

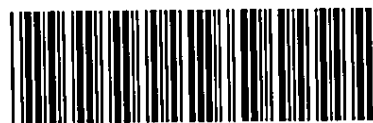
Quarto Publishing plc

**Directors' report and consolidated financial
statements**

Year ended 31 December 2007

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 2007

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.

Business review and key performance indicators

The board uses a range of performance measures to monitor and manage the business. Certain of these measures are important in measuring our progress in creating shareholder value and are considered key performance indicators (KPIs). The KPIs measure past performance and also provide information to allow us to manage the business into the future and comprise sales and operating profit by business segment, operating margins and interest cover. KPIs for 2007, together with comparatives, are set out in the table below.

		2007 £000	2006 £000
Sales	Co-edition Publishing	31,494	31,196
	Publishing	4,362	5,361
		<u>35,856</u>	<u>36,557</u>
Operating profit	Co-edition Publishing	2,633	2,669
	Publishing	451	253
		<u>3,084</u>	<u>2,922</u>
Operating margins	Co-edition Publishing	8.4%	8.6%
	Publishing	<u>10.3%</u>	<u>4.7%</u>
Interest cover		<u>4.31x</u>	<u>4.85x</u>

Co-edition Publishing sales were flat, with a strong performance from Regent Publishing Services being offset by the impact of a weaker US dollar. Publishing sales were down 19% following the discontinuance of operations at our subsidiary, Quarto Magazines. The improvement in the operating margins for the Publishing segment reflects this event.

Interest cover has reduced from 4.85 times to 4.31 times, reflecting increased interest rates.

Quarto Publishing plc

Directors' report (*continued*)

The full results of the Group are set out on page 8. Trading was generally satisfactory in 2007 and the directors expect this to continue, subject to the principal risks and uncertainties facing the Group, as set out below.

Principal risks and uncertainties facing the Group

The Group's borrowings, liquidity, interest rate and foreign exchange exposures are managed through the parent company. The following policies have been applied during the year to manage the financial risks faced by the Group with regard to funding and liquidity, interest rate exposure and currency rate exposures.

- **Liquidity risk** – the Group prepares an annual cash flow forecast which is reviewed by the Board covering the next 12 months. This forecast is reviewed in the light of the facilities available to the Group to ensure that we have adequate liquidity. The Directors, having made enquiries, consider that the Group will have adequate resources for the foreseeable future.
- **Interest rate risk** – in order to protect the Group from increases in US\$ interest rates, while still allowing it to take advantage of lower potential interest payments from a fall in rates, the Group enters into interest rate swaps. The overall objective is to fix the interest rates on approximately 50% of our borrowings.
- **Currency rate exposure** – the Group's principal operating currency is the US\$, with a substantial proportion of our sales and expenditure being denominated in US\$. We try to match our annual US dollar receipts and payments in order to mitigate the impact that exchange rate fluctuations, with regards to the US dollar, have on our results. The average exchange rate for the US dollar in 2007 was US\$2.00 (2006 : US\$1.84). Our overseas subsidiary, Regent Publishing Services Limited, operates in Hong Kong, and the average exchange rate used in translating their results was HK\$ 15.61 (2006 : HK\$ 14.32).

The Group has credit risk in the normal course of business but it is not over-reliant on any one customer. There is no significant exposure to price risk.

Proposed dividend and transfer to reserves

The directors do not propose a dividend for the year (2006 : *£nil*). The profit for the year retained in the Group is £1,548,000 (2006 : £1,447,000).

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.

Quarto Publishing plc

Directors' report *(continued)*

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

Going concern basis

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements

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, 2007 creditor days amounted to 127 (2006 125), for the Group and, 129 (2006 130), 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

Charitable and political donations

There have been no charitable or political donations during the year

Directors' statement

At the date of making this report, each of the company's directors as set out on page 2, confirm the following

- a) So far as each director is aware, there is no relevant information needed by the company's auditors in connection with preparing their report of which the company's auditors are unaware, and
- b) Each director has taken all the steps that he/she ought to have taken as a director in order to make himself aware of any relevant information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information

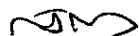
Quarto Publishing plc

Directors' report *(continued)*

Auditors

At the Annual General Meeting the Board will propose the reappointment of Grant Thornton UK LLP as auditors to the company

By order of the board



MJ Mousley
Director

The Old Brewery
6 Blundell Street
London
N7 9BH

22 April 2008

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 (United Kingdom Generally Accepted Accounting Practice).

