

Company Registration Number: SC 75133

OSPREY COMMUNICATIONS PLC

Report and Financial Statements
30 September 1997



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Directors and Advisers

Directors:

Jack Rubins *Chairman*

Clive R Smith *Chief Executive*

Dennis P Murphy* *Deputy Chairman*

Lester W D Corney

Paul F Ranford FCA *Finance Director*

R Alex Hammond-Chambers*

(*Non-executive)

Secretary:

Paul F Ranford FCA

Registrars:

Independent Registrars Group Limited

Balfour House

390/398 High Road

Ilford, Essex IG1 1NQ

Registered Office:

100 Union Street, Aberdeen AB10 1QR

Registered in Scotland

No. SC 75133

Auditors:

Deloitte & Touche
Chartered Accountants
Hill House

1 Little New Street, London EC4A 3TR

Bankers:

Midland Bank plc
154 Fleet Street, London EC4A 2DJ

Stockbrokers:

Rowan Dartington & Co. Limited
Colston Tower
Colston Street, Bristol BS1 4RD

Solicitors:

Field Fisher Waterhouse
41 Vine Street, London EC3N 2AA

Chairman's Statement

Results

The Group made a profit after tax in the year ended 30 September 1997 of £636,000 compared to £634,000 in the previous year. Earnings per share were 1.98p compared to 2.20p in 1995/96. This year's results include an exceptional profit of £905,000 made on the disposal of GMBM Limited, a non-core business acquired in June 1994 as part of the acquisition of Seniorbay Limited. The reasons for the disposal and its effect on the Group were fully set out in the circular to shareholders issued in December 1997.

Business Review

At the operating level this has been a difficult year. The Board's priority remains the achievement of rapid growth in gross profit and a consequent improvement in operating profitability year on year. While the Group has continued to increase the volume of its business, with gross profits up to £9,336,000, the scale of that increase has been disappointing. In particular:

- Osprey Direct, our marketing subsidiary formed from businesses acquired at the end of 1995/96, suffered significant client losses during its initial period of trade. The business has been restructured, has gained new business and is expected to operate profitably from this year.
 - Osprey Park, our main advertising agency, continued to suffer from reductions in client expenditure in the second half of the year. There were consequential effects on in-house design and production income, which contributed to the shortfall in revenue. However, new client wins have recently been achieved and we look forward to an improving performance.
 - Income in Osprey CSP also failed to reach original expectations and the shortfall has not yet been replaced with new business. A cost savings programme and revised operating procedures have been implemented to improve profitability in 1997/98.
- Results otherwise in the Group have been more encouraging and, in particular, Osprey RMA contributed significant profits to offset our setbacks elsewhere.

Cash management

These results show that reliance on bank funding has been significantly reduced during the year. Funds of £1.1m (1996/97) were generated from operations, mainly from better management of working capital, against a total financing requirement of £498,000.

The working capital management has been satisfactory and the funds generated are adequate for the general running of the business within the limits

within which the Group has been operating have however constrained operations and growth and have inhibited the directors' focus on the profitable development of the underlying business. The proceeds of the disposal of GMBM were received after the year end and have provided a further £950,000 of cash funds. An additional £236,000 arising from the disposal will be received by December 1998.

Outlook

With this significant improvement in the Group's overall financial strength and ability to invest for growth in the year ahead, the Board believes that a renewed focus on profitable business will provide improved operating performance in 1997/98.

On 8 October 1997 the Board announced the purchase of the whole of the issued share capital of Covey Advertising Limited (now renamed Covey Advertising Scotland Limited). This company is an Edinburgh based advertising agency offering a range of advertising, marketing and design services. As part of the transaction a strong regional network of offices was acquired. Covey Advertising Scotland will provide the Group with a significant presence in Scotland.

I am delighted to report that Alex Hammond-Chambers, former Chairman of Ivory & Sons plc, has joined the Group as a non-executive director. Mr Hammond-Chambers will provide the Board with considerable experience of business management and the City.

During 1998 we plan to relocate our London operations from two self-contained buildings in the West End into one set of offices.

The resulting savings and efficiencies will reduce our cost base and further improve our ability to generate profits from the strong and sound client base that we have developed.

Reduced reliance on bank finance will significantly reduce our interest charge in 1997/98.

The Board's intention is to generate sound



Jack Rubins F.I.P.A.
Chairman, Osprey Communications plc

Review of Operations and Financial Review

The Market

During 1997 the UK advertising and media sector grew by 6% in real terms (source: MEAL Register) and is forecast to increase again by 3% in 1998.

The increasing cost of advertising in the traditionally dominant medium – television – and the fragmentation caused by the introduction of satellite and, in future, digital channels, are encouraging clients to seek other avenues for effective use of their marketing budgets.

The Osprey Group

The Group is in the business of designing and delivering strategies that influence the marketplace with effective, persuasive communication programmes. Increasingly, our business sector is moving in favour of agency groups that can provide a full range of marketing services ("integrated agencies") as more and more clients begin to experience and realise the benefits of an integrated approach. We have maintained our ability to provide design, sales promotion, advertising and media buying services whilst developing our capabilities in public relations and direct marketing. Our view, firmly held, is that this mix of service capability provides the Group with the best basis for growth and profitable development for the future.

"Simple ideas, innovatively and effectively executed"

1997 proved to be a difficult year with particular challenges in CSP and Osprey Direct. Client cutbacks late in the year required remedial action, the benefits of which could not be gained until after the end of the year. Despite this we have managed a modest growth in our revenue of 3%. Now that liquidity constraints have been substantially eased by the disposal of GMBM and improved cash and other financial controls across our whole business, our focus on growth in 1998 and beyond is clearly re-established.

Osprey Park

The agency's income base declined from the level established in the previous year. The improvements in business achieved with Friends Provident and Vauxhall with additional projects for Seiko and Jordans were wholly offset by significant reductions in expected spend by other clients (particularly British Gas and EMC Computers) and the loss of Carpet Depot in the spring of 1997. The creative product remains of very high quality and it is on this base that the future success of Osprey Park will be re-built.

