









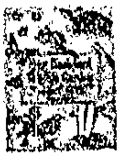








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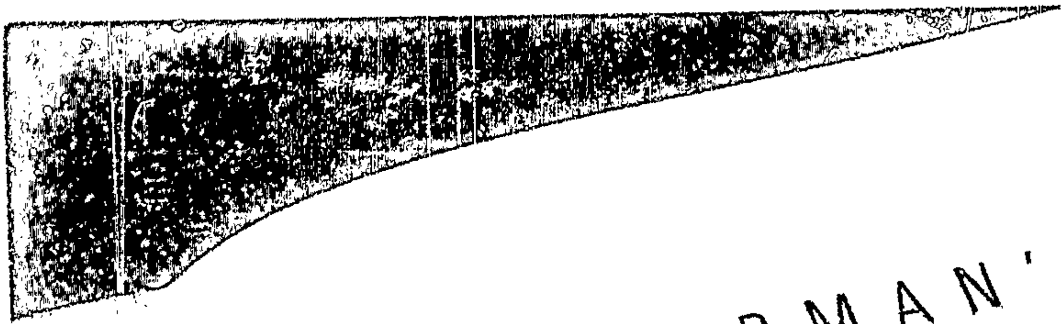
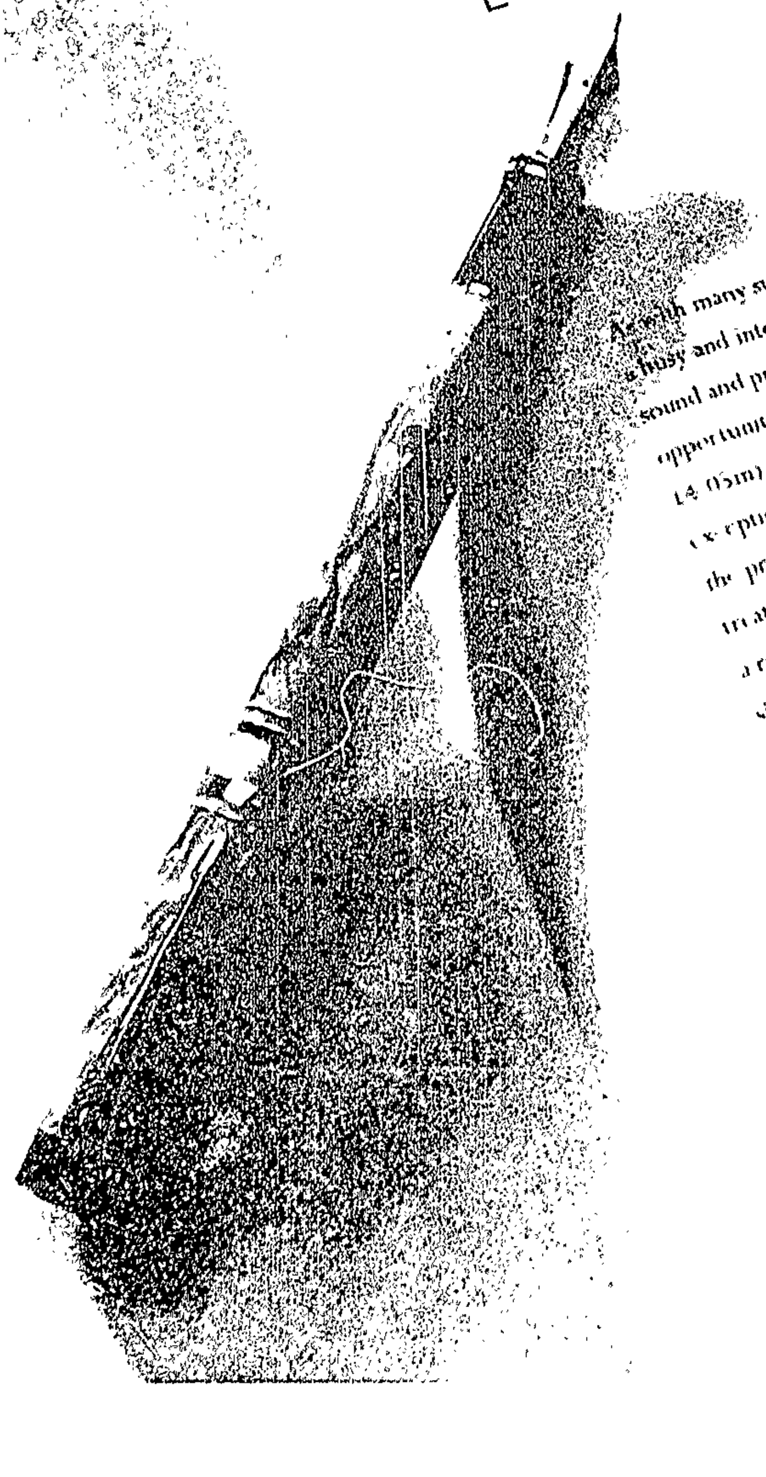
CHAIRMAN'S LETTER





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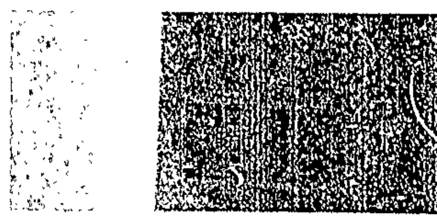
CHAIRMAN'S LETTER

As with many successful companies, we are becoming accustomed to harsh trading conditions. 1992 was a busy and interesting year in which we refined further our management practices and consolidated a sound and profitable business, but it was not a year for fulfilling ambitions or for seizing exotic opportunities. With this in mind, I am pleased to report that pre-tax profits were £3.81m (1991: £4.05m) on sales of £39.39m (1991: £35.08m), with earnings per share of 16.2p (1991: 17.9p). An exceptional charge of £160,000, relating to costs associated with an aborted acquisition is included in the pre-tax figure and, whilst not related to trading, the Group has adopted a conservative accounting treatment of this item. There is also a charge for costs associated with the sale of Lefax, arising largely as a result of charging the goodwill previously written off. Prior to disposal, Lefax made losses for the first six months of the year and these are consolidated in the trading account. It is the Board's view, therefore, that the performance of the Group is better demonstrated by earnings per share before these charges of 17.4p (1991: 17.9p). The growth in revenue was attributable substantially to a full year contribution from Book Sales. Otherwise, publishing revenue was essentially flat and margins were under pressure. On the publishing services side, sales increased but margins were also under pressure and the net improvement in profit was only slight.

Strengthening the Product

We regret both the lost opportunity and the diversion of management resources and money that were involved in the aborted acquisition. Unfortunately, this coincided with the handover at Quarto Publishing to a new sales and marketing director. The transition took too long and sales were undoubtedly affected but, in Marjorie Nelson, we have recruited someone with great experience, energy, professionalism and enthusiasm. She and her staff worked hard to make up lost ground. Given the long lead times necessary, the impact was not seen in 1992, but it is now being felt. We acquired two publishing lists in the second



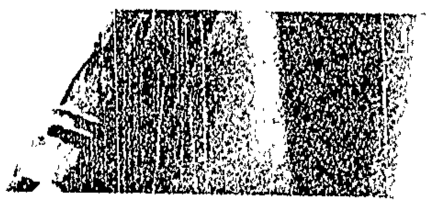
half of the year. Eagle Books, which will be added to our children's list and Running Heads, whose backlist of 60 titles will be added to our adult list

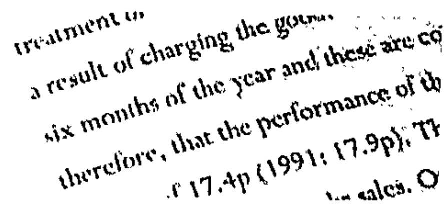
As part of our consolidation in 1992 there was an increasing emphasis on publishing and we had our first full year contribution from Book Sales, which is a significant outlet in the United States for the books produced by Quarto Publishing. As the three months we consolidated into our 1991 figures were the best months of the year, the increased profit contribution from Book Sales was very small. The margins were unsatisfactory, but so was the economic environment. We are working to improve the former whilst President Clinton and his team labour to improve the latter. The depressed state of the US economy was very evident also at Broughton Hall, where we reduced advertising expenditure to reflect the lower order volume. Broughton Hall remained profitable but, nonetheless, profits were down on 1991. However, from the time of President Clinton's election, we saw a real improvement.