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, and
- 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.

Independent auditors' report to the members of Quarto Publishing plc

We have audited the group and parent company financial statements (the "financial statements") on pages 8 to 32. 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 5.

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 whether, in our opinion, the information given in the Directors' Report is 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 2007 and of the group's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Grant Thornton UK LLP

Grant Thornton UK LLP

Chartered Accountants

Registered Auditor

22 April 2008

Grant Thornton House

Melton Street

London NW1 2EP

Quarto Publishing plc

Consolidated profit and loss account

for the year ended 31 December 2007

	Notes	2007 £000	2006 £000
Revenue	2	35,856	36,557
Cost of sales		(23,216)	(23,792)
Gross profit		12,640	12,765
Distribution costs		(1,461)	(1,362)
Administrative expenses		(8,300)	(8,614)
Other operating income		205	133
Group operating profit		3,084	2,922
Interest receivable and other similar income	6	367	259
Interest payable and similar charges	7	(1,083)	(861)
Profit on ordinary activities before taxation	3	2,368	2,320
Tax on profit on ordinary activities	8	(461)	(429)
Profit on ordinary activities after taxation	19	1,907	1,891
Minority interests equity		(359)	(444)
Retained profit for the financial year	18	1,548	1,447

The above table includes revenue of £83,000 (2006 £852,000) and operating profit of £108,000 (2006 operating loss of £340,000) which relate to discontinued 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 2007

		2007		2006	
	Notes	£000	£000	£000	£000
Fixed assets					
Intangible assets	9		2,226		2,375
Tangible assets	10		4,203		4,326
			<u>6,429</u>		<u>6,701</u>
Current assets					
Stocks	12	6,039		5,391	
Debtors	13	69,880		52,113	
Cash and cash receivables		8,496		7,546	
		<u>84,415</u>		<u>65,050</u>	
Creditors: amounts falling due within one year	14	<u>(24,682)</u>		<u>(39,473)</u>	
Net current assets			<u>59,733</u>		<u>25,577</u>
Total assets less current liabilities			<u>66,162</u>		<u>32,278</u>
Creditors: amounts falling due after more than one year	15		(58,869)		(26,339)
Provisions for liabilities and charges	16		(5)		-
Net assets			<u>7,288</u>		<u>5,939</u>
Capital and reserves					
Called up share capital	17		100		100
Revaluation reserve	18		938		948
Profit and loss account	18		4,031		2,691
Equity shareholders' funds			<u>5,069</u>		<u>3,739</u>
Minority interests - equity	19		2,219		2,200
Capital employed			<u>7,288</u>		<u>5,939</u>

These financial statements were approved by the board of directors on 22 April, 2008 and were signed on its behalf by



MJ Mousley
Director

Quarto Publishing plc

Company balance sheet

at 31 December 2007

		2007		2006	
	Notes	£000	£000	£000	£000
Fixed assets					
Intangible assets	9		1,451		1,553
Tangible assets	10		4,075		4,183
Investments	11		4,688		4,498
			<u>10,214</u>		<u>10,234</u>
Current assets					
Stocks	12	3,783		3,003	
Debtors	13	63,043		45,997	
Cash at bank and in hand		6		462	
		<u>66,832</u>		<u>49,462</u>	
Creditors: amounts falling due within one year	14	(23,923)		(39,000)	
		<u></u>		<u></u>	
Net current assets			42,909		10,462
Total assets less current liabilities			<u>53,123</u>		<u>20,696</u>
Creditors: amounts falling due after more than one year	15		(58,839)		(26,316)
Provisions for liabilities and charges	16		(60)		(58)
Net liabilities			<u>(5,776)</u>		<u>(5,678)</u>
Capital and reserves					
Called up share capital	17		100		100
Revaluation reserve	18		938		948
Profit and loss account	18		(6,814)		(6,726)
Equity shareholders' deficit			<u>(5,776)</u>		<u>(5,678)</u>

