

Quarto Publishing plc

Directors' report and consolidated financial statements

Year ended 31 December 2005

Registered number 1252863

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Quarto Publishing plc

Directors' report and consolidated financial statements

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Quarto Publishing plc

Directors' report

The directors' present their annual report and the audited consolidated financial statements of Quarto Publishing Plc for the year ended 31 December 2005.

Principal activities

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 include magazine publishing and other publishing services which embrace production services and screen printing services.

Business review

The results of the Group are set out on page 6. The Group has been held back by a poor performance in the childrens' book publishing divisions and magazine publishing business. Outside of these, trading has been satisfactory and the directors expect this to continue.

Proposed dividend and transfer to reserves

The directors do not propose a dividend for the year (2004: £nil). The profit for the year retained in the Group is £422,000 (2004: £1,568,000).

Tangible fixed assets

Changes in fixed assets during the year are shown in note 10 to the financial statements.

Directors and directors' interests

The directors who held office during the year were as follows:

LF Orbach	(Chairman)
MJ Clinch	
RJ Morley	
MJ Mousley	

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

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company, or its subsidiaries.

The directors are not required to notify their interests in the shares and debentures of the ultimate holding company, The Quarto Group, Inc., because the ultimate holding company is incorporated outside Great Britain.

Quarto Publishing plc

Directors' report *(continued)*

Supplier payments policy

The Group and company agree 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. As at 31 December, 2005 creditor days amounted to 135 (2004: 117), for the Group and, 134 (2004: 116), for the Company.

Employees

Applications for employment of disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of staff becoming disabled, every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

The group places considerable value on the involvement of its employees and has continued its practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved through formal and informal meetings. Employees are consulted regularly on a wide range of matters affecting their current and future interests.

Auditors

The directors considered the appointment of auditors during 2006 and decided to appoint RSM Robson Rhodes LLP. Accordingly, KPMG Audit plc has indicated its intention to resign as auditor for the company. At the Annual General Meeting the Board will propose the appointment of RSM Robson Rhodes LLP as auditors to the company.

By order of the board



M.J Mousley
Director

The Old Brewery
6 Blundell Street
London
N7 9BH

27 April 2006

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and the parent company financial statements in accordance with UK Accounting Standards.

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company 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 judgments 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 and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a 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.

Quarto Publishing plc

Independent auditors' report to the members of Quarto Publishing plc

We have audited the group and parent company financial statements (the "financial statements") of Quarto Publishing plc for the year ended 31 December 2005 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors Report and consider the implications for our report if we become aware of any apparent misstatement within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

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

Quarto Publishing plc

Independent auditors' report to the members of Quarto Publishing plc
(continued)

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2005 and of the group's profit 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
8 Salisbury Square
London EC4Y 8BB

25 April 2006

Quarto Publishing plc

Consolidated profit and loss account

for the year ended 31 December 2005

	Notes	2005 £000	2004 £000
Continuing operations			
Revenue	2	35,960	36,360
Cost of sales		(24,223)	(24,130)
Gross profit		11,737	12,230
Distribution costs		(1,308)	(1,286)
Administrative expenses		(9,158)	(8,599)
Other operating income		107	58
Group operating profit		1,378	2,403
Interest receivable and other similar income	6	153	40
Interest payable and similar charges	7	(529)	(413)
Profit on ordinary activities before taxation	3-7	1,002	2,030
Tax on profit on ordinary activities	8	(229)	(186)
Profit on ordinary activities after taxation		773	1,844
Minority interests : equity		(351)	(276)
Retained profit for the financial year	18	422	1,568

All the Group's transactions during the years ended 31 December 2005 and 2004 related to continuing business activities.

There is no material difference between the results as disclosed in the profit and loss account and those results on a historical cost basis.

