

QUARTRO.
GROUP
INC.

FC-13814²¹

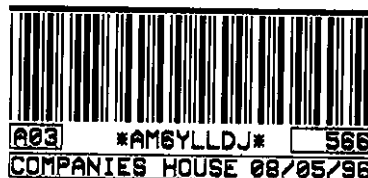
Quatro

1995

Annual Report

Financial Review of 1995

NM



Directors and Advisers

Directors

Laurence Francis Orbach (Chairman and Chief Executive) (USA)
 Robert John Morley
 Michael John Mousley, ACA
 Geoffrey Banks
 George Tai (Hong Kong)
 Eric de Bellaigue (Non-executive)

Secretary

Cyrus Homi Bhole, FCA

Principal Place of Business

The Old Brewery, 6 Blundell Street, London N7 9BH

Joint Stockbrokers

Merrill Lynch
 20 Farringdon Road, London EC1M 3NH
 Collins Stewart & Co
 21 New Street, London EC2M 4HR

Merchant Bankers

Samuel Montagu & Co Ltd
 10 Lower Thames Street, London EC3R 6AE

Auditors

KPMG
 8 Salisbury Square, London EC4Y 8BB

Solicitors

Travers Smith Braithwaite
 6 Snow Hill, London EC1A 2AL

Registrars and Transfer Office

Barclays Registrars
 Bourne House, 34 Beckenham Road
 Beckenham, Kent BR3 4TU

Principal Bankers

Barclays Bank plc
 8/9 Hanover Square, London W1A 4ZW
 Lloyds Bank plc
 4/6 Copthall Avenue, London EC2R 7DA
 National Westminster Bank plc
 24 Albemarle Street, London W1X 4JS

Statement of Directors' Responsibilities

2008/03/03

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Company law requires the 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 for that period. In preparing these 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, 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 directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Auditors' Report to the Members of The Quarto Group Inc.

We have audited the financial statements on pages 27 to 45.

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 have 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 Group'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 of 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 31 December, 1995 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
KPMG
Chartered Accountants
Registered Auditors
London
29 February, 1996

Directors' Report

The directors present their report and the audited financial statements of The Quarto Group Inc. for the year ended 31 December, 1995.

Principal activities and business review

The Group conducts an international business whose principal activity is the creation and marketing of high quality illustrated books covering a wide range of topics. The Group's activities also embrace photographic processing, production services, silkscreen printing, consumer magazines, informational directories, visual art books and fine art reproductions. A detailed review of the development of the business of the Group is given in the Chairman's Letter on pages 3 to 7.

Results and dividends

The profit for the year after taxation and minority interests amounted to £5,026,000 (1994: £4,281,000). The directors propose a final ordinary dividend of 5.25p per share subject to approval at the Annual General Meeting. The retained profit for the year was £3,226,000 (1994: £2,667,000) which has been transferred to reserves.

Significant changes in fixed assets

Particulars of changes in the fixed assets of the Group during the year are set out in note 7 in the financial statements.

Directors

The directors of the Company, who served as directors during the year, are as follows:

L. F. Orbach
R. J. Morley
M. J. Mousley
G. Banks
G. T. Y. Tai
A. Slavin (resigned on 28 September 1995)
E. de Bellaigue (Non-executive)

None of the directors has a service contract of more than one year's duration.

No director has had a material interest in any contract of significance with the Company or its subsidiaries during the year.

During the year, the Company maintained liability insurance for its directors and officers.

Born in France in 1931 and brought up in England and Canada, where he graduated from McGill University, Eric de Bellaigue started his working life as a reporter on the Montreal Star. His subsequent career has been in banking and stock broking and has included spells with the Bank of Montreal and merchant bankers, Schroder Wagg. Following his retirement from stockbrokers Panmure Gordon, he joined the board of The Quarto Group Inc. as a non-executive director. He is the author of "The Business of Books - the de Bellaigue Report" Hutchinson, 1984.

Directors' interests in shares

The directors who held office at 31 December, 1995 had the following interests in the share capital of the Company.

	Number of US\$0.10 shares of common stock	
	31 December, 1995	1 January, 1995
L. F. Orbach*	2,678,413	2,678,413
R. J. Morley	1,300,000	1,300,000
M. J. Mousley	32,000	10,467
G. Banks	6,500	2,000
G. T. Y. Tai	10,477	10,477
E. de Bellaigue	4,875	4,875

*The shares in which L. F. Orbach is interested are owned through his family trusts.

M. J. Mousley held 1,309 convertible cumulative redeemable shares of preferred stock of par value US\$0.10 each at the beginning and the end of the year.

Directors' Report

Directors' interests in shares (continued)

	1 January, 1995	Number of options		Weighted Average Exercise Price
		Exercised 12 September, 1995	31 December, 1995	
L. F. Orbach	50,000	—	50,000	£1.30424
R. J. Morley	30,000	30,000	—	£1.30424
M. J. Mousley	49,000	49,000	—	£1.45326
G. Banks	40,000	40,000	—	£1.41134
G. T. Y. Tai	23,000	23,000	—	£1.45326
A. Slavin	30,000	30,000	—	£1.30424

The options held by L.F.Orbach are exercisable between 10 April 1995 and 9 April 2002

The market price of the shares of common stock on 12 September, 1995 was 268p and on 31 December, 1995 was 253p. During the year the market price ranged between 210p and 290p.

