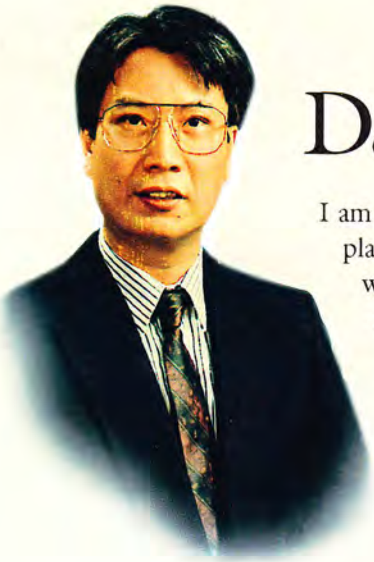
Fronteer Financial Holdings, Ltd.

Annual Report 1997



Dear Shareholders:

I am pleased to take this opportunity to present my thoughts and our ambitious plans for the future. I am confident that we have assembled a team of managers whose energies, talents and entrepreneurial sprit will successfully enhance our domestic presence and provide leadership to steer Fronteer into the international marketplace.

Last year was a transition year for Fronteer, as the Company continued to strengthen sales and strive for earnings. For 1997, Fronteer's total revenues were $25.1 million compared to revenues of $21.4 million for the previous year. This represents an increase of $3.7 million or 18 percent. This increase is primarily due to the increase in brokerage commissions from new branch office openings, and the investment banking activity of RAF Financial Corporation.

Although we are pleased with the revenue increases, corresponding increases in operating and general and administrative expenses in opening and operating new branch offices contributed to a net loss for 1997 of $3.5 million or 21 cents per share compared to $2.4 million or 17 cents per share for 1996. Additionally the net loss from discontinued operations for 1997 of $1.5 million, representing the loss on the sale and operations of the Company's directory business, contributed to the Company's overall net loss .

With the infusion of working capital that occurred with the change in ownership and the contribution from the expanded team of senior managers, we believe that Fronteer will provide the platform to launch a global financial service organization.

To further define the Company's philosophy and identify us as a U.S. based organization to the international investment community, we have chosen to change the name of the Company's largest wholly owned subsidiary and broker/dealer, RAF Financial Corporation, to American Fronteer Financial Corporation (American Fronteer).

To achieve this objective of becoming a global financial service organization, we have begun implementation of a two-prong strategy designed to build revenue and instill greater operating efficiencies in the process.

We believe that American Fronteer is ideally positioned for expansion and has already taken steps to elevate the brokerage services and investment banking to national prominence with the addition of two new office locations in San Francisco and New York City. Additionally, with the infusion of capital, we are expanding the fixed income and investment departments to capitalize on new financial products and provide prudent investment opportunities for our retail and institutional clientele. In conjunction with these activities, our management team has also begun to significantly lower our operating costs.

Prospectively, our ultimate goal is to increase shareholder value by substantially strengthening our earnings stream. Our challenge in building into a global firm is to shape the Company through prudent acquisitions, joint ventures and cross border alliances which will make significant contributions towards our objective. Significant existing alliances such as our investments in Secutron Corporation, our computer hardware and software subsidiary, and Global Med Technologies, Inc. an innovator in blood technologies will help in this regard. I am confident that we will meet this challenge and that the Company will emerge as a premier diversified, integrated international financial services organization.

I also wish to acknowledge the dedication and work ethic of the Company's staff. Their contribution provided organizational stability during a period of transition allowing us to accomplish timely objectives.

Sincerely,

Fai Chan
Chairman

Dear Shareholders,

The prior year continued to be a transition year for RAF, as we moved to increase revenues and strive for earnings. RAF's revenues for 1997 reached $18.1 million, a 22 percent increase over 1996 due to additional brokerage commissions and increased investment banking activity. The brokerage commission increases are a result of new branch office openings. During 1997, three new branches were opened in Dallas, Texas; Las Vegas, Nevada; and West Palm Beach, Florida.

Although we are pleased with the revenue increases, corresponding increases in operating and general and administrative expenses in opening and operating of these new branch offices resulted in a net loss for 1997 of $2.0 million compared with $.9 million for 1996.

Subsequent to the year-end, additional working capital was provided to RAF through Fronteer. This additional working capital as well as further working capital commitments that exist, have and will continue to provide RAF with the ability to increase revenues through avenues such as opening new branch offices as those that were opened recently in Kansas City, Missouri; San Francisco, California; and on Wall Street, and to allow the Company's investment banking activity to expand.

Growth through compatible acquisition is a key element in our corporate strategy. With the continued development of RAF, we believe we are well positioned to continue our growth for 1998 and beyond. Looking ahead, I want to express my confidence in the long-term growth prospects of RAF. As we approach the 21st century, our possibilities seem unlimited, our potential never greater.

As we look forward to the opportunities and challenges of the next year, we extend thanks to our employees, customers, and suppliers for their contributions and support in 1998.

Sincerely,

Robert Trapp
President, RAF

RAF Financial Corporation

RAF Financial Corporation (RAF), to be renamed American Fronteer Financial Corporation on July 1, 1998, is a wholly owned subsidiary of Fronteer Financial Holdings, Ltd.(Fronteer). RAF is a Denver-based, full service registered securities broker/dealer. Due to recent expansion efforts, RAF now has 13 offices throughout the United States.

For the year ended September 30, 1997, RAF's revenues of $18.1 million represent a 22% increase as compared to revenues of $14.8 million for the previous year. Much of the revenue increases are attributed mainly to an increase in brokerage commissions and investment banking revenues. However, during this time RAF experienced a net loss of $2.0 million as compared to a net loss of $.9 million for the previous year. These losses are attributed largely to an increase in operating and general and administrative expenses associated with the opening of new branch offices.

RAF plans to continue on an aggressive expansion effort in 1998 opening new offices in the United States, Canada, Asia and Europe.

Activities of various RAF Divisions:

• Retail Sales:

In 1997, RAF experienced unprecedented growth in its retail operations. Experienced financial executives have been added in all of our principal locations. In addition, RAF is now serving more of the investment community than ever before with new retail offices in Kansas City and San Francisco.

RAF's full service account executives are well versed in all financial products. The Company continued to see a significant increase in new accounts and assets under management. With new ownership, RAF expects to execute its business plan for growth and expansion throughout 1998 and the years to follow.

• Corporate Finance:

During 1997, the Company acted as lead underwriter for two offerings, participated as an underwriter and dealer in five offerings, participated as a dealer in approximately ten offerings, and distributed three private placements. The Company's participation in these offerings approximated $16 million. Corporate Finance also adopted new investment criteria for all public and private offerings. Under this criteria, the Company will, in most cases, participate in public offerings for issuers which have historical revenues and earnings and whose securities will trade on a major exchange or on NASDAQ NMS after the offering. In addition, Corporate Finance developed strategic relationships with other underwriting firms.

In 1998, Corporate Finance expects to participate in public offerings for both domestic and foreign issuers. In addition, RAF intends to participate in the "refinancing" of Asian businesses.

• Public Finance:

This division provides professional financial advisory services to public entities, participates in underwriting and selling both negotiated and competitive bid municipal bond offerings, and structures and participates in municipal bond refinancings. During 1997, RAF's participation in offerings of municipal securities was approximately $58 million as manager of fifteen offerings.

During 1998, Public Finance expects to continue to participate in a variety of municipal securities offerings. In addition, the division hired an additional seasoned investment banker whose area of expertise is the financing of living and multi-family projects.

• Equity Trading:

The expansion and growth experienced in 1997 continues for 1998. Transactions have increased and additional traders have been added. To accommodate the expansion, Equity Trading will be moving to larger offices and adding more trading desks.

State of the art computers are coming on line to assure timely and best executions for clients with a new order delivery system. These new systems will comply with all the new regulatory rules that will be in place at the beginning of 1999. The goal remains to ensure that our brokers get their clients the best service possible.

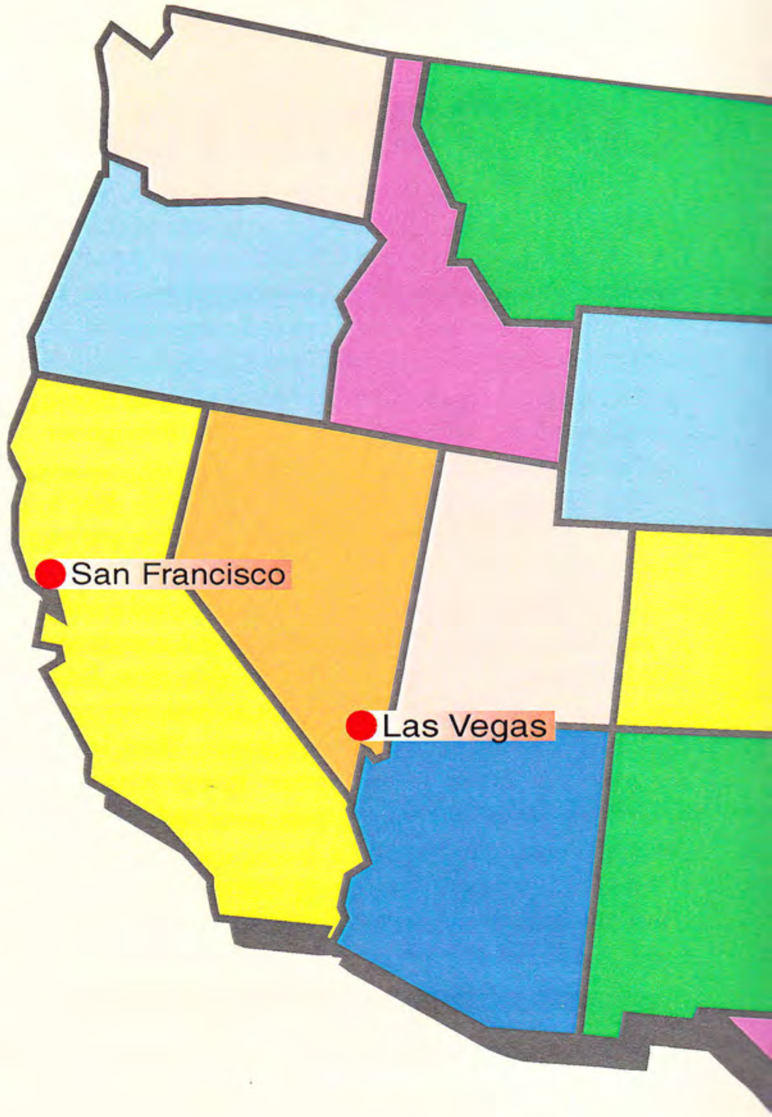
• Fixed Income:

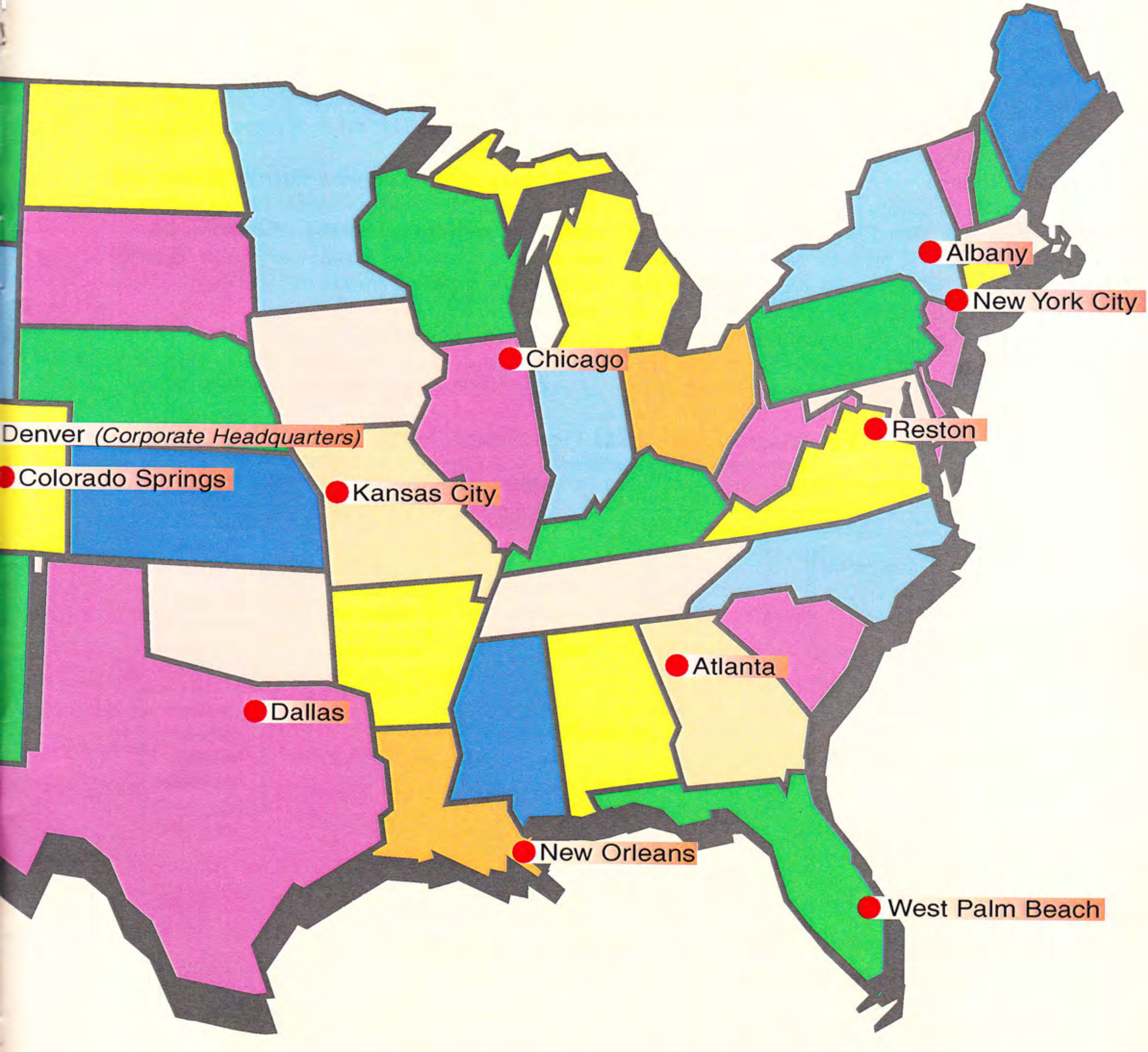
Given the competitiveness that characterizes the financial industry, RAF's Fixed Income Division will continue to focus much of its time and resources in two areas that offer tremendous opportunity for growth in the years ahead.

For retail investors, demand for asset allocation models and portfolio planning techniques utilizing various types of income investments is likely to increase, especially as many baby-boomers begin cashing out substantial 401-k plans and prepare for retirement. To capitalize on this potential windfall of additional assets under management, RAF intends to upgrade its information technology capabilities, expand selected value-added products and services, and continue to educate brokers and clients so informed and suitable income investments are made.

The second area for enhanced sales is institutional fixed income business and the use of proprietary products. In 1997 the Fixed Income Division took advantage of a consistent flow of municipal debt created by the Public Finance Division to establish accounts with a number of prominent institutions. With the addition of six quality salespeople and greater involvement in new-issue taxable offerings, it's anticipated that 1998 will experience substantial growth in this important sector of the fixed income marketplace.

Under the leadership of Chairman, Fai Chan, President, Robert Trapp, and Fronteer's added financial resources, RAF's outlook continues to brighten. With the increased competition and changes in the securities industry, Mr. Chan and the Board of Directors of Fronteer recognize the need for aggressive and controlled expansion to better position RAF in the marketplace. These expansion efforts are designed to increase revenues, and to give RAF the ability to offer to it's growing customer base more quality investment opportunities and proprietary financial products for RAF to successfully compete in the securities industry.