Quarto Publishing plc

Consolidated balance sheet

at 31 December 2005

		2005		2004	
	Notes	£000	£000	£000	£000
Fixed assets					
Intangible assets	9		2,488		2,578
Tangible assets	10		4,626		5,802
			<u>7,114</u>		<u>8,380</u>
Current assets					
Stocks	12	5,070		4,711	
Debtors	13	55,852		48,434	
Cash and cash receivables		6,283		5,373	
		<u>67,205</u>		<u>58,518</u>	
Creditors: amounts falling due within one year	14	(24,670)		(24,792)	
Net current assets			42,535		33,726
Total assets less current liabilities			<u>49,649</u>		<u>42,106</u>
Creditors: amounts falling due after more than one year	15		(44,287)		(36,257)
Provision for liabilities & charges	16		-		(5)
Net assets			<u>5,362</u>		<u>5,844</u>
Capital and reserves					
Called up share capital	17		100		100
Revaluation reserve	18		958		968
Profit and loss account	13		2,158		2,997
Equity shareholders' funds			<u>3,216</u>		<u>4,065</u>
Minority interests : equity	19		2,146		1,779
			<u>5,362</u>		<u>5,844</u>

These financial statements were approved by the board of directors on 23 April, 2006 and were signed on its behalf by:

MJ Mousley
Director



Quarto Publishing plc

Company balance sheet

at 31 December 2005

		2005		2004	
	Notes	£000	£000	£000	£000
Fixed assets					
Intangible assets	9		1,656		1,759
Tangible assets	10		4,223		4,944
Investments	11		8,395		2,498
			<u>14,274</u>		<u>9,201</u>
Current assets					
Stocks	12	2,857		3,142	
Debtors	13	50,176		45,403	
Cash at bank and in hand		-		4	
		<u>53,033</u>		<u>48,549</u>	
Creditors: amounts falling due within one year	14	<u>(25,346)</u>		<u>(24,239)</u>	
Net current assets			<u>27,687</u>		<u>24,310</u>
Total assets less current liabilities			<u>41,961</u>		<u>33,511</u>
Creditors: amounts falling due after more than one year	15		<u>(44,164)</u>		<u>(36,035)</u>
Provisions for liabilities and charges	16		<u>(45)</u>		<u>(48)</u>
Net liabilities			<u>(2,248)</u>		<u>(2,572)</u>
Capital and reserves					
Called up share capital	17		100		100
Revaluation reserve	18		958		968
Profit and loss account	18		(3,306)		(3,640)
Equity shareholders' deficit			<u>(2,248)</u>		<u>(2,572)</u>

These financial statements were approved by the board of directors on 28 April 2006 and were signed on its behalf by:

MJ Mousley
Director



Quarto Publishing plc

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2005

	2005	2004
	£000	£000
Profit for the financial year	422	1,568
Currency translation differences on foreign currency net investments	(1,271)	(548)
Total recognised gains and losses relating to the year	(849)	1,020

Reconciliation of movement in shareholders' funds/(deficit)

for the year ended 31 December 2005

	Group		Company	
	2005	2004	2005	2004
	£000	£000	£000	£000
Retained profit for the financial year	422	1,568	324	331
Other recognised gains and losses	(1,271)	(548)	-	-
Net movement in shareholders' funds	(849)	1,020	324	331
Opening shareholders' funds/(deficit)	4,065	3,045	(2,572)	(2,903)
Closing shareholders' funds/(deficit)	3,216	4,065	(2,248)	(2,572)

Quarto Publishing plc

Notes

(forming part of the financial statements)

1 Accounting policies

The financial statements consolidate those of the company and its subsidiaries (together referred to as the "Group").

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements. The company has adopted a number of new accounting standards in these financial statements. The adoption of these standards has had no material effect.

Financial Guarantee Contracts

The company has not adopted amendments to FRS 26 in relation to financial guarantee contracts which will apply for periods commencing on or after January 1, 2006.

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements, and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

The company does not expect the amendments to have any impact on the financial statements for the period commencing January 1, 2006.

Basis of preparation

The significant accounting policies that have been adopted in the financial statements, which are presented under the historical cost basis of accounting and the going concern assumption, as modified by the revaluation of freehold property, are as set out below and comply with applicable accounting standards.

Cash flow statement

As the company is a wholly owned subsidiary of The Quarto Group, Inc. in whose financial statements the company is included, the company has taken advantage of the exemption contained within FRS 1 (Revised) and not presented a cash flow statement.

