Quarto Publishing plc

Directors' report and consolidated financial statements
Year ended 31 December 2008

Registered number 1252863

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 2008.

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 2008, together with comparatives, are set out in the table below :

		2008 £000	2007 £000
Sales :	Co-edition Publishing	35,846	31,494
	Publishing	4,559	4,362
		40,405	35,856
Operating profit :	Co-edition Publishing	3,757	3,816
	Publishing	457	371
	Head Office expenses	(1,938)	(1,103)
		2,276	3,084
Operating margins :	Co-edition Publishing	10.5%	12.1%
	Publishing	10.0%	8.5%
Interest cover		4.71x	4.31x

Co-edition Publishing sales increased by 13.8%, reflecting growth in foreign markets and the impact of relatively stronger foreign currencies. Publishing sales also grew, up 4.5% on the prior year.

While the margin of Co-edition Publishing declined due to a downturn at Regent Publishing Services, the Publishing operating margin continues to improve.

Head Office expenses increased significantly due to adverse exchange rate movements. However, Group interest cover has improved from 4.31 times to 4.71 times.

Directors' report *(continued)*

The full results of the Group are set out on page 8. Trading was generally satisfactory in 2008 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 2008 was US$1.86 *(2007: US$2.00)*. Our overseas subsidiary, Regent Publishing Services Limited, operates in Hong Kong, and the average exchange rate used in translating their results was HK$14.44 *(2007: HK$15.61)*.

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 *(2007: £nil)*. The profit for the year retained in the Group is £894,000 *(2007: £1,548,000)*.

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.

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 2008 creditor days amounted to 136 (*2007: 127*) for the Group and 141 (*2007: 129*) 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.

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.

On behalf of the board

MJ Mousley
Director

The Old Brewery
6 Blundell Street
London
N7 9BH

31 March 2009

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;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; 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 30. 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.

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 2008 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
Chartered Accountants
Registered Auditor

31 March 2009

Grant Thornton House
Melton Street
London NW1 2EP

Consolidated profit and loss account

for the year ended 31 December 2008

	Notes	2008	2007
		£000	£000
Revenue	2	**40,405**	35,856
Cost of sales		**(27,809)**	(24,030)
Gross profit		**12,596**	11,826
Distribution costs		**(599)**	(647)
Administrative expenses		**(9,856)**	(8,300)
Other operating income		**135**	205
Group operating profit		**2,276**	3,084
Interest receivable and other similar income	6	**373**	367
Interest payable and similar charges	7	**(856)**	(1,083)
Profit on ordinary activities before taxation	3	**1,793**	2,368
Tax on profit on ordinary activities	8	**(680)**	(461)
Profit on ordinary activities after taxation		**1,113**	1,907
Minority interests : equity	19	**(219)**	(359)
Retained profit for the financial year	18	**894**	1,548

The above table includes revenue of £83,000 and operating profit of £108,000 in the year ended 31 December 2007 which related 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 2008

		2008		2007	
	Notes	**£000**	**£000**	£000	£000
Fixed assets					
Intangible assets	9		**2,161**		2,226
Tangible assets	10		**4,187**		4,203
			6,348		6,429
Current assets					
Stocks	12	**6,169**		6,039	
Debtors	13	**89,013**		69,880	
Cash at bank and in hand		**19,275**		8,496	
		114,457		84,415	
Creditors: amounts falling due within one year	14	**(27,239)**		(24,682)	
Net current assets			**87,218**		59,733
Total assets less current liabilities			**93,566**		66,162
Creditors: amounts falling due after more than one year	15		**(80,910)**		(58,869)
Provisions for liabilities and charges	16		**(17)**		(5)
Net assets			**12,639**		7,288
Capital and reserves					
Called up share capital	17		**100**		100
Revaluation reserve	18		**928**		938
Profit and loss account	18		**8,736**		4,031
Equity shareholders' funds			**9,764**		5,069
Minority interests : equity	19		**2,875**		2,219
Capital employed			**12,639**		7,288

These financial statements were approved by the board of directors on 31 March 2009 and were signed on its behalf by:

MJ Mousley
Director

Quarto Publishing plc

Company balance sheet
at 31 December 2008

	Notes	2008 £000	2008 £000	2007 £000	2007 £000
Fixed assets					
Intangible assets	9		**1,350**		1,451
Tangible assets	10		**3,943**		4,075
Investments	11		**4,864**		4,688
			10,157		10,214
Current assets					
Stocks	12	**4,162**		3,783	
Debtors	13	**83,215**		63,043	
Cash at bank and in hand		**6,645**		6	
		94,022		66,832	
Creditors: amounts falling due within one year	14	**(29,193)**		(23,923)	
Net current assets			**64,829**		42,909
Total assets less current liabilities			**74,986**		53,123
Creditors: amounts falling due after more than one year	15		**(80,890)**		(58,839)
Provisions for liabilities and charges	16		**(54)**		(60)
Net liabilities			**(5,958)**		(5,776)
Capital and reserves					
Called up share capital	17		**100**		100
Revaluation reserve	18		**928**		938
Profit and loss account	18		**(6,986)**		(6,814)
Equity shareholders' deficit			**(5,958)**		(5,776)

