) of stationery stock was located at the Company's third party warehouse McGregor Cory, at the date of our appointment. At that date McGregor Cory were owed £38,134 in respect of unpaid storage and distribution charges and under the terms of the National Association of Warehousemen Conditions of Contract had exercised a valid lien over the goods contained in the warehouse. We were forced to agree a settlement prior to being able to dispose of the stock. In addition one supplier, Farfalla Trading Ltd, held a valid retention of title claim over £18,500 worth of stock (this is disclosed in the Directors' Statement of Affairs as it specifically asset with a book value of £189,591 which does not accord with our valuation; the Statement of Affairs also discloses as specifically secured a trade debtor of £7,170 due to Farfalla on which we are currently taking legal advice). There was no equity in this stock and accordingly it was returned to Farfalla. The bulk of the remainder of the stationery stock has now been disposed of and we are currently exploring avenues for the disposal of the final stock items.

5.3 A small quantity of furniture held at the Company's leased warehouse in Bailleston, Glasgow has also been disposed of.

5.4 The vast bulk of the debts due at the date of our appointment related to The Stationery Company Ltd and Kassel Ltd. We were also appointed Joint Administrative Receivers of The Stationery Company Ltd on 7 February 1996, and our initial investigations have shown that there is little prospect of a dividend from that company in respect of the debt due.

5.5 Kassel Ltd was managed by The Stationery Company Ltd under a management agreement which was treated by the directors of Kassel on or about the middle of January 1996. The Company's records at the date of our

appointment showed a receivable of £147,297 from Kassel; however, our investigations have shown that Kassel is currently in an uncertain financial position and accordingly it is our opinion that there is little prospect of a recovery in that area.

5.6 Third party debtors at the date of our appointment amounted to £220,523 consisting of 170 accounts. The Company had, however, failed to process a number of adjustments amounting to £124,388 of debt which had been identified to be written off. Accordingly, the maximum amount recoverable would be £96,135, We are aggressively attempting to recover this money, however, the very nature of the debts (small amounts owed by small Companies) prohibits costly recovery action being taken. Accordingly, we do not expect to recover more than £66,600 from this area.

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TO ALL KNOWN CREDITORS

29 March 1996

6. AMOUNTS DUE TO THE FLOATING CHARGE HOLDER

6.1 The amount due to Bank of Scotland plc at the date of our appointment was as follows--

Term Loan	£2,063,440
Overdraft	1,063,259
Wages Account	72,794
Total	£3,199,493

Interest has continued to accrue on the outstanding balance since our appointment and is covered under the Bank's Floating Charge.

7. AMOUNTS PAYABLE TO PREFERENTIAL CREDITORS

7.1 At the date of our appointment to the Company the Directors estimated the preferential creditors as follows:-

	£
Inland Revenue - PAYE	91,890
H M Customs & Excise - VAT	19,712
Employees	19,712
Pension Scheme	2,612
Total	£133,926

7.2 While all Crown creditors have yet to lodge their formal preferential claims, with the exception of HM Customs & Excise who, as noted at para 4.2 have lodged a claim in excess of that shown, we are not aware at this stage of any reason why any of the other balances should significantly vary from the above.

8. AMOUNTS LIKELY TO BE AVAILABLE FOR THE PAYMENTS OF A DIVIDEND TO OTHER CREDITORS

8.1 Based on current estimates it is clear that whilst preferential creditors are likely to be paid in full there will be a substantial shortfall to the Floating Charge holder. Accordingly, there is no prospect whatever of a dividend being available to ordinary creditors.

8.2 Creditors should note that they may recover VAT on supplies made after 1 April 1989 providing that the debt is over six months old and has been fully written off in their accounts. Full details on the reclaim procedure are available from HM Customs & Excise on request.

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## 9. DIRECTORS' CONDUCT

9.1 In terms of the Directors Disqualification Act of 1986, Receivers are required to prepare a report on the conduct of those individuals who have been directors, or shadow directors, of an insolvent company in the three year period prior to their appointment. If any creditor is aware of any matter which they believe should be brought to our attention in this regard, they should supply details to us in writing.

