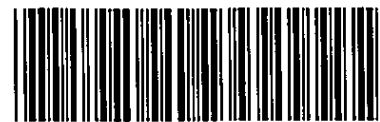


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The Quarto Group, Inc. Annual Report Financial Section 2008

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The Quarto Group, Inc.

Report and Financial Statements
December 31, 2008

COMPANY REGISTRATION NO. FCO 13814

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Officers and Professional Advisers

DIRECTORS

Laurence Francis Orbach
(Chairman and Chief Executive) (USA)
Robert John Morley
Michael John Mousley, ACA
Peter Campbell (Non-executive)
Peter Waine (Non-executive)
Leigh Collins (Non-executive)

SECRETARY

Michael John Mousley, ACA

REGISTERED OFFICE

The Old Brewery,
6 Blundell Street,
London, N7 9BH
Tel: +44 (0) 7700 6700

WEBSITE

www.quarro.com

STOCKBROKERS

Collins Stewart Limited, 88 Wood Street, London, EC2V 7QR

AUDITORS

Grant Thornton UK LLP, Grant Thornton House, Melton Street, London NW1 2EP

SOLICITORS

Travers Smith, 10 Snow Hill, London, EC1A 2AL

REGISTRARS AND TRANSFER OFFICE

Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire HD8 0GA

PRINCIPAL BANKERS

Allied Irish Banks, p.l.c.
St Helen's, 1 Undershaft, London, EC3A 8AB

Australia and New Zealand Banking Group Ltd
40 Bank Street, Canary Wharf, London E14 5EJ

Bank of America
100 Federal Street, Boston, MA 02110, USA

Barclays Bank plc
27 Soho Square, London, W1D 3QR

Fifth Third Bank
38, Fountain Square Plaza, MD 109055, Cincinnati, OH 45263, USA

Lloyds TSB Bank plc
25 Gresham Street, London, EC2V 7HN

The Royal Bank of Scotland plc
280 Bishopsgate, London, EC2M 4RB

REGISTERED NUMBER

FCO 13814

Financial Review

KEY PERFORMANCE INDICATORS

The Group's 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, before amortization of non-current intangibles and non-recurring items, by business segment, interest cover, adjusted diluted earnings per share and net debt. KPIs for 2008, together with comparatives, are set out in the table below:

	2008 £000	2007 £000
Sales: Co-edition Publishing	42,713	38,380
Publishing	<u>70,030</u>	<u>61,727</u>
	<u>112,743</u>	<u>100,107</u>
Operating profit before amortization of non-current intangibles, non-recurring items and group overheads:		
Co-edition Publishing	6,397	5,215
Publishing	<u>6,259</u>	<u>6,435</u>
Operating profit before amortization of non-current intangibles, non-recurring items and group overheads	<u>12,656</u>	<u>11,650</u>
Operating profit before amortization of non-current intangibles and non-recurring items, after deducting group overheads	<u>11,350</u>	<u>10,560</u>
Interest cover, based on operating profit before amortization of non-current intangibles and non-recurring items	<u>3.08 x</u>	<u>3.63 x</u>
Adjusted diluted earnings per share	<u>26.5p</u>	<u>24.4p</u>
	£000	£000
Net debt	<u>52,387</u>	<u>43,373</u>
EBITDA	<u>21,968</u>	<u>20,014</u>
Net debt : EBITDA	<u>2.38 x</u>	<u>2.17 x</u>

Co-edition Publishing sales increased by 11%. Reprints accounted for 65% of sales compared to 68% last year, confirming that we have a very valuable backlist and that our business model is working effectively. Publishing sales increased by 13%, helped by the additional contribution from MBI. Reprints of the book publishing units accounted for 59% of sales, the same as last year.

The operating profit margin, before amortization of non-current intangibles and non-recurring items, in the Co-edition Publishing segment was 15.0%, compared to 13.6% last year. The operating profit margin in Publishing was 8.9%, compared to 10.4% last year.

Interest cover was lower, at 3.08 times, compared to 3.63 times last year. Interest charges rose because of the full year impact of the acquisition, in the second half of 2007, of MBI.

Net debt was higher than last year due to exchange rate movements. Net debt in US dollars, in which most of our debt is denominated, was \$76.5m (2007: \$86.3m).

Trends and factors likely to affect our future development, performance and position of the Group are set out in the Chairman's Report on pages 1 to 5.

Financial Review

SHAREHOLDER RETURN

Adjusted fully diluted earnings per share (see Note 10 on page 53) were 26.5p (2007: 24.4p), up 9%.

The proposed final dividend of 4.0p is the same as last year's final dividend. The total dividend for the year is 7.15p, the same as last year. The total dividend is 3.7 times (2007: 3.4 times) covered by adjusted fully diluted earnings per share.

The market price of the shares of common stock on December 31, 2008 was 62.5p, down 64% compared to last year (171.5p).

Quarto's common stock has generated a total shareholder return over the seven years ended December 31, 2008 of 23%. Over the same period, Quarto's common stock has outperformed the FTSE small cap index and the media sector.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The Group's borrowings, liquidity, interest rate and foreign exchange exposures and banking relationships are managed at Group level. 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:

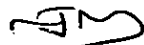
- Liquidity risk; the Group prepares an annual cash flow forecast which is reviewed by the Board covering the next twelve months. This forecast is reviewed in the light of the facilities available to the Group to ensure that we have adequate liquidity. The Directors, having made enquiries, consider that 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, 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 dollar. Approximately two thirds of our sales are denominated in US dollars and a greater percentage of our expenditure. At Group level 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. In 2008, we had net US dollar income. The following table sets out the principal average rates of exchange used in translating the results of our overseas subsidiaries:

	2008	2007
US Dollar	1.86	2.00
Hong Kong Dollar	14.44	15.61
Australian Dollar	2.19	2.39

Operationally, the Group has built up strong relationships with its customers but it is not over reliant on any one customer. In terms of product, we are not reliant on any one product or group of products. None of our titles accounted for more than 1% of group revenues in 2008.

FINANCIAL REPORTING

We have very tight reporting deadlines so that we can focus on running the business. This requires considerable commitment and hard work from my staff and I would like to thank them all for their hard work, unstinting support and loyalty. We have had an extremely busy year and, at times I have asked a lot from my staff, but they continue to produce the goods.



M. J. Mousley
Chief Financial Officer
March 6, 2009

Directors' Report

The Directors present their report and the audited financial statements of The Quarto Group, Inc., for the year ended December 31, 2008.

PRINCIPAL ACTIVITIES

The Group conducts an international business whose principal activity is as a publisher of illustrated non-fiction books in co-edition and under its own imprint, for both adults and children. A detailed review of the development of the business of the Group is given in the Chairman's Report on pages 1 to 5 and the Review of Operations on pages 6 to 22. A review of the business of the Group is set out in the Financial Review on pages 27 to 28. The principal risks and uncertainties facing the Group are discussed in the Financial Review.

RESULTS AND DIVIDENDS

The profit for the year after taxation and minority interests amounted to £344,000 (2007: £5,012,000).

The Directors propose a final ordinary dividend of 4.0p (2007: 4.0p) per share, amounting to £787,000 (2007: £787,000), subject to approval at the Annual Meeting.

DIRECTORS

The Directors of the Company, who served as Directors throughout the year, were as follows:

L. F. Orbach
R. J. Morley
M. J. Mousley
P. Campbell (Non-executive)
P. Waine (Non-executive)
L. Collins (Non-executive)

Previously an academic in New York, Laurence Orbach, Chairman and Chief Executive, had some publishing experience before founding Quarto in 1976. Together with his role as Chairman and Chief Executive, he is also responsible for Group Strategy.

Robert Morley, Creative Director, trained as a designer, and was magazine art director for the Sunday Telegraph between 1967 and 1970. Before co-founding Quarto, he spent some time with Reader's Digest and IPC Part Works, amongst others.

Mick Mousley, Group Finance Director, B.Sc, A.C.A., worked for 12 years at Deloitte Haskins & Sells (now part of PricewaterhouseCoopers), the last two years of which were as a senior manager in the Mergers and Acquisitions Department. He joined Quarto in 1987, and was appointed Finance Director in 1989.

Educated at Eton College, Peter Campbell started his business career with the Booker Group, holding a number of marketing positions in their United Rum Merchants subsidiary. From 1972 to 1989 he was with the Ocean Group, initially on the sales and marketing side, and from 1987 to 1989, he was the General Manager, UK Operations, for the MSAS subsidiary, with responsibility for 27 locations and 800 staff. Since 1989 he has been involved in management training and development.

Peter Waine has a wide corporate experience gained as a result of holding executive and non-executive Directorships in a variety of different sectors and with companies both public and private, up to £1 billion turnover. The organisations he has worked for include GEC, Coopers & Lybrand, W.R. Royle, and the CBI. He is the co-founder of Hanson Green, the principal source for non-executive appointments in the UK. He is also a Visiting Professor at both Cass and Warwick Business Schools.

Leigh Collins has extensive City experience. He was formerly a Director and Head of Corporate Finance at Stockbrokers, Collins Stewart Limited, a firm of which he was joint founder in 1991.

None of the Directors has a service agreement of more than one year's duration.

Save as disclosed in Note 32, no Director has had a material interest in any contract of significance with the company or its subsidiaries during the year.

DIRECTORS' INTERESTS

The Directors who held office at December 31, 2008 had the following interests in the share capital of the Company.

SHAREHOLDING	Number of US\$0.10 shares of common stock	
	December 31, 2008	January 1, 2008
L. F. Orbach*	2,909,185	2,909,185
R. J. Morley	1,402,852	1,402,852
M. J. Mousley	71,700	71,700
L. Collins (Non-executive)	337,650	337,650
P. Campbell (Non-executive)	1,000	1,000
P. Wayne (Non-executive)	-	-

Details of the Directors' options are given in the Directors' Remuneration Report on page 35.

*2,678,413 shares in which L. F. Orbach is interested are owned through his family trusts.

During the year the market price of the shares of common stock ranged between 62.5p and 171.5p. The market price at December 31, 2008 was 62.5p.

Between December 31, 2008 and March 6, 2009 there have been no changes in the interests of the Directors.

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.

SUBSTANTIAL SHAREHOLDERS AND COMPANIES ACT 1985 SCHEDULE 7 DISCLOSURES

As at March 6, 2009 the latest practicable date prior to the publication of this report, the Directors have been advised of the following shareholders who have an interest of 3% or more in the shares of common stock of the company:

	Number of US\$0.10 shares of common stock	Percentage
J. O. Hambro Capital Management	3,987,568	19.5%
L. F. Orbach	2,909,185	14.2%
Ennismore Fund Management	2,270,000	11.1%
Herald Investment Trust	1,737,500	8.5%
R. J. Morley	1,402,852	6.9%
Invesco English & International Trust	1,190,000	5.8%
The Quarto Group, Inc.	765,321	3.7%
Lattice Group Pension Scheme	734,882	3.6%
Liontrust	693,348	3.4%

The rights attaching to the Company's shares of common stock are set out in the Company's By-Laws, which can be obtained from the Company.

The rules for appointment and replacement of the Directors are set out in the Company's By-Laws. Directors can be appointed by the Board of Directors upon the recommendation of the Nomination Committee. A Director may be removed by the affirmative vote of a majority of the Board of Directors then in office.

The powers of the Directors are set out in the Company's By-Laws. The Company may purchase its own shares through the market or by tender at a price which will not exceed the average prices at which business was done for 10 business days before the purchase is made or, in the case of a purchase through the market, at the market price, provided that it is not more than 5% above such average.

