

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K/A

(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, 1998

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.)
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610 South Industrial Boulevard Suite 220 Euless, Texas (Address of principal executive offices)	76040 (Zip Code)
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Registrant's telephone number, including area code: (817) 283-4250

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

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

Common Stock, \$.001 par value  
(title of class)

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

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

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\$12,604,462 as of June 1, 1998  
(Aggregate market value of the voting stock  
held by non-affiliates of registrant)  
6,355,231 shares, \$.001 par value, as  
of June 1, 1998 (Indicate the number of shares  
outstanding of each of the registrant's  
classes of common stock, as of the latest practicable date)

## PART I

## ITEM 1. BUSINESS

## NEW BUSINESS OPERATIONS

At the 1998 Annual Meeting of Stockholders held on May 18, 1998 (the "Annual Meeting"), stockholders of Corniche Group Incorporated (the "Corporation" or the "Registrant") approved, among other things, a transaction (the "Transaction") whereby 825,000 shares of Series B Convertible Redeemable Preferred Stock, a newly created series of preferred stock with each share having ten votes per share, were issued to certain individuals, including Joel San Antonio, for the aggregate cash consideration of \$76,500. As a result of the Transaction, Mr. San Antonio obtained control of the Corporation. The Corporation's initial goal will be to complete the development of a comprehensive strategic and operational business plan for the Corporation and to secure the services of a quality management team to assist Robert H. Hutchins, the newly elected President of the Corporation, in implementing the business plan.

The Corporation plans to enter into insurance and/or insurance-related businesses. The thrust of the Corporation will be to optimize spread of risk and seek "niche" business opportunities that do not fit what is often referred to in the industry as "mainstream" business. The Corporation may also explore opportunities for "fronting" insurance for service contract business and other property and casualty insurance business, whereby all or a portion of the risk of such policies written by the Corporation would be ceded to a reinsurer. As part of any such strategy the Corporation anticipates that it will reinsure heavily on a "quote share" or "pro-rata" basis with other operators with whom proposed new management has achieved successful business relationships in the past. In "quote share" or "pro-rata" reinsurance, one or more reinsurers bears an agreed upon proportion of the specified risk, rather than a fixed dollar amount of risk or the excess above a fixed dollar amount of risk.

In connection with the implementation of these strategies, it may become necessary for the Corporation to become licensed in one or more states in order to enable it to conduct operations or to acquire a company that maintains appropriate licenses. To further such goal, the Corporation recently has entered into a non-binding letter of intent to acquire all of the stock of an existing insurance company which has had limited operations and revenues for the past several years. The acquisition is subject to due diligence by the Corporation and subject to material conditions, including but not limited to the satisfaction of capital requirements of regulatory authorities. No assurances can be given that the Corporation will be able to obtain such licenses or to consummate any such acquisitions. The acquisition, if consummated, will represent the Corporation's entry into the United States insurance market.

The Corporation presently anticipates that its marketing efforts in the property and casualty sectors of the insurance market will focus on operating on a conservative basis using both facultative and treaty reinsurance support to minimize its exposure. Facultative reinsurance generally involves a reinsurer agreeing to bear the risk of loss over a specified dollar amount for a specified risk. Treaty reinsurance generally involves a reinsurer agreeing to bear a portion of the risk associated with a specified category or "book" of business, and may be done on an excess or quote share basis. As part of this strategy, the Corporation may consider direct selling, brokerage and agency produced business and may evaluate potential opportunities to participate in the reinsurance sector of commercial property and casualty insurance on both a "quote share" and "excess" basis.

The Corporation currently anticipates that business development and future market growth will be concentrated on "short tail" casualty business and package product lines, primarily focused in the retail/service industry marketplace. "Short tail" casualty business provides for coverage during the term of the policy or within a relatively short period, as distinguished from "long-tail" business, such as occurrence-based policies, in which the insurer is obligated to make payment, whether or not the policy has expired, as long as the insurable injury occurred during the term of the policy. Examples of "long tail" insurance include worker's compensation, medical malpractice and products liability insurance for products with long lives, such as automobiles and airplanes. The Corporation anticipates that it will seek short tail business because of the relatively greater availability of reinsurance and lower reinsurance costs, and the relatively greater certainty, predictability and ability to price policies and reinsurance policies associated with short tail business. An example of short-tail business on which the Corporation might concentrate is retail and wholesale products liability for consumer products that have limited useful lives. In addition the Company anticipates that it will provide package product lines, that is, insure service contracts for products that have a limited useful life on a claims made basis for a term of no greater than three years. If successfully developed, the customer base generated by these segments could become a source to seek out other property and casualty insurance business opportunities.

As part of its overall business plan, the Corporation may pursue other and different business activities than those described above, but it has no current plans to do so.

Since the annual meeting the Corporation has also entered into an investment advisory agreement with AIG Global Investment Corporation under which it will function as investment advisor and manager of all of the Corporation's investable assets. AIG Global provides investment management services to domestic insurance companies seeking to create an investment alternative to letters of credit that, at the same time, meet state statutory insurance requirements.

The preceding description represents the Corporation's current plans for the Corporation, which are subject to change as business necessities require during the course of implementation. No assurances can be given that the Corporation will be successful in implementing this business plan as currently envisioned.

The description of the Corporation's proposed new business operations and intended strategy after the Transaction are forward-looking statements under Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy or anticipated. Future events and actual results, financial and otherwise, could differ materially from those set forth in or contemplated by the forward-looking statements herein. Important factors that could contribute to such differences include changes in economic and market conditions, ability to successfully obtain licenses and/or consummate acquisitions, ability to raise capital and meet insurance regulatory requirements and regulatory changes in the insurance business, as well as the other factors described herein.

#### 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 ("TLCS"), 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 hereafter contained in Registrant's financial reports relate 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. Registrant's operations were funded in large part from loans made by the Bank of Scotland, Registrant's primary lender, to each of CDL, TSCL and Chessbourne over a period of several years. In accordance with customary UK practice, the Bank of Scotland, when making such loans obtained security for these loans by means of mortgages over fixed assets ("Fixed Assets") and debentures over pools of assets which by their nature will change from time to time ("Floating Changes"). 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. The receiverships resulted in the discontinuation of all of Registrant's business operations. Since such time, until the Transaction, the Registrant had been inactive.

## RECEIVERSHIP PROCEEDINGS

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 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 ((pound)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.

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. Most of the pledged shares were subsequently sold by the Bank of Scotland to twelve unrelated persons.

## ITEM 2. PROPERTIES

As of August 1, 1998, the Registrant is leasing offices located at 610 South Industrial Boulevard, Euless, Texas. Such lease expires in July, 2001.

## ITEM 3. LEGAL PROCEEDINGS

No 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, 1998.

## PART II

## ITEM 5. MARKET FOR REGISTRANTS COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Since October 11, 1995 Registrant's common stock has been listed for trading on the OTC Bulletin Board, under the symbol "CGII" from October 11, 1995 to April 20, 1998 and thereafter under the symbol "CNGI." The following table sets forth the range of high and low sales prices of Registrant's common stock for each full quarterly period within the two most recent fiscal years and the most recent quarter.

