

Quarto Publishing plc

Directors' report and consolidated financial statements

Year ended 31 December 2003

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 2003.

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

On 30 June 2003 the Group and the company acquired the business and assets of Design Eye Publishing Limited, a fellow group undertaking. On 30 June 2003 the company acquired the business and assets of a subsidiary undertaking, Quarto Children's Books Limited. The consideration for both acquisitions was a cash consideration equal to the book value of acquired assets, which the directors consider to be fair value.

Business review

The results of the Group are set out on page 5.

Proposed dividend and transfer to reserves

The directors propose a dividend of £nil for the year (2002: £nil). The profit for the year retained in the Group is £2,025,000 (2002: £2,809,000).

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)
CH Bhote	(Resigned on 14 th November 2003)
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 2003 creditor days amounted to 90 (2002: 92), for the Group and, 139 (2002: 142), for the Company.

Auditors

Our auditors, KPMG Audit Plc, are willing to continue in office and accordingly, a resolution is to be proposed at the Annual General Meeting for the reappointment of KPMG Audit Plc as auditors of the company.

By order of the board


MJ Mousley
Director

The Old Brewery
6 Blundell Street
London
N7 9BH

30 April 2004

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and the Group and to prevent and detect fraud and other irregularities.

Quarto Publishing plc

Report of the independent auditors to the members of Quarto Publishing plc

We have audited the financial statements on pages 5 to 28.

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 are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 Group and the Company have 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 transactions with the Group and the Company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group and the Company, 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2003 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

London

30 April 2004

Consolidated profit and loss account

for the year ended 31 December 2003

All the Group's transactions during the years ended 31 December 2003 and 2002 related to continuing business activities.


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Quarto Publishing plc

Consolidated balance sheet at 31 December 2003

	Notes	2003		2002	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	9		1,862		1,965
Tangible assets	10		5,629		3,767
			<u>7,491</u>		<u>5,732</u>
Current assets					
Stocks	12	3,346		2,416	
Debtors	13	40,251		43,230	
Cash at bank and in hand		6,354		5,816	
		<u>49,951</u>		<u>51,462</u>	
Creditors: amounts falling due within one year	14	(24,142)		(24,709)	
		<u></u>		<u></u>	
Net current assets			25,809		26,753
Total assets less current liabilities			<u>33,300</u>		<u>32,485</u>
Creditors: amounts falling due after more than one year	15		(28,677)		(28,995)
Provision for liabilities & charges	16		(16)		(55)
Net assets			<u>4,607</u>		<u>3,435</u>
Capital and reserves					
Called up share capital	17		100		100
Revaluation reserve			978		988
Profit and loss account	18		1,967		726
Equity shareholders' funds			<u>3,045</u>		<u>1,814</u>
Minority interests : equity	19		1,562		1,621
			<u>4,607</u>		<u>3,435</u>

These financial statements were approved by the board of directors on 30 April 2004 and were signed on its behalf by:

MJ Mousley 
Director

Quarto Publishing plc

Company balance sheet


at 31 December 2003

		2003		2002	
	Notes	£000	£000	£000	£000
Fixed assets					
Intangible assets	9		1,862		1,965
Tangible assets	10		4,698		2,631
Investments	11		1,200		1,200
			<u>7,760</u>		<u>5,796</u>
Current assets					
Stocks	12	2,547		1,210	
Debtors	13	38,798		41,583	
Cash at bank and in hand		2,238		944	
		<u>43,583</u>		<u>43,737</u>	
Creditors: amounts falling due within one year	14	(25,776)		(24,612)	
Net current assets			17,807		19,125
Total assets less current liabilities			<u>25,567</u>		<u>24,921</u>
Creditors: amounts falling due after more than one year	15		(28,422)		(28,721)
Provisions for liabilities and charges	16		(48)		(65)
Net liabilities			<u>(2,903)</u>		<u>(3,865)</u>
Capital and reserves					
Called up share capital	17		100		100
Revaluation reserve			978		988
Profit and loss account	18		(3,981)		(4,953)
Equity shareholders' deficit			<u>(2,903)</u>		<u>(3,865)</u>

These financial statements were approved by the board of directors on 30 April 2004 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 2003

