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## **FORM 10-K**

**Caladrius Biosciences, Inc. - CLBS**

**Filed: June 30, 1997 (period: March 31, 1997)**

Annual report with a comprehensive overview of the company

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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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, 1997

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)

07470  
(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 X No

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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]

[Page 1 of 44 pages]  
[No Exhibits Filed Herewith]

\$1,281,550 as of May 15, 1997  
(Aggregate market value of the voting stock  
held by non-affiliates of registrant)

2,412,330 shares, \$.10 par value, as of May 15, 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

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 does not anticipate any further cash recoveries against the Note. Registrant does expect however, 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

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mortgages over fixed assets ("Fixed Assets") and debentures over pools of assets which by their nature will change from time to time ("Floating Changes"). 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.

#### 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. 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 and subsequent periods 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. Consequently, Registrant has treated each of CDL, Chessbourne and TSCL as no longer being subsidiaries of Registrant for periods subsequent to December 31, 1995.

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. Registrant gave 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

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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 - General - Payment on Promissory Note to Bank of Scotland.)

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. 1,042,250 of the pledged shares were subsequently sold by the Bank of Scotland to twelve unrelated persons. (See Item 1. Business - General - Transfer of Pledged Shares).

#### 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 shares, 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.

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## General

### 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 - History - 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 - History - 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 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 was not able to make any payments due to Albermarle pursuant to the consulting agreement as they became due. Registrant has subsequently paid Albermarle in full from part of the proceeds raised by it in its securities offering which commenced on May 15, 1997. (See Item 1. Business - General - Subsequent Events.)

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## 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 was completed on April 30,

1997. 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 from proceeds raised in the second of such offerings. The second offering commenced in January 1997 and was completed on April 30, 1997 upon the sale of 17 units resulting in \$425,000 in gross proceeds to Registrant. Similar to the previous offering, it was conducted on a "best-efforts" basis through RMCC and consisted 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. 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 Registrant at a price of \$.075 per underlying share from proceeds raised in Registrant's securities offering which commenced on May 15, 1997. (See Item 1. Business - General - Subsequent Events.) In connection with each of the offerings, Registrant paid RMCC a sales commission equal to 10% of the subscription price for each unit sold.

#### 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

#### Securities Offerings

On May 15, 1997 Registrant commenced a private securities offering pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended. The offering consists of up to 400 units, each unit consisting of 10,000 shares of Registrant's common stock being offered at a price of \$5,000 per unit. RMCC is the placement agent for such offering and is entitled to receive a sales commission equal to 10% of the offering price for each unit sold. The first 50 units were offered on a "best efforts, all-or-none" basis. The remaining 350 units are being offered on a "best efforts" basis. As of June 25, 1997, 183 units have been sold resulting in gross proceeds to Registrant of \$915,000. The proceeds raised in such offering have been used as working capital and to pay off the promissory notes and redeem the common stock purchase warrants issued in Registrant's private securities offering which was completed on April 30, 1997. Any additional proceeds raised in such offering are intended to be utilized for working capital and to enable Registrant to attempt to effect the acquisition of an operating business entity.

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#### 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.

#### ITEM 3. LEGAL PROCEEDINGS

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, payment of which was made to Mr. Lewis in April 1997.

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, 1997.

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-

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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

Fiscal 1998(1)

First Quarter*	\$ 1.00	\$ .3125
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(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 June 26, 1997

At June 26, 1997, there were approximately 1,169 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.

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 years ended March 31, 1997 and 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

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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 1997	March 31, 1996	March 25, 1995	March 27, 1994	March 31, 1993
Statement of Operations:					
Net Sales	\$-0-	\$-0-	\$21,048,151	\$7,585,360	\$336,779
Cost of Sales	-0-	-0-	15,531,102	5,121,884	20,381
Gross Profit	-0-	-0-	5,517,049	2,463,476	316,398
Operating (Loss) Income	(251,583)	(257,073)	(2,821,339)	207,300	16,436
Net (Loss) Income	(332,604)	(323,510)	(3,394,652)	1,804	496
Net (Loss) Income per Common Share:	(.14)	(.14)	(2.05)	-0-	-0-
Weighted Average Number of Shares Outstanding	2,412,278	2,300,829	1,656,903	1,669,784	1,670,232