Quarto Publishing plc

Notes (continued)

1 Accounting policies (continued)

Related party transactions

As the Company is a wholly owned subsidiary of The Quarto Group, Inc., the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed material transactions or balances with entities which form part of The Quarto Group, Inc. (where more than 90% of the voting rights are controlled within the Group). The consolidated financial statements of The Quarto Group, Inc., within which this company is included, can be obtained from the address given in Note 23. Other related party transactions are detailed in Note 21.

Basis of consolidation

The Group accounts consolidate the accounts of Quarto Publishing plc and all of its subsidiary undertakings, all of which have a 31 December year end. A subsidiary is an entity controlled, directly or indirectly, by the Group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The results of subsidiaries requiring to be acquisition accounted 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 fair value of the purchase consideration exceeds the values attributable to the Group's share of such net assets, the difference is treated as purchased goodwill and for accounting periods up to 31 December 1997 this was written off directly to reserves in the year of acquisition. Goodwill on acquisitions subsequent to 31 December 1997 is capitalised as an intangible fixed asset and written off to nil over its useful economic life, being 20 years for acquisition of businesses and 10 years for acquisitions of backlists. Reorganisation and integration costs resulting from the acquisition are charged to the profit and loss account, as they are incurred. 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.

Provision for any impairment in the value of intangible fixed assets is made in the profit and loss account.

In the Company's accounts, the investments in its subsidiaries are stated at the lower of cost and valuation.

In accordance with Section 230 of the Companies Act 1985, Quarto Publishing plc is exempt from the requirement to present its own profit and loss account. The result for the company for the year is disclosed in Note 18.

Notes *(continued)*

1 Accounting policies *(continued)*

Tangible fixed assets

As permitted by the transitional arrangements of FRS 15, the company has chosen to hold the cost of freehold properties at previous valuations, with effect from January 2000. Other fixed assets are held at cost less accumulated depreciation. Provision for any impairment in the value of tangible fixed assets is made in the profit and loss account.

Depreciation

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

Freehold buildings	-	2% straight line
Short leasehold property	-	over the period of the lease
Plant, equipment and vehicles	-	10% - 25% straight line
Fixtures and fittings	-	15% - 20% straight line

No depreciation is provided on freehold land. Provision for any impairment in the value of tangible fixed assets is made in the profit and loss account.

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 proportion of overheads, in respect of a book are charged to the profit and loss account on the first printing of a book.

Foreign currencies

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 in the profit and loss account.

Quarto Publishing plc

Notes (continued)

1 Accounting policies (continued)

Leases and hire purchase contracts

When assets are acquired under 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 over the useful economic life of the asset or, if shorter, over the lease term. 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 on a straight line basis.

Pension costs

Pension costs relate to contributions made to individual portable defined contribution pension plans and are charged to the profit and loss account as they fall due. The Quarto Publishing plc pension scheme is a personal defined contribution pension scheme. The assets of the scheme are held separately in independently administered funds.

Taxation

Tax on the profit or loss for the year comprises both current and deferred tax. Current tax is the expected tax payable on the taxable income for the year and any adjustments to tax payable in respect of previous years. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19. A deferred tax asset is recognised only to an extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Copyrights

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

Turnover

Turnover represents the amounts (excluding Value Added Tax) derived from the provision of goods and services to customers during the period. Revenues are recognised on despatch of goods and when the significant risks and rewards of ownership have been passed to the buyer.

Quarto Publishing plc

Notes (continued)

2 Segmental analysis

	2005 £000	2004 £000
<i>Geographical analysis of turnover by destination</i>		
United Kingdom	8,716	11,259
United States of America	14,762	13,636
Canada	857	843
Europe	8,363	7,642
Australia and Far East	2,832	2,788
Rest of the world	430	192
	<u>35,960</u>	<u>36,360</u>

Class of business

	Turnover		Profit before taxation		Net operating assets	
	2005 £000	2004 £000	2005 £000	2004 £000	2005 £000	2004 £000
<i>Analysis by class of business</i>						
Co-edition Publishing	29,203	28,672	2,276	2,190	11,933	8,093
Publishing	6,757	7,688	(257)	213	53	535
	<u>35,960</u>	<u>36,360</u>	<u>2,019</u>	<u>2,403</u>	<u>11,986</u>	<u>8,628</u>
Reorganisation costs			(641)	-		
Net interest payable			(376)	(373)		
Profit on ordinary activities before taxation			<u>1,002</u>	<u>2,030</u>		