Eastern Promise

Rockport and RotoVision both have substantial sales in Japan and East Asia. The nervousness in Japan about the economy was very damaging to their Japanese sales and hurt their profits at the same time as some additional costs were faced in co-ordinating their sales efforts. The rest of East Asia remained buoyant and resources are being diverted to that area. In Australia, Art Nouveau turned in another solid performance but fell slightly short of expectations at the very end of the year. Encouraged by the success of Art Nouveau, we acquired Parmur Trading, which is a distributor of art prints and is a major customer of Art Nouveau.

The Artist's and Illustrator's Magazine defied the UK recession and turned in better sales, circulation and profits and remains an important tie to the artist, for whom we continue to produce a large range of instructional books. In disposing of Lefax, we recognised that we had never succeeded in building it to a critical mass and that it meant more to Filofax than to Quarto.





Vital UK Support

Our publishing services businesses were organised into a division in 1991 and, under the overall direction of Geoff Banks, they performed successfully in 1992. As they operate mostly in the UK and have a largely UK customer base, their achievement is all the more creditable. Our silk screen printing plants were, on occasion, so overstretched, that a decision was taken to move Western Screen and Sign to larger and better premises to the east of Bristol, and to put investment into new machinery in the new plant in 1993. The photography labs and Regent Publishing Services, our Hong Kong based production and print broker, all increased sales, but margins deteriorated slightly in the face of sometimes acute price competition.

Overall, we believe that our experience in 1992 highlighted the benefits of our long term strategy of concentrating on cost and margin controls and relying on the diversity of our related businesses in time of adversity. Certainly, our concern for maintaining a realistic margin has inhibited sales growth, but it has given us financial discipline and we have achieved a reasonable level of profit which has enabled us to avoid the need to chase turnover simply for the sake of cash flow. Despite the current long recession, it is evident that consumers and businesses raise their standards and expectations over the long term and we must continue to pay attention to this to ensure the continued growth of the Quarto Group. During 1992 considerable effort went into exploring ways in which to improve the quality level of our products and services and to improve their financial performance.

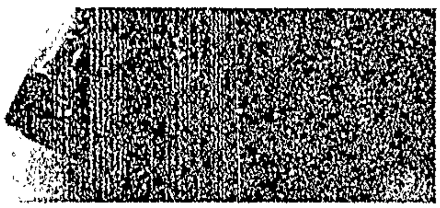
We operate in well-established industries and, after a period of fairly consistent growth, it is essential to ensure that we have in place the management and management systems to tackle the problems and challenges presented by all stages of the business cycle. To be a shining star in a period of rapid entrepreneurial growth and a booming economy is attractive, but this is not a true test of the durability of the business. Your Board took the view that Quarto's growth in the longer term is best achieved by a tight focus on our operations and an assessment of the strengths and weaknesses of our management and systems.

The Board was strengthened in 1992 by the addition of two more executive directors, Geoff Banks, head of Atlas, and George Tai, managing director of Regent, and of one non-executive director, Alan Slavin. They joined the Board almost exactly a year ago and I am grateful to them for their assistance in ensuring that the Board continues to play its strategic role within the structure of the Group.

Strong Order Book

Prospects for 1993 are brighter. As I have already mentioned, sentiment improved in the United States immediately after the election last November and this has led through into better sales in 1993 for both Broughton Hall and Book Sales. A similar effect has been noticed in Australia where the ending of uncertainty, following the election last month, has already seen improved sales. Quarto Publishing has been divisionalised and the sales force has been increased. Orders in hand are running ahead of this time last year and we expect an improved performance. As of this writing, orders have been booked for delivery in 1993 equal to 90% of last year's total sales and the backlist, which again in 1992 produced over 50% of revenue, continues to provide important reprint income. Rockport and RotoVision have felt the impact of recession rather later than other businesses within the Group but they have taken steps to bring their costs in line with their reasonable sales expectations and are budgeting for an improved performance this year.

Exciting New Venture



Our associated publishing services businesses continue to experience a strongly competitive environment and great pressure on margins. Western moved to its new factory in March and the total investment of some £600,000 in the factory and £250,000 in new equipment will allow it to operate more efficiently and to search aggressively for new business. The equipment being replaced is to be shipped to China, where we hope to enter into a joint venture with our major book printing supplier, Leefung-Asco. This will be a silk screen printing operation, within their new Chinese factory, to service the local market. This is an exciting new prospect, even if the impact on our results takes time to come through. China, a country of over one billion people, is only now beginning to enter the consumer age. As shareholders will know, the Group has traditionally sourced most of its book printing requirements from Hong Kong. In the last year, many of Hong Kong's manufacturers have moved part or all of their operations across the border into China, in order to remain competitive. This has created major new industrial areas in China and the beginnings of a consumer society with time and some money on its hands. Both on the production side and on the publishing side, Quarto intends to tap into this market.

I am pleased that the Quarto Group has come through, relatively unscathed, the harshest year we have known. This has been due, in no small part, to the labours of all who worked throughout Quarto, with determination, not to let the recession get the better of us. I hope very much that the brighter prospects for 1993 and beyond will be reward for all these efforts.

It only remains for me to thank my fellow directors, our suppliers and customers and, above all our staff, for their contribution to making a success of 1992.

Laurence F. Orbach
Chairman
April 16, 1993

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REVIEW OF ACTIVITIES

REVIEW OF ACTIVITIES

The Quarto Group consists of a number of businesses involved in the publishing and publishing services industries. They share a common mission to inform and instruct clearly identified audiences through the medium of the printed word and the visual image. They are all market-led, producing products that have been identified as fulfilling a consumer or professional need. Through the regular launch of new books and services, plus the careful investigation of new publishing areas, the Group's businesses are well positioned within the publishing sectors they serve.

As part of our consolidation in 1992 there was an increasing emphasis on publishing and we had our first full year contribution from Book Sales. At Rockport and RotoVision there is a growing emphasis on publishing and fewer resources are being put into the distribution side of these businesses as we have found that the margins are better in publishing. We are now very concentrated on our book publishing activities and we have started to divisionalize these in order to maintain the vitality of small operating units and to develop the management to take each of the units forward. This will be an ongoing process but we are pleased to have made a start.

Inter-company relationships

The Group now publishes and distributes several hundred new titles each year; in addition, it regularly reprints a high percentage of its backlist titles. As a result, it is an intensive user of high-quality, four-colour illustrated book printing, in which it has developed substantial production expertise and buying-power. The Group has a rigorous policy of cost control and a commitment to maintaining high quality at the best possible price.