Yours faithfully

/s/ Iain T Watters  
Iain T Watters  
Joint Receiver

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Chessbourne International Ltd (In Receivership)  
Directors' Statement of Affairs as at 7 February 1996

Appendix 1

	BOOK VALUE	ESTIMATED TO REALISE
ASSETS SPECIFICALLY SECURED		
Stock	189,591	198,591
Trade Debtors	7,170	7,170
	196,761	196,761
AMOUNTS DUE TO SECURITY HOLDER	(196,761)	(196,761)
SURPLUS AS REGARDS SPECIFIC SECURITY HOLDER	0	0
ASSETS SUBJECT TO FLOATING CHARGE		
Trade Debtors	333,139	136,000
Loans and Advances	1,428,872	0
Stock	659,343	400,000
Other debtors and prepayments	111,359	8,800
Leasehold Property	241	0
Plant, Machinery and vehicles	92,258	15,000
	2,625,212	559,800
AVAILABLE TO PREFERENTIAL CREDITORS	2,625,212	559,800
PREFERENTIAL CREDITORS		
Inland Revenue	(91,890)	(91,890)
HMC&E	(19,712)	(19,712)
Employees	(19,912)	(19,712)
Pension Scheme	(2,612)	(2,612)
	(133,926)	(133,926)
AVAILABLE TO FLOATING CHARGE HOLDER	2,491,286	425,874
FLOATING CHARGE HOLDER - BANK OF SCOTLAND	(3,155,635)	(3,155,635)
DEFICIT AS REGARDS FLOATING CHARGE HOLDER	(664,349)	(2,729,761)
UNSECURED CREDITORS	(885,839)	(885,839)

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## MUTUAL RELEASE

KNOW ALL MEN BY THESE PRESENTS:

That Whereas:

A. Corniche Group Incorporated, a Delaware corporation ("CGI") borrowed UK£50,000 from The Bank of Scotland (the "Bank") and in consideration therefor issued to the Bank CGI's promissory note dated in February 1996 (the "Note") providing for, among other things, maturity in August 1996 and an annual rate of interest calculated at 2% above the 3-month London Interbank Offered Rate ('LIBOR') ascertained at specified times; and

B. The Bank advised CGI that it would accept in full satisfaction and discharge of all principal, accrued interest and any and all others sums which may be due under the Note the sum of US\$ 89,374.49, payable in lawful money of the United States and in same day funds on the date hereof; and

C. CGI has this day made payment herewith to the Bank of the amount set forth in Preamble B above, in accordance with the terms specified therein, and in full satisfaction and discharge of the obligations specified therein.

Now, Therefor:

CORNICHE GROUP INCORPORATED  
JAMES FYFE

(the said corporation and individuals,  
together with their respective  
executors, administrators, successors and  
assigns collectively jointly, and severally  
the "CGI Group")

and

THE GOVERNOR AND COMPANY OF  
THE BANK OF SCOTLAND

(the said corporation together with its  
successors and assigns, collectively,  
jointly, and severally the "Bank Group")

for good and valuable consideration, the receipt of which is acknowledged each from the other, have entered into the agreements of release set forth below.

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1. The CGI Group and each and every one of them respectively do, by these presents, remise, release and forever discharge the Bank Group and each and every one of them from all liabilities, accounts, causes of action, sums of money, reckonings, contracts, controversies, agreements, damages, judgments, executions, claims, demands, debts, obligations, promises, covenants, actions and undertakings, in law or in equity, which against the Bank Group and each and every one of them the CGI Group and each and every one of them ever had, now have or hereafter can, shall or may have, for or by

reason of any matter, cause or thing whatsoever, up to and through the date hereof.

2. The Bank Group and each and every one of them respectively do, by these presents, remise, release and forever discharge the CGI Group and each and every one of them from all liabilities, accounts, causes of action, sums of money, reckonings, contracts, controversies, agreements, damages, judgments, executions, claims, demands, debts, obligations, promises, covenants, actions and undertakings, in law or in equity, which against the CGI Group and each and every one of them the Bank Group and each and every one of them ever had, now have or hereafter can, shall or may have, for or by reason of any matter, cause or thing whatsoever, up to and through the date hereof.

3. In the event the payment to the Bank referred to in Preamble B must be returned, repaid or disgorged to the CGI Group, a trustee or any other person, in whole or in part, Sections 1 and 2 hereof shall be null and void and of no force or effect.

In Witness Whereof, the parties have caused these presents to be executed by the following persons thereunto duly authorized as of January 30, 1997.

