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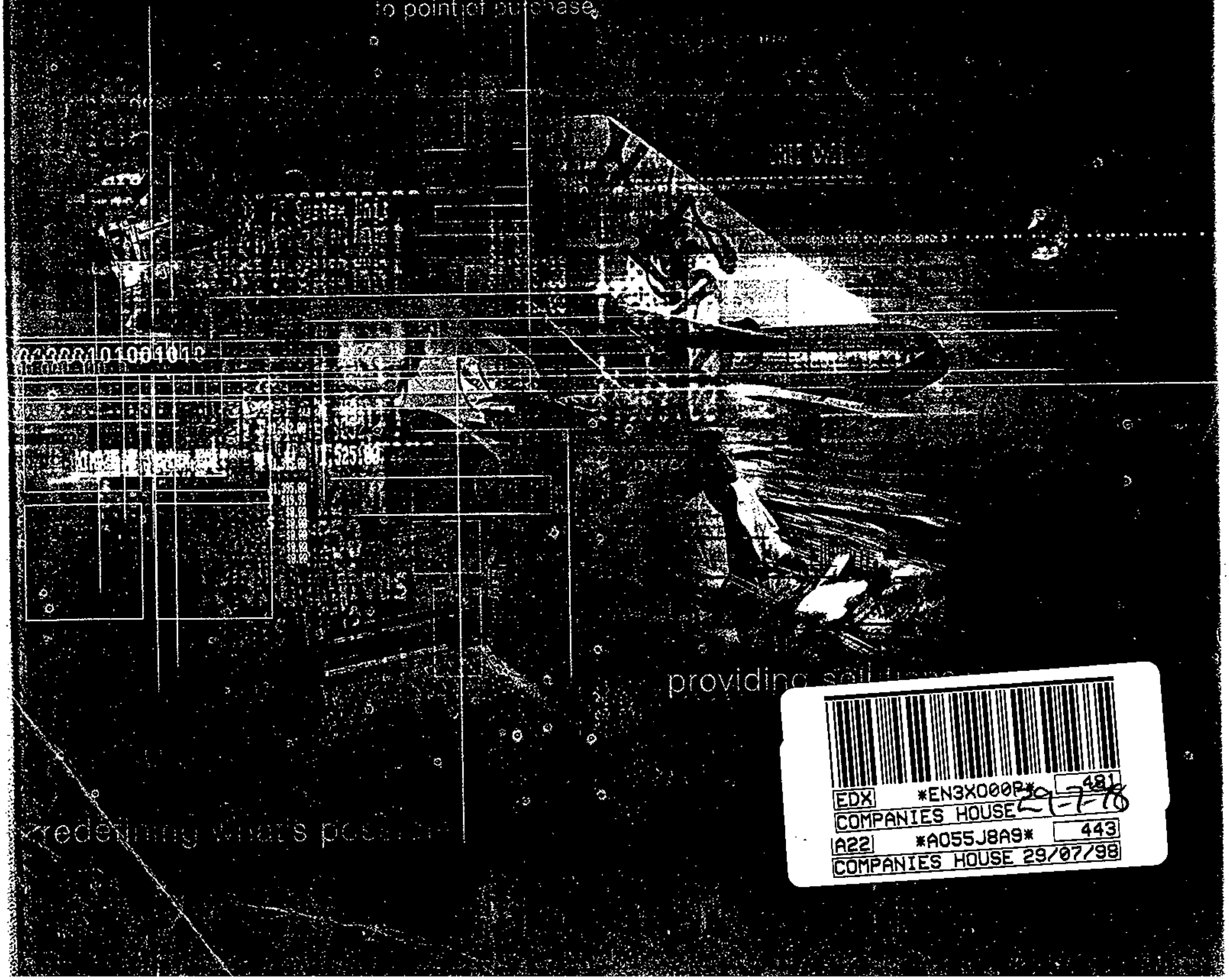
annual report and accounts 1997

hands on from strategy
to point of purchase



The directors have pleasure in presenting their annual report to shareholders, together with the audited financial statements for the year ended 31st December 1997 on pages 20 to 43.

Change of Name

The name of the Company was changed from Aspen Communications plc to Aspen Group plc on 12th June 1997.

Principal Activities and Business Review

The Company is a holding and management company whose subsidiaries provide a range of marketing and media services and operate in three divisions: Marketing Communications, Specialist Printing and Communications Services. More details of these activities, and the development of the company and its subsidiaries are given in the Chairman's statement on page 5 and in the Operations Review on pages 6 to 8.

Results and Dividends

A summary of the results is shown on page 20 and is further explained in the Financial Review on pages 9 and 10.

An interim dividend of 2.5p per share (1996: 2.5p) was paid in November 1997. The directors have recommended that no final dividend be paid (1996: 3.75p) and therefore the total dividend is 2.5p per share (1996: 6.25p). After deducting the total dividend, the retained loss for the year in the Group was £2,062,000 (1996: profit £2,000).

The Company's mid-market share price was 91.5p at 31st December 1997 and the range of market prices during the year was between 91.5p and 201.0p.

Purchase of Minorities

On 19th November 1997 the Group acquired the remainder of the beneficial interest in Aspen Direct Communications BV. for £132,657 settled by the allocation of 127,555 Aspen Group plc shares held by the Aspen Group plc ESOP Trust plus an agreement to grant 55,138 executive share options in Aspen Group plc. The shares are being held in trust for three years.

Disposals

On 24th March 1997 the Company sold its interest in Aspen Insurance Services plc (AIS) held through AIS Holdings Limited to Fortis (UK) Limited for an aggregate amount of £8.25m in cash, of which £4.5m was the repayment by AIS of inter-company loans.

On 8th July 1997 the Company sold its interest in Broker Forms and Print Limited for a maximum consideration of £400,000 of which £260,000 was payable immediately and the remainder was deferred or conditional.

On 5th September 1997 the Company sold its 80% interest in GP Films for £1,625,000 in cash, of which £650,000 was repayment of inter-company loans.

Post Balance Sheet Event

On 21st April 1998 the Company exchanged contracts for the sale of its principal London property, Christ Church, in Marylebone for £2.0m (book value £1.9m).

Directors

The directors of the Company are detailed inside the front cover. Mr H P J Meakin resigned from the Board on 30th April 1997. Mr J D Salmon replaced Mr H P J Meakin as non-executive Chairman on 22nd April 1997.

Three additional non-executive directors were appointed to the Board during the year. Mr J Brackenbury was appointed on 11th July 1997, Mrs J Carr was appointed on 9th September 1997 and Mr R Baker-Bates was appointed on 13th November 1997.

In accordance with the Company's Articles of Association, Messrs J Brackenbury, R Baker-Bates and Mrs J Carr are retiring due to their appointment during the year and will offer themselves for re-election at the Annual General Meeting.

Also in accordance with the Company's Articles of Association Messrs I Vinall and E A R Balding are retiring by rotation and will offer themselves for re-election at the Annual General Meeting.

During the year the Company renewed its Directors and Officers Liability insurance. This indemnifies directors and officers against legal liability for damages in respect of claims made against them arising from any wrongful act committed by them as directors or officers of the Company and in their positions in all subsidiary undertakings. It also covers the directors and officers of all subsidiary undertakings. The directors' interests in the shares of the Company are shown in the report of the Remuneration Committee on page 15.

Share Capital

Details of the changes in the share capital of the Company are shown in Note 23 to the financial statements. Except for the holdings of ordinary shares listed below and excluding directors, the directors have not been notified of any person holding 3% or more of the issued share capital of the Company at 1st May 1998.

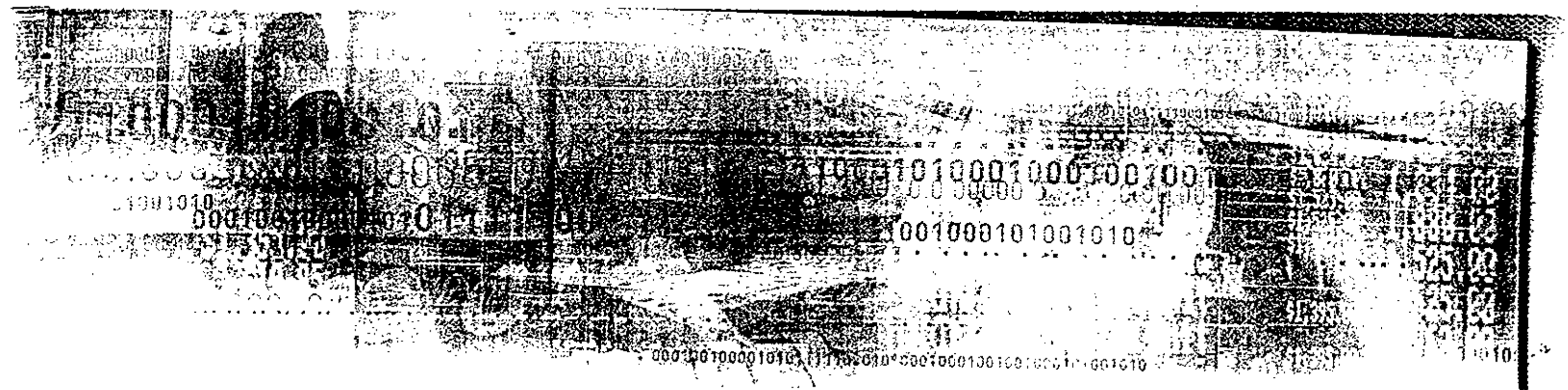
Shareholder	Number of Shares (1st May 1998)	%
Mr H P J Meakin	2,002,390	12.93
Edinburgh Fund Managers	1,931,170	12.48
Gartmore Investment Management	1,475,846	9.53
Friends Provident	790,000	5.10
Herald Investment Management	775,000	5.01
Framlington	614,084	3.97
Stephen Hoskins (Capital Partners) Limited	467,500	3.02

The directors have been notified that the interests of Edinburgh Fund Managers plc, and Friends Provident are non-beneficial and represent shares held under discretionary management.

