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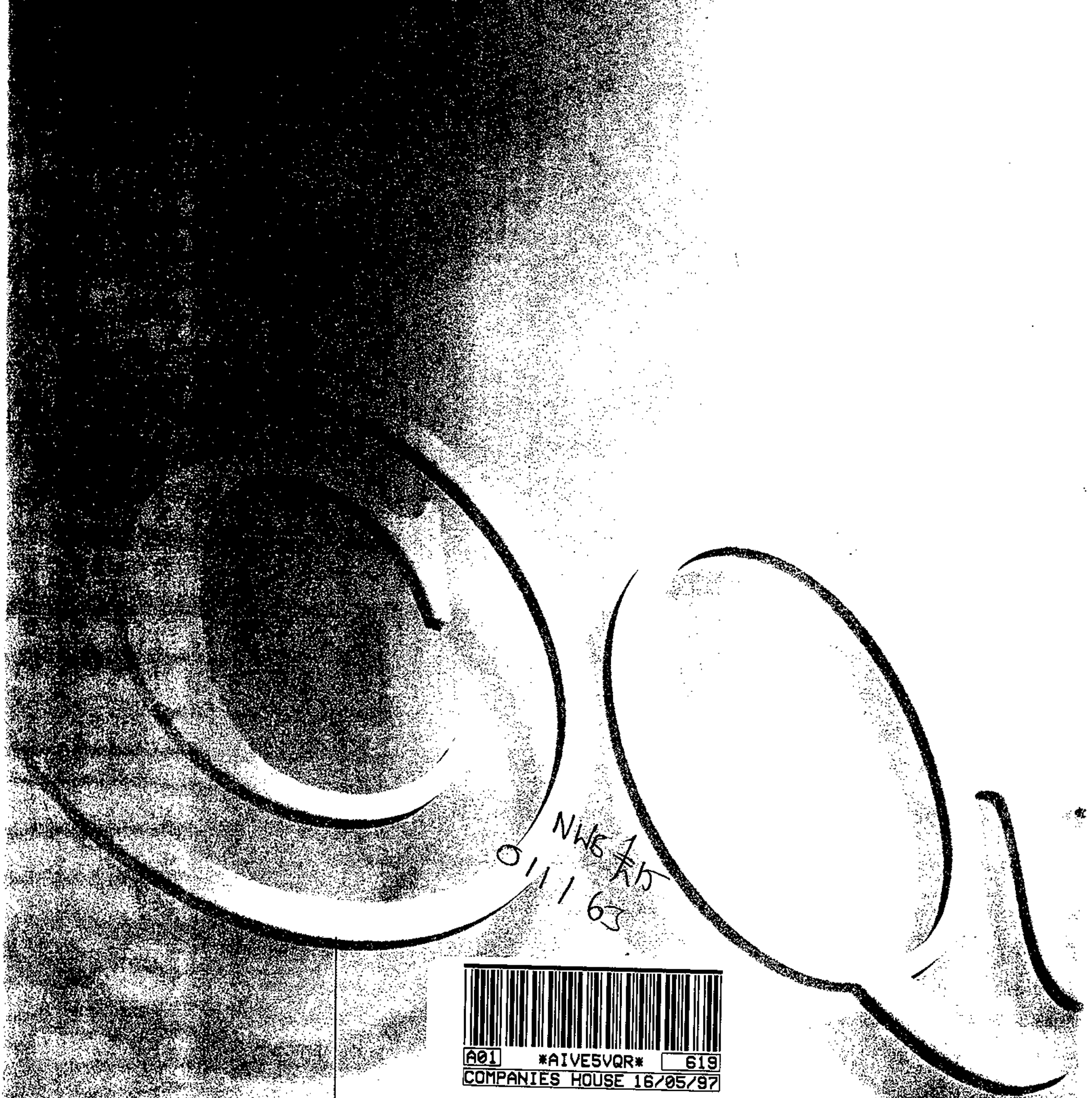
QUARTO

Annual Report 1996



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The intellectual property of our
books is our most valuable asset

Sales

£80,619,000	1996
£66,469,000	1995

Profit before taxation

£7,811,000	1996
£7,014,000	1995

Dividends

8.0p	1996
7.25p	1995

Earnings per share

26.5p	1996
24.8p	1995

The Quarto Group, Inc

ANNUAL REPORT 1996

Laurence F. Orbach
Chairman and Chief Executive

Robert J. Morley
Deputy Chief Executive

Michael J. Mousley
Chief Financial Officer

George T. Y. Tai
Managing Director, Regent Publishing Services

Harvey Goldstein
President, Quarto North America

Geoffrey Banks
Director, UK Publishing Services

Eric de Bellaigue
Non-executive director

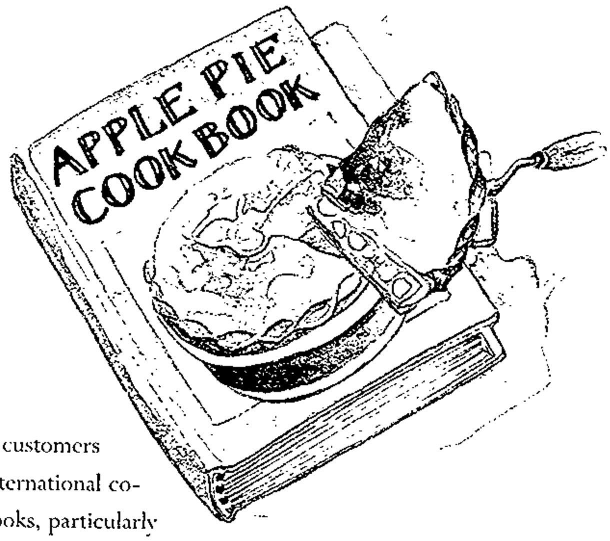
Chairman's Letter

Dear Shareholder,

Two acquisitions of importance defined your Group's strategic focus in 1996, a year in which we concentrated on the development of our core businesses, taking advantage of the improvement of our markets, and of the strength of our products. The acquisitions, Walter Foster , a publisher of how-to books for beginning artists, and Design Eye, publishers of instructional book and component kits, both broaden our product ranges in areas where we are already strong, and, for the first time, take us into a new distribution channel for books in the United States. As a result of these acquisitions, book publishing now accounts for three-fourths of Group revenues, the balance being other publishing and publishing services.

I am pleased to report, once again, record results. For the year ended December 31, 1996, sales climbed to £80.6 million (1995: £66.5 million) and operating profit to £9.15 million (1995: £7.85 million). After increased interest charges to fund the acquisitions, profit before tax was £7.8 million (1995: £7.0 million), and earnings per share were 26.5p (1995: 24.8p).

I am delighted with these results overall. They do not quite reach the expectations we had earlier in the year, and this is accounted for by two factors: the rise in the value of sterling, over which we had no control, and late bottlenecks in manufacturing. These affected deliveries of orders



Sales in the US - our biggest market - continue to grow strongly

placed by customers for our international co-edition books, particularly from our fast-growing and innovative children's book division. But for these two factors, which we estimate accounted for £500,000 of anticipated profits, we would have exceeded our internal expectations. Continuing prudent management of our foreign exchange exposure, which is integral to our operations as an international publishing group, limited the impact of sterling's rise, but the last quarter of the year is our busiest and some effects could not be avoided. Two-thirds of the Group's sales now arise in, or are consigned to, the United States. We have long recognized that the United States dollar is our principal trading currency, and have matched our dollar sales with dollar purchases, and our borrowings with our asset bases, as much as possible to limit the impact of currency fluctuations on our commercial decisions. Of course, we cannot be immune to sudden or short-term changes, nor can we avoid the impact of translation differences upon reported results.

We publish most of our adult books for clearly identified special interest audiences such as home cooks, woodworkers, crafters, and amateur artists.

The increased demand for our co-edition books created new challenges, particularly with the scheduling of components, and we failed to resolve them satisfactorily before year-end. Some of the problems were new to us, and we were not swift enough in our response to build up the sourcing skills we need. Our children's titles, in particular, are ambitious and innovative. Outsourced components, essential to most of the titles published in our children's book division, present very different production issues when compared to straightforward printing. We have had to work out our own solutions, and to train our staff in new ways. This is time-consuming and we have our setbacks, but the market response to our publications is unambiguously positive and we shall benefit in future years from this learning experience. It was unfortunate that the major delivery season for our children's titles was the last quarter of the year because this also had the effect of increasing the impact of sterling's rise in value.

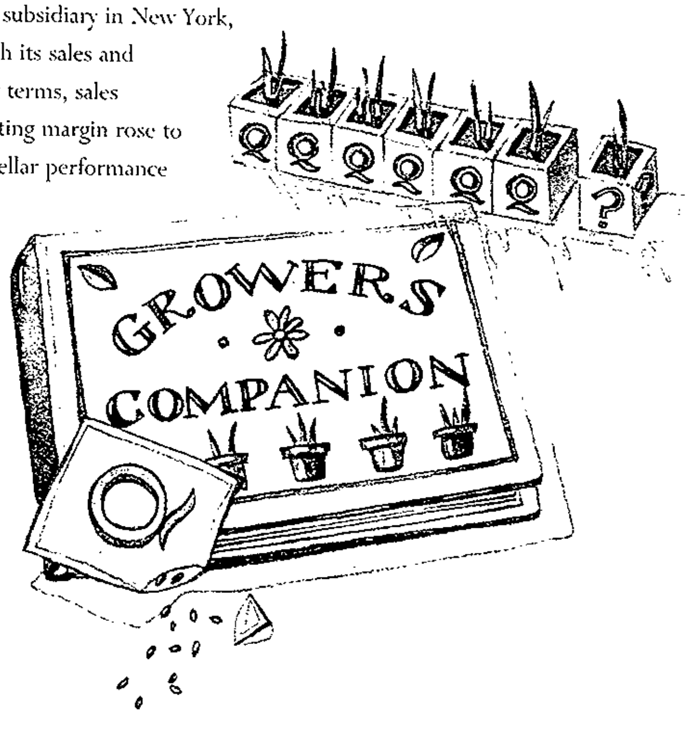
Approximately half of 1996's revenues were in international co-edition book publishing. This is the part of your Group's business with the longest forward order book. Co-edition book publishing sales grew by 32%, following the June acquisition of Design Eye, whose sales are heavily weighted to the second half of the year. Continuing business grew by 12%, despite an adverse currency impact of 4% and the "loss" of a further 5% of sales.

It was, then, a very buoyant year, with sales far outstripping inflation and the growth of sales in the book industry as a whole. We saw a steady improvement in sales in some markets, notably Australasia, where we increased our own sales presence, and strong growth in a number of other markets, particularly in Portugal, France, Germany, and the United States. The strength of American sales was very gratifying, as the United States is our largest single market. Our experience contrasted strongly with that of many domestic American publishers.

Our growth is both organic and by acquisition

Altogether then, our co-edition book publishing business, with sales of approximately £40 million in 1996, and operating profits of £5.9 million, is in good shape. Consistent with past experience, income from reprints represented about half of our sales, highlighting once again, the quality of our publishing programs, with their strong focus on books of enduring interest.

Our other book publishing businesses, including Walter Foster, acquired at the end of February, had sales of approximately £25 million, before eliminating growing inter-group trading. The star performer in 1996 was our promotional publishing subsidiary in New York, Book Sales, which improved both its sales and profit margins. In local currency terms, sales increased by 23% and the operating margin rose to 8.9%, from 6% in 1995. This stellar performance offset the impact of declining margins at our directory publisher, Broughton Hall,

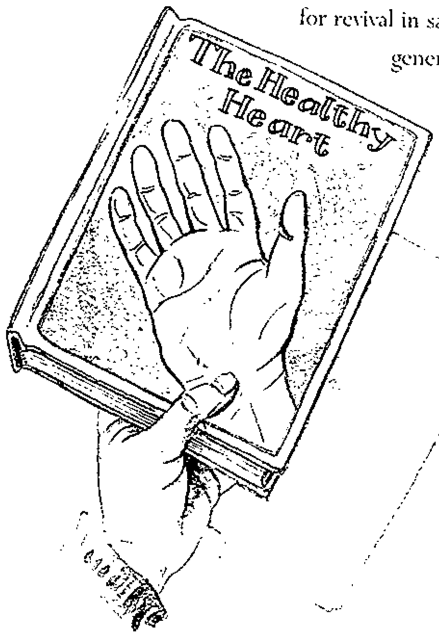


The acquisitions of Walter Foster Publishing and Design Eye are central to our strategy of growing our business. They complement Quarto's existing strengths in producing art instruction, and added value, books and offer a way in to new sectors of the markets.

which, in an effort to joint-venture projects with other group operating units, lost its tight focus on the core business. It produces its revenues from telemarketing. This is an intensely concentrated sales approach, requiring rigorous hourly and daily monitoring and responsiveness. Regretfully, our management resources were stretched too thin to allow attention to be diverted to other opportunities for growth. The result was that Broughton Hall's margin dipped from 17% to 9%, giving the division as a whole an operating margin of 8.9% Given that the largest unit operates at a relatively low margin, and that the volume of inter group sales continues to grow and to be important to each unit, we are very pleased with the overall result.

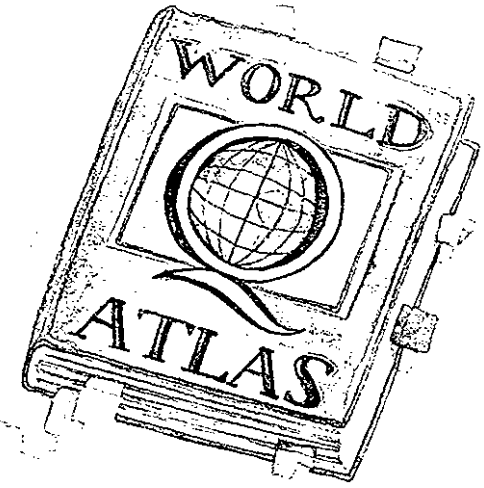
A further £10 million of sales was achieved in our other publishing businesses, which include magazine publishing in the UK, and art print publishing in Australia and the United States. Our results for 1996 incorporate the costs of writing off one unsuccessful magazine launch and one aborted launch in the UK, and an unexpectedly poor result in Australia in our art print publishing business, where the hoped-for revival in sales, following the March general election, did not materialize. I am pleased that we resurrected our Australian publishing program, bringing more new images to market, but we were over-optimistic about the buoyancy of the retail sector. In the United States,

Books are a powerful way of conveying information and instruction



Taking the pulse of our audiences is the way we keep ahead. Our decisions on what to publish are market-driven and we rely on our authors, editors, designers, and co-publishers to monitor markets and to identify subjects of enduring interest.