CORNICHE GROUP INCORPORATED

By: /s/ James Fyfe  
JAMES FYFE, Vice President

/s/ James Fyfe  
JAMES FYFE

THE GOVERNOR AND COMPANY OF  
THE BANK OF SCOTLAND

By /s/ John Kelly

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AGREEMENT  
among  
CORNICHE GROUP INCORPORATED  
CORNICHE DISTRIBUTION LIMITED  
(IN ADMINISTRATIVE RECEIVERSHIP)  
and  
THE RECEIVERS THEREOF

Dorman Jeffrey & Co  
Solicitors  
Glasgow  
4/AGG.159/ym



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AN AGREEMENT made the 4th day of March 1996 AMONG,

1. CORNICHE GROUP INCORPORATED, a corporation organized under the laws of the State of Delaware (hereinafter called "CGI") of Wayne Interchange Plaza 1, 145 Route 46 West, Wayne, NJ 07470

2. CORNICHE DISTRIBUTION LIMITED (IN ADMINISTRATIVE RECEIVERSHIP), a company incorporated under the Companies Act (no. 2701498) and having its Registered Office at 272 London Road, Wallington, Surrey, SM6 7DJ (hereinafter called "CDL") acting through its joint Receivers, IAIN THOMAS WATTER and GORDON CHRISTIE both of 18 Charlotte Square, Edinburgh, both Chartered Accountants and partners of Arthur Andersen, appointed by virtue of an instrument of appointment by the Bank (as hereinafter defined) dated 28 February 1996 pursuant to a Debenture in favour of the Bank by CDL dated 7 April 1995 and registered 12 April 1995 (hereinafter together called "the Receivers")

and

3. THE RECEIVERS, in their capacity as Receivers of CDL.

WHEREAS:

(1) CDL is in Administrative Receivership and has agreed to discharge the CDL Claims (as hereinafter defined) in consideration of the Settlement Sum (as hereinafter defined); and

(2) In consideration of CDL discharging the CDL Claims (as hereinafter defined), CGI has agreed to discharge the CGI claim (as hereinafter defined).

NOW THEREFORE THE PARTIES HERETO HEREBY CONTRACT AND DO HEREBY AGREE as follows:

## 1. INTERPRETATION

1.1 In this Agreement the following words, phrases, term and expressions shall bear the followings meanings:

"Bank" means the Governor and Company of the Bank of Scotland

"Business Day" means a day other than a Saturday or Sunday on which the Bank is open for business both in Glasgow and London.

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"CDL Claims" means all and any claims competent to CDL against CGI in connection with the Shares.

"CGI Claims" means all and any claims competent to CGI against CDL of whatsoever nature and howsoever arising including but not limited to the CGI inter company account.

"Completion" means completion in terms of this Agreement.

"Completion Date" means the date of this Agreement.

"Receivers' Bank" means the client account of the Receivers' Solicitors held at the Bank, Account Number 00300805, Sort Code 80-07-48.

"Receivers' Solicitors" means Dorman Jeffrey & Co., Solicitors, Glasgow and Edinburgh.

"Settlement Sum" means the sum of FIFTY THOUSAND POUND (£50,000) STERLING.

"Shares" means 2,499,900 shares of £1 each in the capital of CDL, which prior to the date hereof were allotted or alleged to have been allotted to CGI.

1.2 The provisions of the Interpretation Act 1978 with respect to the interpretation and Construction of this Agreement shall apply mutatis mutandis.

1.3 References to Clauses, unless the contrary intention appears, are to the Clauses of this Agreement.

1.4 The headings contained herein are for convenience only and shall not be construed as forming part of this Agreement or be taken into account in the interpretation hereof.

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1.5 This Agreement may be executed in any number of counterparts and all such counterparts taken together shall be deemed to constitute one and the same document.

## 2. CONDITIONS PRECEDENT

2.1 This Agreement is conditional in all respect upon the following conditions having been implemented in full:

2.1.1 The Receiver having received from Baker Tilly a letter (addressed to the Receiver) setting out details as to the current financial Position of CGI, the terms of which (in the opinion of the Receiver) are satisfactory to the Receivers; and

2.1.2 The Receivers having received from the Board of CGI a letter (addressed to the Receivers) setting out details as to the basis of CGI disputing the CDL Claims, the terms of which (in the opinion of the Receivers)

are satisfactory to the Receivers, and which makes reference to the letter referred to in Clause 2.1.1 above.