The Company may amend its By-Laws by special resolution approved by the affirmative vote of the holders of a majority of the voting power of the shares.

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.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Report on pages 1 to 5. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 27 to 28 and in Note 19 to the financial statements.

The Group has considerable financial resources together with a number of customers and suppliers across different geographies. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current economic outlook.

The Group has significant banking facilities. In particular, the Group has committed facilities of \$165m through at least June 2012. The Group has prepared detailed profit and cash flow budgets until March 31, 2010 which show that the Group is budgeted to have headroom within that period. The budgets have been subject to various sensitivity analyses. The Group complied with its bank covenants in 2008 and the budgets show sufficient headroom on the covenants throughout the period covered by the budgets. The covenants will be monitored closely by the board and appropriate action would be taken if any of the covenants became under pressure.

RISK MANAGEMENT STRATEGY

The Group is exposed to a number of principal risks and uncertainties. The Group's financial risk management strategy is set out on page 28 of the Financial Review and in Note 34. Operational risks are set out on page 28 of the Financial Review.

CORPORATE GOVERNANCE

The Directors have reviewed the governance arrangements of The Quarto Group, Inc. in the context of the Combined Code, revised in June 2006. The principles of the code have been applied as follows:

- a) The Board of Directors represents the shareholders' interests in maintaining and growing a successful business including optimising consistent long-term financial returns.
- b) The Board comprises of three executive Directors and three non-executive Directors. The non-executive Directors, P. Campbell (appointed March 26, 1998), P. Waine (appointed June 4, 1998) and L. Collins (appointed March 9, 1999) are considered by the Board to be independent, notwithstanding the fact that P. Campbell receives £15,000 for consulting fees and has 1,000 shares and that L. Collins has 337,650 shares and have all been on the Board for more than 9 years.
- c) The Board meets six times a year. Each of the Directors, except for P. Waine who missed one meeting, attended all of the meetings held during the year. A formal agenda is prepared for each meeting and all board papers and information are circulated to the Board forty-eight hours before the meetings.
- d) All of the Directors are subject to re-election by the shareholders at the Annual Meeting.
- e) The remuneration of the executive Directors is recommended by the Remuneration Committee, comprising P. Waine, P. Campbell and L. Collins. The Remuneration of non-executive directors is determined by the Board as a whole. A separate report with respect to Directors' remuneration is included on pages 34 to 35. The Committee, which meets twice a year, does not have formal written terms of reference.
- f) The Chairman and the Finance Director are responsible for investor relations. They meet with major shareholders during the course of the year to ensure that they develop an understanding of their views, which are communicated to the rest of the Board at Board Meetings. The non-executive Directors meet with major shareholders from time to time. Shareholders are invited to attend the Annual Meeting at least twenty working days in advance of that meeting. The Chairman of the Audit and Remuneration Committee, P. Waine, who is also the Senior Independent Director, attends this meeting.
- g) The Audit Committee, comprising P. Campbell, P. Waine and L. Collins, is chaired by P. Waine and meets with the independent auditors at least twice a year. L. Collins provides the Committee with financial experience. The Committee regularly review at Board level the financial back up and facilities available at Head Office, as the Group continues to expand. The Committee has formal written terms of reference. The Committee monitors the level of non-audit fees paid to the auditors to ensure that their objectivity is safeguarded.

- h) The non-executive Directors meet to discuss the executive Directors with the Chairman present and also meet with the executive Directors without the Chairman present, in order to evaluate the performances of the Board.
- i) Quarto has arranged appropriate insurance cover in respect of legal action against the Directors.
- j) All Directors have access to the advice and services of the Company Secretary.
- k) All of the non-executive Directors attended all of the Audit Committee and Remuneration Committee meetings held during the year.

The Group has complied throughout the year with the provisions set out in Section 1 of the 2003 FRC Code, apart from those listed below. Where non-compliance is reported, this is because, in the opinion of the Board, it is not appropriate to change current practice due to the size and constitution of the Board. The provisions of the Combined Code not complied with are as follows:

- a) A2.1 - The Chairman of the Company is also the Chief Executive.
- b) A1.1 - A formal schedule of matters specifically reserved for the Board is not required, since the Board forms the executive management of the Group.
- c) A5.2 - The Company does not have any formal arrangements for Directors, in the furtherance of their duties, to take independent professional advice.
- d) B2.2 - The Remuneration Committee consists of three independent non-executive Directors, but, it does not have responsibility for the remuneration of senior management below the main Board level. P. Waine is the Chairman of the Committee.
- e) Schedule A1 - Performance related bonuses are not normally given.
- f) B2.1 - There are no terms of reference for the Remuneration Committee.
- g) A4.1 - The Company does not have a Nominations Committee. The Board as a whole is responsible for the appointment of its own members.
- h) A1.1 - The Group does not have formal "whistleblowing" procedures. However, the structure is flat and the line of communication is short. In addition, the Executive Board and the finance department carry out several visits per year to individual operating units.

The Board will continue to review its corporate governance arrangement, in the light of the Combined Code, as the Group develops and grows, and, in particular will review those provisions of the Combined Code that are not complied with currently.

INTERNAL CONTROLS

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. The main elements of the internal control system are:

- a) The results of individual operating units are reported monthly and reviewed by the Board at its six board meetings a year.
- b) The management reports of each operating unit are tailored to suit the business and management needs of local management. Each operating unit has its own performance indicators and these are regularly reviewed and assessed.
- c) In addition to the monthly reporting, individual operating units report certain management information more frequently where it is considered appropriate.
- d) All operating units report their bank balances twice weekly and a report is produced summarising the Group position.
- e) The Board and the finance department make frequent visits to all operating units. These visits include a review of the internal control system.
- f) All operating units prepare annual budgets and cash flow forecasts which are reviewed by the Board.

The Combined Code introduced a requirement that the Directors review the effectiveness of the Group's system of internal controls, to cover all controls including financial, operational, compliance, and risk management. Following publication of guidance for the Directors, Internal Control Revised: Guidance for Directors on the Combined Code (the Turnbull guidance), the Board confirms that there is an ongoing process for, and an annual review covering, the identification, evaluation and management of the significant risks faced by the Group, that has been in place for the year under review and up to the date of approval of the annual report and accounts and that this process is regularly reviewed by the Board and accords with the guidance. The process is carried out through, inter alia:

- a) Group Board meetings.
- b) Quarterly subsidiary management meetings.
- c) Presentations by subsidiary Chief Executive officers to the Board.
- d) Discussion and review by the Executive Board and the finance department during the several visits per year to individual operating units.
- e) Discussions with professional advisors where appropriate.

AUDIT COMMITTEE

The duties of the Audit Committee include:

- a) Monitor the integrity of financial statements and formal announcements.
- b) Review the Company's internal financial controls.
- c) Make recommendations in relation to the reappointment and removal of the external auditor.
- d) Approve remuneration and terms of engagement of the external auditor.
- e) Review and monitor independence and objectivity of the external auditor.

The Board has considered the need for an internal audit function, but has resolved, that due to the size of the Group, this cannot be justified on the grounds of cost effectiveness at present.

SUPPLIER PAYMENT POLICIES

The Group agrees 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 included 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. At December 31, 2008, Group creditor days amounted to 104 days (2007: 100 days).

The holding company does not have any trade creditors.

DIRECTORS' STATEMENT

At the date of making this report, each of the Company's Directors, as set out on page 29, confirm in 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 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

AUDITOR

Our independent auditor, Grant Thornton UK LLP, is willing to continue in office and, accordingly, a resolution is to be proposed at the Annual Meeting for the reappointment of Grant Thornton UK LLP as auditor to the company.



M. J. Mousley

Secretary

March 6, 2009

Directors' Remuneration Report

INTRODUCTION

The remuneration committee is responsible for making recommendations on behalf of the Board on the remuneration policy with regard to the Company's executive Directors. It consists of the three non-executive Directors. The remuneration committee is constituted within the relevant provisions of Section B of the Combined Code in framing its remuneration policy. This report sets out the committee's policy and disclosures on Directors' remuneration.

UNAUDITED INFORMATION

REMUNERATION POLICY

Remuneration levels are set by reference to individual performance, experience and market conditions with a view to providing a package which is appropriate for the responsibilities involved.

An individual director's performance is reviewed and assessed constantly throughout the year and specifically at two formal meetings of the remuneration committee each year. This process includes consideration of the financial results of the Group.

The stated policy is expected to remain in place for the forthcoming year.

COMPONENTS OF REMUNERATION

Basic salaries are determined according to the competitive market for executive directors, taking into account their experience, contribution and performance. This determination is carried out internally.

Bonuses and share options are awarded on a discretionary basis in recognition of individual performances during the year.

Options granted under the Company's Executive Share Option Schemes are at market value at the date of grant and exercisable between a minimum period of three years and a maximum period of seven years or ten years. Options are exercisable if there has been an increase in the Group's earnings per share of at least 2% per annum above the growth in the retail prices index over a period of three years.

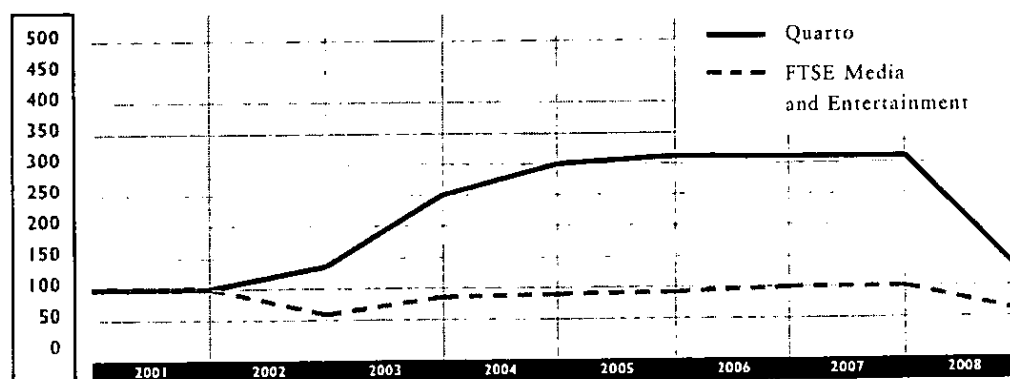
SERVICE AGREEMENTS

All executive Directors have service agreements which provide for 12 month's notice by the Director or the Company. There are no provisions for compensation other than the notice period. As from 2004, the independent non-executive Directors are engaged on annual rolling contracts. Their fees are reviewed by the Board.

All of the Directors stand for re-election annually at the Annual Meeting of the Company.

TOTAL SHAREHOLDER RETURN

The following graph charts the total shareholder return of the Company for the last seven years:



The index selected for comparison is the FTSE Media and Entertainment index as this was considered to be a broad representation of the Company's peer group in terms of its size and business.

AUDITED INFORMATION

DETAILS OF DIRECTORS' REMUNERATION

The auditors are required to report on the information contained in this section of the remuneration report.

The remuneration in respect of each Director who served as a Director during the year was as follows:

NAME OF DIRECTOR	FEES / BASIC		2008	2007
	SALARY	BENEFITS	TOTAL	TOTAL
	£000	£000	£000	£000
L. F. Orbach	435	28	463	384
R. J. Morley	189	5	194	187
M. J. Mousley	245	3	248	213
P. Campbell (Non-executive)	43	-	43	42
P. Waine (Non-executive)	31	-	31	30
L. Collins (Non-executive)	28	-	28	27
	<u>971</u>	<u>36</u>	<u>1,007</u>	<u>883</u>

Benefits consist of benefits in kind in respect of health and life insurance. The remuneration of P. Campbell includes £15,000 of consulting fees, on an arm's length basis.