We have improved the monitoring of our widely spread operations



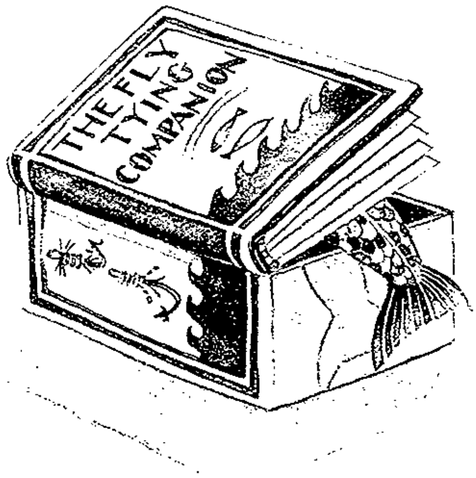
results were mixed. Scafa improved its sales and profits, with FrontLine moving in the opposite direction. The overall operating margin was just under 10%.

The publishing services division, operating in the UK, Hong Kong, and Singapore, had sales of £14.4 million in 1996. £4.4 million of sales were inter group, highlighting some of the division's importance as a supplier to the book publishing businesses. Poor results from our UK operations were, as in 1995, a drag on profits, but we have now closed the chapter on photographic processing, and hope that a more buoyant economy in the UK, with a changing retail sector, and our more focused management, will give us improved results and the flexibility to consider the way forward for the division. By contrast, our Hong Kong and Singapore operations, which are the chief suppliers to group companies, performed with their usual vigor.

In 1996 we welcomed Walter Foster and Design Eye to the Group, and we also changed our structure in the United States. I appointed Harvey Goldstein to the newly-created position of President, Quarto North America, and he has also joined the main Group Board. The operating businesses in the United States now report to Harvey. One immediately noticeable benefit of this change is an increase in the amount of business that units do with each other, and a growth in the level of comfort they have in each other. Harvey's presence, and his long experience as a senior executive in publishing, assures that group-wide initiatives can now be taken.

Harvey's appointment was made, in part, because too many units were reporting directly to me, and were not receiving all the attention they deserved, and because North America is the principal marketplace for the Group's publications. Another major reason was my continuing concern

Our reporting systems are speeding up the provision of useful financial and management information. Modern communications and the ease of travel allow our businesses to think globally, but act and make decisions locally.



The market for interactive books and kits is very strong

that we should have well-founded growth in our businesses and, given that a number of business presidents were formerly owner-entrepreneurs, I wanted us to be in a position to focus on succession issues. I am sure that Harvey will be a tremendous help in this area.

Whether received as a gift, or self-purchased, the user finds our books-plus projects a distinct advantage. They are enjoyed particularly by children and by readers that are starting a new pastime.

Some departures must be noted. Marta Hallett, having successfully created the distinctive Packaged Goods list in New York, and launched the Peanuts titles under its license, resigned to join HarperCollins as publisher of their Collins imprint. Sadly, this has not been an amicable parting. Packaged Goods is now in dispute with HarperCollins, and the continuation of the Peanuts program is in jeopardy. Mark Weinbaum, who created the tremendously successful Front Line art publishing business, which has been struggling to recapture its position for the last two years, resigned abruptly in September. We recognize and thank both Marta and Mark for their respective contributions.

The Business and the Marketplace

Quarto's principal business is book publishing. Our various imprints produce, collectively, several hundred new titles each year, heavily illustrated, non-fiction books mainly designed to enhance the reader's skills or knowledge about a particular subject. We are particularly well-known for our how-to instructional books in the arts and crafts fields, and for our innovative and engaging, interactive children's titles. We also publish books for the home cook, for practitioners in the commercial and graphic arts fields, and for collectors.

The largest part of our book publishing is in international co-editions. You will not see our name on the spine and title page of our books. Unlike most publishers, we don't sell our books to retailers ourselves. The contents of our books are intended to be relevant to the needs of readers worldwide and, to optimize our sales, we license publishers and distributors to market and sell our books in defined territories or market sectors. We supply finished, manufactured books to our customers, with their names on the spine and title page. In order to continue to exploit their licenses, our customers have to order reprints from us.

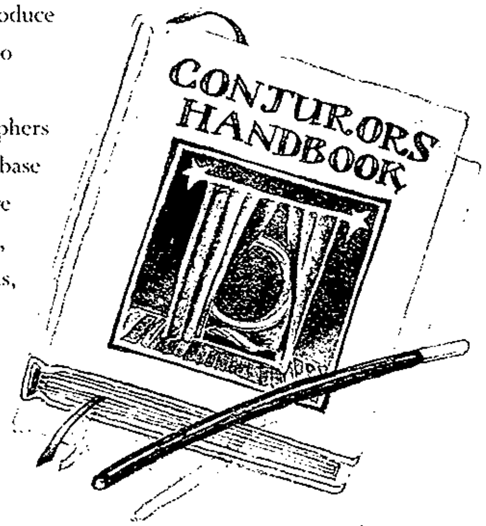
Unlike most publishers, we commit to the production of a new title only when we, in turn, have firm commitments from our customers worldwide that will cover the direct costs of creating the content and manufacturing the initial print run.

By operating in this manner, we achieve two important objectives: (1) we eliminate the financial risk which is common to most publishing. Each title we publish has to pay its way; (2) we have a filtering process which helps to focus our publishing output on market need, as perceived by our customers, and which doesn't rely entirely on our own creative hunches.

You won't see the Quarto name on the spine of our books

In common with most publishers, we organize our publishing programs into imprints, or lists. Each list has its own distinctive identity, one specializing in books for the hobbyist, another in titles for young readers. These distinctions help each list to have an identity for its customers and a focus for its creative energies.

Unlike most publishers, we own most of the content of the books we produce. Our books are generally highly illustrated, and are sophisticated in content and design. Our publishing mission is to produce books that inform, instruct, and entertain. The effort to produce these books is collaborative. Our editors and designers work with writers, illustrators, and photographers to produce books that enhance the knowledge or skill base of readers. Our titles are produced because we perceive that the markets for them are identifiable, quantifiable, and reachable through established distribution channels,



Others can sell books to wholesalers and retailers better than we can, so their names go on the spine and title page. Few can rival our ability to produce these books.

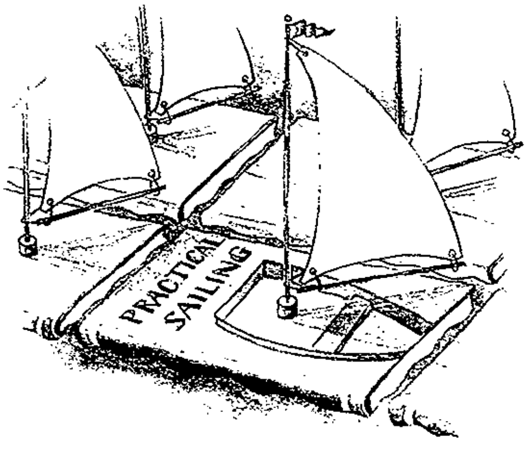
and have a clear interest in, or need for, what we are producing.

The intellectual property in our books is our greatest asset. It is an essential part of our business model that we own the content. We need to be able to exploit the expensive material we have created. Markets change, and distribution channels change, but much of our content is of enduring interest. Without a free hand to "re-purpose" our archive of material, we would be at a disadvantage in producing books at a competitive price in the first instance. Print remains an enduring medium not simply because it is powerfully effective. It is also remarkably good value for money, something I remind myself every time I buy a tie for many times the cost of a fine book.

Almost half of our co-edition publishing revenues each year comes from the sale of reprints of books created in prior seasons. Of our annual output of new titles, some may derive from older books, whose development costs were written off years ago, others are entirely new, and we capitalize their development costs and write them off over three years. We are still reprinting books and exploiting material created twenty years ago, when our annual output barely reached a dozen new titles. Such is the value of our backlist and of our ability to continue to exploit its marketability.

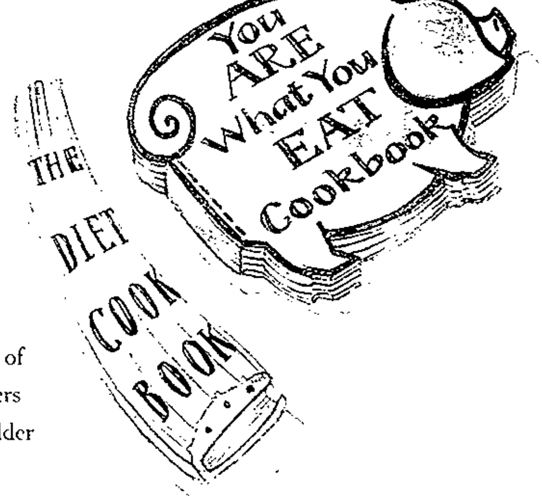
Reprints sales are very bouyant

The very rapid transformation of American book retailing over the last decade reflects the enormous increase in the output of new titles, and the



Reprints regularly provide 50% or more of our co-edition revenues. The high quality of our earnings stream is an endorsement of our policy of producing high quality books of enduring interest.

Responding to changes in the marketplace

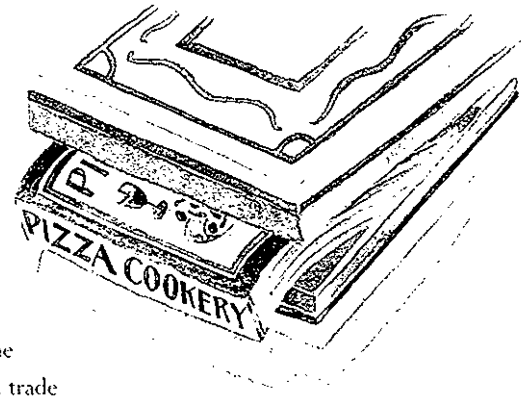


consumer's desire for a wide selection and immediate availability. At the same time, the rate of change has challenged the book publishing industry's ability to adapt. The pace of openings of massive superstores has not been matched by the rate of increase in final sales, although it is abundantly clear that consumers prefer, and spend more in, well-stocked superstores than in the older and smaller bookshops.

Nonetheless, there is a cost for this shopping experience and extensive retailer stockholding. To date, this cost has been borne mostly by traditional trade publishers. Traditional publishing, which relies upon forcing new titles into an already crowded niche retailing environment, has embraced the superstores, as they have provided the space to display what's available. The benefit to Quarto has also been substantial. Our focus on publishing for niche, special interest audiences, often squeezes out our books from smaller stores. Superstore retailers, however, understand the strong demand that exists in special interest areas, and they devote considerable shelf space to these niche categories.

But, for trade publishers as a whole, the benefit of increased shelf space and exposure is often more apparent than real. Expensive marketing campaigns, which revolve around getting people into the stores, frequently dilute their impact as they open up the reader's eyes to the profusion of titles available. The enormity of the choice tends to limit the number of copies of each title sold, so that the increase in exposure is offset, for the publisher, by the bookseller's periodic need to return excess or slow-moving inventory. 1996 was a year in which many publishers in the United States, as in the UK a year or so earlier, found that their accounts receivable were being settled in returned merchandise rather than cash.

Our magnetic cookbooks, designed to cling to refrigerator doors, are an example of our innovative response to the opportunities in the marketplace. In this speeded-up world, these recipes offer some instant cooking ideas.



Selling books in non-traditional outlets

Quarto is not in the business of being a trade publisher, neither does it produce would-be best sellers, so we were largely insulated from the impact of these heavy returns.

In Europe, including Britain, the size of bookstores is also growing, and is set to grow at a faster pace. The level of retailer competition is lower, though, and a more conservative approach to marketing, relying less heavily on price, and a more conservative public, will probably ensure that the US experience is not copied slavishly.

Probably half of our books are sold outside bookstores. Specialty retailers recognize the great value that selling books represents for their customers. Although bookstores are the core market for books, we expect the impact of specialty retailers to continue growing.

Another growing dimension in selling books is the fact that bookstores, although the core outlet for wide selections of titles, and responsible for a majority of book sales, are diminishing in importance for some of the fastest selling titles, both paperback and hardback. The profusion of outlets for best-selling paperbacks has been common enough for years. In the last decade, though, supermarkets, hypermarkets, warehouse clubs, and specialist retailers, from Ikea to Past Times, from The Nature Company to Williams Sonoma, are an important part of a growing market for books. Indeed, it has been estimated that a quarter of the sale of some American best-selling fiction titles is through warehouse clubs alone. Added to this growth through non-traditional retail outlets, is the explosion of sales through such direct selling techniques as party plan (exemplified by the Dorling Kindersley Family Library), display marketing (such as The Book People in the UK and Reading's Fun in the US), school book fairs (Scholastic and Troll), and the like. The growth of the market overall has been exponential, and I'm pleased to report that Quarto's book publishing businesses are alert to the opportunities.

Our strategy to reach these new markets is evolving. In 1995 we opened a co-edition publishing sales office in the United States, and sent our Sales and Marketing Director there for a year to get it running. In

1996 we opened a similar operation in Australia, and two of our most senior and experienced salespeople have relocated to Sydney. These offices allow us to get closer to the markets and to create new selling opportunities. The fact that we own most of the intellectual property in the titles we create gives us a flexibility in marketing and publishing that confers a distinct competitive advantage. To take only one kind of example: in order to leverage our assets we have been able to apply a license for, say, Disney or Warner, to a concept that we had developed originally in a generic format. In our children's book division, the titles we now produce, incorporate a book and related components. They have been positioned, to date, for the book trade but, with a little adaptation, we can present them differently for other markets.