	2003 £000	2002 £000
Profit for the financial year	2,025	2,809
Currency translation differences on foreign currency net investments	(794)	(674)
	<hr/>	<hr/>
Total recognised gains and losses relating to the year	1,231	2,135
	<hr/>	<hr/>

Reconciliation of movement in shareholders' funds/(deficit)

for the year ended 31 December 2003

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Retained profit for the financial year	2,025	2,809	962	1,023
Other recognised gains and losses	(794)	(674)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net movement in shareholders' funds	1,231	2,135	962	1,023
Opening shareholders' funds/(deficit)	1,814	(321)	(3,865)	(4,888)
Closing shareholders' funds/(deficit)	<hr/> 3,045 <hr/>	<hr/> 1,814 <hr/>	<hr/> (2,903) <hr/>	<hr/> (3,865) <hr/>

Quarto Publishing plc

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

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.

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 22.

Basis of consolidation

The Group accounts consolidate the accounts of Quarto Publishing plc and its subsidiary undertakings, all of which have a 31 December year end.

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 of twenty years. Reorganisation and integration costs resulting from the acquisition are charged to the profit and loss account. The profit or loss on the disposal or discontinuation of a previously acquired business is calculated taking account of the attributable amount of purchased goodwill relating to that business.

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

Quarto Publishing plc

Notes (continued)

1 Accounting policies (continued)

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.

As the Company is a wholly owned subsidiary of The Quarto Group, Inc., and 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.

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.

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 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.

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost, including an appropriate portion of overheads, and net realisable value. Production costs (excluding unit print costs), including an appropriate portion of overheads, in respect of a book are charged against 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 as ordinary trading items.

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 arise. The assets of the scheme are held separately in independently administered funds.

Deferred taxation

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.

Copyrights

Predominately the Group owns the copyright in 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.

Quarto Publishing plc

Notes (continued)

2 Segmental analysis

	2003 £000	2002 £000
<i>Geographical analysis of turnover by destination</i>		
United Kingdom	9,234	9,607
United States of America	12,621	12,232
Canada	854	627
Europe	7,021	6,042
Australia and Far East	2,892	1,510
Rest of the world	196	309
	<u>32,818</u>	<u>30,327</u>

Acquisitions

Turnover from acquisitions made during the year of £2,101,000 relates to the purchase of the business and assets of Design Eye Publishing Limited, a fellow Group undertaking on 30 June 2003. The gross profit from acquisitions during the year was £131,000, after cost of sales of £1,970,000. The operating loss from acquisitions during the year was £180,000, after distribution costs of £28,000 and administrative expenses of £283,000.

	Turnover		Profit before taxation		Net operating assets	
	2003 £000	2002 £000	2003 £000	2002 £000	2003 £000	2002 £000
<i>Analysis by class of business</i>						
Co-edition Publishing	27,478	24,030	2,848	2,884	3,073	3,014
Publishing	5,340	6,297	249	660	1,693	1,723
	<u>32,818</u>	<u>30,327</u>	<u>3,097</u>	<u>3,544</u>	<u>4,766</u>	<u>4,737</u>
Exceptional item			(483)	-		
Net interest payable			(144)	(363)		
Profit on ordinary activities before taxation			<u>2,470</u>	<u>3,181</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	
	2003 £000	2002 £000	2003 £000	2002 £000	2003 £000	2002 £000
<i>Geographical analysis by area of origin</i>						
United Kingdom	24,490	22,785	2,142	2,666	2,406	5,993
Other	8,328	7,542	955	878	2,360	(1256)
	<u>32,818</u>	<u>30,327</u>	<u>3,097</u>	<u>3,544</u>	<u>4,766</u>	<u>4,737</u>

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

	2003 £000	2002 £000
Net operating assets as above	4,766	4,737
Interest bearing loans to group undertakings	22,310	24,063
Total bank loans and other borrowings	(28,815)	(31,328)
Cash at bank and in hand	6,354	5,816
Corporation tax and deferred tax	(8)	147
Net assets	<u>4,607</u>	<u>3,435</u>

Quarto Publishing plc

Notes (continued)