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

Quarto Publishing plc

Notes (continued)

2 Segmental analysis (continued)

	Turnover		Operating profit		Net operating assets	
	2005	2004	2005	2004	2005	2004
	£000	£000	£000	£000	£000	£000
<i>Geographical analysis by area of origin</i>						
United Kingdom	25,349	26,404	170	1,303	10,779	7,088
Other	10,611	9,956	1,208	1,100	1,207	1,540
	<u>35,960</u>	<u>36,360</u>	<u>1,378</u>	<u>2,403</u>	<u>11,986</u>	<u>8,628</u>

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

	2005	2004
	£000	£000
Net operating assets as above	11,986	8,628
Interest bearing loans to group undertakings	32,928	29,499
Total bank loans and other borrowings	(46,008)	(37,716)
Cash at bank and in hand	6,283	5,373
Corporation tax and deferred tax	173	60
Net assets	<u>5,362</u>	<u>5,844</u>

Quarto Publishing plc

Notes (continued)

3 Profit on ordinary activities before taxation

	2005	2004
	£000	£000
<i>Profit on ordinary activities before taxation is stated after charging :</i>		
Auditor's remuneration :		
Audit	134	115
Other services	55	3
Depreciation	417	480
Amortisation of intangibles	147	117
Rentals payable under operating leases in respect of :		
Plant and machinery	64	90
Other	325	346
Loss on sale of tangible fixed assets	75	-
Reorganisation costs	641	-
Exchange losses	115	292
	<hr/>	<hr/>

Auditor's remuneration relating to the parent company only was £100,000 (2004: £86,000). This amount is included in the auditor's remuneration for the Group.

4 Directors' remuneration

Emoluments receivable by directors in respect of qualifying services were :

	2005	2004
	£000	£000
Remuneration	709	659
Contributions to defined contribution pension schemes	136	125
	<hr/>	<hr/>
	845	784
	<hr/>	<hr/>

The directors' remuneration disclosed above included the following amounts paid in respect of the highest paid director :

	2005	2004
	£000	£000
Remuneration	266	240
Contributions to defined contribution pension schemes	76	72
	<hr/>	<hr/>
	342	312
	<hr/>	<hr/>

Retirement benefits accrued to four directors under defined contribution pension schemes during the year (2004: four).

Quarto Publishing plc

Notes (continued)

5 Staff numbers and costs

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

	Number of employees	
	2005	2004
Publishing	171	192
Group administration	16	16
	<u>187</u>	<u>208</u>

The aggregate payroll costs of these persons were as follows:

	2005 £000	2004 £000
Wages and salaries	5,661	5,826
Social security costs	553	561
Pension costs	248	240
Compensation for loss of office	214	23
	<u>6,676</u>	<u>6,650</u>

6 Interest receivable and other similar income

	2005 £000	2004 £000
Interest receivable	<u>153</u>	<u>40</u>

Quarto Publishing plc

Notes (continued)

7 Interest payable and similar charges

	2005 £000	2004 £000
On bank loans, overdrafts and other loans wholly repayable within five years, not by instalments	460	345
Finance charges payable in respect of hire purchase contracts	2	5
On bank loans repayable after more than 5 years by instalments	67	63
	<u>529</u>	<u>413</u>

8 Taxation

	2005 £000	2004 £000
Overseas tax	203	197
Total current tax	<u>203</u>	<u>197</u>
Deferred tax (see note 16)	26	(11)
	<u>229</u>	<u>186</u>

The current tax charge for the year is lower (2004 : lower) than the standard rate of corporation tax in the UK (30%; 2004 : 30%). The differences are explained below :

Profit on ordinary activities before tax	1,002	2,030
Current tax at 30% (2004 : 30%)	301	609
Effects of :		
Utilisation of tax losses	-	(260)
Lower tax rates on overseas earnings	(187)	(149)
Other (including temporary and permanent timing differences)	89	(3)
Total current tax charge (see above)	<u>203</u>	<u>197</u>

Quarto Publishing plc

Notes (continued)

9	Intangible assets		
		Group Goodwill £000	Company Goodwill £000
	<i>Cost</i>		
	At beginning of the year	2,883	2,050
	Additions	57	-
	At end of year	<u>2,940</u>	<u>2,050</u>
	<i>Amortisation</i>		
	At beginning of the year	305	291
	Charged in the year	147	103
	At end of year	<u>452</u>	<u>394</u>
	<i>Net book value</i>		
	At 31 December 2005	<u>2,488</u>	<u>1,656</u>
	At 31 December 2004	<u>2,578</u>	<u>1,759</u>

The addition during the year represents the finalisation of provisional fair values of the net assets of Aurum Press Limited, following the acquisition in July, 2004.