We believe strongly that each business within the Group must operate independently and that management must manage the individual businesses on an autonomous basis, subject always to the strategy and guidelines agreed with the Board and to monitoring by the Board. Companies within the Group trade with each other regularly, but always on an arm's length basis. Though they are encouraged to explore areas of mutual co-operation, there is no obligation for them to work with each other. Experience has indicated that this is

much the best way both to incentivize individual managements and to improve the efficiency and quality of businesses operating in a competitive environment. Each operating business is a stand-alone entity, with its chief operating officer bearing clear bottom-line responsibility. Inter-company trading increased in 1992 but the Board continues to feel very strongly that this trend should be left to develop organically. However rational it may appear on paper to cut out some overheads by consolidating staffs and merging similar activities, Quarto's own experience and observation of others suggests this is commercially irrational and that people work best when they are close to the action and when the management and direction of their business is clear and not diffused. In the Board's view, among the principal benefits that the Group brings to the individual operating businesses, aside from financial backing and solidity, are its commercial and management skills.

Publishing

Making a profit was hard work in most parts of the world in 1992. Our operations are spread around the globe, which makes it a little bit easier in some respects but the recession was so widespread that even a sensible geographic disposition couldn't guarantee against its impact.

Before we look in detail at the 1992 operations, it is worth recalling how we see our core business.

Quarto Publishing is a co-edition publisher, sharing the rewards of any one project with a commercial partner. These partners are our customers, to whom we sell a publishing project that we have conceived and partially developed. Our role is to identify what we see as a need for a new title in an area in which there is probably already some established publishing activity – we generally take care not to get involved in the speculative breaking of new ground.

We take our projects to potential customers around the world. Once we have achieved a sufficient level of orders, we commission authors and, using our own editorial and design staffs, prepare the title for printing. The printed book bears the imprint of the co-publisher, who has been granted an exclusive license to publish the book in a specific market, and the printed copies are delivered to the co-publisher, who assumes the entire risk in the inventory.

Ours is not most people's view of a traditional publishing operation. Highlighting that distinction, Quarto Publishing never aims to produce "best-sellers". We prefer to rationalize our risk and spread it as widely as possible over as many titles as possible in as many markets as we can reach. Our goal is to produce titles that sell steadily in established markets. We are, above all, market-driven, relying entirely on our skill and judgement in identifying opportunities for successful titles

One measure of our success is how often our books are reprinted and, by that yardstick, we have performed well consistently. Our backlist sales contribute over half of Quarto Publishing's revenue and approximately half of the books we publish are reprinted, some very regularly.

Our approach offers us the advantage of much diminished risk. We are responsible for a book's preparation and pre-print costs, but Quarto Publishing is not itself involved in distribution and we do not run the risks attached to inventory, storage and returns.

1992: New faces; new customers; new titles

During 1992 our core business prospered, if somewhat steadily. Worldwide, we generally met the recession head-on by intensifying our sales effort, as we have always had good controls on costs. Marjorie Nelson joined as sales and marketing director of Quarto Publishing in the second half of the year but, prior to this, there had been a hiatus on the sales side which coincided, for the first time in Quarto Publishing's experience, with a year in which every one of our major international markets was in recession and, as a result, our sales fell slightly. Quintet was given its own specialist foreign sales team and the new children's division was also equipped with a dedicated sales force. In some areas sales improved, in France, for example, and in eastern Europe. With our newly-deployed sales people well into their stride, we have reason to be optimistic about our prospects for 1993.

We laid the basis for increased output in 1993 by acquiring two lists: Eagle, for the children's division, and Running Heads, whose backlist will be added to Quarto's. These lists and our own efforts brought us new customers and we were pleased that Reader's Digest USA has built upon our first successful book with them, *Sketching School*, (sales now of 120,000 copies). We are now creating a small series of similar titles for them.

The success of this title and others like it totally justifies Quarto Publishing's policy of producing books of enduring value and interest and its deliberate avoidance of topical, ephemeral fashions. *Sketching School* is a good example of how our most successful projects work. It is not, by the standards of general lists, a "best-seller" and yet it sells steadily in large numbers in a market that is already very well established. Although particularly well known for its books in the fields of art, art instruction and the graphic arts, Quarto Publishing publishes across a wide range of subject areas and tailors each book for its intended market, believing that each calls for a unique visual presentation if its market is to be penetrated effectively.

US Spearhead

The growth in Group publishing revenue in 1992 was attributable principally to a full year's contribution from Book Sales. Book Sales is an important customer in the United States for books produced by Quarto Publishing. In addition, it purchases books from other co-edition publishers and is a major distributor of value-priced books. Its most profitable period is the last quarter of the year and 1992 profits increased only slightly on those included in our 1991 results. Intensive price competition and destocking by competitors ensured continual pressure on Books Sales' margins, but we believe that the worst of this is now over and we are gratified that it remained profitable in the face of such difficulties.

Rockport and RotoVision, based respectively in Massachusetts and Geneva, produce, publish and distribute books worldwide for the graphic arts professional. In 1992 they also published a new Quarto imprint, ProArt, targeted specifically at architects and design professionals. Japan has traditionally been a strong and profitable major market but, even there, recession was evident, and both Rockport and RotoVision redirected some of their selling resources to other markets in East Asia, which have remained buoyant.

In the US, Broughton Hall, which sells its directories to the public through mail-order, survived a dip in its traditional market and is now showing unmistakable signs of an upturn. Broughton Hall is a dynamic business which is closely monitored. It has proven to be a reliable guide to the condition of the US market generally and we are encouraged by the improvement noted since last November's election.

Art Nouveau, our Australian art print publishing company, acquired Parmur Trading during 1992. Art Nouveau specialises in Australiana and it has been very successful for a long time. Parmur is a print distributor and it, too, has been consistently profitable. With a view to wider and more efficient distribution of Art Nouveau's prints, the new alliance should make the business even more successful. We shall open in Sydney a distribution centre modelled on Parmur's Melbourne operation.

The Group's only magazine, *The Artist's and Illustrator's Magazine*, goes from strength to strength. Subscriptions increased in 1992 and the annual exhibition held at the Business Design Centre in

London was the most profitable to date and continues to grow. The success of the magazine rests on its loyal readership and it uses this as a base to promote its exhibition and ancillary activities.