3 Profit on ordinary activities before taxation

	2003 £000	2002 £000
<i>Profit on ordinary activities before taxation is stated after charging/(crediting):</i>		
Auditor's remuneration :		
Audit	100	97
Other services	2	-
Depreciation	559	425
Amortisation of goodwill	103	85
Rentals payable under operating leases in respect of :		
Plant and machinery	116	105
Other	311	324
Exchange gains	(448)	(241)
	<u> </u>	<u> </u>

Auditor's remuneration relating to the parent company only was £15,000 (2002: £15,000). 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 :

	2003 £000	2002 £000
Remuneration	619	605
Contributions to defined contribution schemes	126	103
	<u> 745 </u>	<u> 708 </u>

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

	2003	2002
Remuneration	218	218
Contributions to defined contribution schemes	71	55
	<u> 289 </u>	<u> 273 </u>

Retirement benefits accrued to four directors under defined contribution schemes during the year (2002: four).

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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	
	2003	2002
Co-edition Publishing	120	104
Publishing	50	57
Group administration	16	15
	<u>186</u>	<u>176</u>

The aggregate payroll costs of these persons were as follows:

	2003	2002
	£000	£000
Wages and salaries	5,291	4,933
Social security costs	503	446
Pension costs	225	212
Compensation for loss of office	13	61
	<u>6,032</u>	<u>5,652</u>

6 Interest receivable and other similar income

	2003	2002
	£000	£000
Interest receivable	<u>169</u>	<u>268</u>

Quarto Publishing plc

Notes (continued)

7 Interest payable and similar charges

	2003 £000	2002 £000
On bank loans, overdrafts and other loans wholly repayable within five years, not by instalments	301	582
Finance charges payable in respect of hire purchase contracts	8	16
On bank loans repayable after more than 5 yrs by instalments	4	-
On overdue tax	-	33
	<u>313</u>	<u>631</u>

8 Taxation

	2003 £000	2002 £000
UK corporation tax at 30% on the profit for the year	91	-
Overseas tax	174	133
Total current tax	<u>265</u>	<u>133</u>
Deferred tax (see note 16)	(42)	4
	<u>223</u>	<u>137</u>

The current tax charge for the year is lower (2002 : lower) than the standard rate of corporation tax in the UK (30%; 2002 : 30%). The differences are explained below :

Profit on ordinary activities before tax	2,470	3,181
Current tax at 30% (2002 : 30%)	741	954
Effects of :		
Utilisation of tax losses	(326)	(680)
Lower tax rates on overseas earnings	(136)	(145)
Other (including temporary and permanent timing differences)	(14)	4
Total current tax charge (see above)	<u>265</u>	<u>133</u>

Quarto Publishing plc

Notes (continued)

9 Intangible fixed assets

	Group Goodwill £000	Company Goodwill £000
Cost		
At beginning and end of year	2,050	2,050
Amortisation		
At beginning of year	85	85
Charged in year	103	103
At end of year	188	188
Net book value		
At 31 December 2003	1,862	1,862
At 31 December 2002	1,965	1,965

On 30 June 2003 the Group and the company acquired the business and assets of Design Eye Publishing Limited, a fellow group undertaking, for a cash consideration of £1,252,000. On 30 June 2003 the company acquired the business and assets of a subsidiary undertaking, Quarto Children's Books Limited, for a cash consideration of £1. No goodwill arose on these acquisitions as the fair value of the assets and liabilities acquired was the same as the net book value as shown below :

	Company Quarto Children's Books Limited £000	Group & Company Design Eye Publishing Limited £000
Fair value of cash consideration	-	1,252
Fair value of assets and liabilities acquired :		
Tangible fixed assets	14	24
Stocks	709	1,338
Debtors	240	192
Creditors	(225)	(419)
Bank and cash	(738)	117
	-	1,252

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	2,422	625	2,019	348	5,414
Exchange differences	-	(37)	(10)	(18)	(65)
Additions	2,132	56	248	39	2,475
Disposals	-	-	(239)	(58)	(297)
At end of year	<u>4,554</u>	<u>644</u>	<u>2,018</u>	<u>311</u>	<u>7,527</u>
Depreciation					
At beginning of year	111	295	1,103	138	1,647
Exchange differences	-	(11)	(8)	(13)	(32)
Charge for year	31	58	410	60	559
On disposals	-	-	(228)	(48)	(276)
At end of year	<u>142</u>	<u>342</u>	<u>1,277</u>	<u>137</u>	<u>1,898</u>
Net book value					
At 31 December 2003	<u>4,412</u>	<u>302</u>	<u>741</u>	<u>174</u>	<u>5,629</u>
At 31 December 2002	<u>2,311</u>	<u>330</u>	<u>916</u>	<u>210</u>	<u>3,767</u>