Dividends per Common Share            -0-                            -0-                            -0-                            -0-                            -0-

	March 31, 1997	March 31, 1996	March 25, 1995
Balance Sheet Data:			
Working Capital (Deficiency)	\$ (652,456)	\$ (320,240)	\$ (1,863,138)
Total Assets	14,914	136,201	9,822,570
Current Liabilities	666,623	455,306	9,122,665
(Accumulated Deficit) Retained Earnings	(2,449,389)	(2,116,785)	(3,827,879)
Stockholders' Equity (Deficiency)	(651,709)	(319,105)	(2,879,165)

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

Registrant has not engaged in any activities nor generated any operating revenues since February 1996 when its then operating subsidiaries were placed into receivership in the UK.

The receiverships resulted in the loss of all of Registrant's operations and operating assets and eliminated most liabilities. Accordingly the operating activities of the UK subsidiaries were classified as a discontinued operation and the excess of the UK subsidiary's cumulative losses over Registrant's investment was included in the income statement for the year ended March 31, 1996. In addition, the UK subsidiaries were removed from the balance sheet for periods subsequent to December 30, 1995.

During the period March 1996 through the date hereof Registrant's primary activities have been to engage in three private securities offerings, one of which is still ongoing, and to settle and pay off certain of its outstanding liabilities thereby making it a more desirable acquisition candidate.

Registrant recorded losses in the year ended March 31, 1997 of \$251,583, before interest expense and preferred stock dividend accrual (\$257,073 in 1996). Such losses arose from general and administrative expenses which principally comprise professional fees, travel expenses and general office costs. Compared to the year ended March 31, 1996 such costs were \$5,490 lower with year on year reductions in the areas of insurance costs, legal fees and general corporate costs offset by consultancy costs of \$60,000.

Liquidity and Capital Resources

During the year ended March 31, 1997 Registrant relied on the net proceeds of the two securities offerings described in Item 1 of this report and cash received against a note receivable and other sundry receipts to meet its cash needs.

On May 15, 1997 Registrant commenced a new private securities offering (see "Business - Subsequent Events" in Item 1 of this report). The proceeds raised in such offering have been used as working capital and to pay off the promissory notes and redeem the common stock purchase warrants issued in Registrant's private securities offering which was completed on April 30, 1997. Additional proceeds raised in such offering are intended to be utilized for working capital and to enable Registrant to attempt to effect the acquisition of an operating business entity. Registrant does not expect to generate any operating revenues until, at the earliest, the consummation of an acquisition. No assurance can be given however, that Registrant will successfully consummate a business acquisition or that if consummated, that Registrant will derive any material revenues or profits therefrom.

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 report of Coopers & Lybrand dated August 3, 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 Coopers & Lybrand for reasons relating to the institution of receivership

proceedings against Registrant's former operating subsidiaries. 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 & 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. For a more detailed discussion of the foregoing, reference is made to Registrant's Annual Report on Form 10-K for the year ended March 31, 1996, as amended on Form 10-K/A.

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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 accompanying balance sheets of Corniche Group Incorporated as of March 31, 1997 and 1996 and the related statements of operations, stockholders' deficiency, and cash flows for the years then ended. Our audits also included the financial statement schedule for the years ended March 31, 1997 and 1996. 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 2 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, 1997 and 1996, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations in the past, and had no sales during the years ended March 31, 1997 and 1996 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 in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ SIMONTACCHI & COMPANY, LLP

Fairfield, New Jersey  
June 20, 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 GROUP INCORPORATED BALANCE SHEETS

ASSETS  
-----

	March 31, 1997	March 31, 1996
	-----	-----
Current Assets:		
Cash	\$ 13,167	\$ 66
Notes Receivable	0	125,000
Other Receivables	1,000	10,000
	-----	-----
Total Current Assets	14,167	135,066
Other Assets:		
Property and Equipment, net	747	1,135
	-----	-----
Total Assets	\$ 14,914	\$136,201
	=====	=====