Special Business

A resolution will be proposed at the Annual General Meeting to renew the existing powers of the directors, which expire at that time, to issue equity securities in certain circumstances and up to a stated limit, other than pro-rata to shareholders.

A further resolution will be proposed to renew the Company's power in certain circumstances, to purchase up to 10% of its own shares. The Board would commence purchasing ordinary shares only after careful consideration and in the expectation that it would result in an increase in expected earnings per share after taking account of other investment opportunities and the overall financial position of the Company.



Remuneration Committee

The Remuneration Committee comprised the Chairman and the non-executive directors of the Company as follows:

Mr H P J Meakin (Chairman of the Remuneration Committee until 22nd April 1997)

Mr J D Salmon, OBE (Chairman of the Remuneration Committee from 22nd April 1997 to 18th March 1998)

Mr P J M Threlfall

Mr J Brackenbury (since appointment as a director and Chairman of the Remuneration Committee from 18th March 1998)

Mrs J Carr (since appointment as a director)

Mr R Baker-Bates (since appointment as a director)

Since 4th February 1997 when Mr H P J Meakin became non-executive Chairman, the Company has complied with Section A of the best practice provisions on directors' remuneration annexed to the Listing Rules of the London Stock Exchange. The Remuneration Committee has given full consideration to Section B of the best practice provisions.

The Company's Remuneration Committee decides the remuneration policy that applies to executive directors and the Group's other senior management. In setting the policy it considers a number of factors including:

a) the basic salaries and benefits available to executive directors of comparable companies;

b) the need to attract and retain directors of an appropriate calibre;

c) the need to ensure executive directors' commitment to the continued success of the Company by means of incentive schemes.

Remuneration of Non-executive Directors

The remuneration of the non-executive directors is determined by the Board with the assistance of independent advice concerning comparable organisations and appointments. The services of Mr J D Salmon are provided under a contract with Vitec Associates Limited. The other non-executive directors do not have service contracts with the Company.

Messrs J D Salmon, J Brackenbury, R Baker-Bates and Mrs J Carr do not receive any pension or any other benefits from the Company. Mr P J M Threlfall has historical pension rights. They do not participate in any of the bonus or incentive schemes or share option schemes.

Remuneration Policy for Executive Directors

The Company's remuneration policy for executive directors is to:

a) have regard to the directors' experience and the nature and complexity of their work in order to pay a competitive salary that attracts and retains management of the highest quality;

b) link individual remuneration packages to the Group's long term performance through the award of share options and incentive schemes;

c) provide post retirement benefits through the Group's pension schemes;

d) provide employment related benefits including the provision of a company car, life assurance, insurance relating to the director's duties and medical insurance.

Salaries and Benefits

The Remuneration Committee meets at least once a year in order to consider and set the annual salaries for executive directors, having regard to personal performance and independently obtained information.

Performed Related Incentive Plan

a) Annual Bonus

The annual bonus of executive directors with Group responsibilities is set individually by reference to the performance of the Group. Executive directors with responsibility for specific businesses are rewarded by reference to the performance of those businesses. Mr I K Burns was guaranteed a bonus of £40,000 for 1997.

b) Share Options

The Committee granted share options during the year to executive directors of the Group and subsidiary companies with performance related conditions under both an approved and an unapproved scheme. Performance targets are set individually and are typically based on the percentage increase in the company's earnings per share compared to RPI.

Contracts of Service

None of the directors have contracts of service greater than twelve months. Messrs E A R Balding and I Vinall who are retiring by rotation and seeking re-election both have one year service contracts.

Non-executive Directorships

The Remuneration Committee believes that the Company may benefit from executive directors accepting appointments as non-executives and, as a consequence, allows them to hold one outside appointment as a non-executive director. Reasonable fees related to such employment may be retained by the director concerned.

Directors Emoluments

No director waived emoluments in respect of the year ended 31st December 1997. Directors' detailed emoluments for the year were as follows:

	Salary and fees £000	Bonus £000	Compensation for loss of office £000	Benefits £000	Pension contributions £000	1997 Total £000	1996* Total £000	Pension contributions £000
I K Burns	165	40	-	13	33	251	206	21
E A R Balding	97	21	-	8	14	140	114	10
M A Rogers	90	-	-	9	12	111	103	6
I Vinall	87	-	-	8	-	95	86	-
J D Salmon	43	-	-	-	-	43	13	-
P J M Threlfall	5	-	-	-	-	5	9	-
J Brackenbury	7	-	-	-	-	7	-	-
J Carr	5	-	-	-	-	5	-	-
R Baker-Bates	3	-	-	-	-	3	-	-
H P J Meakin	30	-	80	6	4	120	137	12
N F Worgan	-	-	-	-	-	-	215	21
Total	532	61	80	44	63	780	883	70

*The 1996 column includes pension contributions.

The compensation for loss of office payment to H P J Meakin includes a contribution to his pension plan.

Pensions

At the beginning of the year three of the executive directors were members of the Group's defined benefit scheme. Members earned a pension of up to two thirds of salary at the rate of one sixtieth per year of service. In addition, top-up payments on a defined contribution basis were made at levels which varied for individual directors. During the year the defined benefit scheme was closed and the remaining two executive directors who were members of that scheme joined the Aspen Group pension scheme which is a defined contribution scheme. The company makes payments in respect of other executive directors who have their own pension arrangements.

Directors' Interests

Interests in shares

The interests of the directors in the ordinary shares of 5p of the Company and other Group companies, all of which are beneficial, at 31st December 1997 were:

	31st December 1997	1st January 1997 (or date of appointment)
P J M Threlfall	**1,437,430**	1,437,430
I Vinall	**189,669**	189,669
E A R Balding	**153,157**	153,157
I K Burns	**145,101**	Nil
M A Rogers	**40,000**	40,000
J D Salmon	**5,000**	5,000
J Brackenbury	**Nil**	Nil
J Carr	**Nil**	Nil
R Baker-Bates	**Nil**	Nil

Apart from the interests disclosed above, no directors were interested at any time in the year in the share capital or loan stock of the Company or other Group companies. There have been no changes since the year end.

Interests in share options

Under the terms of the Aspen Share Options Schemes the following options have been granted to the directors:

	Number of share options held	Option price	Exercise period
E A R Balding	35,000	168p	1993-2000
	5,000	85p	1994-2001
I Vinall	40,000	85p	1994-2001
M A Rogers	40,000	220p	1998-2005
(granted 28th March 1997)	40,000	197p	2000-2007
I K Burns	400,000	222p	1999-2006

Save as disclosed above there were no grants or exercises of options during the year. The share options granted during the year to Mr M A Rogers have performance conditions attaching to them. The market price of the Company's shares at the end of the financial year was 91.5p and the range of market prices during the year was between 91.5p and 201p.

The directors consider they have complied with the principles and operative provisions of the Cadbury Committee's Code of Best Practice for the year ended 31st December 1997 except for the composition of the Audit Committee until 11th July 1997 from which time there has been at least three non-executive directors of whom the majority have been independent.

Statement of Directors' Responsibilities

Company law requires the Board of Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements the Board 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, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Board are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable it to ensure that the financial statements comply with the Companies' Act 1985. The Board has a general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Internal Financial Control

The Board of directors is responsible for the Group's system of internal financial control. It must be recognised that any such system can provide only reasonable and not absolute assurance of the safeguarding of Group assets, the maintenance of proper accounting records and the reliability of financial information. The Board has reviewed the effectiveness of the system of internal financial control for the period to 31st December 1997. The key features of the control system which has been established are:

Control environment

At the end of the year the Group Board comprised four executive and five non-executive directors. The directors take an active role in monitoring the control environment. All non-executive directors are members of the Audit Committee. The Board meets regularly to discuss corporate strategy and investment planning and to monitor performance. Operational control and the implementation of Group strategy and policy is delegated by the Board to the executive directors and the directors of each subsidiary company.

Risk assessment

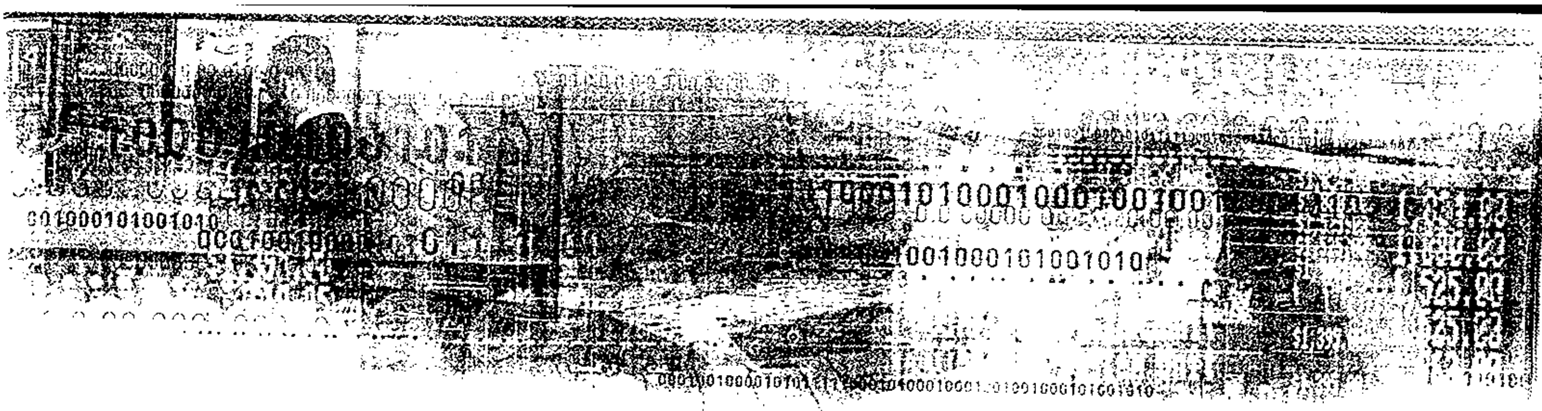
The Board acts to identify, monitor and control risks affecting the Group as a whole. In addition, responsibility for risk identification and monitoring within each subsidiary is delegated to local management.