Quarto Publishing plc

Notes (continued)

10 Tangible fixed assets

Group	Freehold property	Leasehold property	Plant, equipment and vehicles	Fixtures and fittings	Total
	£000	£000	£000	£000	£000
Cost/valuation					
At the beginning of year	4,627	868	1,943	368	7,806
Exchange differences	-	45	8	19	72
Additions	3	8	100	82	193
Disposals	(655)	(262)	(1,152)	(43)	(2,112)
At end of year	3,975	659	899	426	5,959
Depreciation					
At beginning of year	196	409	1,257	142	2,004
Exchange differences	-	17	4	11	32
Charge for year	55	79	211	72	417
On disposals	(39)	(262)	(788)	(31)	(1,120)
At end of year	212	243	684	194	1,333
Net book value					
At 31 December 2005	3,763	416	215	232	4,626
At 31 December 2004	4,431	459	686	226	5,802

Quarto Publishing plc

Notes (continued)

10 Tangible fixed assets (continued)

Company	Freehold Property	Leasehold property	Plant, equipment and vehicles	Fixtures and fittings	Total
	£000	£000	£000	£000	£000
<i>Cost/valuation</i>					
At the beginning of year	4,626	216	724	205	5,771
Additions	4	8	71	79	162
Disposals	(655)	-	-	-	(655)
At 31 December 2004	3,975	224	795	284	5,278
<i>Depreciation and diminution in value</i>					
At beginning of year	195	17	538	77	827
Charge for year	56	35	125	51	267
Disposals	(39)	-	-	-	(39)
At 31 December 2004	212	52	663	128	1,055
<i>Net book value</i>					
At 31 December 2005	3,763	172	132	156	4,223
At 31 December 2004	4,431	199	186	128	4,944

The net book value of plant, equipment and vehicles of the Group included £10,000 (2004: £50,000) (Company: £ nil (2004: £ nil)) in respect of assets held under hire purchase contracts. The depreciation charged on these assets during the year was £4,000 (2004: £17,000) (Company: £ nil (2004: £ nil)).

A freehold property, with a net book value of £1,669,000, is secured against a mortgage.

As stated in the accounting policy note on page 11, the directors have chosen to hold the cost of freehold properties at previous valuations with effect from January 2000. Freehold property in the UK with a historical cost of £382,000 was revalued on the basis of an open market value for existing use at December 31, 1989 by external and independent valuers (Conway Kersh, Professional Valuers). The valuation was £1.7 million but the directors ascribed a value of £1.4 million, on the grounds of prudence. The valuation was in accordance with RICS Statements of Asset Valuation Practice and Guidance Notes.

Quarto Publishing plc

Notes (continued)

10 Tangible fixed assets (continued)

The net book value of land and buildings comprises :

	Group		Company	
	2005	2004	2005	2004
	£000	£000	£000	£000
Freehold	3,763	4,431	3,763	4,431
Long leasehold	244	259	-	-
Short leasehold	172	200	172	199
	4,179	4,890	3,935	4,630

Quarto Publishing plc

Notes (continued)

11 Fixed asset investments

	Shares in group undertakings £000
Company	
Cost	
At beginning of year	2,840
Additions	5,897
At 31 December 2005	<u>8,737</u>
Provisions	
At beginning and end of year	<u>342</u>
Net book value	
At 31 December 2005	<u>8,395</u>
At 31 December 2004	<u>2,498</u>

The additions during the year relate to transfer of the investment in Design Eye Publishing Limited from the ultimate parent company. The company is dormant but it now trades as a division of Quarto Publishing plc.

The Company has the following principal trading subsidiaries, all of which operate principally in their country of incorporation.