See Accompany Notes

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CORNICHE GROUP INCORPORATED  
BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' (DEFICIENCY) EQUITY

	March 31, 1997	March 31, 1996
	-----	-----
Current Liabilities:		
Notes Payable	\$ 400,000	\$ 5,000
Note Payable on Debt Compromise	0	77,630
Trade Accounts Payable	4,929	183,123
Dividends Payable - Preferred Stock	148,397	84,749
Accrued Liabilities	113,297	104,804
	-----	-----
Total Current Liabilities	666,623	455,306
Stockholders' (Deficiency) Equity:		
Preferred stock, 5,000,000 shares authorized Series A \$0.07 convertible preferred stock and issued 1,000,000 shares, and outstanding 909,267 shares March 31, 1997 and March 31, 1996.	909,267	909,267
Common Stock, \$0.10 par value, authorized - 30,000,000 shares, issued 2,630,378 (March 31, 1997 and 1996)	263,037	263,037
Additional Paid-In Capital	830,086	830,086
(Accumulated Deficit) Retained Earnings	(2,449,389)	(2,116,785)
	-----	-----
	(446,999)	(114,395)
Treasury Stock - at cost, 218,100 shares.	(204,710)	(204,710)
	-----	-----
Total Stockholders' (Deficiency) Equity	(651,709)	(319,105)
	-----	-----
Total Liabilities and Stockholders' (Deficiency) Equity	\$ 14,914	\$ 136,201
	=====	=====

See Accompanying Notes

CORNICHE GROUP INCORPORATED  
STATEMENT OF OPERATIONS

	March 31, 1997 -----	March 31, 1996 -----	March 25, 1995 -----
Net Sales	\$ 0	\$ 0	\$21,048,151
Cost of Sales	0	0	15,531,102
Gross Profit	0	0	5,517,049
Selling, General and Administrative Expenses	251,583	257,073	8,338,388
Operating Loss	(251,583)	(257,073)	(2,821,339)
(Loss) on Sale of Assets	0	(3,042)	(22,221)
Interest (Net)	(17,373)	(600)	(538,646)
(Loss) Income before Income Tax	(268,956)	(260,715)	(3,382,206)
Income Tax Benefit (Expense)	0	0	9,508
Net (Loss) Income from Continuing Operations	(268,956)	(260,715)	(3,372,698)
Preferred Stock Dividend	(63,648)	(62,795)	(21,954)
Net (Loss) Income After Preferred Dividends	(332,604)	(323,510)	(3,394,652)
Loss from Discontinued Operations	0	(3,432,032)	0
Excess of UK Subsidiary Cumulative Losses over Investment	0	5,466,636	0
Net Income (Loss)	\$ (332,604)	\$1,711,094	\$ (3,394,652)
	=====	=====	=====
Profit / (Loss) per share of Common Stock			
Income (Loss) from Continuing Operations	(0.14)	(0.14)	(2.05)
Income (Loss) from Discontinued Operations	0.00	0.88	0.00
Net Income (Loss) per share	\$ (0.14)	\$ 0.74	\$ (2.05)
	=====	=====	=====
Weighted Average Number of Common Shares Outstanding	2,412,278	2,300,289	1,656,903
	=====	=====	=====

See Accompanying Notes

CORNICHE GROUP INCORPORATED  
STATEMENT OF STOCKHOLDERS' (DEFICIENCY) EQUITY

	Common Stock -----			Additional Paid-In Capital	Accumulated Deficit	Cumulative Translation adjustment	Treasury Stock	Total
	Preferred Stock	Number of Shares	Amount					
Balance - March 27, 1994	\$ 0	572,981	\$ 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	-	-	-	-	(3,372,698)	-	-	(3,372,698)

Cumulative Translation Adjustment	-	-	-	-	-	(4,691)	(4,691)	
Balance - March 25, 1995	946,069	2,119,857	211,985	-	(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)	\$-	\$(204,710)	\$(319,105)
Net Loss	-	-	-	-	(332,604)	-	-	(332,604)
Balance - March 31, 1997	\$909,267	\$2,630,378	\$263,037	\$830,086	\$(2,449,389)	\$0	\$(204,710)	\$(651,709)