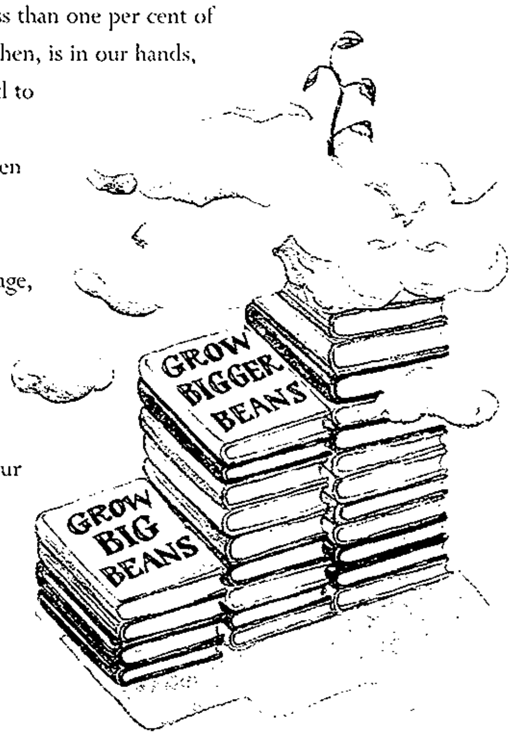
Prospects

Our major markets continue to be strong. Since the last quarter of 1996 there is some evidence that even the British market is improving and, as it now represents only some 11% of our co-edition publishing sales, as compared to 23% five years ago, that would be a welcome change, and would open up strong opportunities for sales growth in the UK.

But we recognize that the growth and increasing prosperity of Quarto has been determined only marginally by the overall health of the industry. The strength of individual economies and our own efforts have a much greater impact. Even though our sales rank us as a medium-size publisher, the book industry is made up of an extraordinarily large number of companies of all sizes. Our sales account for less than one per cent of books sales in our major markets. The future, then, is in our hands, to increase our share of these book markets and to benefit from their steady growth.

After a brief hiatus of a couple of years, when many inside the publishing industry, and many outside observers and analysts, questioned the continuing relevance of the book in the digital age, book publishers are emerging with renewed confidence. As foreshadowed in my statement at the interim stage, we have not continued with our own efforts at multimedia software publishing. Instead, we have merged our

There is plenty of room for growth in our major markets



New media–newspapers, magazines, movies, radio, television, and so on – have evolved from books and from each other. Initially relying on material from "old" media, these new media have soon established their own content. All the while, the book publishing industry has grown by accommodating new media and searching for new markets.

business into Inroads, a multimedia software developer in Boulder, Colorado. Inroads, an affiliate label of Broderbund, one of the major consumer software publishers in the United States, produces titles for consumers in much the same way that Quarto produces books. We endorse their approach to the market and, in exchange for our investment of $1,775,000 of which $525,000 was satisfied by the injection of Quarto's digital material, we have taken a 30% stake in the enlarged entity.

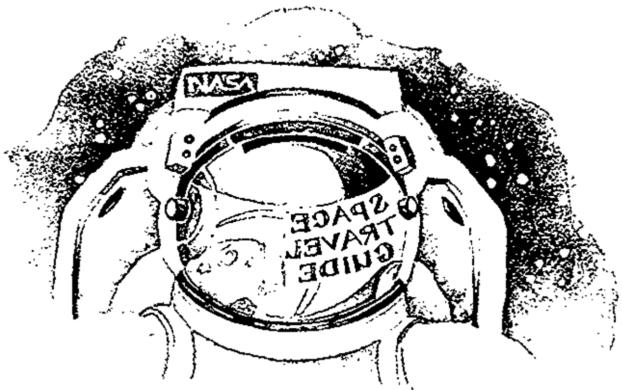
For most book publishers, the threat of CD-Rom and the Internet has been more apparent than real. Most recently, one of the two large book superstore chains in the United States has stopped handling CD-Roms, and the other is confining them to a minority of its outlets. The nature of the book will once again change, as it has so frequently in the past, so that book publishing can comfortably accommodate a new medium nibbling away at its franchise. In the process, it is now clearer that multimedia must develop its own material and that books can be designed to offer a level of interactivity and engagement that multimedia promised, but has not yet delivered. In consumer publishing, multimedia software is having an impact on "soft" reference books. Through Quarto's ownership interest in Inroads, we hope to benefit as this side of the multimedia publishing business makes use of some of our vast resources and archive.

Our publishing programs are organised thematically

For the publisher, the consumer market, which is Quarto's primary audience, remains intact and responsive to the special advantages of the book. The task of our publishing

Our lists segment their markets by theme. We seek niche audiences at all levels and produce books both for beginners and for professionals.

Above all books are portable



units is to focus on market needs, and to devise our books in formats and at price points that enable us to take advantage both of traditional publishing arrangements and of the growth in new distribution channels. We continue to redefine the function of the book, to segment the market, and to target our audiences as specifically as possible.

Although the continued rise of sterling and the overall value of sterling is a concern, we are responding to it as we reacted to the dramatic rise in the price of paper a few years ago. We will accommodate it into our planning, adjust our pricing, and, if necessary, our formats. We anticipate that we will be able to make these adjustments in the same way as we, and other successful international businesses, have done in the last twenty years. Neither the dynamic of change, nor its direction, are frightening. We anticipate that we shall continue to outperform others in our business because we have always paid a great deal of attention to operational efficiencies, and to cost and margin disciplines. By operating these disciplines effectively we have been able to provide the framework within which our creative team can have the confidence to develop their concepts fully, and to execute them properly.

Currency volatility issues aside, we expect another year of solid growth in 1997 and, with that in mind, your Board is recommending a final dividend of 5.8p net, for a total of 8.0p for the year ended December 31, 1996 (1995: 7.25p) to be paid on May 15, 1997 to shareholders on the register on March 18, 1997.

Once again, I want to take this annual opportunity to express thanks to staff, customers, and suppliers, all of whom contributed to our record results in 1996.

Laurence F Orbach
February 27, 1997

You can take and use books almost anywhere!

Letter from the President, Quarto North America

Dear Shareholder,

As the newly appointed President of Quarto North America, I'm delighted to write this introductory letter to offer you a glimpse into the thinking that resulted in the creation of this position and, most importantly, what you can expect as an outcome from this investment.

It has long been a desire of the Board to pull together the various parts of our business in North America. There are opportunities we have in this market that are better serviced with an on-site, experienced manager familiar with and who understands the strategic importance of North America as a major means of achieving our goal of accelerated growth.

As the Board discussed the practicality of this position, the necessity became even more apparent. We saw a need to create a focus and a concomitant management attentiveness to the existing businesses. We were eager to develop a leadership position to help set the direction and create the plans for the growth and future position of each business. In addition, we wanted to form a single focal point to carry the responsibility for the financial performance while bringing a discipline and creativeness to the core processes and operating principles of each unit.

In the ongoing exploration of the idea of a North American unit the Board was convinced of the urgency to begin to exploit the commonality of expertise, interest and markets that exists in each of the companies. It was quite apparent that having a North American unit would help bring unforced synergies, encourage internal growth and result in the creation of a larger business.

As we enter 1997 we are beginning to see the maximization of the opportunities and efficiencies we thought were possible. Several have begun to mature while others are about to start. These include:

The movement into non-traditional outlets and new markets, including the mass and specialty markets and the incorporation of testing the direct selling channel to the home.

The substantial increase in new product offerings at most sites, but especially apparent at Walter Foster, Rockport and Front Line.

The leveraging of our assets to their best advantage through the expansion of the North American sales base. We will accomplish this by enhancing both the external distribution channel, as evidenced by Rockport's domestic publishing and distribution arrangement with one of their major partners, F & W Northlight, and the internal distribution channel, as evidenced by Walter Foster and Front Line's use of Book Sales' industry leading position in the servicing of the retail book stores.

The sourcing of skills to enhance the structure that's already in place, including the development of sales plans to motivate and grow the business at Broughton Hall, the cultivation of technology and warehouse expertise that resides at Book Sales to investigate efficiencies with both Scafa and Rockport as prime candidates.

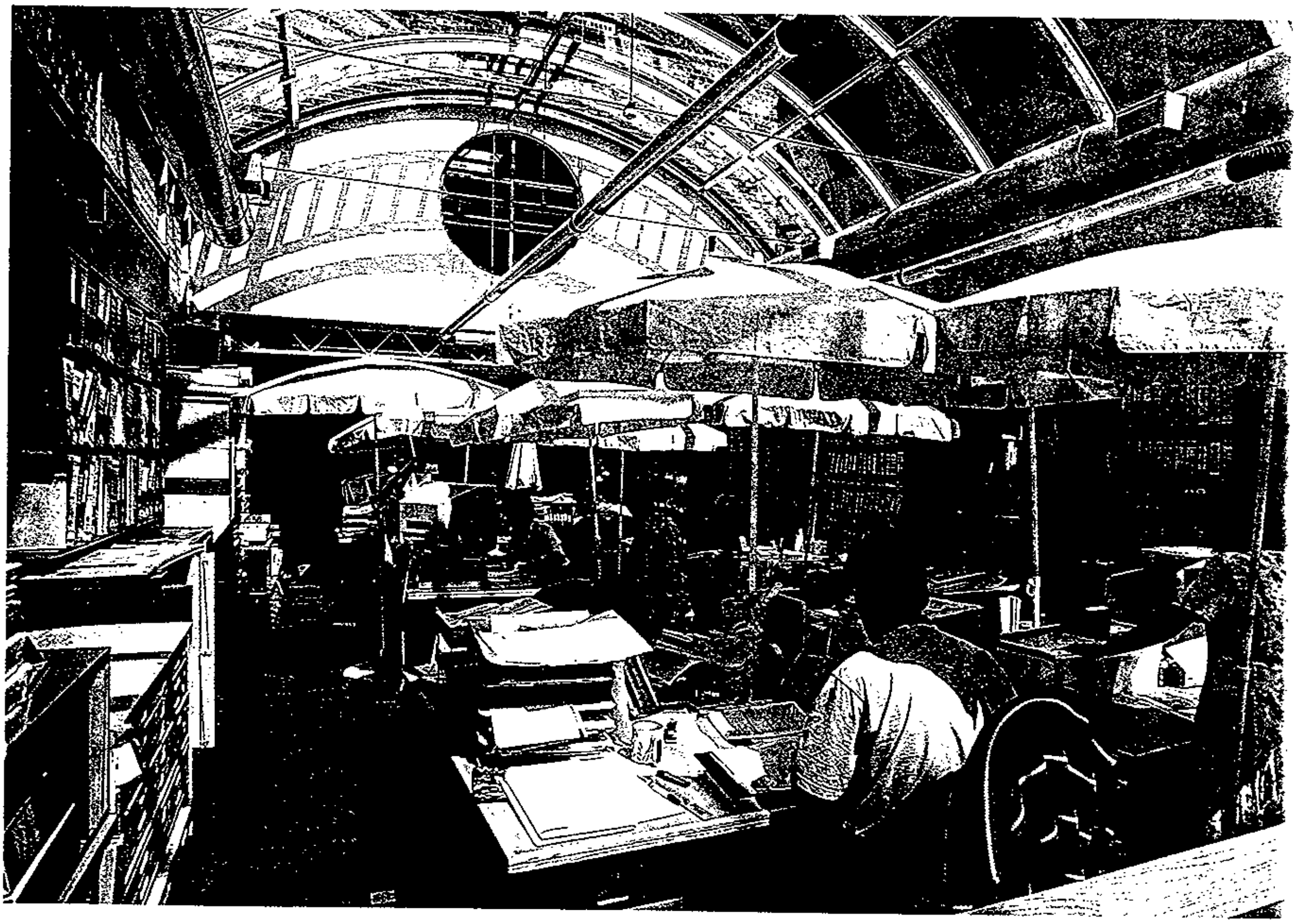
The improved quality and timeliness of decision making that is made more possible through easier access and more frequent periodic visits to company sites that is evidenced by the soon-to-be completed relocation of Scafa and its Modern Arts edition division, the testing of a satellite phone operation at Broughton Hall and the creation of an inventory policy at Book Sales to heighten its efficiency.

The development and implementation of longer-term strategies and the positioning of those to rapidly achieve our goals that include the expansion of Knickerbocker Press at Book Sales, the evaluation of a new publishing venture at Rockport, the enhancement of the deal making opportunities of Inroads Multimedia with major corporate entities and the acquisition of key management talent and skills to complement and grow several of the individual operating units.

This is an exciting time to be part of the Quarto Group. We have many opportunities and the creation of the structure, which I now manage, will help us take advantage of our best assets - our expertise and our people - and it will provide a strong foundation for the company as a whole. I eagerly look forward to the opportunity and the challenge.

Harvey Goldstein
February 27, 1997

Review of operating units



The art department of Quarto at work
at The Old Brewery, London

Mel Shapiro
President, Book Sales.

A P Screenprinters

A P Screenprinters is the largest specialist screen printer in the Thames Valley region. The company operates from a modern 25,000 square feet factory in Reading and has superb motorway links to all parts of the country. AP moved from much smaller premises in Maidenhead and 1996 was our first full year in Reading. The move proved to be an instant success, resulting in better working conditions and greater productivity.

A P has been in business since 1955, and was acquired by Quarto in 1988. A profitable and go-ahead company with a happy and enthusiastic workforce, over the years A P has built up a solid client base of blue chip companies for which it produces point-of-sale displays for the retail market. The organization employs 40 people and has invested in state-of-the-art pre-press equipment, and modern printing presses.

1996 results were excellent, with an expanded client base and quicker turn-round times. Turnover was not quite as high as hoped, but still grew by 9%, with profits rising by 8%.

The company feels very bullish about its future and we are determined to forge ahead with our expansionist plans throughout 1997 and beyond.

Rod Pearce
Managing Director, AP,
showing off his wares.

Book Sales

Book Sales, Inc. is a promotional publisher. Our list consists of publishers overstocks, known in the trade as remainders; reprints of previously published and out-of-print books; and co-edition books. The co-edition books we publish are generally large format, eye-catching books, superbly illustrated and produced. Our core customers are looking for fine books of real value, and this is what we deliver.

Frank Oppel
VP Marketing, Book Sales

1996 was a profitable year for Book Sales. Sales increased by 23%, with an operating profit of almost 9%. We achieved this despite negative trends throughout our industry, with massive returns devastating the sales of many publishers.