2.2 The conditions precedent contained in Clause 2.1 hereof are for the sole and exclusive benefit of the Receivers and may only be waived by the Receivers.

### 3. COMPLETION

3.1 The Settlement Sum shall be paid to CDL on the Completion Date by CGI by way of telegraphic transfer to the Receivers' Bank Account or otherwise as agreed by the Parties.

3.2 The provisions of Clause 4 shall only come into force and have effect upon the provisions of Clause 2 and Clause 3.1 both having been implemented in full.

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### 4. SETTLEMENT OF THE CLAIMS

4.1 In consideration of the Settlement Sum CDL, hereby irrevocably and unconditionally discharges the CDL Claims.

4.2 In consideration of CDL discharging CDL Claims, CGI hereby irrevocably and unconditionally discharges the CGI Claims.

### 5. RECEIVERS

5.1 It is essential condition of this Agreement:

5.1.1 that the Receivers contract solely as agents of CDL and shall incur no personal liability of whatsoever nature (whether directly or indirectly, express or implied) and howsoever arising including without prejudice to the foregoing generate, personal liability in respect of any action or actions of whatsoever nature and howsoever arising in pursuance respectively of CDL's rights and/or obligations under this Agreement and whether such claim is formulated in contract and/or tort or by reference to any other remedy or right and in whatever jurisdiction or forum;

5.1.2 that no claim which may be or become competent to CGI arising directly or indirectly from this (or under any deed or other document executed in consequence of hereof or on or under any associated or collateral agreement or arrangement) will lie against the Receivers personally and the Receivers shall be entitled at any time to have any claims, documents or others amended to include an exclusion of personal liability in terms of this Clause 5;

5.1.3 that any personal liability of the Receivers which would in terms of the Insolvency Act 1986 arise but for the provisions of this Clause 5 is hereby expressly excluded,

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5.2 Nothing in this Agreement shall constitute a waiver of any right of the Receiver to be indemnified by, or to exercise a lien, whether under the provision of the Insolvency Act 1986 or otherwise howsoever.

5.3 The Receivers have joined in as parties to this Agreement solely for the purpose of obtaining the benefit of the provisions of Clause 2 and this Clause 5 and any other provisions in this Agreement in their favour.

5.4 For the purpose of this Agreement references to "the Receivers" where the context so permits shall mean and include their present and future firm or firms, partners and employees, and any legal entity or partnership using in its name the words "Arthur Andersen" and the partners, shareholders, officers

and employees of any such entity or partnership.

#### 6. EXCLUSION OF REPRESENTATIONS AND WARRANTIES

CGI agrees that in entering into this Agreement it is not relying upon any information, warranty, statement, representation or silence on the part of the Receivers or the Receivers' Solicitors and that CGI is not relying upon any other written or oral representation made to it or to its representatives or agents by the by the Receivers or their representatives or agents.

#### 7. COSTS

Each party shall be responsible for its own legal costs in connection with the negotiation, preparation, execution and delivery of this Agreement and all documents and instruments executed pursuant to this Agreement.

#### 8. CLAIMS BY CGI

8.1 Any claim by CGI whether arising pursuant to this Agreement or otherwise shall be against CDL and not the Receivers; and then shall only be an unsecured claim against CDL.

8.2 Any claim by against CDL and/or the Receivers whether arising pursuant to this agreement or otherwise shall be irrevocably waived unless made in writing by notice by CGI to the Receivers not later than one month after the Completion Date, the first day of such one month period to be the Completion Date, time being of the essence.

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#### 9. NOTICE

9.1 All notices, requests, demands or other communications by the respective parties may be served by Recorded Delivery Post, personally or by fax to the parties' respective addresses herein stated (in the case of CDL and the Receivers to the Receivers at their office at 18 Charlotte Square, Edinburgh) or to such other addresses as they may respectively from time to time notify to the other parties. A confirmation copy of the document sent by fax shall also be sent to the addressee by first class post within one Business Day after the date of transmission by fax.

9.2 Any such notice, request, demand or communication shall:

9.2.1 if delivered personally be deemed to have been received at the time of delivery, or if delivery is not on a Business Day on the Business Day following such delivery;

9.2.2 if given by Recorded Delivery Post be deemed to have been received in the case of CDL and the Receivers on the second Business Day occurring and in case of CGI on the seventh Business Day occurring after the date of posting; and

9.2.3 if sent by fax be deemed to have been received on the date of transmission, or if said transmission is not on a Business Day on the Business Day following such transaction.