## Sales Prices

Fiscal 1997	High	Low
First Quarter	\$ .44	\$ .19
Second Quarter	.38	.19
Third Quarter	.38	.06
Fourth Quarter	.44	.19

Fiscal 1998	High	Low
First Quarter	\$ 1.06	\$ .31
Second Quarter	1.00	.63
Third Quarter	.88	.69
Fourth Quarter	2.44	.69

## Bid Prices

Fiscal 1999	High	Low
First Quarter	\$ 2.38	\$ 1.16

At June 1, 1998, there were approximately 1,187 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.

## SECURITIES OFFERINGS

In addition to the Series B Preferred Stock sold in connection with the Transaction, during the fiscal year ended March 31, 1998, Registrant conducted a private placement of securities pursuant to Rule 506 of Regulation D of the Securities Act of 1933, as amended, which was completed in September, 1997. The purpose of such placement was, in part, to provide Registrant with the ability to settle and pay off certain of its outstanding liabilities. Such placement of 3,690,000 shares of common stock for a total of \$1,845,000 was conducted on a "best-efforts" basis through Robert M. Cohen & Co., Inc., a New York based broker dealer ("RMCC"). In connection with the placement, Registrant paid RMCC a sales commission equal to 10% of the subscription price for each unit sold. In March 1998, 250,000 shares of common stock were sold in a private placement by the Company for a total consideration of \$125,000. No sales commission was paid.

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ITEM 6. SELECTED FINANCIAL DATA

The selected statements of operations and balance sheet data set forth below are derived from the financial statements of Registrant which were examined by Simontacchi & Co. LLP, independent certified public accountants, for the years ended March 31, 1998, March 31, 1997 and March 31, 1996 and by Mahoney Cohen & Company, PC ("Mahoney Cohen"), independent certified public accountants, for each of the two years in the period ended March 25, 1995. Mahoney Cohen did not audit Registrant's UK subsidiaries, the financial statements of which were audited by another auditor whose report was furnished to Mahoney Cohen. The information set forth below should be read in conjunction with the audited financial statements of Registrant and related notes appearing elsewhere in this Report (See Item 8. Financial Statements and Supplemental Data).

	MARCH 31, 1998	MARCH 31, 1997	MARCH 31, 1996	MARCH 25, 1995	MARCH 27, 1994
Statement of Operations:					
Net Sales.....	\$ -0-	\$ -0-	\$ -0-	\$ 21,048,151	\$ 7,585,360
Cost of Sales.....	-0-	-0-	-0-	15,531,102	5,121,884
Gross Profit.....	-0-	-0-	-0-	5,517,049	2,463,476
Operating (Loss) Income.....	(221,602)	(251,583)	(257,073)	(2,821,339)	207,300
Net (Loss) Income.....	(263,865)	(332,604)	(323,510)	(3,394,652)	1,804
Net (Loss) Income per Common Share.....	(.05)	(.14)	(.14)	(2.05)	-0-
Weighted Average Number of Shares					
Outstanding.....	5,165,272	2,412,278	2,300,289	1,656,903	1,669,784
Dividends per Common Share.....	-0-	-0-	-0-	-0-	-0-

	MARCH 31, 1998	MARCH 31, 1997	MARCH 31, 1996
Balance Sheet Data:			
Working Capital (Deficiency).....	\$ 869,567	\$ (652,456)	\$ (320,240)
Total Assets.....	1,129,602	14,914	136,201
Current Liabilities.....	259,676	666,623	455,306
(Accumulated Deficit).....	(2,713,254)	(2,499,389)	(2,116,785)
Common Stock, Other Stockholders' Equity and Capital Deficiency.....	(23,982)	(1,560,976)	(3,825,234)

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

RESULTS OF OPERATIONS

The Corporation has not 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 the Corporation'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 The Corporation'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.

At the 1998 Annual Meeting of Stockholders, stockholders of the Corporation approved the Transaction, which was consummated on May 18, 1998.

As a result of the Transaction, the Corporation plans to enter into insurance and/or insurance related businesses. To further such goal, the Corporation has entered into a non-binding letter of intent to acquire all of the stock of an existing insurance company which has had limited operations and revenues for the past several years. The acquisition is subject to due diligence by the Company and is subject to material conditions. No assurances can be given that the Corporation will consummate such acquisition. The acquisition, if consummated, will represent the Company's entry into the United States insurance market.

The Corporation recorded losses in the year ended March 31, 1998 of \$221,602, before interest expense and preferred stock dividend accrual (\$251,583 in 1997). Such losses arose from general and administrative expenses which principally comprise professional fees, travel expenses and general office costs.

#### LIQUIDITY AND CAPITAL RESOURCES

During the year ended March 31, 1998 the Corporation relied on the net proceeds of the securities offerings described in Item 5 of this report and cash received against a note receivable and other sundry receipts to meet its cash needs.

The Corporation does not expect to generate any operating revenues until, at the earliest, the licensing of the Corporation to conduct the activities described in Item 1 - New Business Operations or the acquisition of a company with such licenses. No assurance can be given however that the Corporation will successfully consummate such a business acquisition or obtain such licenses or that the Corporation will derive any material revenues or profits therefrom.

The Certificate of Designation for the Series A Preferred Stock (filed as Exhibit 3.8 to the Company's Form 10-K for the year ended September 30, 1994) states that at any time after December 1, 1999 any holder of Series A Preferred Stock may require the Company to redeem his shares of Series A preferred Stock (if there are funds with which the Company may legally do so) at a price of \$1.00 per share. Notwithstanding the foregoing redemption provisions, if any dividends on the Series A Preferred Stock are past due, no shares of Series A Preferred Stock may be redeemed by the Company unless all outstanding shares of Series A Preferred Stock are simultaneously redeemed. The holders of Series A Preferred stock may convert their Series A preferred Stock into shares of common stock of the Company at a price of \$5.20 per share. Of the 893,908 shares of Series A Preferred Stock outstanding at March 31, 1998, 65,145 of such shares were converted into 12,525 shares of the Company's common stock through December 31, 1998. If after December 1, 1999 a significant number of shares of Series A Preferred Stock remain unconverted into common stock, and if the Company were required to redeem any significant number of shares of Series A Preferred Stock, the Company's financial condition would be materially affected.

To enter into the insurance industry, whether through consummation of the acquisition described in the above letter of intent or otherwise, the Corporation will need to satisfy regulatory capital requirements. The Corporation is currently discussing with investment bankers certain financing alternatives for raising additional equity capital in amounts at least sufficient to permit it to have the regulatory capital needed to consummate the acquisition. As it becomes licensed or acquires operations in other jurisdictions, the capital requirements of the Corporation will increase accordingly. No assurance can be given that the Corporation will be able to raise all required regulatory capital or capital needed for its operations.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.



## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

The financial statements of the Corporation, itemized in the subtopic, "Financial Statements" under Item 14 hereof, are set forth at the end of this Report.

## ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

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

In connection with its audit of the Corporation'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 the Corporation's independent auditors, there were no disagreements between Mahoney Cohen and the Corporation 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 the Corporation'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 the Corporation's ability to continue as a going concern" based upon the several matters summarized in such report.

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

Simontacchi has audited the Corporation's financial statements for the fiscal years ended March 31, 1996, 1997 and 1998. Simontacchi's report on the Corporation's financial statements for the fiscal years ended March 31, 1996 and 1997 expressed an unqualified opinion on those financial statements based upon their audits, but included paragraphs noting a "substantial doubt about the Corporation's ability to continue as a going concern" based upon the several matters summarized in such reports.