Osprey CSP

Our sales promotion agency also faced difficulty in maintaining overall income at the levels previously established. Significant improvements in business from Tetley GB, Mail Newspapers, Carlsberg Tetley and Cadbury were outweighed by reductions in expenditure from other clients and some client losses.

Osprey Design and Marketing ("the Studio")

During the year the Studio undertook new design work for the Commission for New Towns, Krauthammer, Samsung and Pirelli. Overall business volumes were affected by the shortfalls in income derived from the Group's London agencies. Nevertheless, this company continues to generate a useful contribution from the value-added services it provides to the Group.

Osprey RMA

Osprey RMA enjoyed a most successful year and contributed strongly to Group results. The company's significant improvement in performance resulted from continued expenditure by a solid base of existing clients coupled with the full year benefit of recently acquired clients, in particular Stannah Stairlifts and The Coastguard Agency. Further new accounts were gained during the year, most notably the DTI for which Osprey RMA was responsible for much of the successful 1997 Fireworks Safety campaign.

The company is now firmly established as one of the leading advertising agencies in the South and was voted regional "Agency of the Year" by the trade magazine "Adline".

Future Image

Future Image, based in Belfast, increased its turnover and gross income significantly in the year and satisfactorily improved its contribution to Group results. Continued PR activity from existing clients such as Bass, British Midland and the Progressive Building Society was enhanced by work from new clients, in particular Phoenix Natural Gas, Hollywood & Donnelly, Cantrelle & Cochrane and Premier Power.

Further new clients were won during the year. These included Dramona Quality Foods, The Office of Law Reform, Lambert Smith Hampton and Robinson Exhibitions. British Gas Transco has appointed the company in the first quarter of the current year. Future Image is now regarded as the leading PR consultancy in Northern Ireland and recognised as having unequalled expertise locally in crisis management.

Osprey Direct

Osprey Direct was formed from businesses acquired at the end of 1995/96. Integration into the group took longer than expected and resulted in substantial losses. However a new management team, much reduced staffing levels and new business success in the early part of the current year has given the agency a base from which it can now develop to form an important and profitable part of the marketing services mix at Osprey.



C R Smith
Group Chief Executive



Review of Operations and Financial Review

Financial Review

Operating profit

A reduction in the volume of media space purchased in Osprey Park and a change in the balance of overall income towards commission plus fee arrangements resulted in a reduction in turnover of 2.2% in the year. Gross profit, a more accurate measure of the level of business activity in the Group, improved by £264,000 (2.9%). Gross profits arising from the acquisition of businesses that formed Osprey Direct amounted to approximately £1.1m.

Administrative expenses increased by £1,383,000 (17%). The major proportion of this arose from the establishment of Osprey Direct, although there were increases proportional to growth in activity elsewhere in the Group.

Discontinued operations and exceptional item

At the end of the year the Group disposed of its 80% interest in GMBM Limited, a non-core recruitment advertising company which developed within the Osprey Group after its acquisition in 1994.

Cash proceeds of £1,100,000 were received in December 1997 generating, after disposal costs, a profit of £905,000. GMBM contributed an operating profit of £187,000 in the year, of which the Group's share was £150,000.

Cash flows

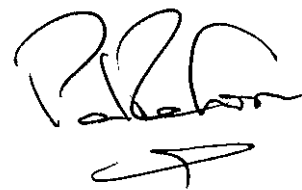
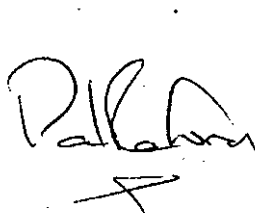
Cash flows improved consistently throughout the year and cash overdrafts, before changes in financing, decreased by £498,000. Improved rapidity of billing and debt collection further eased pressure on the funding of working capital.

Loans from directors (details of which are set out in note 23 to these accounts) increased by £83,000 during the year.

Future cashflows will feel the benefit of the proceeds from the sale of GMBM Limited.

Taxation

With available tax losses brought forward and generated in the year, the liability for Corporation Tax was eliminated. At 30 September 1997 there are tax losses of approximately £1,250,000 available for relief against future profits.



P F Ranford FCA
Group Finance Director

Report of the Directors

The directors present their annual report, together with the audited accounts, for the year ended 30 September 1997.

Principal activity

The principal activity of the company is that of a holding company, the investments of which are interests in unlisted wholly owned companies providing advertising and marketing services.

Results and future prospects

The results for the year ended 30 September 1997 are set out on page 19. A detailed review of the Group's activities in the year is given in the Chairman's Statement and Review of Operations and Financial Review on pages 4 to 8.

The Group made a profit on ordinary activities before interest in the year of £743,000, after crediting an exceptional profit on the sale of a subsidiary of £905,000 (1996 profit – £957,000) and a retained profit for the year of £577,000 (1996 – £610,000) has been transferred to reserves.

Dividends

The directors do not recommend the payment of a dividend for the year. (1996 - Nil).

Disposal

On 30 September 1997 an agreement was entered into for the sale of the company's 80% interest in the share capital of GMBM Limited to its management for a net consideration, after expenses, amounting to £950,000. The reasons for the sale and the effects of the transaction on the Group were explained in the circular to shareholders on 2 December 1997. The sale was conditional, inter alia, on shareholders' approval which was obtained at the extraordinary general meeting held on 17 December 1997 and the transaction was completed on 19 December 1997.

Acquisitions

Details of acquisitions and associated consideration are set out in note 11 to the accounts.

Post year end acquisitions

As part of the Board's continuing strategy to create a fully integrated communications Group in London with a strong regional network, the Edinburgh based agency, Covey Advertising Limited, was acquired on 8 October 1997. The initial cash consideration was £1,000 with deferred consideration, mainly to be satisfied by the issue of shares, to bring the maximum aggregate consideration to £1.2million. The agency was renamed Osprey Advertising Scotland Limited and now trades as Osprey Scotland.