RAF Financial Corporation
(American Fronteer Financial Corporation)
as of July 1, 1998

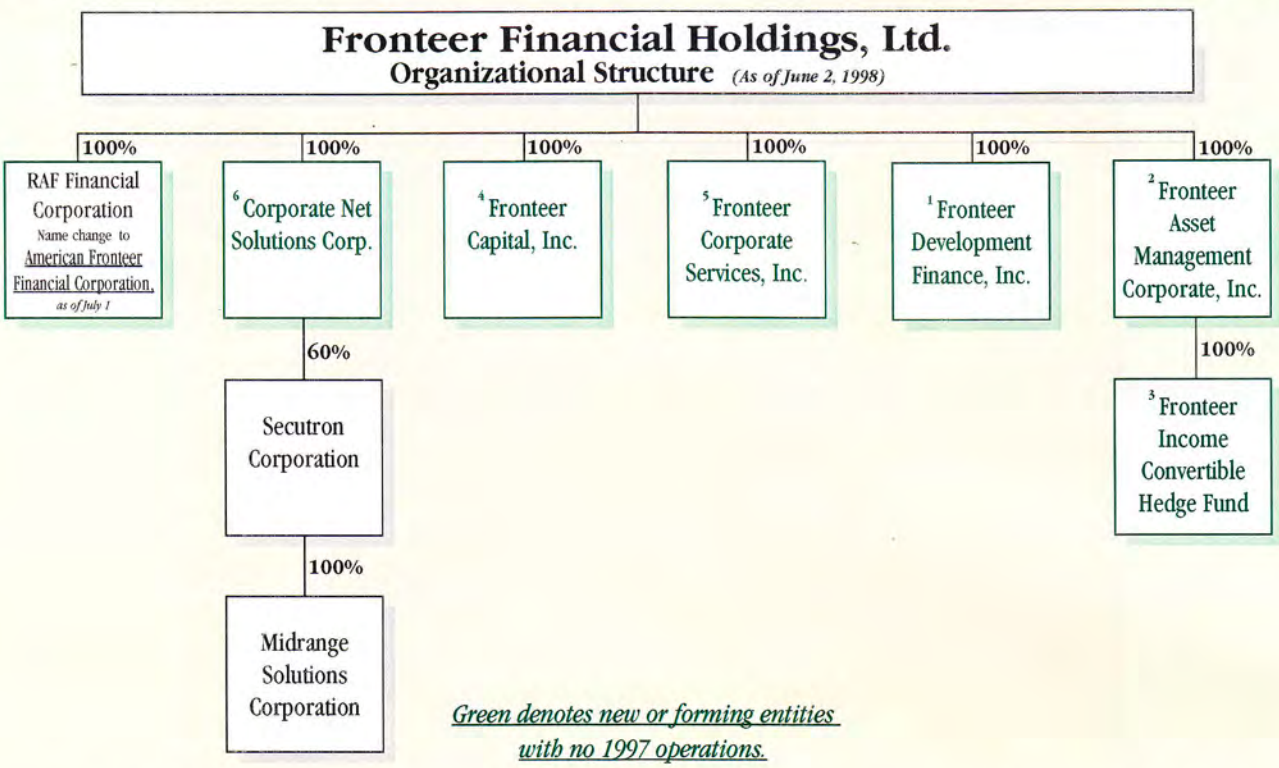
Secutron Corporation

Secutron Corporation's business consists of designing, developing, installing, marketing, and supporting software systems for the securities brokerage industry. In addition, Secutron's wholly owned subsidiary, Midrange Solutions Corp., sells hardware and software products to businesses in several different industries, including manufacturers, distributors and health care providers.

Secutron is in the process of completing an exhaustive effort to build new, "Year-2000-Compliant" versions of its STARS® and BCATS® products with many additional benefits and features. The firm has been working on this project in earnest since 1994 with the goal of having all customers converted to these new products by early 1999. Over the past year Secutron has committed a great deal of resources and energy to ensure that all of its systems will continue to process accurately in the year 2000 and beyond. Secutron is also working to develop in-house, and by acquisition, products to create a "Straight-Though-Processing System" which will facilitate the flow of securities transactions from the broker's desktop, through the trading process, and into the back office clearing and settlement systems.

Secutron is also developing Internet Trading and Risk Management software capabilities to enhance their current suite of applications. Plans are underway to develop an additional suite of broker desktop functionality including market data delivery, contact and portfolio management.

Secutron reported revenues for 1997 of $7,436,143, a 7% increase over 1996. Operating profits for the same reporting period were $129,125.



1 Recently formed by Fronteer Financial Holdings, Ltd. to operate as a finance company to take advantage of high-yield and other lending opportunities.

2,3 Recently formed by Fronteer Financial Holdings, Ltd. to manage and gather assets under management.

4 Formed by Fronteer Financial Holdings, Ltd. as a holding entity to take advantage of investment opportunities in small-cap companies.

5 Formed by Fronteer Financial Holdings, Ltd, to provide administrative services to other companies.

6 A recently formed holding company for the Company's investment in Secutron Corporation.

Board of Directors
Fronteer Financial Holdings, Ltd.

(As of June 2, 1998)

Fai Chan, *Chairman*

Robert Trapp*, *Managing Director, President RAF Financial Corporation*

Kwok Jen Fong, *Practicing Solicitor in Singapore*

Jeffrey Busch*, *Practicing Attorney*

Robert Jeffers, Jr.*, *Practicing Attorney*

Robert L. Long, *Senior Vice President of RAF Financial Corporation* (nominated)

*Member of the audit committee

Officers

Fai H. Chan, *President*

Robert H. Trapp, *Managing Director*

Gary L. Cook, *Secretary and Treasurer*

Legal Counsel

Smith McCullough, P.C.
Regency Plaza One
4643 South Ulster Street, Suite 900
Denver, Colorado 80237
303-221-6000

Auditor

KPMG Peat Marwick, LLP
707 Seventeenth Street
Suite 2300
Denver, Colorado 80202
303-296-2323

Transfer Agent

American Securities Transfer and Trust Incorporated
938 Quail Street
Suite 101
Lakewood, Colorado 80215
303-234-5300

Fronteer Financial Holdings, Ltd.

1700 Lincoln Street, 32nd. Floor
Denver, Colorado 80203
303-860-1700
303-860-6001 (fax)

Subsidiaries

RAF Financial Corporation

Corporate Net Solutions Corp.

Secutron Corporation

Midrange Solutions Corporation

Fronteer Capital, Inc.

Fronteer Corporate Services, Inc.

Fronteer Development Finance, Inc.

Fronteer Asset Management Corporate, Inc.

Fronteer Income Convertible Hedge Fund

RAF Services Inc. of Texas

RAF Services Inc. of Louisiana

RAF Services Inc.

Offices

Albany, New York
Atlanta, Georgia
Chicago, Illinois
Colorado Springs, Colorado
Dallas, Texas
Denver, Colorado
Kansas City, Missouri
Las Vegas, Nevada
New Orleans, Louisiana
New York, New York
Reston, Virginia
San Francisco, California
West Palm Beach, Florida

Corporate Information

Annual Meeting:
Fronteer Financial Holdings, Ltd. will hold its annual meeting of Shareholders on June 30, 1998 at 10 am in the Board Room of its corporate headquarters at One Norwest Center, 1700 Lincoln Street, 31st. Floor, Denver, Colorado 80203

Stock Listing

Fronteer Financial Holdings, Ltd. is traded on the Nasdaq Small-Cap Market under the symbol FDIR. The Approximate number of Shareholders on June 2, 1998 was 800.

Supplemental Information

For additional copies of the Annual Report on Form 10-K filed with the Securities and Exchange Commission, or for additional information about the Company, please contact Gary L. Cook, 1700 Lincoln Street, 32nd. Floor, Denver, Colorado 80203, 302-860-1700

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 30, 1997

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______________ to ______________.

Commission file Number: 17637

Fronteer Financial Holdings, Ltd.
(Exact Name of Registrant as Specified in its Charter)

Colorado	45-0411501
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1700 Lincoln Street, 32nd Floor
Denver, CO 80203
(Address of Principal Executive Offices)

Registrant's telephone number, including area code: (303) 860-1700
Securities registered pursuant to Section 12(g) of the Act:

$0.01 Par Value Common Stock
(Title of Class)

Indicate by check mark whether the 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 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.

☐

As of December 29, 1997, the aggregate market value of the Registrant's voting stock held by non-affiliates was $6,790,515.

As of December 29, 1997, Registrant had 16,871,557 shares of its $0.01 par value common stock issued and outstanding.

PART I

ITEM 1. BUSINESS

Business. Fronteer Financial Holdings, Ltd. (Fronteer or the Company) is a corporation which was organized under the laws of the state of Colorado on September 14, 1988. The Company currently has the following wholly-owned operating subsidiaries: R A F Financial Corporation (RAF), which operates as a fully disclosed securities broker/dealer; RAF Services Inc. of Texas, RAF Services Inc. of Louisiana and RAF Services Inc. (collectively, RAF Services), which were established in order to participate in insurance brokerage activities in certain states; and Fronteer Capital, Inc., which was formed to effectuate transactions described below in Possible Change in Control. The Company also has a majority owned subsidiary, Secutron Corporation (Secutron), which designs, develops, installs, markets and supports software systems for the securities brokerage industry. The Company sold the primary operating assets of its directory business and two of its wholly owned subsidiaries, Fronteer Personnel Services, Inc. (FPS) and Fronteer Marketing Group, Inc. (FMG), during the year ended September 30, 1997. These entities have been accounted for as discontinued operations in the accompanying consolidated financial statements. RAF and Secutron are Colorado corporations; Fronteer Capital, Inc. is a Delaware corporation; FPS and FMG are North Dakota corporations and RAF Services are Louisiana, Nevada and Texas Corporations.

Possible Change in Control. In December 1997, Heng Fung Capital [S] Private Limited (Heng Fung Private), a wholly owned subsidiary of Heng Fung Holdings Company Limited (Heng Fung Holdings), a public company traded on the Hong Kong Stock Exchange, purchased 1,136,364 shares of the Company's outstanding Common Stock from Robert A. Fitzner, Jr. and Robert L. Long, officers and directors of the Company, and from two other employees of RAF. In December 1997, Robert A. Fitzner, Jr. and Heng Fung Private agreed that, upon regulatory approval of a change in the beneficial ownership of 25% or more of RAF, Heng Fung Private would purchase an additional 3,556,777 shares of the Company's outstanding Common Stock from Mr. Fitzner. In conjunction with the transaction, the Company entered into an agreement (Convertible Debenture Agreement) with Heng Fung Finance Company Limited (Heng Fung Finance), a wholly owned subsidiary of Heng Fung Private, pursuant to which the Company agreed to sell to Heng Fung Finance a ten year $4,000,000 10% Convertible Debenture that is convertible at $.53125 per share into 7,529,411 shares of the Company's Common Stock. The purchase of the $4,000,000 Convertible Debenture was completed on December 30, 1997. On December 26, 1997, the Board of Directors of the Company, at the request of Heng Fung Finance made pursuant to the terms of the Convertible Debenture Agreement, appointed two persons selected by Heng Fung Finance to the Board of Directors of the Company. If Heng Fung Private completes the purchase of the additional 3,556,777 shares of the Company's outstanding Common Stock from Mr. Fitzner, the three directors of the Company not appointed at the request of Heng Fung Finance will resign as directors of the Company and the two remaining directors appointed at the request of Heng Fung Finance will be able to fill the vacancies created by such resignations. In such event, it is anticipated that the directors would appoint new officers for the Company. Further, Heng Fung Holdings, through Heng Fung Private, will then own approximately 27.8% of the Company's outstanding Common Stock and Heng Fung Finance will have the option to purchase an additional ten year $11,000,000 10% Convertible Debenture that will be convertible at $.61 per share into 18,032,786 shares of the Company's Common Stock.

Discontinued Operations. On February 25, 1997, McLeod USA Publishing Company (McLeod, formerly known as Telecom* USA Publishing Company) purchased six yellow page directories located in North Dakota from the Company for approximately $2,800,000. The purchase price was pursuant to an existing option agreement (Option Agreement) between McLeod and the Company and was based on related directory revenues. The purchase price consisted of $2,300,000 in cash and $500,000 in the form of a nonrecourse loan that was applied against the price of the six yellow page directories in accordance with the Option Agreement. On the same date, another third party purchased another directory from the Company for approximately $202,000 in cash. The purchase was based on related directory revenues. These dispositions represent primarily all of the Company's remaining directory business assets. As such, the Company has discontinued its activities in the directory business.

On September 15, 1997, an unaffiliated third party purchased all of the primary operating assets of FMG for approximately $421,000. The purchase price was based on existing financing arrangements and the cost of anticipated fixed asset upgrades. A portion of the purchase price was paid in the form of a promissory note in the amount of $141,344 to be paid over 28 months at $5,048 per month. The remainder of the purchase price was paid in the form of a promissory note in the amount equal to FMG's cost of anticipated fixed asset upgrades installed in existing telemarketing centers. Monthly payments of principal and interest at 10% of between $3,000 and $8,000 per month will be made through December 2000 at which time the balance will be due and payable to the Company. The third party also assumed leases related to two telemarketing centers in North Dakota with a combined monthly rental of $1,000 and has entered into a three-year lease for approximately 5,500 square feet of space in a building the Company owns in Bismarck, North Dakota for $2,752 per month. Accordingly, the Company has discontinued its activities in the direct marketing business.

Sale of Clearing Operation. On July 23, 1996, the Company sold RAF's securities brokerage clearing division (Clearing Operation) to MultiSource Services, Inc. (MSI), a new broker/dealer, for a purchase price of $3,000,000, including a $1,500,000 contingency in the form of a forgivable loan, plus the net assets of the Clearing Operation. MSI was formed by Oppenheimer Funds, Inc. (OFI) for the purpose of acquiring the Clearing Operation, and OFI was to retain 80% of the outstanding common stock of MSI. Fronteer received 20% of the outstanding common stock of MSI. As a result of this transaction, RAF became a fully disclosed clearing correspondent of MSI. The loan of $1,500,000 was recorded as a loan payable to MSI and is forgivable based on MSI's revenues during the 28 months following the closing date. If MSI's revenues exceed $1,250,000 during the 5th through the 16th month following the closing, $750,000 of the loan will be forgiven. If MSI's revenues exceed $1,750,000 during the 17th through the 28th month following the closing, the remaining $750,000 will be forgiven. To the extent that such revenue targets are not met by MSI, the subject portion of the loan or accrued interest will not be forgiven. The loan is payable by the Company on the 30th day after the last day of the 16th and the 28th months following the closing date of the revenue targets are not achieved by MSI. The loan is non-interest bearing if no principal payments are in default. Interest on any amount past due will accrue at the rate of 10% per annum.

During the year ended September 30, 1997, Fronteer and RAF were notified by OFI that a decision had been reached by OFI that MSI and its business were not consistent with the long term business plans of OFI. Subsequently, a new clearing firm was selected for the customer business of RAF, and the customer business previously cleared by MSI was moved to the new clearing firm in October 1997. MSI reached its revenue targets for the first portion of the forgivable loan by October 1997. As result, the first $750,000 of the $1,500,000 forgivable loan is expected to be forgiven and recognized as income during the year ended September 30, 1998. Fronteer expects cancellation of the second and final portion of the loan plus accrued interest payable in accordance with provisions in the forgivable loan agreement relating to MSI's decision to cease being engaged in the clearing business.

Private Placement. On February 16, 1996, the Company commenced a private placement of 6,000,000 shares of its $.01 par value Common Stock at a price of $1.00 per share, and 6,000,000 Class A redeemable common stock purchase warrants at a price of $.10 per warrant (collectively, the Private Placement). The warrants entitle the holder to purchase one share of common stock at $1.50 per share at any time until May 1, 2000. 5,958,658 shares of Common Stock and warrants were issued through the Private Placement for proceeds of $5,859,563, net of issuance costs of $694,961. In addition, the Company issued 595,865 warrants to RAF in accordance with the Private Placement which allows the holder to purchase one share of Common Stock at a price of $1.50 per warrant until May 1, 2000.

Description of Business

RAF FINANCIAL CORPORATION

General. RAF was incorporated in 1974 to engage in the retail stock brokerage business in the Rocky Mountain Area of the United States. RAF is registered as a broker/dealer with the Securities and Exchange Commission (Commission), is a member of the National Association of Securities Dealers, Inc. (NASD) and the Boston Stock Exchange, is an associated member of the American Stock Exchange, and is registered as a securities broker/dealer in all 50 states. RAF is a member of the Securities Investor Protection Corporation (SIPC) and other regulatory and trade organizations. RAF and certain of its subsidiaries are also licensed to sell insurance products in certain states. RAF's business consists of providing retail securities brokerage and investment services, trading fixed income and equity securities, providing investment banking services to corporate and municipal clients, managing and participating in underwriting corporate and municipal securities, and selling a range of professionally managed mutual funds and insurance products. During 1989, RAF registered the mark RAF Financial Corporation with the United States Patent and Trademark Office, and RAF has registered this name in 32 states. RAF intends to maintain all of its service mark registrations for the indefinite future in order to protect the goodwill associated with the mark. RAF conducts its business in four operating divisions as described below. RAF's principal executive office is located at One Norwest Center, 1700 Lincoln Street, 32nd Floor, Denver, Colorado, 80203. RAF has branch offices located in Colorado Springs, Colorado; Denver, Colorado; Atlanta, Georgia; Albany, New York; Reston, Virginia; Chicago, Illinois; Metairie, Louisiana; Las Vegas, Nevada; Dallas, Texas; West Palm Beach, Florida; and Kansas City, Missouri.

Retail Securities Brokerage Division. RAF conducts its retail brokerage business through its Retail Securities Brokerage Division. As of December 29, 1997, RAF had 162 account executives and approximately 25,000 customer accounts. RAF generates commission revenue when it acts as a broker on an agency basis, or as a dealer on a principal basis, to effect securities transactions for individual and institutional investors. RAF executes both listed and over the counter agency transactions for customers, executes transactions and puts and calls on options exchanges as agent for its customers, and sells a number of professionally managed mutual funds and insurance products, primarily variable annuities. RAF's revenues from its sales of insurance products were less than $62,000 for the year ended September 30, 1997.

Corporate Finance Division. The Corporate Finance Division provides financial advisory and capital raising services to corporate clients. Financial advisory services involve advising clients in mergers and acquisitions and in various types of corporate valuations. RAF acts as a dealer, underwriter and selling group member in public and private offerings of equity securities. During the year ended September 30, 1997, RAF raised approximately $15,766,000 through its investment banking activities.