On August 12, 1998, the Company and Simontacchi terminated their client-auditor relationship. The reports of Simontacchi on the financial statements of the Company for the prior two fiscal years contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. The Board of Directors of the Company participated in and approved the decision to change the independent accountants. In connection with its audits for the prior two fiscal years and through August 12, 1998, there were no disagreements with Simontacchi on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Simontacchi, would have caused Simontacchi to make reference thereto in its report on the financial statements for such years. No "reportable events" as describe under Item 304(a)(1)(v) of Regulation S-K occurred during the prior two fiscal years.

The Company simultaneously engaged Weinick Sanders Leventhal & Co., LLP ("Weinick") as its new independent accountants as of August 12, 1998. Such appointment was approved by the Company's Board of Directors. The Company had not consulted with Weinick regarding any matters or events set forth in Item 304(a)(2)(i) and (ii) of Regulation S-K.

## PART III

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

## DIRECTORS

The following sets forth, as of March 31, 1998, the director of the Corporation, his age, the year in which he was first elected or appointed a director, and any other office in the Corporation held by him. 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	43	1995

At the Annual Meeting, stockholders of the Corporation elected Joel San Antonio, age 45, as Chairman of the Board of the Corporation and three other directors, Robert H. Hutchins, age 69, Ronald Glime, age 53, and Glenn Aber, age 49.

## EXECUTIVE OFFICERS

The following sets forth, as of March 31, 1998 the executive officer of the Corporation, his age, the year in which he was first appointed an executive officer of the Corporation and all positions and offices in the Corporation held by such person.

Name	Other Offices Held	Age	Director Since
James J. Fyfe	Vice President	43	May 1995

Following the Annual Meeting, Mr. Hutchins was appointed President of the Corporation. Mr. Aber was appointed acting Treasurer and Mr. Fyfe was appointed acting Secretary, until other officers could be employed. At that time, Mr. Fyfe resigned his position as Vice President.

## FAMILY RELATIONSHIPS

Mr. Aber, a newly elected director, is the brother-in-law of Mr. San Antonio. No other family relationship exists between any director, executive officer of the Corporation 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, 1998 of each person who served as a director and/or executive officer of the Corporation at March 31, 1998.

James Fyfe. Mr. Fyfe became a director and Vice President and Chief Operating Officer of the Corporation in May 1995. From January 1991 to May 1995, he was an independent business consultant. During the period from May 1995 through February 1996 he was an employee of the Corporation's U.K holding company, CDL. In March 1996, he resumed his activities as an

independent business consultant. From May 1996 through August 1997 he was an outside director of Medical Laser Technologies, Inc.

Pursuant to the terms of the Stock Purchase Agreement relating to the Transaction and the issuance of the Series B Convertible Redeemable Preferred Stock, the Initial Purchasers of the Series B Convertible Redeemable Preferred Stock are required to continue to nominate Mr. Fyfe or his nominee to serve as director through June 30, 2000, the date when the right to redeem the Series B Convertible Redeemable Preferred Stock will expire.

The following summarizes the occupation and business experience during at least the five years preceding March 31, 1998 of each person who was elected at the Annual Meeting as a director and/or executive officer of the Corporation.

Joel San Antonio. Mr. San Antonio founded Warrantech Corporation (Nasdaq Symbol: WTEC) in 1983. Warrantech is a business services company with a core business in the administration of warranties and service contracts. He was a Director, Chief Executive Officer and President of Warrantech Corporation from incorporation through February 1988. Since February 1988, Mr. San Antonio has been a Director, Chief Executive Officer and Chairman of the Board of Directors of Warrantech. On February 2, 1998, Mr. San Antonio resumed responsibilities as President of Warrantech. Since October 27, 1989, he has also been Chairman and Chief Executive Officer of Warrantech's principal operating subsidiaries.

Robert H. Hutchins. Mr. Hutchins began his insurance career with the Great American Indemnity Insurance Co. in 1951. He joined the American Casualty Insurance Co. in 1958. American Casualty Insurance Co. was bought by Continental Casualty Insurance Co. in 1964, and is now known as CNA Insurance. At CNA he served as Branch Manager, Regional Vice President, Vice President of Field Operations and ultimately Senior Vice President of the Liability, Property and Surety Division. Since 1975, he has served in executive positions with INA, Gulf Insurance, and American Hardware Mutual Insurance Co. He was a consultant to the Warranty Division of AIG for 18 months and for the past 2-1/2 years has been employed by Warrantech Automotive, Inc. as National Claims Manager. Mr. Hutchins has served as President of the Corporation since May 1998.

Ronald Glime. Mr. Glime is currently President of Warrantech Automotive, Inc., a position he has held since October 1992.

Glenn Aber. Mr. Aber was president of his own company, GFA Industries, Inc. ("GFA"), a corporation engaged in the design, merchandising and sale of imported fabrics to manufacturers of children's, ladies' and men's clothing until July 1997 when GFA ceased operations. Since July 1997 Mr. Aber has been managing his personal investment portfolio.

In November 1997, after GFA ceased operations, certain creditors of GFA, whose claims against GFA were disputed, filed an involuntary bankruptcy petition in federal bankruptcy court against GFA. In March 1998, such creditors consented to an order dismissing the petition pursuant to an agreement they reached with GFA, for a settlement of \$40,000.

#### ITEM 11. EXECUTIVE COMPENSATION

##### COMPENSATION OF OFFICERS

For Mr. Fyfe's service to the Corporation and his role in bringing the Transaction to fruition, the Corporation issued to Mr. Fyfe 10,000 shares of Series B Convertible Redeemable Preferred Stock. The Corporation has not otherwise paid salary, wages or other compensation to any of its executive officers since February 1996 when the Corporation's then operating subsidiaries were placed into receivership in the United Kingdom and all business operations ceased.

## Summary Compensation Table

Name and Principal Position	Annual Compensation		Long-Term Compensation	
	Year	Salary (\$)	Awards	Payouts
			Options/SARs (#)	(\$)
James J. Fyfe(1)	1998	-0-	1,500	-0-
	1997	-0-	1,500	-0-
	1996	\$76,000	-0-	-0-

(1) Mr. Fyfe became sole officer on March 6, 1996 following the resignations of Brian J. Baylis and Susan A.M. Crisp. His 1996 salary was paid to Mr. Fyfe by the former U.K. subsidiary.

All officers hold office until the meeting of the Board following the next annual meeting of stockholders or until the earlier of their resignation or removal.

## OPTION/SAR Grants in Last Fiscal Year

## Individual Grants

Name	Number of Shares of Common Stock Underlying Options/SARs Granted (#)	% of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)	Expiration Date
James J. Fyfe	1,500	100%	\$.3125	May 2002

## Aggregated Options/SAR Exercises in Last Fiscal Year and FY-End Options/SAR/Values

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Unexercised Options/SARs At FY-End (#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options/SARs At FY-END (%) Exercisable/ Unexercisable
James J. Fyfe	-0-	-0-	0/3,000	0/0

## COMPENSATION OF DIRECTORS

Each director who is not an officer or employee of the Corporation is entitled to receive compensation of \$2,500 per calendar quarter plus 500 shares of Common Stock per calendar quarter of board service, in addition to reimbursement of travel expenses. Outside directors would be compensated for committee service at \$500 per calendar quarter plus 125 shares of Corporation stock per calendar quarter. Such directors are also compensated for special assignments from time to time. No compensation for special assignments was paid in fiscal 1997 or 1998. No directors' fees are payable to employees of the Corporation who serve as directors.