Between 31 December, 1995 and 29 February, 1996 there have been no changes in the interests of the directors.

Substantial shareholders

As at 29 February, 1996 the directors have been advised of the following shareholders who have an interest of 3% or more in the shares of common stock of the Company:

	Number of US\$0.10 Shares of common stock	Percentage
British Gas Pension Fund	760,000	4.1%
Clerical Medical Investment Group	716,132	3.8%
Co-operative Insurance	702,945	3.8%
Framlington Group plc	1,185,389	6.4%
Herald Investment Trust	632,690	3.4%
Prudential Corporation Group of Companies	655,524	3.5%
Schroder Investment Management Limited	1,288,636	6.9%
Scottish Mutual	752,500	4.0%
Equitable Life Assurance Society	1,385,000	7.4%
L.F.Orbach	2,678,413	14.4%
R.J.Morley	1,300,000	7.0%

Corporate governance

The directors have reviewed the governance arrangements of The Quarto Group Inc. in the context of the Cadbury Committee Report and report that the Group is in compliance with most of the paragraphs of the code. The following areas have been identified where it is not appropriate to change current practice due to the size and constitution of the Board:

- The Chairman of your Company is also Chief Executive. The Board sees no value in splitting the roles of Chairman and Chief Executive.
- The Company has one Non-executive Director which is considered adequate in view of the overall size of the Board and the requirements of the Company.
- A formal schedule of matters specifically reserved for the Board is not required since the Board forms the executive management of the Group.
- The Company does not have any formal arrangements for directors, in the furtherance of their duties, to take independent professional advice.
- The Chairman and E. de Bellaigue fulfil the role of Remuneration Committee for directors.
- E. de Bellaigue (Non-executive) fulfils the role of the Audit Committee.

Directors' Report

Going concern

The Directors, having made enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future, and that therefore it is appropriate to adopt the going concern basis in preparing the financial statements.

Internal financial control

The board of directors has overall responsibility for the Group's system of internal financial control. The system of internal financial control is designed to provide reasonable but not absolute assurance against material misstatement or loss.

The main elements of the internal financial control system are:

- a) Each individual operating unit produces monthly management accounts which are tailored to meet the operating and financial needs of the operating unit. These accounts are reviewed by the Board at monthly board meetings.
- b) In addition to the monthly reporting, individual operating units report certain management information more frequently where it is considered appropriate.
- c) Each operating unit has key performance indicators which are specific to the business carried out at the individual operating unit. These are regularly reviewed and assessed by the Board.
- d) Each operating unit is responsible for its own operating and financial controls. These are closely reviewed by the Board and the finance department on a regular basis through individual operating unit board meetings and regular visits.

The Board has reviewed the operation and effectiveness of the internal financial control system.

Report of the Remuneration Committee

The remuneration committee sets the remuneration and other terms of employment of executive directors and reports:

- a) Remuneration levels are set by reference to individual performance, experience and market conditions with a view to providing a package which is appropriate for the responsibilities involved.
- b) Performance related bonuses are not given.
- c) Each director has a defined contribution personal pension plan.
- d) No director has a service contract of more than one year's duration.
- e) Full details of directors' remuneration and benefits are given in note 2 to the financial statements on page 35.

Taxation status

The Company was not a close company within the provisions of the Income and Corporation Taxes Act 1988 during the year nor has there been any change since the year end.

Post Balance Sheet event

On 28 February, 1996 the company concluded the acquisition of Walter Foster Publishing, Inc for US\$ 5 million. Further details are included in the chairman's letter on page 6.

Auditors

Our auditors KPMG have indicated that a limited liability company, KPMG Audit Plc, is to undertake part of their audit business. Accordingly, a resolution is to be proposed at the annual general meeting for the appointment of KPMG Audit Plc as auditors of the Company.

C. H. Bhole
Secretary

Cyrus H. Bhole

29 February, 1996

Consolidated Profit and Loss Account for the Year Ended 31 December 1995

1994
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	Notes	Group	
		1995 £000	1994 £000
Turnover	1	66,469	57,927
Cost of sales		(40,690)	(34,733)
Gross Profit		25,779	23,194
Distribution costs		(2,559)	(2,533)
Administration expenses		(15,399)	(13,826)
Other operating income		33	114
Operating Profit	2	7,854	6,949
Net interest payable and similar charges	3	(840)	(669)
Profit on ordinary activities before taxation		7,014	6,280
Tax on profit on ordinary activities	4	(1,747)	(1,741)
Profit on ordinary activities after taxation		5,267	4,539
Minority interests – equity		(241)	(258)
Profit for the financial year		5,026	4,281
Dividends	5	(1,800)	(1,614)
Retained profit		3,226	2,667
Earnings per share	6	24.8p	20.8p
Fully diluted earnings per share	6	23.2p	19.6p

Movements in reserves are shown in notes 16 to 18.