These financial statements were approved by the board of directors on 20 April 2008 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 2007*

	2007	2006
	£000	£000
Profit for the financial year	1,548	1,447
Currency translation differences on foreign currency net investments	(218)	(924)
	<hr/>	<hr/>
Total recognised gains and losses relating to the year	1,330	523
	<hr/>	<hr/>

Reconciliation of movement in shareholders' funds/(deficit) *for the year ended 31 December 2007*

	Group		Company	
	2007	2006	2007	2006
	£000	£000	£000	£000
Retained profit/(loss) for the financial year	1,548	1,447	(98)	(3,430)
Other recognised gains and losses	(218)	(924)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net movement in shareholders' funds	1,330	523	(98)	(3,430)
Opening shareholders' funds/(deficit)	3,739	3,216	(5,678)	(2,248)
Closing shareholders' funds/(deficit)	5,069	3,739	(5,776)	(5,678)
	<hr/>	<hr/>	<hr/>	<hr/>

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

Financial Guarantee Contracts

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.

Basis of preparation and going concern

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 UK accounting standards. The financial statements for the company have been prepared on a going concern basis as the parent company, The Quarto Group, Inc. has indicated that it intends to provide such funds as are necessary for the company to trade for the foreseeable future.

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, under the acquisition method, 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. 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.

Quarto Publishing plc

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 subsidiaries 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

	2007 £000	2006 £000
<i>Geographical analysis of turnover by destination</i>		
United Kingdom	7,687	8,309
United States of America	16,040	15,557
Canada	534	213
Europe	8,527	9,499
Australia and Far East	2,423	2,384
Rest of the world	645	595
	<u>35,856</u>	<u>36,557</u>

Class of business

	Turnover		Profit before taxation		Net operating assets	
	2007 £000	2006 £000	2007 £000	2006 £000	2007 £000	2006 £000
<i>Analysis by class of business</i>						
Co-edition Publishing	31,494	31,196	2,633	2,669	13,120	12,528
Publishing	4,362	5,361	451	253	1,043	650
	<u>35,856</u>	<u>36,557</u>	<u>3,084</u>	<u>2,922</u>	<u>14,163</u>	<u>13,178</u>
Net interest payable			(716)	(602)		
Profit on ordinary activities before taxation			<u>2,368</u>	<u>2,320</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	
	2007	2006	2007	2006	2007	2006
	£000	£000	£000	£000	£000	£000
<i>Geographical analysis by area of origin</i>						
United Kingdom	23,074	25,075	1,805	1,534	13,763	11,984
Rest of the World	12,782	11,482	1,279	1,388	400	1,194
	<u>35,856</u>	<u>36,557</u>	<u>3,084</u>	<u>2,922</u>	<u>14,163</u>	<u>13,178</u>

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

	2007	2006
	£000	£000
Net operating assets as above	14,163	13,178
Interest bearing loans to group undertakings	45,352	28,896
Total bank loans and other borrowings	(60,438)	(43,650)
Cash at bank and in hand	8,496	7,546
Corporation tax and deferred tax	(285)	(31)
Net assets	<u>7,288</u>	<u>5,939</u>

Quarto Publishing plc

Notes (continued)

3	Profit on ordinary activities before taxation	2007	2006
		£000	£000
	<i>Profit on ordinary activities before taxation is stated after charging</i>		
	Depreciation	286	274
	Auditors' remuneration (see below)	70	37
	Amortisation of intangibles	149	158
	Rentals payable under operating leases in respect of		
	Plant and machinery	26	22
	Other	242	282
	Loss on sale of tangible fixed assets	-	10
	Exchange losses	56	243
		<hr/>	<hr/>
	Auditors' remuneration		
	Fees payable to the company's auditor for the audit of the company's annual accounts	22	19
	Fees payable to the company's auditor and its associates for other services		
	The audit of the company's subsidiaries	5	18
		<hr/>	<hr/>
		27	37
		<hr/>	<hr/>