Report of the Directors

Directors and their interests

The directors who served during the year and subsequently were as follows:

J Rubins – *Chairman*
 C R Smith – *Chief Executive*
 P F Ranford FCA – *Finance Director*
 L W D Corney
 M W Bindloss Gibb (resigned 9 June 1997)

Non-executives

D P Murphy – *Deputy Chairman*
 R A Hammond-Chambers (appointed 1 November 1997)

Mr Hammond-Chambers was appointed as a non-executive director on 1 November 1997. He is a former Chairman of Ivory & Sime plc.

Mr Hammond-Chambers retires and, being eligible, offers himself for re-election at the forthcoming Annual General Meeting.

Mr Murphy was Chairman of the company from 1981 to 1986 and has been Deputy Chairman since then. He was formerly senior partner of Dennis Murphy, Campbell & Co, stockbrokers.

Mr Murphy retires by rotation at the Annual General Meeting and, being eligible, offers himself for re-election.

Mr Murphy and Mr Hammond-Chambers do not have service contracts with the company. None of the other directors has a service contract which is terminable by more than six months' notice.

According to the register of directors' interests maintained under the Companies Act, the following interests in the shares of Group companies were held by the directors in office at the year end:

25p Ordinary Shares in Osprey Communications plc

	Nature of Interest	1 October 1996	30 September 1997
J Rubins	Beneficial	5,370,000	5,395,000
D P Murphy	Beneficial	1,013,285	1,013,285
	Trustee	33,972	33,972
L W D Corney	Beneficial	861,360	861,360
C R Smith	Beneficial	1,511,330	1,531,330
	Trustee	495,237	495,237

No rights to subscribe for shares in the company or any Group company were granted to any of the directors or their immediate families, or exercised by them, during the year, or subsequently.

The following options over the ordinary shares of Osprey Communications plc were held by Mr L W D Corney:

At 1 October 1996	At 30 September 1997	Exercise price	Dates normally exercisable
20,000	20,000	25p	1999 to 2006

During the year the mid-market price of the shares ranged from 17p to 35p.

At 30 September 1997, the mid-market price of the shares was 17p.

There have been no changes in these interests at the date of this Report.

Material contracts

At no time during the year did any director have a material contract with the Group, other than in relation to the loans made by various directors to the Group which are disclosed in note 23 to the accounts.

Substantial shareholdings

The company has been informed of the following shareholdings in the company at 2 March 1998, being the latest practicable date prior to this Report, each representing 3% or more of the current issued share capital:

	No of ordinary shares	%
Credit Suisse London Nominees Limited	2,464,999	8.19
RBSTB Nominees Limited	1,400,000	4.65
R N Maber	2,087,125	6.94
Vidacos Nominees Limited	1,275,000	4.24
Avocet Investments Limited*	1,013,285	3.37

* Held to the order of Mr D P Murphy

Apart from these details, and the details listed under directors' interests, the company is not aware of any holding representing 3% or more of the issued share capital at 2 March 1998.

Report of the Directors

Suppliers' payment policy

The Group's policy is to agree the terms of payment with each supplier and to abide by those terms. Creditor settlement time for the year ending 30 September 1997 was 59 days, an improvement from 63 days at the end of the the previous year.

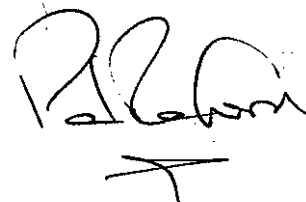
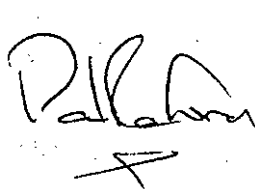
Charitable and political donations

The company made no charitable or political donations during the year under review.

Auditors

A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board.



P F Ranford FCA, Secretary
16 March 1998

Corporate Governance

During the year, the company complied with the recommendations of The Code of Best Practice contained in the Report on the Financial Aspects of Corporate Governance, prepared by the Cadbury Committee, with the exception of paragraphs 1.3, 3.3, 4.3 and 4.5. The circumstances of non-compliance are described below. The Board fully supports the recommendations of the Code and intends that as the financial performance of the Group recovers and resources are increased, all these areas of non-compliance will be remedied.

Board

The Board, currently comprising four executive directors and two non-executive directors, met regularly throughout the year. The roles of Chairman and Chief Executive are separate. There is a formal schedule of matters specifically reserved to the Board for decision. The Board is responsible to the shareholders for the good standing of the Group, the performance of its assets, its strategy for future development, its acquisition and divestment policy and other major strategic decisions. The Board does not consider that the size of the Group warrants the appointment of a third non-executive director.

Audit committee

The Audit Committee, comprising the then non-executive directors, was constituted in 1994 to review and consider the Group's internal control procedures, accounting policies and reporting functions. Following the resignation from the board of Mr A A Whitaker in 1996, the Audit Committee consisted of only one non-executive director and did not meet formally. The non-executive director did, however, discuss the audit and financial results with the Group's external auditors. With the appointment of a second non-executive director in November 1997, the Audit Committee has now resumed its full activities and responsibilities and it is the Board's intention that it will continue to do so.

Remuneration policy

The company has not established a Remuneration or Nomination Committee.

The full Board considers matters of appointment, remuneration, incentives and the granting of share options when necessary and does not consider that the size of the Group warrants the formation of these Committees.

Directors' remuneration and granting of share options are based upon performance and are decided by the Board. No director plays a part in any discussion about his own remuneration. Details of directors' remuneration and share options are given in note 6 to the accounts and details of their interests are given in the Directors' Report. All directors are appointed by the Board as a whole and no service contracts are for periods of more than one year.

In framing remuneration policy the Board has given full consideration to Section B and has complied throughout the period with Section A of the Best Practice Provisions annexed to the Listing Rules.