In the first place, we accomplished this by changing our product mix by accelerating our remainder purchases. Secondly, warehouse efficiency, in terms of shipping and turnaround time of orders, was tremendously improved over previous years. Thirdly, more reliable deliveries from our suppliers helped us greatly.

The loss of the independent bookstores, due to the explosive growth of the chains, such as Barnes & Noble and Borders, is a matter of concern in the longer-term. We are countering this by expanding our customer base beyond the traditional book market.

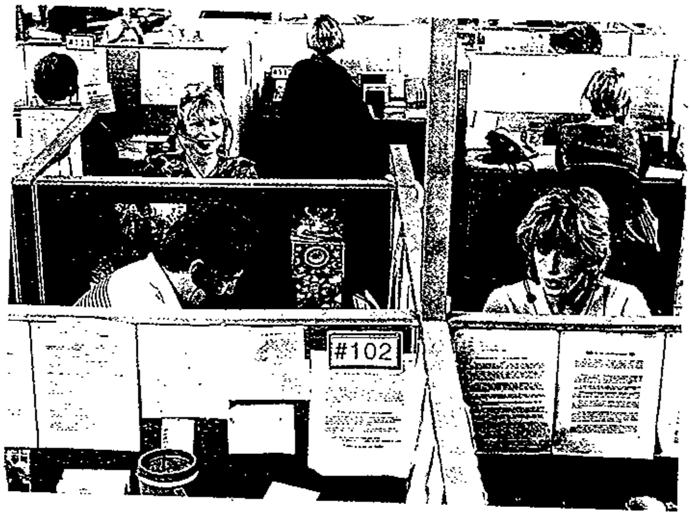
Broughton Hall, Inc.

Broughton Hall publishes, markets, and sells how-to directories directly to consumers throughout North America. The market leader in its industry niche, Broughton Hall is the largest advertiser nationwide among classified media. Direct response to advertizing is handled by a highly sophisticated in-bound telemarketing sales group utilizing state-of-the-art call centre technology. During 1996 the company received close to 1,750,000 sales calls by converting entirely to toll-free numbers and extending its advertizing. This call volume represented a 59% increase over calls received the previous year and presented significant operational challenges and opportunities, especially in the area of sales recruiting, hiring, and training.

During 1996 Broughton Hall also initiated a state-of-the-art out-bound call centre with automated data capture and manipulation capabilities. What proved to be a major disappointment in 1996 still represents a significant opportunity for the future: Establishment of the out-bound call centre as a fully operational growth area.

Pam Byrne, President
Broughton Hall

Telemarketing operation at
Broughton Hall.



Design Eye

Design Eye specializes in added value publishing, allowing an instructional book to become a fully functional starter kit by including within it materials suitable for use with the book element. This has proven to be a very successful concept worldwide as the books are currently printed in fifteen languages.

1996 has seen an advance in turnover and profit over 1995 and the successful development of many new concepts , all of which have been well received by our customer base. Some of these will be launched in 1997 and the balance in our 1998 publishing programme.

During the latter part of 1996 we invested considerable time in restructuring our working team, enhancing the working environment and improving systems. We also laid

Michael Tout and Lee Robinson,
joint Managing Directors, Design Eye

the foundations for attracting a broader customer base, and decided, in the domestic UK market, to publish some of our titles ourselves.

Front Line Graphics

1996 was definitely a year of ups and downs for Front Line. On the upside, the successful launch and growth of the Strange Matter children's fiction series was very gratifying, with sales reaching $2 million by the end of the year. In a similar vein, the launch of the mid-market, price-sensitive, Avery art print line was a resounding success. It gave Front Line extensive exposure in key mass market retailers such as Target, K-Mart, etc.

On the downside, the launch of the Front Line Classic Collection was a failure, and the prints and card division turned in a dismal financial performance, leading to a year-end loss. Along the way the founder and president, Mark Weinbaum, parted the company as did some of our other key personnel. Stephen Paul, in San Diego on an assignment from Quarto's head office in London, assumed control of the company in September. During the final quarter he assessed the business and instituted a restructuring that sees the company well placed to start afresh in 1997.

Stephen Paul,
President, Front Line

In a business so totally dependent on the quality of the images published, a key strategic decision was made to appoint art directors and product development managers for each of the individual print and card lines. All personnel were in

Kim Butler, VP Sales and
Publisher, Paloma Editions

place by the end of the year. In addition, the potentially highly successful Paloma line of African American prints was enhanced by the addition of two salespeople, freeing publisher/sales director, Kim Butler, to provide more direction for the imprint. In addition, Paloma embarked on a multi-level marketing initiative which is expected to bear significant fruit in 1997.

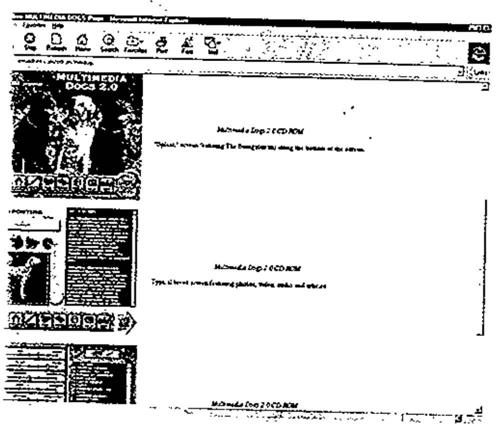
Inroads Interactive

Johnny Ray Barnes, author,
Strange Matter series

Inroads Interactive is a CD-ROM developer and publisher located in Boulder, Colorado. Inroads develops software in the Reference, Lifestyle and "Edutainment" categories. Our current line of software includes Multimedia Dogs, Multimedia Cats, Multimedia Exotic Pets, Multimedia Bugs, Multimedia Guns, and Multimedia Horses. Scheduled for Spring 1997 and Summer 1997 releases, respectively, are titles on Photography and Cigars. Both new titles are based heavily on Quarto's material

Broderbund Software, handles our North American distribution to traditional software retailers and distributors. Broderbund publishes best-selling titles like Myst, Carmen Sandiego, and Printshop Deluxe, which have sold over a million units each. Inroads handles direct sales (phone orders, internet orders, magazine ads, direct mail, etc), and sales to alternative channels (pet stores, sporting goods stores, gun shops, etc.). Outside North America, Inroads sells U.S. English versions, and licenses foreign language versions into over a dozen territories. As an example, Multimedia Dogs has been translated and localized in twelve languages, with more still forthcoming.

Inroads currently concentrates on "niche" or "single-source" reference titles, producing multiple titles that share a common code base and vary only in content, not programming. An example of this is the pet series, which share about 90% of the underlying software and vary essentially in graphics, photos, videos, audio and text.



Inroads produces CD-Roms and has an active page on the World Wide Web

Inroads' strengths lie in both distribution and development . Shelf space is very competitive worldwide, and our affiliation with Broderbund assures us of access to the buyers of all major software retailers. Our international distribution also affords us a very important avenue for increased revenue. Our development strength lies in our ability to create titles quickly (three to six months generally), inexpensively (the industry average is about US$300,000 per titles vs. ours of less than US$100,000), efficiently (to run on the most basic multimedia machine without problems) and easy to localize for foreign languages.

The biggest disappointment of 1996 was the massive amount of returns over the slow-selling Spring/Summer months. This was endemic to the industry but, since those weak months, our sales have improved dramatically.

Highlights of 1996 included completing a deal with Ralston Purina Company (the largest pet food company in the world). Purina licensed content from our CD-ROMs for their web site and we have created a "private-label" version of Multimedia Dogs for them to sell as a premium item. They have guaranteed to purchase 10,000 copies and we have granted an option on a "private-label" version of Multimedia Cats. We believe this "branded software" could become an important aspect of the industry.

Another major highlight of 1996 was the partnership formed with Quarto. In the past we have spent nearly half of our development time acquiring content. The Quarto alliance will enable us to focus more resources on software development. Planned additional CD-ROMs from Quarto content include a line of children's science titles, based on the Insight books by Robin Kerrod, a line of children's pet titles repurposing some of our pet content with new Quarto material, and Happy Hour, a slightly tongue-in-cheek reference work on drinks to prepare for and use during a party.

ProVision

ProVision provides professional publication services to illustrated book publishers worldwide, specializing in books produced by graphic arts publishers.

Acting as a publisher's production department in Singapore, ProVision has access to suppliers throughout Asia and obtains the best services available in the region. Our service goes from the preparation of publisher's material for production, to controlling colour proofs, press runs, and schedules, and dispatching finished books worldwide.

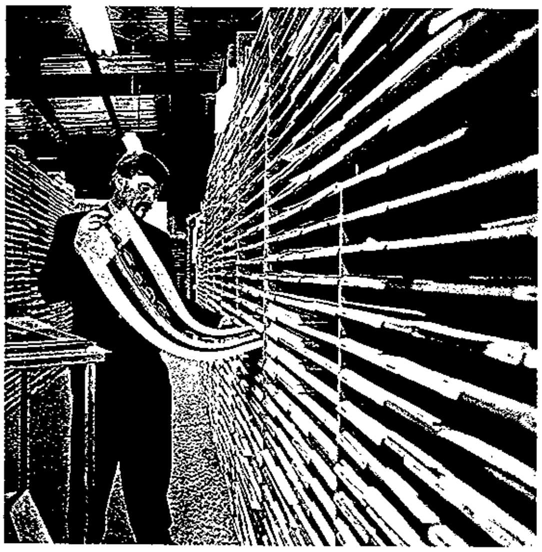
From printing most of RotoVision's famous international publications, the company has built up a solid reputation and a faithful clientele base both in North and South America.

Although sales increased by 13.5% in 1996, this came mostly from increased work for Group customers, while the acquisition of new clients slowed. With new dedicated sales staff planned for mid-1997, the company's client base should expand in the near future.

The company's net profitability was maintained at slightly above 10% of sales even though gross margins declined by 2.6%. This decline should be reversed as new client relations are established.

Quantum

Quantum specialises in reprinting and re-publishing the extensive Quarto Group backlist in an efficient low cost manner with a high emphasis on standardisation of all of the elements of the sales and production of "packaged" books. By reducing the variation of formats and materials, we are able to increase the operating speed of all aspects of the business, from the initial sale to actual book production, achieving substantial volume related price reductions. This has led to Quantum producing sales per employee at a substantially higher level than our traditional co-edition publishing, which helps offset the margin pressures that exist in this area of the market.



Pulling a print from our Melbourne warehouse

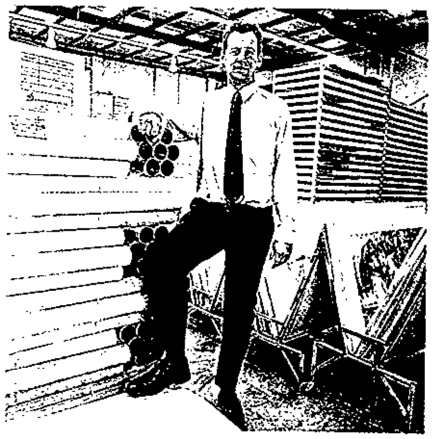
In 1996 Quantum reprinted almost two hundred backlist titles, several for the first time for almost a decade in the main worldwide English language markets. December 1996 saw the delivery of the first titles produced by Quantum in foreign translation, an area that has substantial growth opportunities over the next few years.

The promotional market remains highly competitive and cyclical in its nature. The British market proved difficult until late in the year, and the outlook for the US in 1997 is less positive. The speed of operation within Quantum enables quick response to market changes, and high level of management involvement in the sales effort ensures that resources are reallocated to fulfill market demands.

Ken Parsons, Managing Director, Quarto Australia

Quarto Australia Pty Ltd.

Quarto Australia publishes and distributes art prints and posters. Art Nouveau publishes images with uniquely Australian themes: traditional Australian landscapes, Aboriginal, and contemporary styles. On the distribution side, Parmur Melbourne, Parmur Sydney, Boolarong (Brisbane), and Poster Editions (Sydney) supply the Australian and New Zealand framing and decorator markets with a wide range of imported and local prints and posters.



Steve Atkins, General Manager, Quarto Australia

During 1996 Art Nouveau published its most diverse ever range of prints, all to critical acclaim. With the exception of works by the artist Bernie Walsh, with whom we began collaborating at the end of the previous year, and whose prints were extremely successful, sales fell short of the acclaim, and of our expectation.

Maintaining and increasing our market position overall in an increasingly competitive and price sensitive market has required continued investment in our sales effort and the generation of new ideas and markets. During 1996 we had our most stable sales force and our most successful Trade Fair, and maintained our pre-eminent position in the marketplace. A number of our framing and decorator clients are following our lead into more upmarket and expensive product ranges. We have appointed a marketing specialist to our team and are repackaging our product range to enter and develop new markets, such as the gift trade, which we believe is of sizeable potential.

Quarto Children's Books

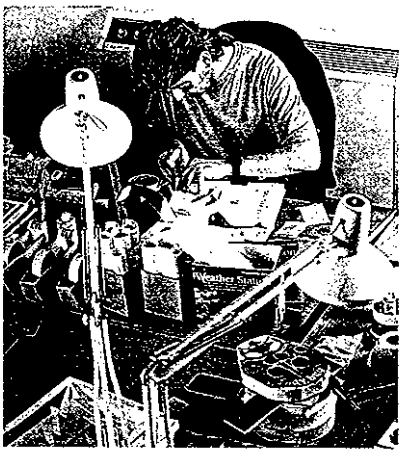
Significant further growth was achieved in 1996 with a 26% increase in sales over 1995. We created 55 new titles to add to our growing backlist. International sales increased with new growth in Spain, Italy, Germany, and the Czech Republic. We continue to dominate the innovative book-and- component market, which has become a generic book category eagerly sought after by publishers around the world. We have exciting new ideas which will ensure that we

Children's books being assembled by hand in China

Working out the concept.

remain the leader in this field.