#### 10. ENTIRE AGREEMENT

This Agreement forms the entire agreement between the parties relating to the subject matter of this Agreement. It is agreed that any future variation hereof may only take the form of a formal variation of this Agreement. In particular it is agreed that this Agreement supersedes all earlier meetings, discussions, correspondence,

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facsimile transmission, telexes, letters and communications, understandings

and arrangements of any kind, and that there are no collateral or supplemental agreements at the date of this Agreement.

11. TRANSFERABILITY

This Agreement shall be binding upon and enure for the benefit of the successors of the parties or their personal representatives (as the case may be) but neither party shall be entitled to assign, novate or transfer the whole or any part of its rights, or obligations hereunder without the prior written consent of the other, except that the Receivers may assign without consent, the benefit of this Agreement, to any Liquidator of CDL.

12. SPIRIT AIMS AND INTENT

The parties hereto undertake to do all acts and things necessary or expedient for the purpose of giving full force and effect to the provisions of this Agreement and the spirit, aims and intent of the arrangements contemplated herein.

13. SEVERABILITY

In the event that any clause or any Sub-clause or any part of any clause or subclause of this Agreement shall be determined Invalid, unlawful or unenforceable, in any extent such term or condition or provision shall be severed from the remaining terms and conditions which shall continue to be valid and enforceable to the fullest extent permitted by law.

14. WAIVERS

No failure or delay by any party in exercising any right, power or privilege hereunder, shall operate as waiver thereof or prejudice any other or further exercise by such party of any of its rights or remedies hereunder.

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15 ANNOUNCEMENTS

No party shall make any public announcement or the like, or issue any press or other release, statement or the like in relation to this Agreement without first agreeing the terms of any such announcement or release with the others beforehand, except that the Receivers shall be entitled to make a full report of all matter to the Bank, any of the parties may reveal such information to any party as may be required by law or any regulatory authority and CGI may reveal such information in connection with all filings, releases and announcements advised by US Securities Counsel in connection with Federal, State and Securities law and regulations in the United States.

16. LEX LOCI AND JURISDICTION

This Agreement shall be governed by and construed in accordance with the law of England and each of the parties hereto submits to the exclusive jurisdiction of the English Courts as regards any matter or claim arising under or in connection with this Agreement.

IN, WITNESS WHEREOF, this Agreement consisting of this and the seven preceding pages is signed and witnessed as follows on this page and the following additional pages:

SIGNED for and on behalf of the said  
CORNICHE GROUP INCORPORATED  
at Roseland on the 4th day of March  
Nineteen hundred and ninety six by  
James Joseph Fyfe one of its directors  
in the presence of:-

Witness /s/ Alan Wovsaniker  
Full Name Alan Wovsaniker  
Address 65 Livingston Ave.  
Roseland, NJ  
USA

/s/ James Fyfe  
James Fyfe, Director

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SIGNED for and on behalf of  
CORNICHE DISTRIBUTION LIMITED  
(IN ADMINISTRATIVE RECEIVERSHIP)  
by IAIN THOMAS WATTERS one of its  
Receivers, (as agent and without  
personal liability for either of the  
Receivers) at an the Glasgow on  
the fourth day of March Nineteen  
hundred and ninety six in the  
presence of:

Witness /s/ Ian Jardine Cuthbertson  
Full Name Ian Jardine Cuthbertson  
Address Bly Blythswood Square  
Glasgow

/s/ Iain Thomas Watters  
Iain Thomas Watters

SIGNED for and on behalf of THE  
RECEIVERS at Glasgow on the  
Forth day of March Nineteen hundred  
and ninety six by IAIN THOMAS  
WATTERS one of the joint receivers  
(without incurring personal liability for  
either Receivers) in the presence of :

Witness /s/ Ian Jardine Cuthbertson  
Full Name Ian Jardine Cuthbertson  
Address Bly Blythswood Square  
Glasgow

/s/ Iain Thomas Watters  
Iain Thomas Watters

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James J. Fyfe  
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April 15, 1997

Corniche Group Incorporated  
145 Route 46 West  
Wayne, NJ 07470

Dear Sirs,

Re: Auditor's Report

In connection with the preparation of the Annual Report of Comiche Group Incorporated (the 'Company') on Form 10-K for the fiscal year ended March 31, 1996, the Company is required to provide manually signed reports by its independent auditors with respect to the financial statements included in the Annual Report. In situations such as the present where there have been changes in auditors or where audited financial statements prepared by more than one accounting firm are being relied upon and included, a manually signed report is required of each such auditor even where such report has been previously executed and relates to financial statements which have been prepared in connection with a previously filed document.