Quarto Publishing plc

Notes (continued)

10 Tangible fixed assets (continued)

Company	Freehold property £000	Plant, equipment and vehicles £000	Fixtures and fittings £000	Total £000
Cost/valuation				
At the beginning of year	2,421	446	152	3,019
Additions	2,132	264	25	2,421
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	4,553	710	177	5,440
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation and diminution in value				
At beginning of year	110	235	43	388
Charge for year	31	279	44	354
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	141	514	87	742
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 December 2003	4,412	196	90	4,698
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	2,311	211	109	2,631
	<hr/>	<hr/>	<hr/>	<hr/>

The net book value of plant, equipment and vehicles of the Group included £110,000 (2002: £132,000) (Company: £ nil (2002: £ nil)) in respect of assets held under hire purchase contracts. The depreciation charged on these assets during the year was £31,000 (2002: £30,000) (Company: £ nil (2002: £ nil)).

As stated in the accounting policy note on page 10, 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 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	
	2003 £000	2002 £000	2003 £000	2002 £000
Freehold	4,412	2,311	4,412	2,311
Long leasehold	282	279	-	-
Short leasehold	20	51	-	-
	<u>4,714</u>	<u>2,641</u>	<u>4,412</u>	<u>2,311</u>

Quarto Publishing plc

Notes (continued)

11 Fixed asset investments

Company	Shares in group undertakings £000
Cost	
At beginning and end of year	1,542
	<hr/>
Provisions	
At beginning and end of year	342
	<hr/>
Net book value	
At 31 December 2003 and 2002	1,200
	<hr/>

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
AP Screenprinters Limited	England	1000 shares of £1 each	100	Publishing
Quarto Children's Books Limited	England	2 shares of £1 each	100	Co-edition Publishing*

All of the above are directly held by Quarto Publishing plc.

*Ceased trading on 30 June 2003.

Quarto Publishing plc

Notes (continued)

12 Stocks

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Raw materials and consumables	283	165	102	6
Finished goods	648	567	225	35
Work in progress	2,717	1,960	2,503	1,445
Less: Payments on account	(302)	(276)	(283)	(276)
	<u>3,346</u>	<u>2,416</u>	<u>2,547</u>	<u>1,210</u>

13 Debtors

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Trade debtors	10,903	10,066	6,852	5,357
Amounts owed by group undertakings	28,679	32,557	31,437	35,766
Other debtors	209	67	155	62
Prepayments and accrued income	382	383	261	225
Corporation tax recoverable	78	157	93	173
	<u>40,251</u>	<u>43,230</u>	<u>38,798</u>	<u>41,583</u>

The amounts owed by group undertakings comprise:

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Parent and fellow subsidiary undertakings	28,679	32,557	28,670	32,394
Subsidiary undertakings	-	-	2,767	3,372
	<u>28,679</u>	<u>32,557</u>	<u>31,437</u>	<u>35,766</u>

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Notes (continued)

14 Creditors: amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Bank overdrafts	128	2,517	128	2,542
Current loan instalments	210	-	1,282	-
Obligations under finance leases and hire purchase contracts	38	55	-	-
Trade creditors	11,799	10,694	8,859	6,964
Amounts owed to group undertakings	10,151	9,686	14,460	14,212
Other creditors including taxation and social security:				
Overseas taxation	70	40	-	-
Other taxes and social security	228	264	84	93
Other creditors	628	633	364	250
Accruals and deferred income	890	820	599	551
	<u>24,142</u>	<u>24,709</u>	<u>25,776</u>	<u>24,612</u>

The amounts owed to group undertakings comprise:

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Parent and fellow subsidiary undertakings	10,151	9,686	9,820	9,321
Subsidiary undertakings	-	-	4,640	4,891
	<u>10,151</u>	<u>9,686</u>	<u>14,460</u>	<u>14,212</u>

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Notes (continued)