These financial statements were approved by the board of directors on 31 March 2009 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 2008

	2008	2007
	£000	£000
Profit for the financial year	**894**	1,548
Currency translation differences on foreign currency net investments	**3,801**	(218)
Total recognised gains and losses relating to the year	**4,695**	1,330

Reconciliation of movement in shareholders' funds/(deficit)

for the year ended 31 December 2008

	Group		**Company**	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Retained profit/(loss) for the financial year	**894**	1,548	**(182)**	(98)
Other recognised gains and losses	**3,801**	(218)	**-**	-
Net movement in shareholders' funds	**4,695**	1,330	**(182)**	(98)
Opening shareholders' funds/(deficit)	**5,069**	3,739	**(5,776)**	(5,678)
Closing shareholders' funds/(deficit)	**9,764**	5,069	**(5,958)**	(5,776)

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.

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.

Notes *(continued)*

1 **Accounting policies** *(continued)*

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.

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.

Notes *(continued)*

1 **Accounting policies** *(continued)*

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.

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.

Notes *(continued)*

1 **Accounting policies** *(continued)*

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.

2 **Segmental analysis**

	2008	2007
	£000	£000
Geographical analysis of turnover by destination		
United Kingdom	**7,633**	7,687
United States of America	**15,748**	16,040
Canada	**397**	534
Europe	**12,239**	8,527
Australia and Far East	**2,983**	2,423
Rest of the world	**1,405**	645
	40,405	35,856

Notes *(continued)*

2 **Segmental analysis** *(continued)*

Analysis by class of business

	Turnover		Profit before taxation		Net operating assets	
	2008 £000	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
Co-edition Publishing	**35,846**	31,494	**3,757**	3,816	**6,114**	13,120
Publishing	**4,559**	4,362	**457**	371	**3,758**	1,043
Head Office	**-**	-	**(1,938)**	(1,103)	**-**	-
	40,405	35,856	**2,276**	3,084	**9,872**	14,163
Net interest payable			**(483)**	(716)		
Profit on ordinary activities before taxation			**1,793**	2,368		

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

Geographical analysis by area of origin

	Turnover		Operating profit		Net operating assets	
	2008 £000	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
United Kingdom	**29,196**	23,074	**1,471**	1,805	**10,133**	13,763
Rest of the World	**11,209**	12,782	**805**	1,279	**(261)**	400
	40,405	35,856	**2,276**	3,084	**9,872**	14,163

Notes *(continued)*

2 **Segmental analysis** *(continued)*

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

	2008	2007
	£000	£000
Net operating assets as above	**9,872**	14,163
Interest bearing loans to group undertakings	**65,196**	45,352
Total bank loans and other borrowings	**(81,098)**	(60,438)
Cash at bank and in hand	**19,275**	8,496
Corporation tax and deferred tax	**(606)**	(285)
Net assets	**12,639**	7,288

3 **Profit on ordinary activities before taxation**

	2008	2007
	£000	£000
Profit on ordinary activities before taxation is stated after charging :		
Depreciation	**288**	286
Auditors' remuneration (see below)	**25**	26
Amortisation of intangibles	**154**	149
Rentals payable under operating leases in respect of :		
Plant and machinery	**32**	26
Other	**225**	242
Exchange losses	**915**	56

Auditors' remuneration

Fees payable to the company's auditor for the audit of the company's annual accounts	**21**	20
Fees payable to the company's auditor and its associates for other services		
The audit of the company's subsidiaries	**4**	6
	25	26

Notes *(continued)*

4 Directors' remuneration

Emoluments receivable by directors in respect of qualifying services were :

	2008	2007
	£000	£000
Remuneration	**877**	739
Contributions to defined contribution pension schemes	**65**	61
	942	800

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

Remuneration	**357**	270
	357	270

Retirement benefits accrued to three directors under defined contribution pension schemes during the year (2007: three).