See Accompanying Notes

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CORNICHE GROUP INCORPORATED  
STATEMENT OF CASH FLOWS

	March 31, 1997	March 31, 1996	March 25, 1995
Cash Flows from Operation Activities:			
Net Loss from Continuing Operations	\$ (268,956)	\$ (260,715)	\$ (3,372,698)
Adjustments to reconcile Net Loss from Continuing Operations to Net Cash used in Operating Activities:			
Depreciation	388	1,749	346,668
Amortization of Goodwill	-	-	97,651
Amortization of Trademarks	-	-	1,248
Amortization of Development Costs	-	-	18,524
Amortization of Deferred Credit	-	-	(4,223)
Loss on Sale of Property and Equipment	-	3,042	22,220
Allowance for Bad Debts	-	-	349,231
Changes in Assets and Liabilities Net of Effects from Acquisitions:			
Decrease (Increase) in Accounts Receivable	-	-	(217,151)
Decrease in Notes Receivable	125,000	75,000	-
Decrease in Inventory	-	-	561,291
Decrease (Increase) in Prepaid Expenses and Other Receivables	9,000	8,422	(59,268)
(Decrease) Increase in Notes Payable	-	(11,292)	-
(Decrease) Increase in Trade Accounts Payable	(178,194)	127,757	286,501
Increase (Decrease) in Accrued Liabilities	8,493	(451,070)	893,946
Increase (Decrease) in Deferred Credit	-	-	(23,138)
Increase in Taxes Payable	-	-	259,217
Net Cash used in Operating Activities	(304,269)	(507,107)	(839,981)
Net Cash used in Discontinued Operations	-	(331,337)	-
Net Cash used in Operating Activities	(304,269)	(838,444)	(839,981)
Cash Flows from Investing Activities:			
Payments to Acquired Fixed Assets	-	(8,926)	(439,169)
Proceeds from Sale of Equipment	-	3,000	54,607
Net Cash used in Investing Activities	-	(5,926)	(384,562)
Balance Carried Forward	\$ (304,269)	\$ (844,370)	\$ (1,224,543)

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CORNICHE GROUP INCORPORATED  
STATEMENT OF CASH FLOWS



	March 31, 1997	March 31, 1996	March 25, 1995
	-----	-----	-----
Balance Brought Forward	\$ (304,269)	\$ (844,370)	\$ (1,224,543)
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
Principal Payments under Capital Lease Obligations	-	-	(106,369)
Payment of Notes Payable	(77,630)	-	-
Additional Borrowings	395,000	-	-
	-----	-----	-----
Net Cash Provided by Financing	317,370	844,336	962,167
	-----	-----	-----
Effect of Exchange Rate on Cash	-	-	(7,725)
	-----	-----	-----
Net Increase (Decrease) in Cash	13,101	(34)	(270,101)
	-----	-----	-----
Cash at Beginning of Period	66	100	9,940
	-----	-----	-----
Cash received from FMI	-	-	368,599
	-----	-----	-----
Cash at End of Period	\$ 13,167	\$ 66	\$ 108,438
	=====	=====	=====
Supplemental Disclosures of Cash Flow Information			
Cash Paid during the Year for:			
Interest	\$ 17,373	\$ 600	\$ 538,646
Income Taxes	\$ -	\$ -	\$ -

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, 1997 the Company accrued preferred stock dividends of \$63,648 and (1996 - \$62,795).

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 7).

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 7) 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 3).

In March 1995, holders of a promissory note in the amount of \$300,000 converted such note into common stock of CGI (Note 7).

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

See Accompanying Notes

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 Note 2).

NOTE 2           SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

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 Chessboume.

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 was included in the income statement for the year ended March 31, 1996.

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)

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 five to ten years.

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.

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".

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. Retroactive effect has been given to the recapitalization discussed in Note 2.