Trading Division. Trading securities involves the purchase and sale of securities by RAF for its own account. Profits and losses are derived from the spread between bid and ask prices and market increases or decreases for the individual security during the holding period. RAF makes markets in corporate equities and trades in municipal and corporate bonds and various government securities. As of September 30, 1997, RAF made markets in 48 stocks.

Public Finance Division. The Public Finance Division of RAF provides professional financial advisory services to public entities, participates in underwriting and selling both negotiated and competitive bid municipal bond offerings, and structures and participates in municipal bond refinancings. During the year ended September 30, 1997, RAF's participation in offerings of municipal securities was approximately $58,395,000 as manager of fifteen municipal underwritings and private placements.

Financial Information. For the year ended September 30, 1997, RAF's revenues of $18,118,271 accounted for 72% of the Company's total operating revenues from continuing operations of $25,100,414. RAF's revenues for the year and nine months ended September 30, 1996 and 1995 were $14,830,681 and $9,854,160, respectively. For the years ended September 30, 1997 and 1996 and nine months ended September 30, 1995, RAF incurred operating losses of $2,160,897, $2,647,327 and $1,053,916, respectively.

RAF Regulatory Net Capital. RAF, as a registered securities broker/dealer, is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (Rule 15c3-1) (the Rule). RAF has elected to operate pursuant to the alternative standard provided by the Rule. Under the alternative standard, RAF is required to maintain "net capital" of not less than $250,000. As of September 30, 1997, RAF had "net capital" of $2,104,023.

SECUTRON CORPORATION

General. Secutron was incorporated under Colorado law on May 11, 1979. The Company owns approximately 60% of the outstanding stock of Secutron and certain officers of Secutron own most of the remaining outstanding stock. Secutron's business consists of designing, developing, installing, marketing, and supporting software systems for the securities brokerage industry. Secutron markets hardware and software to securities brokerage firms as an IBM business partner. Secutron's IBM business partner relationship is as an industry remarketer affiliate through Real Applications Ltd., located in Woodland Hills, California. Secutron is also an Internet Service Provider providing Internet services ranging from access to the Internet to development and maintenance of Web sites. Secutron's wholly owned subsidiary, MidRange Solutions Corp. (MSC), is a Colorado corporation formed on January 1, 1993. MSC is in the business of selling IBM hardware and hardware manufactured by competitors of IBM, and MSC acts as a distributor for software products which are proprietary to third parties. MSC sells hardware and software to businesses in several different industries, including manufacturers, distributors and health care providers.

Products and Services. Secutron offers the following software products to the securities brokerage industry. The STARS software system is offered to broker/dealers who clear their own transactions, and is a totally integrated software system which performs all of the functions required by self clearing broker/dealers. The BCATS software system is offered to broker/dealers who clear their securities transactions on a fully disclosed basis through a clearing broker/dealer such as MSI, and is also a fully integrated software system which performs all of the accounting functions required by a fully disclosed broker/dealer. The BCATS-MF software system is designed for use by broker/dealers engaging in transactions in mutual funds. All such software systems are designed to run on IBM computers. Both Secutron and MSC provide consulting, programming and facilities management services to their respective clients to support the software and hardware sold by them. The STARS and BCATS applications are compatible to Year 2000 issues facing its clients and potential clients.

Financial Information. Secutron's revenues for the years ended September 30, 1997 and 1996 and nine months ended September 30, 1995 were $7,436,143, $6,975,591 and $3,628,364, respectively. Operating profits for the years ended September 30, 1997 and 1996 and nine months ended September 30, 1995 were $129,215 and $281,775 and $25,991, respectively.

DIRECTORY BUSINESS

General. The primary operating assets of the directory business were sold during the year ended September 30, 1997 and have been accounted for as discontinued operations in the consolidated financial statements.

Financial Information. Revenues for the directory business for the years ended September 30, 1997 and 1996 and for the nine months ended September 30, 1995 were $4,894,707, $7,170,648 and $3,952,072, respectively. Operating profits (losses) for the years ended September 30, 1997 and 1996 and for the nine months ended September 30, 1995 were $132,594, $(486,976) and $(694,057), respectively.

FRONTEER MARKETING GROUP, INC.

General. All of the primary operating assets of FMG were sold during the year ended September 30, 1997 and have been accounted for as discontinued operations in the consolidated financial statements.

Financial Information. Revenues for FMG for the years ended September 30, 1997 and 1996 and for the nine months ended September 30, 1995 were $364,652, $317,349 and $149,780, respectively. Operating losses for the years ended September 30, 1997 and 1996 and for the nine months ended September 30, 1995, were $1,216,282, $635,573 and $295,465, respectively.

Employees and Employee Relations

Employees. As of December 29, 1997, the Company and its subsidiaries had 264 full time employees, 4 of whom worked in the Directory Business in the Company's North Dakota offices; 224 of whom work for RAF; and 36 of whom work for Secutron. RAF's headquarters are located in Denver, Colorado, 170 of RAF's employees work in branch offices of RAF located in Colorado Springs, Colorado; Atlanta, Georgia; Albany, New York; Reston, Virginia; Chicago, Illinois; Metairie, Louisiana; Las Vegas, Nevada; Dallas, Texas; West Palm Beach, Florida; and Kansas City, Missouri. The Company considers its relations with its employees to be good.

Competition

RAF FINANCIAL CORPORATION

The securities industry has become considerably more concentrated and more competitive in recent periods as numerous securities firms have either ceased operation or have been acquired by or merged with other firms. In addition, companies not engaged primarily in the securities business, but having substantial financial resources, have acquired securities firms. The securities industry is now dominated by relatively few very large securities firms offering a wide variety of investment related services nationally and internationally. Numerous commercial banks have petitioned and received approval from the Board of Governors of the Federal Reserve System to enter into a variety of new securities activities. Various legislative proposals, if enacted, would permit commercial banks to engage in other types of securities related activities. These developments or other developments of a similar nature may lead to the creation of integrated financial service firms that offer a broader range of financial services than those offered by RAF. These developments have created large, well capitalized, integrated financial service firms with which RAF must compete. The securities industry has also experienced substantial commission discounting by broker/dealers competing for institutional and individual brokerage business. An increasing number of specialized firms offer "discount" services to individual customers. These firms generally effect transactions for their customers on an "execution only" basis without offering other services such as investment recommendations and research. Such discounting and an increase in the number of new and existing firms offering such discounts could adversely affect RAF's retail securities business.

SECUTRON CORPORATION

Secutron competes with numerous software and hardware distribution firms, and hardware manufacturers, some of which are larger than Secutron and have greater financial resources. Secutron also competes with firms that specialize in industry specific software and those that offer a variety of software products to businesses in various industries. MSC competes with hardware manufacturers and other licensed distributors of IBM hardware and distributors of hardware manufactured by competitors of IBM. Many of MSC's competitors are larger than MSC and have greater financial resources.

Regulation

RAF FINANCIAL CORPORATION

The securities industry in the United States is subject to extensive regulation under federal and state laws. The Securities and Exchange Commission (Commission) is a federal agency charged with administration of the federal securities laws. Much of the regulation of broker/dealers has been delegated to self regulatory organizations, principally the NASD and the exchanges. These self regulatory organizations adopt rules (which are subject to approval by the Commission) for governing the industry and conduct periodic examinations of member broker/dealers. Securities firms are also subject to regulation by state securities commissions in the states in which they do business. Broker/dealers are subject to regulations that cover all aspects of the securities business, including sales methods, trading practices among broker/dealers, capital structure of securities firms, record keeping, and the conduct of directors, officers, and employees. Additional legislation, changes in rules promulgated by the Commission and by self regulatory organizations, or changes in the interpretation or enforcement of existing laws and rules often directly affect the method of operation and profitability of broker/dealers. The Commission, the self regulatory authorities, and the state securities commissions may conduct proceedings which can result in censure, fine, suspension, or expulsion of a broker/dealer, its officers, or employees.

RAF is required by federal law to belong to the SIPC. When the SIPC fund falls below a certain minimum amount, members are required to pay annual assessments. The SIPC fund provides protection for securities held in customer accounts up to $500,000 per customer, with a limitation of $100,000 on claims for cash balances.

RAF is subject to the Commission's Uniform Net Capital Rule (the Rule) which is designed to measure the financial integrity and liquidity of a broker/dealer and the minimum net capital deemed necessary to meet its commitments to its customers. RAF is in compliance with the Rule. Failure to maintain the required net capital may subject RAF to suspension by the Commission or other regulatory bodies and may ultimately require its liquidation. The Company is not itself a registered broker/dealer and is not subject to the Rule. However, under the Rule, the Company could be affected by the requirement that a broker/dealer such as RAF may be prohibited under certain circumstances and may be temporarily restricted under other circumstances by the Commission from the withdrawal of equity capital by a stockholder such as the Company.

RAF is also subject to regulation under federal and state laws surrounding the insurance industry for the insurance products, primarily variable annuities, which its insurance licensed registered representatives sell.

See Note 13 to the Company's consolidated financial statements for financial information pertaining to the Company's industry segments.

ITEM 2. PROPERTIES

RAF FINANCIAL CORPORATION

RAF's principal offices are located at One Norwest Center, 1700 Lincoln Street, 32nd Floor, Denver, Colorado, 80203, which consist of approximately 47,071 square feet of subleased space. The sublease expires on April 30, 2007. The Company currently pays monthly rent of $63,800 for the space. RAF also leases space for its branch offices pursuant to leases that have various rental rates and expire at various dates.

SECUTRON CORPORATION

Secutron's office is located at 3773 Cherry Creek North Drive, Suite 825, Denver, Colorado 80209, which consists of approximately 8,600 square feet of leased space. The lease expires on July 31, 2003. Secutron currently pays monthly rent of $9,078 for the space.

OTHER

The Company owns a building at 216 North 23rd Street, Bismarck, North Dakota, 58501 in which it operated it's headquarters for its directory business and FMG. Most of the primary operating assets of these operations were sold during the year ended September 30, 1997. As such, the Company leases approximately 5,500 square feet of this building to the third party who purchased the primary operating assets of FMG for $2,752 per month through September 2000.

ITEM 3. LEGAL PROCEEDINGS

There are no pending material legal proceedings or claims against the Company or subsidiaries except that on December 24, 1997 NevStar Gaming & Entertainment Corporation (NevStar) gave written notice to RAF of its claim for damages relating to RAF's not underwriting NevStar's initial public offering. NevStar alleges that it suffered in excess of $1,000,000 in damages as a result of RAF's alleged breach of its alleged agreement with NevStar, as well as RAF's alleged violation of applicable Commission and NASD regulations, and common law. It is the opinion of the management of RAF that the claims have no merit and are not justifiable and RAF intends to vigorously defend them.

RAF is a defendant in certain other arbitration and litigation matters arising from its activities as a broker/dealer, none of which involves claims for damages that exceed 10% of the Company's current assets. In the opinion of management, these matters, including any damages awarded against the Company, have been adequately provided for in the accompanying consolidated financial statements, and the ultimate resolution of the other arbitration and litigation matters will not have a significant adverse effect on the consolidated results of operations or the consolidated financial position of the Company.

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

No matter was submitted to a vote of the Company's security holders during the Company's fiscal quarter ended September 30, 1997.

PART II

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

(a) Market Information. The Company's Common Stock has been traded on the Nasdaq Small-Cap Market under the symbol FDIR since March 27, 1989. The following table shows the range of high and low bid quotations for the Common Stock, for each quarterly period since October 1, 1995, as reported by the NASD. These quotations represent prices between dealers and do not include retail markups, markdowns, or commissions and may not necessarily represent actual transactions.

	Common Stock	
Fiscal Quarter Ended	High	Low
September 30, 1997	$.625	.438
June 30, 1997	1.000	.531
March 31, 1997	.875	.594
December 31,1996	.813	.531
September 30, 1996	.875	.625
June 30, 1996	1.125	.906
March 31, 1996	1.313	.750
December 31, 1995	.875	.625

The NASD, which administers the Nasdaq Small-Cap Market, has established criteria for securities, including the Company's Common Stock, to be included on the Nasdaq Small-Cap Market. Effective February 23, 1998, in order for the Company's Common Stock to continue to be included on the Nasdaq Small-Cap Market, the Company must maintain $2,000,000 in net tangible assets, a market capitalization of $35 million or net income of $500,000 in the most recently completed fiscal year or in two of the last three most recently completed fiscal years. In addition, continued inclusion requires that the Company have a public float of at least 500,000 shares with a market value of at least $1,000,000, that there be at least two market-makers in the Company's Common Stock and that the Common Stock have a minimum bid price of $1 per share. The maintenance requirements also require the Company to have at least two independent directors and an audit committee, a majority of which are independent directors. Management feels the Company has met or will soon meet the maintenance criteria as explained above except the requirement for a minimum bid price of the Common Stock of $1 per share. The Company's failure to meet the maintenance criteria in the future may result in the discontinuance of the inclusion of the Company's Common Stock on the Nasdaq Small-Cap Market. In such event, trading, if any, in the Company's Common Stock may then continue to be conducted in the non-Nasdaq over-the-counter market in what are commonly referred to as the electronic bulletin board and the "pink sheets". As a result, an investor may find it more difficult to dispose of or to obtain accurate quotations as to the market value of the securities. In addition, the Company would be subject to a rule promulgated by the Commission which provides that if the Company failed to meet criteria set forth in such rule, various sales practice requirements would be imposed on broker/dealers who sell securities governed by the rule to persons other than established customers and accredited investors. For these types of transactions, the broker/dealer would have to make a special suitability determination for the purchaser and have received the purchaser's written consent to the transactions prior to sale. Consequently, the rule may have an adverse effect on the ability of broker/dealers to sell the Company's Common Stock, which may affect the ability of purchasers to sell the Company's securities in the market.

(b) Holders. As of December 29, 1997, the Company had approximately 400 holders of record of its Common Stock.

(c) Dividends. The Company has not declared cash dividends on its Common Stock since its inception and the Company does not anticipate paying any dividends in the foreseeable future. The Company is currently precluded from paying dividends on its Common Stock by the Convertible Debenture Agreement.

Recent Sales of Unregistered Securities. In December 1997, the Company sold Heng Fung Finance a ten year $4,000,000 10% Convertible Debenture that is convertible into shares of Common Stock of the Company at a price of $.53125 per share until December 15, 2007, unless sooner paid. Upon regulatory approval of a change in the beneficial ownership of 25% of RAF, Heng Fung Finance will also have the option to purchase a $11,000,000 10% Convertible Debenture that is convertible into shares of Common Stock of the Company at price of $.61 per share until ten years from the date of issue unless sooner paid. The proceeds from the $4,000,000 10% Convertible Debenture were advanced to Fronteer Capital, Inc. and will be used for working capital. The sale of the $4,000,000 10% Convertible Debenture was made in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended (Act). The purchaser had access to full information concerning the Company and represented that it purchased the $4,000,000 10% Convertible Debenture for the purchaser's own account and not for the purpose of distribution. The $4,000,000 10% Convertible Debenture contains a restrictive legend advising that the securities represented by the $4,000,000 10% Convertible Debenture may not be offered for sale, sold or otherwise transferred without having first been registered under the Act or pursuant to an exemption from registration under the Act. No underwriters were involved in the transaction.

ITEM 6. SELECTED FINANCIAL DATA

On February 25, 1997, McLeod purchased the primary operating assets of the directory business for approximately $2,800,000 including the application of a $500,000 nonrecourse loan from McLeod in accordance with the Option Agreement. On the same date, another third party purchased another directory from the Company for approximately $202,000 in cash. On September 15, 1997, a third party purchased all of the primary operating assets of FMG for approximately $421,000. As a result of these sales, the directory business and FMG have been accounted for as discontinued operations in the consolidated financial statements.

On July 23, 1996, the Company sold RAF's Clearing Operation to MSI for $3,000,000, including a $1,500,000 contingency in the form of a forgivable loan, plus the net assets of the Clearing Operation.

On April 26, 1995, the Company acquired the assets of RAFCO, Ltd. (RAFCO). As a result of this transaction, the former shareholders of RAFCO, acquired a 55% interest in the Company. Accordingly, the transaction was accounted for as a "reverse acquisition" of the Company by RAFCO using the purchase method of accounting and the Company's assets and liabilities prior to the transaction were adjusted to their fair market value as of the date of the business combination. The Company's operations are included in the consolidated financial statements beginning May 1, 1995, the effective date of the business combination. As a result of the reverse acquisition accounting, historical financial statements presented for periods prior to the business combination date include the consolidated assets, liabilities, equity, revenues, and expenses of RAFCO only.

The following is selected consolidated financial information (in thousands, except per share data) for the Company as of September 30, 1997, 1996 and 1995 and for the years ended September 30, 1997 and 1996 and the nine months ended September 30, 1995, and for RAFCO as of December 31, 1994 and 1993, and for each of the years in the two year period ended December 31, 1994. This information should be read in conjunction with Item 1 and the consolidated financial statements appearing in Item 8 of this Annual Report.