Corporate Governance (continued)


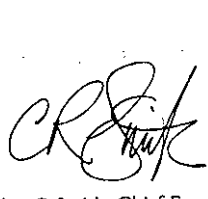
Going concern

The directors have reviewed the Group's detailed trading forecasts to and cash forecasts to 30 September 1999, in conjunction with longer term expectations of performance. As a result, at the date of this report, they have a reasonable expectation that the company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Internal financial control

The directors acknowledge their responsibility for the Group's system of internal financial control. The executive directors undertake day-to-day supervision of operations, a key control in a business of this size. Procedures have been established in respect of financial and administrative systems and budgetary control. The reconstituted Audit Committee will consider the effectiveness of these procedures as a matter of first priority and report its findings to the Board. There are inherent limitations in any system of internal financial control and, accordingly, even the most effective system can only provide reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

By order of the Board



Clive R. Smith, Chief Executive
16 March 1998

Review Report to the Directors on Corporate Governance Matters

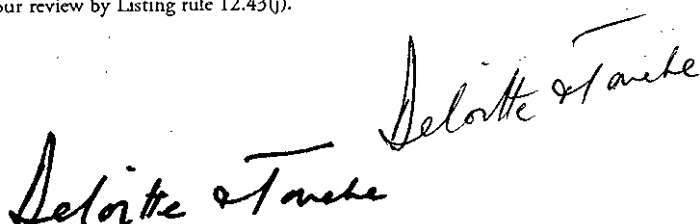
In addition to and separate from our audit of the financial statements, we have reviewed the directors' statement on pages 13 and 14 on the company's compliance with the paragraphs of the Code of Best Practice specified for our review by The London Stock Exchange. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v). Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

Basis of opinions

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the company's system of internal financial control or its corporate governance procedures or on the ability of the company to continue in operational existence.

Opinions

With respect to the directors' statement on going concern and internal financial control on page 14, in our opinion the directors have provided the disclosures required by the Listing Rules, as referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements. Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement on page 13 appropriately reflects the company's compliance with the other paragraphs of the Code specified for our review by Listing rule 12.43(j).



Deloitte & Touche
Chartered Accountants and Registered Auditors
Hill House
1 Little New Street
London EC4A 3TR
16 March 1998

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and the Group as at the end of the financial period and of the profit or loss of the Group for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Auditors to the members of Osprey Communications plc

We have audited the financial statements on pages 19 to 37 which have been prepared under the accounting policies set out on pages 23 and 24.

Respective responsibilities of directors and auditors

As described on page 16 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the Group as at 30 September 1997 and of the profit of the Group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
Hill House
1 Little New Street
London EC4A 3TR
16 March 1998

Consolidated Profit and Loss Account

		1997	1997	1997	1996
		Continuing Activities	Discontinued Activities	Total	Total
	Note	£'000	£'000	£'000	£'000
Turnover	1, 2	26,588	5,326	31,914	32,641
Cost of sales		(18,254)	(4,324)	(22,578)	(23,569)
Gross profit		8,334	1,002	9,336	9,072
Administrative expenses		(8,683)	(815)	(9,498)	(8,115)
Operating (loss)/profit on ordinary activities		(349)	187	(162)	957
Exceptional item – disposal of subsidiary	11, 20	–	905	905	–
(Loss)/profit on ordinary activities before interest		(349)	1,092	743	957
Interest payable	3			(224)	(245)
Profit on ordinary activities before taxation	4			519	712
Tax credit/(charge) on profit on ordinary activities	7			117	(78)
Profit on ordinary activities after taxation				636	634
Equity minority interests				(59)	(24)
Profit for the year	16			577	610
Earnings per ordinary share	9			1.98p	2.20p

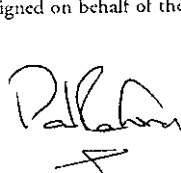
A reconciliation of movements in shareholders' funds is given in note 18 to the accounts.

A statement of total recognised gains and losses is not included as there are no recognised gains or losses other than those disclosed above.

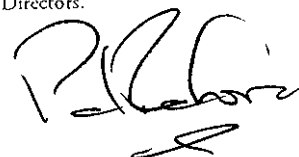
Consolidated Balance Sheet

		1997		1996	
	Note	£'000	£'000	£'000	£'000
Fixed assets					
Tangible fixed assets	10		760		867
Current assets					
Work in progress		363		972	
Debtors	12	5,754		6,167	
		6,117		7,139	
Creditors					
Amounts falling due within one year	13	(7,001)		(8,420)	
Net current liabilities			(884)		(1,281)
Total assets less current liabilities			(124)		(414)
Creditors					
Amounts falling due after more than one year	13		(85)		(93)
Provisions for liabilities and charges					
Deferred taxation	14		-		(11)
Equity minority interests			-		(33)
			(209)		(551)
Capital and reserves					
Called up share capital	15		7,336		7,208
Share premium account	16		438		386
Shares to be issued	11		180		360
Acquisition reserve	16		(6,797)		(6,562)
Profit and loss account	16		(1,366)		(1,943)
Equity shareholders' funds			(209)		(551)

These financial statements were approved by the Board of Directors on 16 March 1998.
Signed on behalf of the Board of Directors.



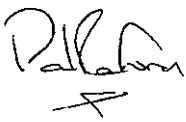
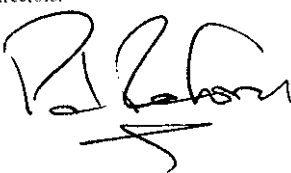
PAUL F RANFORD, Finance Director



Company Balance Sheet

		1997		1996	
	Note	£'000	£'000	£'000	£'000
Fixed assets					
Tangible fixed assets	10		154		131
Investments in subsidiaries	11		<u>1,444</u>		<u>1,444</u>
			1,598		1,575
Current assets					
Debtors	12	<u>9,705</u>		<u>8,926</u>	
		9,705		8,926	
Creditors					
Amounts falling due within one year	13	<u>(2,360)</u>		<u>(3,057)</u>	
Net current assets			<u>7,345</u>		<u>5,869</u>
Total assets less current liabilities			<u>8,943</u>		<u>7,444</u>
Capital and reserves					
Called up share capital	15		7,336		7,208
Share premium account	16		596		544
Shares to be issued	11		180		360
Capital reserve	16		111		111
Profit and loss account	16		<u>720</u>		<u>(779)</u>
Equity shareholders' funds			<u>8,943</u>		<u>7,444</u>

These financial statements were approved by the Board of Directors on 16 March 1998.
Signed on behalf of the Board of Directors.