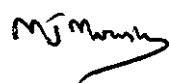
Balance Sheets at 31 December 1995

	Notes	Group		Company	
		1995 £000	1994 £000	1995 £000	1994 £000
Fixed Assets					
Tangible assets	7	6,767	5,736	—	—
Investments	8	—	—	21,295	21,000
		6,767	5,736	21,295	21,000
Current Assets					
Stocks and work in progress	9	22,314	18,182	—	—
Debtors	10	26,280	21,167	977	791
Investments	11	2	2	—	—
Cash at bank and in hand		2,840	3,451	—	—
		51,436	42,802	977	791
Creditors: Amounts falling due within one year	12	(31,864)	(27,595)	(977)	(791)
Net current assets		19,572	15,207	—	—
Total assets less current liabilities		26,359	20,943	21,295	21,000
Creditors: Amounts falling due after more than one year	13	(6,800)	(6,398)	—	—
Provision for liabilities and charges					
Deferred taxation	14	(1,460)	(1,078)	—	—
Net assets		18,099	13,467	21,295	21,000
Capital and reserves					
Called up share capital	15	1,337	1,324	1,337	1,324
Reserves – Paid in surplus	16	23,795	23,513	23,795	23,513
– Revaluation		1,018	1,018	—	—
– Profit and loss	17	11,901	8,750	(3,837)	(3,837)
		38,051	34,605	21,295	21,000
– Goodwill	18	(21,611)	(22,544)	—	—
Shareholders' funds		16,440	12,061	21,295	21,000
Equity		11,236	6,857	16,091	15,796
Non-equity		5,204	5,204	5,204	5,204
		16,440	12,061	21,295	21,000
Minority interests – equity		1,659	1,406	—	—
		18,099	13,467	21,295	21,000

The financial statements on pages 27 to 45 were approved by the Board of Directors on 29 February, 1996.

M. J. MOUSLEY

Director



Statement of Total Recognised Gains and Losses

FOR THE YEAR ENDED 31 DECEMBER 1995

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Profit for the financial year
Currency translation differences on foreign currency net investments
Total recognised gains and losses relating to the year

Group	
1995 £000	1994 £000
5,026	4,281
(75)	282
4,951	4,563

Reconciliation of movement in shareholders' funds

FOR THE YEAR ENDED 31 DECEMBER 1995

Profit for the financial year
Dividends
Retained profit for the financial year
Other recognised gains and losses relating to the year
New share capital subscribed
Goodwill adjustment (arising on acquisitions)
Net movement in shareholders' funds
Shareholders' funds at 31 December, 1994
Shareholders' funds at 31 December, 1995

1995 £000	1994 £000
5,026	4,281
(1,800)	(1,614)
3,226	2,667
(75)	282
295	—
933	(4,361)
4,379	(1,412)
12,061	13,473
16,440	12,061

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 1995

	Group	
	1995 £000	1994 £000
Net cash inflow from operating activities	3,911	1,545
Return on investments and servicing of finance		
Interest received	85	229
Interest paid	(893)	(819)
Interest element of hire purchase payments	(61)	(43)
Dividends paid	(1,614)	(1,559)
Net cash outflow from returns on investments and servicing of finance	(2,483)	(2,192)
Taxation		
UK and overseas corporation tax paid	(1,030)	(769)
Investing activities		
Purchase of tangible fixed assets	(1,528)	(944)
Purchase of businesses/subsidiaries (net of cash and cash equivalents acquired)	(14)	(3,813)
Sale of tangible fixed assets	104	83
Net cash outflow from investing activities	(1,438)	(4,674)
Net cash outflow before financing	(1,040)	(6,090)
Financing		
Issue of shares	(295)	—
Net (drawdown) repayment of other financing	(1,979)	1,334
Capital element of hire purchase payments	310	179
Cash outflow (inflow) from financing	(1,964)	1,513
Increase (decrease) in cash and cash equivalents	924	(7,603)
	(1,040)	(6,090)

See note 21 for an analysis of certain of the items included above.

Accounting Policies

The significant accounting policies that have been adopted in the financial statements, which are presented under the historical cost basis of accounting, as modified by the revaluation of freehold property, are as set out below and comply with applicable accounting standards. The Company is an "oversea company" within the meaning of the Companies Act 1985. However, the Company has not taken advantage of the available exemptions and the financial statements have been prepared in accordance with the accounting and disclosure requirements of the Companies Act 1985.

Basis of consolidation

The consolidated financial statements represent a consolidation of the audited accounts of The Quarto Group Inc. and its subsidiaries all of which have been made up to 31 December.

The results of subsidiaries acquired during the year are included from the date on which control passes. Goodwill arising on acquisitions is charged directly to reserves. The profit or loss on the disposal or discontinuation of a previously acquired business is calculated taking account of the attributable amount of purchased goodwill relating to that business.

In accordance with the exemptions allowed by Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account.

Foreign currency

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the respective balance sheet dates. Profit and loss accounts in foreign currencies are translated at average rates for the respective accounting periods. Exchange differences arising on the translation of the net assets and profit and loss accounts of non-UK companies together with exchange differences on related borrowings are accounted for through reserves. All other exchange differences are recorded as ordinary trading items.

Depreciation

Depreciation is calculated to write off the cost less estimated residual value of fixed assets by annual instalments over their estimated economic lives at the following annual rates:

Long leasehold	: 2% straight line
Short leaseholds	: over the period of the lease
Plant, equipment and motor vehicles	: 10-25% straight line
Fixtures and fittings	: 15-20% straight line

No depreciation is provided on freehold properties because the directors consider that the lives of these properties and their residual values (determined at the time of acquisition or subsequent valuation) are such that their depreciation is not material. Any permanent diminution in the carrying value of fixed assets is charged against the profit and loss account.