	Year ended September 30,		Nine months ended	Year ended December 31,	
	1997	1996	September 30, 1995	1994	1993
Revenue	$25,100	21,369	13,153	16,259	18,157
Loss from continuing operations	(1,990)	(990)	(806)	(353)	(23)
Loss on sale of discontinued operations, net of income tax benefit of $410	(667)	---	---	---	---
Loss from discontinued operations, net of income tax benefit of $412	(799)	(1,369)	(1,086)	---	---
Net loss applicable to common shareholders	(3,456)	(2,418)	(1,925)	(353)	(23)
Loss per common share:					
Continuing operations	(.12)	(.07)	(.09)	**	**
Discontinued operations:					
Loss on sale of operations	(.04)	---	---	---	---
Loss on discontinued operations	(.05)	(.10)	(.11)	---	---
Total	$(.21)	(.17)	(.20)	**	**

	September 30,			December 31,	
	1997	1996	1995	1994	1993
Working capital	$3,595	4,991	4,130	$2,443	$3,292
Total assets	11,003	14,524	17,282	22,326	95,700
Total long term liabilities	2,732	3,492	3,269	3,164	3,530
Total stockholders' equity	3,352	6,086	5,442	1,188	1,594

**Due to the limited number of shares outstanding during 1993 and 1994, presentation of earnings per share is not meaningful.

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

Results of Operations

Year ended September 30, 1997 compared to year ended September 30, 1996

Revenues for the year ended September 30, 1997 were $25,100,414 compared to revenues for the year ended September 30, 1996 of $21,369,021. This represents an increase of $3,731,393 or 18%. The increase is primarily due to the increase in brokerage commissions and investment banking activity which increased to $16,783,271 from $13,101,204, an increase of $3,682,067 or 28%. Brokerage commission increases are due to new branch office openings. During the fiscal year three new branches in Dallas, Texas; Las Vegas, Nevada; and West Palm Beach, Florida were opened. Currently there are 53 registered representatives working out of these offices. In addition, two branches that were opened during the year ended September 30, 1996 in Chicago, Illinois and Metairie, Louisiana were open for the full year. Subsequent to year end, RAF opened an office in Kansas City, Missouri which currently has approximately eight registered representatives.

Computer hardware and software revenues were $6,982,143 for the year ended September 30, 1997 compared to $6,538,540 for the prior year. This represents an increase of $443,603 or 7%. The increase primarily is due to the increased efforts from management of Secutron to generate new business, including efforts in providing Internet services as an Internet Service Provider.

Broker/dealer commissions expense for the year ended September 30, 1997 were $10,268,764 compared to $8,171,445 for the prior year. The increase represents $2,097,319 or 26% which correlates to the increase in brokerage commissions and investment banking revenues.

Computer cost of sales for the year ended September 30, 1997 were $5,767,136 compared to $5,381,097 for the year ended September 30, 1996. This is an increase of $386,039 or 7% which correlates to the increase in computer hardware and software revenues.

General and administrative expenses were $11,252,747 for the year ended September 30, 1997 compared to $9,997,828 for the prior year. The increase, $1,254,919 or 13%, is primarily due to the increased expenses in opening and operating new RAF branch offices.

Depreciation and amortization for the year ended September 30, 1997 was $338,945 compared to $396,203 for the prior year. The decrease reflects certain assets being fully depreciated in the prior and current years.

Interest income for the year ended September 30, 1997 was $150,203 compared to $642,274 for the prior year. The decrease reflects the sale of the Clearing Operation in July 1996. Interest expense was $27,940 for the year ended September 30, 1997 compared to $225,089 for the prior year. This decrease is also partially attributable to the sale of the Clearing Operation as well as decreased debt balances.

Equity in loss of affiliate of $22,580 for the year ended September 30, 1997 related to the Company's 20% interest in the operating activity of MSI. The minority interest in earnings of $11,331 represents the minority shareholders' interest in earnings of Secutron for the year ended September 30, 1997.

The loss on sale of discontinued operations resulted from the loss on the sale of the primary operating assets of the directory business net of an income tax benefit.

The loss from discontinued operations represents the operating results for the year for the directory business, FMG and FPG.

Year Ended September 30, 1996 Compared to Nine Months Ended September 30, 1995

Revenues for the year ended September 30, 1996 were $21,369,021 compared to revenues for the nine months ended September 30, 1995, of $13,152,565. Besides the increased number of months of activity for the year ended September 30, 1996, the increase of $8,216,456 or 63% is due to increased revenues from computer hardware and software operations and an increase in broker/dealer commissions.

Brokerage commissions for the year ended September 30, 1996 were $10,825,987, an increase of $3,774,621 or 53% over brokerage commissions for the nine months ended September 30, 1995. Besides the increased number of months of activity for the year ended September 30, 1996, the increase is primarily due to the opening of two new branch offices in Chicago, Illinois and Metairie, Louisiana during the second quarter of fiscal year 1996.

Computer hardware and software revenues for the year ended September 30, 1996 were $6,538,540, up $3,302,384 or 102% over revenues for the nine months ended September 30, 1995. Besides the increased number of months of activity for the year ended September 30, 1996, the increase is in large part due to increased work as a result of the sale of the Clearing Operation, including programming and other projects for MSI.

Broker/dealer commissions expense for the year ended September 30, 1996 of $8,171,445 is up $3,122,237 or 62% over the nine months ended September 30, 1995. Besides the increased number of months of activity for the year ended September 30, 1996, this correlates directly with the increase in brokerage commission revenues as a result of the new branch office openings.

Computer cost of sales of $5,381,097 is up $2,450,900 or 84% over the nine months ended September 30, 1995. Besides the increased number of months of activity for the year ended September 30, 1996, this is consistent with the increase in computer hardware and software revenues.

General and administrative expenses for the year ended September 30, 1996 of $9,997,828 increased $4,138,701 or 71% over the nine months ended September 30, 1995. Besides the increased number of months of activity for the year ended September 30, 1996, this increase results from the opening of the Chicago, Illinois and Metairie, Louisiana offices and provisions in the consolidated financial statements for legal arbitration judgments awarded against RAF in December 1996 of approximately $450,000.

Depreciation and amortization for the year ended September 30, 1996 was $396,203, up $84,416 or 27% compared to the nine months ended September 30, 1995. Besides the increased number of months of activity for the year ended September 30, 1996, the increase is due to the opening of the Chicago, Illinois and Metairie, Louisiana offices.

The gain on the sale of the Clearing Operation of $1,332,974 relates to the sale of the Clearing Operation and is net of commission and transaction costs of $167,026.

Interest income for the year ended September 30, 1996 of $642,274 is comparable to $480,225 for the nine months ended September 30, 1995, given the increased number of months in the amount for the year ended September 30, 1996.

Interest expense for the year ended September 30, 1996 of $225,089 decreased compared to the prior year due to the decrease in long-term debt, excluding the $1,500,000 MSI forgivable loan. Interest is not being accrued on the forgivable loan as management expects forgiveness.

Equity in loss of affiliate of $19,330 for the year ended September 30, 1996 relates to the Company's 20% interest in the operating activity of MSI since the sale of the Clearing Operation. The minority interest in earnings of $87,626 represents the minority shareholders' interest in the earnings of Secutron for the year ended September 30, 1996.

Liquidity and Capital Resources

The Company, as of September 30, 1997, had $2,080,722 in cash and cash equivalents and $3,595,308 in working capital. Its current ratio is 1.8:1. The Company's Private Placement provided net proceeds of $722,317 in 1997. These proceeds along with proceeds from the sale of the Clearing Operation of $1,048,075 and $2,498,472 from the sale of discontinued operations and other investment activity from discontinued operations were used to fund operating activities of $2,263,060, purchase property and equipment of $417,476, repay long-term borrowings of $1,207,802 and related party borrowings of $190,900.

Most of the Company's assets are highly liquid, consisting mainly of assets that are readily convertible into cash. These assets are financed by the Company's equity capital, long-term debt and accounts payable. Changes in the amount of securities owned by the Company and receivables from brokers or dealers and clearing organizations directly affect the amount of the Company's financing requirements.

RAF is subject to the Commission's net capital rules. RAF has historically operated well in excess of the minimum requirements. At September 30, 1997, RAF's net capital exceeded the Commission's minimum requirement by $1,854,023. Continued expansion is not expected to have a significant adverse impact on liquidity or capital.

A possible change in control could occur in January 1998 as discussed in Item 1 and elsewhere in Note 3 to the consolidated financial statements. $4,000,000 in working capital has already been provided to the Company in conjunction with this possible change in control. Another $11,000,000 is anticipated if the change in control occurs.

Management believes that the Company's cash flows from operations and cash on hand are sufficient to fund its debt service, expected capital costs and other liquidity requirements for the foreseeable future.

Inflation

The effect of inflation on the Company's operations is not material and is not anticipated to have any material effect in the future.

Recently Issued Financial Accounting Standards

In December 1996, the Financial Accounting Standards Board (FASB) issued Statement No. 127, "Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125 *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.*" Statement 127 defers the effective date of provisions of Statement 125 relating to the recognition of collateral, securities lending transactions, repurchase agreements, dollar-rolls, and similar transactions until January 1, 1998. The Company does not believe that the adoption of this statement will have a material effect on its consolidated financial position or results of operations and will adopt it when required.

In February 1997, the FASB issued Statement No. 128, "Earnings Per Share." Statement 128 simplifies the calculation of earnings per share (EPS) and makes it comparable to international EPS standards. Statement 128 is effective for both interim and annual periods ending after December 15, 1997 and earlier application is not permitted. The Company does not believe that the adoption of this statement will have a material effect on its calculation of earnings per share and will adopt it when required.

In June 1997, the FASB issued Statement No 131, "Disclosures about Segments of an Enterprise and Related Information," which is effective for annual and interim periods ending after December 15, 1997. This statement established standards for the method that public entities use to report selected information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to stockholders. It also establishes standards for related disclosures about products and services, geographical areas and major customers. The Company does not believe that the adoption of the statement will have a material effect on the disclosures in its consolidated financial statements and will adopt it when required.

General

The foregoing discussion contains certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. These statements include the plans and objectives of management for future operations, including plans and objectives relating to expansion and the general development of the business of the Company. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although the Company believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Annual Report on Form 10-K will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved.

The Company does not anticipate material costs or expenses related to Year 2000 issues which arise as a result of most computer programs having been written using two digits rather than four digits to define the applicable year. The Company's majority owned subsidiary, Secutron, supports the Company's accounting and customer related accounting and reporting systems. Secutron's current products include systems that are Year 2000 compatible. Although RAF's current general ledger is not Year 2000 compatible, RAF intends to change, at no material expense, to Secutron's more recent general ledger system during the year ended September 30, 1998, which, as previously stated, is Year 2000 compatible. RAF's broker/dealer securities business is primarily conducted through its clearing firm Correspondent Services Corporations (CSC), which if not Year 2000 compatible, may be detrimental to RAF's broker/dealer business activities. If so, RAF may be forced to change clearing firms, the cost of which should not be material.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements and Supplementary Data that constitute Item 8 are included at the end of this report beginning on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no changes in accountants or disagreements of the type required to be reported under this item between the Company and its independent accountants during the fiscal years ended September 30, 1997 or 1996.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a) Identification of Directors. The present term of office of each director normally would expire at the next annual meeting of shareholders and when his successor has been elected and qualified. The name, position with the Company, age of each director and the period during which each director has served are as follows:

Name and Position in the Company	Age	Director Since
Robert A. Fitzner, Jr. Chairman and Director	52	1995
Dennis W. Olson President and Director	57	1977
Robert L. Long Secretary and Director	64	1995
Fai H. Chan Director	53	December 1997
Robert H. Trapp Director	42	December 1997

In accordance with the Convertible Debt Agreement, and as requested by Heng Fung Finance, the number of directors on the Company's Board of Directors was increased from three to five and Fai H. Chan and Robert H. Trapp were appointed to the Board of Directors of the Company. In addition, after regulatory approval of a change in the beneficial ownership of 25% or more of RAF, Heng Fung Private has agreed to purchase 3,556,777 shares of the outstanding Common Stock of the Company from Robert A. Fitzner, Jr., in which case, the three directors of the Company not appointed at the request of Heng Fung Finance will resign as directors of the Company and the two remaining directors appointed at the request of Heng Fung Finance will be able to fill the vacancies created by such resignations. Heng Fung Finance has indicated that one of the new directors would be Kwok Jen Fung who is 48 years old and has been a practicing solicitor in Singapore for at least the last five years and a director of Heng Fung Holdings Company Limited since May 1995. Otherwise, the present term of each director will expire at the next annual meeting of shareholders and when his successor has been elected and qualified.

b) Identification of Executive Officers. Each executive officer holds office until his successor is duly appointed and qualified, until his death or resignation or until he shall be removed in the manner provided by the Company's Bylaws. The Company's current executive officers, their ages, positions with the Company and periods during which they served are as follows:

Name of Executive Officer and Position in Company	Age	Officer Since
Robert A. Fitzner, Jr. Chairman of the Board of the Company President of RAF	52	1996 1984*
Dennis W. Olson President of the Company	57	1977
Robert L. Long Secretary of the Company Senior Vice President of RAF	64	1996 1990*

*Messrs. Fitzner and Long have been officers of RAF for the periods indicated.

It is anticipated that if Heng Fung Finance purchases the 3,556,777 shares of the Company's Common Stock as described above, that the directors of the Company will appoint new officers for the Company including Fai H. Chan, who would become the Chairman of the Board of Directors and President of the Company, and Robert H. Trapp, who would become Secretary of the Company.

There was no arrangement or understanding between any executive officer and any other person pursuant to which any person was selected as an executive officer.

(c) Identification of Certain Significant Employees. Not applicable.

(d) Family Relationships. Not applicable.

(e) Business Experience.

Background. The following is a brief account of the business experience during the past five years of each director and executive officer of the Company:

Name of Director or Officer	Principal Occupation During the Last Five Years
Robert A. Fitzner, Jr.	President and Chief Executive Officer of RAF or RAFCO since 1984, Director of RAF since 1986, and Director of Secutron since 1986. Mr. Fitzner has been a Director of the Company since May of 1995, when RAF became a wholly owned subsidiary of the Company, and became the Chairman of the Board of Directors of the Company in February 1996.
Dennis W. Olson	President and a Director of the Company since 1977.
Robert L. Long	Senior Vice President of the Corporate Finance Division of RAF since 1990. Mr. Long became a Director of the Company in May of 1995, when RAF became a wholly owned subsidiary of the Company, and became the Secretary of the Company in February 1996.
Fai H. Chan	Director of the Company since December 26, 1997. Mr. Chan is the Chairman and Managing Director of Heng Fung Holdings Company Limited and has been a Director of Heng Fung Holdings Company Limited since September 2, 1992. Mr. Chan was elected Managing Director of Heng Fung Holdings Company Limited on May 1, 1995 and Chairman on June 3, 1995. Heng Fung Holdings Company Limited's primary business activities include real estate investment and development, merchant banking, the manufacturing of building material machinery, pharmaceutical products and retail fashion. Mr. Chan has been the President and a Director of Heng Fai China Industries, Inc., which owns various industrial companies, since June 1994 and Chief Executive Officer thereof since June 1995; a Director of Intra-Asia Equities, Inc., a merchant banking company, since June 1993; Executive Director of Hua Jian International Finance Co., Ltd. from December 1994 until December 1996; and Chairman of the Board of Directors of American Pacific Bank since March 1988 and Chief Executive Officer thereof between April 1991 and April 1993.

Robert H. Trapp — Director of the Company since December 26, 1997. Mr. Trapp has been a director of Heng Fung Holdings Company Limited since May 1995; a Director of Inter-Asia Equities, Inc., a merchant banking company, since February 1995 and the Secretary thereof since April 1994; Director, Secretary and Treasurer of Heng Fai China Industries, Inc., which owns various industrial companies; and the Canadian operational manager of Pacific Concord Holding (Canada) Ltd. of Hong Kong, which operates in the consumer products industry, from July 1991 until November 1997.

Directorships. No director of the Company is a director of any other entity that has its securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, except as identified previously.

(f) **Involvement in Certain Legal Proceedings.** No event required to be reported hereunder has occurred during the past five years.

(g) **Promoters and Control Persons.** Disclosure under this paragraph is not applicable to the Company.

Section 16(a) Beneficial Ownership Reporting Compliance

To the Company's knowledge, during the Company's fiscal year ended September 30, 1997, there were no directors or officers or more than 10% shareholder of the Company that failed to timely file a Form 3, Form 4 or Form 5.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation Table

The following table provides certain information pertaining to the compensation paid by the Company and its subsidiaries during the Company's last three fiscal years for services rendered by Robert A. Fitzner, Jr., the Chairman of the Board of the Company and the President of RAF, Dennis W. Olson, the President of the Company, and Robert L. Long, the Secretary of the Company and the Senior Vice President of RAF. RAF became a subsidiary of the Company in April of 1995.