15 Creditors: amounts falling due after more than one year

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Bank loans	28,422	28,721	28,422	28,721
Obligations under finance leases and hire purchase contracts	16	35	-	-
Other creditors	239	239	-	-
	<u>28,677</u>	<u>28,995</u>	<u>28,422</u>	<u>28,721</u>

All loans and bank overdrafts attract interest at commercial rates, ranging from 1.33% to 5.25%. Bank loans and hire purchase creditors are repayable as follows:

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
In one year or less, or on demand	376	2,572	1,410	2,542
Between one and two years	139	31	123	-
Between two and five years	27,662	28,725	27,662	28,721
In five years or more	637	-	637	-
	<u>28,814</u>	<u>31,328</u>	<u>29,832</u>	<u>31,263</u>

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

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Within one year	43	63	-	-
In the second to fifth years	17	38	-	-
Over five years	-	-	-	-
	<u>60</u>	<u>101</u>	<u>-</u>	<u>-</u>
Less future finance charges	(6)	(11)	-	-
	<u>54</u>	<u>90</u>	<u>-</u>	<u>-</u>

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Notes (continued)

16 Provisions for liabilities and charges

	Deferred taxation	
	Group	Company
	£000	£000
At beginning of year	55	65
Credit / charge for period in the profit and loss account	(42)	(17)
Exchange differences	3	-
At end of year	<u>16</u>	<u>48</u>

The elements of deferred taxation are as follows :

	2003	2002
	£000	£000
Group		
Difference between accumulated depreciation and amortisation and capital allowances	39	78
Other timing differences	(23)	(23)
Deferred tax liability	<u>16</u>	<u>55</u>
Company		
Difference between accumulated depreciation and amortisation and capital allowances	48	65
On revaluation of land and buildings	-	-
Deferred tax liability	<u>48</u>	<u>65</u>

In addition, a deferred tax liability of £321,000 (2002 : £321,000) arising on the revaluation of land and buildings was not recognised in accordance with FRS 19, as the directors do not intend to sell the revalued asset.

17 Share capital

	2003	2002
	£000	£000
Authorised, allotted, called up and fully paid		
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	988	726
Retained profit for year	-	2,025
Difference on translation of net assets and profit and loss accounts of non-UK companies	-	(794)
Transfers	(10)	10
At the end of the year	<u>978</u>	<u>1,967</u>
Analysed as follows :		
Profit and loss account		3,482
Goodwill		(1,515)
At the end of the year		<u>1,967</u>

Company

	Revaluation Reserve	Profit And Loss Account
	£000	£000
At beginning of the year	988	(4,953)
Retained profit for year	-	962
Transfers	(10)	10
At the end of the year	<u>978</u>	<u>(3,981)</u>

Quarto Publishing plc

Notes (continued)

19 Minority interests

Group		
	2003	2002
	£000	£000
At beginning of the year	1,621	2,382
Retained profit for year	222	235
Dividends	(94)	(770)
Exchange differences	(187)	(226)
At the end of the year	1,562	1,621
Equity	1,562	1,621
Non-equity	-	-
	1,562	1,621

20 Commitments

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

	2003		2002	
	Land and buildings	Other	Land and buildings	Other
	£000	£000	£000	£000
Group				
Operating leases which expire:				
Within one year	155	2	40	-
In the second to fifth years inclusive	162	91	305	83
After five years	28	4	-	-
	345	97	345	83
Company				
Operating leases which expire:				
In the second to fifth years inclusive	162	91	65	76

There were no capital commitments at the year end (2002: *£nil*).

Quarto Publishing plc

Notes (continued)

21 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.

Total group bank borrowings that have been guaranteed by the company as at 31 December 2003 were £nil (2002: £ nil).

22 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 £3,600. During the year L.F. Orbach loaned money to the group and has earned an arm's length return of 2.5%. The total amount of interest earned in the year was £16,000 (2002 : £2,000). The balance outstanding at the beginning of the year, which was also the highest amount outstanding, was £779,000 and the balance at the end of the year was £327,000.

During the year, the Group made sales totalling £612,000 (2002: £453,000) to Book Sales Inc., a fellow subsidiary of The Quarto Group, Inc. At the year end, Book Sales Inc. owed £486,000 (2002: £483,000) to the Group.

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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