Accounting Policies

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost, including an appropriate portion of overheads, and net realisable value. Production costs (excluding unit print costs), including an appropriate portion of overheads, in respect of a book are written off over its estimated economic life (not more than three years) commencing from the date of first printing and are disclosed in the financial statements as work in progress.

Deferred taxation

Provision is made, using the liability method, for deferred taxation on all material timing differences which are expected to crystallise.

Turnover

Turnover represents the invoiced value of goods and services supplied to third parties excluding Value Added Tax.

Copyrights

Predominately the Group owns the copyright in its titles. No value is attributed to these rights.

Lease and hire purchase contracts

Where assets are acquired by finance leases (including hire purchase contracts) the amount representing the outright purchase price of such assets is included in tangible fixed assets. Depreciation is provided in accordance with the accounting policy above. The capital element of future finance lease payments is included in creditors and the interest element is charged to the profit and loss account over the period of the lease in proportion to the capital element outstanding. Expenditure on operating leases is charged to the profit and loss account in the period to which it relates.

Pensions

Substantially all of the Group's pension costs relate to individual pension plans and are charged to the profit and loss account as they arise.

Notes to the Financial Statements

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1 Segmental analysis

Geographical analysis of turnover by destination

United Kingdom

United States of America

Canada

Europe

Australasia and the Far East

Rest of the World

Group	
1995	1994
£000	£000
12,438	12,297
34,615	29,917
1,341	1,059
8,229	5,795
8,286	7,366
1,560	1,493
66,469	57,927

	TURNOVER		PROFIT BEFORE TAX		NET OPERATING ASSETS	
	1995	1994	1995	1994	1995	1994
	£000	£000	£000	£000	£000	£000
Class of business						
Publishing	54,099	46,358	7,270	6,090	30,787	24,824
Publishing services	12,370	11,569	584	859	3,390	3,145
	66,469	57,927	7,854	6,949	34,177	27,969
Net interest payable			(840)	(669)		
			7,014	6,280		

Analysis by geographical area of origin

	TURNOVER		OPERATING PROFIT		NET OPERATING ASSETS	
	1995	1994	1995	1994	1995	1994
	£000	£000	£000	£000	£000	£000
United Kingdom	22,332	19,299	3,053	1,985	12,159	8,383
United States of America	30,546	28,141	3,376	3,708	15,671	14,046
Other	13,591	10,487	1,425	1,256	6,347	5,540
	66,469	57,927	7,854	6,949	34,177	27,969

Other is not analysed further because the directors consider that such disclosure would be prejudicial to the interests of the Company.

Notes to the Financial Statements

1 Segmental analysis (continued)

The net operating assets can be reconciled to the consolidated balance sheet as follows:

	Group	
	1995 £000	1994 £000
Net operating assets	34,177	27,969
Total bank loans and other borrowings	(15,337)	(15,255)
Cash at bank and in hand	2,840	3,451
Corporation tax, deferred tax and advance corporation tax	(2,604)	(1,907)
Dividends payable	(977)	(791)
Net assets	18,099	13,467

2 Operating profit

Operating profit is stated after charging

Depreciation	892	689
Auditors' remuneration: audit	181	193
: other	15	17
Operating lease rentals in respect of:		
Plant and machinery	24	20
Other assets	845	703

Of the profit for the year £1,800,000 (1994: £1,388,000) has been dealt with in the accounts of the Company.

Employees

Staff costs including directors' emoluments comprise

Wages and salaries	10,769	9,744
Social security costs	942	797
Pension costs	135	144
	11,846	10,685

The average weekly number of persons employed by the group during the year was

	1995 Number	1994 Number
Publishing	329	299
Publishing services	169	177
Group administration	16	16
	514	492

Notes to the Financial Statements

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2 Operating profit (continued)

Directors' remuneration

Emoluments:

Fee to non-executive director

Executive directors – remuneration including benefits in kind in respect of
motor vehicles and health insurance
– pension contributions

Group	
1995	1994
£000	£000
13	12
549	521
31	31
593	564

The directors' remuneration disclosed above included the following amounts paid in respect of the Chairman who is also the highest paid director

Remuneration

Pension contributions

151	140
15	15
166	155

The number of directors who received emoluments (excluding pension contributions) in the following ranges were:

£10,001–£15,000
£55,001–£60,000
£60,001–£65,000
£65,001–£70,000
£70,001–£75,000
£75,001–£80,000
£80,001–£85,000
£105,001–£110,000
£115,001–£120,000
£140,001–£145,000
£150,001–£155,000

1995	1994
Number	Number
1	1
1	—
—	1
1	1
1	1
—	1
1	—
—	1
1	—
—	1
1	—

Details of directors' share options are given in the directors' report. No options were issued during the year.