Each of the executive Directors has a defined contribution pension plan. During the year contributions were made as follows:

	2008	2007
	£000	£000
L. F. Orbach	107	95
R. J. Morley	28	27
M. J. Mousley	37	31
	<u>172</u>	<u>153</u>

SHARE OPTIONS

Details of share options of those Directors who served during the year are as follows:

	At January 1, 2008	Exercised in year	At December 31, 2008	Exercise price*	Earliest date of exercise	Expiry Date
R.J. Morley	5,000	-	5,000	£1.115	22.2.2003	21.2.2010
M.J. Mousley	7,500	-	7,500	£0.83	14.2.2006	13.2.2010
	7,500	-	7,500	£1.63	30.9.2007	29.9.2011

* Market price at date of award

No gains were made by Directors on the exercise of share options in the current year or prior year. Details of the performance criteria of these options are given above under Components of Remuneration. The highest and lowest prices of the Company's shares during the year were 171.5p and 62.5p respectively. The price at the year end was 62.5p.

This report was approved by the Board of Directors on March 6, 2009.

P. Waine, Chairman of Remuneration Committee

Statement of Directors' Responsibilities in respect of the directors' report and the financial statements

The Company is incorporated in the State of Delaware, United States and is subject to the law of that state which places no requirement for annual reporting to shareholders upon the directors. However, since the company has a listing on the London Stock Exchange and a place of business in the UK, the directors are required to prepare financial statements which comply with certain provisions which are contained within the Listing Rules of the UK Financial Services Authority (the Listing Rules) and UK company law for overseas companies.

The company is an "oversea" company within the meaning of the Companies Act 1985. The directors have elected to prepare the group financial statements in accordance with IFRSs as adopted by the EU, and the parent company financial statements in accordance with UK GAAP.

The directors have accepted responsibility for preparing group financial statements as required by IFRSs as adopted by the EU which present fairly the financial position and the performance of the group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The directors have accepted responsibility for preparing parent company financial statements which give a true and fair view of the state of affairs of the parent company.

In preparing each of the group and parent company financial statements, the directors have accepted responsibility to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; 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 have accepted responsibility 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 relevant requirements of UK company law. They have 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.

Under applicable law, the company is responsible for preparing a Directors' Report. The directors have also accepted responsibility for preparing a Directors' Remuneration Report and Corporate Governance Statement that comply with applicable law and regulations as if the full requirements were to apply.

In so far as each of the directors is aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Report of the Independent Auditors to the members of The Quarto Group, Inc

We have audited the group and parent company financial statements (the "financial statements") of The Quarto Group, Inc for the year ended December 31, 2008 which comprise the group income statement, the group and parent company balance sheets, the group cash flow statement, the group statement of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the members of the company in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the company those matters we are engaged to state to them in this audit 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 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 Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS), as adopted by the European Union, and the parent company 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 36.

Our responsibility is to audit the financial statements in accordance with our engagement letter, and with accordance with International Auditing Standards (UK and Ireland).

Under the terms of our engagement letter we report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act as applicable to overseas companies. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes the specific information presented in the financial review that is cross-referred from the business review section of the directors' report. In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all of the information and explanation we require for our audit, or if the information specified by law regarding director's remuneration and other transactions are not disclosed.

In addition to our audit of the financial statements, the directors have engaged us to audit the information in the directors remuneration report that is described as having been audited, which the directors have decided to prepare as if the Company were required to comply with the requirements of schedule 7A to the Companies Act 1985. They have also engaged us to review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises the Chairman's Statement, Review of Operations and Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 and the part of the directors' remuneration report to be audited. 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the directors' remuneration report to be audited.

OPINION

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at December 31, 2008 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 as applicable to overseas companies and the directors' remuneration report has been properly prepared in accordance with the Companies Act 1985, as if the company were required to comply with the requirements of Schedule 7A to that Act;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at December 31, 2008; and
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985 as applicable to overseas companies.
- the information given in the Directors' Report is consistent with the financial statements.

Grant Thornton UK LLP
Chartered Accountants
Registered Auditor
London
March 6, 2009



Consolidated Income Statement Year Ended December 31, 2008

	Notes	2008 £000	2007 £000
CONTINUING OPERATIONS			
Revenue	3	112,743	100,107
Cost of sales		(71,887)	(62,842)
GROSS PROFIT		40,856	37,265
Other operating income		182	321
Distribution costs		(4,438)	(3,778)
Administrative expenses before amortization			
of non-current intangibles and non-recurring items		(25,250)	(23,248)
Amortization of non-current intangibles		(1,830)	(1,312)
Exceptional items			
Restructuring costs		(4,274)	-
Excess recovery of aborted acquisition costs		-	370
Total administrative expenses		(31,354)	(24,190)
PROFIT FROM OPERATIONS BEFORE AMORTIZATION OF NON-CURRENT INTANGIBLES AND NON-RECURRING ITEMS		11,350	10,560
OPERATING PROFIT	5	5,246	9,618
Finance income	7	421	412
Finance costs	8	(4,107)	(3,321)
PROFIT BEFORE TAX		1,560	6,709
Tax	9	(1,216)	(1,697)
PROFIT FOR THE YEAR		344	5,012
Attributable to:			
Equity holders of the parent		(117)	4,243
Minority interest		461	769
		344	5,012
EARNINGS PER SHARE			
From continuing operations			
Basic	10	(0.6)p	21.6p
Diluted	10	(0.6)p	21.1p

Consolidated Statement of Recognised Income and Expense Year Ended December 31, 2008

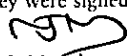
	2008 <u>£000</u>	2007 <u>£000</u>
Exchange differences on translation of foreign operations	3,562	111
Change in the fair value of cash flow hedges	<u>(2,801)</u>	<u>(1,110)</u>
NET INCOME (EXPENSE) RECOGNISED DIRECTLY IN EQUITY	761	(999)
 PROFIT FOR THE YEAR	 <u>344</u>	 <u>5,012</u>
TOTAL RECOGNISED INCOME FOR THE YEAR	<u>1,105</u>	<u>4,013</u>
 ATTRIBUTABLE TO:		
Equity holders of the parent	(590)	3,249
Minority interest	<u>1,695</u>	<u>764</u>
	<u>1,105</u>	<u>4,013</u>

Consolidated Balance Sheet at December 31, 2008

	Notes	2008 £000	2007 £000
NON-CURRENT ASSETS			
Goodwill	11	23,380	18,922
Other intangible assets	12	3,242	4,194
Property, plant and equipment	13	7,564	7,445
Deferred tax assets	21	1,172	1,080
Total non-current assets		35,358	31,641
CURRENT ASSETS			
Intangible assets: Pre-publication costs	15	32,222	24,946
Inventories	16	17,821	15,425
Derivative financial instruments	20	741	-
Trade and other receivables	17	38,484	31,811
Cash and cash equivalents	18	28,180	17,577
Total current assets		117,448	89,759
TOTAL ASSETS		152,806	121,400
CURRENT LIABILITIES			
Short term borrowing	23	(333)	(2,760)
Trade and other payables	24	(42,492)	(32,626)
Tax payable		(765)	(1,547)
Total current liabilities		(43,590)	(36,933)
NON CURRENT LIABILITIES			
Medium and long term borrowings	19	(80,234)	(58,190)
Deferred tax liabilities	21	(3,937)	(3,273)
Derivative financial instruments	20	(3,911)	(1,110)
Other payables		(20)	(29)
Total non-current liabilities		(88,102)	(62,602)
TOTAL LIABILITIES		(131,692)	(99,535)
NET ASSETS		21,114	21,865
EQUITY			
Share capital	25, 26	1,162	1,162
Paid in surplus	26	21,768	21,768
Retained deficit and other reserves	26	(7,021)	(5,025)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		15,909	17,905
MINORITY INTEREST	26	5,205	3,960
TOTAL EQUITY		21,114	21,865

The financial statements were approved by the Board of Directors and authorised for issue on March 6, 2009.

They were signed on its behalf by:


M. J. Mousley

Director

March 6, 2009

Consolidated Cash Flow Statement Year ending December 31, 2008

	Notes	2008 £000	2007 £000
PROFIT FOR THE YEAR		344	5,012
Adjustments for:			
Net finance costs		3,686	2,909
Depreciation of property, plant and equipment		1,089	1,038
Tax expense		1,216	1,697
Amortization of non-current intangible assets		1,830	1,312
Impairment of goodwill and non-current intangible assets		309	-
Amortization and loss on disposal of pre-publication costs		9,607	8,416
Movement in fair value of derivatives		(741)	-
Equity settled share – based payment expense		-	5
(Gain) Loss on disposal of property, plant and equipment		(9)	22
Operating cash flows before movements in working capital		17,331	20,411
Decrease in inventories		1,367	1,527
Increase in receivables		(1,106)	(1,674)
Increase in payables		6,171	1,384
Cash generated by operations		23,763	21,648
Income taxes paid		(1,093)	(798)
NET CASH FROM OPERATING ACTIVITIES		22,670	20,850
INVESTING ACTIVITIES			
Interest received		421	412
Proceeds on disposal of property, plant and equipment		183	119
Investment in pre-publication costs		(13,071)	(10,481)
Purchases of property, plant and equipment		(1,038)	(688)
Acquisition of subsidiaries		(293)	(17,941)
NET CASH USED IN INVESTING ACTIVITIES		(13,798)	(28,579)
FINANCING ACTIVITIES			
Dividends paid		(1,407)	(1,355)
Interest payments		(4,043)	(3,005)
Proceeds on issue of share capital		1	56
New bank loans raised		4,000	32,189
Repayment of bank loans		-	(15,916)
Dividends paid to minority interest		(248)	(226)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		(1,697)	11,743
NET INCREASE IN CASH AND CASH EQUIVALENTS		7,175	4,014
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		16,109	12,110
Foreign currency exchange differences on cash and cash equivalents		4,896	(15)
CASH AND CASH EQUIVALENTS AT END OF YEAR	18	28,180	16,109

Notes to the Accounts Year ending December 31, 2008

1. GENERAL INFORMATION

The Quarto Group, Inc is a company incorporated in the State of Delaware, United States. The address of the registered office is given on page 26. The nature of the group's operations and its principal activities are set out in Note 4 and in the Directors' Report on page 29.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the group operates. Foreign operations are included in accordance with the policies set out in Note 2.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the company as a separate entity and not about its group.

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS"). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 72 to 77.

Basis of accounting

The financial statements are prepared on the historical cost basis, except that the derivative financial instruments are stated at fair value.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by Management in the application of IFRS, that have a significant effect on the financial statements and accounting estimates are discussed in:

Note 11: Assessment of carrying value of goodwill

Note 15: Assessment of the useful life of pre-publication costs

Note 17: Assessment of the impairment, of trade receivables and the estimated allowance for sales returns

Note 21: Assessment of deferred tax liabilities

There are no judgements, apart from those involving estimations, that management has made in applying the Group's accounting policies. The accounting policies set out below have been applied to all periods presented.

Basis of consolidation

The Group financial statements include the results of the company and all of its subsidiary undertakings. 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.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

The interest of minority shareholders on an acquisition is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Notes to the Accounts Year ending December 31, 2008

Business combinations, intangible assets and goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents the excess of the cost of the acquisition over the fair value to the group of the net assets and any contingent liabilities acquired. In respect of acquisitions prior to January 1, 2004, goodwill is included on the basis of its deemed cost which represents the amount recorded previously under UK GAAP.