The March 31, 1996 Annual Report contains financial statements respecting the Company's former United Kingdom operating subsidiaries, audited by the London, England branch of Coopers & Lybrand L.L.P. ("Coopers"). The report page relating to such financial statements was originally prepared and signed by Coopers., in connection with the Company's Annual Report on Form 10-K for the year ended March 25, 1995. Coopers has advised the Company on several occasions however, that it cannot and will not provide the Company with a newly signed report page with respect to such audit for purposes of the March 31, 1996 Form 10-K. This cannot be done for the following reasons:

1. Coopers has rigorous review procedures to be fully completed prior to the re-signing of any audit opinion. These procedures include visiting the entities which were the subject of the audit to, among other things, review the activities of such entities subsequent to the audit period. This review includes discussions

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with management and a review of financial books and records. In view of the current status of these former subsidiaries such a review could not be conducted to the extent required by Coopers to enable them to re-sign their audit report. This conclusion is based upon the problems, as described below,

which would be confronted by Coopers in attempting to obtain information regarding the former operating subsidiaries. All of these problems relate to the February 1996 appointment of receivers to the operating subsidiaries and the related discontinuance of the operations of such operating subsidiaries.

Following the appointment of the receivers, (i) the subsidiaries ceased operating; (ii) the directors and other employees of the former operating subsidiaries ceased all activities theretofore being conducted by them on behalf of such entities and their employment contracts were terminated; (iii) all administrative facilities being operated by such entities were closed; (iv) all books and records of such entities were transferred and delivered to the receivers where they remain, and will continue to remain during the entire term of of the receivership, under the exclusive control of the receivers; and (v) conventional accounting records for the periods subsequent to the date of such appointments were not maintained.

2. Even ff the review referred to above were possible, Cooper's would require A substantial fee, in advance, to complete such a review. The Company is unable to pay such a fee and even ff it were, Coopers would not undertake such a review without receipt of an additional payment representing all or a substantial part of the fees due from the former operating subsidiaries. Coopers was owed accounting fees in excess of \$100,000 by the former operating subsidiaries at the time of the February 1996 receivership proceedings involving each of such subsidiaries. Coopers made no recovery of any such sums in the receivership proceedings. Although, the Company is not obligated to pay the liabilities of its former subsidiaries to Coopers, ft has materially effected Coopers willingness to cooperate with the Company.

The foregoing factors lead me to the inevitable conclusion that Coopers review procedures, even if undertaken, could not be satisfied. Consequently, Coopers will not be providing a re-signed audit report for the purposes of the March 31, 1996 Form 10-K.

Very truly yours,

/s/ James J. Fyfe  
James J. Fyfe



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MCRP

MAHONEY COHEN RASHBA & POKART, CPA, PC

April 15, 1997

Mr. James Fyfe  
Chief Executive Officer  
Corniche Group Incorporated  
Wayne Interchange Plaza I  
3rd Floor  
145 Route 46 West  
Wayne, NJ 07470

Dear Mr. Fyfe:

You have requested that Mahoney Cohen Rashba & Pokart, CPA, PC (MCRP) reissue their opinion on the financial statements Corniche Group Incorporated (formerly Fidelity Medical, Inc.) (the "Company") for the year ended March 25, 1995 to be included in the Company's Form 10-K for the year ended March 31, 1996.

In our report dated July 25, 1995, we made reference to the report of other auditors (Coopers & Lybrand, located in the United Kingdom), as a basis, in part, for our opinion. We had informed you that due to the significance of the Coopers & Lybrand ("C&Y") audit report on the United Kingdom subsidiary to the consolidated financial statements, we would need among other items, for C&Y to reissue their March 25, 1995 audit report to us. You have informed us that C&L will not reissue their audit report. Accordingly, we are precluded by professional standards from reissuing our report for the year ended March 25, 1995 until C&L reissues their report.

Yours truly,

/s/ Kenneth L. Steckler  
Kenneth L. Steckler

KLS/gnc

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