The remuneration of the executive directors was as follows:

	SALARY/ FEES £000	BENEFITS £000	PENSION CONTRIBUTION £000	1995 TOTAL £000	1994 TOTAL £000
L.F.Orbach	130	21	15	166	155
R.J.Morley	94	21	7	122	113
M.J.Mousley	74	10	3	87	79
G.Banks	64	5	3	72	65
G.T.Y.Tai	65	9	3	77	74
A.Slavin	48	8	—	56	66
	475	74	31	580	552

Notes to the Financial Statements

3 Net interest payable and similar charges

Interest payable:

On bank overdrafts and other loans repayable within 5 years by instalments

On loans repayable after more than 5 years

Hire purchase

Interest receivable

4 Taxation

On profit for the year:

United Kingdom corporation tax at 33%

Deferred taxation – UK

– Overseas

Overseas tax

The Group's low taxation charge reflects the benefit of tax relief on the write-off of intangible assets in the US, low tax rates in Hong Kong and Switzerland and the availability of tax losses in Australia.

5 Dividends

Equity: Ordinary: Interim paid of 2.0p per share

(1994: 2.0p per share)

: Ordinary: Final proposed of 5.25p per share

(1994: 4.3p per share)

Non-equity: Preference

6 Earnings per share

The calculations of earnings per share is based on 18,449,445 shares (1994: 18,392,979) and earnings, after minority interests of £4,571,000 (1994: £3,826,000).

Fully diluted earnings per share allow for the conversion of preference shares and the exercise of all outstanding options and are calculated on adjusted earnings of £5,047,000 (1994: £4,312,000) and 21,786,859 shares (1994: 21,949,720).

Group	
1995 £000	1994 £000
854	846
32	21
61	43
947	910
(107)	(241)
840	669
979	485
49	167
359	7
360	1,082
1,747	1,741
368	368
977	791
455	455
1,800	1,614

Notes to the Financial Statements

	Group				
	FREEHOLD PROPERTY £000	LEASEHOLD PROPERTY £000	PLANT EQUIPMENT AND MOTOR VEHICLES £000	FIXTURES AND FITTINGS £000	TOTAL £000
7 Tangible fixed assets					
Group					
Cost or valuation:					
At 1 January, 1995	2,850	539	4,172	688	8,249
Exchange differences	96	2	45	36	179
Additions	207	248	1,305	171	1,931
Disposals	(69)	(2)	(176)	(34)	(281)
At 31 December, 1995	<u>3,084</u>	<u>787</u>	<u>5,346</u>	<u>861</u>	<u>10,078</u>
Depreciation:					
At 1 January, 1995	31	110	1,931	441	2,513
Exchange differences	—	1	33	28	62
Charge for the year	—	49	722	121	892
Disposals	—	(2)	(140)	(34)	(176)
At 31 December, 1995	<u>31</u>	<u>158</u>	<u>2,546</u>	<u>556</u>	<u>3,291</u>
Net book value:					
At 31 December, 1995	<u>3,053</u>	<u>629</u>	<u>2,800</u>	<u>305</u>	<u>6,787</u>
At 31 December, 1994	<u>2,819</u>	<u>429</u>	<u>2,241</u>	<u>247</u>	<u>5,736</u>
Cost or valuation at 31 December, 1995 is represented by:					
Surplus on valuation	1,018	—	—	—	1,018
Cost	<u>2,066</u>	<u>787</u>	<u>5,346</u>	<u>861</u>	<u>9,060</u>
	<u>3,084</u>	<u>787</u>	<u>5,346</u>	<u>861</u>	<u>10,078</u>

The net book value of plant, equipment and motor vehicles included £1,116,000 (1994: £871,000) in respect of assets held under hire purchase contracts. The depreciation charged on these assets during the year was £252,000 (1994: £207,000).

Included in leasehold property at cost is £364,000 (1994: £362,000) in respect of a long leasehold property. The net book value at 31 December, 1995 was £343,000 (1994: £344,000). The principal freehold property in the UK, with an historic cost of £382,000, was revalued on the basis of an open market value as defined by the Royal Institute of Chartered Surveyors for existing use at 31 December, 1989 by Conway Kersh, Professional Valuers. The valuation was £1.7 million but the directors ascribed a value of £1.4 million.

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8 Fixed asset investments

At 1 January, 1995

Additions

At 31 December, 1995

Company		
SHARES AT COST £000	LOANS £000	TOTAL £000
4,537	16,463	21,000
14	281	295
4,551	16,744	21,295

The Company has the following principal trading subsidiaries (*Directly held by the Quarto Group Inc.), all of which operate principally in their country of incorporation.