Goodwill arising on acquisitions is stated at cost less any accumulated impairment losses. From January 1, 2004, goodwill is allocated to cash-generating units and is no longer amortized but is tested annually for impairment. The businesses identified are individual cash-generating units. Prior to January 1, 1998, goodwill was written off to reserves in the year of acquisition.

Other intangible assets, such as backlists, that are acquired by the Group are stated at cost less accumulated amortization and impairment losses.

Amortization of intangible assets is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The amortization period for non-contractual relationships is 2.5 years and for backlists is between 4 and 10 years.

Impairment of property, plant and equipment and intangible assets including goodwill

The carrying amount of the Group's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow valuation. For goodwill, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Revenue recognition

Revenue represents invoiced value of sales less anticipated returns excluding customer sales taxes and inter-group sales. The estimated allowance for sales returns is based on a review of the historical return patterns associated with the various sales outlets, as well as current market trends in the businesses in which the Group operates. Revenues are recognised on despatch of goods and when the significant risks and rewards of ownership have been passed to the buyer.

Leasing

Where assets are acquired under finance leases (including hire purchase contracts), which confer risks and rewards similar to those attached to owned assets, the amount representing the outright purchase price of such assets is included in property, plant and equipment. All other leases are classified as operating leases. Depreciation is provided in accordance with the accounting policy below. The capital element of future finance lease payments is included in liabilities and the interest element is charged to the income statement over the period of the lease in proportion to the capital element outstanding. Expenditure on operating leases is charged to the income statement on a straight line basis.

Foreign currencies

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at that date with any exchange differences arising on retranslation being recognised in the income statement.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into sterling at average annual exchange rates. Foreign exchange differences arising on retranslation are recognised directly in a separate translation reserve within equity.

Exceptional items

Exceptional items are non-recurring items that, in management's judgement, need to be disclosed by virtue of their size or incidence in order for the user to obtain a proper understanding of the financial information.

Notes to the Accounts Year ending December 31, 2008

Retirement benefit costs

The Group's pension costs relate to individual pension plans and are charged to the income statement as they fall due.

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, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or a liability unless the related transaction is a business combination or effects tax or accounting profit. Not all temporary differences give rise to deferred tax assets / liabilities. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity, in which case the related deferred tax is also charged or credited directly to equity.

Property, plant and equipment

Property, plant and equipment are stated at deemed cost less accumulated depreciation and any provision for impairments in value. The Group recognises in the carrying amount of property, plant and equipment the subsequent costs of replacing part of such items when there are future economic benefits. All other costs are recognised in the income statement as an expense as they are incurred.

Depreciation is provided on a straight-line basis to write off the cost, less the estimated residual value, of property, plant and equipment over their estimated useful lives, which are reviewed annually. Where parts of an item of plant and equipment have separate lives, they are accounted for and depreciated as separate items. Residual values are reassessed on an annual basis. Land is not depreciated.

Estimated useful lives are as follows:

Freehold and long leasehold property – 50 years

Short leasehold property – over the period of the lease

Plant, equipment and motor vehicles – 4 to 10 years

Fixtures and fittings – 5 to 7 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Pre-publication costs

Pre-publication costs represent direct costs incurred in the development of book titles prior to their publication. These costs are carried forward in current intangible assets where the book title will generate future economic benefits and costs can be measured reliably. These costs are amortized upon publication of the book title over estimated economic lives of 3 years or less, being an estimate of the expected operating cycle of a book title. The investment in pre-publication has been disclosed as part of the investing activities in the cash flow statement.

Inventories

Inventory is valued at the lower of cost, including an appropriate portion of overheads, and net realisable value, on a first in, first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the group becomes a party to the contractual provisions of the instrument.

Notes to the Accounts Year ending December 31, 2008

Financial Assets

Financial assets other than hedging instruments are divided into the following categories:

- loans and receivables
- financial assets at fair value through profit or loss

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses is recognised in profit or loss or directly in equity. See Note 34 for a summary of the Group's financial assets by category.

Generally, the Group recognises all financial assets using trade date accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expense relating to financial assets, with the exception of trade receivables which is described above, are recognised in the income statement line item "finance costs" or "finance income", respectively.

Loans and receivables, including trade receivables, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, at fair value, these are measured at amortized cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss. The Group's trade and most other receivables fall into this category of financial instruments. Discounting, however, is omitted where the effect of discounting is immaterial.

Significant receivables are considered for impairment on a case-by-case basis when they are past due at the balance sheet date or when objective evidence is received that a specific counterparty will default. All other receivables are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics, if any. The percentage of the write down is then based on recent historical counterparty default rates for each identified group.

Any gain or loss arising from derivative financial instruments is based on changes in fair value, which is determined by direct reference to active market transactions or using a valuation technique where no active market exists.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with gains and losses reported in the income statement.

Financial Liabilities

The Group's financial liabilities include borrowings, trade and other payables (including finance lease liabilities). After initial recognition at fair value, these are measured at amortized cost using the effective interest rate method. A summary of the Group's financial liabilities by category is given in Note 34.

All of the Group's derivative financial instruments that are not designated as hedging instruments in accordance with the strict conditions explained under the heading "Derivative financial instruments and hedge accounting", are accounted for at fair value through profit or loss by definition.

Notes to the Accounts Year ending December 31, 2008

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Finance costs

Finance costs comprise interest payable on borrowings calculated using the effective interest methods.

Finance income

Finance income comprises interest receivable, which is recognised in the income statement as it accrues using the effective interest method, and dividend income, which is recognised in the income statement when the right to receive payment is established.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprises cash balances, call deposits and bank overdrafts that form an integral part of the Group's cash management processes.

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at fair value on initial recognition, net of transaction costs. Finance charges and issue costs are accounted for at amortized cost on the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses interest rate swap contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on the use of financial derivatives.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. If the cash flow of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in initial recognition of that asset or liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Notes to the Accounts Year ending December 31, 2008

Compound Financial Instruments

Convertible loan notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments.

Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds. The equity component of the convertible notes is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the income statement is calculated using the effective interest rate method.

Treasury Shares

Treasury shares represent holdings of the Company's own equity instruments. No gain or loss is recognised in the profit and loss account on the purchase, issue or cancellation of these equity instruments. Consideration paid or received is recognised directly in equity.

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based payments.

The Group issues equity settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value, determined at the grant date, of equity settled-share based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

The fair value of employee share option grants is calculated using a binomial model, taking into account the terms and conditions upon which the options were granted. The value of the charge is adjusted to reflect expected and actual levels of options vesting. No significant balances arise, therefore the disclosure requirements of IFRS 2 have not been shown, due to the immateriality of the accounts involved.

Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

Financial risk management

The principal risk factors faced by the Group are disclosed in Note 35 and on page 28.

Equity Instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

IFRSs and interpretations issued not yet effective

The following Adopted IFRSs and interpretations, which are expected to have an impact in future years, were available for early application but have not been applied by the Group in these financial statements:

IAS 1	Presentation of Financial Statements
IAS 23	Borrowing Costs
Amendment to IAS 39	Financial Instruments: Recognition and Measurement – Eligible Hedged Items
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRS 3	Business combinations.
IFRS 8	Operating segments.
Improvements to IFRSs	

The introduction of IAS 1 will result in a significant impact on the presentation of the primary statements.

Notes to the Accounts Year ending December 31, 2008

3. REVENUE

An analysis of the group's revenue is as follows:

	2008 £000	2007 £000
Sales of goods	112,743	100,107
Revenue	112,743	100,107
Other operating income	182	321
Finance income	421	412
Total income	113,346	100,840

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the group is currently organised into two business segments: Co-edition Publishing and Publishing. These segments are the basis on which the group reports its primary segment information.

The information about these segments is presented below.

	CO-EDITION PUBLISHING 2008 £000	CO-EDITION PUBLISHING 2007 £000	PUBLISHING 2008 £000	PUBLISHING 2007 £000	TOTAL 2008 £000	TOTAL 2007 £000
REVENUE						
Total sales	44,861	40,287	70,033	61,732	114,894	102,019
Inter-segment revenue	(2,148)	(1,907)	(3)	(5)	(2,151)	(1,912)
External sales	42,713	38,380	70,030	61,727	112,743	100,107
Segment result before amortization of non-current intangibles and exceptional items	6,397	5,215	6,259	6,435	12,656	11,650
Amortization of non-current intangibles	(12)	(12)	(1,818)	(1,300)	(1,830)	(1,312)
Restructuring costs	-	-	(4,274)	-	(4,274)	-
Segment result	6,385	5,203	167	5,135	6,552	10,338
Excess recovery of aborted acquisition costs					-	370
Unallocated corporate expenses					(1,306)	(1,090)
Profit from operations					5,246	9,618
Investment income					421	412
Finance costs					(4,107)	(3,321)
Profit before tax					1,560	6,709
Tax					(1,216)	(1,697)
Profit after tax					344	5,012

Inter-segment revenues are on an arms-length basis.

Notes to the Accounts Year ending December 31, 2008

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

	CO-EDITION PUBLISHING 2008 £000	CO-EDITION PUBLISHING 2007 £000	PUBLISHING 2008 £000	PUBLISHING 2007 £000	TOTAL 2008 £000	TOTAL 2007 £000
Capital additions	184	177	854	511	1,038	688
Depreciation	324	309	765	729	1,089	1,038
Amortization of non-current intangibles	12	12	1,818	1,300	1,830	1,312
Investment in pre-publication costs	6,798	6,460	6,273	4,021	13,071	10,481
Amortization of pre-publication costs	<u>5,084</u>	<u>5,132</u>	<u>4,445</u>	<u>3,284</u>	<u>9,529</u>	<u>8,416</u>

There are no other significant non-cash expenses.

BALANCE SHEET

ASSETS

Segment assets	<u>36,100</u>	<u>40,853</u>	<u>86,613</u>	<u>62,207</u>	122,713	103,060
Unallocated corporate assets					<u>30,093</u>	<u>18,340</u>
Consolidated total assets					<u>152,806</u>	<u>121,400</u>

LIABILITIES

Segment liabilities	<u>19,740</u>	<u>16,121</u>	<u>22,772</u>	<u>16,534</u>	42,512	32,635
Unallocated corporate liabilities					<u>89,182</u>	<u>66,880</u>
Consolidated total liabilities					<u>131,692</u>	<u>99,535</u>

GEOGRAPHICAL SEGMENTS

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Revenue 2008 £000	Revenue 2007 £000
United Kingdom	17,109	16,385
United States of America	54,717	48,750
Australia and Far East	20,904	19,605
Europe	15,793	11,266
Rest of the World	<u>4,220</u>	<u>4,101</u>
	<u>112,743</u>	<u>100,107</u>

The following is an analysis of the carrying amount of segment assets and capital additions analysed by the geographical area in which the assets are located:

	Assets 2008 £000	Assets 2007 £000	Capital Additions 2008 £000	Capital Additions 2007 £000
United Kingdom	34,391	39,192	617	343
United States of America	69,042	45,255	276	218
Other	<u>19,280</u>	<u>18,613</u>	<u>145</u>	<u>127</u>
	<u>122,713</u>	<u>103,060</u>	<u>1,038</u>	<u>688</u>

Notes to the Accounts Year ending December 31, 2008

5. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging/(crediting):

	2008	2007
	£000	£000
(Profit) loss on sale of property, plant and equipment	(9)	22
Depreciation of property, plant and equipment	1,089	1,038
Net foreign currency exchange losses	91	62
Amortization of non-current intangibles	1,830	1,312
Amortization of pre-publication costs	9,529	8,416
Staff costs (see Note 6)	18,807	16,472
Auditors' remuneration (see below)	164	121
Cost of inventory recognised as an expense	27,307	24,110
Restructuring costs	4,274	-
Excess recovery of aborted acquisition costs	-	(370)

Restructuring costs primarily relate to charges associated with the discontinuance of the art print publishing businesses and the consolidation of the US warehouse and back office functions.