PAUL F RANFORD, Finance Director

Consolidated Cash Flow Statement

	Note	1997		1996	
		£'000	£'000	£'000	£'000
Net cash inflow/(outflow) from operating activities	19		1,133		(394)
Return on investments and servicing of finance	19		(296)		(263)
Taxation	19		7		(4)
Capital expenditure and financial investments	19		(212)		(130)
Acquisitions and disposals	19		(134)		(77)
Net cash inflow/(outflow) before financing			498		(868)
Financing					
Capital element of finance lease rentals		(14)		(66)	
Loans received from directors		83		500	
Repayment of other loans		(8)		(2)	
Net cash inflow from financing			61		432
Increase/(decrease) in cash equivalents			559		(436)
Reconciliation of net cash flow movement to movement in net debt	21				
		£'000	£'000		
Increase in cash in the year		559			
Cash outflow from increase in debt and lease financing		(61)			
Change in net debt resulting from cashflows			498		
New finance leases			(19)		
			479		
Net debt at 1 October 96			(2,370)		
Net debt at 30 September 97			(1,891)		

Notes to the Accounts

1 Accounting policies

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

(a) Accounting convention

The accounts are prepared under the historical cost convention.

(b) Basis of consolidation

The consolidated accounts reflect the accounts of Osprey Communications plc and all its subsidiaries, made up to 30 September 1997.

(c) Acquisitions and disposals

On the acquisition of a business, fair values are ascribed to the Group's share of net tangible assets. Where the costs of acquisition exceed the value attributable to such net assets, the difference is treated as purchased goodwill and written off directly to reserves in the year of acquisition.

The profit or loss on the disposal of a previously acquired business includes the attributable amount of any purchased goodwill relating to that business.

(d) Turnover

Turnover (which excludes VAT) represents the value of amounts invoiced to clients in respect of fees, advertising media charges, and advertising production costs.

(e) Depreciation

Depreciation is not provided on freehold land. On other assets it is provided so as to write off the cost of tangible fixed assets over their estimated useful lives.

The following are the main annual rates used:

Freehold Buildings	– 2% on cost.
Leasehold Property	– Written off on straight line basis over unexpired term with a minimum rate of 2%.
Motor Vehicles	– 25% on reducing balance basis.
Computer Equipment	– 20% on cost.
Office Equipment	– 15% on reducing balance basis.

(f) Deferred taxation

Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements, to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

(g) Pensions

Payments are made on behalf of various executives to defined contribution schemes. These payments are charged to the profit and loss account as they arise.

Notes to the Accounts

(h) **Work in progress**

Work in progress is valued at the lower of cost and estimated net realisable value.
Cost comprises production and media costs not yet invoiced to clients.

(i) **Lease and hire purchase contracts**

Assets held under hire purchase contracts and the related hire purchase obligations are recorded in the balance sheet at the fair value of the assets at the inception of the contracts. The amounts by which the contract payments exceed the recorded contract obligations are treated as finance charges which are amortised over each contract term to give a constant rate of charge on the remaining balance of the obligation.

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

(j) **Investments**

Investments held as fixed assets are stated at cost less provision for permanent diminution in value.

2 Segmental analysis

All turnover and profits/losses were generated in the United Kingdom from the provision of advertising and marketing services.

Turnover can be analysed by destination as follows:

	Discontinued Activities £'000	Continuing Activities £'000	1997 Total £'000	1996 Total £'000
UK	5,326	21,783	27,109	22,065
Rest of Europe	—	4,187	4,187	8,873
USA	—	618	618	1,703
	<u>5,326</u>	<u>26,588</u>	<u>31,914</u>	<u>32,641</u>

Notes to the Accounts

3 Interest payable	1997	1996
	£'000	£'000
On bank loans and overdrafts repayable within five years	167	236
On finance leases and hire-purchase contracts	7	5
On Directors' loans	50	4
	<u>224</u>	<u>245</u>

4 Profit on ordinary activities before taxation	1997	1996
	£'000	£'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of owned assets	274	261
Depreciation of assets held under finance lease contracts	40	50
Profit on sale of tangible fixed assets	(18)	—
Payments under operating leases		
— land and buildings	418	412
— other	236	244
Auditors' remuneration — audit services	60	68
— non-audit services	41	33
	<u>41</u>	<u>33</u>

5 Employee costs	1997	1996
	£'000	£'000
Wages and salaries	4,625	3,528
Social security costs	469	367
Other pension costs	148	86
	<u>5,242</u>	<u>3,981</u>
Average number of employees:	No.	No.
Marketing	121	95
Administration	34	42
	<u>155</u>	<u>137</u>

Notes to the Accounts

6 Directors' emoluments

	1997	1996
	£'000	£'000
Management remuneration	378	286
Payments to third parties for services of directors	116	112
	<u>494</u>	<u>398</u>

	Fees	Basic salaries	Pension contributions	Benefits in kind	1997 Total	1996 Total
	£'000	£'000	£'000	£'000	£'000	£'000
<i>Executive directors</i>						
J Rubins (Chairman and highest paid director)	—	100	—	19	119	95
C R Smith	96	—	—	13	109	92
L W D Corney	—	83	—	5	88	88
M W Bindloss Gibb (period 1.10.96 to 9.6.97)	—	48	5	6	59	79
P F Ranford	—	82	5	12	99	24
<i>Non-executive director</i>						
D P Murphy	20	—	—	—	20	20
	<u>116</u>	<u>313</u>	<u>10</u>	<u>55</u>	<u>494</u>	<u>398</u>

*The payments in relation to Mr Smith's and Mr Murphy's services were paid to third parties.

Notes to the Accounts

7 Tax credit/(charge) on ordinary activities

	1997	1996
	£'000	£'000
United Kingdom corporation tax at 33% (1996 – 33%) based on the profit for the year	–	(106)
Over provision in previous years	106	–
Transfer from deferred taxation	11	32
Irrecoverable ACT written off	–	(4)
	<u>117</u>	<u>(78)</u>

There is no tax charge for the year because of the utilisation of losses brought forward.
There are losses of approximately £1,250,000 available for relief against future trading profits.

8 Parent company's profit

The parent company's profit for the year amounted to £1,499,000 (1996 – profit of £8,000).
No profit and loss account is presented for Osprey Communications plc as is permitted by section 230 of the Companies Act 1985.