	Annual Compensation				Long Term Compensation Awards	
Name and Principal Position	Period Ended September 30,	Salary($)	Bonus($)	Other Annual Compensation ($)	Securities Underlying Options (#)	All Other Compensation ($)
Robert A. Fitzner, Jr. Chairman of the Board of Directors, and President of RAF	1997	172,124(a)	30,000	0	0	1,291(d)
	1996	162,000(a)	40,000	0	0	76,300(d)
	1995	162,000(a)	40,000	0	0	1,270(d)
Dennis W. Olson President of the Company	1997	121,160	0	(b)	100,000	0
	1996	123,500	9,000	(b)	0	0
	1995	119,710	10,000	(b)	0	100,000(d)
Robert L. Long Secretary of the Company, and Senior Vice President of RAF	1997	414,103(c)	0	0	0	0
	1996	272,612(c)	0	0	800,000	667,236(d)
	1995	320,500(c)	0	0	0	0

(a) Includes $30,000 paid as a directors fee to Mr. Fitzner by Secutron, 60% of the outstanding stock of which is owned by the Company.

(b) The Company provided Mr. Olson with certain other benefits; however, these benefits did not exceed 10% of his aggregate cash compensation for each of the periods indicated.

(c) Officers of the Company are frequently responsible for conducting transactions for which they receive commission and/or fee compensation. In Mr. Long's case, total annual compensation is and has been transactional commissions and/or fees. During 1997, $131,377 of fees were paid in the form of a portion of RAF's proprietary inventory positions. The inventory positions were transferred to Mr. Long at market value.

(d) Mr. Olson received a commission as a result of the sale of the directories to McLeod. Mr. Fitzner received a commission as a result of the sale of the Clearing Operation and has received an annual Company matching contribution as a result of his contribution to a savings plan. Mr. Long received commissions as a result of the acquisition of the assets of RAFCO and the sale of the Clearing Operation. Mr. Long also realized a profit of $417,236 as a result of the exercise of warrants of companies that he received as compensation for underwritings by RAF. This amount represents the difference between the exercise price of the warrants and the sales price of the underlying stock.

Stock Option Plans

Effective September 30, 1988, as amended September 10, 1996, the Company adopted an Incentive Stock Option Plan (Plan), in order to attract and retain the best available personnel for positions of responsibility, to provide additional incentive to employees and consultants of the Company and to promote the success of the Company's business. The Plan authorizes the granting of options to officers, directors, and employees of the Company to purchase 600,000 shares of the Company's Common Stock subject to adjustment for various forms of recapitalization that may occur. No options may be granted after September 30, 1998, and the fair value of options granted to each optionee cannot exceed $100,000 per year.

An employee must have six months of continuous employment with the Company before he or she may exercise an option granted under the Plan. Options under the Plan may not be granted at less than fair market value at the date of the grant. Options granted under the Plan are nonassignable and terminate three months after the optionee's employment ceases, except in the case of employment termination due to disability of the optionee, in which event the option expires twelve months from the date employment ceases. The Plan is administered by the Company's Board of Directors or by a committee selected by the Company's Board of Directors.

As of September 30, 1997, options to purchase 457,000 shares of the Company's Common Stock at $.625 per share through September 8, 2006, were outstanding and exercisable under the Plan.

On April 8, 1996, as amended on September 10, 1996, the Company adopted the 1996 Incentive and Nonstatutory Option Plan (1996 Plan) in order to attract and retain the best available personnel for positions of responsibility, to provide additional incentive to employees and consultants of the Company and to promote the success of the Company's business. The 1996 Plan authorizes the granting of options to officers, directors, employees and consultants of the Company to purchase 1,250,000 shares of the Company's Common Stock subject to adjustment for various forms of recapitalization that may occur. No option may be granted after April 8, 2006.

Under the 1996 Plan, incentive stock options may only be granted to employees and nonstatutory stock options may be granted to employees and nonemployees. Options may not be granted at less than fair market value at the date of the grant. Options granted are nonassignable and terminate three months after the optionee's employment ceases, except in the case of employment termination due to disability of the optionee, in which event the option expires twelve months from the date employment ceases. The 1996 Plan is administered by the Company's Board of Directors or by a committee selected by the Company's Board of Directors.

Effective September 9, 1996, the Company granted under the 1996 Plan, to employees, options to purchase 1,250,000 shares at $.625 per share through September 9, 2009. As of September 30, 1997, options to purchase 1,240,000 shares were outstanding and 810,000 were exercisable under the 1996 Plan.

The Company adopted the September 1996 Incentive and Nonstatutory Option Plan (September 1996 Plan) in order to attract and retain the best available personnel for positions of responsibility, to provide additional incentive to employees and consultants of the Company and to promote the success of the Company's business.

The September 1996 Plan authorizes the granting of options to purchase 2,500,000 shares of the Company's Common Stock subject to adjustment for various forms of recapitalization that may occur. The terms and conditions of the September 1996 Plan are similar to that discussed for the 1996 Plan.

Effective September 10, 1996, the Company granted under the September 1996 Plan, to employees, options to purchase 1,243,000 shares of the Company's Common Stock at $.625 per share through December 31, 2009. As of September 30, 1997, options to purchase 1,228,000 were outstanding and 748,000 shares were exercisable under the September 1996 Plan. On December 10, 1997, 370,000 options were granted from this plan at an exercise price of $.625. These options are exercisable and expire December 9, 2007.

As of September 30, 1997, the Company had granted 340,000 nonqualified stock options to certain officers and employees at an exercise price of $.95 per share. These options are exercisable and expire August 25, 1998.

Employee Stock Ownership Plan

On September 22, 1989, the Company's Board of Directors adopted an Employee Stock Ownership Plan (ESOP) which provides in pertinent part that the Company may annually contribute tax deductible funds to the ESOP, at its discretion, which are then allocated to the Company's employees based upon the employees' wages in relation to the total wages of all employees in the ESOP.

The ESOP provides that more than half of the assets in the ESOP must consist of the Company's Common Stock. The ESOP is administered by a board of trustees under the supervision of an advisory committee, both of which are appointed by the Company's Board of Directors. As of December 29, 1997, the ESOP owned 517,900 shares of the Company's Common Stock and no other marketable securities. Employees become vested in the shares of the Company's Common Stock after six years in the ESOP. Executive officers participate in the ESOP in the same manner as other employees. Employees are 20% vested after two years, vesting an additional 20% each year up to 100% after six years in the ESOP.

Savings Plans

The Company has three retirement saving plans covering all employees who are over 21 years of age and have completed one year of eligibility service. The plans meet the qualifications of Section 401(k) of the Internal Revenue Code. Under the plans, eligible employees can contribute through payroll deductions up to 15% of their base compensation. The Company makes a discretionary matching contribution equal to a percentage of the employee's contribution. Officers participate in the plans in the same manner as other employees. One of the Company's savings plans owns 170,748 shares of the Company's Common Stock.

The Company has no other bonus, profit sharing, pension, retirement, stock purchase, deferred compensation, or other incentive plans.

Option Grants In Last Fiscal Year

The following table sets forth information concerning the grant of an option by the Company to Dennis W. Olson during the year ended September 30, 1997. No options were granted by the Company to Robert A. Fitzner, Jr. or to Robert L. Long during the year ended September 30, 1997.

	Individual Grants				
Name	Number of Securities Underlying Options Granted(#)	%of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/Sh)	Expiration Date	Grant Date Present Value
Dennis W. Olson	100,000(1)	29.4%	$0.95	8/25/98	$0(2)

(1) The options granted were extensions of options that were previously granted and that were due to expire on August 25, 1997.

(2) The options were extended at the same price at which they were previously granted, $.95, which on the date of the extension was above market value. Given the volatility in the price of the Company's Common Stock, the current market value and the expiration date, the Company does not believe the options had any value on the date they were extended.

Aggregated Option Exercises in Last Fiscal Year or Fiscal Year End Option Values

The following table sets forth information with respect to Dennis W. Olson and Robert L. Long concerning the unexercised options held by them as of September 30, 1997. Neither Dennis W. Olson nor Robert L. Long exercised any options during the year ended September 30, 1997. Robert A. Fitzner, Jr. does not own any options to purchase securities of the Company.

	Number of Securities Underlying Unexercised Options at September 30, 1997(#)		Value of Unexercised In-the-Money Options at September 30, 1997($)(1)	
Name	Exercisable	Unexercisable	Exercisable	Unexercisable
Dennis W. Olson	100,000	-0-	-0-	-0-
Robert L. Long	320,000	480,000	-0-	-0-

(1) Value of unexercised in-the-money options is the market price of the underlying shares of Common Stock at September 30, 1997, less the exercise price of the options.

Compensation of Directors-Standard Arrangement

Directors of the Company receive no compensation for their services as directors. Directors of Secutron, including Robert A. Fitzner, Jr., who are not also officers or employees of Secutron received $30,000 during the year ended September 30, 1997.

Employment Contracts and Termination of Employment and Change-In-Control Arrangements

There is no employment contract between the Company or RAF and Robert A. Fitzner, Jr. Robert L. Long and RAF have an agreement whereby Mr. Long receives commissions based on a percentage of the dollar amount of his clients' transactions and the dollar amount of all RAF corporate finance transactions and he receives one fourth of all warrants received by RAF as compensation for corporate finance transactions. The Company has an employment contract with Mr. Olson that expires January 1, 1998 with no further obligation beyond that date.

Compensation Committee Interlocks and Insider Participation

The Company has no compensation committee and no officer or employee or former officer of the Company or any of its subsidiaries during the fiscal year ended September 30, 1997, participated in deliberations with the Company's Board of Directors concerning executive officer compensation.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(a)(b) Security Ownership of Certain Beneficial Owners and Management. The following table sets forth as of December 29, 1997, the number of shares of the Company's outstanding Common Stock beneficially owned by each of the Company's current directors and officers, sets forth the number of shares of the Company's Common Stock beneficially owned by all of the Company's current directors and officers as a group and sets forth the number of shares of the Company's Common Stock owned by each person who owned of record, or was known to own beneficially, more than 5% of the Company's outstanding shares of Common Stock respectively:

Name and Address of Beneficial Owner or Name of Officer or Director	Amount and Nature of Beneficial Ownership(l)	Percent of Class
Robert A. Fitzner, Jr.	4,236,444 (2)	25.1%
Robert L. Long	530,000 (3)	3.1%
Dennis W. Olson	683,925 (4)	3.9%
Fai H. Chan	30,255,338 (5)	71.3%
Robert H. Trapp	0 (6)	0%
All officers and directors as a group (5 persons)	32,148,930 (2)(5)(7)(8)	74.7%
Heng Fung Holdings Company Limited Lippo Protective Tower 10th Floor 231-235 Gloucester Road Wanchai, Hong Kong	30,255,338 (2)(8)	71.3%

(1) Except as indicated below, each person has the sole voting and investment power over the shares indicated.

(2) Includes shares underlying options Mr. Fitzner has given to two persons to purchase 300,000 shares from Mr. Fitzner's personal holdings. After regulatory approval of a change in beneficial ownership of 25% or more of RAF, 3,556,777 shares are to be purchased from Mr. Fitzner by Heng Fung Private.

(3) Includes 480,000 shares underlying stock options currently exercisable, or exercisable within 60 days.

(4) Includes 100,000 shares of Common Stock underlying stock options, 6,534 shares held in the Company's ESOP Plan, 2,172 shares held in the Company's 401(k) Plan, and 70,495 shares underlying Mr. Olson's 50% share in 140,990 shares jointly held by a former employee of the Company.

(5) Consists of shares beneficially owned by Heng Fung Holdings Company Limited. Mr. Chan is an executive officer, a director and an 11.8% shareholder of Heng Fung Holdings Company Limited.

(6) Mr. Trapp is a director of Heng Fung Holdings Company Limited. Mr. Trapp disclaims beneficial ownership of the shares beneficially owned by Heng Fung Holdings Company Limited.

(7) Includes shares underlying the stock options held by Mr. Olson and the options held by Mr. Long

(8) Heng Fung Holdings Company Limited is the parent of Heng Fung Private. Hung Fung Private has purchased 1,136,364 shares of the Company's outstanding Common Stock and has agreed that, upon regulatory approval of change of ownership of 25% or more of RAF, Heng Fung Private would purchase an additional 3,556,777 shares of the Company's outstanding Common Stock from Mr. Fitzner. Also, pursuant to the Convertible Debenture Agreement, Heng Fung Finance, a wholly owned subsidiary of Heng Fung Private, beneficially owns 25,562,197 shares of the Company's outstanding Common Stock.

(c) Possible Change in Control. In December 1997, Heng Fung Private, a wholly owned subsidiary of Heng Fung Holdings, a public company traded on the Hong Kong Stock Exchange, purchased 1,136,364 shares of the Company's outstanding Common Stock from Robert A. Fitzner, Jr. and Robert L. Long, officers and directors of the Company, and from two other employees of RAF. In December 1997, Robert A. Fitzner, Jr. and Heng Fung Private agreed that, upon regulatory approval of a change in the beneficial ownership of 25% or more of RAF, Heng Fung Private would purchase an additional 3,556,777 shares of the Company's outstanding Common Stock from Mr. Fitzner. In conjunction with the transaction, the Company entered into an agreement (Convertible Debenture Agreement) with Heng Fung Finance, a wholly owned subsidiary of Heng Fung Private, pursuant to which the Company agreed to sell to Heng Fung Finance a ten year $4,000,000 10% Convertible Debenture that is convertible at $.53125 per share into 7,529,411 shares of the Company's Common Stock. The purchase of the $4,000,000 Convertible Debenture was completed on December 30, 1997. On December 26, 1997, the Board of Directors of the Company, at the request of Heng Fung Finance made pursuant to the terms of the Convertible Debenture Agreement, appointed two persons selected by Heng Fung Finance to the Board to Directors of the Company. If Heng Fung Private completes the purchase of the additional 3,556,777 shares of the Company's outstanding Common Stock from Mr. Fitzner, the three directors of the Company not appointed at the request of Heng Fung Finance will resign as directors of the Company and the two remaining directors appointed at the request of Heng Fung Finance will be able to fill the vacancies created by such resignations. Further, Heng Fung Holdings, through Heng Fung Private, will then own approximately 27.8% of the Company's outstanding Common Stock and Heng Fung Finance will have the option to purchase an additional ten year $11,000,000 10% Convertible Debenture that will be convertible at $.61 per share into 18,032,786 shares of the Company's Common Stock.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

(a)(b) Transactions With Management and Others and Certain Business Relationships. Certain officers and directors of the Company made personal loans to the Company when it was in need of short term financing. Dennis Olson made personal demand loans to the Company of which $100,000 remained outstanding as of September 30, 1997. The entire balance was paid to Mr. Olson subsequent to September 30, 1997. Interest was paid to Mr. Olson by the Company at 11.5% per annum. All loan transactions with related persons were on terms no less favorable than those available from third parties. Management has no intentions to engage in such borrowing activities in the future.

Dennis W. Olson is currently an officer and a director of the Company. On February 25, 1997, the Company entered into an agreement to sell certain of its directory business assets to McLeod. Pursuant to the agreement with McLeod, Mr. Olson and certain other employees of the Company entered into agreements not to compete with McLeod. As compensation for this noncompetition agreement, McLeod paid Mr. Olson $334,000 in total noncompetition compensation.

Robert L. Long is currently the Secretary and a director of the Company. Mr. Long received consulting fees of $131,377 during the year ended September 30, 1997 in the form of a portion of RAF's inventory positions. The inventory positions were transferred to Mr. Long at market value.

In December 1997, the Company entered into the Convertible Debenture Agreement with Heng Fung Finance described in Item 1 and Item 12 of this Annual Report.

PART IV

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

(a)(1) Financial Statements. (Beginning on page F-1)

Independent Auditors' Report
Consolidated Balance Sheets September 30, 1997 and 1996
Consolidated Statements of Operations-Years ended September 30, 1997 and 1996, Nine months ended September 30, 1995
Consolidated Statements of Changes in Stockholders' Equity-Years ended September 30, 1997 and 1996, Nine Months Ended September 30, 1995
Consolidated Statements of Cash Flows-Years ended September 30, 1997 and 1996, Nine Months Ended September 30, 1995
Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules. None

(b) Current Reports on Form 8-K: During the fiscal quarter ended September 30, 1997, one Current Report on Form 8-K dated September 15, 1997 was filed on September 30, 1997. The Current Report contained information under Item 2 relating to the sale of the primary operating assets of the directory business and FMG as discussed in Item 1 of this Annual Report and pursuant to Item 7 filed exhibits relating to such sale.

(c) Exhibits: Included as exhibits are the items in the Exhibit Index.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

EXHIBITS

TO

FORM 10-K

FRONTEER FINANCIAL HOLDINGS, LTD.