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

## SECTION 16 BENEFICIAL OWNERSHIP COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Corporation's directors, executive officers and 10% stockholders to file with the Securities and Exchange Commission ("SEC") certain reports regarding such persons' ownership of the Corporation's securities. Mr. Baylis and Ms. Crisp were required to file reports on Form 4 in connection with the reduction of their respective ownership interests in the Corporation resulting from the sale of shares pledged by them following a default in the obligations of the Corporation's former U.K. subsidiaries to the Bank of Scotland in 1996. Mr. Baylis and Ms. Crisp, each of whom resides in the U.K., were not fully aware of their obligations to file a Form 4 following the sale of pledged shares but have been notified regarding such obligations. Bruce Paul became a 10% stockholder in May 1997. By June 1997, his ownership interest was below 10% due to additional stock issuances by the Corporation. To the Corporation's knowledge, Mr. Paul did not file a Form 3 upon becoming a 10% stockholder. The Corporation is not aware of any other late filings of reports under Section 16 this past year.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

## VOTING SECURITIES OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of June 1, 1998, information concerning the beneficial ownership of (a) Common Stock and (b) voting power of the Corporation by virtue of holding shares of Common Stock, which have one vote per share, and shares of Series B Convertible Redeemable Preferred Stock, which have ten votes per share ("Voting Power") (i) by each person which is known by the Corporation to own beneficially more than 5% of its outstanding Common Stock or Voting Securities, (ii) by each director, (iii) by each of the current executive officers named in the compensation table and (iv) by all directors and executive officers as a group.

NAME AND ADDRESS OF BENEFICIAL OWNER (2)	BENEFICIAL OWNERSHIP	PERCENTAGE OF CLASS	AMOUNT	PERCENTAGE
James Fyfe.....	3,000 (3)	(4)	103,000	0.7%
Joel San Antonio (5).....	-0-	-0-	6,850,000	46.9%
Robert Hutchins.....	-0-	-0-	150,000	1.0%
Ronald Glime.....	50,000	0.8%	550,000	3.8%
Glenn Aber.....	-0-	-0-	150,000	1.0%
Bruce H. Paul.....	500,000	7.9%	500,000	3.4%
Alan Zuckerman.....	-0-	-0-	500,000	3.4%
All directors and executive officers as a group (5 persons).....	53,000	0.9%	7,803,000	53.4%

(1) Includes Common Stock and Class B Preferred Stock at 10 votes per share.

- (2) All addresses are c/o the Corporation except as noted.
- (3) Represents exercisable options.
- (4) Less than 0.1%.
- (5) Includes 110,000 preferred shares (with 1,100,000 votes) held by family members of Mr. San Antonio's.
- (6) Mr. Paul's address is 1 Hampton Road, Purchase, NY, to the best knowledge of the Corporation.
- (7) Mr. Zuckerman's address is 415 Bull Mill Road, Chester, NY to the best knowledge of the Corporation.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

TRANSACTIONS WITH MANAGEMENT AND OTHERS

Other than the consummation of the Transaction, and the issuance of 10,000 shares of Series B Preferred Stock to Mr. Fyfe in connection therewith, during the fiscal year ended March 31,1998 and all subsequent periods there have been no material transactions between the Corporation and any member of management or any principal shareholder of the Corporation.

## 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, 1998 and March 31, 1997

Statements of Operations - Years ended March 31, 1998, March 31, 1997  
and March 31, 1996

Statements of Common Stock, Other Stockholders' Equity and Capital  
Deficiency - Years ended March 31, 1998, March 31, 1997 and  
March 31, 1996

Statements of Cash Flows - Years ended March 31, 1998, March 31, 1997  
and March 31, 1996

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, 1998, March 31, 1997 and March 31, 1996.

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. of incorporated report specified below	
3	(a)	Certificate of Incorporation filed September 18, 1980 (1)	3
	(b)	Amendment to Certificate 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, 1994 (7)	3.8
	(j)	Amendment to Certificate of Incorporation filed September 28, 1995 (10)	3(j)
	(k)	Certificate of Designation for the Series B Preferred Stock dated May 18, 1998 (12)	C 3(f)
	(l)	By-laws of the Corporation, as amended on April 25, 1991 (6)	
	(m)	Amendment to Certificate of Incorporation dated May 18, 1998 (12)	A
4	(a)	Form of Underwriter's Warrant (6)	4.9.1
	(b)	Form of Promissory Note - 1996 Offering (10)	4(b)
	(c)	Form of Promissory Note - 1997 Offering (10)	4(c)
	(d)	Form of Common Stock Purchase Warrant - 1996 Offering (10)	4(d)
	(e)	Form of Common Stock Purchase Warrant - 1997 Offering (10)	4(e)
10	(a)	1986 Stock Option Plan, as amended (7)	10.6
	(b)	1992 Stock Option Plan (8)	B
	(c)	Stock Purchase Agreement dated as of January 30, 1997 by and among the Corporation, the Bank of Scotland and 12 buyers (10)	10(m)
	(d)	Mutual Release dated as of January 30, 1997 by and among the Corporation, James Fyfe and the Bank of Scotland (10)	10(n)
	(e)	Stock Purchase Agreement, dated as of March 4, 1998, between the Corporation and the Initial Purchasers named therein (12)	B
	(f)	1998 Employees Stock Option Plan (12)	D
16	(a)	Letter of Mahoney Cohen & Company, CPA, PC regarding their concurrence with the statements made by the Corporation concerning their resignation as the Corporation's principal accountant (11)	16(a)
27		Financial Data Schedule, filed herewith.	



## Notes:

(1) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the registration statement of the Corporation 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 the Corporation 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 the Corporation 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 the Corporation 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 the Corporation on Form S-3, File No. 33-42154, 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 the Corporation 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 the Corporation 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, as indicated above, to the proxy statement of the Corporation dated March 30, 1992, which exhibit is incorporated herein by reference.

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

(10) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the annual report of the Corporation on Form 10-K for the year ended March 31, 1996, which exhibit is incorporated herein by reference.

(11) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the annual report of the Corporation on Form 10K/A for the year ended March 31, 1996, which exhibit is incorporated herein by reference.

(12) Filed with the Securities and Exchange Commission as an exhibit, as indicated above, to the proxy statement of the Corporation dated April 23, 1998, which exhibit is incorporated herein by reference.

REPORTS ON FORM 8-K

The Company filed no reports on Form 8-K during the fourth quarter of fiscal 1998.