9 Earnings per ordinary share

The calculation of earnings per ordinary share is based on a profit of £577,000 (1996 – profit of £610,000) and on 29,187,091 shares (1996 – 27,691,862 shares) being the weighted average number of ordinary shares in issue during the year.

Notes to the Accounts

10 Tangible fixed assets

Group	Freehold land and buildings £'000	Long and short leasehold land and buildings £'000	Motor vehicles £'000	Office and computer equipment £'000	Total £'000
Cost					
At 1 October 1996	68	139	473	2,095	2,775
Subsidiary disposed	—	—	—	(62)	(62)
Additions	—	45	34	236	315
Disposals	—	(7)	(190)	(655)	(852)
At 30 September 1997	68	177	317	1,614	2,176
Depreciation					
At 1 October 1996	24	109	304	1,471	1,908
Charge for the year	2	20	45	247	314
Subsidiary disposed	—	—	—	(19)	(19)
On disposals	—	(7)	(133)	(647)	(787)
At 30 September 1997	26	122	216	1,052	1,416
Net book value					
At 30 September 1997	42	55	101	562	760
At 30 September 1996	44	30	169	624	867
Company					
Cost					
At 1 October 1996	—	48	52	218	318
Additions	—	9	—	63	72
Disposals	—	—	—	(70)	(70)
At 30 September 1997	—	57	52	211	320
Depreciation					
At 1 October 1996	—	18	17	152	187
Charge for the year	—	14	9	26	49
Disposals	—	—	—	(70)	(70)
At 30 September 1997	—	32	26	108	166
Net book value					
At 30 September 1997	—	25	26	103	154
At 30 September 1996	—	30	35	66	131

Included in the above figures for the Group are motor vehicles held under hire-purchase contracts with a net book value of £49,000 (1996 – £145,000). The equivalent figure for the company is £16,000 (1996 – £25,000).

Notes to the Accounts

11 Fixed asset investments

	Shares in subsidiaries £'000
Cost	
At 1 October 1996 and 30 September 1997	<u>2,956</u>
Provisions	
At 1 October 1996 and 30 September 1997	<u>1,512</u>
Net book value	
At 30 September 1997 and 30 September 1996	<u>1,444</u>

Additions

Osprey RMA Limited

Included in fixed asset investments at 1 October 1996 was a sum of £360,000 representing the third and fourth tranches of consideration due to be paid in respect of the acquisition of Roger Maber & Associates Limited (now Osprey RMA Limited) ("RMA").

On 20 January 1997 the third tranche of consideration, amounting to £180,000, was paid in respect of the year ended 30 September 1996. This was satisfied by the issue to the vendor of 514,285 ordinary shares of 25p each at a market valuation of 35p each.

Since the year end the fourth and final tranche of consideration, amounting to a further £180,000, was paid on 22 January 1998 in respect of the year ended 30 September 1997. This was satisfied by the issue to the vendor of 720,000 ordinary shares of 25p each at the nominal value of 25p each.

Covey Advertising Limited (now Osprey Scotland Limited)

Subsequent to the year end, on 8 October 1997, Covey Advertising Limited was acquired for an initial cash consideration of £1,000 with performance-related deferred consideration amounting to a maximum of £1.2 million. The agency was renamed Osprey Advertising Scotland Limited and now trades as Osprey Scotland.

Disposals

On 30 September 1997 an agreement was entered into for the sale of the company's 80% interest in GMBM Limited to its management for a net consideration, after expenses, of £950,000.

Notes to the Accounts

The principal subsidiaries of the Group are:

	Country of incorporation, registration and operation	Class of Capital	Percentage held	Description of activity
Creative Sales Propositions Limited	England and Wales	Ordinary	100% Indirect	Sales promotions
Osprey SMS Limited	England and Wales	Ordinary	100% Indirect	Advertising
Future Image Limited	Northern Ireland	Ordinary Deferred	100% 100% Indirect	Public relations
Osprey Design & Marketing Limited	England and Wales	Ordinary	100% Indirect	Advertising and marketing services
Osprey Direct Limited	England and Wales	Ordinary	100% Direct	Direct marketing
Osprey RMA Limited	England and Wales	Ordinary	100% Direct	Advertising, marketing and public relations services
Osprey Park Limited	England and Wales	Ordinary	100% Indirect	Advertising

Notes to the Accounts

12 Debtors

	1997		1996	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Trade debtors	3,992	10	5,382	9
Amounts owed by subsidiary undertakings	—	8,093	—	8,691
ACT recoverable	—	—	40	—
Other debtors	1,458	1,382	547	50
Prepayments and accrued income	304	220	198	176
	<u>5,754</u>	<u>9,705</u>	<u>6,167</u>	<u>8,926</u>

Included in other debtors is an amount of £1,100,000 representing the cash consideration in respect of the sale of GMBM Limited during the year.

13 Creditors

	1997		1996	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Loans	11	—	17	—
Bank overdrafts	1,173	953	1,732	1,975
Obligations under hire-purchase contracts	39	17	28	20
Trade creditors	4,193	290	4,629	362
Corporation tax	—	—	116	5
Other taxes and social security	486	285	266	85
Other creditors	264	145	411	110
Directors' loans (note 23)	583	583	500	500
Accruals and deferred income	252	87	721	—
	<u>7,001</u>	<u>2,360</u>	<u>8,420</u>	<u>3,057</u>
Amounts falling due after more than one year:				
Bank loans	75	—	77	—
Obligations under hire-purchase contracts	10	—	16	—
	<u>85</u>	<u>—</u>	<u>93</u>	<u>—</u>

Obligations under hire-purchase contracts are secured over the relevant assets.

Bank loans and overdrafts are secured by fixed and floating charges over the Group's assets.

