Qu.

The Quarto Group, Inc.

Report and Financial Statements
December 31, 2006

COMPANY REGISTRATION NO. FCO 13814

Officers and professional advisers	26
Financial Review	27
Directors' Report	29
Directors' Remuneration Report	34
Statement of Directors' Responsibilities	36
Independent Auditors' Report	37
Consolidated income statement	39
Consolidated statement of recognised income and expense	40
Consolidated balance sheet	41
Consolidated cash flow statement	42
Notes to the accounts	43
Company balance sheet	68
Notes to the company financial statements	69
Five year summary	74

FC13814.

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 quarto com

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

AUDITORS
RSM Robson Rhodes LLP, 30 Finsbury Square, London EC2P 2YU

SOLICITORS
Travers Smith Braithwaite, 6 Snow Hill, London, EC1A 2AL

REGISTRARS AND TRANSFER OFFICE
Capital Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU

PRINCIPAL BANKERS
Allied Irish Banks, p l c
12, Old Jewry, London EC2R 8DP

Australia and New Zealand Banking Group Ltd
Minerva House, Montague Close, London SE1 9DH

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

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

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 2006, together with comparatives, are set out in the table below

		2006 £000	2005 Restated £000
Sales	Co-edition Publishing	38,407	37,055
	Publishing	55,206	57,983
		93,613	95,038
Operating profit before amortization of non-current intangibles and non-recurring items			
	Co-edition Publishing	5,277	4,549
	Publishing	5,245	5,318
	Operating profit before amortization of non-current intangibles, non-recurring items and group overheads	10,522	9,867
Interest cover, based on operating profit before amortization of non-current intangibles and non-recurring items		4 16 x	4 01 x
Adjusted diluted earnings per share		22 5p	21 3p
		£000	£000
Net debt		30,992	35,100

Co-edition Publishing sales increased by 4%, benefiting from a strong reprint performance Reprints accounted for 70% of sales compared to 66% last year, confirming that we have a very valuable backlist and that our business model is working effectively Publishing sales were down 5% This segment operates entirely in English-language markets and suffered, in particular, from a difficult trading environment in the United States

The operating profit margin, before amortization of non-current intangibles and non-recurring items, in the Co-edition Publishing segment was 13 7%, a good advance on last year, when it was 12 3%, stimulated by the strong reprint performance The operating profit margin in Publishing was 9 5%, up slightly from last year, when it was 9 2% We are now close to our 10% operating profit margin target for this business segment

Interest cover has improved from 4 01 times to 4 16 times, an increase of 4%

Adjusted diluted earnings per share has increased by 6% from 21 3p to 22 5p

Net debt was £4,108,000 lower than last year Overall, our cash generation was good and this was helped by a favourable currency movement On a constant currency basis, net debt was £2,329,000 lower than last year

PRIOR PERIOD ADJUSTMENT

In the current year there is prior period adjustment relating to non-compliance with IAS 38 The Group's pre-publication costs meet all the criteria set out in IAS 38 and therefore these costs should have been capitalised as development expenditure, on the initial adoption of IFRS last year The financial statements have been restated to reflect this The effect of the restatement on these financial statements is summarised in note 27

Financial Review

From an income statement perspective, the impact of changing our policy was not significant because we had used a consistent accounting policy previously, and expenditure now written back and capitalised is not materially different from the amortization charge under the new policy By way of illustration, adjusted diluted earnings per share increased by 0 9p (4%), compared to 0 5p (2%) last year From a balance sheet perspective, however, the impact was significant, increasing net assets by £7,848,000 at December 31, 2006 The benefits of the new policy are that we are recognising the valuable intangible assets that we are creating and that it allows for better comparison with our peer companies within the industry

SHAREHOLDER RETURN

Adjusted fully diluted earnings per share (see note 10 on page 62) were 22 5p (2005 21 3p), up 6%

The proposed final dividend of 3 75p represents an increase of 4% on last year's final dividend The total dividend for the year is 6 75p, an increase of 4% on last year The total dividend is 3 3 times covered (2005 3 3 times) by adjusted fully diluted earnings per share

The market price of the shares of common stock on December 31, 2006 was 178 5p, down 4% compared to last year (185 5p)

Quarto's common stock has generated a very strong total shareholder return over the five years ended December 31, 2006 of 221% Over the same period, Quarto's common stock has significantly 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, while still allowing it to take advantage of lower potential interest payments from a fall in rates, we entered into an interest rate swap in 2004 to fix the interest cost on US$30,000,000 of borrowings until July 17, 2007
- 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 2006, 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

	2006	2005
US Dollar	1 84	1 82
Hong Kong Dollar	14 32	14 14
Australian Dollar	2 45	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 2006

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 7, 2007

Directors' Report

The Directors present their report and the audited financial statements of The Quarto Group, Inc, for the year ended December 31, 2006

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 3 to 9 and the Review of Operations on pages 10 to 23 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 £2,800,000 (2005 restated £2,615,000) The Directors propose a final ordinary dividend of 3 75p (2005 3 6p) per share subject to approval at the Annual General 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 been a stockbroker since 1970 and was a director of Collins Stewart Limited, of which he was a founding director in 1991, until 2000