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CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 3 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. Through July 1996 the company received payments of principal in the aggregate sum of \$125,000. The Company is in negotiation regarding the exercising of its option to apply the unpaid balance of the Note to purchase voting shares of Medical Laser Technologies, Inc., the corporate parent of the operating

subsidiary. However, no agreement has yet been reached and accordingly, a provision against recovery of the balance of \$75,000 was made at March 31, 1996. No interest has been accrued.

NOTE 4 PROPERTY AND EQUIPMENT

Property and Equipment consists of the following:

	March 31, 1997	March 31, 1996
	-----	-----
Furniture and Fixtures	\$1,426	\$1,426
Less: Accumulated Depreciation	679	291
	-----	-----
	\$ 747	\$1,135
	=====	=====

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CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 5 NOTES PAYABLE

The Company was in default on a Note Payable dated January 12, 1995 in the principle sum of \$17,000. In March 1997 the Company entered into a settlement agreement with the note holder pursuant to which the note holder accepted \$5,000 in full satisfaction of all remaining sums due including accrued interest.

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 December 1996 upon the 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.

During the period January 1997 through April 30, 1997, 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 was 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. RMCC sold 17 units.

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CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 6 NOTE PAYABLE ON DEBT COMPROMISE

Notes Payable on debt compromise as of March 31, 1996 comprised a 180-day promissory note in the principal amount of 50,000 pounds sterling (approximately \$77,630) 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.

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 pounds 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 against the Company or 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 Fyfe released the Bank of Scotland in similar fashion.

#### NOTE 7 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 8), 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.

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#### CORNICHE GROUP INCORPORATED NOTES TO FINANCIAL STATEMENTS

#### NOTE 7 STOCKHOLDERS' EQUITY (Cont'd)

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 Chessboume.

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.

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.

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.

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CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 7 STOCKHOLDERS' EQUITY (Cont'd)

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 1,050,175 shares of common stock are reserved for issuance upon exercise of warrants as of March 31, 1997. Warrants issued and outstanding 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
January - March 1997	900,000	\$ 0.50	1/00 - 3/00

The warrants issued in 1997 were issued in connection with the Company's securities offering and were repurchased subsequent to March 31, 1997 at a cost of \$67,500.

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.

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.

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CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 7 STOCKHOLDERS' EQUITY (Cont'd)

For holders of more than 10% of the Company's outstanding common stock, the exercise price must be at least 110% 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:

	March 31, 1997	March 31, 1996	March 25, 1995	Sept. 30, 1994
	-----	-----	-----	-----
Outstanding, Beginning of Year	7,500	28,980	131,367	82,900
Granted	3,000	9,000	15,896	69,117
Converted	0	0	(91,933)	0
Expired	(9,000)	(30,480)	(26,350)	(20,650)
Exercised	0	0	0	0
	-----	-----	-----	-----
Outstanding, End of Year	1,500	7,500	28,980	131,367

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.

At March 31, 1997, there were 1,500 exercisable outstanding options and 158,500 shares available for grant. The exercise price of outstanding options was \$0.40625.

On May 1, 1997, 1,500 options were granted at an exercise price of \$.3125 per share.

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CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 8 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 9 INCOME TAXES

Income Tax Expense (benefit) represents United Kingdom corporation tax (benefit) for the years ended March 25, 1995. 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		
	1997	1996	1995
United Kingdom	\$0	\$0	\$(2,786,689)
United States	(268,956)	(260,715)	(595,517)
	-----	-----	-----
	\$ (268,956)	\$ (260,715)	\$ (3,382,206)
	=====	=====	=====

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 was 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. These returns have been filed in June 1997.

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CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

NOTE 10 SUBSEQUENT EVENTS

Equity Offerings

On May 15, 1997, the company commenced a private securities offering pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended. The offering of up to 400 units, each unit consisting of 10,000 shares of common stock being offered at a price of \$5,000 per unit. RMCC is the placement agent for such offering and is entitled to receive a sales commission equal to 10% of the offering price for each unit sold. The first 50 units are being offered on a "best efforts, all or none" basis. The remaining 350 units are being offered on a "best efforts" basis. As of the date hereof, 162 units have been sold resulting in gross proceeds to the Company of \$810,000. The proceeds of such offering are intended to be utilized to enable the Company to



attempt to effect the acquisition of an operating business entity, for working capital and to pay off the promissory notes and to redeem the common stock purchase warrants issued in the Company's private securities offering which was completed on April 30, 1997.