Auditors' remuneration

Fees payable to the Company's auditor for the audit of the Company's annual accounts	36	34
Fees payable to the Company's auditor and its associates for other services		
The audit of the Company's subsidiaries pursuant to legislation	128	87
	<u>164</u>	<u>121</u>

6. STAFF COSTS

	2008	2007
	Number	Number
The average monthly number of employees (including executive directors) was:	<u>541</u>	<u>511</u>
	£000	£000
Their aggregate remuneration comprised:		
Wages and salaries	16,798	14,778
Social security costs	1,371	1,147
Other pension costs	638	542
Equity settled share based payment expense	-	5
	<u>18,807</u>	<u>16,472</u>

Directors' remuneration is disclosed in Note 31.

7. FINANCE INCOME

	2008	2007
	£000	£000
Interest income on financial assets carried at amortized cost	<u>421</u>	<u>412</u>

Notes to the Accounts Year ending December 31, 2008

8. FINANCE COSTS

	2008 £000	2007 £000
Interest expense for borrowings at amortized cost	4,053	3,289
Interest expense for finance lease arrangements	54	32
Total finance costs	<u>4,107</u>	<u>3,321</u>

9. TAX

	2008 £000	2007 £000
Current tax:	329	1,074
Deferred tax (Note 21):		
Current year origination and reversal of temporary differences	887	623
	<u>1,216</u>	<u>1,697</u>

Corporation tax on UK profits is calculated at 28.5%, based on the UK standard rate of corporation tax, (2007: 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2008 £000	2008 %	2007 £000	2007 %
Profit before tax	<u>1,560</u>		<u>6,709</u>	
Tax at the UK corporation tax rate of 28.5% (2007: 30%)	445		2,013	
Tax effect of utilisation of tax losses not previously recognised	–		(125)	
Tax on exceptional losses not utilised	1,090		–	
Effect of different tax rates of subsidiaries operating in other jurisdictions	(251)		(155)	
Adjustment to tax rate on deferred tax liability	(171)		–	
Other, including tax effect of expenses that are not deductible in determining taxable profit	103		(36)	
Tax expense and effective tax rate for the year	<u>1,216</u>	<u>77.9%</u>	<u>1,697</u>	<u>25.3%</u>

Notes to the Accounts Year ending December 31, 2008

10. EARNINGS PER SHARE

From continuing operations

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings

	2008	2007
	<u>£000</u>	<u>£000</u>
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	(117)	4,243
Effect of dilutive potential ordinary shares:		
Interest on loan notes (net of tax)	<u>-</u>	<u>26</u>
Earnings for the purposes of diluted earnings per share	<u>(117)</u>	<u>4,269</u>

Number of shares

	<u>Number</u>	<u>Number</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share	19,678,237	19,643,747
Effect of dilutive potential ordinary shares:		
Share options	-	55,643
Dilutive loan note	<u>-</u>	<u>537,144</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>19,678,237</u>	<u>20,236,534</u>

	2008	2007
	<u>pence</u>	<u>pence</u>
Basic	<u>(0.6)p</u>	<u>21.6p</u>
Diluted	<u>(0.6)p</u>	<u>21.1p</u>

The dilutive effect of share options (24,896 shares) and the loan note (317,871 shares) have not been included in the above calculations because they are not dilutive in the current year. The dilutive effect of these items has, however, been included in the calculation below because the items are dilutive on adjusted earnings. The total shares for the calculation become 20,021,004 shares.

Adjusted earnings

Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	(117)	4,243
Amortization of non-current intangibles (net of tax and minority interest)	1,210	905
Restructuring costs (net of tax and minority interest)	4,197	-
Excess recovery of aborted acquisition costs (net of tax)	<u>-</u>	<u>(242)</u>
Earnings for the purposes of adjusted earnings per share	5,290	4,906
Effect of dilutive potential ordinary shares:		
Interest on loan notes (net of tax)	<u>16</u>	<u>26</u>
Earnings for the purposes of diluted earnings per share	<u>5,306</u>	<u>4,932</u>
	2008	2007
	<u>pence</u>	<u>pence</u>
Basic	<u>26.9p</u>	<u>25.0p</u>
Diluted	<u>26.5p</u>	<u>24.4p</u>

Notes to the Accounts Year ending December 31, 2008

II. GOODWILL

	2008 £000	2007 £000
Cost		
At January 1	18,922	9,710
Exchange differences	4,685	221
Recognised on acquisitions	—	8,991
At December 31	<u>23,607</u>	<u>18,922</u>
Accumulated impairment losses		
At January 1	—	—
Impairment losses for year	(227)	—
At December 31	<u>(227)</u>	<u>—</u>
Carrying amount		
At December 31	<u>23,380</u>	<u>18,922</u>

The comparative information for the year ended December 31, 2007 has been restated for acquisition accounting adjustments that have been finalised in relation to the acquisition made in the second half of 2007. The comparative information has been restated in accordance with IFRS3 Business Combinations. The impact of the restatement is to increase goodwill, deferred tax assets and trade and other payables by £615,000, £317,000 and £54,000 respectively and to reduce intangible assets: pre-publication costs, inventories and trade and other receivables by £133,000, £271,000 and £474,000 respectively.

Impairment tests for cash generating units containing goodwill.

The following units have significant carrying amounts of goodwill:

MBI	12,114	8,887
Quayside	4,436	3,255
Premier	2,297	2,138
Marshall	1,861	1,861
Others	2,672	2,781
	<u>23,380</u>	<u>18,922</u>

The recoverable amount of each cash generating unit ("CGU") is based on value in use basis. The key assumptions used in the value in use calculations were:

Discount rate; based on a risk free rate of 6.6%, which reflects current assessments of the time value of money.

Cash flow projections; have been adjusted for risks specific to the CGUs for next year based on the most recent financial budgets, and are extrapolated over a further 20 years. Management believe that 20 years is an appropriate period for cash flows to be extrapolated because the businesses are long term stable businesses with a good reprint history.

Cash flow growth rates; based on a growth rate of 2% to reflect risk.

Changes in selling prices and direct costs; based on past experience and expectations of future changes in the market.

The Group's impairment review is sensitive to a change in the key assumptions used, most notably, the discount rate. If a discount rate of 8% were used, there would be a goodwill impairment of approximately £1.3 million.

Notes to the Accounts Year ending December 31, 2008

12. OTHER INTANGIBLE ASSETS

	Non Contractual Relationships £000	Backlists £000	Total £000
Cost			
At January 1, 2007	360	5,790	6,150
Acquired on acquisition of subsidiaries	150	2,400	2,550
Exchange differences	27	(64)	(37)
At December 31, 2007 and January 1, 2008	537	8,126	8,663
Exchange differences	70	2,849	2,919
At December 31, 2008	607	10,975	11,582
Amortization and Impairment			
At January 1, 2007	360	2,803	3,163
Exchange differences	26	(32)	(6)
Charge for the year	20	1,292	1,312
At December 31, 2007 and January 1, 2008	406	4,063	4,469
Impairment	–	82	82
Exchange differences	40	1,919	1,959
Charge for the year	65	1,765	1,830
At December 31, 2008	511	7,829	8,340
Carrying Amount			
At December 31, 2008	96	3,146	3,242
At December 31, 2007	131	4,063	4,194
At January 1, 2007	–	2,987	2,987

Notes to the Accounts Year ending December 31, 2008

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold Property £000	Leasehold Property Improvements £000	Plant Equipment and Motor Vehicles £000	Fixtures and Fittings £000	Total £000
Group					
Cost:					
At January 1, 2007	4,704	567	6,225	1,197	12,693
Exchange differences	1	(4)	29	(7)	19
Additions	-	60	451	177	688
Subsidiaries acquired	250	-	2	101	353
Disposals	-	(108)	(403)	(71)	(582)
At December 31, 2007 and January 1, 2008	4,955	515	6,304	1,397	13,171
Exchange differences	189	74	693	235	1,191
Additions	2	53	801	182	1,038
Disposals	-	(144)	(914)	(398)	(1,456)
At December 31, 2008	5,146	498	6,884	1,416	13,944
Depreciation:					
At January 1, 2007	311	300	3,791	790	5,192
Exchange differences	-	(2)	2	(5)	(5)
Charge for the year	58	106	711	163	1,038
Disposals	-	(91)	(346)	(62)	(499)
At December 31, 2007 and January 1, 2008	369	313	4,158	886	5,726
Exchange differences	4	48	630	165	847
Charge for the year	65	65	784	175	1,089
Disposals	-	(132)	(764)	(386)	(1,282)
At December 31, 2008	438	294	4,808	840	6,380
Net book value:					
At December 31, 2008	4,708	204	2,076	576	7,564
At December 31, 2007	4,586	202	2,146	511	7,445

The net book value of plant, equipment and motor vehicles included £1,149,000 (2007: £980,000) in respect of assets held under hire purchase contracts. The depreciation charged on these assets during the year was £254,000 (2007: £242,000).

The total cost of freehold property comprises £3,056,000 in respect of buildings and £2,090,000 in respect of land. 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 45, the Directors have chosen to hold the cost of freehold properties at previous valuations on transition to International Financial Reporting Standards. The cost of freehold property held at previous valuations comprises buildings of £1,593,000 and land of £1,321,000.

Notes to the Accounts Year ending December 31, 2008

14. SUBSIDIARIES

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in Note 4 to the company's separate financial statements. All of these subsidiaries are included in the consolidated results.

15. INTANGIBLE ASSETS-PRE-PUBLICATION COSTS

	2008	2007
	<u>£000</u>	<u>£000</u>
Cost		
At January 1	34,958	28,748
Exchange differences	5,627	(2)
Acquired on acquisition of subsidiaries	-	2,223
Additions	13,071	10,481
Disposals	(8,100)	(6,220)
At December 31	<u>45,556</u>	<u>34,958</u>
Amortization		
At January 1	10,012	7,829
Exchange differences	1,815	(13)
Charge for the year	9,529	8,416
Disposals	(8,022)	(6,220)
At December 31	<u>13,334</u>	<u>10,012</u>
Carrying amounts	<u>32,222</u>	<u>24,946</u>

The assessment of the useful life of pre-publication costs and amortization involve a significant amount of judgement based on historical trends and management estimates of future potential sales, in accordance with the accounting policy stated in Note 2. An overstatement of useful lives could result in excess amounts being carried forward in intangible assets that otherwise would have been written off to the income statement in an earlier period. Reviews are performed regularly to assess the recoverability of the carrying amount.

16. INVENTORIES

	2008	2007
	<u>£000</u>	<u>£000</u>
Finished goods	16,925	14,553
Work in progress	636	433
Raw materials	260	439
	<u>17,821</u>	<u>15,425</u>

Notes to the Accounts Year ending December 31, 2008

17. TRADE AND OTHER RECEIVABLES

	2008 £000	2007 £000
Trade receivables	32,789	27,121
Other receivables and prepayments	5,695	4,690
	<u>38,484</u>	<u>31,811</u>

The average credit period on sales of goods is 75 days (2007: 72 days).

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and a provision of £1,001,000 (2007: £1,169,000) has been recorded accordingly. The impaired trade receivables are companies which are experiencing trading difficulties.