During 1996 we added a licensed products division, which launched a Disney *101 Dalmations Jigsaw Book* and a Warner Bros. *Looney Tunes Activity Book*. More titles are planned for 1997. Publishing highlights included two more in our very successful series of Treasure Chests titles: *Holy Lands* and *Ancient China*; a new series of 6 *Explorers Plus* reference books containing acetate pages and flaps; 8 new interactive *Bear's* titles; 4 *Learning Works* - an extension of our *Artworks* series; and 4 new science kits: *Slimy, Sparky, Stinky,* and *Shiny*. From our young readers division came 10 *Fit-a-Shape* books, and 4 books with soft toy animals in a new series called *Really Wild Pets*.



Making prototypes by hand

Our major setback was in meeting demand and schedules on time, as a result of which we lost sales in 1996. To help deal with the problems, we strengthened our Production Department with a new Production Director, which should stand us in good stead for further growth in 1997.

Quarto Magazines

Artists & Illustrators magazine had a good year, and continues to be the UK's leading practical art magazine. News stand sales and subscriptions reached record levels: news stand sales increased by 14%, and subscribers grew by 25%. The increased circulation is largely attributable to our covermount campaign, with nine issues carrying a free supplement. This resulted in a net expenditure on the magazine, as advertising revenue remained flat. We anticipated a time lag in the advertising revenue and next year's revenue should benefit from the increased circulation.

On the exhibition front, Artists & Illustrators launched the 'Summer Festival of Art' at Hatfield House in Hertfordshire. We also held our Art Materials Exhibition at the NEC, Birmingham for the second consecutive year. Both exhibitions were successful ventures for the magazine and proved to be very popular with visitors and exhibitors. However, after two years at the NEC, Birmingham, we have decided to bring the Art Materials Exhibition back to London.

The overall performance of Quarto Magazines was disappointing due to the closure of 1st In-Line magazine, and the write off of abortive costs on another title which was not launched. The pilot issue of 1st In-Line, the UK's only pure in-line skating magazine, was launched in October 1995. The magazine went monthly in April 1996 and we produced seven issues. The sport, unfortunately, is still in its infancy in the UK and the readership and advertising could not sustain the title, so we were forced to suspend the title in October.

Marjorie Nelson,
Sales and Marketing Director, Quarto

Quarto Publishing

Quarto Publishing produces international co-edition books for a range of special interest markets. Many of the titles are on practical how-to subjects, from art instruction and woodworking to health and petcare.

Our expertise is in the way we present information on the page: we use design, photography, and illustration to make each subject more accessible, and Quarto is renowned in the industry for producing innovative titles packed with information.

Zarni Win, Production Manager, answering a question about schedules!

One of our major initiatives in 1996 has been to establish a Reference division, which treats more heavyweight subjects - such as art history, atlases, and popular science - in the Quarto style. The research and development of the first four titles is now complete, and these titles will be published in 1997.

Many of our titles sell to specialist, rather than general interest, publishers, and we undertake our own research to understand trends and needs in each of our special-interest markets. We aim to sell to specialist publishers because they are often able to offer us better margins than general publishers; they are also more likely to reprint, and our business depends on reprints for its profitability, in order to amortize the relatively high production costs of each title.

In 1996, we increased our output of new titles by 10%, and achieved a 17% growth in associated turnover, with particularly strong performances in the USA and Australia. On the other hand, the UK market remained sluggish, while reprint sales saw no growth over the 1995 figure. This meant

Moira Clinch,
Art Director, Quarto.
If the hat fits......

Charlotte Gascoigne.
Publisher, Quarto

Silvia Langford
Sales Director, Quarto
Marketing, Australia

that the overall turnover growth was a modest 4%. Our 1996 programme, however, saw a massive increase in sales to specialist publishers, which is good news for the reprint potential of these titles in future years.

In 1996, we extended our successful kits programme to encompass *The Fortune Telling Kit*, which packaged a book together with Tarot cards, rune stones, and I-Ching coins, and has already proved a runaway international success.

Continued attention to controlling our plant costs led to a 5% increase in gross profit, but overheads crept up as we sought to maintain levels of customer service. Although 1996 saw an increase of only 1% in 1996 operating profit, our operating margin of 20% remains exceptionally high for the sector.

Quintet Publishing

Quintet Publishing produces illustrated titles which are licensed internationally to other publishers.

Traditionally known for titles published at keenly competitive prices, the continued success of titles in our *Companion* series, including the world's bestselling book on cigars, *The Cigar Companion,* and award-winners such as *The Champagne Companion*, have encouraged Quintet to extend its range upmarket. The series now includes *The Fountain Pen Companion,* and *The Beer Companion.*

*Gourmet Magnets*TM/*Fridge Fun*TM, an innovative range of magnetized miniature cookbooks that adhere to refrigerators, progressed into new markets, with foreign language sales to numerous European clients. In the United Kingdom this range also moved into non-traditional and premium markets beyond the book trade. And in the United States and the Pacific Rim, the 1997 order book for reprints reflect substantial premium special sales, and own-brand opportunities.

While broadening its publishing base, Quintet continues to benefit from its ability to deliver superior books at competitive prices,

Diana Steedman,
Managing Editor, Quintet

with the continuing *Identifier* portable reference series, and numerous cookery and craft projects contributing to profit. *The Collectible Barbie Doll,* based on the popular toy, and published in a familiar Quintet format, was an instant hit, selling over 100,000 units within a few months of publication. In 1996 we also published Quintet's first books-plus package, *The Japanese Cooking for Two Kit,* which immediately found partners in six countries and made a good return on investment.

1996 was in some respects a transitional year as Quintet appointed a new Publisher and undertook some new directions. The order book for 1997 is robust and reflects continued strong support from the German market and robust reprint performance for backlist.

Larry Lazopoulos,
Regent Publishing Services,
Hong Kong

Regent Publishing

Regent Publishing Services is a broker, handling pre-press and printing needs for Group and non-Group customers. In order to accommodate physical expansion, we leased an additional 1,800 square feet of space in our building in Hong Kong. This additional space now contains our library, storage, filing, and a small showroom.

We also reorganized internally, to meet changing market needs. Regent now has a Purchasing Department, a Pre-Press Department, and a Printing/Shipping Department. Early indications are that this has resulted in an increase in confirmed orders, tighter quality control in pre-press, and a faster turnaround of goods. To ensure ever higher quality in printing, we employed a Quality Control Manager and his primary function is to establish Regent quality control standards for our suppliers, to maintain quality, and to educate the staff in better quality control.

We were able to maintain tighter cost control in 1996, especially in stabilizing pre-press prices. Printing prices were helped by the drop in paper prices. Just as importantly, the inflation rate in Hong Kong was lower in 1996 than 1995, and from the Government's latest forecast, the position is likely to remain more stable.

Rockport

Rockport publishes architecture, interior design, computer-related, and graphic design titles for the international professional design market. In 1996 many of Rockport's new titles were packaged with CD-ROMs, such as *Hyper-Realistic Computer-Generated Architectural Renderings, Painting With Computers, Type Hype,* and *WWW Design.* Many new titles were published also for the fine artist, craftsperson, collector,

Stanley Patey,
President, Rockport Publishing

Winnie Danenbarger,
Editorial and Creative Director,
Rockport Publishers

hobbyist, and creative non-artist.

With the growth each year of the front list, this young publishing company has now developed a substantial backlist with growing reprint and foreign language edition potential. To exploit this, the international sales team has been, and is currently being, expanded and trained.

This year has seen the maturing of Rockport's creative staff of editorial, design, and production staff. Long range plans for new titles have been developed. Schedules have been met consistently and many of our new books have been selected for awards.

A new agreement reached in 1996 with North Light Books, which will become operational in 1997, will bring the entire Rockport list to American bookstores. It expands and strengthens a long-standing and profitable relationship, and will provide Rockport with more name recognition and a stronger presence in the US marketplace. All Rockport titles will be sold from the Rockport catalogue.

Rotovision

RotoVision is an international graphic arts publisher. RotoVision's list falls into three principal areas: publishing expensively produced, high quality source books and annuals for the professional graphic arts and advertising markets; distributing professional and amateur applied arts publications for other publishers; and more recently, publishing "educational" graphic and applied visual arts books for the student and general markets, which we started doing in 1995.

At the end of 1996 this new area accounted for 30.7% of total sales, with an increasing number of foreign language editions, and we are putting more of our resources into its expansion.

In April 1996 the company moved its sales, production, and editorial departments to Brighton, England. A new team, with only one person from Switzerland, was employed and trained with only very limited loss to sales. The benefits of a lower cost base were already seen in 1996 and will be fully appreciated in 1997 and beyond. Gross margins also improved by some 3.5%, helped by RotoVision's expanding publishing programme of more moderately priced, high quality visual arts books.

Selling a page in one of RotoVision's professional annuals

While the market for high priced quality reference works for the professional markets declined by some 10% worldwide in 1996, they have now stabilized. With new publications generated internally, RotoVision will have a growing and profitable future, based in England and with truly worldwide sales.

Scafa Tornabene Art Publishing Co. Inc.

Operating today under the trade name of The Scafa Modernart Group to put focus on its two key units, the company is recognized as the leading US mass-and mid-market open editions publisher serving the worldwide picture framing industry. In 1996, we sold approximately 27 million prints to direct customers in over 50 countries around the world. Net revenues were up by 8.3% over 1995, with meaningful upward momentum shown in both the Scafa and Modernart divisions. In addition, a new division, Inspired Designs, created and marketed finished products, for the first time, directly to special retailing segments.

Marketing accomplishments in 1996 included:

Scafa Division

Worldwide sales to the mass market in the US and abroad grew by 6% over 1995.

In the face of continual heavy pressure on pricing, selective promotions with key accounts were employed, not only to keep the line competitive, but also to provide a real incentive for heavier stocking.

Most importantly, the upgrading of images throughout the year and the release of a new user-friendly five-section catalogue in December, should help enhance continued growth in 1997.

Art Castillo,
Chief Executive, Scafa

Modernart Division

With its customer base, in terms of dollars of sales, almost equally split between galleries and better picture framers for the furniture market, worldwide sales were ahead by 15% over the previous year.

A new catalogue, featuring Modernart's own publications, was released in February which, combined with approximately 110 new images in 1996, increased the more profitable own-image percent of business to 71% from 61% in 1995.

An ongoing "Partners in Profits" promotion was also successfully introduced in 1996 and will be repeated again in 1997.

Walter Foster Publishing, Inc.

1997 will be Walter Foster Publishing's 75th year of publishing quality art and craft related books and activity products that are instructional, innovative, and competitively priced.

Walter Foster went through many changes during its first year as a member of the Quarto Group. Previously, the company sold its products mainly into the art and craft markets. In 1996 it expanded and reorganized its sales department, and is now also focusing on specialty and mass markets. In addition, the company has established relationships with other group members - i.e. Book Sales and The Apple Press - which will also help us to

Ross Sarracino,
President, Walter Foster

increase sales and enter new markets.

In the latter part of 1996, Walter Foster established a creative department, that includes a creative director, two designers, and two editors. This enthusiastic team will allow the company to extend our publishing programme from 18 titles in 1996 to 68 titles in 1997. It is the first time that Walter Foster has been able to generate a new publishing programme internally.

Walter Foster has also taken advantage of Quarto's relationships with Asian suppliers. The company has moved much of its printing and sourcing overseas. This is reducing production costs and increasing profit margins.

Other notable events of 1996 include publishing two Looney Tunes titles (*Learn to Draw Bugs Bunny and Friends* and *Learn to Draw The Tasmanian Devil and Friends*) and two Marvel Super Heroes titles (*How to Draw Spider-Man* and *How To Draw Ghost Rider*) and signing a licensing agreement with DC Comics to produce four new how-to titles in 1997: *Batman, Wonderwoman, Superman,* and *DC Comic Heroes.*

The major disappointment in 1996 was slow sales in our core market. However, this was a result of retailer overexpansion, not a reflection of declining consumer interest, and Walter Foster is confident that its new sales force, in conjunction with its new products, lower costs, and higher margins, will enable the company to achieve its goals for 1997.

Sheena Needham,
Walter Foster's new Creative Director

Western Screen and Sign

Western Screen and Sign designs and screenprints point-of-sale materials, specializing in large format 3-dimensional items, made from plastic and corrugated board. The Corsham, England, plant is particularly proficient in multiple colour process printing of intricate designs, where quality is of the utmost importance.

The business was highlighted as giving cause for concern during the 1995 financial year. During 1996 the Board undertook a thorough evaluation of the Corsham business, with a view to returning the business to profit or considering its disposal. The printing industry in which Western Screen and Sign operates has, over the past 3 years, undergone rapid technological change. This has meant that the Corsham plant has found itself particularly ill-equipped to function in a cost conscious market. In the middle of 1996 we decided to undertake a radical modernization programme. This has involved reducing overheads and investing in new up-to-date machinery. The major part of the costs attributable to manpower reduction were borne in 1996, and the first stage of machinery modernization took place at the same time.

Philip Hull,
Managing Director, Western

The concluding part of the investment in new equipment will take place during the first quarter of 1997. The budget for 1997 reflects the significant improvement in efficiency which is being gained by our modernization programme. Results for the year so far are in line with budget.

Financial Review of 1996

Chief Financial Officer's Report

1. Sales

Reported sales increased by 21%, from £66.5m to £80.6m. The strength of sterling in the last quarter of the year adversely affected the reported sales by £1.0m. On a like for like basis, sales would have been 23% ahead of last year, with continuing operations contributing 11% and acquisitions contributing 12%.

An analysis of sales by division is given below:

	1996		1995	
	£m	%	£m	%
Publishing	70.6	88	54.1	81
Publishing Services	10.0	12	12.4	19
	80.6	100	66.5	100

Publishing sales increased by 30%, with continuing operations contributing 15% and acquisitions contributing 15%. There were strong performances from our co-edition publishing businesses and our promotional publisher, Book Sales.

Publishing Services' sales were down principally due to poor results from our UK operations. The performance of our overseas operations is masked because of the elimination of inter-group sales in arriving at the above analysis.

An analysis of sales by geographic market is given below:

	1996		1995	
	£m	%	£m	%
USA	45.3	56	34.6	52
Europe	12.1	15	8.2	12
UK	11.9	15	12.5	19
Australia and the Far East	8.2	10	8.3	12
Rest of the World	3.1	4	2.9	5
	80.6	100	66.5	100

USA sales continue to be strong, increasing by 31% against last year. Of the increase, 20% arose from continuing operations and 11% from acquisitions.