Name	Place and date of incorporation	Issued and fully paid share capital	Percentage held	Business
Quarto Publishing plc	England 1 April, 1976	100,000 shares of £1 each	100*	Publishing
Quarto Inc.	Delaware, USA 16 October, 1986	60 shares of no par value	100*	Publishing
Western Screen and Sign Limited	England 24 November, 1961	1,500 shares of £1 each	100*	Publishing Services
Quarto Magazines Limited	England 20 May, 1986	1,000 shares of £1 each	100	Publishing
Regent Publishing Services Limited	Hong Kong 23 October, 1985	1,000 shares of HK\$10 each	70	Publishing Services
Apple Press Limited	England 5 June, 1984	100 shares of £1 each	100	Publishing
Quarto Australia Pty Ltd.	Australia 14 September, 1981	8 redeemable preference shares of A\$1 each and 103 ordinary shares of A\$1 each	100*	Publishing
AP Screenprinters Limited	England 30 September, 1980	1,000 shares of £1 each	100	Publishing Services
RotoVision S.A.	Switzerland 18 July, 1977	1,500 shares of Sfr500 each	100*	Publishing
Broughton Hall Inc.	Delaware, USA 16 March, 1989	100 shares of US\$1 each	100	Publishing
Rockport Publishers Inc.	Massachusetts, USA 4 December, 1985	4,000 shares of no par value	100	Publishing
Book Sales Inc.	* Delaware, USA 13 December, 1972	85 shares of no par value	80	Publishing
The Atlas Image Factory Limited	England 4 May, 1972	43,004 shares of £1 each	100	Publishing Services
Quarto Children's Books Limited	England 6 January, 1976	2 shares of £1 each	100	Publishing
Scafa-Tornabene Art Publishing Co., Inc.	Delaware, USA 29 June, 1987	1,210 shares of no par value	100	Publishing
Packaged Goods Incorporated	New York, USA 8 October, 1992	100 shares of no par value	80	Publishing
Pro-Vison Pte Ltd.	Singapore 11 June, 1990	7,502 shares of S\$1 each	100	Publishing Services
Front Line Graphics, Inc.	Delaware, USA 29 April, 1994	1,000 shares of US\$1 each	100	Publishing

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9 Stocks and work in progress

	1995 £000	1994 £000
Finished goods	11,911	10,836
Work in progress	10,269	7,525
Raw materials	461	310
Less: Payments on account	(327)	(489)
	22,314	18,182

10 Debtors

Trade debtors	24,528	19,626
Amounts due from subsidiaries	—	—
Prepayments and accrued income	957	775
Other debtors	241	265
Corporation tax and advance corporation tax recoverable	554	501
	26,280	21,167

1995 £000	1994 £000
—	—
—	—
—	—
—	—
—	—
—	—
977	791
—	—
—	—
—	—
—	—
977	791

Advance corporation tax recoverable has been reclassified from deferred taxation to debtors and the comparative figures reclassified accordingly. Other debtors include a loan of HK\$402,000 (£33,000) (1994: HK\$381,000 (£32,000)) to G. T. Y. Tai, a director of the Company. The Group receives a commercial rate of interest on this loan. Other debtors also include £33,000 (1994: £98,000) which is interest bearing, of which £Nil (1994: £33,000) is due after more than one year.

11 Current asset investments

Listed investments at cost (market value £2,000 (1994: £2,000)) Listed other than on The International Stock Exchange in London

2	2
8,363	9,760
1,371	814
389	292
10,123	10,866
16,659	11,491
1,305	981
393	349
977	791
142	203
705	1,477
1,560	1,437
31,864	27,595

—	—
—	—
—	—
—	—
—	—
—	—
—	—
977	791
—	—
—	—
—	—
977	791

12 Creditors: Amounts falling due within one year

Bank overdrafts	8,363	9,760
Current loan instalments	1,371	814
Hire purchase creditors	389	292
Total borrowings	10,123	10,866
Trade creditors	16,659	11,491
Other creditors including taxation and social security:		
Corporation tax	1,305	981
Advance corporation tax payable	393	349
Dividend payable	977	791
Social security	142	203
Other creditors	705	1,477
Accruals and deferred income	1,560	1,437
	31,864	27,595

—	—
—	—
—	—
—	—
—	—
—	—
977	791
—	—
—	—
—	—
—	—
977	791

Notes to the Financial Statements

13 Creditors: Amounts falling due after more than one year

Bank and other loans

Hire purchase liabilities

Total borrowings

Other creditors

Group		Company	
1995	1994	1995	1994
£000	£000	£000	£000
4,844	4,013	—	—
370	376	—	—
5,214	4,389	—	—
1,586	2,009	—	—
6,800	6,398	—	—

Other creditors include a provision of £1,389,000 (1994: £1,431,000) being the estimated deferred consideration payable in connection with the acquisition of Scafa-Tornabene.

Total borrowings are repayable as follows:

Bank loans and overdrafts:

In one year or less, or on demand

Between one and two years

Between two and five years

In five years or more

9,734	10,574	—	—
1,050	814	—	—
2,386	2,640	—	—
1,408	559	—	—
14,578	14,587	—	—

Other borrowings (hire purchase liabilities):

In one year or less, or on demand

Between one and two years

Between two and five years

389	292	—	—
274	236	—	—
96	140	—	—
759	668	—	—

Total loans and other borrowings:

In one year or less, or on demand

Between one and two years

Between two and five years

In five years or more

10,123	10,866	—	—
1,324	1,050	—	—
2,482	2,780	—	—
1,408	559	—	—
15,337	15,255	—	—

The above borrowings carry interest at commercial rates ranging from 5.5% to 8.25%. The total amount repayable in five years or more comprises £390,000, with respect to bank loans repayable other than by instalments secured on freehold premises, £377,000 with respect to a bank loan repayable by instalments secured on freehold premises and £641,000 with respect to a bank loan repayable by instalments.