Control procedures

Group accounting procedures identify and provide guidance in key control areas. Within that framework, control procedures appropriate to its own needs and circumstances are developed and maintained by each subsidiary. Implementation of these procedures is monitored centrally. The Board maintains control both over monthly reporting by each subsidiary and the annual budget setting process.

Monitoring and information systems

Information systems are developed and maintained by each subsidiary appropriate to its own requirements. Detailed management accounts are prepared and these form a key part of a monthly meeting involving executive directors and local management. In addition, information systems and financial reporting issues in general are subject to detailed review by the Audit Committee on an ongoing basis.



Going Concern

The directors confirm that they are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Property Value

The market value of the Group's freehold property is currently less than the cost included in the financial statements. In the opinion of the directors, there is no permanent diminution in value.

Creditor Payment Policy

The Company agrees terms and conditions under which business transactions with suppliers are conducted. It is the Company's policy that payments to suppliers should be made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions. The average number of creditor days for administrative expenditure is 26 days.

People within the Group

Management of the Group is devolved to its operating companies and our policy is to support our people by training, career development and opportunities for promotion. We believe in an open management approach and close consultation on matters of concern to our staff. Information is shared on each company's performance which, together with participation in the Company's share option schemes and application of performance related bonuses, encourage staff involvement. The Group's policy provides that disabled persons, whether registered or not, shall be considered for employment, training and career development having regard to their aptitude and abilities.

Auditors

A resolution to reappoint Coopers and Lybrand as auditors will be proposed at the Annual General Meeting.

By Order of the Board

M D Comras, Secretary *M D Comras*

7th May 1998

In addition to our audit of the financial statements, we have reviewed the directors' statements on pages 13 and 16 concerning the company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v) which is not disclosed.

Basis of opinion

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 Group's system of internal financial control or its corporate governance procedures nor on the ability of the Group to continue operational existence.

Opinion

With respect to the directors' statements on internal financial control on page 16 and going concern on page 17 in our opinion the directors have provided the disclosures required by the Listing Rules 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 16 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43 (j).

Coopers & Lybrand

Coopers & Lybrand

Chartered Accountants
1 Embankment Place
London
WC2N 6NN

7th May 1998

Report of the Auditors to the members of Aspen Group plc

ASPEN

We have audited the financial statements on pages 20 to 43

Respective responsibilities of directors and auditors

As described above 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 Company's circumstances, 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 at 31st December 1997 and of the loss, total recognised gains and losses and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

Coopers & Lybrand

Chartered Accountants and Registered Auditors
1 Embankment Place
London
WC2N 6NN

7th May 1998

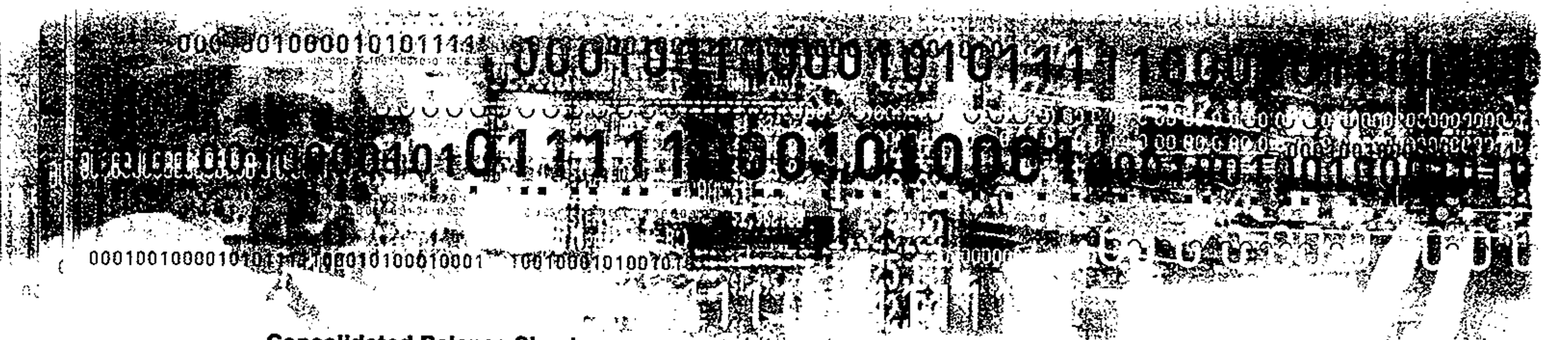
Consolidated Profit and Loss Account
For the year ended 31st December 1997

ASPEN

		Continuing Businesses				
	Note	before exceptional items £'000	exceptional items £'000	Total continuing businesses £'000	Discontinued businesses £'000	Total £'000
Turnover	1	90,111	-	90,111	1,554	91,665
Cost of sales		(63,972)	-	(63,972)	(1,026)	(64,998)
Gross profit		26,139	-	26,139	528	26,667
Distribution costs		(1,105)	-	(1,105)	-	(1,105)
Administrative expenses	2	(23,521)	(1,694)	(25,215)	(474)	(25,689)
Operating profit/(loss)		1,513	(1,694)	(181)	54	(127)
Profit on disposal of fixed assets	3	-	-	-	-	-
Profit on disposal of subsidiaries before goodwill		-	-	-	3,189	3,189
Goodwill write-back		-	-	-	(3,692)	(3,692)
Loss on disposal of subsidiaries	4	-	-	-	(503)	(503)
		1,513	(1,694)	(181)	(449)	(630)
Interest (net)	5	(936)	-	(936)	(97)	(1,033)
Profit/(loss) on ordinary activities before taxation	6	577	(1,694)	(1,117)	(546)	(1,663)
Taxation on profit/(loss) on ordinary activities	9	(339)	272	(67)	-	(67)
Profit/(loss) on ordinary activities after taxation		238	(1,422)	(1,184)	(546)	(1,730)
Minority interests	22	29	-	29	26	55
Profit/(loss) for the financial year	10	267	(1,422)	(1,155)	(520)	(1,675)
Dividends	11					(387)
Loss retained for the year	26					(2,062)
Earnings/(loss) per share	12	1.7p	(9.2)p	(7.5)p	(3.3)p	(10.8)p

Statement of Total Recognised Gains and Losses

For the year ended 31st December	1997 £'000	1996 £'000
(Loss)/profit for the financial year	(1,675)	969
Currency translation differences on foreign currency net investments	(170)	(150)
Total recognised gains and losses since the last financial statements	(1,845)	819



Consolidated Balance Sheet
At 31st December 1997

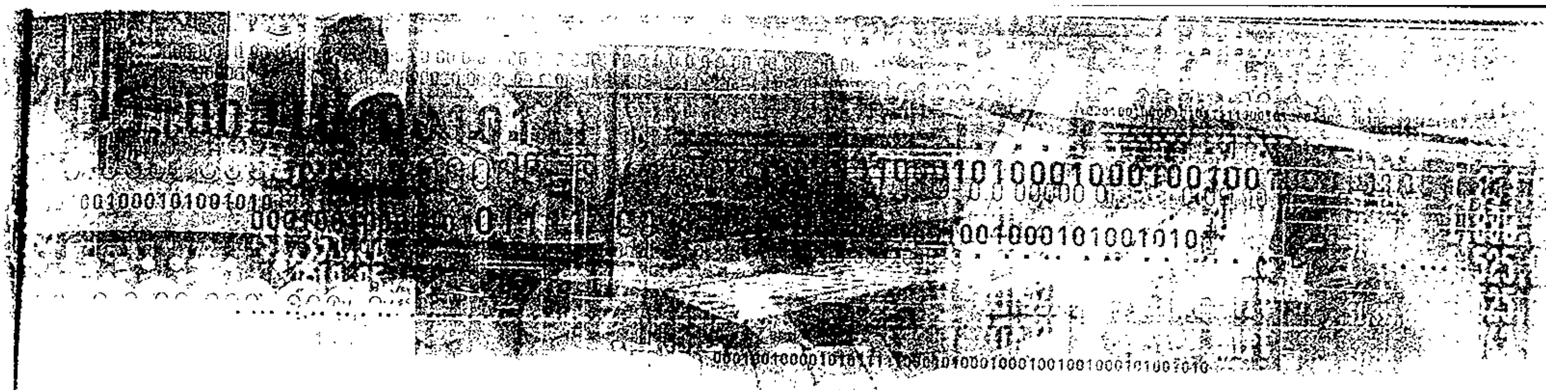
ASPEN

	Note	1997 £'000	1996 £'000
Fixed assets			
Tangible assets	13	16,195	19,402
Investments	14	298	-
		16,493	19,402
Current assets			
Stocks	15	4,190	4,110
Debtors: amounts falling due after one year	16	334	3,422
Debtors: amounts falling due within one year	16	20,622	23,885
Cash at bank	17	1,801	3,327
		26,947	34,744
Creditors:			
Amounts falling due within one year	18	(24,091)	(32,349)
Net current assets		2,856	2,395
Total assets less current liabilities		19,349	21,797
Creditors:			
Amounts falling due after more than one year	19	(9,770)	(12,526)
Provisions for liabilities and charges			
Deferred tax	20	(22)	(74)
Deferred income	21	(22)	(34)
Minority interests - equity	22	(35)	(89)
Net assets		9,500	9,074
Capital and reserves			
Called up share capital	23	774	774
Share premium account	24	5,353	5,348
Profit and loss account	26	3,373	2,952
Shareholders' funds - equity	27	9,500	9,074

These financial statements were approved by the Board of Directors on 7th May 1998.

I K Burns Director
M A Rogers Director

The attached notes form part of these financial statements.