European sales increased by 48%, with continuing operations contributing 9% and acquisitions contributing 39%. Our strongest markets in Europe continue to be Germany and France.

UK sales continue to disappoint. Acquisitions contributed £1.3m of UK sales, without which there was a shortfall of £1.9m, or 15%, compared to last year. This is principally due to the poor results from our UK Publishing Services activity, although UK co-edition sales were also down.

Operating Profit

An analysis of operating profit is given below:

	1996		1995	
	£m	% of Sales	£m	% of Sales
Continuing Operations				
Publishing	7.47	12.0%	7.27	13.4%
Publishing Services	0.38	3.8%	0.58	4.7%
	7.85	10.9%	7.85	11.8%
Acquisitions	1.30	15.7%	-	-
	9.15	11.4%	7.85	11.8%

Publishing margins for continuing operations fell from 13.4% to 12.0% principally because of the impact of declining margins at our directory publisher, Broughton Hall and the impact of the "lost sales" at the end of the year due to bottlenecks in manufacturing which affected, in particular, our Children's co-edition publishing division.

Chief Financial Officer's Report

In the Publishing Services division our overseas activities, Regent and ProVision, performed well. The results for the division as a whole were down, affected adversely by poor trading in the UK.

Acquisitions performed in line with expectations.

Our operating margins over the last five year are set out below:

1992	:	11.0%
1993	:	11.0%
1994	:	12.0%
1995	:	11.8%
1996	:	11.4%

3. Interest

The net interest charge rose by £489,000 principally due to the increased debt resulting from the acquisitions made during the year. Interest charges were covered 6.9 times by operating profits. This is well above the Group's "comfort level" of 5 times, and significantly above the 2.5 times covenant given to our banks.

4. Taxation

Tax charged for the year was 24.4% compared to 24.9% last year. The Group's tax charge benefits from 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.

The tax rates for the last five years are set out below:

1992	:	27.0%
1993	:	25.9%
1994	:	27.7%
1995	:	24.9%
1996	:	24.4%

5. Minority Interests

The Group has four subsidiaries in which there are minority interests. The increase in the minority share of profits is principally attributable to Design Eye Holdings Limited, an acquisition this year, in which there is a 25% minority interest. The performances of the other three subsidiaries were all ahead of last year with Book Sales in particular producing a strong performance.

6. Dividends

The recommended dividend for the year is 8.0p, a 10.3% increase over last year. The annual dividend is covered 3.3 times by earnings per share. The dividend cover for the last five years is set out below:

1992	:	3.1 times
1993	:	3.3 times
1994	:	3.3 times
1995	:	3.4 times
1996	:	3.3 times

7. Currency

Approximately 70% of the Group's sales are in US dollars and this currency continues to be our principal operating currency. At the beginning of the year we had in place a natural hedge to help protect our results as far as possible from exchange rate fluctuations with respect to the US dollar. This hedge mitigated the impact of the strength of sterling against other currencies during the last quarter of the year, but the Group's profits for the year were adversely affected by £120,000.

Chief Financial Officer's Report

8. Cash Flow

The Group requires a high level of working capital, particularly in the core business activity of co-edition publishing. The working capital at the balance sheet date is summarised below:

	1996	1995
	£m	£m
Stocks and work in progress	26.5	22.3
Trade debtors	25.0	24.5
Trade creditors	(16.8)	(16.6)
Other net liabilities	(1.4)	(1.2)
	33.3	29.0

Working capital as a percentage of sales for 1996 was 39.6% (based on pro-forma sales of £84.1m to reflect a full year for the acquisitions) down from 43.6% last year. Some of the improvement arises because of the strength of sterling towards the end of the year, but the Group is also focusing more closely on its level of working capital which it requires. A key focus in the second half of the year was cash collections and I am pleased to report an improvement in collection periods. At 31 December 1996 trade debtors represented 3.0 months sales (based on second half sales of £49.7m) compared to 3.7 months last year (based on second half sales of £39.8m). Some of the improvement is due to the strength of sterling.

During the year the Group invested some £8.3m with respect to acquisitions. Overall the acquisitions performed in line with expectations and provided a good return on our investment.

Our net borrowing at 31 December was £22.4m. Our total banking facilities at this point were £29.0m (£10.7m committed).

9. Treasury

During 1996 we decided that the Group had reached a stage of its development where we should put more dedicated resources into the area of Treasury Management. We hired a Group Treasurer at the beginning of the current year to establish treasury policies, strategies, and procedures. His responsibilities include cash management, banking relationships, currency exposure, working capital management, interest rate management, and treasury reporting.

10. Financial Reporting

During 1996, the Board decided to accelerate the monthly management reporting timetable. Our subsidiaries now produce their management accounts together with a financial commentary by the 10th of the following month. The transition, which took place in June, was achieved smoothly and credit should be given to the Chief Financial Officers at each subsidiary for this. The Group is committed to speedy reporting of financial information to assist the Chief Executives of our operating units in the effective running of their businesses.

The Group has more than doubled in size over the last five years but during this same period the team of accountants at Head Office has only increased from four to five. This is despite the accelerated reporting timetable and increased needs of the individual operating units for management information. I take this opportunity to thank them for their continued loyalty, hard work and commitment to the Group.

M J Mousley
27 February, 1997

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)
Harvey Goldstein (USA)
Eric de Bellaigue (Non-executive)

Secretary
Cyrus Homi Bhote, 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 Audit Plc
8 Salisbury Square, London EC4Y 8BB

Solicitors
Travers Smith Braithwaite
6 Snow Hill, London EC1A 2AL

Registrars and Transfer Office
Independent 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 EC2 7DA
National Westminster Bank plc
24 Albemarle Street, London W1X 4JS

Registered Number
FC0 13814

Statement of Directors' Responsibilities

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.

Auditor's Report to the Members of The Quarto Group Inc.

We have audited the financial statements on pages 41 to 60.

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, 1996 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 Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
27 February, 1997

Director's Report

The directors present their report and the audited financial statements of The Quarto Group Inc. for the year ended 31 December, 1996.

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 15.

Results and dividends

The profit for the year after taxation and minority interests amounted to £5,377,000 (1995: £5,026,000). The directors propose a final ordinary dividend of 5.8p per share subject to approval at the Annual General Meeting. The retained profit for the year was £3,433,000 (1995: £3,226,000) 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
H.Goldstein (Appointed 26 July, 1996)
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.

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, 1996 had the following interests in the share capital of the Company.

	Number of US$0.10 shares of common stock	
	31 December, 1996	1 January, 1996
L. F. Orbach*	2,678,413	2,678,413
R. J. Morley	1,300,000	1,300,000
M. J. Mousley	28,000	32,000
G. Banks	6,500	6,500
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.

Director's Report

Directors' interests in shares (continued)

At 1 January, 1996 and 31 December, 1996 L.F.Orbach held options over 50,000 shares at an exercise price of £1.30424. The options are exercisable between 10 April 1995 and 9 April 2002.

H.Goldstein was granted options over 30,000 shares on 23 December, 1996 at an exercise price of 257.5p. The options are exercisable between 23 December, 1999 and 22 December, 2006.

During the year the market price of the shares of common stock ranged between 249p and 316p. The market price at 31 December, 1996 was 257.5p.

Between 31 December, 1996 and 27 February, 1997 there have been no changes in the interests of the directors.

Substantial shareholders

As at 27 February, 1997 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%
Commercial Union	853,182	4.6%
Co-operative Insurance	702,945	3.8%
Equitable Life Assurance Society	1,705,000	9.2%
Herald Investment Trust	632,690	3.4%
Prudential Corporation Group of Companies	655,524	3.5%
Schroder Investment Management Limited	1,788,636	9.6%
Scottish Mutual	752,500	4.0%
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 those paragraphs of the code which are currently applicable.The following areas have been identified where it is not appropriate to change current practice due to the size and constitution of the Board:

a) The Chairman of your Company is also Chief Executive. The Board sees no value in splitting the roles of Chairman and Chief Executive.

b) 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.

c) A formal schedule of matters specifically reserved for the Board is not required since the Board forms the executive management of the Group.

d) The Company does not have any formal arrangements for Directors, in the furtherance of their duties, to take independent professional advice.

e) The Chairman and E. de Bellaigue fulfil the role of Remuneration Committee for Directors.

f) E. de Bellaigue (Non-executive) fulfils the role of the Audit Committee.

Director's Report

Going concern
The Directors, having made enquiries, consider that the Group has adequate resources to continue in operational existence for the forseeable 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) The results of individual operating units are reported monthly and reviewed by the Board at monthly board meetings.

b) The management accounts of each operating unit are tailored to suit the business and management needs of local management. Each operating unit has its own performance indicators and these are regularly reviewed and assessed.

c) In addition to the monthly reporting, individual operating units report certain management information more frequently where it is considered appropriate.

d) All operating units report their bank balances twice weekly and a report is produced summerising the group position.

e) Frequent visits by the Board and the finance department to all operating units. These visits include a review of the internal financial control system.

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 49.

The remuneration committee is constituted in accordance with Section A of the Best Practice Provisions annexed to the Listing Rules save that it does not consist exclusively of non-executive directors and its terms of reference are not formally documented. The remuneration committee has given full consideration to Section B of the Best Practice Provisions in framing its remuneration policy.

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.

Supplier payment policies
The Group agrees terms and conditions for its business transactions when orders for goods and services are placed, ensuring that suppliers are aware of the terms of payment and including the relevant terms in contracts where appropriate. These arrangements are adhered to when making payments, subject to the terms and conditions being met by the supplier.

Auditors
Our auditors KPMG Audit Plc, are willing to continue in office and accordingly, a resolution is to be proposed at the annual general meeting for the reappointment of KPMG Audit Plc as auditors of the Company.

Cyrus H. Bhote
C. H. Bhote
Secretary

27 February, 1997

Consolidated Profit and Loss Account for the Year Ended 31 December 1996

	Notes	Group 1996 £000	Group 1995 £000
Turnover			
Continuing operations		72,270	66,469
Acquisitions		8,349	—
	1	80,619	66,469
Cost of sales		(50,124)	(40,690)
Gross Profit		30,495	25,779
Distribution costs		(2,603)	(2,559)
Administration expenses		(18,914)	(15,399)
Other operating income		168	33
Operating Profit	2	9,146	7,854
Continuing operations		7,841	7,854
Acquisitions		1,305	—
		9,146	7,854
Share of loss of associate (acquisition)	2	(6)	—
		9,140	7,854
Net interest payable and similar charges	3	(1,329)	(840)
Profit on ordinary activities before taxation		7,811	7,014
Tax on profit on ordinary activities	4	(1,906)	(1,747)
Profit on ordinary activities after taxation		5,905	5,267
Minority interests – equity		(528)	(241)
Profit for the financial year		5,377	5,026
Dividends (including non-equity)	5	(1,944)	(1,800)
Retained profit		3,433	3,226
Earnings per share	6	26.5p	24.8p
Fully diluted earnings per share	6	24.6p	23.2p

Movements in reserves are shown in notes 16 to 18.

Balance Sheets at 31 December 1996

	Notes	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Fixed Assets					
Tangible assets	7	7,078	6,787	—	—
Investments	8	314	—	20,455	21,295
		7,392	6,787	20,455	21,295
Current Assets					
Stocks and work in progress	9	26,449	22,314	—	—
Debtors	10	27,787	26,280	1,080	977
Investments	11	1	2	—	—
Cash at bank and in hand		3,537	2,840	—	—
		57,774	51,436	1,080	977
Creditors: Amounts falling due within one year	12	(41,132)	(31,864)	(1,080)	(977)
Net current assets		16,642	19,572	—	—
Total assets less current liabilities		24,034	26,359	20,455	21,295
Creditors: Amounts falling due after more than one year	13	(9,201)	(6,800)	—	—
Provision for liabilities and charges					
Deferred taxation	14	(1,532)	(1,460)	—	—
Net assets		13,301	18,099	20,455	21,295
Capital and reserves					
Called up share capital	15	1,337	1,337	1,337	1,337
Reserves – Paid in surplus	16	23,805	23,795	23,805	23,795
– Revaluation		1,018	1,018	—	—
– Profit and loss	17	14,684	11,901	(4,687)	(3,837)
		40,844	38,051	20,455	21,295
– Goodwill	18	(29,507)	(21,611)	—	—
Shareholders' funds		11,337	16,440	20,455	21,295
Equity		6,133	11,236	15,251	16,091
Non-equity		5,204	5,204	5,204	5,204
		11,337	16,440	20,455	21,295
Minority interests – equity		1,964	1,659	—	—
		13,301	18,099	20,455	21,295

The financial statements on pages 41 to 60 were approved by the Board of Directors on 27 February, 1997.

M. J. MOUSLEY
Director

Statement of Total Recognised Gains and Losses

FOR THE YEAR ENDED 31 DECEMBER 1996

	Group	
	1996	1995
	£000	£000
Profit for the financial year	5,377	5,026
Currency translation differences on foreign currency net investments	(650)	(75)
Total recognised gains and losses relating to the year	4,727	4,951

Reconciliation of movement in shareholders' funds

FOR THE YEAR ENDED 31 DECEMBER 1996

	1996	1995
	£000	£000
Profit for the financial year	5,377	5,026
Dividends	(1,944)	(1,800)
Retained profit for the financial year	3,433	3,226
Other recognised gains and losses relating to the year	(650)	(75)
New share capital subscribed	10	295
Goodwill adjustment (arising on acquisitions)	(7,896)	933
Net movement in shareholders' funds	(5,103)	4,379
Shareholders' funds at 31 December, 1995	16,440	12,061
Shareholders' funds at 31 December, 1996	11,337	16,440

Consolidated Cash Flow Statement for the Year Ended 31 December 1996

	Group	
	1996	1995
	£000	£000
Net cash inflow from operating activities	3,354	3,911
Return on investments and servicing of finance		
Interest received	250	85
Interest paid	(1,501)	(893)
Interest element of hire purchase payments	(78)	(61)
Dividends paid to shareholders	(1,842)	(1,614)
Net cash outflow from returns on investments and servicing of finance	(3,171)	(2,483)
Taxation		
UK and overseas corporation tax paid	(917)	(1,030)
Investing activities		
Purchase of tangible fixed assets	(1,265)	(1,528)
Purchase of associates	(872)	—
Purchase of businesses/subsidiaries (net of cash and cash equivalents acquired)	(6,680)	(14)
Sale of tangible fixed assets	226	104
Net cash outflow from investing activities	(8,591)	(1,438)
Net cash outflow before financing	(9,325)	(1,040)
Financing		
Issue of shares	(10)	(295)
Net repayment of other financing	(3,799)	(1,979)
Capital element of hire purchase payments	342	310
Cash (outflow) inflow from financing	(3,467)	(1,964)
Increase (decrease) in cash and cash equivalents	(5,858)	924
	(9,325)	(1,040)

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.