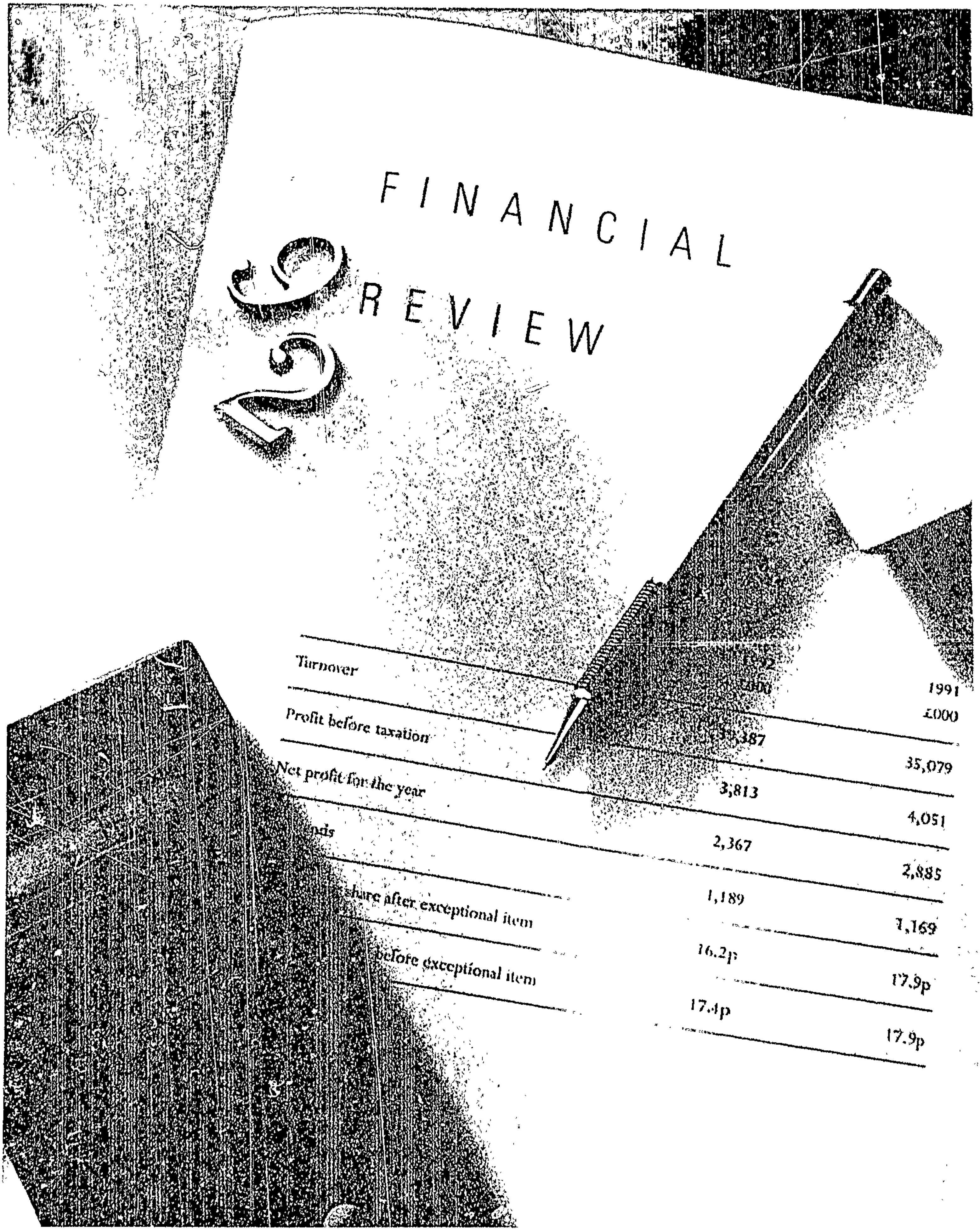
Publishing Services

The Group's Far East operations are managed in Hong Kong by Regent Publishing Services, which is a production house and print broker acting for Quarto but mostly for other clients outside the Group. Regent places work with a number of repro houses and printers in Hong Kong, Singapore, Malaysia and, recently, China. In order to provide a better service and closer supervision, it is opening an office in China, where it will look after Group interests. Nobody is precisely sure what will happen in Hong Kong after 1997, but the Chinese interest in developing business links suggests that commercially, if not politically, the handover will be reasonably smooth. Indeed, it could be argued that the Chinese, on the mainland and elsewhere in South East Asia, are now among the world's most enthusiastic entrepreneurs! In recognition of the amount of business we do there, the Group has opened a small office in Singapore, which will be expanded as the need arises.

In the UK, our publishing services businesses are grouped under the Atlas umbrella. They are involved in photographic lab work, silk screen printing of point of sale material and graphic design. Across the division, sales increased but margins, particularly on the photographic side, were not maintained and competition was fierce. Nonetheless, the silk screen printing plants were particularly busy and Western Screen and Sign outgrew the production capabilities of its Bristol premises. It has now moved to a far superior factory and can plan the next stage in its growth.

Our publishing services businesses developed out of our needs, as book producers, for a variety of production services. Quarto has always concerned itself with cost control and, early on, we identified those services that could be brought in-house advantageously. From that point on, we turned what were traditionally cost centres into profit centres and encouraged them to offer their facilities to outside parties. Over the years these services have developed their own momentum, and the volume of business deriving from within the Group is a diminishing part of their overall sales. It is our intention to support their growth and to continue to recognise their value to the Group as a whole.

FINANCIAL REVIEW



Directors and Advisers

DIRECTORS
Laurence Francis Orbach *(Chairman and Chief Executive)*
Robert John Morley
Michael John Mousley, ACA
Geoffrey Banks
George Tai *(Hong Kong)*
Alan Slavin *(Non-executive)*

SECRETARY
Cyrus Homi Bhote, FCA

PRINCIPAL PLACE OF BUSINESS
The Old Brewery, 6 Blundell Street, London N7 9BH

JOINT STOCKBROKERS
Smith New Court
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 6AF

AUDITORS
KPMG Peat Marwick
1 Puddle Dock, London EC4V 3PD

SOLICITORS TO THE COMPANY
Travers Smith Braithwaite
6 Snow Hill, London EC1A 2AL

PRINCIPAL BANKERS
National Westminster Bank PLC
250 Regent Street, London W1A 4RY

REGISTRARS AND TRANSFER OFFICE
Barclays Registrars
Bourne House, 34 Beckenham Road
Beckenham, Kent BR3 4TU

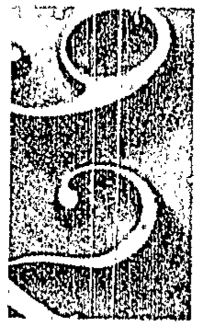
Report of the Auditors

REPORT OF THE AUDITORS, KPMG PEAT MARWICK,
TO THE MEMBERS OF THE QUARTO GROUP INC.

We have audited the financial statements on pages 20 to 39 in accordance with Auditing Standards

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December, 1992 and of the profit and cash flows of the Group for the year then ended

KPMG Peat Marwick
KPMG PEAT MARWICK
Chartered Accountants
Registered Auditors
16 April, 1993



Directors' Report

The directors present their report and audited financial statements of The Quarto Group Inc. for the year ended 31 December, 1992

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, a consumer magazine, informational directories, visual aid books and fine art reproductions. The Group sold its interest in the Letax group of companies during the year. A detailed review of the development of the business of the Group is given in the Chairman's Statement on pages 3-7

RESULTS AND DIVIDENDS

The profit for the year after taxation, minority interests and extraordinary item amounted to £2,367,000 (1991: £2,885,000). The directors propose a final ordinary dividend of £513,000 subject to approval at the Annual General Meeting, in addition to the interim ordinary dividend paid of £220,000 and the preference dividend of £456,000, leaving a retained profit for the year of £1,178,000 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 9 to 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 (appointed 1 April, 1992)
G. T. Y. Tai (appointed 1 April, 1992)
A. Slavin (appointed 1 April, 1992) *(Non-executive)*
J. M. A. Manstead (resigned 1 April, 1992)

All of the directors have service contracts with less 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

Directors' Report

DIRECTORS' INTERESTS IN SHARES

The directors who held office at 31 December 1992 had the following interests in the share capital of the Company

	NUMBER OF US$0.10 SHARES OF COMMON STOCK	
	31 DECEMBER, 1992	1 JANUARY, 1992
L. F. Orbach*	2,828,413	2,828,413
R. J. Morley	1,491,667	1,491,667
M. J. Mousley	8,961	8,461
G. Banks	1,070	1,070†
G. T. Y. Tai	10,000	7,000†
A. Slavin	185,230	185,230†

**The shares in which L. F. Orbach is interested are owned through his family trust*
†At date of appointment

	NUMBER OF OPTIONS FOR US$0.10 SHARES OF COMMON STOCK			
	31 December 1992	GRANTED in year	EXERCISED in year	1 January 1992
L. F. Orbach	50,000	50,000	—	—
R. J. Morley	30,000	30,000	—	—
M. J. Mousley	59,000	30,000	(6,000)	35,000
G. Banks	54,000	30,000	(8,000)	32,000
G. T. Y. Tai	26,000	15,000	(6,000)	17,000
A. Slavin	30,000	30,000	—	—

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.