Company Balance Sheet
At 31st December 1997

ASPEN

	Note	1997 £'000	1996 £'000
Fixed assets			
Tangible assets	13	2,416	2,283
Investments	14	23,118	32,195
		25,534	34,478
Current assets			
Debtors: amounts falling due after one year	16	6,834	-
Debtors: amounts falling due within one year	16	13,144	21,354
Cash at bank	17	-	9
		19,978	21,363
Creditors:			
Amounts falling due within one year	18	(8,157)	(11,816)
Net current assets		11,821	9,547
Total assets less current liabilities		37,355	44,025
Creditors:			
Amounts falling due after more than one year	19	(8,335)	(10,031)
Provisions for liabilities and charges			
Deferred tax	20	40	568
Net assets		29,060	34,562
Capital and reserves			
Called up share capital	23	774	774
Share premium account	24	5,353	5,348
Merger reserve	25	18,508	23,705
Profit and loss account	26	4,425	4,735
Shareholders' funds - equity	27	29,060	34,562

These financial statements were approved by the Board of Directors on 7th May 1998.

I K Burns Director
M A Rogers Director

The attached notes form part of these financial statements.

Cash Flow Statement
For the year ended 31st December 1997

	Note	1997 £'000	1996 £'000
Operating activities			
Net cash inflow from continuing operating activities	30	1,174	1,546
Net cash inflow from discontinued operating activities	30	289	899
Net cash inflow from operating activities		1,463	2,445
Returns on investments and servicing of finance			
Interest received		207	37
Bank and loan interest paid		(833)	(360)
Interest element of finance lease liabilities		(228)	(993)
		(854)	(1,316)
Taxation			
UK corporation taxation paid		(1,163)	(583)
Overseas taxation paid		(257)	-
		(1,420)	(583)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(2,064)	(5,533)
Sale of tangible fixed assets		333	2,242
Purchase of shares by ESOP		(497)	-
		(2,228)	(3,291)
Acquisitions and disposals			
Purchase of subsidiary undertaking		-	(163)
Purchase of minority interests		(23)	-
Sale of subsidiary undertakings	29	7,837	1,541
		7,814	1,378
Equity dividends paid		(967)	(955)
Cash inflow/(outflow) before financing activities		3,808	(2,322)
Financing			
Unsecured loan receipts		4,500	2,500
Repayments of amounts borrowed		(34)	(7)
Capital elements of finance lease liabilities		(7,298)	(1,464)
Issue of shares		5	278
Net cash (outflow)/inflow from financing		(2,827)	1,307
Increase/(decrease) in cash in the year	32	981	(1,015)

The attached notes form part of these financial statements.

The principal accounting policies used in preparation of the financial statements of the Group are described below. These policies have been applied consistently.

Basis of accounting

The financial statements have been prepared under the historical cost accounting rules in accordance with applicable Accounting Standards.

Basis of consolidation

The consolidated financial statements deal with the state of affairs and results of the Company and all its subsidiary undertakings. The results of subsidiary undertakings acquired or disposed of are included from or until the effective date of acquisition or disposal. Where merger relief, in accordance with the provisions of Section 131 of the Companies Act 1985 is applicable, a merger reserve is created and utilised to write off goodwill. In other instances goodwill is written off against retained profits.

The company has taken advantage of Section 230(3) of the Companies Act 1985 and has not presented a profit and loss account dealing with its own results.

Turnover

Turnover represents sales to third parties net of returns and allowances and excludes value added tax.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost together with any incidental costs of acquisition.

Depreciation is provided to write off the cost of fixed assets to their estimated residual value on a straight line basis in equal annual instalments over their useful lives as follows:

Short leasehold property - life of lease

Plant and equipment - 3 to 10 years

Motor vehicles - 4 years

Freehold properties are not depreciated as they are considered to have an estimated useful life in excess of 50 years. It is Group policy to maintain all buildings in good condition. Accordingly the directors consider that the lives of these assets and residual values are such that their depreciation is insignificant. Costs of repairs and maintenance which prolong the useful life of the properties, are charged against revenue in the year in which they are incurred.

Finance leases and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Assets acquired under finance leases and hire purchase agreements are capitalised and depreciated in accordance with Group policy. The corresponding finance liability is included within outstanding finance liabilities with the relevant interest proportion being charged to the profit and loss account.

Stocks

Stocks and work in progress are valued at the lower of cost and net realisable value. In respect of work in progress and finished goods, costs include all production overheads and an attributable proportion of indirect overhead expenses.

Government grants

Grants that relate to specific capital expenditure are treated as deferred income which is then credited to the profit and loss account over the useful life of the related asset. Other grants are credited to the profit and loss account when received.

Foreign exchange transactions

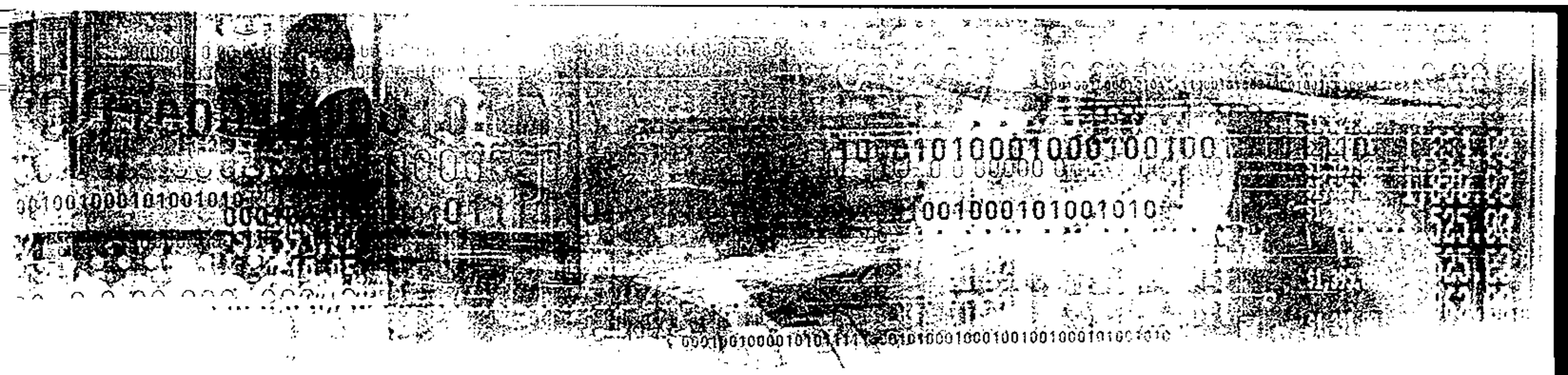
Assets and liabilities of subsidiaries in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year and the results of foreign subsidiaries are translated at the average rate for the year. Differences on exchange arising from the retranslation of the opening net investment in subsidiary companies, and from the translation of the results of those companies at average rates, are taken to reserves and reported in the statement of total recognised gains and losses. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Taxation

Taxation charges are computed at the rates applicable to the financial year and take into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred taxation only to the extent that it is probable that an actual liability will crystallise in the foreseeable future.

Pension costs

At the beginning of the year the Group operated both defined contribution and defined benefit schemes. During the year the defined benefit scheme was closed. The assets of the schemes are held separately from those of the Group in independently administered funds. The amounts charged against profit for the defined contribution scheme represent the contributions payable to the scheme in respect of the accounting period. Contributions to the defined benefit scheme were charged to the profit and loss account so as to spread costs of pensions over the employees' working lives with the Group.



1. Analysis of turnover and operating profit

Divisional analysis	Turnover		Operating Profit/(loss)		Net assets	
	1997	1996	**1997**	1996	**1997**	1996
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Marketing Communications	**59,948**	50,581	**1,965**	2,144	**1,143**	2,488
Specialist Printing	**28,031**	27,226	**1,015**	1,365	**12,577**	13,335
Communications Services	**3,839**	13,392	**199**	554	**222**	(2,420)
Group Management	**-**	-	**(1,666)**	(1,041)	**-**	-
Intra-divisional turnover	**(1,707)**	(1,387)				
Continuing businesses - before exceptional items	**90,111**	89,812	**1,513**	3,022	**13,942**	13,403
Exceptional items						
Marketing Communications			**(385)**	(135)		
Specialist Printing			**(7)**	-		
Group Management			**(1,302)**	(913)		
			(1,694)	(1,048)		
Continuing businesses - after exceptional items	**90,111**	89,812	**(181)**	1,974	**13,942**	13,403
Discontinued businesses	**1,554**	7,733	**54**	(44)	**(312)**	4,550
Unallocated net liabilities					**(4,130)**	(8,879)
Total	**91,665**	97,545	**(127)**	1,930	**9,500**	9,074

Discontinued businesses above comprise Aspen Insurance Services plc, Broker Forms and Print Limited and G.P. Film Services Limited. In addition, 1996 includes the discontinued operations associated with the titles and publishing rights of Aspen Litharne Publishing Limited.

Geographical analysis of turnover

	By origin		By destination	
	1997	1996	**1997**	1996
	£'000	£'000	**£'000**	£'000
UK gross of inter-divisional	**83,415**	90,871		
Less: Intercompany	**(3,717)**	(3,578)		
	79,698	87,293	**79,338**	84,443
USA and Canada	**5,801**	7,005	**5,815**	7,223
Rest of the World	**6,166**	3,247	**6,512**	5,879
	91,665	97,545	**91,665**	97,545

A geographical analysis of profits and net assets is not provided as in the opinion of the directors it would be prejudicial to the interests of the Group.

2. Exceptional operating costs

	1997 £'000	1996 £'000
Redundancy and reorganisation costs in connection with Group restructuring	1,422	478
US asset write-down	272	-
Change of Chief Executive Officer	-	210
Costs associated with move to the Stock Exchange Official List	-	360
	1,694	1,048

3. Exceptional profit on disposal of fixed assets

	1997 £'000	1996 £'000
Exceptional profit on disposal of fixed assets	-	1,200

On 17th February 1996 the premises and plant of Pensord Press Limited, one of the company's subsidiary undertakings, were substantially damaged by fire. The company was fully covered by insurance for material damage and for business interruption for a period of twelve months. The amount shown above represents the value of replacement assets paid for from the proceeds of the insurance claim.