In addition, some of the unimpaired trade receivables are past due as at the reporting date. The extent of financial assets past due but not impaired is as follows:

	2008 £000	2007 £000
Less than one month	4,249	2,894
More than one month but less than two months	823	1,333
More than two months but less than three months	482	423
More than three months but less than six months	327	156
More than six months	135	97
	<u>6,016</u>	<u>4,903</u>

The Group has not provided against these receivables as there has not been a significant change in credit quality and the Group believes they are still recoverable. No collateral is held over these balances.

Movement in allowance for doubtful debts	2008 £000	2007 £000
Balance at beginning of year	1,169	1,755
Acquisition of subsidiaries	-	173
Amounts written off in the year	(744)	(1,533)
Amounts recovered during the year	50	201
Exchange difference	141	20
Increase in allowance recognised in profit or loss	<u>385</u>	<u>553</u>
Balance at end of the year	<u>1,001</u>	<u>1,169</u>

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Trade receivables are disclosed after deducting a reserve for sales returns. The reserve is calculated based on a time lag between sales and returns and historical return patterns.

Notes to the Accounts Year ending December 31, 2008

18. CASH AND CASH EQUIVALENTS

	2008	2007
	£000	£000
Bank balances	14,725	10,776
Short term deposits	13,455	6,801
	28,180	17,577
Bank overdraft (Note 23)	-	(1,468)
Cash and cash equivalents for cash flow statement	28,180	16,109

The carrying amount of these assets approximates their fair value.

The effective interest rates on bank balances and short term deposits was 1.7% (2007: 4.0%).

19. MEDIUM AND LONG TERM LOANS

	2008	2007
	£000	£000
Bank loans	80,083	58,103
Obligations under finance leases (see Note 22)	151	87
	80,234	58,190

The borrowings (excluding obligations under finance leases) are repayable as follows:

On demand or within one year	134	2,425
In the second year	134	134
In the third to fifth years inclusive	68,710	41,339
After five years	11,239	16,630
	80,217	60,528
Less: Amount due for settlement within 12 months (shown under current liabilities)	(134)	(2,425)
Amount due for settlement after 12 months	80,083	58,103

Notes to the Accounts Year ending December 31, 2008

19. MEDIUM AND LONG TERM LOANS (continued)

	Total £000	Fixed rate borrowings £000	Variable rate borrowings £000	Weighted average interest rate for fixed rate borrowings %	Average time over which interest rate is fixed Months
US dollar borrowings	63,894	43,836	20,058	6.6%	50
Other currency borrowings	<u>16,323</u>	<u>—</u>	<u>16,323</u>	<u>—</u>	<u>—</u>
As at December 31, 2008	<u>80,217</u>	<u>43,836</u>	<u>36,381</u>	<u>6.6%</u>	<u>50</u>
US dollar borrowings	47,706	25,452	22,254	6.8%	67
Other currency borrowings	<u>12,822</u>	<u>—</u>	<u>12,822</u>	<u>—</u>	<u>—</u>
As at December 31, 2007	<u>60,528</u>	<u>25,452</u>	<u>35,076</u>	<u>6.8%</u>	<u>67</u>

The variable rate borrowings bear interest by reference to LIBOR plus a margin.

At December 31, 2008, undrawn borrowing facilities totaled £37,002,000 (2007: £29,601,000).

The Directors estimate the fair value of the Group's borrowings to be equal to book value, by reference to market rates.

The above borrowings carry interest at commercial rates ranging from 2.2% to 9.2%. Bank loans include £671,000 (2007: £806,000) which is secured on a freehold property, with a carrying value of £2,014,000 (2007: £2,040,000). All other bank loans are unsecured.

The Group has a US\$115m (2007: US\$115m) syndicated bank facility which expires on June 12, 2012. In addition, the group has a six year floating rate of US\$50m (2007: US\$50m). These facilities are subject to three principal covenants, namely:

- (a) Total consolidated net indebtedness shall not exceed 3 times (proforma) EBITDA. For the year ended December 31, 2008, net indebtedness was 2.38 times (2007: 2.03 times) EBITDA. Most of the borrowings are in US dollars, which were converted at the year end exchange rate of 1.46, whereas the US dollar earnings that are included in EBITDA were converted at an average exchange rate of 1.86.
- (b) The consolidated operating profit before exceptional items and goodwill amortization shall exceed three times net interest payable. For the year ended December 31, 2008, net interest payable was 3.08 times (2007: 3.63 times) covered under this covenant.
- (c) The consolidated operating profit before goodwill amortization shall exceed 1.5 times net interest payable. For the year ended December 31, 2008, net interest payable was 1.92 times (2007: 3.76 times) covered under this covenant.

20. OTHER FINANCIAL ASSETS/LIABILITIES

In the reporting periods under review, other financial assets/liabilities comprise derivative financial instruments as follows:

	2008 £000	2007 £000
Current financial assets		
Derivative financial assets – exchange rate swap	<u>741</u>	<u>—</u>
Non-current financial liabilities		
Derivative financial instruments – interest rate swaps	<u>5,432</u>	<u>1,110</u>

Notes to the Accounts Year ending December 31, 2008

20. OTHER FINANCIAL ASSETS/LIABILITIES (continued)

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses exchange rate swaps to hedge exchange rate exposures. The Group uses interest rate swap contracts to hedge the interest rate exposure on US Dollar variable rate borrowings of \$64,000,000. The Group does not use derivative financial instruments for speculative purposes. All interest rate swaps have been designated as hedging instruments in cash flow hedges in accordance with IAS 39. The Group's interest rate swaps have been designed to match the corresponding loan terms to maximise the effectiveness of the hedging instrument. There was no ineffectiveness during the year and all movements were recorded in equity.

The following table details the principal amounts and the remaining terms of interest rate swap contracts outstanding at the reporting date:

	Average interest rate		Principal		Fair value	
	2008 %	2007 %	2008 £000	2007 £000	2008 £000	2007 £000
Within two to five years	6.5%	7.0%	38,357	8,040	(3,190)	(403)
After five years	7.1%	6.8%	5,479	16,583	(721)	(707)
			<u>43,836</u>	<u>24,623</u>	<u>(3,911)</u>	<u>(1,110)</u>

The fair value of interest rate swaps is determined by using the hypothetical derivative method.

21. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the group and movements thereon during the current and prior reporting period.

	Amount Provided	
	2008 £000	2007 £000
Deferred taxation provided in the financial statements is as follows:		
Excess of capital allowances over depreciation – UK	189	224
Provision on property revaluation – UK	284	284
Other temporary differences – UK	2,996	2,499
	<u>3,469</u>	<u>3,007</u>
Other overseas temporary differences	468	266
	<u>3,937</u>	<u>3,273</u>
Deferred taxation assets		
Other temporary differences – Other overseas	(9)	(123)
Intangible assets – US	(1,432)	(819)
Provisions – US	269	(78)
	<u>(1,172)</u>	<u>(1,080)</u>
Net deferred taxation liability	<u>2,765</u>	<u>2,193</u>

The movement on the net provision for deferred taxation is as follows:

	Amount Provided	
	2008 £000	2007 £000
Net provision at January 1	2,193	4,206
Exchange difference through reserves	(315)	(15)
Acquisitions	–	(2,621)
Charge to income and expenditure account	887	623
Net provision at December 31	<u>2,765</u>	<u>2,193</u>

Notes to the Accounts Year ending December 31, 2008

21. DEFERRED TAX (continued)

At the balance sheet date, the group has unused tax losses of £2,251,000 (2007: £1,977,000) available for offset against future profits. A deferred tax asset has not been recognised in respect of such losses, due to the unpredictability of future profit streams.

Included in unrecognised tax losses are losses of £1,894,000 (2007: £1,620,000) that will expire in the following years:

	2008	2007
	£000	£000
Year ending December 31		
2009	-	228
2010	981	760
2011	57	39
2012	389	270
2013	308	214
2014	159	109
	<u>1,894</u>	<u>1,620</u>

Other losses may be carried forward indefinitely.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £2,457,000 (2007: £1,724,000). No liability has been recognised in respect of these differences because the group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

22. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments	
	2008	2007
	£000	£000
Amounts payable under finance leases:		
Within one year	221	377
In the second to fifth years inclusive	169	96
	<u>390</u>	<u>473</u>
Less: future finance charges	(40)	(51)
	<u>350</u>	<u>422</u>
Less: Amount due for settlement within 12 months (Note 23)	(199)	(335)
Amount due for settlement after 12 months	<u>151</u>	<u>87</u>

It is the group's policy to lease certain of its plant, equipment and motor vehicles under finance leases. For the year ended December 31, 2008, the average effective borrowing rate was 6.5% (2007: 6.1%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in sterling.

The fair value of the Group's lease obligations approximates to their carrying amount.

The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

Notes to the Accounts Year ending December 31, 2008

23. SHORT TERM BORROWINGS

	2008 £000	2007 £000
Current loan instalments	134	134
Loan note	-	823
Bank overdrafts	-	1,468
Borrowings (Note 19)	134	2,425
Finance lease obligations (Note 22)	199	335
	<u>333</u>	<u>2,760</u>

The carrying amount of these liabilities approximates to their fair value.

The effective interest rate on the bank overdrafts in 2007 was 6.7%.

24. TRADE AND OTHER PAYABLES

	2008 £000	2007 £000
Trade payables	35,839	26,523
Other payables	6,653	6,103
	<u>42,492</u>	<u>32,626</u>

The average credit period for trade purchases is 104 days (2007: 100 days). The Directors consider that the carrying amount of trade payables approximates to their fair value.

25. SHARE CAPITAL

Authorised:

28,000,000 (2007: 28,000,000) shares of common stock of par value US\$0.10 each ("shares of common stock") with an aggregate nominal value of US\$2,800,000 (2007: US\$2,800,000).

	2008 £000	2007 £000
Equity share capital		
Allotted, called up and fully paid:		
Shares of common stock of par value US\$0.10 each		
20,444,550 (2007: 20,444,550)	<u>1,162</u>	<u>1,162</u>

The Company has one class of common stock which carry no right to fixed income.

Notes to the Accounts Year ending December 31, 2008

26. RETAINED DEFICIT AND OTHER RESERVES

	Share Capital £000	Paid in surplus £000	Hedging reserve £000	Translation reserve £000	Treasury shares £000	Retained deficit £000	Equity attributable to equity holders of the parent £000	Minority interest £000	Total £000
Balance at January 1, 2007	1,162	21,740	-	(945)	(417)	(5,589)	15,951	3,677	19,628
Total recognised income and expense	-	-	(1,110)	116	-	4,243	3,249	764	4,013
Share options exercised	-	28	-	-	28	-	56	-	56
Equity-settled transactions, net of tax	-	-	-	-	-	4	4	-	4
Dividends to shareholders	-	-	-	-	-	(1,355)	(1,355)	-	(1,355)
Dividends paid to minority interest	-	-	-	-	-	-	-	(226)	(226)
Purchase of minority interest	-	-	-	-	-	-	-	(255)	(255)
Balance at December 31, 2007	1,162	21,768	(1,110)	(829)	(389)	(2,697)	17,905	3,960	21,865
Balance at January 1, 2008	1,162	21,768	(1,110)	(829)	(389)	(2,697)	17,905	3,960	21,865
Total recognised income and expense	-	-	(2,801)	2,328	-	(117)	(590)	1,695	1,105
Share options exercised by employees	-	-	-	-	1	-	1	-	1
Dividends to shareholders	-	-	-	-	-	(1,407)	(1,407)	-	(1,407)
Dividends paid to minority interest	-	-	-	-	-	-	-	(248)	(248)
Purchase of minority interest	-	-	-	-	-	-	-	(202)	(202)
Balance at December 31, 2008	1,162	21,768	(3,911)	1,499	(388)	(4,221)	15,909	5,205	21,114

Notes to the Accounts Year ending December 31, 2008

26. RETAINED DEFICIT AND OTHER RESERVES

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the closing balance sheets of foreign operations of the Company and the results of foreign operations of the Company since January 1, 2004.