Between 31 December, 1992 and 16 April, 1993 there have been no changes in the interests of these directors.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

As at 16 April, 1993 the directors have been advised of the following shareholders, with the exception of the directors, who have an interest of 3% or more in the shares of common stock of the Company

	NUMBER OF ISSUED SHARES OF COMMON STOCK	PERCENTAGE
Framlington Group plc	1,662,598	12.19
Gartmore Investment Management Limited	623,519	4.57
Phillips & Drew Fund Management Limited	709,253	5.20
Prudential Corporation Group of Companies	955,843	7.01
Royal Exchange Trust Company Limited	429,954	3.15
Schroder Unit Trusts Limited	600,000	4.40
Scottish Amicable Investment Managers Limited	582,000	4.27

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.

AUDITORS

A resolution proposing the reappointment of KPMG Peat Marwick as auditors to the Company will be put to the Annual General Meeting.

Cyrus H. Bhote

C. H. BHOTE

Secretary

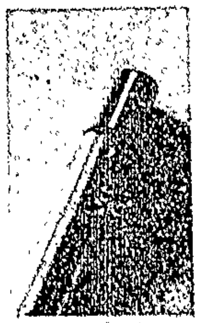
16 April, 1993

Consolidated Profit and Loss Account for the Year Ended 31 December 1992

	Notes	1992 £000	1991 Restated £000
Turnover	1	39,387	35,079
Cost of sales		(24,624)	(20,900)
Gross profit		14,763	14,179
Distribution costs		(2,117)	(1,865)
Administration expenses		(8,434)	(7,876)
Other operating income		137	81
Operating profit	2	4,349	4,519
Net interest payable	3	(376)	(468)
Profit on ordinary activities before taxation and exceptional item		3,973	4,051
Exceptional item	4	(160)	—
Profit before taxation after exceptional item		3,813	4,051
Tax on profit on ordinary activities	5	(1,018)	(1,035)
Profit on ordinary activities after taxation		2,795	3,016
Minority interests		(132)	(131)
Profit before extraordinary item		2,663	2,885
Extraordinary item less taxation	6	(296)	—
Profit for the financial year		2,367	2,885
Dividends	7	(1,189)	(1,169)
Retained profit for year	19	1,178	1,716
Earnings per share: before exceptional item	8	17.4p	17.9p
after exceptional item	8	16.2p	17.9p

The movement on the profit and loss account reserve is disclosed in note 19 to the financial statements

The notes on pages 23–39 form a part of these financial statements



Balance Sheets at 31 December 1992

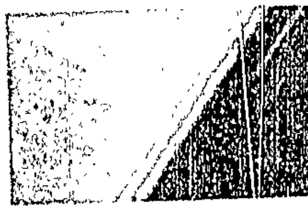
	Notes	Group 1992 £000	Group 1991 Restated £000	Company 1992 £000	Company 1991 £000
Fixed Assets					
Tangible assets	9	4,037	3,749	—	—
Investments	10	—	—	4,323	3,046
		4,037	3,749	4,323	3,046
Current assets					
Stocks and work in progress	11	12,681	10,033	—	—
Debtors	12	14,487	13,854	7,448	9,162
Investments	13	71	88	—	—
Cash at bank and in hand		3,944	2,749	—	—
		31,183	26,724	7,448	9,162
Creditors: Amounts falling due within one year	14	(22,970)	(18,166)	(513)	(516)
Net current assets		8,213	8,558	6,935	8,646
Total assets less current liabilities		12,250	12,307	11,258	11,692
Creditors: Amounts falling due after more than one year	15	(3,214)	(4,054)	—	—
Provision for liabilities and charges					
Deferred taxation	16	(963)	(465)	—	—
Net assets		8,073	7,788	11,258	11,692
Capital and reserves					
Called up share capital	17	1,008	1,005	1,008	1,005
Reserves – Paid in surplus	18	13,861	13,775	13,861	13,775
– Revaluation		1,018	1,018	—	—
– Profit and loss	19	3,807	3,151	(3,611)	(3,088)
		19,694	18,949	11,258	11,692
– Goodwill written off	20	(12,591)	(11,623)	—	—
Shareholders' funds		7,103	7,326	11,258	11,692
Minority interests		970	462	—	—
		8,073	7,788	11,258	11,692

The financial statements on pages 20–39 were approved by the Board of Directors on 16 April, 1993

L. F. ORBACH / M. J. MOUSLEY

Directors

The notes on pages 23–39 form a part of these financial statements.



Consolidated Cash Flow Statement for the year ended 31 December 1992

	1992 £000	1991 £000
Net cash inflow from operating activities	2,515	3,861
Returns on investments and servicing of finance		
Interest received	60	60
Interest paid	(450)	(474)
Dividends paid	(1,170)	(1,134)
Net cash outflow from returns on investments and servicing of finance	(1,560)	(1,548)
Taxation		
UK and overseas corporation tax paid	(1,152)	(1,049)
Investing activities		
Purchase of tangible fixed assets	(427)	(416)
Purchase of businesses/subsidiaries	(824)	(1,060)
Sale/(purchase) of investments	33	(75)
Sale of subsidiaries	991	—
Sale of tangible fixed assets	112	463
Net cash outflow from investing activities	(115)	(1,088)
Net cash (outflow) inflow before financing	(312)	176
Financing		
Issue of shares	(89)	—
Repayment of long term borrowings	889	496
Capital element of hire purchase payments	243	375
	1,132	871
Cash outflow from financing	1,043	871
Decrease in cash and cash equivalents	(1,355)	(695)
	(312)	176

See note 22 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 conform with applicable UK Accounting Standards. The Company is an "overseas company" within the meaning of the Companies Act 1985 and has not taken advantage of the modifications and exemptions from disclosure that are set out in the Oversea Companies (Accounts) (Modifications and Exemptions) Order 1982. The financial statements have been prepared to conform in all material respects with the accounting and disclosure requirements of Schedule 4 to the Companies Act 1985.

BASIS OF CONSOLIDATION

The consolidated financial statements represent a consolidation of the audited accounts of The Quarto Group Inc. and its subsidiaries. During the year certain subsidiary undertakings changed their accounting reference date from 30 November to 31 December to bring them into line with that of The Quarto Group Inc. The consolidated accounts include the results of these subsidiary undertakings for the twelve months ended 31 December 1992 and the comparative figures have been restated to include their results for the twelve months ended 31 December 1991. The net effect on profits, however, is not significant (See note 19). Certain comparative figures have also been restated to conform with the current basis of presentation.

The results of subsidiaries acquired during the year are included from the date on which control passes. Goodwill arising on acquisition is charged directly to reserves. The profit or loss on the disposal or discontinuation of a previously acquired business reflects the attributable amount of purchased goodwill relating to that business. Reserves brought forward at 1 January 1991 have been restated to reflect the goodwill on businesses previously discontinued.

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 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 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	:	15–25% 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 future permanent diminution in the carrying value of fixed assets is charged against the profit and loss account.

Accounting Policies

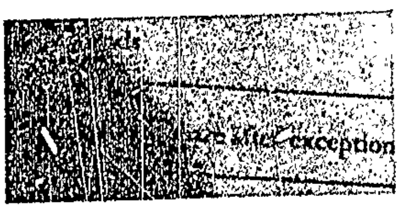
STOCKS AND WORK IN PROGRESS
Stocks and work in progress are valued at the lower of cost, including an appropriate portion of overheads, and net realisable value. Production costs (excluding unit print costs), including an appropriate portion of overheads, in respect of a book are written off over its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

DEFERRED TAXATION
Provision is made for deferred taxation using the liability method 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
The Group owns the copyright in its titles. No value is attributed to these rights.

LEASES 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.