Adoption of new accounting standard
These financial statements comply with the new accounting standards issued by the Accounting Standards Board: FRS 8 - Related party disclosures. The objective of FRS 8 is to ensure that financial statements contain the disclosures necessary to draw attention to the possibility that the reported financial position and results may have been affected by the exsistence of related parties and by material transactions between them.

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. On the acquisition of a business, fair values, reflecting conditions at the date of acquisition, are attributed to the net tangible assets. Where the cost of acquisition exceeds the values attributable to the Group's share of such net assets, the difference is treated as purchased goodwill and is written off directly to reserves in the year of acquisition. Reorganisation and integration costs resulting from the acquisition are charged to the profit and loss account. 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

Investments in associates

An associated undertaking (associate) is one in which the group has a long term equity interest, usually from 20% to 50%, and over which it exercises significant influence. The Group's share of the profits less losses of associates is included in the consolidated profit and loss account and its interest in their net assets, other than goodwill, is included in investments in the consolidated balance sheet.

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

	Group 1996 £000	Group 1995 £000
1 Segmental analysis		
Geographical analysis of turnover by destination		
United Kingdom	11,909	12,438
United States of America	45,269	34,615
Canada	1,070	1,341
Europe	12,152	8,229
Australasia and the Far East	8,169	8,286
Rest of the World	2,050	1,560
	80,619	66,469

	Turnover 1996 £000	Turnover 1995 £000	Profit before tax 1996 £000	Profit before tax 1995 £000	Net operating assets 1996 £000	Net operating assets 1995 £000
Class of business						
Publishing	70,588	54,099	8,770	7,270	36,088	30,787
Publishing services	10,031	12,370	376	584	3,645	3,390
	80,619	66,469	9,146	7,854	39,733	34,177
Share of loss of associate			(6)	—		
Net interest payable			(1,329)	(840)		
			7,811	7,014		

The group interest expense is arranged centrally and is not attributable to individual activities or geographical areas.

Analysis by geographical area of origin

	Turnover 1996 £000	Turnover 1995 £000	Operating profit 1996 £000	Operating profit 1995 £000	Net operating assets 1996 £000	Net operating assets 1995 £000
United Kingdom	30,062	22,332	3,217	3,053	10,471	12,159
United States of America	38,111	30,546	4,769	3,376	23,426	15,671
Other	12,446	13,591	1,160	1,425	5,836	6,347
	80,619	66,469	9,146	7,854	39,733	34,177

"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

	Group 1996 £000	Group 1995 £000
1 Segmental analysis (continued)		
The net operating assets can be reconciled to the consolidated balance sheet as follows:		
Net operating assets	39,733	34,177
Total bank loans and other borrowings	(25,981)	(15,337)
Cash at bank and in hand	3,537	2,840
Corporation tax, deferred tax and advance corporation tax	(2,812)	(2,604)
Dividends payable	(1,176)	(977)
Net assets	13,301	18,099
2 Operating profit		
Operating profit is stated after charging		
Depreciation	1,060	892
Auditors' remuneration: audit	204	181
: other	11	15
Operating lease rentals in respect of:		
Plant and machinery	24	24
Other assets	770	845

Operating profit is stated after charging the following amounts with respect to acquisitions: cost of sales £5,419,000, distribution expenses £78,000, administration expenses £1,550,000, and other operating income £3,000.

Of the profit for the year £1,094,000 (1995: £1,800,000) has been dealt with in the accounts of the Company.

The Group's share of the results of associates reflects its percentage of the associates result before tax. There was no taxation in the current year.

Employees

Staff costs including directors' emoluments comprise:	1996 £000	1995 £000
Wages and salaries	11,933	10,769
Social security costs	996	942
Pension costs	282	135
	13,211	11,846

	1996 Number	1995 Number
The average weekly number of persons employed by the group during the year was:		
Publishing	388	329
Publishing services	132	169
Group administration	16	16
	536	514

Notes to the Financial Statements

2 Operating profit (continued)

Directors' remuneration

	Group 1996 £000	Group 1995 £000
Emoluments:		
Fee to non-executive director	13	13
Executive directors – remuneration including benefits in kind in respect of motor vehicles and health insurance	647	549
– pension contributions	52	31
	712	593

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

	1996 £000	1995 £000
Remuneration	177	151
Pension contributions	23	15
	200	166

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

	1996 Number	1995 Number
£10,001–£15,000	1	1
£55,001–£60,000	—	1
£60,001–£65,000	1	—
£65,001–£70,000	1	1
£70,001–£75,000	—	1
£80,001–£85,000	—	1
£95,001–£100,000	1	—
£100,001–£105,000	1	—
£115,001–£120,000	—	1
£135,001–£140,000	1	—
£150,001–£155,000	—	1
£175,001–£180,000	1	—

Details of directors' share options are given in the directors' report. During the year L.F.Orbach and R.J.Morley maintained current accounts with the company. The balance on these accounts was less than £5,000 throughout the year.

The remuneration of the executive directors was as follows:

	SALARY/ FEES £000	* BENEFITS £000	PENSION CONTRIBUTION £000	1996 TOTAL £000	1995 TOTAL £000
L.F.Orbach	155	22	23	200	166
R.J.Morley	116	21	15	152	122
M.J.Mousley	85	11	11	107	87
G.Banks	65	5	3	73	72
G.Y.Tai	104	—	—	104	77
H. Goldstein	63	—	—	63	—
A.Slavin	—	—	—	—	56
	588	59	52	699	580

*The Company's policy with regard to the provision of company cars to directors and employees was changed on 1 January 1997. Company cars are now only provided to directors and employees who use them for more than 7,000 business miles a year. The salaries of directors and employees who no longer receive a car have been appropriately adjusted.

Notes to the Financial Statements

	Group 1996 £000	Group 1995 £000
3 Net interest payable and similar charges		
Interest payable:		
On bank overdrafts and other loans repayable within 5 years by instalments	1,472	854
On loans repayable after more than 5 years	36	32
Hire purchase	78	61
	1,586	947
Interest receivable	(257)	(107)
	1,329	840
4 Taxation		
On profit for the year:		
United Kingdom corporation tax at 33%	925	979
Deferred taxation – UK	44	49
– Overseas	778	359
Overseas tax	159	360
	1,906	1,747

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.

	Group 1996 £000	Group 1995 £000
5 Dividends		
Equity: Ordinary: Interim paid of 2.2p per share (1995: 2.0p per share)	409	368
: Ordinary: Final proposed of 5.8p per share (1995: 5.25p per share)	1,080	977
Non-equity: Preference	455	455
	1,944	1,800

6 Earnings per share

The calculation of earnings per share is based on 18,608,639 shares (1995: 18,449,445) and earnings, after minority interests of £4,922,000 (1995: £4,571,000).

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 £5,401,000 (1995: £5,047,000) and 21,968,053 shares (1995: 21,786,859).

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, 1996	3,084	787	5,346	861	10,078
Exchange differences	(191)	(49)	(215)	(91)	(546)
Subsidiaries acquired	—	62	429	—	491
Additions	218	38	1,098	181	1,535
Disposals	—	—	(669)	(96)	(765)
At 31 December, 1996	3,111	838	5,989	855	10,793
Depreciation:					
At 1 January, 1996	31	158	2,546	556	3,291
Exchange differences	—	(13)	(115)	(74)	(202)
Subsidiaries acquired	—	11	135	—	146
Charge for the year	2	62	884	112	1,060
Disposals	—	—	(496)	(84)	(580)
At 31 December, 1996	33	218	2,954	510	3,715
Net book value:					
At 31 December, 1996	3,078	620	3,035	345	7,078
At 31 December, 1995	3,053	629	2,800	305	6,787
Cost or valuation at 31 December, 1996 is represented by:					
Surplus on valuation	1,018	—	—	—	1,018
Cost	2,093	838	5,989	855	9,775
	3,111	838	5,989	855	10,793

The net book value of plant, equipment and motor vehicles included £1,025,000 (1995: £1,116,000) in respect of assets held under hire purchase contracts. The depreciation charged on these assets during the year was £265,000 (1995: £252,000).

Included in leasehold property at cost is £331,000 (1995: £364,000) in respect of a long leasehold property. The net book value at 31 December, 1996 was £305,000 (1995: £343,000). 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.

Notes to the Financial Statements

	Group	Company		
	INVESTMENT IN ASSOCIATE	SHARES AT COST	LOANS	TOTAL
8 Fixed asset investments	£000	£000	£000	£000
At 1 January, 1996	–	4,551	16,744	21,295
Share of retained profits/additions	352	4,295	(5,135)	(840)
Exchange difference	(38)	-	-	-
At 31 December, 1996	314	8,846	11,609	20,455

Additions to investments in associates of £352,000 comprises cost of shares, less goodwill written off on acquisition of £857,000 less the Group's share of post acquisition losses of £6,000. The Company has the following principal trading subsidiaries and associates (*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
Walter Foster Publishing, Inc	Delaware, USA 18 February, 1988	19,625 shares of US$0.01 each	100	Publishing
Design Eye Holdings Limited	England 22 June, 1992	200 shares of £1 each	75*	Publishing
Boulder Interactive Group Inc	Colorado, USA 3 June, 1994	5,740 shares of no par value	30	Publishing

Notes to the Financial Statements

	Group		Company	
	1996	1995	1996	1995
	£000	£000	£000	£000
9 Stocks and work in progress				
Finished goods	13,484	11,911	—	—
Work in progress	12,729	10,269	—	—
Raw materials	555	461	—	—
Less: Payments on account	(319)	(327)	—	—
	26,449	22,314	—	—
10 Debtors				
Trade debtors	25,045	24,528	—	—
Amounts due from subsidiaries	—	—	1,080	977
Prepayments and accrued income	1,632	957	—	—
Other debtors	289	241	—	—
Corporation tax and advance corporation tax recoverable	821	554	—	—
	27,787	26,280	1,080	977

Other debtors include a loan of HK$300,000 (£23,000) (1995: HK$402,000 (£33,000)) to G. T. Y. Tai, a director of the Company. The Group receives a commercial rate of interest on this loan.

	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
11 Current asset investments				
Listed investments at cost (market value £1,000) (1995: £2,000)) Listed other than on The International Stock Exchange in London	1	2	—	—
12 Creditors: Amounts falling due within one year				
Bank overdrafts	14,568	8,363	—	—
Current loan instalments	2,771	1,371	—	—
Hire purchase creditors	376	389	—	—
Total borrowings	17,715	10,123	—	—
Trade creditors	16,781	16,659	—	—
Other creditors including taxation and social security:				
Corporation tax	1,648	1,305	—	—
Advance corporation tax payable	453	393	—	—
Dividend payable	1,080	977	1,080	977
Dividend payable to minority shareholders	96	—	—	—
Social security	89	142	—	—
Other creditors	1,364	705	—	—
Accruals and deferred income	1,906	1,560	—	—
	41,132	31,864	1,080	977

Notes to the Financial Statements

	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
13 Creditors: Amounts falling due after more than one year				
Bank and other loans	**7,955**	4,844	—	—
Hire purchase liabilities	**311**	370	—	—
Total borrowings	**8,266**	5,214	—	—
Other creditors	**935**	1,586	—	—
	9,201	6,800	—	—

Other creditors include a provision of £772,000 (1995: £1,389,000) being the estimated deferred consideration payable in connection with the acquisition of Scafa-Tornabene.

	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Total borrowings are repayable as follows:				
Bank loans and overdrafts:				
In one year or less, or on demand	**17,339**	9,734	—	—
Between one and two years	**1,214**	1,050	—	—
Between two and five years	**6,109**	2,386	—	—
In five years or more	**632**	1,408	—	—
	25,294	14,578	—	—
Other borrowings (hire purchase liabilities):				
In one year or less, or on demand	**376**	389	—	—
Between one and two years	**271**	274	—	—
Between two and five years	**40**	96	—	—
	687	759	—	—
Total loans and other borrowings:				
In one year or less, or on demand	**17,715**	10,123	—	—
Between one and two years	**1,485**	1,324	—	—
Between two and five years	**6,149**	2,482	—	—
In five years or more	**632**	1,408	—	—
	25,981	15,337	—	—

The above borrowings carry interest at commercial rates ranging from 5.25% to 8.5%. The total amount repayable in five years or more comprises £373,000, with respect to bank loans repayable other than by instalments secured on freehold premises and £259,000 with respect to a bank loan repayable by instalments secured on freehold premises.

Notes to the Financial Statements

14 Deferred taxation	Group			
	AMOUNT PROVIDED		POTENTIAL LIABILITY	
	1996	1995	**1996**	1995
	£000	£000	**£000**	£000
Deferred taxation provided in the financial statements is as follows:				
Excess of capital allowances over depreciation	**170**	181	**170**	181
Other-UK	**(134)**	(200)	**(134)**	(200)
Other-overseas	**1,496**	1,479	**1,660**	1,733
Revaluation of freehold property	—	—	**336**	336
	1,532	1,460	**2,032**	2,050

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

	GROUP £000
Provision at 1 January, 1996	1,460
Exchange difference	(376)
Acquisitions	(374)
Transfer to profit and loss account	822
Provision at 31 December, 1996	1,532

15 Share capital

Authorised:

28,000,000 (1995: 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 (1995: US$2,800,000).