SIGNATURES

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

CORNICHE GROUP INCORPORATED

By: /s/ Robert H. Hutchins  
 -----  
 Robert H. Hutchins, 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 the Corporation and in the capacities and on the dates indicated:

Signatures -----	Title -----	Date -----
Principal Executive Officer:		
/s/Robert H. Hutchins ----- ROBERT H. HUTCHINS	President	April 21, 1999
A Majority of the board of directors:		
/s/Joel San Antonio ----- JOEL SAN ANTONIO	Chairman of the Board	April 21, 1999
/s/Robert H.Hutchins ----- ROBERT H. HUTCHINS		April 21, 1999
/s/Ronald Glime ----- RONALD GLIME		April 21, 1999
/s/Glenn Aber ----- GLENN ABER		April 21, 1999
----- JAMES J. FYFE		

CORNICHE GROUP INCORPORATED  
FINANCIAL STATEMENTS  
MARCH 31, 1998 AND 1997

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## CORNICHE GROUP INCORPORATED

MARCH 31, 1998

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[SIMONTACCHI & COMPANY, LLP LETTERHEAD]

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Corniche Group Incorporated as of March 31, 1998 and 1997 and the related statements of operations, common stock, other stockholders' equity and (capital deficiency), and cash flows for the years ended March 31, 1998, 1997 and 1996. Our audits also include the financial statement schedule for the years ended March 31, 1998, 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.

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, the financial statements referred to above present fairly, in all material respects, the financial position of Corniche Group Incorporated as of March 31, 1998 and 1997, and the results of their operations and their cash flows for the years ended March 31, 1998, 1997 and 1996 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.

As described in Note 1, the financial statements have been restated to reflect the Series A 7% Convertible Redeemable Preferred Stock similar to debt instead of a component of stockholders' equity.

/s/ SIMONTACCHI & COMPANY, LLP

Fairfield, New Jersey  
July 10, 1998

## CORNICHE GROUP INCORPORATED

## BALANCE SHEETS - RESTATED

## A S S E T S

	MARCH 31,	
	1998	1997
	-----	-----
Current assets:		
Cash and equivalents.....	\$ 1,129,064	\$ 13,167
Other receivable.....	--	1,000
Prepaid expenses.....	179	--
	-----	-----
Total current assets.....	1,129,243	14,167
Other assets:		
Property and equipment, net.....	359	747
	\$ 1,129,602	\$ 14,914
	=====	=====
LIABILITIES AND COMMON STOCK, OTHER STOCKHOLDERS' EQUITY AND CAPITAL DEFICIENCY		
Current liabilities:		
Notes payable.....	\$ --	\$ 400,000
Trade accounts payable.....	21,362	4,929
Dividends payable - preferred stock.....	208,464	148,397
Accrued liabilities.....	29,850	113,297
	-----	-----
Total current liabilities.....	259,676	666,623
Redeemable preferred stock, 5,000,000 shares authorized Series A 7% convertible preferred stock - stated value \$1.00 per share Issued - 1,000,000 shares Outstanding - 893,908 shares at March 31, 1998 and 909,267 at March 31, 1997.....	893,908	909,267
Common stock, other stockholders' equity and capital deficiency:		
Common stock, \$0.10 par value, authorized - 30,000,000 shares, issued 6,355,231 March 31, 1998 and 2,630,378 March 31, 1997.....	635,522	263,037
Additional paid-in capital.....	2,053,750	830,086
(Accumulated deficit).....	(2,713,254)	(2,449,389)
Treasury stock - at cost, 218,100 shares at March 31, 1997	--	(204,710)
	-----	-----
Total common stock, other stockholders' equity and capital deficiency.....	(23,982)	(1,560,976)
	\$ 1,129,602	\$ 14,914
	=====	=====

See accompanying notes to financial statements.

## CORNICHE GROUP INCORPORATED

## STATEMENTS OF OPERATIONS

	FOR THE YEARS ENDED MARCH 31,		
	1998	1997	1996
Net sales .....	\$ --	\$ --	\$ --
Cost of sales .....	--	--	--
Gross profit .....	--	--	--
Selling, general and administrative expenses .....	221,602	251,583	257,073
Operating loss .....	(221,602)	(251,583)	(257,073)
Loss on sale of assets .....	--	--	(3,042)
Interest, net .....	17,804	(17,373)	(600)
Loss from continuing operations .....	(203,798)	(268,956)	(260,715)
Preferred stock dividend .....	(60,067)	(63,648)	(62,795)
Loss after preferred dividends .....	(263,865)	(332,604)	(323,510)
Loss from discontinued operations .....	--	--	(3,432,032)
Excess of UK subsidiary cumulative losses over investment ....	--	--	5,466,636
Net income (loss) .....	\$ (263,865)	\$ (332,604)	\$ 1,711,094
Income (loss) per share of common stock:			
Income (loss) from continuing operations .....	\$ (0.05)	\$ (0.14)	\$ (0.14)
Income (loss) discontinued operations .....	\$ 0.00	\$ 0.00	\$ 0.88
Net income (loss) .....	\$ (0.05)	\$ (0.14)	\$ 0.74
Weighted average number of common shares outstanding .....	5,165,272	2,412,278	2,300,289

See accompanying notes to financial statements.



## CORNICHE GROUP INCORPORATED

STATEMENTS OF COMMON STOCK, OTHER STOCKHOLDERS' EQUITY  
and (CAPITAL DEFICIENCY) - RESTATED

FOR THE YEARS ENDED MARCH 31, 1998, 1997 AND 1996

	COMMON STOCK		PAID-IN CAPITAL	ADDITIONAL ACCUMULATED DEFICIT	TRANSLATION ADJUSTMENT	CUMULATIVE TREASURY STOCK	TOTAL
	NUMBER OF SHARES	AMOUNT					
Balance - March 25, 1995 .....	2,119,857	\$ 211,985	\$ --	(3,827,879)	\$ (4,630)	\$ (204,710)	\$ (3,825,234)
Conversion of preferred stock .....	7,077	708	36,094	--	--	--	36,802
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	--	2,039,234
Net loss .....	--	--	--	(260,715)	--	--	(260,715)
Balance - March 31, 1996 .....	2,630,378	263,037	830,086	(2,116,785)	--	(204,710)	(1,228,372)
Preferred stock dividends .....	--	--	--	(63,648)	--	--	(63,648)
Net loss .....	--	--	--	(268,956)	--	--	(268,956)
Balance - March 31, 1997 .....	2,630,378	263,037	830,086	(2,449,389)	--	(204,710)	(1,560,976)
Issuance of common stock for cash .....	3,940,000	394,000	1,576,000	--	--	--	1,970,000
Costs related to sale of common stock ...	--	--	(184,500)	--	--	--	(184,500)
Conversion of preferred stock .....	2,953	295	15,064	--	--	--	15,359
Retirement of treasury stock .....	(218,100)	(21,810)	(182,900)	--	--	204,710	--
Preferred stock dividends .....	--	--	--	(60,067)	--	--	(60,067)
Net loss .....	--	--	--	(203,798)	--	--	(203,798)
Balance - March 31, 1998 .....	6,355,231	\$ 635,522	\$ 2,053,750	\$ (2,713,254)	\$ --	\$ --	\$ (23,982)

See accompanying notes to financial statements.