Quarto Publishing plc

Notes (continued)

4 Directors' remuneration

Emoluments receivable by directors in respect of qualifying services were

	2007 £000	2006 £000
Remuneration	739	726
Contributions to defined contribution pension schemes	61	90
	<u>800</u>	<u>816</u>

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

Remuneration	270	271
Contributions to defined contribution pension schemes	-	27
	<u>270</u>	<u>298</u>

Retirement benefits accrued to three directors under defined contribution pension schemes during the year (2006 four)

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	
	2007	2006
Publishing	156	144
Group administration	16	16
	<u>172</u>	<u>160</u>

The aggregate payroll costs of these persons were as follows

	2007 £000	2006 £000
Wages and salaries	5,573	4,969
Social security costs	550	471
Pension costs	170	192
Compensation for loss of office	40	7
	<u>6,333</u>	<u>5,639</u>

Quarto Publishing plc

Notes (continued)

6	Interest receivable and other similar income	2007	2006
		£000	£000
	Interest receivable	367	259
		<u> </u>	<u> </u>
7	Interest payable and similar charges	2007	2006
		£000	£000
	On bank loans, overdrafts and other loans wholly repayable within five years, not by instalments	1,025	802
	Finance charges payable in respect of hire purchase contracts	-	1
	On bank loans repayable after more than 5 years by instalments	58	58
		<u>1,083</u>	<u>861</u>
		<u> </u>	<u> </u>
8	Taxation	2007	2006
		£000	£000
	Overseas tax	214	237
	UK tax	231	182
		<u>445</u>	<u>419</u>
	Total current tax	445	419
	Deferred tax (see note 16)	16	10
		<u>461</u>	<u>429</u>
		<u> </u>	<u> </u>

The current tax charge for the year is lower (2006 – lower) than the standard rate of corporation tax in the UK (30%, 2006 – 30%). The differences are explained below

Profit on ordinary activities before tax	2,368	2,320
	<u> </u>	<u> </u>
Current tax at 30% (2006 – 30%)	710	696
Effects of		
Lower tax rates on overseas earnings	(266)	(258)
Other (including temporary and permanent timing differences)	1	(19)
	<u>445</u>	<u>419</u>
Total current tax charge (see above)	445	419
	<u> </u>	<u> </u>

Quarto Publishing plc

Notes (continued)

9	Intangible assets		
		Group Goodwill £000	Company Goodwill £000
	<i>Cost</i>		
	At beginning and end of year	2,985	2,050
		<hr/>	<hr/>
	<i>Amortisation</i>		
	At beginning of the year	610	497
	Charged in the year	149	102
		<hr/>	<hr/>
	At end of year	759	599
		<hr/>	<hr/>
	<i>Net book value</i>		
	<i>At 31 December 2007</i>	2,226	1,451
		<hr/>	<hr/>
	At 31 December 2006	2,375	1,553
		<hr/>	<hr/>

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	3,975	261	743	366	5,345
Exchange differences	-	(1)	(2)	(2)	(5)
Additions	-	3	121	46	170
Disposals	-	(5)	(5)	(8)	(18)
At end of year	<u>3,975</u>	<u>258</u>	<u>857</u>	<u>402</u>	<u>5,492</u>
Depreciation					
At beginning of year	260	109	451	199	1,019
Exchange differences	-	-	(1)	(2)	(3)
Charge for year	48	42	139	57	286
On disposals	-	(5)	(1)	(7)	(13)
At end of year	<u>308</u>	<u>146</u>	<u>588</u>	<u>247</u>	<u>1,289</u>
Net book value					
At 31 December 2007	<u>3,667</u>	<u>112</u>	<u>269</u>	<u>155</u>	<u>4,203</u>
At 31 December 2006	<u>3,715</u>	<u>152</u>	<u>292</u>	<u>167</u>	<u>4,326</u>

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
Cost/valuation					
At the beginning of year	3,975	224	659	267	5,125
Additions	-	-	100	27	127
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2007	3,975	224	759	294	5,252
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation and diminution in value					
At beginning of year	260	88	432	162	942
Charge for year	48	36	110	41	235
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2007	308	124	542	203	1,177
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
At 31 December 2007	3,667	100	217	91	4,075
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2006	3,715	136	227	105	4,183
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The net book value of plant, equipment and vehicles of the Group included £3,000 (2006 £21,000) (Company £ nil (2006 £ nil)) in respect of assets held under hire purchase contracts. The depreciation charged on these assets during the year was £3,000 (2006 £7,000) (Company £ nil (2006 £ nil)).