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	
	2008	2007
Publishing	**149**	156
Group administration	**16**	16
	165	172

The aggregate payroll costs of these persons were as follows:

	2008	2007
	£000	£000
Wages and salaries	**5,885**	5,573
Social security costs	**569**	550
Pension costs	**170**	170
Compensation for loss of office	**-**	40
	6,624	6,333

Notes *(continued)*

6 Interest receivable and other similar income

	2008 £000	2007 £000
Interest receivable	**373**	367

7 Interest payable and similar charges

	2008 £000	2007 £000
On bank loans, overdrafts and other loans wholly repayable within five years, not by instalments	**856**	1,025
On bank loans repayable after more than 5 years by instalments	-	58
	856	1,083

8 Taxation

	2008 £000	2007 £000
Overseas tax	**143**	214
UK tax	**525**	231
Total current tax	**668**	445
Deferred tax (see note 16)	**12**	16
	680	461

The current tax charge for the year is higher (*2007: lower*) than the standard rate of corporation tax in the UK (28.5%; *2007: 30%*). The differences are explained below:

	2008	2007
Profit on ordinary activities before tax	**1,793**	2,368
Current tax at 28.5% (*2007: 30%*)	**511**	710
Effects of:		
Lower tax rates on overseas earnings	**(114)**	(266)
Other (including temporary and permanent timing differences)	**271**	1
Total current tax charge (see above)	**668**	445

Notes *(continued)*

9 Intangible assets

	Group Goodwill £000	Company Goodwill £000
Cost		
At beginning of year	2,985	2,050
Purchased during year	89	-
At end of year	3,074	2,050
Amortisation		
At beginning of the year	759	599
Charged in the year	154	101
At end of year	913	700
Net book value		
At 31 December 2008	**2,161**	**1,350**
At 31 December 2007	2,226	1,451

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	258	857	402	5,492
Exchange differences	-	13	36	57	106
Additions	97	-	113	38	248
Disposals	-	-	(42)	-	(42)
At end of year	4,072	271	964	497	5,804
Depreciation					
At beginning of year	308	146	588	247	1,289
Exchange differences	-	11	27	41	79
Charge for year	48	42	140	58	288
On disposals	-	-	(39)	-	(39)
At end of year	356	199	716	346	1,617
Net book value					
At 31 December 2008	**3,716**	**72**	**248**	**151**	**4,187**
At 31 December 2007	3,667	112	269	155	4,203

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	759	294	5,252
Additions	-	-	101	11	112
At end of year	3,975	224	860	305	5,364
Depreciation and diminution in value					
At beginning of year	308	124	542	203	1,177
Charge for year	48	36	121	39	244
At end of year	356	160	663	242	1,421
Net book value					
At 31 December 2008	**3,619**	**64**	**197**	**63**	**3,943**
At 31 December 2007	3,667	100	217	91	4,075

The net book value of plant, equipment and vehicles of the Group in 2008 included £nil *(2007 : £3,000)* (Company: £nil *(2007 : £nil)*) in respect of assets held under hire purchase contracts. The depreciation charged on such assets in 2008 was £3,000 *(2007: £3,000)* (Company: £nil *(2007: £nil)*).

A freehold property, with a net book value of £2,014,000, 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.

Notes *(continued)*

10 Tangible fixed assets *(continued)*

The net book value of land and buildings comprises:

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Freehold	**3,716**	3,667	**3,619**	3,667
Short leasehold	**72**	112	**64**	100
	3,788	3,779	**3,683**	3,767

11 Fixed asset investments

	Shares in group undertakings £000
Company	
Cost	
At the beginning of year	8,927
Additions	176
At end of year	9,103
Provisions	
At beginning and end of year	4,239
Net book value	
At 31 December 2008	**4,864**
At 31 December 2007	4,688

Notes *(continued)*

11 **Fixed asset investments** *(continued)*

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
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	100	Publishing

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

12 **Stocks**

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Raw materials and consumables	**34**	220	**-**	-
Finished goods	**1,826**	1,647	**461**	315
Work in progress	**4,524**	4,699	**3,916**	3,995
Less: Payments on account	**(215)**	(527)	**(215)**	(527)
	6,169	6,039	**4,162**	3,783

13 **Debtors**

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Trade debtors	**14,400**	13,352	**10,312**	8,189
Amounts owed by group undertakings	**73,248**	55,313	**72,517**	54,559
Other debtors	**840**	727	**124**	134
Prepayments and accrued income	**525**	488	**262**	161
	89,013	69,880	**83,215**	63,043

Notes *(continued)*

13 Debtors *(continued)*

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
The amounts owed by group undertakings comprise:				
Parent and fellow subsidiary undertakings	**73,248**	55,313	**69,272**	51,322
Subsidiary undertakings	**-**	-	**3,245**	3,237
	73,248	55,313	**72,517**	54,559