	1992 £000	1991 Restated £000
1 SEGMENTAL ANALYSIS		
GEOGRAPHICAL ANALYSIS OF TURNOVER BY DESTINATION		
United Kingdom	11,896	9,709
United States of America	16,222	14,663
Canada	521	947
Europe	4,528	4,579
Australasia and the Far East	4,882	4,001
Rest of the World	1,338	1,180
	39,387	35,079

SEGMENTAL ANALYSIS

	TURNOVER		OPERATING PROFIT		NET OPERATING ASSETS	
	1992 £000	1991 Restated £000	1992 £000	1991 Restated £000	1992 £000	1991 Restated £000
CLASS OF BUSINESS						
Publishing	29,732	27,605	3,621	3,858	15,231	13,867
Publishing services	9,655	7,474	728	661	2,031	1,932
	39,387	35,079	4,349	4,519	17,262	15,799
ANALYSIS BY GEOGRAPHICAL AREA OF ORIGIN						
United Kingdom	17,411	16,285	1,620	1,632	5,647	7,054
United States of America	14,075	11,811	1,652	1,803	7,994	5,979
Other	7,901	6,983	1,077	1,084	3,621	2,766
	39,387	35,079	4,349	4,519	17,262	15,799

Net interest payable and the exceptional item are Group items and therefore have not been allocated to the business activities.

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

	1992 £000	1991 Restated £000
Net operating assets	17,262	15,799
Total bank loans and other borrowings	(11,562)	(8,927)
Cash at bank and in hand	3,944	2,749
Corporation tax, deferred tax and advance corporation tax	(1,058)	(1,339)
Dividends payable	(513)	(494)
Net assets	8,073	7,788

Notes to the Financial Statements

	1992 £000	1991 Restated £000
2 OPERATING PROFIT		
OPERATING PROFIT IS STATED AFTER CHARGING		
Depreciation	473	402
Auditors' remuneration: audit	120	116
: other	60	—*
Operating lease rentals in respect of:		
Plant and machinery	94	96
Other assets	502	387

*Not required

Of the profit for the year £666,000 (1991: £1,169,000) has been dealt with in the accounts of the Company.

EMPLOYEES

	1992 £000	1991 Restated £000
STAFF COSTS INCLUDING DIRECTORS' EMOLUMENTS COMPRISE		
Wages and salaries	6,441	5,547
Social security costs	578	533
Pension costs	102	88
	7,121	6,168

Pension costs relate to contributions made to individual portable pension plans and are charged to profit and loss account as they arise.

THE AVERAGE WEEKLY NUMBER OF PERSONS EMPLOYED BY THE GROUP DURING THE YEAR WAS

	1992 Number	1991 Number
Publishing	223	166
Publishing services	173	152
Group administration	17	19
	413	337

	1992 £000	1991 £000
2 OPERATING PROFIT (continued)		
Directors' remuneration		
Directors' emoluments including the estimated monetary value of benefits in kind in respect of motor vehicles and health insurance amounted to:		
Emoluments (including pension contributions)	391	296
The directors' remuneration disclosed above included amounts (excluding pension contributions) paid in respect of:		
Chairman and highest paid director	99	86

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

	1992 Number	1991 Number
£10,001 – £15,000	1	—
£25,001 – £30,000	1	—
£35,001 – £40,000	2	—
£50,001 – £55,000	—	1
£55,001 – £60,000	—	1
£60,001 – £65,000	1	—
£75,001 – £80,000	—	1
£80,001 – £85,000	1	—
£85,001 – £90,000	—	1
£95,001 – £100,000	1	—

	1992 £000	1991 Restated £000
3 NET INTEREST PAYABLE		
Interest payable		
On bank overdrafts and other loans repayable within 5 years by instalments	305	362
On loans repayable after more than 5 years	81	98
Hire purchase	62	66
	448	526
Interest receivable	(72)	(58)
	376	468

Notes to the Financial Statements

	1992 £000	1991 Restated £000
4 EXCEPTIONAL ITEM		
Costs associated with aborted acquisition	160	–
5 TAXATION		
On profit for the year:		
United Kingdom corporation tax at 33.00 per cent (1991: 33.25 per cent)	352	435
Deferred taxation – UK	117	70
– Overseas	332	144
Overseas tax	217	386
	1,018	1,035
6 EXTRAORDINARY ITEM LESS TAXATION		
Loss on disposal of Lefax group (including write-off of goodwill previously eliminated against reserves of £314,000)	391	—
Taxation credit	(95)	—
	296	—
7 DIVIDENDS		
Ordinary: Interim paid of 1.6125p per share (1991: 1.6125p per share)	220	219
Ordinary: Final proposed of 3.75875p per share (1991: 3.6375p per share)	513	494
Preference	456	456
	1,189	1,169

8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on

	1992	1991 Restated
Weighted average number of ordinary shares in issue	13,615,015	13,587,015
Profit on ordinary activities before exceptional item and after taxation and minority interests less preference dividends	£2,367,000	£2,429,000
Profit on ordinary activities after exceptional item and after taxation and minority interests less preference dividends	£2,207,000	£2,429,000

Fully diluted earnings per share are not materially different to the basic earnings per share.

Notes to the Financial Statements

	FREEHOLD PROPERTY £000	LEASEHOLD PROPERTY £000	PLANT EQUIPMENT AND MOTOR VEHICLES £000	FIXTURES AND FITTINGS £000	TOTAL £000
9 TANGIBLE FIXED ASSETS					
Group					
Cost or valuation					
At 1 January 1992	2,065	459	2,495	572	5,591
Exchange differences	82	69	87	54	292
Additions	—	42	589	49	680
Disposal of subsidiaries	—	(35)	(110)	(70)	(215)
Disposals	—	—	(198)	(3)	(201)
At 31 December 1992	2,147	535	2,863	602	6,147
Depreciation					
At 1 January 1992	31	93	1,418	300	1,842
Exchange differences	—	3	39	20	62
Charge for the year	—	22	364	87	473
Disposal of subsidiaries	—	(27)	(79)	(38)	(144)
Eliminated in respect of disposals	—	—	(120)	(3)	(123)
At 31 December 1992	31	91	1,622	366	2,110
Net book value					
At 31 December 1992	2,116	444	1,241	236	4,037
At 31 December 1991	2,034	366	1,077	272	3,749
Cost or valuation at 31 December 1992 is represented by:					
Surplus on valuation	1,018	—	—	—	1,018
Cost	1,129	535	2,863	602	5,129
	2,147	535	2,863	602	6,147

The net book value of plant, equipment and motor vehicles included £450,000 (1991 £492,000) in respect of assets held under hire purchase contracts. The depreciation charged on these assets during the year was £127,000 (1991 £157,000)

Included in leasehold property at cost is £374,000 (1991 £317,000) in respect of a long leasehold. The net book value at 31 December 1992 was £311,000 (1991 £311,000)

Freehold property in the UK was revalued on the basis of an open market value for existing use at 31 December 1989 by Conway Keith, Professional Valuers. The valuation was £1.7 million but the directors ascribed a value of £1.4 million

Notes to the Financial Statements

10 FIXED ASSET INVESTMENTS	COMPANY 1992 £000	1991 £000
Shares in subsidiaries		
Cost at 1 January 1992	3,046	2,839
Additions	1,277	197
Exchange differences	—	10
At 31 December 1992	4,323	3,046