A freehold property, with a net book value of £2,040,000, is secured against a mortgage.

As stated in the accounting policy note on page 14, 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	
	2007	2006	2007	2006
	£000	£000	£000	£000
Freehold	3,667	3,715	3,667	3,715
Long leasehold	-	-	-	-
Short leasehold	112	152	100	136
	<u>3,779</u>	<u>3,867</u>	<u>3,767</u>	<u>3,851</u>

Quarto Publishing plc

Notes (continued)

11 Fixed asset investments

	Shares in group undertakings £000
Company	
<i>Cost</i>	
At the beginning of year	8,737
Additions	190
At end of year	<u>8,927</u>
<i>Provisions</i>	
At beginning and end of year	<u>4 239</u>
<i>Net book value</i>	
At 31 December 2007	<u>4,688</u>
At 31 December 2006	<u>4,498</u>

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	Great Britain	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	Great Britain	100 shares of £1 each	100	Publishing
Aurum Press Limited	Great Britain	382,502 shares of £1 each	90	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	
	2007	2006	2007	2006
	£000	£000	£000	£000
Raw materials and consumables	220	472	-	8
Finished goods	1,647	1,434	315	282
Work in progress	4,699	3,731	3,995	2,959
Less Payments on account	(527)	(246)	(527)	(246)
	<u>6,039</u>	<u>5,391</u>	<u>3,783</u>	<u>3,003</u>

13 Debtors

	Group		Company	
	2007	2006	2007	2006
	£000	£000	£000	£000
Trade debtors	13,352	12,848	8,189	7,731
Amounts owed by group undertakings	55,313	38,604	54,559	37,931
Other debtors	727	350	134	24
Deferred tax asset (note 16)	-	11	-	-
Corporation tax recoverable	-	-	-	131
Prepayments and accrued income	488	300	161	180
	<u>69,880</u>	<u>52,113</u>	<u>63,043</u>	<u>45,997</u>

	Group		Company	
	2007	2006	2007	2006
	£000	£000	£000	£000

The amounts owed by group undertakings comprise

Parent and fellow subsidiary undertakings	55,313	38,604	51,322	34,571
Subsidiary undertakings	-	-	3,505	3,360
	<u>55,313</u>	<u>38,604</u>	<u>54,827</u>	<u>37,931</u>

Quarto Publishing plc

Notes (continued)

14 Creditors: amounts falling due within one year

	Group		Company	
	2007	2006	2007	2006
	£000	£000	£000	£000
Bank overdrafts	1,462	1,703	1,464	1,703
Current loan instalments	134	15,623	134	15,623
Obligations under finance leases and hire purchase contracts	2	6	-	-
Total borrowings due within one year	1,598	17,332	1,598	17,326
Trade creditors	14,018	11,828	9,218	7,890
Amounts owed to group undertakings	7,442	8,539	12,579	13,124
Other creditors including taxation and social security				
Corporation taxation	280	42	23	-
Other taxes and social security	56	116	6	29
Other creditors	398	704	69	184
Accruals and deferred income	890	912	430	447
	24,682	39,473	23,923	39,000

	Group		Company	
	2007	2006	2007	2006
	£000	£000	£000	£000
<i>The amounts owed to group undertakings comprise</i>				
Parent and fellow subsidiary undertakings	7,442	8,539	7,128	8,253
Subsidiary undertakings	-	-	5,451	4,871
	7,442	8,539	12,579	13,124