EXHIBIT INDEX

Exhibit 2.1	Asset Sale and Purchase Agreement between McLeod USA Publishing and Fronteer Marketing Group, Inc. and Contact America dated September 15, 1997 (incorporated by reference to Exhibit 2.1 Registrant's Current Report on Form 8-K dated September 15, 1997).
Exhibit 2.2	Sale and Purchase Agreement by and between McLeod USA Publishing Company and Fronteer Financial Holdings, Ltd., Classified Directories, Inc. Larry A. Scott, James Greff, Randall L. Gowin, Edwin Dressler and certain directors, officers and shareholders of Fronteer dated January 27, 1997 (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated February 25, 1997).
Exhibit 2.3	Agreement for Sale and Purchase of Certain of the Business and Assets of RAF Financial Corporation dated January 29, 1996, by and among Fronteer Directory Company, Inc., RAF Financial Corporation and MultiSource Services, Inc. (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated July 23, 1996, as originally filed).
Exhibit 2.4	Stock Subscription Agreement dated January 29, 1996, by and among Fronteer Directory Company, Oppenheimer Funds, Inc. and MultiSource Services, Inc. (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated July 23, 1996, as originally filed).
Exhibit 3.0	Articles of Incorporation of Registrant (incorporated by reference to Exhibit 3.0 to Registrant's Annual Report on Form 10-K for the year ended September 30, 1995).
Exhibit 3.0(i)	Articles of Amendment to the Registrant's Articles of Incorporation dated April 28, 1995 (incorporated by reference to Exhibit 3.0(i) to Registrant's Current Report on Form 8-K dated May 9, 1995).
Exhibit 3.0(ii)	Articles of Amendment to the Registrant's Articles of Incorporation as filed with the Colorado Secretary of State on June 27, 1995 (incorporated by reference to Exhibit 3.0(ii) to Registrant's Annual Report on Form 10-K for the year ended September 30, 1996).
Exhibit 3.2	Restated Bylaws of Registrant adopted February 14, 1996 (incorporated by reference to Exhibit 3.2 to Registrant's Annual Report on Form 10-K for the year ended September 30, 1996).
Exhibit 10.1	Amended and Restated 1988 Incentive and NonStatutory Stock Option Plan as amended September 10, 1996 (incorporated by reference to Exhibit 10.1 to Registrant's Annual Report on Form 10-K for the year ended September 30, 1996).
Exhibit 10.2	Employee Stock Ownership Plan (incorporated by reference to Exhibit 10.2 to Registrant's Annual Report on Form 10-K for the year ended September 30, 1995).
Exhibit 10.3	401(k) Plan and Amendment I thereto (incorporated by reference to Exhibit 10.3 to Registrant's Annual Report on Form 10-K for the year ended September 30, 1995).
Exhibit 10.4	Employees/Officers/Directors Form of Non-Competition Agreement; Covenant Not to Compete and Confidentiality Agreement. (incorporated by reference to Exhibit 2.2 to Registrant's Current Report on Form 8-K dated May 9, 1995).

Exhibit 10.5	Amended and Restated 1996 Incentive and Nonstatutory Stock Option Plan, as amended September 10, 1996 (incorporated by reference to Exhibit 10.6 to Registrant's Annual Report on Form 10-K for the year ended September 30, 1996).
Exhibit 10.6	September 1996 Incentive and Nonstatutory Stock Option Plan (incorporated by reference to Exhibit 10.7 to Registrant's Annual Report on Form 10-K for the year ended September 30, 1996).
Exhibit 10.7	$4,000,000 10% Convertible Debenture Purchase Agreement between the Company and Heng Fung Finance Company Limited dated December 17, 1997.
Exhibit 21	Subsidiaries of the Registrant.
Exhibit 27	Financial Data Schedule

Independent Auditors' Report

The Board of Directors and Stockholders
Fronteer Financial Holdings, Ltd.:

We have audited the accompanying consolidated balance sheets of Fronteer Financial Holdings, Ltd. and subsidiaries as of September 30, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended September 30, 1997 and 1996 and the nine months ended September 30, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fronteer Financial Holdings, Ltd. and subsidiaries as of September 30, 1997 and 1996, and the results of their operations and their cash flows for the years ended September 30, 1997 and 1996 and the nine months ended September 30, 1995, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Denver, Colorado
January 5, 1998

PART I - FINANCIAL INFORMATION

ITEM 8. Financial Statements.

FRONTEER FINANCIAL HOLDINGS, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS	September 30, 1997	1996
CURRENT ASSETS:		
Cash and cash equivalents (Note 1)	$ 2,080,722	2,017,489
Receivables from brokers or dealers and clearing organizations:		
Affiliate	2,045,134	1,444,091
Other	---	166,347
Trade receivables	786,971	1,005,080
Receivable from affiliate	---	1,048,075
Other receivables	2,600	7,125
Securities owned, at market value (Note 4)	871,322	1,882,049
Current portion of long-term notes receivable (Note 5)	---	274,752
Deferred income taxes (Note 9)	---	196,846
Other assets	948,244	140,206
Net current assets of discontinued operations (Note 2)	1,523,706	1,511,395
Total current assets	8,258,699	9,693,455
PROPERTY, FURNITURE AND EQUIUPMENT, net of accumulated depreciation (Note 6)	1,466,814	1,388,283
DEFERRED INCOME TAXES (Note 9)	613,784	471,938
OTHER LONG TERM ASSETS	247,241	55,428
NET LONG TERM ASSETS OF DISCONTINUED OPERATIONS (Note 2)	416,544	2,915,016
Total assets	$11,003,082	14,524,120

(Continued)

FRONTEER FINANCIAL HOLDINGS, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS, CONTINUED

LIABILITIES AND STOCKHOLDERS' EQUITY	September 30, 1997	1996
LIABILITIES:		
Accounts payable, accrued expenses, and other liabilities	$ 3,373,672	2,507,353
Current portion of long-term debt (Note 8)	863,164	1,275,643
Notes payable to related parties	177,000	367,900
Deferred revenue	---	24,400
Income taxes payable	---	96,284
Other current liabilities	249,555	431,004
Total current liabilities	4,663,391	4,702,584
LONG-TERM DEBT, net of current portion (Note 8)	927,843	1,723,166
DEFERRED RENT CONCESSIONS	1,716,529	1,768,827
OTHER LIABILITIES	88,000	---
Total liabilities	7,395,763	8,194,577
MINORITY INTEREST IN SUBSIDIARY	255,328	243,997
STOCKHOLDERS' EQUITY (Note 3):		
Series A voting cumulative preferred stock, authorized 25,000,000 shares, $0.10 par value	---	---
Common stock; authorized 100,000,000 shares, $0.01 par value; 16,871,557 and 16,141,944 shares issued and outstanding as of September 30, 1997 and 1996, respectively	185,167	177,871
Additional paid-in capital	12,230,772	11,515,751
Accumulated deficit	(7,433,714)	(3,977,842)
Unearned ESOP shares (Note 11)	(350,000)	(350,000)
Treasury stock, 1,645,162 shares at cost as of September 30, 1997 and 1996	(1,280,234)	(1,280,234)
Total stockholders' equity	3,351,991	6,085,546
COMMITMENTS AND CONTINGENCIES (Notes 2, 3, 8, 10 and 12)		
Total liabilities and stockholders' equity	$11,003,082	14,524,120

See accompanying notes to consolidated financial statements.

FRONTEER FINANCIAL HOLDINGS, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended September 30, 1997	Year Ended September 30, 1996	Nine Months Ended September 30, 1995
REVENUE:			
Brokerage commissions	$13,779,477	10,825,987	7,051,366
Investment banking	3,003,794	2,275,217	1,340,573
Trading profits, net	274,563	453,144	830,551
Other broker/dealer	774,329	791,001	506,733
Computer hardware and software operations	6,982,143	6,538,540	3,236,156
Other	286,108	485,132	187,186
	25,100,414	21,369,021	13,152,565
COST OF SALES AND OPERATING EXPENSES:			
Broker/dealer commissions	10,268,764	8,171,445	5,049,208
Computer cost of sales	5,767,136	5,381,097	2,930,197
General and administrative	11,252,747	9,997,828	5,859,127
Depreciation and amortization	338,945	396,203	311,787
	27,627,592	23,946,573	14,150,319
Operating loss	(2,527,178)	(2,577,552)	(997,754)
OTHER INCOME (EXPENSE):			
Gain on sale of Clearing Operation (Note 2)	---	1,332,974	---
Interest income	150,203	642,274	480,225
Interest expense	(27,940)	(225,089)	(283,130)
Equity in loss of affiliate	(22,580)	(19,330)	---
	99,683	1,730,829	197,095
Loss before minority interest and income taxes	(2,427,495)	(846,723)	(800,659)
Minority interest in earnings	(11,331)	(87,626)	(5,136)
Loss from continuing operations before income taxes	(2,438,826)	(934,349)	(805,795)
Income tax benefit (expense)	448,524	(55,799)	---
Loss from continuing operations	(1,990,302)	(990,148)	(805,795)
Loss on sale of discontinued operations, net of income tax benefit of $409,692 (Note 2)	(666,522)	---	---
Loss from discontinued operations, net of income tax benefit of $411,631 (Note 2)	(799,048)	(1,368,533)	(1,086,078)
Net loss from discontinued operations	(1,465,570)	(1,368,533)	(1,086,078)
Net loss	(3,455,872)	(2,358,681)	(1,891,873)
Preferred stock dividends	---	(59,061)	(32,812)
Net loss applicable to common shareholders	$(3,455,872)	(2,417,742)	(1,924,685)
Weighted average number of common shares outstanding	16,760,597	13,858,963	9,408,431
Loss per common share:			
Continuing operations	$ (.12)	(.07)	(.09)
Discontinued operations:			
Loss on sale of discontinued operations	(.04)	---	---
Loss from discontinued operations	(.05)	(.10)	(.11)
Total	$ (.21)	(.17)	(.20)

See accompanying notes to consolidated financial statements.

FRONTEER FINANCIAL HOLDINGS, LTD, AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred stock*	Common stock	Additional paid-in capital	Accumulated earnings (deficit)	Unearned ESOP stock	Treasury stock	Total
Balances at December 31, 1994	$823,750	1	99	364,585	---	---	1,188,435
Cancellation of RAFCO preferred and common stock	(823,750)	(1)	(99)	---	---	---	(823,850)
Shares issued in business combination	875,000	125,581	6,431,343	---	(350,000)	(80,234)	7,001,690
Series A preferred stock dividend	---	---	---	(32,812)	---	---	(32,812)
Net loss	---	---	---	(1,891,873)	---	---	(1,891,873)
Balances at September 30, 1995	875,000	125,581	6,431,343	(1,560,100)	(350,000)	(80,234)	5,441,590
Series A preferred stock dividend	---	---	---	(59,061)	---	---	(59,061)
Purchase of subsidiary shares	---	---	(548)	---	---	---	(548)
Purchase and retirement of preferred stock	(875,000)	---	---	---	---	---	(875,000)
Proceeds from shares issued through private placement, net of issuance costs of $614,704	---	52,290	5,084,956	---	---	---	5,137,246
Purchase of common stock	---	---	---	---	---	(1,200,000)	(1,200,000)
Net loss	---	---	---	(2,358,681)	---	---	(2,358,681)
Balances at September 30, 1996	---	177,871	11,515,751	(3,977,842)	(350,000)	(1,280,234)	6,085,546
Proceeds from shares issued through private placement, net of issue costs of $80,257	---	7,296	715,021	---	---	---	722,317
Net loss	---	---	---	(3,455,872)	---	---	(3,455,872)
Balances at September 30, 1997	$ ---	185,167	12,230,772	(7,433,714)	(350,000)	(1,280,234)	3,351,991

*Includes both outstanding preferred shares issued in connection with the RAFCO, Ltd. business combination discussed in Note 2 and the previously issued RAFCO, Ltd. preferred shares canceled in connection with the transaction.

See accompanying notes to consolidated financial statements.

FRONTEER FINANCIAL HOLDINGS, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended September 30, 1997	Year Ended September 30, 1996	Nine Months Ended September 30, 1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss from continuing operations	$(1,990,302)	(990,148)	(805,795)
Adjustments to reconcile net loss from continuing operations to net cash used by continuing operations:			
Gain on sale of Clearing Operation	---	(1,332,974)	---
Depreciation and amortization	338,945	396,203	311,787
Amortization of deferred rent	(52,298)	(25,804)	(14,264)
Provision for bad debts	274,752	---	598,132
Equity in loss of affiliate	22,580	19,330	---
Minority interest in earnings	11,331	87,626	5,136
Other	55,000	(15,886)	93,226
Changes in operating assets and liabilities, net of effects from sale of clearing operation:			
Decrease (increase) in broker/dealer customer receivables, net	---	(5,069,631)	8,700,341
Decrease (increase) in receivables from brokers or dealers and clearing organizations	(434,696)	(1,555,209)	405,265
Decrease (increase) in trade receivables	218,109	(661,822)	122,162
Decrease (increase) in other receivables	4,525	76,210	(83,335)
Decrease (increase) in securities owned, net of securities sold but not yet purchased	837,238	(507,324)	69,590
Decrease (increase) in other assets	(808,038)	(41,155)	60,724
Increase in accounts payable, accrued expenses, and other liabilities	866,319	552,723	289,422
Decrease in broker/dealer customer payables	---	(284,451)	(586,477)
Increase (decrease) in payables to brokers or dealers and clearing organizations	---	7,590,197	(10,282,393)
Increase (decrease) in deferred revenue	(24,400)	24,400	---
Increase (decrease) in income taxes payable	(96,284)	(111,359)	207,643
Increase (decrease) in other current liabilities	(7,960)	375,710	---
Net cash used by continuing operations	(785,179)	(1,473,364)	(908,836)
Net cash used by discontinued operations	(1,477,881)	(364,027)	(1,086,078)
Net cash used by operating activities	(2,263,060)	(1,837,391)	(1,994,914)

(Continued)

FRONTEER FINANCIAL HOLDINGS, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

	Year Ended September 30, 1997	Year Ended September 30, 1996	Nine Months Ended September 30, 1995
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, furniture and equipment	(417,476)	(519,999)	(214,026)
Proceeds from sale of Clearing Operation, net	1,048,075	312,133	---
Proceeds from sale of assets	---	---	331,991
Other investing activities	(214,393)	(116,403)	114,270
Net cash provided by discontinued operations	2,498,472	210,518	536,405
Net cash provided (used) by investing activities	2,914,678	(113,751)	768,640
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings on debt	---	732,110	1,005,606
Net (payments) borrowings from related parties	(190,900)	(181,000)	483,000
Principal payments on borrowings	(1,207,802)	(1,647,233)	(444,605)
Net proceeds from issuance of common stock	722,317	5,137,246	---
Dividends on preferred stock	---	(59,061)	(32,812)
Purchase of preferred stock	---	(875,000)	---
Purchase of common stock	---	(1,200,000)	---
Other financing activities	88,000	---	---
Net cash provided (used) by financing activities	(588,385)	1,907,062	1,011,189
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	63,233	(44,080)	(215,085)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,017,489	2,061,569	2,276,654
CASH AND CASH EQUIVALENTS, END OF PERIOD	$2,080,722	2,017,489	2,061,569

(Continued)

FRONTEER FINANCIAL HOLDINGS, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

SUPPLEMENTAL DISCLOSURES RELATED TO STATEMENTS OF CASH FLOWS

Supplemental disclosures of cash flow information:

	Year Ended September 30, 1997	Year Ended September 30, 1996	Nine months ended September 30, 1995
Cash payments for:			
Interest:			
Continued operations	$ 27,940	225,089	283,130
Discontinued operations	142,508	254,275	115,031
	$ 170,448	479,364	398,161
Income taxes:			
Continued operations	$ 129,831	177,079	135,060
Discontinued operations	---	---	---
	$ 129,831	177,079	135,060
Sale of Clearing Operation (See Note 2):			
Sales Price	---	3,351,352	---
Less: Transition costs	---	(167,026)	---
Receivable from MSI	$1,048,075	(1,048,075)	---
Cash sold	---	(1,824,118)	---
Cash proceeds from sale of Clearing Operation	$1,048,075	312,133	---
McLeod note payable applied against purchase price of directories	$ 500,000	---	---

See Note 2 for additional non-cash investing and financing activities.

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Fronteer Financial Holdings, Ltd. (Fronteer or the Company) and its wholly-owned subsidiaries Fronteer Personnel Services, Inc. (FPS), Fronteer Marketing Group, Inc. (FMG), R A F Financial Corporation (RAF) and RAF Services Inc. of Texas, RAF Services Inc. of Louisiana and RAF Services Inc. (collectively, RAF Services). They also include a majority-owned subsidiary, Secutron Corporation (Secutron). All significant intercompany accounts and transactions have been eliminated in the preparation of the consolidated financial statements.

Fronteer was engaged in the publishing and distribution of telephone directories, while FPS was engaged in employee leasing, and FMG was engaged in the telemarketing business. As discussed in Note 2, these entities sold their primary operating assets during the year ended September 30, 1997. RAF operates as a registered securities broker/dealer. Secutron is engaged in industry specific software development and provides consulting services. RAF Services are subsidiaries established in order to participate in insurance brokerage activities in certain states.

CASH EQUIVALENTS

For purposes of reporting cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash on deposit in unsecured accounts and restricted cash relating to an arbitration matter were $1,740,131 and $110,198, respectively, as of September 30, 1997.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts is maintained at a level adequate to absorb probable losses and credit losses inherent in the business based upon the Company's prior history of credit losses. Management determines the adequacy of the allowance based upon reviews of individual accounts, recent loss experience, current economic conditions, the risk characteristics of the various categories of accounts and other pertinent factors.