Treasury stock

Treasury stock represents the Company's purchase of its own shares. The Company owns 765,321 (2007: 767,321) shares, representing 3.7% (2007: 3.8%) of its shares of common stock. The change during the year was for the issue of shares in satisfaction of options exercised on June 30, 2008.

	2008	2007
	£000	£000
Dividends		
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the year ended December 31, 2008 of 3.15p (2007: 3.15p) per share.	620	619
Final dividend for the year ended December 31, 2007 of 4.0p (2006: 3.75p) per share.	787	736
	<u>1,407</u>	<u>1,355</u>
Proposed final dividend for the year ended December 31, 2008 of 4.0p (2007: 4.0p) per share.	787	787
	<u>787</u>	<u>787</u>

The proposed final dividend is subject to approval by shareholders at the Annual Meeting and has not been included as a liability in these financial statements.

Notes to the Accounts Year ending December 31, 2008

27. NOTES TO THE CASH FLOW STATEMENT

Additions to property, plant and equipment during the year amounting to £379,000 (2007: £67,000) were financed by new finance leases.

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

28. CONTINGENT LIABILITIES

The Quarto Group, Inc. has issued guarantees in respect of £Nil of overdrafts of subsidiaries (2007: £1,468,000) and bank loans of £80,217,000 (2007: £58,231,000). The Group has also issued guarantees in respect of £350,000 (2007: £422,000) of hire purchase creditors and a loan note of subsidiaries £Nil (2007: £829,000). There are other contingent liabilities, arising in the ordinary course of business, in respect of litigation, which the Directors believe will not have a significant effect on the financial position of the Group.

29. OPERATING LEASE ARRANGEMENTS AND OTHER FINANCIAL COMMITMENTS

	2008 £000	2007 £000
Minimum lease payments under operating leases recognised in income for the year	1,638	1,546

At the balance sheet date, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2008 £000	2007 £000
Within one year	1,127	1,439
In the second to fifth years inclusive	1,729	2,553
After five years	-	66
	2,856	4,058

Operating lease payments represent rentals payable by the group, primarily for its office properties.

Capital commitments at the year end for which no provision had been made was £Nil (2007: £310,000).

30. SHARE OPTIONS

At December 31, 2008, the following share options over shares of common stock were outstanding under the Company's Executive Share Option Schemes.

Number of shares	Date exercisable	Option price per share
9,000	February 22, 2003 – February 21, 2010	£1.115
6,000	February 15, 2005 – February 14, 2009	£0.67
3,000	February 15, 2005 – February 14, 2012	£0.67
20,000	February 14, 2006 – February 13, 2010	£0.83
14,500	February 14, 2006 – February 13, 2013	£0.83
29,686	September 30, 2007 – September 29, 2011	£1.63
22,314	September 30, 2007 – September 29, 2014	£1.63

Notes to the Accounts Year ending December 31, 2008

31. REMUNERATION OF KEY MANAGEMENT PERSONNEL

The remuneration of the directors, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 34 to 35.

	2008	2007
	<u>£000</u>	<u>£000</u>
Short term employee benefits	1,007	883
Other long term benefits	<u>172</u>	<u>153</u>
	<u>1,179</u>	<u>1,036</u>

32. DIRECTORS' TRANSACTIONS

During the year R. J. Morley maintained a current account with the Group. The debit balance on this account was less than £5,000 throughout the year. The balance at the year end was £2,000 (2007: £nil). During the year L. F. Orbach loaned money to the Group and has earned an arm's length return of 2%. The total amount of interest earned during the year was £2,000 (2007: £3,000). The balance outstanding at the beginning of the year, which was also the highest amount outstanding, was £158,000 and the balance at the end of the year was £36,000.

P. Cambell, a non-executive director, earned consulting fees of £15,000 (2007: £15,000) during the year. These fees were on an arm's length basis.

33. RECONCILIATION OF FIGURES INCLUDED IN THE CHAIRMAN'S LETTER

	2008	2007
	<u>£000</u>	<u>£000</u>
Profit before tax, before amortization of non-current intangibles and non-recurring items	7,664	7,651
Amortization of non-current intangibles	(1,830)	(1,312)
Non-recurring items	<u>(4,274)</u>	<u>370</u>
Profit before tax	<u>1,560</u>	<u>6,709</u>
EBITDA		
Profit before tax, before amortization of non-current intangibles and non-recurring items	7,664	7,651
Net interest	3,686	2,909
Depreciation	1,089	1,038
Amortization of pre-publication costs	<u>9,529</u>	<u>8,416</u>
EBITDA, before non-recurring items	<u>21,968</u>	<u>20,014</u>
Net debt		
Medium and long term borrowings	80,234	58,190
Short term borrowings	333	2,760
Cash and cash equivalents	<u>(28,180)</u>	<u>(17,577)</u>
	<u>52,387</u>	<u>43,373</u>

Notes to the Accounts Year ending December 31, 2008

34. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk, credit risk, liquidity risk and certain other price risks, which result from both its operating and investing activities. The Group's risk management is co-ordinated at its headquarters, in close co-operation with the board of directors, and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets. Long term financial investments are managed to generate lasting returns.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed and a summary of financial assets and liabilities by category are described below:

Foreign Currency Sensitivity

Exposures to currency exchange rates arise from the Group's overseas sales and costs, which are primarily denominated in US Dollars. To mitigate the impact of exchange rate fluctuations, the Group tries to match its US Dollar inflows with its US Dollar outflows but, in 2008 and 2007, the Group had net US Dollar income.

Foreign currency denominated financial assets and liabilities, translated into Sterling at the closing rate, are as follows:

	2008 £000		2007 £000	
	US\$	Other	US\$	Other
Financial assets	89,313	7,118	62,177	5,887
Financial liabilities	(20,194)	(2,367)	(11,620)	(2,312)
Short-term exposure	<u>69,119</u>	<u>4,751</u>	<u>50,557</u>	<u>3,575</u>
Financial assets	-	-	-	-
Financial liabilities	(69,326)	(6,091)	(47,988)	(4,990)
Long-term exposure	<u>(69,326)</u>	<u>(6,091)</u>	<u>(47,988)</u>	<u>(4,990)</u>
Net exposure	<u>(207)</u>	<u>(1,340)</u>	<u>2,569</u>	<u>(1,415)</u>

The following table illustrates the sensitivity of the net result for the year and equity in regards to the Group's financial assets and financial liabilities and the US Dollar – Sterling exchange rate.

It assumes a +/- 10% (2007: +/- 2%) change of the Sterling/US-Dollar exchange rate. This percentage has been determined based on the average market volatility in exchange rates in the year ended December 31, 2008. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each balance sheet date.

If Sterling had strengthened against the US Dollar by 10% (2007: 2%) then this would have had the following impact:

	2008 £000	2007 £000
Profit after tax for the year	<u>14</u>	<u>(36)</u>

Notes to the Accounts Year ending December 31, 2008

If Sterling had weakened against the US Dollar by 10% (2007: 2%) then this would have had the following impact:

	2008	2007
	£000	£000
Profit after tax for the year	(16)	36

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

Interest Rate Sensitivity

The Group's policy is to minimise interest rate cash flow risk exposures on long-term financing, through interest rate swaps. A large part of longer-term borrowings are, therefore, usually at fixed rates. At December 31, 2008, the Group is exposed to changes in market interest rates through its bank borrowings, which are subject to variable interest rates – see Note 19 for further information.

The following table illustrates the sensitivity of the profit after tax for the year and equity to a reasonably possible change in interest rates of +1% and -1% (2007: +/-1%), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments held at each balance sheet date. All other variables are held constant.

A 1% increase in interest rates would have had the following impact:

	2008	2007
	£000	£000
Profit after tax for the year	(130)	(133)
Equity	(1,110)	(448)

A 1% decrease in interest rates would have had the following impact:

	2008	2007
	£000	£000
Profit after tax for the year	130	133
Equity	1,110	448

Credit Risk Analysis

The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	2008	2007
	£000	£000
Derivative financial instruments	741	–
Cash and cash equivalents	28,180	17,577
Trade and other receivables	34,347	28,612
	<u>63,268</u>	<u>46,189</u>

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

Notes to the Accounts Year ending December 31, 2008

The Group's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

None of the Group's financial assets are secured by collateral or other credit enhancements.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk for liquid funds and other short-term financial assets is limited, since the counterparties are reputable banks with high quality external credit ratings.

Liquidity Risk Analysis

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis.

The Group maintains cash and marketable securities to meet its liquidity requirements. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

As at December 31, 2008, the Group's liabilities have contractual maturities which are summarised below:

December 31, 2008	Current		Non-current	
	within	6 to 12	1 to 5	over
	6 months	months	years	5 years
	£000	£000	£000	£000
Bank loans	68	69	84,022	15,710
Bank overdraft	-	-	-	-
Loan note	-	-	-	-
Finance lease obligations	117	104	169	-
Trade payables	35,839	-	-	-
Other short term financial liabilities	6,653	-	-	-
Derivatives	-	-	4,431	1,001
	<u>42,677</u>	<u>173</u>	<u>88,622</u>	<u>16,711</u>

This compares to the maturity of the Group's financial liabilities in the previous reporting period as follows:

December 31, 2007	Current		Non-current	
	within	6 to 12	1 to 5	over
	6 months	months	years	5 years
	£000	£000	£000	£000
Bank loans	67	67	54,844	24,047
Bank overdrafts	1,468	-	-	-
Loan note	-	823	-	-
Finance lease obligations	214	163	97	-
Trade payables	26,523	-	-	-
Other short term financial liabilities	6,103	-	-	-
Derivatives	-	-	403	707
	<u>34,375</u>	<u>1,053</u>	<u>55,344</u>	<u>24,754</u>

Notes to the Accounts Year ending December 31, 2008

Summary of Financial Assets and Liabilities by Category

The carrying amounts of the Group's financial assets and liabilities as recognised at the balance sheet date of the reporting periods under review may also be categorised as follows. See Note 2, significant accounting policies, covering financial assets, financial liabilities and derivative financial instruments and hedge accounting for explanations about how the category of instruments affects their subsequent measurement.

	2008 <u>£000</u>	2007 <u>£000</u>
Current assets		
Derivative financial instruments carried at fair value through profit and loss:		
- Exchange rate swap	741	-
Loans and receivables:		
- Trade and other receivables	34,347	28,612
- Cash and cash equivalents	<u>28,180</u>	<u>17,577</u>
	<u>63,268</u>	<u>46,189</u>
Non current liabilities		
Derivative financial instruments designated as hedging instruments:		
- Interest rate swap	5,432	1,110
Financial liabilities measured at amortized cost:		
- Borrowings	80,234	58,190
- Other payables	<u>20</u>	<u>29</u>
	<u>85,686</u>	<u>59,329</u>
Current liabilities		
Financial liabilities measured at amortized cost:		
- Borrowings	333	2,760
- Trade payables and other short term financial liabilities	<u>42,492</u>	<u>32,626</u>
	<u>42,825</u>	<u>35,386</u>

Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through an optimal balance of debt and equity. The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 19, 22 and 23, cash and cash equivalents and equity attributable to equity holders of the parent, comprising share capital and reserves as disclosed in note 26.