CORNICHE GROUP INCORPORATED  
STATEMENTS OF CASH FLOWS -RESTATED

	FOR THE YEARS ENDED MARCH 31,		
	1998	1997	1996
Cash flows from operating activities:			
Net loss from continuing operations .....	\$ (263,865)	\$ (332,604)	\$ (323,510)
Adjustments to reconcile net loss to net cash used in operating activities:			
Preferred Stock dividend .....	60,067	63,648	62,795
Depreciation .....	388	388	1,749
Loss on sale of property and equipment .....	--	--	3,042
Increase (decrease) in cash flows as a result of changes in asset and liability account balances:			
Notes receivable .....	--	125,000	75,000
Prepaid expenses and other receivables .....	821	9,000	8,422
Notes payable .....	--	--	(11,292)
Trade accounts payable .....	16,433	(178,194)	127,757
Accrued liabilities .....	(83,447)	8,493	(415,070)
Total adjustments .....	(5,738)	28,335	(183,597)
Net cash used in continuing operations .....	(269,603)	(304,269)	(507,107)
Net cash used in discontinued operations .....	--	--	(331,337)
Net cash used in operating activities .....	(269,603)	(304,269)	(838,444)
Cash flows from investing activities:			
Payments to acquire fixed assets .....	--	--	(8,926)
Proceeds from sale of equipment .....	--	--	3,000
Net cash used in investing activities .....	--	--	(5,926)
Cash flows from financing activities:			
Net proceeds from issuance of common stock for cash .....	1,785,500	--	794,336
Net proceeds from issuance of common stock for services .....	--	--	50,000
Payment of notes payable .....	(400,000)	(77,630)	--
Additional borrowings .....	--	395,000	--
Net cash provided by financing activities .....	1,385,500	317,370	844,336
Net increase (decrease) in cash .....	1,115,897	13,101	(34)
Cash and cash equivalents at beginning of year .....	13,167	66	100
Cash and cash equivalents at end of year .....	\$1,129,064	\$ 13,167	\$ 66

See accompanying notes to financial statements.

CORNICHE GROUP INCORPORATED  
STATEMENTS OF CASH FLOWS - RESTATED (Continued)

	FOR THE YEARS ENDED MARCH 31,		
	1998	1997	1996
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year:			
Interest.....	\$ 4,181 =====	\$ 178,373 =====	\$ 600 =====
Income taxes.....	\$ -- =====	\$ -- =====	\$ -- =====

Supplemental Schedule of Non-Cash Investing and financing activities:

During the years ended March 31, 1998, 1997 and 1996, the Company accrued preferred stock dividends of \$60,067, \$63,648 and \$62,795, respectively.

During the years ended March 31, 1998 and 1996 the holders of 15,359 and 36,802, respectively, shares of Series A 7% Convertible Preferred Stock converted such shares into 2,953 and 7,077, respectively, shares of the Company's common stock.

On February 27, 1998, the Company retired the treasury stock of 218,100 common shares, reducing the value of common stock outstanding by \$21,810; additional paid-in capital by \$182,900 and removing treasury stock of \$204,710.

See accompanying notes to financial statements.

CORNICHE GROUP INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

MARCH 31, 1998

NOTE 1 - CORRECTION OF AN ERROR.

The accompanying financial statements as at March 31, 1998 and 1997 and for the three years ended March 31, 1998 have been restated to reflect the Series A 7% Redeemable Preferred Stock as an item similar to debt instead of a component of stockholders' equity as previously reported in Form 10-K for the period ended March 31, 1998 as prescribed by the Securities and Exchange Commission ("SEC") Accounting Series Release No. 268. The Series A Preferred Stock's Put feature (see Note 6) places the redemption of this class stock outside the control of the Company (assuming the conditions allowing redemption are satisfied) and accordingly should be classified similar to debt. Previously the Series A Preferred Stock was included in stockholders' equity which is not in accordance with SEC regulations and generally accepted accounting principles.

NOTE 2 - THE COMPANY.

Corniche Group Incorporated, formerly Fidelity Medical, Inc. (hereinafter referred to as the "Company" or "CGI") as a result of a reverse acquisition with Corniche Distribution Limited and its Subsidiaries ("Corniche") (see "Reverse Acquisition" below), was engaged 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 the 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 3).

New Business Operations (see Note 10).

## NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

## (a) 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 acquisition, such purchase transaction was accounted for as a reverse acquisition. The acquired company (Corniche) was deemed to have acquired the acquiring company (CGI). Historical stockholders' equity of Corniche has been retroactively restated to give effect to the recapitalization. The historical financial statements prior to March 2, 1995 are those of Corniche. Further, on March 2, 1995, CGI acquired a 49% interest in the outstanding shares of Chessbourne.

## (b) 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 has 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.

## (c) Cash Equivalents:

Short-term cash investments which have a maturity of ninety days or less are considered cash equivalents in the statement of cash flows.

## (d) Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (Continued)

## (e) Office Furniture and Equipment:

Office furniture and equipment are depreciated by the straight-line method over the estimated useful lives of the assets, which range principally from three to ten years.

## (f) 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. There is no difference as to financial and tax.

## (g) Fair Value of Financial Instruments:

The Company adopted Statement of Financial Accounting Standards No. 121 ("SFAS No. 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". The statement requires that the Company recognize and measure impairment losses of long-lived assets, certain identifiable intangibles, value long-lived assets to be disposed of and long-term liabilities. At March 31, 1998 and 1997, the carrying values of the Company's other assets and liabilities approximate their estimated fair values.

## (h) Earnings Per Share:

The Company adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share," in the year ended March 31, 1998. Basic earnings per share is based on the weighted effect of all common shares issued and outstanding, and is calculated by dividing net income available to common stockholders by the weighted average shares outstanding during the period. Diluted earnings per share, which is calculated by dividing net income available to common stockholders by the weighted average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming conversion of all potentially dilutive securities outstanding, is not presented as it is anti-dilutive in all periods.

## NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (Continued)

## (i) Recently Issued Accounting Pronouncements:

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130 - "Reporting Comprehensive Income", No. 131 - "Disclosures about Segments of an Enterprise and Related Information", No. 132 - "Employer's Disclosures about Pension and Other Postretirement Benefits" and No. 133 - "Accounting for Derivative Instruments and Hedging Activities". Management does not believe that the effect of implementing these new standards will be material to the Company's financial position, results of operations and cash flows.

## NOTE 4 - PROPERTY AND EQUIPMENT.

Property and equipment consists of the following:

	MARCH 31,	
	1998	1997
Furniture and fixtures.....	\$ 1,426	\$ 1,426
Less: Accumulated depreciation.....	1,067	679
	\$ 359	\$ 747

## NOTE 5 - NOTES PAYABLE.

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.

## NOTE 5 - NOTES PAYABLE. (Continued)

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 was paid sales commissions equal to 10% of the purchase price of each unit sold or \$2,500 per unit.  
RMCC sold 17 units.

The notes payable of \$400,000 at March 31, 1997 relating to the above offering were paid in full during the year ended March 31, 1998 with funds generated from the sale of stock (see Note 7).

## NOTE 6 - REDEEMABLE PREFERRED STOCK.

In connection with the settlement of the securities class action litigation (see Note 7), 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. During the year ended March 31, 1998, holders of 15,359 share of preferred stock converted such shares into 2,953 shares of CGI's common stock.



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

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

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 3) of Corniche on March 2, 1995.

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.

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 was 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 were offered on a "best efforts" basis. In connection with the offering, 369 units were sold for gross receipts of \$1,845,000. RMCC was paid a commission \$184,500 for net of \$1,660,500 to the Company. 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.