5.212,587 (1995:5,212,587) 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 (1995:US$521,588).

	1996	1995
	£000	£000
Equity share capital		
Allotted, called up and fully paid:		
18,615,306 shares of common stock of par value US$0.10 each (1995: 18,607, 306)	**1,059**	1,059
Non-equity share capital		
Allotted, called up and fully paid:		
5,204,024 shares of preferred stock of US$0.10 each (1995: 5,204,024)	**278**	278
	1,337	1,337

Notes to the Financial Statements

15 Share Capital (continued)

On 8 October, 1996, 8,000 shares of common stock were issued following the exercise of options under the Company's Executive Share Option Scheme.

At 31 December, 1996, 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
80,000	10 April, 1995 – 9 April, 2002	£1.30424
76,000	26 October, 1996 – 25 October, 2003	£2.82
30,000	23 December, 1999 – 22 December, 2006	£2.575

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.

	Group		Company	
	1996	1995	**1996**	1995
	£000	£000	**£000**	£000
16 Reserves – paid in surplus				
At 1 January, 1996	**23,795**	23,513	**23,795**	23,513
On shares issued during year:				
Exercise of share options	**10**	282	**10**	282
At 31 December, 1996	**23,805**	23,795	**23,805**	23,795

Notes to the Financial Statements

	Group		Company	
	1996	1995	1996	1995
17 Reserves – profit and loss account	£000	£000	£000	£000
At 1 January, 1996	11,901	8,750	(3,837)	(3,837)
Retained profit	3,433	3,226	(850)	—
Difference on translation of net assets and profit and loss accounts of non-UK companies	(650)	(75)	—	—
At 31 December, 1996	14,684	11,901	(4,687)	(3,837)

	Group	
	1996	1995
18 Reserves – goodwill	£000	£000
At 1 January, 1996	21,611	22,544
Goodwill arising on acquisitions - businesses/subsidiaries	7,441	-
- associate	857	-
Goodwill adjustment	(402)	(933)
At 31 December, 1996	29,507	21,611

The acquisitions Design Eye Holdings Limited, Walter Foster Publishing, Inc, Boulder Interactive Group Inc and other businesses were accounted for using the acquisition method of accounting as set out in notes 8 and 21.

The goodwill adjustment relates to a re-appraisal of deferred consideration in relation to a prior year acquisition.

Notes to the Financial Statements

	Group			
	LAND AND BUILDINGS 1996 £000	OTHER 1996 £000	LAND AND BUILDINGS 1995 £000	OTHER 1995 £000
19 Financial commitments				
At 31 December, 1996, the Group had commitments to make payments under operating leases during the next year as follows for leases expiring:				
Within one year	144	25	95	6
Between two and five years	682	111	409	61
Over five years	192	—	403	—
	1,018	136	907	67

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 two thirds of the deferred consideration in 1997 by applying the formula to the relevant years. The directors have provided for deferred consideration of US$1,320,000 (1995: $2,167,000) in these financial statements. The maximum potential liability is US$6,500,000.

On 28 February, 1996, the Group acquired Walter Foster Publishing Inc. Of the purchase price, US$966,242 was settled by the issue of promissory notes. The principal value of the promissory notes is adjustable upwards to reflect the increase, if any, in the value (in US dollars) of The Quarto Group Inc's common stock over US$3.83. As at 27 February, 1997 the value of the common stock was US$3.71 and accordingly no adjustment has been made in these financial statements.

The vendors of Book Sales Inc. have an option, exercisable at any time after 31 October, 1996 to require Quarto Inc. to purchase their remaining minority shareholding in Book Sales Inc.. This price is based on the shareholders investment in Book Sales Inc., adjusted for subsequent earnings. At 31 December, 1996 the potential liability, based on Book Sales Inc.'s financial statements, amounted to US$1,652,000. This has not been provided for since the minority shareholders have not exercised their option. At 31 December, 1996 the minority interest in Book Sales Inc. in the consolidated financial statements of The Quarto Group Inc. amounted to US$934,000.

The Quarto Group Inc. has issued guarantees in respect of £14,568,000 of overdrafts of subsidiaries (1995: £8,363,000) and bank loans of £9,352,000 (1995: £5,732,000).

There are other contingent liabilities, arising in the ordinary course of business, in respect of litigation, which the directors believe will not have a significant effect on the financial position of the Group.

Notes to the Financial Statements

21 Notes on the consolidated cash flow statement

	1996 £000	1995 £000
(a) RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOWS FROM OPERATING ACTIVITIES:		
Operating profit	9,146	7,854
Depreciation charge	1,060	892
Loss/(Profit) on sale of fixed assets	(41)	1
(Increase) in stocks and work in progress	(4,861)	(3,936)
(Increase) in debtors	(690)	(4,447)
Increase (decrease) in creditors	(1,260)	3,547
Net cash inflow from operating activities	3,354	3,911

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	
	1996 £000	1995 £000	1996 £000	1995 £000
(b) CHANGES IN FINANCING				
Balance at 1 January, 1996	25,132	24,837	8,560	7,504
Acquisitions	—	—	765	(1,124)
New hire purchase contracts	—	—	270	403
Exchange difference	—	—	(704)	108
Net cash inflow/(outflow) from financing	10	295	3,457	1,669
Balance at 31 December, 1996	25,142	25,132	12,348	8,560

Other financing comprises creditors due after more than one year together with hire purchase obligations of £376,000 (1995: £389,000) and loan instalments of £2,771,000 (1995: £1,371,000) included in creditors due in less than one year.

	1996 £000	1995 £000
(C) CHANGES IN CASH AND CASH EQUIVALENTS:		
Net cash (overdraft) at 1 January, 1996	(5,523)	(6,309)
Exchange difference	350	(138)
Net cash inflow (outflow)	(5,858)	924
Net cash (overdraft) at 31 December, 1996	(11,031)	(5,523)
Cash and cash equivalents comprises:		
Cash at bank and in hand	3,537	2,840
Bank overdrafts.	(14,568)	(8,363)
	(11,031)	(5,523)

Notes to the Financial Statements

(d) PURCHASE OF BUSINESSES/SUBSIDIARIES

(i) Design Eye Holdings Limited.

	BOOK VALUE £000	ACCOUNTING POLICY ADJUSTMENTS £000	FAIR VALUE ADJUSTMENTS £000	FAIR VALUE £000
Fixed assets	247	—	—	247
Stocks and work in progress	588	(50)	—	538
Debtors	1,460	—	—	1,460
Cash	809	—	—	809
Creditors falling due in less than one year	(2,777)	—	(10)	(2,787)
Creditors falling due in more than one year	(93)	—	—	(93)
Deferred taxation	—	17	3	20
Minority interests	(59)	8	2	(49)
	175	(25)	(5)	145
Cost of investment				
— Cash				(3,970)
— Deferred consideration				(262)
Goodwill				(4,087)

Design Eye Holdings Limited made a consolidated profit after tax of £234,000 in the period from 1 December, 1995 to 12 June, 1996 and a profit after tax of £241,000 for the year ended 30 November, 1995

(ii) Walter Foster Publishing, Inc.

	BOOK VALUE £000	ACCOUNTING POLICY ADJUSTMENTS £000	FAIR VALUE ADJUSTMENTS £000	FAIR VALUE £000
Fixed assets	98	—	—	98
Stocks and work in progress	1,510	(452)	(364)	694
Debtors	625	—	(5)	620
Cash	(793)	—	—	(793)
Creditors falling due in less than one year	(628)	—	(301)	(929)
Creditors falling due in more than one year	(41)	—	—	(41)
Deferred taxation	30	153	171	354
	801	(299)	(499)	3
Cost of investment				
— Promissory notes				(631)
— Cash				(2,726)
Goodwill				(3,354)

Walter Foster Publishing, Inc. made a loss after tax of £112,000 in the period from 1 January, 1996 to 28 February, 1996 and a profit after tax of £64,000 in the year ended 31 December, 1995.

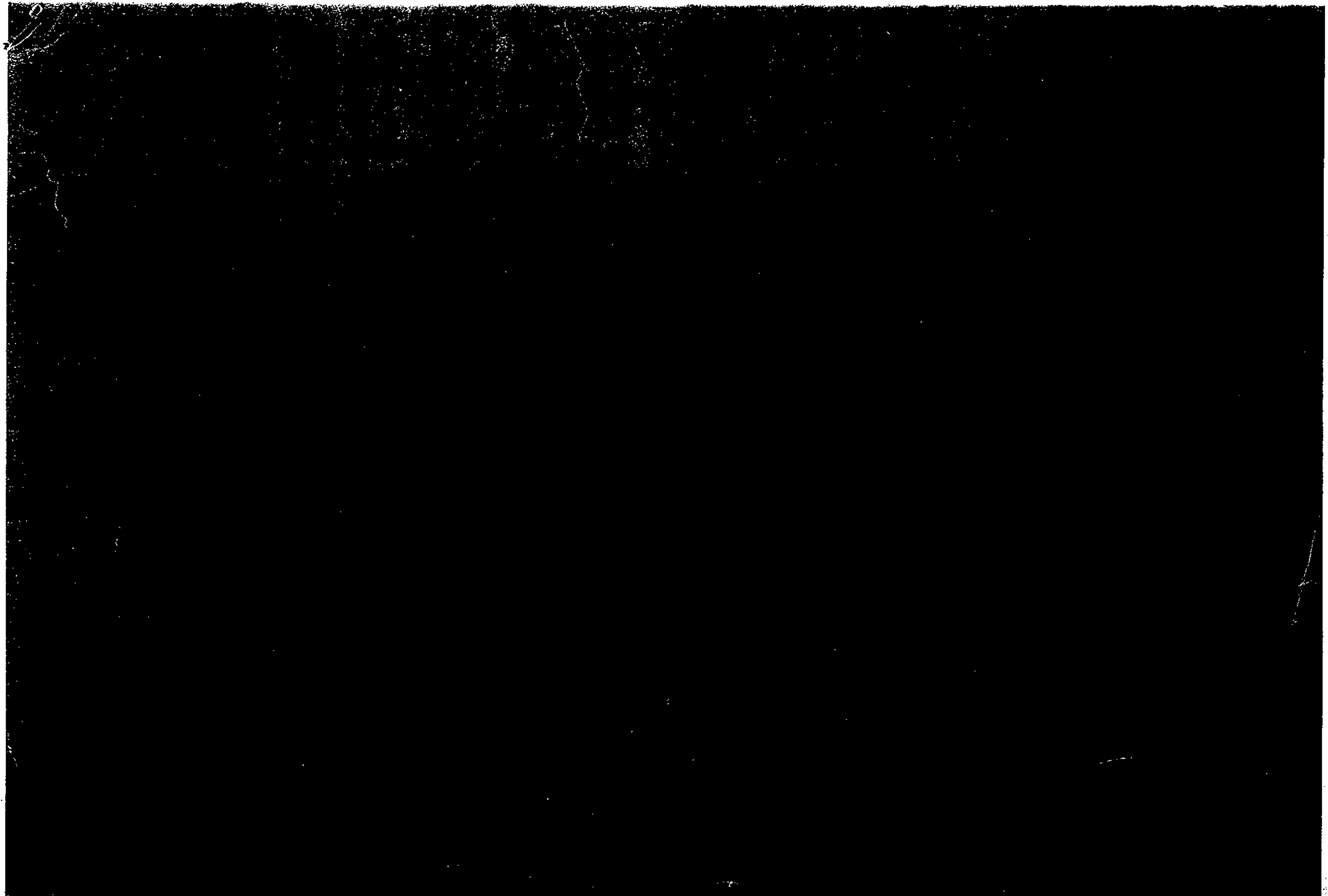
The cash outflow in respect of the purchase of businesses / subsidiaries consists of cash paid of £6,696,000 disclosed above less cash and cash equivalents acquired of £16,000.

Historical Cost Five-Year Summary

	Group				
	1992 £000	1993 £000	1994 £000	1995 £000	1996 £000
Profit and loss account					
Turnover	39,387	49,590	57,927	66,469	80,619
Operating profit before exceptional charges	4,349	5,441	6,949	7,854	9,140
Net interest	(376)	(421)	(669)	(840)	(1,329)
Profit before exceptional charges and taxation	3,973	5,020	6,280	7,014	7,811
Exceptional charges					
Aborted acquisition	(160)	—	—	—	—
Sale of operations	(391)	—	—	—	—
Profit on ordinary activities before taxation	3,422	5,020	6,280	7,014	7,811
Taxation	(923)	(1,301)	(1,741)	(1,747)	(1,906)
Profit on ordinary activities after taxation	2,499	3,719	4,539	5,267	5,905
Minority interests	(132)	(224)	(258)	(241)	(528)
Profit for the financial year	2,367	3,495	4,281	5,026	5,377
Dividends	(1,189)	(1,467)	(1,614)	(1,800)	(1,944)
Retained profit	1,178	2,028	2,667	3,226	3,433
Earnings per share					
Before exceptional charges	16.4p	19.7p	20.8p	24.8p	26.5p
After exceptional charges	13.2p	19.7p	20.8p	24.8p	26.5p
Dividends per share	5.37p	6.0p	6.3p	7.25p	8.0p

Earnings per share have been adjusted to reflect the bonus element of the share issue in 1993.

	1992	1993	1994	1995	1996
Balance sheet					
Fixed assets	4,037	4,908	5,736	6,787	7,392
Other net assets	11,552	13,702	19,415	23,743	28,330
	15,589	18,610	25,151	30,530	35,722
Net borrowings	(7,376)	(3,915)	(11,684)	(12,431)	(22,421)
	8,213	14,695	13,467	18,099	13,301
Cash flow					
Net cash inflow from operating activities	2,515	2,268	1,545	3,911	3,354
Interest (net) and dividends	(1,560)	(1,719)	(2,192)	(2,483)	(3,171)
Taxation	(1,152)	(721)	(769)	(1,030)	(917)
Capital expenditure (net)	(315)	(878)	(861)	(1,424)	(1,039)
Acquisition and disposal of businesses and investments (net)	200	(3,013)	(3,813)	(14)	(7,552)
Net cash (outflow) inflow before financing	(312)	(4,063)	(6,090)	(1,040)	(9,325)



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