Notes to the Accounts

13 Creditors (continued)

Amounts falling due after more than one year are payable as follows:

Group	1997		1996	
	Bank loans £'000	Hire purchase creditors £'000	Bank loans £'000	Hire purchase creditors £'000
Between one and two years	3	5	3	16
Between two and five years	11	5	11	-
Over five years	61	-	63	-
	<u>75</u>	<u>10</u>	<u>77</u>	<u>16</u>

Company	£'000	£'000
Between one and two years	-	6
Between two and five years	-	14
	<u>-</u>	<u>20</u>

The bank loan is a commercial mortgage with a term of 25 years. Capital and interest are repaid quarterly and interest is payable at a rate of 3% over base rate. The loan was scheduled to expire in 2013 but has been repaid since the year end.

14 Deferred taxation

Group
£'000
Balance at 1 October 1996
Utilised in year
At 30 September 1997

11
(11)

-

Provision for timing differences has been made as follows:

	1997	Provided	1996
	£'000		£'000
Accelerated capital allowances	-		-
Other short-term timing differences	-		11
	<u>-</u>		<u>11</u>

There is no unprovided deferred tax.

Notes to the Accounts

15 Called up share capital

	1997	1996
	£'000	£'000
Authorised:		
38,000,000 (1996 – 38,000,000)		
Ordinary shares of 25p each	<u>9,500</u>	<u>9,500</u>
Allotted and fully paid:		
29,344,898 (1996 – 28,830,613)		
Ordinary shares of 25p each	<u>7,336</u>	<u>7,208</u>

On 20 January 1997, 514,285 ordinary shares of 25p each were issued, at a premium of 10p, as further consideration for the acquisition of Roger Maber & Associates Limited (now Osprey RMA Limited) and on 22 January 1998 a further 720,000 ordinary shares of 25p each were issued in respect of this acquisition (see note 11).

At 30 September 1997 the following options had been granted and were still outstanding under the company's Discretionary Share Option Scheme:

Number of shares	Exercise price	Dates normally exercisable
6,546	77.9p	1991 to 1998
21,819	44.0p	1993 to 2000
20,000	34.5p	1996 to 2003
100,000	32.5p	1997 to 2004
65,224	27.0p	1998 to 2005
345,224	25.0p	1999 to 2006
64,320	35.5p	2000 to 2007

During the year the mid-market price of the shares ranged from 17p to 35p. At 30 September 1997, the mid-market price of the shares was 17p.

Options may only be exercised if, in any three financial periods of the Company, commencing with the financial period in which the options are granted or any subsequent financial period, the percentage growth in earnings per share exceeds the percentage increase in the Retail Prices Index.

The terms of the service agreement with Mr Roger Maber, the Managing Director and vendor of Osprey RMA Limited ("RMA"), provide for the grant to Mr Maber of options to subscribe for shares in the company dependent upon the performance of RMA in each of the three years ending 30 September 1997; the option price to be not less than the mid-market price of the shares. The performance criteria defined in the service agreement were not achieved until the year ended 30 September 1997 and options valued at £60,000 were granted to Mr Maber at a price of 25p on 20 February 1998.

Notes to the Accounts

16 Reserves

	Share premium account £'000	Acquisition reserve £'000	Capital reserve £'000	Profit and loss account £'000
Group				
Balance at 1 October 1996	386	(6,562)	—	(1,943)
Goodwill written off on acquisitions (note 17)	—	(199)	—	—
Capital Reserve written back on disposal of subsidiary	—	(36)	—	—
Premium arising on issue of shares	52	—	—	—
Retained profit for the year	—	—	—	577
Balance at 30 September 1997	<u>438</u>	<u>(6,797)</u>	<u>—</u>	<u>(1,366)</u>
Company				
Balance at 1 October 1996	544	—	111	(779)
Retained profit for the year	—	—	—	1,499
Premium arising on issue of shares	52	—	—	—
Balance at 30 September 1997	<u>596</u>	<u>—</u>	<u>111</u>	<u>720</u>

17 Goodwill written off on acquisitions

Goodwill written off on acquisitions arises as follows:

	£'000
Additional costs in connection with acquisition of the business of The Direct Partnership Limited in the year ended 30 September 1996 by a subsidiary	<u>199</u>

18 Reconciliation of movements in shareholders' funds

	1997		1996	
	Group £'000	Company £'000	Group £'000	Company £'000
Opening shareholders' funds	(551)	7,444	(1,069)	6,426
Retained profit for the year	577	1,499	610	8
Shares issued	128	128	438	438
Shares to be issued	(180)	(180)	360	360
Goodwill written off on acquisitions (note 17)	(199)	—	(1,102)	—
Premium arising on issues of shares	52	52	212	212
Capital reserve written back on disposal	(36)	—	—	—
Closing shareholders' (deficit)/funds	<u>(209)</u>	<u>8,943</u>	<u>(551)</u>	<u>7,444</u>

Notes to the Accounts

19	Analysis of cash flows for headings netted in cash flow statement	1997 £'000	1996 £'000
	Reconciliation of operating (loss)/profit to net cash inflow/(outflow)		
	from operating activities		
	Operating (loss)/profit	(162)	957
	Depreciation	314	311
	Profit on sale of fixed assets	(18)	-
	Decrease in work in progress	604	163
	Decrease/(increase) in debtors	573	(670)
	Decrease in creditors	(178)	(1,155)
	Net cash inflow/(outflow) from operating activities	1,133	(394)
	Return on investments and servicing of finance		
	Net interest paid	(217)	(240)
	Interest element of finance lease payments	(7)	(5)
	Ordinary dividends paid to minority interest	(72)	(18)
	Net cash outflow from return on investments and servicing of finance	(296)	(263)
	Taxation		
	ACT recovered	25	-
	ACT paid	(18)	(4)
	Total taxation	7	(4)
	Capital expenditure and financial investments		
	Purchase of tangible fixed assets	(295)	(149)
	Disposal of tangible fixed assets	83	19
	Net cash outflow from capital expenditure and financial investments	(212)	(130)
	Acquisitions and disposals		
	Purchase of subsidiary	-	(32)
	Purchase of goodwill	(199)	(45)
	Overdraft disposed of with subsidiary	65	-
	Net cash outflow from acquisitions and disposals	(134)	(77)

Notes to the Accounts

20 Sale of subsidiary

	£'000
Fixed assets	43
Work in progress	5
Debtors	1,156
Bank overdraft	(65)
Creditors	(1,024)
Finance leases	(14)
Net assets disposed of	101
Capital reserve	(36)
Minority interest	(20)
Profit on disposal	1,055
	<u>1,100</u>
Satisfied by	
Cash	<u>1,100</u>
Profit on disposal	1,055
Expenses of sale	(150)
Profit per profit and loss account	<u>905</u>

The cash consideration, received on 19 December 1997, is included in other debtors in note 12. The business sold during the year contributed £208,000 to the group's net operating cash flows, and contributed £9,000 in respect of net returns on investments and servicing of finance, paid £22,000 in respect of taxation and utilised £59,000 for capital expenditure.