## NOTE 7 - STOCKHOLDERS' EQUITY. (Continued)

In March 1998, the Company sold 250,000 shares of common stock at \$.50 per share realizing \$125,000.

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

A total of 101,308 shares of common stock are reserved for issuance upon exercise of warrants as of March 31, 1998. Warrants issued and outstanding are summarized as follows:

	SHARES ISSUABLE ON EXERCISE	EXERCISE PRICE	EXPIRATION DATE
	-----	-----	-----
September 1993.....	9,375	\$46.40	4/99
March 1995.....	91,933	\$3.20 - \$8.10	1/99 - 11/03

In March 1995, as a result of the sale of 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 were 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.

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

## NOTE 7 - STOCKHOLDERS' EQUITY. (Continued)

## Stock Option Plans: (Continued)

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,		
	1998	1997	1996
Outstanding, beginning of year ....	1,500	7,500	28,980
Granted .....	1,500	3,000	9,000
Converted .....	--	--	--
Expired .....	--	(9,000)	(30,480)
Exercised .....	--	--	--
	-----	-----	-----
Outstanding, end of year .....	3,000	1,500	7,500
	=====	=====	=====

Outstanding options expire 90 days after termination of holder's status as employee or director.

At March 31, 1998, 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.

Options were granted at an exercise price equal to the fair value of the common stock at the grant date. Therefore, in accordance with the provisions of APB Opinion No. 25 related to fixed stock options, no compensation expense is recognized with respect to options granted or exercised. Under the alternative fair-value based method defined in SFAS No. 123, the fair value of all fixed stock options on the grant date would be recognized as expense over the vesting period. As the number of options granted in 1998 is immaterial, recognizing the expense would not have a material effect on the Company's 1998 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 75 cumulative convertible preferred stock. The preferred stock is convertible into common stock at a price of \$5.20 per share, and is callable for five years. Stockholders who purchase CGI's shares between January 3, 1989 and May 7, 1992 were 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.

## NOTE 9 - INCOME TAXES.

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:

FOR THE YEARS ENDED MARCH 31,		
1998	1997	1996
\$ (203,798)	\$ (268,956)	\$ (260,715)

## NOTE 9 - INCOME TAXES. (Continued)

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.

## NOTE 10 - SUBSEQUENT EVENTS.

The following actions of the Board of Directors were approved by a vote of the Corporation's stockholders at the annual meeting on May 18, 1998.

(a) Amendment to the Corporation's Certificate of Incorporation to Reduce the Par Value of the Common Stock:

The par value of the common stock will be reduced from \$0.10 per share to \$0.001 per share. The par value is being reduced to \$0.001 per share to conform with the new Series B Convertible Redeemable Preferred Stock, as each share of the Series B Convertible Redeemable Preferred Stock par value \$0.01 per share, is convertible into ten (10) shares of common stock (see B below).

(b) Issuance of Series B Convertible Redeemable Preferred Stock, Change in Control and New Business Operations:

On March 4, 1998, the Corporation entered into a Stock Purchase Agreement ("Agreement"), approved by the Corporation's stockholders on May 18, 1998, with Mr. Joel San Antonio and certain other individuals (the "Initial Purchasers") whereby the Initial Purchasers acquired an aggregate of 765,000 shares of a newly created Series B Convertible Redeemable Preferred Stock, par value \$0.01 per share. Thereafter the Initial Purchasers have been endeavoring to establish for the Corporation new business operations in the insurance sector, more specifically the property and casualty specialty insurance markets. Mr. San Antonio, who has many years experience in these sectors, is in the process of exploring a number of specialty insurance opportunities for the development of new business operations.

In connection with the implementation of these strategies, it may become necessary for the Corporation to become licensed in one or more state in order to enable it to conduct operations or to acquire a company that maintains appropriate licenses. To further such goal, the Corporation recently has entered into a non-binding letter of intent to acquire all of the stock of an existing insurance company which has had limited operations and revenues for the past several years. The acquisition is subject to due diligence by the Corporation and subject to material conditions, including satisfaction of capital requirements of regulatory authorities. No assurance can be given that the Corporation will be able to obtain such licenses or to consummate any such acquisitions. The acquisition, if consummated, will represent the Corporation's entry into the United States insurance market.

## (b) Issuance of Series B Convertible Redeemable Preferred Stock, Change in Control and New Business Operations: (Continued)

Pursuant to Agreement and subsequent transactions Mr. San Antonio acquired 685,000 shares of Series B Convertible Redeemable Preferred Stock at \$68,500 and Messrs. Glime, Hutchins and Aber acquired 50,000, 15,000 and 15,000 shares, respectively, of Series B Convertible Redeemable Preferred Stock at the same price per share. Pursuant to the Agreement, the Corporation will pay certain expenses of the Initial Purchasers in connection with the Transaction, which expenses are currently estimated to be approximately \$50,000, for legal expenses. In addition, the Corporation issued 50,000 shares of Series B Convertible Redeemable Preferred Stock to Alan Zuckerman as compensation for his assistance to the Corporation in the identification and review of business opportunities and this Transaction and for his assistance in bringing the Transaction to fruition. Additionally, the Corporation issued 10,000 shares of Series B Convertible Redeemable Preferred Stock to James Fyfe for his work in bringing this Transaction to fruition. These issuances diluted the voting rights of existing stockholders by approximately 57%. The total authorized shares of Series B Convertible Redeemable Preferred Stock are 825,000.

## Terms of Preferred Stock:

The following summarizes the terms of the Series B Convertible Redeemable Preferred Stock, which terms are more fully set forth in the Certificate of Designation. The Series B Convertible Redeemable Preferred Stock carries a zero coupon and each share of the Series B Convertible Redeemable Preferred Stock is convertible into ten shares of the Corporation's Common Stock. The holder of a share of the Series B Convertible Redeemable Preferred Stock is entitled to ten times any dividends paid on the Common Stock. Mr. San Antonio assumed control of the Corporation as the holder of such 685,000 shares of Series B Convertible Redeemable Preferred Stock, since the Series B Convertible Redeemable Preferred Stock has ten votes per share and votes as one class with the Common Stock. Accordingly, Mr. San Antonio, with approximately 47% of the voting power, will by himself almost have sufficient voting power to elect all of the Board of Directors. However, the Initial Purchasers of the Series B Convertible Redeemable Preferred Stock, including Mr. San Antonio, are required to vote in favor of Mr. Fyfe or his designee as a director of the Corporation through June 30, 2000.

Pursuant to the term of the Agreement and the Certificate of Designation, from March 31, 2000 to June 30, 2000, the Corporation has the right to repurchase or redeem such shares of Series B Convertible Redeemable Preferred Stock from the holders for a total consideration of \$0.10 per share (\$76,500 in the aggregate) unless, during the period from the date of the closing of the Transaction through March 31, 2000;

## NOTE 10 - SUBSEQUENT EVENTS. (Continued)

(b) Issuance of Series B Convertible Redeemable Preferred Stock, Change in Control and New Business Operations: (Continued)

Terms of Preferred Stock: (Continued)

- i. the Corporation's shares of common stock maintain a minimum closing bid price of not less than \$2 per share on a public market during a period of any 10 consecutive trading days, and either
- ii. the Corporation raises a minimum of \$2.5 million of new equity capital through a placement of Common Stock, or
- iii. the Corporation has net revenues of at least \$1 million in any fiscal quarter through the fiscal quarter ending March 31, 2000 (collectively, the "Trigger Conditions").