SECURITIES

Securities transactions and related revenue and expense are recorded on a settlement-date basis, usually the third business day following the trade date. The effect of using settlement date rather than trade date for the recording of securities transactions is not significant.

In accordance with financial reporting requirements for broker/dealers, the Company's financial instruments, including securities, are all recorded at market value. Securities without a readily available market value are recorded at estimated fair value. Securities are valued monthly and the resulting unrealized appreciation or depreciation is included in operations as trading profit or loss. Realized gains and losses are determined using the average cost method.

Statement of Financial Accounting Standards (FASB) No. 119, *Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments,* prescribes disclosure requirements for transactions in certain derivative financial instruments including futures, forward, swap, and option contracts, and other financial instruments with similar characteristics. Although RAF is authorized to enter into such transactions in the ordinary course of business, and may do so in the future, no such transactions have been consummated.

REVENUE AND COST RECOGNITION

Revenues from advertising sales were recognized at the point individual directories were published. Costs of selling and production were recorded as deferred directory costs when incurred and charged to cost of sales in the period during which the related directory was published. Deferred directory costs were allocated to incomplete directories based upon the relative percentage of contracts sold as of year-end on incomplete directories to total current year earned revenues. Printing costs were charged to cost of sales in the period during which the related directory was published. Costs of distribution were charged to cost of sales as incurred.

Revenue from the sale of computer equipment and installation of software is generally recognized when the equipment and related software is installed and accepted by the customer.

Costs incurred in researching, designing, and planning for the development of new software are included in computer hardware and software operations in the accompanying consolidated financial statements. All amounts are charged to operations as incurred until such time as the costs meet the criteria for capitalization. Such costs have not been significant. General and administrative costs are charged to expenses as incurred.

PROPERTY, FURNITURE AND EQUIPMENT

Property, furniture and equipment are recorded at cost. Additions, renewals and betterments are capitalized, whereas expenditures for maintenance and repairs are charged to expense. The cost and related accumulated depreciation of assets retired or sold are removed from the appropriate asset and depreciation accounts, and the resulting gain or loss is reflected in income.

It is the policy of the Company to provide depreciation using the accelerated and straight-line methods based on the estimated useful lives of the assets as follows:

Description	Estimated useful life
Real Property	40 years
Furniture & Vehicles	3-5 years
Equipment	5-10 years

DIRECTORY PUBLISHING RIGHTS AND AMORTIZATION

Directory publishing rights were amortized over ten years using the straight-line method.

INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

LOSS PER COMMON SHARE

Loss per common share has been calculated based upon the net loss available to common shareholders divided by the weighted average number of common shares outstanding during the period. Common stock equivalents, including outstanding options and warrants, are considered in determining the weighted average number of common shares outstanding during the period unless antidilutive.

ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, *Disclosure about Fair Value of Financial Instruments,* requires all entities to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the consolidated balance sheets. The carrying amounts as of September 30, 1997 and 1996 for financial instruments approximate their fair values due to the short maturity of these instruments or because the related interest rates approximate current market rates.

FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

As a securities broker/dealer, RAF is engaged in various securities trading and brokerage activities. A portion of RAF's transactions are collateralized and are executed with and on behalf of institutional investors including other broker/dealers. RAF's exposure to credit risk associated with the nonperformance of these customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile trading markets which may impair the customers' ability to satisfy their obligations to RAF. RAF's principal activities are also subject to the risk of counterparty nonperformance.

RECLASSIFICATIONS

Certain reclassifications have been made to prior year's consolidated financial statements to conform to current year's presentation.

RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

In December 1996, the Financial Accounting Standards Board (FASB) issued Statement No. 127, "Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125 *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.*" Statement 127 defers the effective date of provisions of Statement 125 relating to the recognition of collateral, securities lending transactions, repurchase agreements, dollar-rolls, and similar transactions until January 1, 1998. The Company does not believe that the adoption of this statement will have a material effect on its consolidated financial position or results of operations and will adopt it when required.

In February 1997, the FASB issued Statement No. 128, "Earnings Per Share." Statement 128 simplifies the calculation of earnings per share (EPS) and makes it comparable to international EPS standards. Statement 128 is effective for both interim and annual periods ending after December 15, 1997 and earlier application is not permitted. The Company does not believe that the adoption of this statement will have a material effect on its calculation of earnings per share and will adopt it when required.

In June 1997, the FASB issued Statement No 131, "Disclosures about Segments of an Enterprise and Related Information," which is effective for annual and interim periods ending after December 15, 1997. This statement established standards for the method that public entities use to report selected information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to stockholders. It also establishes standards for related disclosures about products and services, geographical areas and major customers. The Company does not believe that the adoption of the statement will have a material effect on the disclosures in its consolidated financial statements and will adopt it when required.

NOTE 2 - DISCONTINUED OPERATIONS AND OTHER SIGNIFICANT BUSINESS ACTIVITIES

DISCONTINUED OPERATIONS

On February 25, 1997, McLeod USA Publishing Company (McLeod, formerly known as Telecom* USA Publishing Company) purchased six yellow page directories located in North Dakota from the Company for approximately $2,800,000. The purchase price was pursuant to an existing option agreement (Option Agreement) between McLeod and the Company and was based on related directory revenues. The purchase price consisted of $2,300,000 in cash and $500,000 in the form of a nonrecourse loan that was applied against the price of the six yellow page directories in accordance with the Option Agreement. On the same date, another third party purchased another directory from the Company for approximately $202,000 in cash. The purchase price was based on related directory revenues. These dispositions represent primarily all of the Company's remaining directory business assets. As such, the Company has discontinued its activities in the directory business.

On September 15, 1997, a third party purchased all of the primary operating assets of FMG for approximately $421,000. The purchase price was based on existing financing arrangements and the cost of anticipated fixed asset upgrades. A portion of the purchase price was paid in the form of a promissory note in the amount of $141,344 to be paid over 28 months at $5,048 per month. The remainder of the purchase price was paid in the form of a promissory note in the amount equal to FMG's cost of anticipated fixed asset upgrades installed in existing telemarketing centers. Monthly payments of principal and interest at 10% of between $3,000 and $8,000 per month will be made through December 2000 at which time the balance will be due and payable to the Company. The third party also assumed leases related to two telemarketing centers in North Dakota with a combined monthly rental of $1,000 and has entered into a three-year lease for approximately 5,500 square feet of space in a building the Company owns in Bismarck, North Dakota for $2,752 per month. Accordingly, the Company has discontinued its activities in the direct marketing business.

Effective April 1, 1997, the Company sold all of its primary operating assets related to FPS. One of the principals is a former employee of the Company. The purchase price was determined by the Board of Directors of the Company and represented an assumption of certain liabilities of FPS by the acquiring entity. The assumed liabilities were reflected at their fair values on the books of FPS and were less than $20,000. Accordingly, the Company has discontinued its activities in the employee leasing business. Separate disclosures of FPS have not been made due to the immateriality of its operations and associated assets and liabilities in relation to the consolidated financial statements. The assets and liabilities and results of operations for FPS are included in the amounts disclosed for the directory business.

Information relating to the loss from discontinued operations is as follows:

	Year Ended September 30,						Nine Months ended September 30,		
	1997			1996			1995		
	Directory business	FMG	Total	Directory business	FMG	Total	Directory business	FMG	Total
Revenue	$4,866,454	364,652	5,231,106	7,100,335	317,549	7,417,884	3,867,409	149,780	4,017,189
Cost of sales and operating expenses	4,733,860	1,580,934	6,314,794	7,587,311	953,122	8,540,433	4,561,466	445,245	5,006,711
	132,594	(1,216,282)	(1,083,688)	(486,976)	(635,573)	(1,122,549)	(694,057)	(295,465)	(989,522)
Non operating costs	(28,848)	(98,143)	(126,991)	(156,877)	(89,107)	(245,984)	(88,234)	(8,322)	(96,556)
Earnings (loss) before income taxes	103,746	(1,314,425)	(1,210,679)	(643,853)	(724,680)	(1,368,533)	(782,291)	(303,787)	(1,086,078)
Income tax benefit (expense)	(35,274)	446,905	411,631	---	---	---	---	---	---
Net earnings (loss) from discontinued operations	$ 68,472	(867,520)	(799,048)	(643,853)	(724,680)	(1,368,533)	(782,291)	(303,787)	(1,086,078)
Loss on sale of discontinued operations, net of income tax benefit of $409,692	$(458,181)	(208,341)	(666,522)	---	---	---	---	---	---

The net assets and liabilities of the discontinued operations included in the accompanying consolidated balance sheets are as follows:

	Year Ended September 30,					
	1997			1996		
	Directory business	FMG	Total	Directory business	FMG	Total
Current assets:						
Cash	$ 140,939	(16,323)	124,616	47,606	5,225	52,831
Trade receivables	1,367,960	103,909	1,471,869	2,289,761	94,562	2,384,323
Allowance for doubtful trade receivables	(122,928)	(34,667)	(157,595)	(59,209)	---	(59,209)
Other receivables	336,726	---	336,726	169,995	---	169,995
Current portion of long-term notes receivable	55,000	66,576	121,576	109,091	6,000	115,091
Deferred directory costs	---	---	---	431,436	---	431,436
Other Assets	236,415	---	236,415	303,069	7,555	310,624
Total current assets	2,014,112	119,495	2,133,607	3,291,749	113,342	3,405,091
Current liabilities:						
Accounts payable, accrued expenses and other liabilities	469,974	29,243	499,217	783,964	114,406	898,370
Current portion of long-term debt	---	69,949	69,949	---	159,565	159,565
Deferred revenue	---	350	350	598,658	---	598,658
Income taxes payable	---	---	---	---	---	---
Other current liabilities	37,818	2,567	40,385	190,766	46,337	237,103
Total current liabilities	507,792	102,109	609,901	1,573,388	320,308	1,893,696
Net current assets (liabilities)	$1,506,320	17,386	1,523,706	1,718,361	(206,966)	1,511,395
Long-term assets:						
Property, furniture and equipment, net	$ 66,570	91,456	158,026	198,880	683,148	882,028
Directory publishing rights and other, net	---	---	---	4,113,793	157,996	4,271,789
Long-term notes receivable	250,000	80,768	330,768	---	---	---
Total long-term assets	316,570	172,224	488,794	4,312,673	841,144	5,153,817
Long-term liabilities:						
Long term debt, net of current portion	---	72,250	72,250	500,000	352,801	852,801
Deferred income taxes	---	---	---	1,386,000	---	1,386,000
Total long term liabilities	---	72,250	72,250	1,886,000	352,801	2,238,801
Net long term assets	$ 316,570	99,974	416,544	2,426,673	488,343	2,915,016

SALE OF CLEARING OPERATION

On July 23, 1996, the Company sold RAF's securities brokerage clearing division (Clearing Operation) to MultiSource Services, Inc. (MSI), a new broker/dealer, for a purchase price of $3,000,000, including a $1,500,000 contingency in the form of a forgivable loan, plus the net assets of the Clearing Operation. MSI was formed by Oppenheimer Funds, Inc. (OFI) for the purpose of acquiring the Clearing Operation, and OFI was to retain 80% of the outstanding common stock of MSI. Fronteer received 20% of the outstanding common stock of MSI. As a result of this transaction, RAF became a fully disclosed clearing correspondent of MSI. The loan of $1,500,000 was recorded as a loan payable to MSI and is forgivable based on MSI's revenues during the 28 months following the closing date. If MSI's revenues exceed $1,250,000 during the 5th through the 16th month following the closing, $750,000 of the loan will be forgiven. If MSI's revenues exceed $1,750,000 during the 17th through the 28th month following the closing, the remaining $750,000 will be forgiven. To the extent that such revenue targets are not met by MSI, the subject portion of the loan or accrued interest will not be forgiven. The loan is payable by the Company on the 30th day after the last day of the 16th and the 28th months following the closing date if the revenue targets are not achieved by MSI. The loan is non-interest bearing if no principal payments are in default. Interest on any amount past due will accrue at the rate of 10% per annum.

During the year ended September 30, 1997, Fronteer and RAF were notified by OFI that a decision had been reached by OFI that MSI and its business were not consistent with the long term business plans of OFI. Subsequently, a new clearing firm was selected for the customer business of RAF, and the customer business previously cleared by MSI was moved to the new clearing firm in October 1997. MSI reached its revenue targets for the first portion of the forgivable loan by October 1997. As a result, the first $750,000 of the $1,500,000 forgivable loan is expected to be forgiven and recognized as income during the year ended September 30, 1998. Fronteer expects cancellation of the second and final portion of the loan plus accrued interest payable in accordance with provisions in the forgivable loan agreement relating to MSI's decision to cease being engaged in the clearing business.

PRIOR BUSINESS COMBINATION

On April 26, 1995, Fronteer entered into a Plan of Reorganization and Exchange Agreement (the Agreement) with RAFCO, Ltd. (RAFCO). Under the Agreement, Fronteer acquired all of the assets of RAFCO in exchange for the assumption by Fronteer of the liabilities of RAFCO and the issuance by Fronteer to RAFCO of 7,223,871 shares of $.01 par value common stock and 87,500 shares of $.10 par value series A voting cumulative preferred stock ($10.00 per share redemption value). RAFCO dissolved as a corporation and distributed Fronteer's common and preferred stock to the shareholders of RAFCO. As a result of the transaction, the former shareholders of RAFCO acquired a 55% interest in Fronteer. Accordingly, the transaction was accounted for as a "reverse acquisition" of Fronteer by RAFCO using the purchase method of accounting and Fronteer's assets and liabilities were adjusted to their market value as of the date of the business combination. Fronteer's operations have been included in the accompanying consolidated financial statements beginning May 1, 1995, the effective date of the transaction. As a result of the reverse acquisition accounting, historical financial statements presented for periods prior to the business combination date include the consolidated assets, liabilities, equity, revenues, and expenses of RAFCO only.

NOTE 3 - STOCKHOLDERS' EQUITY

In December 1997, Heng Fung Capital [S] Private Limited (Heng Fung Private), a wholly owned subsidiary of Heng Fung Holdings Company Limited (Heng Fung Holdings), a public company traded on the Hong Kong Stock Exchange, purchased 1,136,364 shares of the Company's outstanding Common Stock from Robert A. Fitzner, Jr. and Robert L. Long, officers and directors of the Company, and from two other employees of RAF. In December 1997, Robert A. Fitzner, Jr. and Heng Fung Private agreed that, upon regulatory approval of a change in the beneficial ownership of 25% or more of RAF, Heng Fung Private would purchase an additional 3,556,777 shares of the Company's outstanding Common Stock from Mr. Fitzner. In conjunction with the transaction, the Company entered into an agreement (Convertible Debenture Agreement) with Heng Fung Finance Company Limited (Heng Fung Finance), a wholly owned subsidiary of Heng Fung Private, pursuant to which the Company agreed to sell to Heng Fung Finance a ten year $4,000,000 10% Convertible Debenture that is convertible at $.53125 per share into 7,529,411 shares of the Company's Common Stock. The purchase of the $4,000,000 Convertible Debenture was completed on December 30, 1997. On December 26, 1997, the Board of Directors of the Company, at the request of Heng Fung Finance made pursuant to the terms of the Convertible Debenture Agreement, appointed two persons selected by Heng Fung Finance to the Board to Directors of the Company. If Heng Fung Private completes the purchase of the additional 3,556,777 shares of the Company's outstanding Common Stock from Mr. Fitzner, the three directors of the Company not appointed at the request of Heng Fung Finance will resign as directors of the Company and the two remaining directors appointed at the request of Heng Fung Finance will be able to fill the vacancies created by such resignations. Further, Heng Fung Holdings, through Heng Fung Private, will then own approximately 27.8% of the Company's outstanding Common Stock and Heng Fung Finance will have the option to purchase an additional ten year $11,000,000 10% Convertible Debenture that will be convertible at $0.61 per share into 18,032,786 shares of the Company's Common Stock.

On February 16, 1996, the Company commenced a private placement of 6,000,000 shares of its $.01 par value Common Stock at a price of $1.00 per share, and 6,000,000 Class A redeemable common stock purchase warrants at a price of $.10 per warrant (collectively, the Private Placement). The warrants entitle the holder to purchase one share of common stock at $1.50 per share at any time until May 1, 2000. 5,958,658 shares of Common Stock and warrants were issued through the Private Placement for proceeds of $5,859,563, net of issuance costs of $694,961. In addition, the Company issued 595,865 warrants to RAF in accordance with the Private Placement which allows the holder to purchase one share of Common Stock at a price of $1.50 per warrant until May 1, 2000.