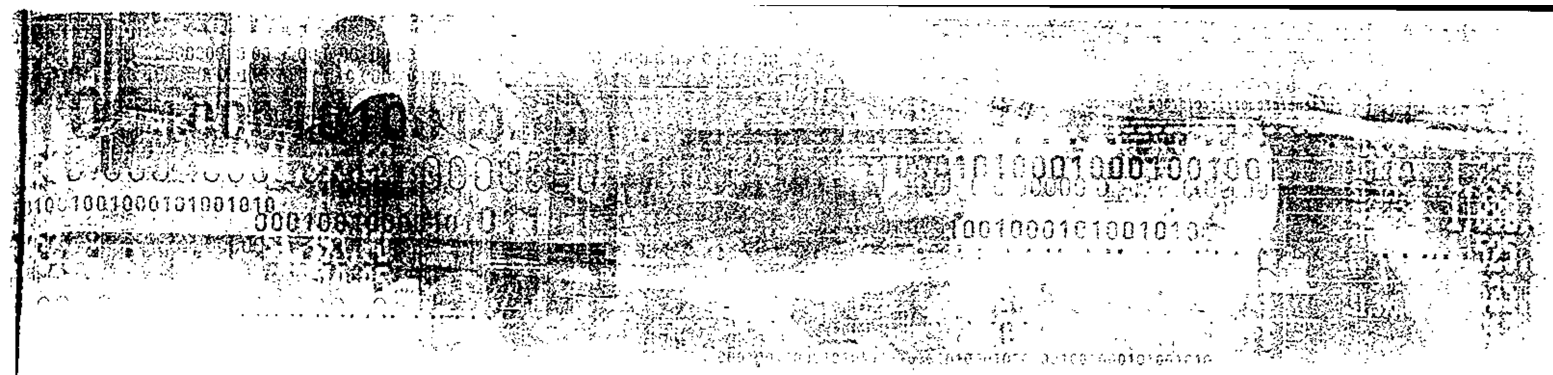
4. Loss on disposal of subsidiaries

The loss on disposal relates to the sale of the entire holdings in the following subsidiaries:

	Date of disposal	Holding prior to disposal	Profit/(loss) on disposal before goodwill	Goodwill previously written-off to reserves	Loss on disposal	Taxation	Loss on disposal after tax
1997							
Aspen Insurance Services plc	24/3/97	90%	2,833	(3,064)	(231)	-	(231)
Broker Forms and Print Limited	8/7/97	90%	(68)	(180)	(248)	-	(248)
GP Film Services Limited	5/9/97	80%	424	(448)	(24)	-	(24)
			3,189	(3,692)	(503)	-	(503)
1996			(98)	(68)	(166)	10	(156)

5. Interest (net)

	1997 £'000	1996 £'000
Payable:		
Bank loans, overdraft and other loans	823	378
Finance lease liabilities	228	1,034
	1,051	1,412
Bank interest receivable	(18)	(37)
	1,033	1,375



6. Profit /(loss) on ordinary activities before taxation

Profit /(loss) on ordinary activities before taxation is stated after charging/(crediting) the following:

	1997 £'000	1996 £'000
Depreciation	**3,114**	3,173
Profit on sale of tangible fixed assets	**(9)**	(1,200)
Auditors remuneration:		
Audit (parent company £55,000 (1996: £40,000))	**180**	145
Other services	**290**	250
Operating leases:		
Plant and machinery	**219**	154
Other assets including land and buildings - including £1,399,000 (1996: £935,000) funded by clients	**2,560**	1,583

7. Staff numbers and costs

The average number of persons, including directors, employed by the Group, during the year was as follows:

	1997 Number	1996 Number
Management and administration	**276**	325
Production and sales staff	**1,537**	1,416
	1,813	1,741

The aggregate payroll costs of these persons were as follows:

	1997 £'000	1996 £'000
Wages and salaries	**27,469**	26,187
Social security costs	**2,485**	2,329
Pensions and other costs (see note 34)	**736**	552
	30,690	29,068

Under the terms of the Executive and Staff Share Option Schemes, options to subscribe for the Company's shares have been granted to employees, including directors, as shown below. The options are exercisable not earlier than three years nor later than ten years from the date of grant.

The total options issued under the schemes and outstanding at 31st December 1997 were as follows:

Year of grant	Option price	Exercise period	Number of shares
1988	436p - 514p	1991 - 1998	**4,250**
1989	375p - 487.5p	1992 - 1999	**16,250**
1990	168p	1993 - 2000	**201,550**
1991	85p - 100p	1994 - 2001	**71,400**
1992	114p	1995 - 2002	**21,375**
1994	145p	1997 - 2004	**13,000**
1995	220p - 245p	1998 - 2005	**132,000**
1996	139p - 222p	1999 - 2006	**463,500**
1997	108.5 - 197p	2000 - 2007	**233,000**
			1,156,325

8. Directors' remuneration

The amount of directors' remuneration payable during the year was as follows:

	1997 £'000	1996 £'000
Aggregate emoluments	576	599
Company pension contributions to money purchase schemes	63	70
Performance related incentive payments	61	114
Compensation for loss of office (including ex-gratia payments)	80	100
Amounts contributed by GWR Group PLC and Classic FM PLC	-	(55)
	780	828

The executive directors are paid basic salaries and can also earn an incentive payment based on achievement of profit targets.

During the year the Group's defined benefit pension scheme was closed.

The emoluments of the highest paid director in both 1997 and 1996 are disclosed within the Report of the Remuneration Committee on pages 13 to 15.

9. Taxation

The Group provision for taxation, based on the results for the year, comprises:

	1997 £'000	1996 £'000
United Kingdom corporation tax at 31.5% (1996: 33%)		
Current	(121)	504
Deferred	236	(189)
Overseas taxation	258	254
Under/(over) provision in respect of prior years:		
Current	(185)	(10)
Deferred	(121)	32
	67	591

The tax charge for the year has been increased by £126,000 (1996: £86,000 reduction) in respect of the excess of tax allowances over depreciation and other timing differences on which, in accordance with the Group's accounting policy, no deferred taxation has been provided.

10. Loss for the financial year

The parent company's loss for the financial year was £5,120,000 (1996: profit - £8,007,000).

11. Dividends

	1997 £'000	1996 £'000
Interim ordinary dividend paid during the year - 2.5p per share (1996: 2.5p per share)	**387**	387
Proposed final ordinary dividend at 31st December 1997 - nil per share (1996: 3.75p per share)	**-**	580
	387	967

12. Earnings per share

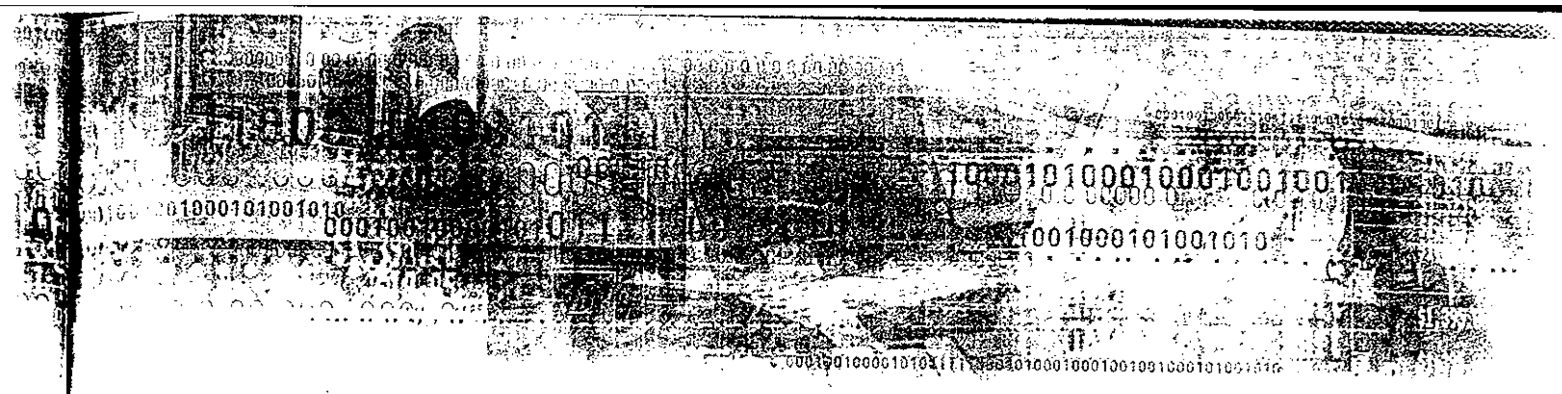
Earnings per share are calculated, on the net basis, on the loss on ordinary activities after taxation and minority interests of £1,675,000 (1996: profit £969,000) on 15,478,116 5p ordinary shares, being the weighted average number of shares in issue throughout 1997 (1996: 15,310,902).

Fully diluted earnings per share are not materially different from earnings per share as disclosed.

13. Tangible fixed assets

	Properties Freehold £'000	Properties Short Leasehold £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
The Group					
Cost					
At 1st January 1997	1,316	7,811	28,161	1,521	**38,809**
Additions	4	170	1,805	129	**2,108**
Disposals	-	(304)	(1,611)	(545)	**(2,460)**
Disposals of subsidiary undertakings	-	(85)	(2,920)	(122)	**(3,127)**
Currency	-	(12)	(30)	-	**(42)**
At 31st December 1997	**1,320**	**7,580**	**25,405**	**983**	**35,288**
Depreciation					
At 1st January 1997	-	4,684	13,865	858	**19,407**
Charge for the year	-	275	2,619	220	**3,114**
Released on disposal	-	(299)	(1,399)	(420)	**(2,118)**
Disposal of subsidiary undertakings	-	(12)	(1,208)	(60)	**(1,280)**
Currency	-	(8)	(22)	-	**(30)**
At 31st December 1997	**-**	**4,640**	**13,855**	**598**	**19,093**
Net book value					
At 31st December 1997	**1,320**	**2,940**	**11,550**	**385**	**16,195**
At 31st December 1996	1,316	3,127	14,296	663	19,402

The net book value of plant and equipment at 31st December 1997 includes £3,911,000 (1996: £5,481,000) in respect of assets held under finance leases and hire purchase agreements. The depreciation thereon was £462,000 (1996: £726,000). Contracted capital expenditure not provided in the financial statements amounted to £38,000 (1996: £59,000).