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CORNICHE GROUP INCORPORATED  
SCHEDULE II  
VALUATION AND QUALIFYING ACCOUNTS  
FOR THE YEARS ENDED MARCH 31, 1997, MARCH 25, 1996 AND MARCH 27, 1995

COL. A Description	COL. B. Balance at Beginning of Period	COL. C ADDITIONS Charges to Costs and expenses	COL. D Deductions Describe	COL. E Balance at End of Period
Allowance for Doubtful Account				
1995	131,692	349,231	0	135,815 (1)
1996	345,108	0	0	345,108 (3)
1997	0	0	0	0
Reserve against Notes Receivable				
in Default				
1995	0	0	0	0
1996	0	75,000	0	75,000
1997	75,000	0	0	75,000
Inventory Reserve				
1995	86,589	9,758	0	56,123 (2)
1996	40,224	0	0	40,224 (3)
1997	0	0	0	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.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

Directors

The following sets forth, as at March 31, 1997, 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.

Name	Other Offices Held	Age	Director Since
James J. Fyfe	Vice President, Chief Operating Officer	42	1995

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. Mr. Pazaryna's resignation was not the result of any disagreements with Registrant on any matter relating to Registrant's operations, policies or practices.

## 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, 1997.

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

## 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, 1997 of each person who served as a director and/or executive officer of Registrant at March 31, 1997.

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

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1991 he was chairman and chief executive officer of the Lewis Group, a UK based chain of department stores and specialty retail outlets.

## ITEM 11. EXECUTIVE COMPENSATION

### Compensation of Officers

Registrant has not paid salary, wages or other compensation to any of its executive officers since February 1996 when Registrant's then operating subsidiaries were placed into receivership in the United Kingdom and all business operations ceased.

### 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 assignment compensation was paid during the fiscal year ended March 31, 1997.

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 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, 1997, 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 Registrant's securities other than Brian J. Baylis and Susan A.M. Crisp who were required to file reports on Form 4 in connection with the reduction of their respective ownership interests in Registrant resulting from the sale of shares pledged by them following a default in the obligation secured by the pledge as discussed in Item 1. Business - General - Transfer of Pledge Shares. Mr. Baylis and Ms. Crisp, each of whom resides in the UK, were not fully aware of their obligations to file a Form 4 following the sales of the pledged shares but have been recently notified regarding such obligations. The Registrant expects each of them to file a Form 4 with respect to such transaction within the next thirty days.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Beneficial Owners

As of June 20, 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.

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Security Ownership of Management

The following table sets forth information concerning the beneficial ownership of Registrant's common stock, as of June 20, 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 07470	-0- (1)	-0-
All directors and officers as a group (1 person)	-0- (1)	-0-

(1) Does not include 3,000 shares of common stock which may be issued to Mr. Fyfe upon the exercise of 3,000 stock options issued to Mr. Fyfe in connection with his services as a director of Registrant. These options were issued in connection with Registrant's 1992 Stock Option Plan. 1,500 of such options are not exercisable until May 1998. The 1,500 currently exercisable options are exercisable at an exercise price of \$.4065 per share. The 1,500 options which become exercisable in May 1998 are exercisable at a price of \$.3125 per share.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Transactions With Management and Others

During the fiscal year ended March 31, 1997 and all subsequent periods there have been no material transactions between Registrant and any member of management or any principal shareholder of Registrant.

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, 1997 and March 31, 1996

Statements of Operations - Years ended March 31, 1997,  
March 31, 1996 and March 25, 1995

Statement of Changes in Stockholders' (Deficiency)/Equity -  
Years ended March 31, 1997, March 31, 1996 and March 25, 1995

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Statements of Cash Flows - Years ended March 31, 1997,  
March 31, 1996 and March 25, 1995

Notes to 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, 1997,  
March 31, 1996 and March 25, 1995.