Notes to the Financial Statements

The Company has the following principal trading subsidiaries 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 *1st April 1976*	100,000 shares of £1 each	100*	Publishing
Quarto Inc	Florida, USA *16th October 1986*	60 shares of no par value	100*	Publishing
Western Signcraft Limited	England *[illegible] November 1961*	1,400 shares of £1 each	100*	Publishing Services
Bridgewater Design Limited	England *31st March 1986*	100 shares of £1 each	100*	Publishing Services/ Publishing
The Artist's & Illustrator's Magazine Limited	England *20th May 1986*	1,000 shares of £1 each	100	Publishing
Atlas Photography Limited	England *23rd June 1949*	9,820 shares of £1 each	100	Publishing Services
Regent Publishing Services Limited	Hong Kong *23rd October 1985*	1,000 shares of HK$10 each	70	Publishing Services/ Publishing
Apple Press Limited	England *5th June 1984*	100 shares of £1 each	100	Publishing
Art Nouveau Publishing Company Pty Limited	Australia *14th September 1983*	8 redeemable preference shares of A$1 each and 103 ordinary shares of A$1 each	100*	Publishing
AP Screenprinters Limited	England *30th September 1980*	1,000 shares of £1 each	100	Publishing Services
RotoVision SA	Switzerland *18th July 1977*	1,500 shares of SFr500 each	100*	Publishing
Broughton Hall Inc	Delaware, USA *16th March 1989*	100 shares of $1 each	100	Publishing
Rockport Publishers Inc	Massachusetts, USA *4th December 1985*	4,000 shares of no par value	100	Publishing
Book Sales Inc	New Jersey, USA *13th December 1972*	85 shares of no par value	80	Publishing
Sharpe Studios Limited	England *4th May 1952*	43,004 shares of £1 each	100	Publishing Services

**Directly owned by The Quarto Group Inc*

	Group 1992	Group 1991 Restated	Company 1992	Company 1991
11 STOCKS AND WORK IN PROGRESS	£000	£000	£000	£000
Finished goods	6,257	4,607	—	—
Work in progress	6,411	5,332	—	—
Raw materials	157	180	—	—
Less: Payments on account	(144)	(86)	—	—
	12,681	10,033	—	—

	Group 1992	Group 1991	Company 1992	Company 1991
12 DEBTORS				
Trade debtors	13,169	12,644	—	—
Amounts due from subsidiaries	—	—	7,448	9,162
Prepayments and accrued income	306	301	—	—
Other debtors	295	909	—	—
Prior periods corporation tax recoverable	717	—	—	—
	14,487	13,854	7,448	9,162

Other debtors include £242,000 (1991: £253,000) which is interest bearing, of which £169,000 (1991: £200,000) is due after more than one year.

	Group 1992	Group 1991	Company 1992	Company 1991
13 CURRENT ASSET INVESTMENTS				
Listed investments at cost (market value £61,000 (1991: £88,000)) other than on The International Stock Exchange in London	71	88	—	—

	Group 1992	Group 1991	Company 1992	Company 1991
14 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR				
Bank overdrafts	7,427	4,811	—	—
Current loan instalments	1,217	486	—	—
Hire purchase creditors	168	191	—	—
Trade creditors	10,079	8,844	—	—
Amounts due to subsidiaries	—	—	—	22
Other creditors including taxation and social security:				
Corporation tax	503	560	—	—
Advance corporation tax payable	309	314	—	—
Dividend payable	513	494	513	494
Social security	193	222	—	—
Other creditors	1,248	965	—	—
Accruals and deferred income	1,313	1,279	—	—
	22,970	18,166	513	516

15 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	GROUP 1992 £000	GROUP 1991 £000	COMPANY 1992 £000	COMPANY 1991 £000
Bank loans	2,627	3,344	—	
Other creditors including tax and social security				
Hire purchase liabilities	123	95	—	—
Other creditors	464	615	—	—
	3,214	4,054	—	—
Repayable as follows				
Between one and two years	1,440	1,206	—	—
Between two and five years	1,120	1,990	—	—
In five years or more	654	858	—	—
	3,214	4,054	—	—

The above loans carry interest at commercial rates. The total amount repayable in five years or more includes a bank loan not repayable by instalments of £250,000. The balance relates to the payments falling due after more than five years on a bank loan of £568,000. These loans are secured on freehold premises.

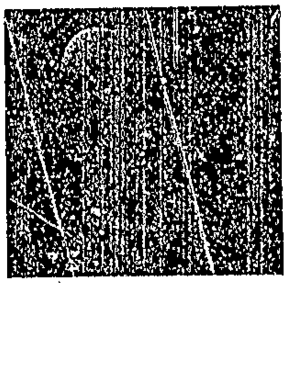
Total bank loans and other borrowings are repayable as follows:				
Bank loans and overdrafts:				
In one year or less, or on demand	8,644	5,297	—	—
Between one and two years	1,217	1,020	—	—
Between two and five years	756	1,685	—	—
In five years or more	654	639	—	—
	11,271	8,641	—	—
Other borrowings:				
In one year or less, or on demand	168	191	—	—
Between one and two years	95	86	—	—
Between two and five years	28	9	—	—
	291	286	—	—
Total loans and other borrowings:				
In one year or less, or on demand	8,812	5,488	—	—
Between one and two years	1,312	1,106	—	—
Between two and five years	784	1,694	—	—
In five years or more	654	639	—	—
	11,562	8,927	—	—

Notes to the Financial Statements

16 DEFERRED TAXATION	GROUP Amount provided 1992 £000	Amount provided 1991 £000	Potential liability 1992 £000	Potential liability 1991 £000
Deferred taxation provided in the financial statements is as follows:				
Excess of capital allowances over depreciation	134	131	134	131
Other – UK	(397)	(365)	(397)	(365)
Other – overseas	1,375	864	1,530	972
Revaluation of freehold property	—	—	336	336
Advance corporation tax recoverable	(149)	(165)	(149)	(165)
	963	465	1,454	909

The movement on the provision for deferred taxation is as follows:	GROUP £000
Provision at 1 January 1992	465
Exchange difference	257
Transfer from corporation tax	129
Businesses acquired	(258)
Transfer to profit and loss account	449
Tax credit on extraordinary item	(95)
Advance corporation tax recoverable	16
Provision at 31 December 1992	963

17 SHARE CAPITAL	1992 £000	1991 £000
Authorised 22,000,000 Shares of common stock of par value US$0.10 each ("shares of common stock")	1,176	1,176
Authorised 5,212,587 8.75p (net) convertible cumulative redeemable shares of preferred stock of US$0.10 each ("shares of preferred stock")	279	279
	1,455	1,455



	1992 £000	1991 £000
17 SHARE CAPITAL (continued)		
Allotted, called up and fully paid. 13,643,015 shares of common stock of par value US$0.10 each (1991: 13,587,015)	729	700
Exchange difference	—	26
	729	726

56,000 shares were issued during the year under The Quarto Group Inc Executive Share Option Scheme at £1.59 per share.

	1992 £000	1991 £000
Allotted, called up and fully paid: 5,212,587 shares of preferred stock of US$0.10 each (1991: 5,212,587)	279	269
Exchange difference	—	10
	279	279
	1,008	1,005

At 31 December 1992, the following options over shares of common stock were outstanding under The Quarto Group Inc Executive Share Option Schemes

Number of Shares	Date exercisable	Option price per share
51,000	16 November 1990 – 15 November 1997	159p
131,000	12 April 1992 – 11 April 1999	182p
64,000	14 November 1992 – 13 November 1999	160p
271,000	10 April 1995 – 9 April 2002	137p

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 the manner described in 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.