The Board reviews the capital structure, including the level of indebtedness and interest cover, as required. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Details of the level of indebtedness, in the form of Net debt to EBITDA, and interest cover are given in note 19, including a comparison with the covenants under the Group's financing facilities.

Company Balance Sheet Year ended December 31, 2008

	Notes	2008 <u>£000</u>	2007 <u>£000</u>
FIXED ASSETS			
Investments	3	<u>7,379</u>	<u>7,262</u>
		<u>7,379</u>	<u>7,262</u>
Creditors: Amounts falling due within one year	5	<u>(3,638)</u>	<u>(2,285)</u>
NET CURRENT LIABILITIES		<u>(3,638)</u>	<u>(2,285)</u>
NET ASSETS		<u>3,741</u>	<u>4,977</u>
CAPITAL AND RESERVES			
Called up share capital	6	1,162	1,162
Treasury stock	6	(388)	(389)
Reserves - Paid in surplus	7	21,768	21,768
- Profit and loss	7	<u>(18,801)</u>	<u>(17,564)</u>
SHAREHOLDERS' FUNDS	8	<u>3,741</u>	<u>4,977</u>

The financial statements were approved by the Board of Directors and authorised for issue on March 6, 2009.
They were signed on its behalf by:



M. J. Mousley
Director

Notes to Company Balance Sheet Year ended December 31, 2008

1. SIGNIFICANT ACCOUNTING POLICIES

The separate financial statements of the company are presented as required by the Companies Act 1985. As permitted by that Act, the separate financial statements have been prepared in accordance with UK GAAP format. These financial statements present information for the company, not about its group, which is presented on pages 39 - 71.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Under section 230 (4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

The company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties).

Accounting policies

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

Investments

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Share-based payments

The fair value of employee share option grants is calculated using a binomial model. The resulting cost is charged to the income statement over the vesting period of the plans. The value of the charge, which is immaterial, is adjusted to reflect expected and actual levels of options vesting.

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.

Notes to Company Balance Sheet Year ended December 31, 2008

2. PROFIT ATTRIBUTABLE TO THE COMPANY

The profit for the financial year dealt with in the financial statements of the parent company was £170,000 (2007: £155,000). As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the parent company.

3. INVESTMENTS

	<u>£000</u>
At January 1, 2008	7,262
Additions	<u>117</u>
At December 31, 2008	<u>7,379</u>

The additions comprise the purchase of shares from minority shareholders in Global Book Publishing Pty. Ltd and Premier Books Limited.

Notes to Company Balance Sheet Year ended December 31, 2008

4. SUBSIDIARIES

NAME	PLACE AND DATE OF INCORPORATION	ISSUED AND FULLY PAID SHARE CAPITAL	PERCENTAGE HELD	BUSINESS
Quarto Publishing plc	England 1 April, 1976	100,000 shares of £1 each	100*	Co-edition Publishing
Quarto Inc.	Delaware, USA 16 October, 1986	60 shares of no par value	100*	Co-edition Publishing
Western Screen and Sign Limited	England 24 November, 1961	1,500 shares of £1 each	100*	Publishing
Quarto Magazines Limited	England 20 May, 1986	1,000 shares of £1 each	100	Publishing
Regent Publishing Services Limited	Hong Kong 23 October, 1985	1,000 shares of HK\$10 each	75	Co-edition Publishing
Apple Press Limited	England 5 June, 1984	100 shares of £1 each	100	Publishing
Quarto Australia Pty Ltd.	Australia 14 September, 1981	8 redeemable preference shares of A\$1 each and 103 ordinary shares of A\$1 each	100*	Publishing
Premier Books Limited	New Zealand 27 September, 1996	400,000 shares of NZ\$1 each	76*	Publishing
RotoVision S.A.	Switzerland 18 July, 1977	1,500 shares of SFr500 each	100*	Co-edition Publishing
Rockport Publishers Inc.	Massachusetts, USA 4 December, 1985	4,000 shares of no par value	100	Publishing
Book Sales Inc.	Delaware, USA 13 December, 1972	85 shares of no par value	85	Publishing
Scafa-Tornabene Art Publishing Co., Inc.	Delaware, USA 29 June, 1987	1,210 shares of no par value	100	Publishing
Walter Foster Publishing, Inc.	Delaware, USA 10 February, 1988	19,625 shares of US\$0.01 each	100	Publishing
Global Book Publishing Pty. Limited	Australia 4 November, 1999	1,000 shares of A\$1 each	100*	Co-edition Publishing
Creative Publishing International, Inc.	Delaware, USA 28 June, 2004	100 shares of US\$0.01 each	100	Publishing
Aurum Press Limited	England 31 May, 1977	382,502 shares of £1 each	100	Publishing
Lifetime Distributors 'The Book People' Pty. Limited	Australia 3 December, 1990	100,004 shares of A\$1 each	80	Publishing
MBI Publishing Company LLC	Delaware, USA 6 January, 2000	100 units	100	Publishing

* Directly held by The Quarto Group, Inc.

Notes to Company Balance Sheet Year ended December 31, 2008

5. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008	2007
	£000	£000
Amounts owed to subsidiary undertakings	<u>3,638</u>	<u>2,285</u>

6. CALLED UP SHARE CAPITAL AND TREASURY STOCK

Details of called up share capital and treasury stock are set out in Notes 25 to 26 of the consolidated financial statements.

7. RETAINED DEFICIT AND OTHER RESERVES

	Paid in surplus £000	Profit and loss account £000
At beginning of year	21,768	(17,564)
Result for the year	-	170
Dividends	-	<u>(1,407)</u>
At end of year	<u>21,768</u>	<u>(18,801)</u>

Notes to Company Balance Sheet Year ended December 31, 2008

8. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2008	2007
	<u>£000</u>	<u>£000</u>
Profit for the financial year	170	155
Dividends	<u>(1,407)</u>	<u>(1,355)</u>
Retained (loss) for the financial year	<u>(1,237)</u>	<u>(1,200)</u>
Issue of shares	1	56
Equity settled transactions net of tax	<u>-</u>	<u>4</u>
Net movement in shareholders' funds	<u>(1,236)</u>	<u>(1,140)</u>
Shareholders' funds at January 1	<u>4,977</u>	<u>6,117</u>
Shareholders' funds at December 31	<u>3,741</u>	<u>4,977</u>

9. CONTINGENT LIABILITIES

Contingent liabilities are disclosed in Note 28 to the Group accounts.

Five Year Summary

	2008	2007	2006	2005	2004
	£000	£000	£000	£000	£000
Results					
Revenue	112,743	100,107	93,613	95,038	79,750
EBITDA	21,968	20,014	17,977	17,545	n/a
Operating profit before amortization of non-current intangibles and exceptional items	11,350	10,560	9,557	8,916	7,516
Operating profit	5,246	9,618	6,932	6,789	7,007
Profit before tax before amortization of non-current intangibles and exceptional items	7,664	7,651	7,262	6,693	5,901
Profit before tax	1,560	6,709	4,637	4,566	5,392
Profit attributable to equity holders	(117)	4,243	2,800	2,615	3,734
Assets employed					
Non-current assets	35,358	31,641	20,396	23,717	22,052
Current assets	117,448	89,759	75,996	78,069	57,016
Current liabilities	(43,590)	(36,933)	(45,218)	(32,222)	(33,549)
Non-current liabilities	(88,102)	(62,602)	(31,546)	(49,817)	(39,248)
Net assets	21,114	21,865	19,628	19,747	6,271
Financed by					
Equity	15,909	17,905	15,951	16,062	3,584
Minority interests	5,205	3,960	3,677	3,685	2,687
	21,114	21,865	19,628	19,747	6,271
Key statistics					
Earnings per share	(0.6)p	21.6p	14.3p	13.8p	20.8p
Diluted earnings per share	(0.6)p	21.1p	13.9p	13.5p	19.6p
Adjusted diluted earnings per share	26.5p	24.4p	22.5p	21.3p	21.2p

The amounts disclosed for 2004 have not been restated for the prior period adjustment made in 2006 because it is not practical to do so.

THE QUARTO GROUP, INC.

NOTICE OF MEETING

Notice is hereby given that the Annual Meeting of Members of The Quarto Group Inc will be held at The Old Brewery, 6 Blundell Street, London N7 9BH on Tuesday June 16, 2009 at 2.00pm for the transaction of the following business:

1. To receive the directors' report and accounts for the year ended December 31, 2008.
2. To declare a final dividend.
3. To re-elect Mr L. F. Orbach as a director.
4. To re-elect Mr R. J. Morley as a director.
5. To re-elect Mr M. J. Mousley as a director.
6. To re-elect Mr P. M. M. Campbell as a director.
7. To re-elect Mr P. E. Waine as a director.
8. To re-elect Mr G. L. Collins as a director.
9. To re-appoint Grant Thornton UK LLP as auditor to the Company and to authorise the directors to approve their remuneration.
10. To approve the Directors' Remuneration Report.

Principal Place of Business
The Old Brewery
6 Blundell Street
London N7 9BH

By Order of the Board
M. J. Mousley
Secretary

April 30, 2009

Notes:

A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him.

A proxy need not also be a member.

Copies of Service Contracts between the Company and L. F. Orbach, R. J. Morley and M. J. Mousley are available at the principle place of business of the company during normal business hours and will be available for inspection at the place of the meeting for a period of at least 15 minutes prior to the Annual Meeting. The Register of directors and shareholders will be available for inspection at the commencement of and during the continuance of the Annual Meeting.

THE QUARTO GROUP, INC.
NOTICE OF MEETING
FORM OF PROXY

For use at the Annual Meeting to be held on June 16, 2009

I/We
(please complete in block capitals including initials and surname of joint holders (if any))

being (a) member(s) of the above named Company HEREBY APPOINT
(see note 1)

or failing him, the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the Annual Meeting of the Company to be held on June 16, 2009 and at any adjournment thereof.

I/We direct my/our proxy to vote on the resolutions set out as follows:

RESOLUTION	FOR	AGAINST
Resolution No. 1		
Resolution No. 2		
Resolution No. 3		
Resolution No. 4		
Resolution No. 5		
Resolution No. 6		
Resolution No. 7		
Resolution No. 8		
Resolution No. 9		
Resolution No. 10		

(Please indicate with an X how you wish your proxy to vote. If you do not indicate how the proxy shall vote, he will exercise his discretion both as to how he votes and as to whether or not he abstains from voting.)

DateSignature(s).....

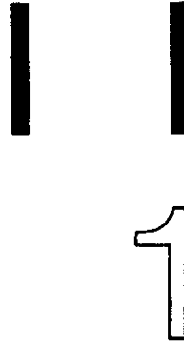
Notes:

1. A member may appoint one or more proxies of his own choice who need not be (a) member(s) of the Company by inserting the name(s) in the space provided. If no name is inserted the Chairman of the meeting will be your proxy.
2. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy shall be accepted by the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the Register.
3. A Corporations' form of proxy must be executed under its common seal, or under the hand of its officer or agent duly authorised in writing. In the case of an individual the proxy must be signed by the appointer or his agent duly authorised in writing.
4. The form of proxy to be valid, must arrive at the The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4BR, no later than forty eight hours before the time appointed for the meeting at which it is to be used, together with any power of attorney or other authority (or a certified copy thereof) under which it is signed.

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THE REGISTRY
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BECKENHAM
KENT BR3 4BR

FIRST FOLD

THIRD FOLD AND TUCK IN