	Properties				
	Freehold £'000	Short Leasehold £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
The Company					
Cost					
At 1st January 1997	117	5,696	457	225	**6,495**
Additions	-	57	280	-	**337**
Disposals	-	-	(57)	(133)	**(190)**
At 31st December 1997	**117**	**5,753**	**680**	**92**	**6,642**
Depreciation					
At 1st January 1997	-	3,743	355	114	**4,212**
Charge for the year	-	29	75	28	**132**
Released on disposal	-	-	(24)	(94)	**(118)**
At 31st December 1997	**-**	**3,772**	**406**	**48**	**4,226**
Net book value					
At 31st December 1997	**117**	**1,981**	**274**	**44**	**2,416**
At 31st December 1996	117	1,953	102	111	2,283

The net book value of plant and equipment at 31st December 1997 includes £Nil (1996: £9,242) in respect of assets held under finance leases and hire purchase agreements. The depreciation thereon was £Nil (1996: £7,715). Contracted capital expenditure not provided in the financial statements amounted to £Nil (1996: Nil).

14. Investments

	Group	Company		
	other investments £'000	interests in Group undertakings £'000	other investments £'000	total £'000
Cost or valuation				
At 1st January 1997	-	43,494	-	**43,494**
Additions	497	611	497	**1,108**
Disposals	-	(4,298)	-	**(4,298)**
Reclassification	(199)	-	(199)	**(199)**
At 31st December 1997	**298**	**39,807**	**298**	**40,105**
Amounts written off				
At 1st January 1997	-	11,299	-	**11,299**
Permanent diminution in value	-	5,688	-	**5,688**
At 31st December 1997	**-**	**16,987**	**-**	**16,987**
Net book value				
At 31st December 1997	**298**	**22,820**	**298**	**23,118**
At 31st December 1996	-	32,195	-	32,195

Other investments at 31st December 1997 comprises 193,873 (1996: nil) ordinary 5p shares in Aspen Group plc held at cost by the Aspen Group Employee Share Option Plan ('ESOP') Trust for the purpose of satisfying obligations under share option plans for the benefit of the Group's employees. The market value of the ESOP's shares as at 31st December 1997 was £177,000 (1996: £nil). The ESOP shares are included at cost as in the opinion of the directors there is no permanent diminution in value.

The Group's principal trading subsidiary undertakings are shown in the table below. The country of registration or incorporation is England and Wales unless otherwise stated. The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the figures of the Group.

All of the companies in the table operated principally in their country of incorporation or registration. The company sold Aspen Insurance Services plc, Broker Forms and Print Limited and GP Film Services Limited during the year as detailed in note 4. On 31st December 1997 the Group undertook a reorganisation of its subsidiaries within which the assets, liabilities and businesses of Aspen Business Communications PLC, Aspen Direct Limited, Aspen Internet Limited, Aspen Specialist Media PLC, Blueprint Media Limited and Marketing Direction Limited were transferred to Aspen Marketing Communications Limited.

The principal business activities of the subsidiary undertakings are:

(1) Aspen Preprint Limited, Heanor Gate Printing Limited and Pensord Press Limited - specialist printing companies.

(2) Cleartone Telecoms PLC - mobile communications and communications services.

(3) All other companies listed below are engaged in media and marketing services.

Name of company	Country of registration (or incorporation) and operation	Description of shares held	Proportion of shareholding Group %	Company %
ACT Print Management Limited		Ordinary £1 shares	100	100
Aspen Business Communications PLC		Ordinary £1 shares	100	-
Aspen Direct Limited		Ordinary £1 shares	100	-
Aspen Internet Limited		Ordinary £1 shares	100	-
Aspen Marketing Communications Limited (Formerly Aspen Field Marketing Limited)		Ordinary £1 shares	100	45
Aspen Preprint Limited		Ordinary £1 shares	100	100
Aspen Specialist Media PLC		Ordinary £1 shares	100	-
Aspen Direct Communications BV (Formerly Aspen Veenhuizen Direct BV)	Netherlands	Ordinary DFL 100 shares	100	100
		Non-Cum. preference DFL 100 shares	100	100
Blueprint Media Limited		Ordinary £1 shares	100	-
Cleartone Telecoms PLC		Ordinary £1 shares	100	100
Crystal Film & Video Limited		Ordinary £1 shares	79	-
Heanor Gate Printing Limited		Ordinary £1 shares	100	100
		Cum. preference £1 shares	100	100
London Post Limited		Ordinary £1 shares	100	100
Marketing Direction Limited		Ordinary £1 shares	100	-
Pensord Press Limited		Ordinary 5p shares	100	100
Spafax Airline Network Limited		Ordinary 50p shares	100	100
Spafax Canada Incorporated	Canada	Ordinary Can$1 shares	100	-
Spafax Passenger Electronic Entertainment Developments Limited		Ordinary £1 shares	100	-
Spafax Inflight Media Incorporated	United States	Ordinary US$1 shares	100	-
Spafax Inflight Media Limited		Ordinary £1 shares	100	-
Spafax Singapore Pte Limited	Singapore	Ordinary Sing$1 shares	100	-

15. Stocks

	Group 1997 £'000	Group 1996 £'000
Raw materials and consumables	**1,016**	983
Work in progress	**1,345**	1,313
Finished goods	**1,829**	1,814
	4,190	4,110

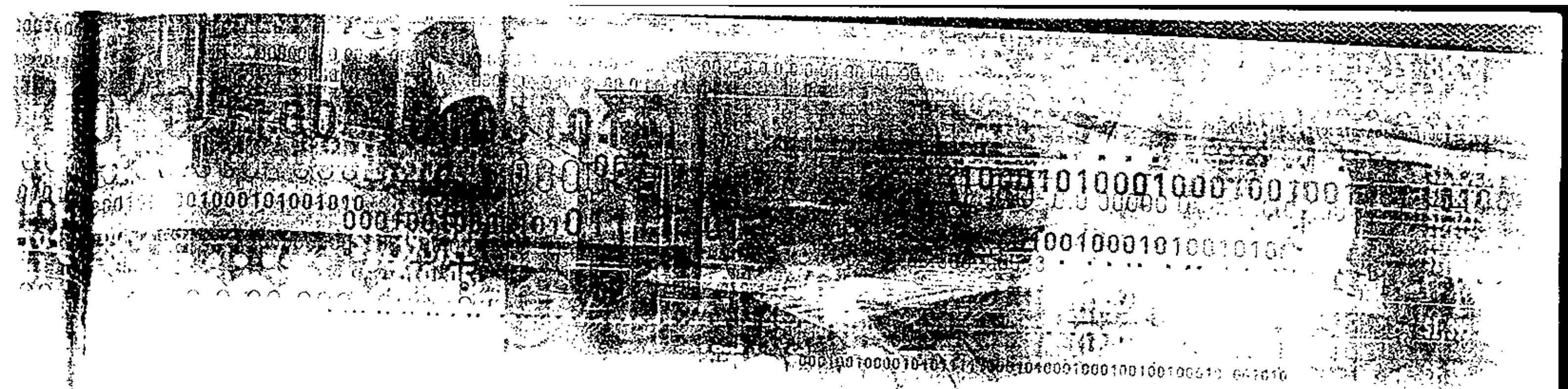
There is no material difference between the replacement cost of raw materials and consumables and their balance sheet value shown.

16. Debtors

	Group		Company	
	1997	1996	**1997**	1996
	£'000	£'000	**£'000**	£'000
Due within one year:				
Trade debtors	**17,351**	18,588	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**10,703**	19,352
Corporation tax	**-**	-	**2,078**	1,250
Other debtors	**1,624**	3,244	**322**	621
Prepayments and accrued income	**1,647**	2,053	**41**	131
	20,622	23,885	**13,144**	21,354
Due after more than one year:				
Amount owed by subsidiary undertaking	**-**	-	**6,500**	-
ACT recoverable	**334**	-	**334**	-
Other debtors	**-**	3,422	**-**	-
Total debtors	**20,956**	27,307	**19,978**	21,354

17. Cash at bank

Group cash at bank includes £Nil (1996: £1,750,000) relating to an insurance broking client account maintained by one of the Company's subsidiary undertakings.



18. Creditors: amounts falling due within one year

	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
Bank overdrafts	-	2,406	442	4,100
Unsecured bank loans	500	34	500	-
Finance liabilities	1,032	1,278	-	5
Trade creditors	13,392	15,541	192	184
Amounts owed to subsidiary undertakings	-	-	5,617	5,728
Corporation tax	262	1,403	-	-
Other taxes and social security	2,062	2,420	118	86
Accruals	6,843	8,687	1,288	1,133
Proposed dividend	-	580	-	580
	24,091	32,349	8,157	11,816

19. Creditors: amounts falling due after more than one year

	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
Unsecured bank loans	8,000	4,000	8,000	4,000
Finance liabilities	1,435	8,526	-	6,031
Accruals	335	-	335	-
	9,770	12,526	8,335	10,031
Analysis of loan repayments:				
Unsecured bank loans				
Between one and two years	8,000	4,000	8,000	4,000
Analysis of finance liabilities:				
Between one and two years	937	1,074	-	-
Between two and five years	498	1,421	-	-
Over five years	-	6,031	-	6,031
	1,435	8,526	-	6,031

In anticipation of the covenant review to be conducted by our bankers based upon the Report and Accounts for 1997, the bank facilities were renegotiated. Since the year end the Company has entered into a revised banking facility under which it obtained a new £8 million loan maturing in 1999 and a £5 million overdraft.