14 Creditors: amounts falling due within one year

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Bank overdrafts	**74**	1,462	**-**	1,464
Current loan instalments	**134**	134	**134**	134
Obligations under finance leases and hire purchase contracts	**-**	2	**-**	-
Total borrowings due within one year	**208**	1,598	**134**	1,598
Trade creditors	**17,867**	14,018	**13,982**	9,218
Amounts owed to group undertakings	**7,015**	7,442	**13,956**	12,579
Other creditors including taxation and social security:				
Corporation taxation	**589**	280	**198**	23
Other taxes and social security	**20**	56	**44**	6
Other creditors	**527**	398	**312**	69
Accruals and deferred income	**1,013**	890	**567**	430
	27,239	24,682	**29,193**	23,923

Notes *(continued)*

14 Creditors: amounts falling due within one year *(continued)*

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	£000	£000
The amounts owed to group undertakings comprise:				
Parent and fellow subsidiary undertakings	**7,015**	7,442	**6,511**	7,128
Subsidiary undertakings	-	-	**7,445**	5,451
	7,015	7,442	**13,956**	12,579

15 Creditors: amounts falling due after more than one year

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Bank loans	**80,890**	58,839	**80,890**	58,839
Other creditors	**20**	30	-	-
	80,910	58,869	**80,890**	58,839

Total borrowings are repayable as follows:

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
In one year or less, or on demand	**208**	1,598	**134**	1,598
Between one and two years	**134**	134	**134**	134
Between two and five years	**80,756**	41,837	**80,756**	41,837
In five years or more	-	16,869	-	16,869
	81,098	60,438	**81,024**	60,438

All loans and bank overdrafts attract interest at commercial rates, ranging from 2.3% to 7.2%. Bank loans include £671,000 (*2007: £806,000*) which is secured on a freehold property. All other bank loans are unsecured.

Notes *(continued)*

15 Creditors: amounts falling due after more than one year *(continued)*

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

	Group	
	2008	2007
	£000	£000
Within one year	**-**	2
	-	2

16 Deferred taxation

	Deferred taxation	
	Group	**Company**
	£000	**£000**
At beginning of year	**5**	**60**
Charge for period in the profit and loss account	**12**	**(6)**
Liability at end of year	**17**	**54**

The elements of deferred taxation are as follows:

	2008	2007
	£000	£000
Group		
Difference between accumulated depreciation and amortisation and capital allowances	**55**	44
Other timing differences	**(38)**	(39)
	17	5
Company		
Difference between accumulated depreciation and amortisation and capital allowances	**54**	60

Notes *(continued)*

17 Share capital

	2008 £000	2007 £000
Authorised, allotted, called up and fully paid		
100,000 ordinary shares £1 each	100	100

18 Reserves

Group

	Revaluation Reserve £000	Profit And Loss Account £000
At beginning of the year	938	4,031
Retained profit for year	-	894
Difference on translation of net assets and profit and loss accounts of non-UK companies	-	3,801
Transfers	(10)	10
At the end of the year	928	8,736

Analysed as follows :	
Profit and loss account	10,251
Goodwill written off to reserves	(1,515)
At the end of the year	8,736

Company

	Revaluation Reserve £000	Profit And Loss Account £000
At beginning of the year	938	(6,814)
Retained profit for year	-	(182)
Transfers	(10)	10
At the end of the year	928	(6,986)

Notes *(continued)*

19 **Minority interests: equity**

Group

	2008 £000	2007 £000
At beginning of the year	**2,219**	2,200
Retained profit for year	**219**	359
Dividends/purchase	**(341)**	(165)
Exchange differences	**778**	(175)
At the end of the year	**2,875**	2,219

20 **Financial Commitments**

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

	2008		2007	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Group				
Operating leases which expire:				
Within one year	**8**	**3**	-	-
In the second to fifth years inclusive	**270**	**29**	318	27
	278	**32**	318	27
Company				
Operating leases which expire:				
In the second to fifth years inclusive	**185**	**24**	185	24
	185	**24**	185	24

There were no capital commitments at the year end (*2007: £nil*).

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 £2,000 (*2007: £nil*). During the current and preceding year L.F. Orbach loaned money to the Group and has earned an arm's length return of 3.0%. The total amount of interest earned in the year was £3,000 (*2007: £3,000*). The balance outstanding at the beginning of the year was £158,000, and the balance at the end of the year, which was also the highest amount outstanding, was £190,000.

During the year, the Group made sales totalling £744,000 (*2007: £662,000*) to Book Sales Inc., a fellow subsidiary of The Quarto Group, Inc. At the year end, Book Sales Inc. owed £406,000 (*2007: £245,000*) 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:

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London
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