Quarto Publishing plc

Notes *(continued)*

15 Creditors: amounts falling due after more than one year

	Group		Company	
	2007	2006	2007	2006
	£000	£000	£000	£000
Bank loans	58,839	26,316	58,839	26,316
Obligations under finance leases and hire purchase contracts	-	2	-	-
Other creditors	30	21	-	-
	<u>58,869</u>	<u>26,339</u>	<u>58,839</u>	<u>26,316</u>

Total borrowings are repayable as follows

	Group		Company	
	2007	2006	2007	2006
	£000	£000	£000	£000
In one year or less, or on demand	1,598	17,332	1,598	17,326
Between one and two years	134	137	134	135
Between two and five years	41,837	402	41,837	402
In five years or more	16,869	25,779	16,869	25,779
	<u>60,438</u>	<u>43,650</u>	<u>60,438</u>	<u>43,642</u>

All loans and bank overdrafts attract interest at commercial rates, ranging from 2.0% to 9.7%. Bank loans include £806,000 (2006: £940,000) 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	
	2007	2006
	£000	£000
Within one year	2	9
In the second to fifth years	-	2
	<u>2</u>	<u>9</u>
Less future finance charges	-	(1)
	<u>2</u>	<u>8</u>

Quarto Publishing plc

Notes (continued)

16 Deferred taxation

	Deferred taxation	
	Group	Company
	£000	£000
At beginning of year	(11)	58
Charge for period in the profit and loss account	16	2
	<u>5</u>	<u>60</u>
Liability at end of year	<u>5</u>	<u>60</u>

The elements of deferred taxation are as follows

	2007	2006
	£000	£000
Group		
Difference between accumulated depreciation and amortisation and capital allowances	44	43
Other timing differences	(39)	(54)
	<u>5</u>	<u>(11)</u>
Company		
Difference between accumulated depreciation and amortisation and capital allowances	60	58
	<u>60</u>	<u>58</u>

17 Share capital

	2007	2006
	£000	£000
<i>Authorised, allotted, called up and fully paid</i>		
100,000 ordinary shares £1 each	100	100
	<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	948	2,691
Retained profit for year	-	1,548
Difference on translation of net assets and profit and loss accounts of non-UK companies	-	(218)
Transfers	(10)	10
At the end of the year	<u>938</u>	<u>4,031</u>
Analysed as follows		
Profit and loss account		5,546
Goodwill written off to reserves		(1,515)
At the end of the year		<u>4,031</u>

Company

	Revaluation Reserve	Profit And Loss Account
	£000	£000
At beginning of the year	948	(6,726)
Retained loss for year	-	(98)
Transfers	(10)	10
At the end of the year	<u>938</u>	<u>(6,814)</u>

Quarto Publishing plc

Notes (continued)

19 Minority interests : equity

Group	2007 £000	2006 £000
At beginning of the year	2,200	2,146
Retained profit for year	359	444
Dividends	(165)	(131)
Exchange differences	(175)	(259)
At the end of the year	<u>2,219</u>	<u>2,200</u>

20 Financial Commitments

Annual commitments under non-cancellable operating leases are as follows

	Land and buildings £000	2007 Other £000	Land and buildings £000	2006 Other £000
Group				
Operating leases which expire				
Within one year	-	-	44	2
In the second to fifth years inclusive	318	27	232	16
	<u>318</u>	<u>27</u>	<u>276</u>	<u>18</u>
Company				
Operating leases which expire				
Within one year	-	-	-	-
In the second to fifth years inclusive	185	24	185	16
	<u>185</u>	<u>24</u>	<u>185</u>	<u>16</u>

There were no capital commitments at the year end (2006 £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 £nil (2006 £300). During the current and preceding year L F Orbach loaned money to the group and has earned an arm's length return of 5.0%. The total amount of interest earned in the year was £3,000 (2006 £3,000). The balance outstanding at the beginning of the year was £136,000, and the balance at the end of the year, which was also the highest amount outstanding, was £158,000.

During the year, the Group made sales totalling £662,000 (2006 £424,000) to Book Sales Inc, a fellow subsidiary of The Quarto Group, Inc. At the year end, Book Sales Inc owed £245,000 (2006 £223,000) 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