The facilities are secured by way of guarantee and debenture over the assets of the Company and material subsidiaries. The accounts have been prepared to disclose the borrowings at 31st December 1997 on the basis of the maturity dates of the revised facilities.

The finance liability falling due after more than five years in 1996 relates to the Group's London Head Office and was refinanced during 1997.

20. Deferred taxation

Movements during the year were:

	Group £'000	Company £'000
At 1st January 1997	74	(568)
Charged to profit and loss account	115	558
Advance corporation tax reclassification	(30)	(30)
Disposal of subsidary undertakings	(137)	-
At 31st December 1997	22	(40)

The amounts provided for deferred taxation calculated under the liability method at 31% (1996: 33%) are as follows:

	Group		Company	
	1997 £'000	1996 £'000	**1997 £'000**	1996 £'000
Capital allowances and other timing differences	**52**	74	**(10)**	(568)
Advance corporation tax	**(30)**	-	**(30)**	-
	22	74	**(40)**	(568)

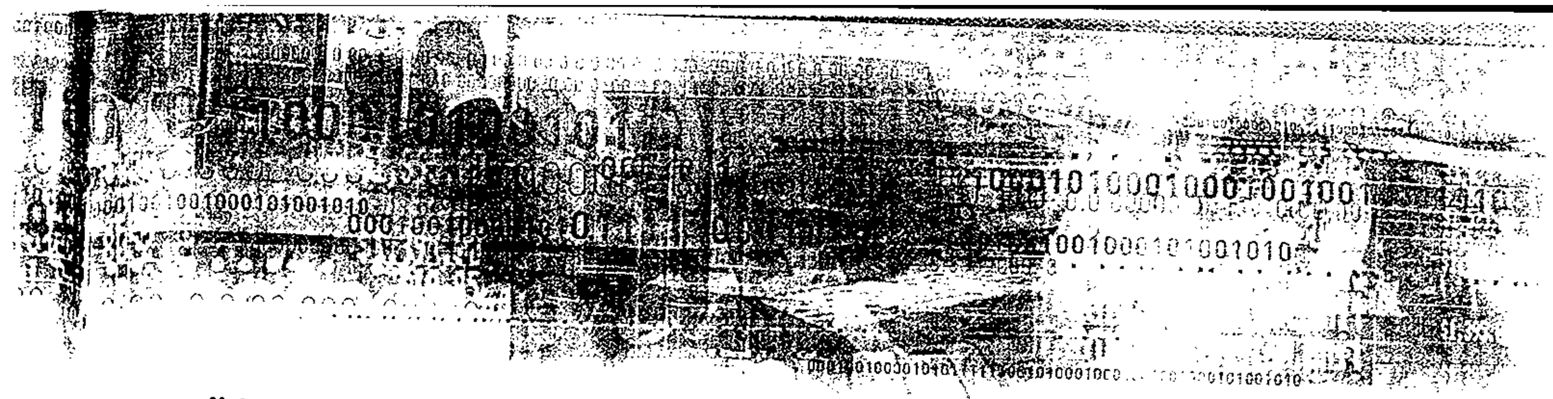
The above represents the provision for deferred taxation to the extent that it is probable that an actual asset or liability will crystallise. The following amount of deferred taxation has not been provided as the directors do not consider that the liability will arise in the foreseeable future:

	Group		Company	
	1997 £'000	1996 £'000	**1997 £'000**	1996 £'000
Capital allowances and other timing differences	**697**	938	**(16)**	-
Roll over relief on disposal of properties	**153**	163	**153**	163
	850	1,101	**137**	163

21. Deferred income

Movements during the year on Regional Development Grants were:

	£'000
At 1st January 1997	34
Released to profit and loss account	(12)
At 31st December 1997	22



22. Minority interests

Movements during the year were:

	£'000
At 1st January 1997	89
Minority share in the results for the financial year	(55)
Other movements	1
At 31st December 1997	35

Minority interests relate solely to interests in the equity of subsidiary undertakings.

23. Called up share capital

	1997 £'000	1996 £'000
Authorised		
20,000,000 ordinary shares of 5p each	1,000	1,000
Issued		
Allotted, called up and fully paid 15,480,720 (1996: 15,475,720) ordinary shares of 5p each	774	774

Movements in share capital during the year were:

	Consideration £'000	Nominal value £'000	Number of shares '000
At 1st January 1997		774	15,476
Share options exercised	5	-	5
At 31st December 1997		774	15,481

24. Share premium account

Movements in share premium during the year were:

	£'000
At 1st January 1997	5,348
Arising on shares issued in the year (net of expenses)	5
At 31st December 1997	5,353

25. Merger reserve

	Group £'000	Company £'000
At 1st January 1997	-	23,705
Transfer to profit and loss account (note 26)	-	(5,197)
At 31st December 1997	-	18,508

26. Profit and loss account

	Group £'000	Company £'000
At 1st January 1997	2,952	4,735
Retained loss for the year	(2,062)	(5,507)
Goodwill written back on disposal of businesses	3,692	-
Goodwill written off during the year	(1,039)	-
Transfer from merger reserve	-	5,197
Currency adjustment	(170)	-
At 31st December 1997	**3,373**	**4,425**

Goodwill written off in the year relates principally to the acquisition of minority interests in existing subsidiaries including £554,000 in respect of Spafax Airline Network Limited. The Directors consider that no fair value adjustments were required in respect of the acquisitions of minority interests. The cumulative amount of goodwill resulting from acquisitions in the current and earlier financial years which has been written off to reserves is £29,692,000 (1996: £28,653,000).

27. Reconciliation of movements in shareholders' funds

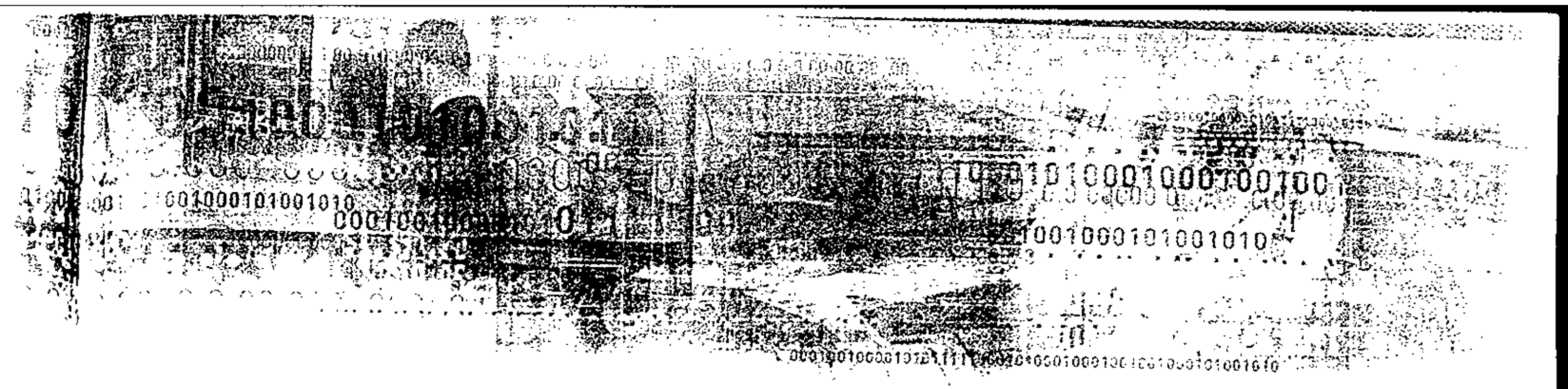
	Group		Company	
	1997 £'000	1996 £'000	**1997 £'000**	1996 £'000
(Loss)/profit for financial year	**(1,675)**	969	**(5,120)**	8,007
Dividends	**(387)**	(967)	**(387)**	(967)
	(2,062)	2	**(5,507)**	7,040
Currency adjustment	**(170)**	(150)	-	-
Goodwill written back on disposal of businesses	**3,692**	68	-	-
Goodwill written off during the year	**(1,039)**	(649)	-	-
Shares issued	**5**	728	**5**	728
	426	(1)	**(5,502)**	7,768
Shareholders' funds at 1st January	**9,074**	9,075	**34,562**	26,794
Shareholders' funds at 31st December	**9,500**	9,074	**29,060**	34,562

28. Operating lease commitments

At 31st December 1997 the Group had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings		Other	
	1997 £'000	1996 £'000	**1997 £'000**	1996 £'000
Operating leases which expire:				
Within one year	**41**	230	**475**	46
In the second to fifth years inclusive	**410**	259	**693**	732
Over five years	**277**	423	-	30
Total	**728**	912	**1,168**	808

The majority of leases of land and buildings are subject to periodic rent reviews every four or five years.



29. Disposal of businesses and other assets

During the year the Group sold Aspen Insurance Services plc, GP Film services Limited and Broker Forms and Print Limited.