The Company has granted options pursuant to three stock option plans, the Incentive Stock Option Plan, (1988 Plan), the 1996 Incentive and Nonstatutory Option Plan (1996 Plan), and the September 1996 Incentive and Nonstatutory Option Plan (September 1996 Plan). Options were granted to certain officers and employees of the Company in accordance with the criteria of each individual plan at an exercise price of $.625 per share. 2,015,000 options are exercisable as of September 30, 1997. 320,000, 320,000 and 270,000 options become exercisable during the years ended September 30, 1998, 1999 and 2000, respectively. On December 10, 1997, in accordance with prior agreements, 370,000 options were granted from these plans at an exercise price of $.625. These options are exercisable and expire December 9, 2007. As of September 30, 1997, the Company had also granted 340,000 of non qualified stock options to certain officers and employees at an exercise price of $.95 per share. These options were to expire on August 25, 1997 but were extended by approval by the Board of Directors until August 25, 1998, and are currently exercisable. These options were treated as a grant in the information presented below. The following represents additional information relative to stock option activity:

	Total	1988 Plan	1996 Plan	September 1996 Plan	Non Qualified
Outstanding as of September 30, 1995 and 1994	420,000	---	---	---	420,000
Expired	(80,000)	---	---	---	(80,000)
Granted	3,050,000	557,000	1,250,000	1,243,000	---
Outstanding as of September 30, 1996	3,390,000	557,000	1,250,000	1,243,000	340,000
Expired	(340,000)	---	---	---	(340,000)
Granted	340,000	---	---	---	340,000
Canceled	(125,000)	(100,000)	(10,000)	(15,000)	---
Outstanding as of September 30, 1997	3,265,000	457,000	1,240,000	1,228,000	340,000
Expiration dates:					
August 25, 1998	340,000	---	---	---	340,000
September 9, through December 31, 2006	1,655,000	457,000	650,000	548,000	---
September 9, through December 31, 2007	360,000	---	160,000	200,000	---
September 9, through December 31, 2008	320,000	---	160,000	160,000	---
September 9, through December 31, 2009	320,000	---	160,000	160,000	---
September 9, 2010	270,000	---	110,000	160,000	---
Outstanding as of September 30, 1997	3,265,000	457,000	1,240,000	1,228,000	340,000

The Company accounts for stock-based compensation under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," rather than the fair value method in Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation costs were charged to earnings for options granted under the Company's plans. Management considers the difference between the pro forma net loss or loss per share under the fair value method and that as calculated by the Company per the consolidated statements of operations to be immaterial based on the fair value of the underlying Common Stock and the recent activity related thereto.

NOTE 4 - SECURITIES OWNED

Securities owned by the Company consist of the following:

	September 30, 1997	September 30, 1996
Corporate securities	$490,505	1,584,307
U.S. government obligations	30,549	91,281
Municipal obligations	350,268	206,461
	$871,322	1,882,049

NOTE 5 - NOTES RECEIVABLE

Notes receivable consist of the following:

	Maturity date	Interest rate	September 30, 1997	September 30, 1996
Contact America	12-31-00	10.0%	$ 280,000	---
Contact America	12-01-00	0%	141,344	---
Phone Directories Company, Inc.	11-01-96	10.0%	---	109,091
Former employees, net (1)	various	various	---	290,561
Other notes receivable	various	various	31,000	34,943
			452,344	434,595
Less current portion			(121,576)	(389,843)
			$ 330,768	44,752
Notes receivable included in current and long-term assets of discontinued operations:				
Current portion of long-term notes receivable			$ 121,576	115,091
Long-term notes receivable			330,768	---
			$ 452,344	115,091

(1) During the year ended September 30, 1997, the Company wroteoff as bad debts $274,752 relating to these notes receivable.

NOTE 6 - PROPERTY, FURNITURE AND EQUIPMENT

Property, furniture and equipment is comprised of the following:

	September 30, 1997	September 30, 1996
Real Property	$ 565,658	561,558
Furniture and Equipment	3,083,863	3,446,511
Vehicles	125,073	163,888
Leasehold improvements	426,863	360,602
	4,201,457	4,532,559
Less accumulated depreciation	(2,576,617)	(2,262,248)
	$1,624,840	2,270,311
Property, furniture and equipment, net, included in long-term assets of discontinued operations	$ 158,026	882,028

NOTE 7 - RELATED PARTY ACTIVITY

The Company has various notes payable to related parties in the amount of $177,000 and $367,900 as of September 30, 1997 and 1996, respectively. Such notes payable are unsecured, payable on demand, and bear interest at a variable rate not to exceed the interest rate on the Company's previous line of credit with BNC National Bank. As of September 30, 1997, the interest rate was 11.5%.

As a clearing correspondent of MSI, the Company paid MSI $1,096,690 in clearing fees for the year ended September 30, 1997. The Company's $2,045,134 receivable from brokers or dealers and clearing organizations--affiliate, primarily relates to broker commissions outstanding from MSI as of September 30, 1997. For the year ended September 30, 1997, Secutron recorded revenues of $275,699 for services performed for MSI.

In accordance with an investment banking agreement, merger and acquisition fees of $100,000 relating to the acquisition of the assets of RAFCO were paid to an officer of the Company during the year ended September 30, 1996. This same officer received consulting fees of $131,377, during the year ended September 30, 1997, in the form of a portion of one of RAF's inventory positions. The inventory positions were transferred to the officer at market value.

During the year ended September 30, 1997, an officer of the Company received $334,000 in noncompetition compensation from the purchaser in conjunction with the sale of the primary assets of the directory business as discussed in Note 2. As of September 30, 1997 and 1996, the Company had notes payable to the same officer of $100,000 and $50,000, respectively. These amounts were subsequently repaid.

During the year ended September 30, 1996 and nine months ended September 30, 1995, the Company paid fees for legal services of approximately $209,000 and $316,000, respectively, to a legal firm partially owned for most of these periods by an affiliate of a stockholder of the Company that held approximately 12.4% of the outstanding Common Stock of the Company at the time the services were performed.

NOTE 8 - LONG-TERM DEBT

Long-term debt is comprised of the following:

Payee	Collateral	Maturity date	Interest rate	September 30, 1997	September 30, 1996
MSI (1)	(1)	(1)	(1)	$1,500,000	1,500,000
Guaranty Bank	Real Property	3-01-01	8.50%	156,667	196,667
Wilton State Bank	Equipment	2-15-00	9.75%	125,949	---
BNC National Bank	(2)	4-15-97	(2)	---	750,000
McLeod	(3)	6-15-97	(3)	---	500,000
BNC National Bank	ESOP Stock	4-15-97	10.5%	---	350,000
Other Notes	Equipment	Various	Various	150,590	714,508
Total				1,933,206	4,011,175
Less current portion				(933,113)	(1,435,208)
				$1,000,093	2,575,967
Long-term debt included in current and long-term liabilities of discontinued operations:					
Current portion of long-term debt				$ 69,949	159,565
Long-term debt				72,250	852,801
				$ 142,199	1,012,366

(1) The loan is payable to MSI and was issued in conjunction with the sale of the Clearing Operation as discussed in Note 2. The loan is forgivable based on MSI's revenues during the 28 months following the closing date. If MSI's revenues exceed $1,250,000 during the 5th through the 16th month following the closing, $750,000 of the loan will be forgiven. If MSI's revenues exceed $1,750,000 during the 17th through the 28th month following the closing, the remaining $750,000 will be forgiven. To the extent that such revenue targets are not met by MSI, the subject portion of the loan or accrued interest will not be forgiven. The loan is payable by the Company on the 30th day after the last day of the 16th and 28th months following the closing date if the revenue targets are not achieved by MSI. The loan is non-interest bearing if no principal payments are in default. Interest on any amount past due will accrue at the rate of 10% per annum.

(2) This amount represents the line of credit agreement that existed with BNC National Bank. Outstanding balances on the line of credit were paid during the year end September 30, 1997 and the line was not renewed by the Company.

(3) This note resulted from an Option Agreement between the Company and McLeod as discussed in Note 2. McLeod made a noninterest bearing and nonrecourse loan to the Company as consideration for the Option Agreement. In accordance with the Option Agreement, the loan was applied against the sales price of directories acquired by McLeod from the Company during the year ended September 30, 1997. See Note 2.

Minimum principal payments required on long-term debt are as follows for the years ended September 30:

1998	$933,113
1999	$880,212
2000	$ 60,926
2001	$ 50,860
2002	$ 8,095

The $1,500,000 loan payable to MSI has been included in the 1998 and 1999 scheduled minimum principal payments, although, as discussed in Note 2, the first $750,000 of the $1,500,000 forgivable loan is expected to be forgiven and recognized as income, and the remainder of the forgivable loan is expected to be canceled, both during the year ended September 30, 1998.

NOTE 9 - INCOME TAXES

Income tax (benefit) expense for the years ended September 30, 1997 and 1996, and the nine months ended September 30, 1995, consisted of the following:

	1997	1996	1995
Current	$99,956	70,799	---
Deferred	(548,480)	(15,000)	---
	$(448,524)	55,799	---

Income tax expense for the years ended September 30, 1997 and 1996, differs from the amounts computed by applying the U.S. Federal income tax rate of 34% to loss from continuing operations before income taxes as a result of the following:

	1997	1996
Computed "expected" income tax benefit	$(829,201)	(317,679)
Increase in income taxes resulting from:		
Nondeductible expenses	10,158	19,998
State taxes, net of Federal benefit	(82,000)	11,000
Unconsolidated subsidiaries for tax purposes	99,956	55,799
Change in valuation allowance for deferred tax assets	505,000	286,681
Other	(152,437)	---
Income tax expense	$(448,524)	55,799

Income tax expense for the nine months ended September 30, 1995 differ from the amounts computed by applying the U.S. Federal income tax rate of 34% primarily due to the effects of unconsolidated subsidiaries for tax purposes, nondeductible expenses and state income taxes.

Temporary differences between financial statement carrying amounts and the tax bases of assets and liabilities that result in significant deferred tax assets and liabilities are as follows:

	September 30, 1997	September 30, 1996
Deferred tax assets:		
Deferred rent concessions	$ 652,000	682,000
Forgivable loan	570,000	570,000
Accrued expenses	301,000	255,000
Allowance for doubtful accounts	210,000	26,000
Investments in subsidiaries and affiliates	97,000	100,000
Contribution and operating loss carryforwards	425,000	187,000
Gross deferred tax assets	2,255,000	1,820,000
Valuation allowance	(1,591,216)	(1,086,216)
Deferred tax assets after valuation allowance	663,784	733,784
Deferred tax liabilities:		
Property and equipment	(50,000)	(65,000)
Gross deferred tax liabilities	(50,000)	(65,000)
Net deferred tax asset	$ 613,784	668,784

The net deferred tax asset is presented in the accompanying consolidated balance sheets as follows:

	September 30, 1997	September 30, 1996
Net current deferred tax asset	$ ---	196,846
Net long-term deferred tax asset	613,784	471,938
Net deferred tax asset	$613,784	668,784

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that the deferred tax asset will be realized. The ultimate realization of the deferred tax asset is dependent on the generation of future taxable income in the period in which the temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based on these considerations, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowance as of September 30, 1997.

Net operating losses of approximately $1,100,000 expire in 2010 and 2011. Contribution carryforwards of approximately $150,000 expire in 2001.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Fronteer and RAF lease office space under long-term noncancelable operating leases. The leases for office space provide for annual escalations for utilities, taxes, and service costs, as well as escalating rental rates over the term of the leases. Minimum future rental payments required by such leases are as follows for the years ended September 30:

1998	$1,409,824
1999	$1,522,790
2000	$1,398,806
2001	$1,401,186
2002	$1,169,546
Thereafter	$4,986,746

Under the terms of the sale of the Clearing Operation, MSI pays RAF, in accordance with a sublease agreement, monthly rental fees of $11,000. Also, in accordance with the sale of the primary operating assets of FMG the Company receives $2,752 per month from a third party for leased space. The MSI sublease will terminate as MSI gives notice and cancels the sublease expected to occur effective March 31, 1998. Expected amounts from MSI and the third party have been offset against minimum future rental payments.

Rental expense included in the consolidated statements of operations was $1,387,125 and $1,178,024 for the years ended September 30, 1997 and 1996, and $917,963 for the nine months ended September 30, 1995, respectively.

The Company has an agreement with a former employee for consulting services for which one of the Company's subsidiaries pays $10,000 per month through 2010.

The Company is a defendant in certain arbitration and litigation matters arising from its activities as a broker/dealer. In the opinion of management, these matters including any damages awarded against the Company have been adequately provided for in the accompanying consolidated financial statements, and the ultimate resolution of the other arbitration and litigation will not have a significant adverse effect on the consolidated results of operations or the consolidated financial position of the Company.

NOTE 11 - EMPLOYEE STOCK OWNERSHIP AND EMPLOYEE BENEFIT PLANS

The Company has adopted an employee stock ownership plan (ESOP) for its employees. Contributions to the plan are at the discretion of the Company. All employees as of October 1, 1989 are eligible to participate in the plan, and new employees after that date become eligible on April 1 or October 1 which follows the completion of one year of employment. The plan provides that more than half of the assets in the plan must consist of the Company's common stock. The ESOP is administered by a board of trustees under the supervision of an advisory committee, both of which are appointed by the Company 's Board of Directors. Employees are 20% vested after two years, vesting an additional 20% each year up to 100% after six years in the ESOP. The ESOP has a loan to the Company of $350,000 representing the payment during the year by the Company of the ESOP's debt. The loan is secured by 436,840 shares of the Company's common stock and is recorded in unearned ESOP shares in the consolidated financial statements. The board of trustees has not determined the method of repayment of the loan to the Company. Any allocation of shares within the ESOP is at the discretion of the board of trustees and based on employees wages. For the years ended September 30, 1997 and 1996, and nine months ended September 30, 1995, the Company contributed $24,898, $10,500 and $10,000, respectively, to the plan. The ESOP owns 517,900 shares of the Company's Common Stock as of September 30, 1997.

The Company has three retirement saving plans covering all employees who are over 21 years of age and have completed one year of eligibility service. The plans meet the qualifications of Section 401(k) of the Internal Revenue Code. Under the plans, eligible employees can contribute through payroll deductions up to 15% of their base compensation. The Company makes a discretionary matching contribution equal to a percentage of the employee's contribution. The Company contributed $82,890, $67,079 and $44,934 for the years ended September 30, 1997 and 1996, and nine months ended September 30, 1995, respectively. One of the Company's savings plans owns 170,748 shares of the Company's Common Stock as of September 30, 1997.

The Company does not provide any post employment benefits to retired or terminated employees.

NOTE 12 - MINIMUM NET CAPITAL REQUIREMENTS

RAF, as a registered securities broker/dealer, is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1) (the Rule). RAF has elected to operate pursuant to the alternative standard provided by the Rule.

Under the alternative standard, RAF is required to maintain "net capital" of not less than $250,000. As of September 30, 1997, RAF had "net capital" of $2,104,023.

FRONTEER FINANCIAL HOLDINGS, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1997 AND 1996, CONTINUED

NOTE 13 - SEGMENT REPORTING

Information regarding business segments is summarized below.

	Year ended September 30, 1997						
	Directory Business	FMG	RAF	Secutron	Others	Adj. and Eliminations	Consolidated
Revenues from unaffiliated customers	$4,866,454	364,652	18,118,271	6,982,143	---	---	30,331,520
Intersegment revenues	28,253	---	---	454,000	---	(482,253)	---
Total revenues	4,894,707	364,652	18,118,271	7,436,143	---	(482,253)	30,331,520
Operating profit (loss)	132,594	(1,216,282)	(2,160,897)	129,215	(495,496)	---	(3,610,866)
Other income (expense), net	(28,848)	(98,143)	123,499	(931)	(34,216)	---	(38,639)
Earnings (loss) from operations before income taxes	103,746	(1,314,425)	(2,037,398)	128,284	(529,712)	---	(3,649,505)
Loss on sale of discontinued operations, net of income tax benefit of $409,692	(458,181)	(208,341)	---	---	---	---	(666,522)
Depreciation and amortization	302,288	450,270	258,227	71,667	9,051	---	1,091,503
Capital expenditures	$ 8,457	60,012	390,403	27,073	---	---	485,945
Identifiable assets at September 30, 1997	$1,822,890	117,360	6,839,443	1,868,317	513,339	(158,267)	11,003,082

	Year ended September 30, 1996						
	Directory Business	FMG	RAF	Secutron	Others	Adj. and Eliminations	Consolidated
Revenues from unaffiliated customers	$7,100,335	317,349	14,830,681	6,538,540	---	---	$28,786,905
Intersegment revenues	70,313	---	---	437,051	---	(507,364)	---
Total revenues	7,170,648	317,349	14,830,681	6,975,591	---	(507,364)	28,786,905
Operating profit (loss)	(486,976)	(635,573)	(2,647,327)	281,775	(212,000)	---	(3,700,101)
Other income (expense), net	(156,877)	(89,107)	404,597	(6,742)	(87,626)	---	64,245
Gain on sale of Clearing Operation	---	---	1,332,974	---	---	---	1,332,974
Loss before income taxes	(643,853)	(724,680)	(909,756)	275,033	(299,626)	---	$(2,302,882)
Depreciation and amortization	637,738	186,201	270,419	116,733	9,051	---	$1,220,142
Capital expenditures	81,345	793,250	480,004	54,493	---	---	$1,409,092
Identifiable assets at September 30, 1996	$4,145,034	281,377	8,729,572	1,456,302	522,390	(610,555)	$14,524,120

Identifiable assets by industry are those assets that are used in the Company's operations in each industry. See Note 2 relating to discontinued operations.