Name	Country of incorporation	Issued and fully paid share capital	Percentage held	Business
Quarto Magazines Limited	England	1,000 shares of £1 each	100	Publishing
Regent Publishing Services Limited	Hong Kong	1,000 shares of HK\$10 each	75	Co-edition Publishing
Apple Press Limited	England	100 shares of £1 each	100	Publishing
Aurum Press Limited	England	382,502 shares of £1 each	80	Publishing

All of the above are directly held by Quarto Publishing plc and are included in the consolidation of the Group.

Quarto Publishing plc

Notes (continued)

12 Stocks

	Group		Company	
	2005	2004	2005	2004
	£000	£000	£000	£000
Raw materials and consumables	636	244	86	72
Finished goods	1,333	1,244	270	306
Work in progress	3,340	3,480	2,740	3,021
Less: Payments on account	(239)	(257)	(239)	(257)
	<u>5,070</u>	<u>4,711</u>	<u>2,857</u>	<u>3,142</u>

13 Debtors

	Group		Company	
	2005	2004	2005	2004
	£000	£000	£000	£000
Trade debtors	13,034	12,325	8,263	6,628
Amounts owed by group undertakings	41,576	34,899	41,253	38,332
Other debtors	644	516	220	41
Deferred tax asset (note 16)	21	-	-	-
Corporation tax recoverable	152	138	152	154
Prepayments and accrued income	425	556	288	248
	<u>55,852</u>	<u>48,434</u>	<u>50,176</u>	<u>45,403</u>

	Group		Company	
	2005	2004	2005	2004
	£000	£000	£000	£000

The amounts owed by group undertakings comprise:

Parent and fellow subsidiary undertakings	41,576	34,899	37,673	34,888
Subsidiary undertakings	-	-	3,580	3,444
	<u>41,576</u>	<u>34,899</u>	<u>41,253</u>	<u>38,332</u>

Notes (continued)

14	Creditors: amounts falling due within one year	Group	Company	
	2005 £000	2004 £000	2005 £000	2004 £000
Bank overdrafts	1,695	1,521	2,398	2,509
Current loan instalments	134	134	134	134
Obligations under finance leases and hire purchase contracts	7	15	-	-
Total borrowings due within one year	1,836	1,670	2,532	2,643
Trade creditors	12,849	12,563	9,067	7,896
Amounts owed to group undertakings	8,690	8,732	13,277	12,896
Other creditors including taxation and social security:				
Overseas taxation	-	73	-	-
Other taxes and social security	59	240	17	104
Other creditors	626	776	180	353
Accruals and deferred income	610	738	273	347
	24,670	24,792	25,346	24,239

Parent and fellow subsidiary undertakings	8,690	8,732	8,374	8,360
Subsidiary undertakings	-	-	4,903	4,536
	<u>8,690</u>	<u>8,732</u>	<u>13,277</u>	<u>12,896</u>

Quarto Publishing plc

Notes (continued)

15 Creditors: amounts falling due after more than one year

	Group		Company	
	2005	2004	2005	2004
	£000	£000	£000	£000
Bank loans	44,164	36,035	44,164	36,035
Obligations under finance leases and hire purchase contracts	8	13	-	-
Other creditors	115	209	-	-
	<u>44,287</u>	<u>36,257</u>	<u>44,164</u>	<u>36,035</u>

Total borrowings are repayable as follows:

	Group		Company	
	2005	2004	2005	2004
	£000	£000	£000	£000
In one year or less, or on demand	1,836	1,670	2,532	2,643
Between one and two years	142	142	134	134
Between two and five years	43,762	35,367	43,762	35,364
In five years or more	268	539	268	537
	<u>46,008</u>	<u>37,718</u>	<u>46,696</u>	<u>38,678</u>

All loans and bank overdrafts attract interest at commercial rates, ranging from 1.3% to 8.5%. Bank loans include £1,074,000 (2004 : £1,208,000) which is secured on a freehold property. All other bank loans are unsecured.