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 (12)	3(j)
	(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 (12)	4(b)

	(c)	Form of Promissory Note - 1997 Offering (12)	4 (c)
	(d)	Form of Common Stock Purchase Warrant - 1996 Offering (12)	4 (d)
	(e)	Form of Common Stock Purchase Warrant - 1997 Offering (12)	4 (e)
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 (12)	10 (m)
	(n)	Mutual Release dated as of January 30, 1997 by and among Registrant, James Fyfe and the Bank of Scotland (12)	10 (n)
16	(a)	Letter of Mahoney Cohen & Company, CPA, PC regarding their concurrence with the statements made by Registrant concerning their resignation as Registrant's principal accountant (13)	16 (a)
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 (12)	99 (a)
99	(b)	Letter of James J. Fyfe Regarding Unavailability of Re-signed Audit Reports from Coopers & Lybrand LLP (12)	99 (b)
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99	(c)	Letter of Mahoney Cohen Rashba & Pokart, CPA, PC Regarding Their Inability to Re-Sign Their July 25, 1995 Audit Report (12)	99 (c)

## 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.

(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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(12) 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 March 31, 1996, which exhibit is incorporated herein by reference.

(13) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the annual report of Registrant on Form 10-K/A for the year ended March 31, 1996, 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.

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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                      Vice President                      June 26, 1997  
JAMES J. FYFE

Principal Financial and  
Accounting Officer:

/s/ James J. Fyfe                      Vice President                      June 26, 1997

JAMES J. FYFE

A Majority of the board of directors:

/s/ James J. Fyfe    June 26, 1997  
JAMES J. FYFE



<PERIOD-TYPE>	YEAR	YEAR	YEAR
<FISCAL-YEAR-END>	MAR-31-1997	MAR-31-1996	MAR-25-1995
<PERIOD-START>	APR-01-1996	MAR-26-1995	MAR-28-1994
<PERIOD-END>	MAR-31-1997	MAR-31-1996	MAR-25-1995
<CASH>	13,167	66	108,438
<SECURITIES>	0	0	0
<RECEIVABLES>	75,000	200,000	3,938,702
<ALLOWANCES>	(75,000)	75,000	(345,108)
<INVENTORY>	0	0	3,146,307
<CURRENT-ASSETS>	14,167	135,066	7,259,527
<PP&E>	1,426	1,426	1,047,899
<DEPRECIATION>	679	291	9,822,570
<TOTAL-ASSETS>	14,914	36,201	9,122,665
<CURRENT-LIABILITIES>	666,623	455,306	3,323,565
<BONDS>	0	0	0
<PREFERRED-MANDATORY>	0	0	946,069
<PREFERRED>	909,267	909,267	211,985
<COMMON>	263,037	263,037	(4,037,219)
<OTHER-SE>	1,824,013	1,491,409	9,822,570
<TOTAL-LIABILITY-AND-EQUITY>	14,914	136,201	21,048,151
<SALES>	0	0	21,048,151
<TOTAL-REVENUES>	0	0	15,531,102
<CGS>	0	0	15,531,102
<TOTAL-COSTS>	0	0	8,011,378
<OTHER-EXPENSES>	251,583	185,115	349,231
<LOSS-PROVISION>	0	75,000	538,646
<INTEREST-EXPENSE>	17,373	600	(3,404,160)
<INCOME-PRETAX>	(332,604)	(323,510)	(3,404,160)
<INCOME-TAX>	0	0	(9,508)
<INCOME-CONTINUING>	(332,604)	(325,510)	(3,394,652)
<DISCONTINUED>	0	(3,432,032)	0
<EXTRAORDINARY>	0	5,466,636	0
<CHANGES>	0	0	0
<NET-INCOME>	(332,604)	1,711,094	(3,394,652)
<EPS-PRIMARY>	(0.13)	0.74	(2.05)
<EPS-DILUTED>	(0.13)	0.74	(2.05)