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14 Deferred taxation

Deferred taxation provided in the financial statements is as follows:

Excess of capital allowances over depreciation

Other-UK

Other-overseas

Revaluation of freehold property

Group			
AMOUNT PROVIDED 1995 £000	1994 £000	POTENTIAL LIABILITY 1995 £000	1994 £000
181	125	181	125
(200)	(193)	(200)	(193)
1,479	1,146	1,733	1,375
—	—	336	336
1,460	1,078	2,050	1,643

Advance corporation tax recoverable has been reclassified within debtors and the comparative figure reclassified accordingly.

The movement on the provision for deferred taxation is as follows:

	GROUP £000
Provision at 1 January, 1995	1,078
Exchange difference	7
Business acquired	(33)
Transfer to profit and loss account	408
Provision at 31 December, 1995	1,460

15 Share capital

Authorised:

28,000,000 (1994: 28,000,000) shares of common stock of par value US\$0.10 each ("shares of common stock") with an aggregate nominal value of US\$2,800,000 (1994: US\$2,800,000). 5,212,587 8.75p (net) convertible cumulative redeemable shares of preferred stock of US\$0.10 each ("shares of preferred stock") with an aggregate nominal value of US\$521,588 (1994: US\$521,588).

Equity share capital

Allotted, called up and fully paid:

18,607,306 shares of common stock of par value US\$0.10 each •

(1994: 18,392, 979)

Non-equity share capital

Allotted, called up and fully paid:

5,204,024 shares of preferred stock of US\$0.10 each

(1994: 5,204,569)

1995 £000	1994 £000
1,059	1,046
278	278
1,337	1,324

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During the year there have been the following changes in share capital:

- (a) On 12 September 1995, 214,000 shares of common stock were issued following the exercise of options under the Company's Executive Share Option Scheme
- (b) On 12 June 1995, 545 shares of preferred stock were converted into 327 shares of common stock.

At 31 December, 1995, the following options over shares of common stock were outstanding under The Quarto Group Inc. Executive Share Option Schemes.

Number of Shares	Date exercisable	Options price per share
20,000	16 November, 1990 – 15 November, 1997	£1.51368
16,000	12 April, 1992 – 11 April, 1999	£1.73264
15,000	14 November, 1992 – 13 November, 1999	£1.5232
88,000	10 April, 1995 – 9 April, 2002	£1.30424
76,000	26 October, 1996 – 25 October, 2003	£2.82

The shares of preferred stock are convertible into shares of common stock on 1 June, 1990 and annually thereafter at a rate of 60 shares of common stock for every 100 shares of preferred stock. The Company may at any time purchase shares of preferred stock in accordance with the rights attaching to such shares. The Company is obliged to redeem all outstanding shares of preferred stock in 2005 at a price of £1. The holders of the preferred stock are not entitled to vote at any meeting of shareholders unless their dividend payment is more than six months overdue or the meeting is being held to consider a resolution for liquidation, dissolution, winding up or the appointment of a receiver. On liquidation, dissolution or other winding up the holders of the preferred stock are entitled to be paid out of the available assets of the Company the sum of £1 per share and the amount of all accrued dividends payable in priority to any payment being made to the holders of common stock.

16 Reserves – paid in surplus

At 1 January, 1995

On shares issued during year:

Exercise of share options

At 31 December, 1995

Group		Company	
1995	1994	1995	1994
£000	£000	£000	£000
23,513	23,513	23,513	23,513
282	—	282	—
23,795	23,513	23,795	23,513

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17 Reserves -- profit and loss account

At 1 January, 1995

Retained profit

Difference on translation of net assets and profit
and loss accounts of non-UK companies

At 31 December, 1995

Group	
1995	1994
£000	£000
8,750	5,801
3,226	2,667
(75)	282
11,901	8,750

Company	
1995	1994
£000	£000
(3,837)	(3,611)
—	(226)
—	—
(3,837)	(3,837)

18 Reserves -- goodwill

At 1 January, 1995

Goodwill adjustment (1994: arising on acquisitions)

At 31 December, 1995

Group	
1995	1994
£000	£000
22,544	18,183
(933)	4,361
21,611	22,544

The goodwill adjustment of £933,000 represents principally a reassessment of the deferred consideration payable in respect of a prior year acquisition

Notes to the Financial Statements

19 Financial commitments

At 31 December, 1995, the Group had commitments to make payments under operating leases during the next year as follows for leases expiring:

Within one year

Between two and five years

Over five years

Group			
LAND AND BUILDINGS	OTHER	LAND AND BUILDINGS	OTHER
1995	1995	1994	1994
£000	£000	£000	£000
95	6	100	5
409	61	454	33
403	—	255	—
907	67	809	38

The land and buildings leases are subject to rent reviews.

20 Contingent commitments and liabilities

On 14 September, 1993, the Group acquired Scafa-Tornabene Inc. ("Scafa"). The acquisition agreement provides that a further payment in respect of the acquisition may be made on 30 September, 1998 calculated by reference to a formula based on a multiple of five times the average operating profit of Scafa for the three financial years completed prior to the date of payment and takes into account levels of debt within Scafa. The vendors may elect to receive a payment of one third of the deferred consideration in each of 1996 and 1997 by applying the formula to the relevant years. The directors have provided for deferred consideration of US\$2,167,000 (1994: \$2,247,000) in these financial statements based upon internal projections. The maximum potential liability is US\$6,500,000.