21 Analysis of net debt

	At 1.10.96	Cashflow	Disposal	Other non-cash changes	At 30.9.97
	£'000	£'000	£'000	£'000	£'000
Overdrafts	(1,732)	494	65	-	(1,173)
Debt due after one year	(77)	2	-	-	(75)
Debt due within one year	(517)	(77)	-	-	(594)
Finance leases	(44)	14	-	(19)	(49)
	<u>(638)</u>	<u>(61)</u>	<u>-</u>	<u>(19)</u>	<u>(718)</u>
Total	<u>(2,370)</u>	<u>433</u>	<u>65</u>	<u>(19)</u>	<u>(1,891)</u>

Notes to the Accounts

22 Financial commitments and contingent liabilities

(a) Obligations under operating leases

At 30 September 1997 the Group had commitments under operating leases to make payments in the next year as follows:

	Land and buildings £'000	Other £'000
Operating leases which expire:		
Within one year	190	2
Between one and two years	110	5
Between two and five years	30	25
	<u>330</u>	<u>32</u>

(b) Capital expenditure

There was no capital expenditure committed at 30 September 1997 or 30 September 1996.

(c) Guarantees

There exist between the company and certain of its subsidiaries reciprocal guarantees covering their overdraft facilities.

23 Related party transactions

Loans from the directors to the Group during the year were as follows:

	J Rubins £	D P Murphy £	C R Smith £
Loan to Osprey Communications plc:			
Balance at 30 September 1996	166,667	166,666	166,667
Loans advanced/(repaid)			
4 June 1997	-	(166,666)	-
16 July 1997	-	250,000	-
4 September 1997	220,000	-	-
16 September 1997	(220,000)	-	-
Balance at 30 September 1997	<u>166,667</u>	<u>250,000</u>	<u>166,667</u>

The terms attaching to these loans were as follows:

- (1) The loans outstanding at 30 September 1996 advanced by Mr Rubins, Mr Murphy and Mr Smith attract interest at a rate of 2½% above the base rate of Midland Bank plc and are repayable on demand.
- (2) The loan advanced by Mr Murphy on 4 June 1997 attracts interest at a rate of 5¾% above the base rate of Midland Bank plc and is repayable on demand but not later than 16 April 1998.
- (3) The loan advanced by Mr Rubins on 4 September 1997 and repaid on 16 September 1997 attracted interest at a rate of 2½% above the base rate of Midland Bank plc.

Osprey Communications plc 5 Year History

Five year performance history

	1993	1994	1995	1996	1997
	16 months (as restated)				
	£'000	£'000	£'000	£'000	£'000
Turnover	39,946	28,948	26,509	32,641	31,914
Cost of sales	(30,211)	(21,640)	(19,900)	(23,569)	(22,578)
Gross profit	9,735	7,308	6,609	9,072	9,336
Administrative expenses	(10,025)	(6,919)	(8,275)	(8,115)	(9,498)
Operating (loss)/profit	(290)	389	(1,666)	957	(162)
Net interest payable	(462)	(124)	(170)	(245)	(224)
Exceptional items	(4,329)	(73)	—	—	905
(Loss)/Profit on ordinary activities before taxation	(5,081)	192	(1,836)	712	519
Taxation	172	140	—	(78)	117
(Loss)/Profit on ordinary activities after taxation	(4,909)	332	(1,836)	634	636
Minority interests	—	(26)	(1)	(24)	(59)
(Loss)/Profit for the period	(4,909)	306	(1,837)	610	577

Notice of Meeting

NOTICE IS HEREBY GIVEN that the seventeenth Annual General Meeting of Osprey Communications plc will be held at Osprey House, 10 Little Portland Street, London W1N 6LX, on Thursday 16 April 1998 at 10am, for the following purposes:

Ordinary Business

1. To receive the Directors' Report and Accounts for the financial year ended 30 September 1997.
2. To re-elect Mr D P Murphy as a director of the company.
3. To re-elect Mr R A Hammond-Chambers as a director of the company.
4. To re-appoint Deloitte & Touche as auditors and to authorise the directors to fix their remuneration.

Special Business

To consider and, if thought fit, to pass the following Resolution:

Special Resolution

5. THAT the directors be and are hereby empowered for the period commencing on the date of the passing of this Resolution and expiring on whichever is the earlier of fifteen months from the passing of this Resolution or the date of the next Annual General Meeting to allot equity securities (as defined in Section 94(2) of the Companies Act 1985) of the company as if Section 89(1) of the Act did not apply to any such allotment. Provided that this power shall be limited to allotments of equity securities of an aggregate nominal amount not exceeding £375,811 save that the company may before the expiry of the power hereby conferred make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power hereby conferred had not expired.

On behalf of the Board
P F Ranford FCA
Company Secretary
Osprey House
10 Little Portland Street
London W1N 6LX
12 March 1998

Notes:

- (1) Resolution 5 authorises the directors to allot ordinary shares for cash up to an amount not exceeding 5% of the issued ordinary share capital without first being required to offer such shares to existing shareholders. The directors have no present intention of allotting shares other than in relation to options under the company's share option scheme.
- (2) A member entitled to attend and vote at the Meeting may appoint a proxy (who need not also be a member of the company) to attend and vote in his/her place. A form of proxy is enclosed and proxies must be lodged with the Company Secretary at Osprey House, 10 Little Portland Street, London W1N 6LX not later than 48 hours before the time appointed for the Meeting. The return of a proxy card will not preclude a member from attending and voting at the Meeting.