	GROUP		COMPANY	
	1992 £000	1991 £000	1992 £000	1991 £000
18 RESERVES – PAID IN SURPLUS				
At 1 January 1992	13,775	13,800	13,775	13,800
On shares issued during year	86	—	86	—
Exchange difference	—	(25)	—	(25)
At 31 December 1992	13,861	13,775	13,861	13,775

Notes to the Financial Statements

19 RESERVES – PROFIT AND LOSS ACCOUNT	GROUP 1992 £000	GROUP 1991 £000	COMPANY 1992 £000	COMPANY 1991 £000
At 1 January 1992				
– as previously reported	6,631	5,047	(3,088)	(3,088)
– prior year restatement representing the results of certain subsidiary undertakings for the month of December 1991 and 1990 and arising from the change in accounting reference date referred to in the accounting policies	(274)	(256)	—	—
– prior year adjustment relating to goodwill on discontinued activities	(3,206)	(3,206)	—	—
– as restated	3,151	1,585	(3,088)	(3,088)
Retained profit	1,178	1,736	(523)	—
Difference on translation of net assets and profit and loss accounts of non-UK companies	(383)	(98)	—	—
Exchange difference on borrowings related to non-UK companies	(139)	(52)	—	—
At 31 December 1992	3,807	3,151	(3,611)	(3,088)

The retained profit for 1991 has been reduced by £18,000 as a result of the prior year restatement.

20 RESERVES – GOODWILL WRITTEN OFF	GROUP 1992 £000	GROUP 1991 £000
At 1 January 1992		
– as previously reported	14,829	14,129
– prior year adjustment relating to discontinued activities	(3,206)	(3,206)
– as restated	11,623	10,923
Goodwill transferred to profit and loss account	(314)	—
Goodwill written off in year	1,282	700
At 31 December 1992	12,591	11,623

Notes to the Financial Statements

20 RESERVES – GOODWILL WRITTEN OFF (continued)

Acquisitions during the year were accounted for under the acquisition method of accounting as follows

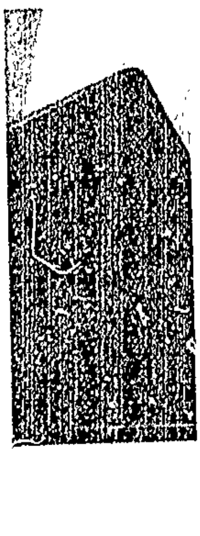
	BOOK VALUE £000	ACQUISITION ADJUSTMENTS £000	FAIR VALUE £000
Tangible fixed assets	4	—	4
Stocks and work in progress	326	—	326
Debtors	107	—	107
Creditors – less than one year	(751)	(202)	(953)
Deferred taxation	190	68	258
	(124)	(134)	(258)
Cost of investment (including deferred consideration of £200,000 and expenses)			1,024
Goodwill			1,282

21 FINANCIAL COMMITMENTS

	1992 Land and Buildings £000	1992 Other £000	1991 Land and Buildings £000	1991 Other £000
As at 31 December 1992 the Group had commitments to make payments under operating leases during the next year as follows for leases expiring:				
Within one year	133	14	60	19
Between two and five years	173	12	335	17
Over five years	151	—	147	—
	457	26	542	36

The land and buildings leases are subject to rent reviews.

Capital commitments at the end of the year for which no provision has been made amounted to £510,000 (1991: £nil). The expenditure was authorised but not contracted for.



Notes to the Financial Statements

22 NOTES ON THE CONSOLIDATED CASH FLOW STATEMENT

	1992	1991 Restated
	£000	£000
Reconciliation of operating profit to net cash inflows from operating activities:		
Operating profit after deducting exceptional items	4,189	4,519
Depreciation charge	473	402
Cash movement from prior periods extraordinary items	(393)	(1,079)
(Profit)/Loss on sale of fixed assets	(34)	118
Increase in stocks and work in progress	(2,031)	(851)
Decrease in debtors	1,382	759
Decrease in creditors	(1,161)	(7)
Net cash inflow from operating activities	2,515	3,861

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

Disposal of subsidiaries

	1992	1991
	£000	£000
Tangible fixed assets	71	—
Other working capital	902	—
	973	—
Goodwill	314	—
Extraordinary item – loss on disposal	(296)	—
Cash inflow from disposal of subsidiaries	991	—

The loss before taxation of the subsidiaries sold during the year included in the consolidated profit and loss account was £75,000.

Notes to the Financial Statements

22 NOTES ON THE CONSOLIDATED CASH FLOW STATEMENT (continued)

	1992	1991
	£000	£000
Analysis of changes in financing during the year:		
Balance at 1 January 1992	4,731	5,146
Acquisition of businesses/subsidiaries	200	276
Transfer to minority interest	(269)	—
New hire purchase contracts	246	61
Exchange difference	823	119
Net cash outflow from financing	(1,132)	(871)
Balance at 31 December 1992	4,599	4,731

Financing comprises creditors due after more than one year together with hire purchase obligations of £169,000 (1991: £191,000) and loans repayable within one year of £1,217,000 (1991: £486,000) included in creditors due in less than one year.

	1992	1991
	£000	£000
Analysis of changes in cash and cash equivalents:		
Balance at 1 January 1992: Net overdraft	2,062	987
Acquisition of subsidiaries	—	167
Disposal of subsidiaries	47	—
Exchange difference	19	213
Net cash outflow	1,355	695
Balance at 31 December 1992	3,483	2,062

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

23 CONTINGENT COMMITMENTS AND LIABILITIES

On 31 May 1990, the Group acquired Rockport Publishers Inc. ("Rockport"). The acquisition agreement provides that a further payment in respect of the acquisition may be made on 30 April 1995 if the average pre-tax profits of Rockport for the years ending 31 December 1991, 1992, 1993 and 1994 exceed an amount based on the pre-tax profit for the year ended 31 December, 1990. Pre-tax profits for the years ended 31 December 1991 and 1992 were below the base pre-tax profit figure. The directors believe that it is too early to estimate the potential commitment if any.

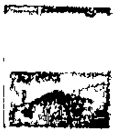
The Quarto Group Inc. has issued guarantees in respect of £7,427,000 of overdrafts of subsidiaries (1991: £4,811,000) and bank loans of £3,844,000 (1991: £3,830,000).

Historical Cost Five-Year Summary

	1988 £000	1989 £000	1990 £000	1991 £000	1992 £000
Turnover	19,467	33,206	39,010	35,079	39,387
Operating profit	2,384	4,040	4,491	4,519	4,349
Interest payable	(197)	(152)	(430)	(468)	(376)
Exceptional item	—	—	—	—	(160)
Profit on ordinary activities before taxation	2,187	3,888	4,061	4,051	3,813
Taxation	(624)	(1,142)	(1,046)	(1,035)	(1,018)
Profit on ordinary activities after taxation	1,563	2,746	3,015	3,016	2,795
Minority interests	(106)	(152)	(122)	(131)	(132)
Profit before extraordinary items	1,457	2,594	2,893	2,885	2,663
Extraordinary items	—	(419)	(4,503)	—	(296)
	1,457	2,175	(1,610)	2,885	2,367
Dividends	(444)	(1,119)	(1,119)	(1,169)	(1,189)
Retained	1,013	1,056	(2,729)	1,716	1,178
Earnings per share: Before exceptional item	14.0p	17.7p	17.9p	17.9p	17.4p
After exceptional item	14.0p	17.7p	17.9p	17.9p	16.2p

Earnings per share have been adjusted to reflect the bonus element of the share issue in 1989

Certain subsidiary undertakings have changed their accounting reference date from 30 November to 31 December. These summary consolidated profit and loss accounts for 1992 and 1991 include the results of these subsidiary undertakings for years ended 31 December, prior years' results are included for years ended 30 November. It is not practicable to re-state 1990 and prior years on a basis consistent with subsequent years but the directors are of the opinion that the trend shown by the five year summary is not significantly affected by the change in accounting reference dates

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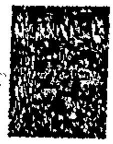






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