	Aspen Insurance Services plc £'000	Broker Forms and Print Limited £'000	G.P.Film Services Limited £'000	Total £'000
Net assets disposed of:				
Tangible fixed assets	697	72	1,078	**1,847**
Stock	-	98	68	**166**
Debtors	4,798	378	334	**5,510**
Cash	1,743	42	22	**1,807**
Creditors	(1,999)	(287)	(447)	**(2,733)**
Minority interests	(79)	15	(78)	**(142)**
Goodwill previously written off to reserves	3,064	180	448	**3,692**
	8,224	498	1,425	**10,147**
Loss on disposal (see Note 4)	(231)	(248)	(24)	**(503)**
Satisfied by cash received (net of related costs)	7,993	250	1,401	**9,644**
Less: cash balances disposed	(1,743)	(42)	(22)	**(1,807)**
Net sale proceeds	6,250	**208**	**1,379**	**7,837**

30. Reconciliation of operating profit to net cash inflow from operating activities

The reconciliation of operating profit to net cash inflow from operating activities of the Group may be summarised as follows:

	1997 £'000	1996 £'000
Continuing activities		
Operating (loss)/ profit before interest	**(181)**	1,974
Depreciation	**2,965**	2,715
Profit on sale of tangible fixed assets	**(35)**	(181)
Release of Regional Development Grants	**(12)**	(23)
(Increase)/decrease in stocks	**(300)**	1,628
(Increase)/decrease in debtors	**210**	(2,428)
(Decrease) in creditors	**(1,473)**	(2,139)
Net cash inflow from continuing operating activities	**1,174**	1,546
Discontinued activities		
Operating profit/(loss) before interest	**54**	(44)
Depreciation	**149**	458
Profit on sale of tangible fixed assets	**30**	(157)
Decrease in stocks	**43**	134
Decrease/(increase) in debtors	**487**	(348)
(Decrease)/increase in creditors	**(474)**	856
Net cash inflow from discontinued operating activities	**289**	899
Net cash inflow from operating activities	**1,463**	2,445

31. Cash flows relating to exceptional items and major non-cash transactions

The operating cash outflows under continuing activities includes provisions for outflows of £670,000 in relation to redundancy and reorganisation costs. (1996 operating cash outflows under continuing activities includes £519,000 in respect of exceptional items).

32. Analysis of net debt

	At 1st January 1997 £'000	Cash flow £'000	Other non-cash changes £'000	Disposals £'000	Exchange movement £'000	At 31st December 1997 £'000
Cash at bank and in hand	3,327	(1,425)			(101)	**1,801**
Overdrafts	(2,406)	2,406			-	**-**
Increase in cash in the year		981				
Debt due after one year	(4,000)	(4,000)	-	-	-	**(8,000)**
Debt due within one year	(34)	(466)	-	-	-	**(500)**
Finance liabilities	(9,804)	7,298	(30)	69	-	**(2,467)**
Total	**(12,917)**	**3,813**	**(30)**	**69**	**(101)**	**(9,166)**

33. Reconciliation of net cash flow to movement in net debt

	1997 £'000	1996 £'000
Increase/(decrease) in cash in the year	**981**	(1,015)
Cash outflow/(inflow) from decrease/(increase) in debt	**2,832**	(1,029)
Other non-cash changes	**39**	(521)
Translation difference	**(101)**	-
Movement in net debt in the period	**3,751**	(2,565)
Net debt at 1st January	**(12,917)**	(10,352)
Net debt at 31st December	**(9,166)**	(12,917)

34. Pension obligations

The principal company scheme, The Aspen Group Pension Scheme, now operates on a defined contribution basis. During the year the defined benefit section was closed. Active members were offered the opportunity to transfer deferred benefits to the new arrangement. In addition, certain subsidiary undertakings operated other smaller schemes.

At the year end contributions of £88,000 (1996: £375,000) were included in accruals.

The main schemes' funds are administered by trustees and are independent of the Group's finances. The pension costs associated with the defined benefit section are assessed in accordance with the advice of an independent qualified actuary using the projected accrual benefit method. The latest actuarial valuation was carried out as at 5th April 1997. The assumptions that have the most significant effect on the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 3% per annum higher than salary increases.

At the date of the latest actuarial valuation, the market value of the assets of the defined benefit scheme was £6.8 million and the actuarial value of the assets was sufficient to cover 114% of the benefits which had accrued to members, after allowing for expected future increases in earnings.

Company contribution rates to the defined contribution scheme vary with length of service and seniority between 3% and 15%. Contributions to the defined benefit scheme have ceased. The total pension contributions for the year are shown in note 7.

35. Contingent liabilities

(a) The Company has guaranteed a letter of credit and loan facility available to a subsidiary undertaking. The amount outstanding at 31st December 1997 was £280,000 (1996: £Nil).

(b) Additional consideration may be due to the vendor of Aspen Veenhuizen Direct BV, a company acquired in 1992. The vendor, who left the company at the beginning of 1993, is claiming payment of the maximum sum of £319,000 plus additional damages of £994,000. In an interim judgement, the Dutch Court held that the additional damages of £994,000 are not payable. The directors do not believe that any material obligation will arise and are defending the claim vigorously.

(c) Warranties have been given to third parties in connection with the sale of subsidiaries. In respect of the sale of Aspen Insurance Services plc a bank guarantee of £1 million has been issued in respect of such warranties secured by a cash deposit of that amount which is included in cash at bank. No liabilities are expected to arise under these warranties.

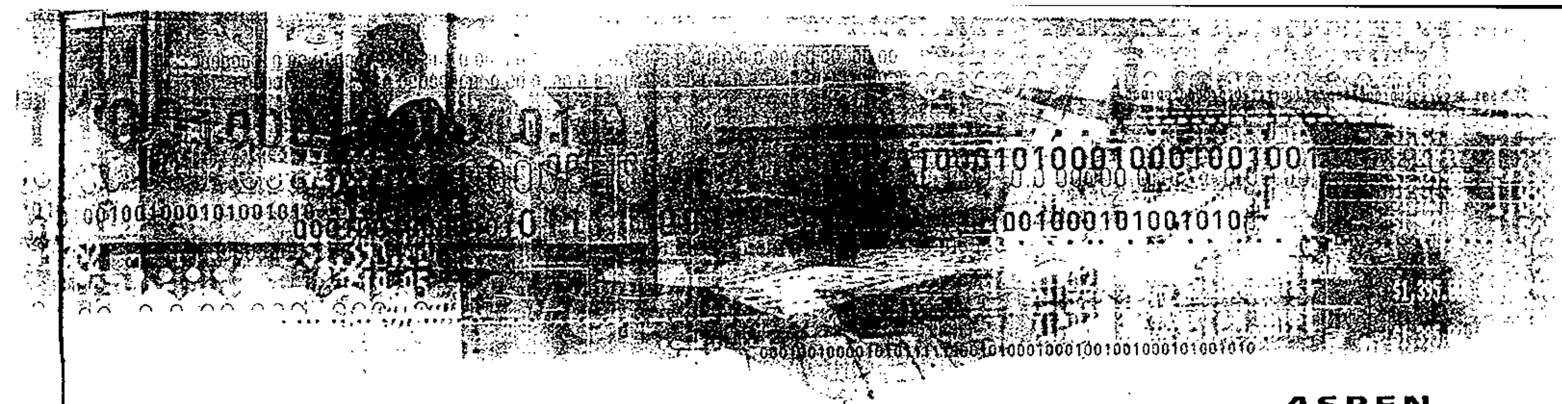
36. Related party disclosures

Properties occupied by Heanor Gate Printing are leased from The Heanor Gate Printing Limited Small Self Administered Pension Scheme the beneficiaries of which include I. Vinall who is a director of the company. The rent payable was £71,500 per annum, based upon independent valuation.

The parent company provides funding on an arm's length basis as required for subsidiary undertakings including those in which it has an interest of less than 90%.

In November 1997 the Managing Director of Aspen Direct Communications BV, Mr Paul van der Starre exercised his right to sell his 15% minority interest to the Company. The consideration was 100,701 shares in the Company which were held by the Aspen Group plc ESOP Trust. The market value of the consideration at the date of the transaction was £105,000. The shares will be held in the Trust for Mr van der Starre for three years. Mr van der Starre will also be granted options in the Company. The Company has been advised that the transaction is fair and reasonable for shareholders. A similar arrangement has been entered into with Mr Leo van Schoonhoven in respect of his right to a 4% interest in Aspen Direct Communications BV.

In November 1997 Mr Mike Carr, formerly a director of Aspen Internet Limited, acquired, for book value, assets of £22,000 from Aspen Internet Limited through his new company, Intensive Networks Limited. Intensive Networks Limited entered into a lease purchase agreement for further assets to the value of £25,000. Contracts for income of £10,000 per month and expenditure of £13,000 per month relating to the internet activity of Aspen Internet Limited were assigned. Aspen received 20% of the shares in Intensive Networks Limited, which are valued at nil. The Company has been advised that the transaction is fair and reasonable for shareholders.



ASPEN

Consolidated Profit and Loss Account
For the year ended 31st December 1996

	Continuing Businesses before exceptional items £'000	Continuing Businesses exceptional items £'000	Total continuing businesses £'000	Discontinued businesses £'000	Total £'000
Turnover	89,812	-	89,812	7,733	97,545
Cost of sales	(65,165)	-	(65,165)	(5,036)	(70,201)
Gross profit	24,647	-	24,647	2,697	27,344
Distribution costs	(976)	-	(976)	-	(976)
Administrative expenses	(20,649)	(1,048)	(21,697)	(2,741)	(24,438)
Operating profit/(loss)	3,022	(1,048)	1,974	(44)	1,930
Profit on disposal of fixed assets	-	1,200	1,200	-	1,200
Loss on disposal of businesses before goodwill	-	-	-	(98)	(98)
Goodwill write-back	-	-	-	(68)	(68)
Loss on disposal of businesses	-	-	-	(166)	(166)
	3,022	152	3,174	(210)	2,964
Interest (net)	(874)	-	(874)	(501)	(1,375)
Profit/(loss) on ordinary activities before taxation	2,148	152	2,300	(711)	1,589
Taxation on profit/(loss) on ordinary activities	(871)	68	(803)	212	(591)
Profit/(loss) on ordinary activities after taxation	1,277	220	1,497	(499)	998
Minority interests	76	-	76	(105)	(29)
Profit/(loss) for the financial year	1,353	220	1,573	(604)	969
Dividends					(967)
Profit retained for the year					2
Earnings/(loss) per share	8.8p	1.4p	10.2p	(3.9)p	6.3p

There is no material difference between the Group results as reported in the profit and loss account and on an unmodified historical cost basis. Accordingly no note of historical cost profits and losses has been included.