On 13 May, 1994, the Group acquired the business and certain assets and liabilities of Front Line Graphics, Inc. ("Front Line"). The initial consideration comprised cash of US\$5,261,250 and a promissory note of US\$1,753,750 payable after 30 April 1997 subject to a clawback arrangement. The acquisition agreement provides that a further payment in respect of the acquisition may be made in 1997 of 40% of the excess of the cumulative profit before taxation of Front Line for the three years ending 31 December, 1996 over US\$4,209,000. The directors have not provided for the promissory note or any deferred consideration in these financial statements based on internal projections. The promissory note had been provided for in 1994 but has been written back this year as an adjustment to goodwill. The maximum potential liability is US\$3,753,750.

In January, 1995 the Group withdrew from a multi-employer pension plan covering 40 US employees. The liability arising as a result of this withdrawal cannot be quantified but it is unlikely to exceed US\$800,000. Once determined, this liability will be provided over an actuarially determined period.

The Quarto Group Inc. has issued guarantees in respect of £8,363,000 of overdrafts of subsidiaries (1994: £9,760,000) and bank loans of £5,732,000 (1994: £2,253,000).

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21 Notes on the consolidated cash flow statement

Reconciliation of operating profit to net cash inflows from operating activities:

	1995 £000	1994 £000
Operating profit	7,854	6,949
Depreciation charge	892	689
Loss/(Profit) on sale of fixed assets	1	(29)
(Increase) in stocks and work in progress	(3,936)	(1,804)
(Increase) in debtors	(4,447)	(1,992)
Increase (decrease) in creditors	3,547	(2,268)
Net cash inflow from operating activities	3,911	1,545

Certain movements in assets and liabilities disclosed above differ from the movements shown by the consolidated balance sheet as a result of foreign exchange differences and accruals and prepayments.

	SHARE CAPITAL/PREMIUM		OTHER FINANCING	
	1995 £000	1994 £000	1995 £000	1994 £000
Analysis of changes in financing during the year:				
Balance at 1 January, 1995	24,837	24,837	7,504	7,773
Acquisition of businesses/subsidiaries	—	—	(1,124)	1,117
New hire purchase contracts	—	—	403	435
Exchange difference	—	—	108	(308)
Net cash inflow/(outflow) from financing	295	—	1,669	(1,513)
Balance at 31 December, 1995	25,132	24,837	8,560	7,504

Other financing comprises creditors due after more than one year together with hire purchase obligations of £389,000 (1994: £292,000) and loan instalments of £1,371,000 (1994: £814,000) included in creditors due in less than one year.

Analysis of changes in cash and cash equivalents:

	1995 £000	1994 £000
Net cash (overdraft) at 1 January, 1995	(6,309)	1,275
Exchange difference	(138)	19
Net cash inflow (outflow)	924	(7,603)
Net cash (overdraft) at 31 December, 1995	(5,523)	(6,309)

Cash and cash equivalents comprises cash at bank and in hand and bank overdrafts.

Historical Cost Five-Year Summary

	Group				
	1991	1992	1993	1994	1995
	£000	£000	£000	£000	£000
Profit and loss account					
Turnover	35,079	39,387	49,590	57,927	66,469
Operating profit before exceptional charges	4,519	4,349	5,441	6,949	7,854
Net interest	(468)	(376)	(421)	(669)	(840)
Profit before exceptional charges and taxation	4,051	3,973	5,020	6,280	7,014
Exceptional charges					
Aborted acquisition	—	(160)	—	—	—
Sale of operations	—	(391)	—	—	—
Profit on ordinary activities					
before taxation	4,051	3,422	5,020	6,280	7,014
Taxation	(1,035)	(923)	(1,301)	(1,741)	(1,747)
Profit on ordinary activities					
after taxation	3,016	2,499	3,719	4,539	5,267
Minority interests	(131)	(132)	(224)	(258)	(241)
Profit for the financial year	2,885	2,367	3,495	4,281	5,026
Dividends	(1,169)	(1,189)	(1,467)	(1,614)	(1,800)
Retained profit	1,716	1,178	2,028	2,667	3,226
Earnings per share					
Before exceptional charges	16.9p	16.4p	19.7p	20.8p	24.8p
After exceptional charges	16.9p	13.2p	19.7p	20.8p	24.8p
Earnings per share have been adjusted to reflect the bonus element of the share issue in 1993.					
Balance sheet					
Fixed assets	3,749	4,037	4,908	5,736	6,787
Other net assets	9,964	11,552	13,702	19,415	23,743
	13,713	15,589	18,610	25,151	30,530
Net borrowings	(5,925)	(7,376)	(3,915)	(11,684)	(12,431)
Net assets	7,788	8,213	14,695	13,467	18,099
Cash flow					
Net cash inflow from operating activities	3,861	2,515	2,268	1,545	3,911
Interest (net) and dividends	(1,548)	(1,560)	(1,719)	(2,192)	(2,483)
Taxation	(1,049)	(1,152)	(721)	(769)	(1,030)
Capital expenditure (net)	47	(315)	(878)	(861)	(1,424)
Acquisition and disposal of businesses and investments (net)	(1,135)	200	(3,013)	(3,813)	(14)
Net cash (outflow) inflow before financing	176	(312)	(4,063)	(6,090)	(1,040)