Mr. Fyfe or the director designated by Mr. Fyfe will have the ability to determine if the Corporation will elect to exercise this redemption right on behalf of the Corporation.

Each Series B Convertible Redeemable Preferred Share is convertible into ten shares of Common Stock. Upon liquidation, the Series B Convertible Redeemable Preferred Stock would be junior to the Corporation's Series A Preferred Stock and would share ratably with the Common Stock with respect to liquidating distributions.

Conversion:

The holder of any share of Series B Convertible Redeemable Preferred Stock has the right, at such holder's option (but not if such share is called for redemption), exercisable on or after September 30, 2000, to convert such share into ten (10) fully paid and non-assessable shares of Common Stock (the "Conversion Rate"). The Conversion Rate shall be subject to adjustment as stipulated in the Agreement.

(c) 1998 Employee Incentive Stock Option Plan:

Under the 1998 Plan, the maximum aggregate number of shares which may be issued under options is 300,000 shares of Common Stock. The aggregate fair market value (determined at the time the option is granted) of the shares for which incentive stock options are exercisable for the first time under terms of the 1998 Plan by any eligible employee during any calendar year cannot exceed \$100,000. The option exercise price of each option is 100% of the fair market value of the underlying stock on the date the options granted, except that no option will be granted to any employee who, at the

## NOTE 10 - SUBSEQUENT EVENTS. (Continued)

## (c) 1998 Employee Incentive Stock Option Plan: (Continued)

time the option is granted, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Corporation or any subsidiary unless (a) at the time the options granted, the option exercise price is at least 110% of the fair market value of the shares of Common Stock subject to the option and (b) the option by its terms is not exercisable after the expiration of five years from the date such option is granted. At least one-half of the shares issued upon exercise of any option granted pursuant to the 1998 Plan must be retained by the optionee for at least one year.

The Plan will be administered by a committee of disinterested directors of the Board of Directors of the Corporation ("Option Committee").

## (d) Independent Directors Compensation Plan:

In order to be able to attract qualified independent directors in the future, the Corporation has adopted the Independent Directors Compensation Plan, pursuant to which each director who is not an officer or employee would receive compensation of \$2,500 plus 500 shares of the Corporation's Common Stock each quarter. The Plan was effective as of April 30, 1998.

Independent directors will also continue to be eligible to receive stock options each year under the Director Option Plan at the rate of 1,500 options per year at fair market value.

## (e) Lease of New Office Space:

As of August 1, 1998, the Corporation has entered into a three year lease for business offices of 4,100 square feet in Euless, Texas.

## (f) Investment Contract:

The Corporation has entered into an investment advisory agreement with AIG Global Investment Corporation under which it will function as investment advisor and manager of all of the Corporation's investable assets. AIG Global provides investment management services to domestic insurance companies seeking to create an investment alternative to letters of credit that, at the same time, meet state statutory insurance requirements.



## CORNICHE GROUP INCORPORATED

## SCHEDULE II

## VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED MARCH 31, 1998, 1997 AND 1996

Col. A ----- DESCRIPTION -----	Col. B ----- BALANCE BEGINNING OF PERIOD -----	Col. C Additions ----- CHARGED TO COSTS AND EXPENSES -----	Col. D ----- ACQUISITION OF SUBSIDIARIES ----- DEDUCTIONS DESCRIBE -----	Col. E ----- BALANCE AT END OF PERIOD -----
Allowance for doubtful accounts:				
1996	\$ 345,108	\$ --	\$ --	\$ 345,108 (1)
1997	--	--	--	--
1998	--	--	--	--
Reserve against notes receivable in default:				
1996	--	75,000	--	75,000
1997	75,000	--	--	75,000
1998	75,000	--	--	75,000
Inventory reserve:				
1996	40,224	--	--	40,224 (1)
1997	--	--	--	--
1998	--	--	--	--

(1) Elimination of UK subsidiary following receivership proceeding.

## EXHIBIT INDEX

EXHIBIT NUMBER -----	DESCRIPTION -----	
3	(a) Certificate of Incorporation filed September 18, 1980 (1)	3
	(b) Amendment to Certificate 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, 1994 (7)	3.8
	(j) Amendment to Certificate of Incorporation filed September 28, 1995 (10)	3(j)
	(k) Certificate of Designation for the Series B Preferred Stock dated May 18, 1998 (12)	C 3(f)
	(l) By-laws of the Corporation, as amended on April 25, 1991 (6)	
	(m) Amendment to Certificate of Incorporation dated May 18, 1998 (12)	A
4	(a) Form of Underwriter's Warrant (6)	4.9.1
	(b) Form of Promissory Note - 1996 Offering (10)	4(b)
	(c) Form of Promissory Note - 1997 Offering (10)	4(c)
	(d) Form of Common Stock Purchase Warrant - 1996 Offering (10)	4(d)
	(e) Form of Common Stock Purchase Warrant - 1997 Offering (10)	4(e)
10	(a) 1986 Stock Option Plan, as amended (7)	10.6
	(b) 1992 Stock Option Plan (8)	B
	(c) Stock Purchase Agreement dated as of January 30, 1997 by and among the Corporation, the Bank of Scotland and 12 buyers (10)	10(m)
	(d) Mutual Release dated as of January 30, 1997 by and among the Corporation, James Fyfe and the Bank of Scotland (10)	10(n)
	(e) Stock Purchase Agreement, dated as of March 4, 1998, between the Corporation and the Initial Purchasers named therein (12)	B
	(f) 1998 Employees Stock Option Plan (12)	D
16	(a) Letter of Mahoney Cohen & Company, CPA, PC regarding their concurrence with the statements made by the Corporation concerning their resignation as the Corporation's principal accountant (11)	16(a)
27	Financial Data Schedule, filed herewith.	

## Notes:

(1) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the registration statement of the Corporation 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 the Corporation 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 the Corporation 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 the Corporation 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 the Corporation on Form S-3, File No. 33-42154, 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 the Corporation 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 the Corporation 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, as indicated above, to the proxy statement of the Corporation dated March 30, 1992, which exhibit is incorporated herein by reference.

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

(10) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the annual report of the Corporation on Form 10-K for the year ended March 31, 1996, which exhibit is incorporated herein by reference.

(11) Filed with the Securities and Exchange Commission as an exhibit, numbered as indicated above, to the annual report of the Corporation on Form 10K/A for the year ended March 31, 1996, which exhibit is incorporated herein by reference.

(12) Filed with the Securities and Exchange Commission as an exhibit, as indicated above, to the proxy statement of the Corporation dated April 23, 1998, which exhibit is incorporated herein by reference.

12-MOS  
MAR-31-1998  
APR-01-1997  
MAR-31-1998  
1,129,064  
0  
0  
0  
1,129,243  
1,426  
1,067  
1,129,602  
259,676  
893,908  
0  
635,522  
(1,129,602) (659,504)  
0  
0  
0  
221,602  
0  
(17,804)  
(203,798)  
(263,865)  
0  
0  
(263,865)  
(0.05)  
(0.05)