The maturity of obligations under finance leases and hire purchase contracts is as follows :

	Group		Company	
	2005	2004	2005	2004
	£000	£000	£000	£000
Within one year	8	18	-	-
In the second to fifth years	9	14	-	-
Over five years	-	-	-	-
	<u>17</u>	<u>32</u>	<u>-</u>	<u>-</u>
Less future finance charges	(2)	(4)	-	-
	<u>15</u>	<u>28</u>	<u>-</u>	<u>-</u>

Quarto Publishing plc

Notes (continued)

16 Provisions for liabilities and charges

	Deferred taxation	
	Group	Company
	£000	£000
At beginning of year	5	48
Credit for period in the profit and loss account	(26)	(3)
(Asset)/Liability at end of year	<u>(21)</u>	<u>45</u>

The elements of deferred taxation are as follows :

	2005	2004
	£000	£000
Group		
Difference between accumulated depreciation and amortisation and capital allowances	36	48
Other timing differences	(57)	(43)
	<u>(21)</u>	<u>5</u>
Deferred tax (asset) (see note 16)	(21)	-
Deferred tax liability	-	5
	<u>(21)</u>	<u>5</u>
Company		
Difference between accumulated depreciation and amortisation and capital allowances	45	48

17 Share capital

	2005	2004
	£000	£000
<i>Authorised, allotted, called up and fully paid</i>		
100,000 ordinary shares £1 each	<u>100</u>	<u>100</u>

Quarto Publishing plc

Notes (continued)

18 Reserves

Group

	Revaluation Reserve	Profit And Loss Account
	£000	£000
At beginning of the year	968	2,997
Retained profit for year	-	422
Difference on translation of net assets and profit and loss accounts of non-UK companies	-	(1,271)
Transfers	(10)	10
At the end of the year	<u>958</u>	<u>2,158</u>
Analysed as follows :		
Profit and loss account		3,673
Goodwill		(1,515)
At the end of the year		<u>2,158</u>

Company

	Revaluation Reserve	Profit And Loss Account
	£000	£000
At beginning of the year	968	(3,640)
Retained profit for year	-	324
Transfers	(10)	10
At the end of the year	<u>958</u>	<u>(3,306)</u>

Quarto Publishing plc

Notes (continued)

19 Minority interests : equity

Group

	2005 £000	2004 £000
At beginning of the year	1,779	1,562
Retained profit for year	351	275
Subsidiaries acquired	-	40
Dividends	(127)	(98)
Exchange differences	143	-
At the end of the year	<u>2,146</u>	<u>1,779</u>

20 Financial Commitments

Annual commitments under non-cancellable operating leases are as follows:

	2005		2004	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Group				
Operating leases which expire:				
Within one year	-	24	-	68
In the second to fifth years inclusive	196	27	240	7
	<u>196</u>	<u>51</u>	<u>240</u>	<u>75</u>
Company				
Operating leases which expire:				
Within one year	-	22	-	68
In the second to fifth years inclusive	105	26	98	-
	<u>105</u>	<u>48</u>	<u>98</u>	<u>68</u>

There were no capital commitments at the year end (2004: £nil).

Quarto Publishing plc

Notes (continued)

21 Related party transactions

During the year RJ Morley maintained a current account with the group. The debit balance on the account was less than £5,000 throughout the year. The balance at the end of the year was £1,700. During the year L.F. Orbach loaned money to the group and has earned an arm's length return of 4%. The total amount of interest earned in the year was £3,000 (2004 : £4,000). The balance outstanding at the beginning of the year was £94,000 and the balance at the end of the year was £147,000. which was also the highest amount outstanding

During the year, the Group made sales totalling £316,000 (2004: £227,000) to Book Sales Inc., a fellow subsidiary of The Quarto Group, Inc. At the year end, Book Sales Inc. owed £209,000 (2004: £305,000) to the Group.

22 Contingent liabilities

The company is party to a group bank syndicated facility. Unlimited guarantees are given in favour of other companies in the group headed by The Quarto Group, Inc.

23 Ultimate parent company and parent undertaking of larger group

The company is a subsidiary undertaking of The Quarto Group, Inc. which is the ultimate parent company incorporated in the United States of America.

The largest group in which the results of the company are consolidated is that headed by The Quarto Group, Inc.

The consolidated accounts of The Quarto Group, Inc. are available to the public and may be obtained from:

The Old Brewery
6 Blundell Street
London
N7 9BH