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

Save as disclosed in Note 33, 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, 2006 had the following interests in the share capital of the Company

	Number of US$0 10 shares of common stock	
SHAREHOLDING	December 31, 2006	January 1, 2006
L F Orbach*	2,909,185	2,886,385
R J Morley	1,402,852	1,402,852
M J Mousley	71,700	51,700
L Collins (Non-executive)	337,650	337,650
P Campbell (Non-executive)	1,000	1,000
P Waine (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 164 5p and 201 0p The market price at December 31, 2006 was 178 5p

Between December 31, 2006 and March 7, 2007 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

As at March 7, 2007, 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	4,146,082	20 3%
L I Orbach	2,909,185	14 2%
Herald Investment Trust	1,735,000	8 5%
R J Morley	1,402,852	6 9%
Invesco English & International Trust	1,190,000	5 8%
The Quarto Group, Inc	823,321	4 0%
Ennismore Fund Management	810,000	4 0%
Cavendish Asset Management	772,500	3 8%
Lattice Group Pension Scheme	734,882	3 6%
Liontrust	693,348	3 4%

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

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 17 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 July 2003 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, P Waine and L Collins are considered by the Board to be independent, not withstanding the fact that P Campbell receives £15,000 for consulting fees and has 1,000 shares and that L Collins has 337,650 shares

c) The Board meets six times a year Each of the Directors 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 General Meeting

e) The remuneration of the executive Directors is recommended by the Remuneration Committee 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 page 34 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 Peter 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) The Chairman of the Company is also the Chief Executive

b) A formal schedule of matters specifically reserved for the Board is not required, since the Board forms the executive management of the Group

c) The Company does not have any formal arrangements for Directors, in the furtherance of their duties to take independent professional advice

d) 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

e) Performance related bonuses are not normally given

f) There are no terms of reference for the Remuneration Committee

g) The Company does not have a Nominations Committee The Board as a whole is responsible for the appointment of its own members

h) 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, 2006, Group creditor days amounted to 97 days (2005 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 26, 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, RSM Robson Rhodes LLP, is willing to continue in office and, accordingly, a resolution is to be proposed at the annual general meeting for the reappointment of RSM Robson Rhodes LLP as auditor to the company

M J Mousley
Secretary

March 7, 2007

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 Director's 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

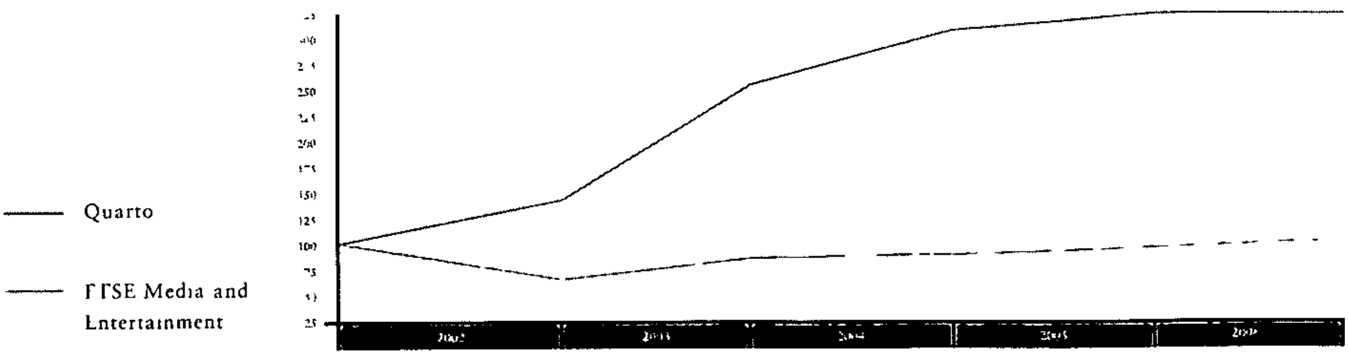
SERVICE AGREEMENTS

The 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 General Meeting of the Company

TOTAL SHAREHOLDER RETURN

The following graph charts the total shareholder return of the Company for the last five 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 SALARY £000	BONUS £000	BENEFITS £000	2006 TOTAL £000	2005 TOTAL £000
L F Orbach	325	30	20	375	367
R J Morley	177	-	10	187	188
M J Mousley	175	25	4	204	205
P Campbell (Non-executive)	42	-	-	42	42
P Waine (Non-executive)	30	-	-	30	30
L Collins (Non-executive)	27	-	-	27	27
	776	55	34	865	859

Benefits consist of benefits in kind in respect of health and life insurance The remuneration of P Waine is £30,000 and for P Campbell and L Collins it is £27,000 for their ongoing roles as non-executive Directors In addition, P Campbell received £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

	2006 £000	2005 £000
L F Orbach	84	89
R J Morley	26	26
M J Mousley	30	30
	140	145

SHARE OPTIONS

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

	At January 1, 2006	Exercised in year	At December 31, 2006	Exercise price*	Earliest date of exercise	Expiry Date
L F Orbach	10,000	10,000	-	£1 115	22 2 2003	21 2 2007
R J Morley	5,000	-	5,000	£1 115	22 2 2003	21 2 2010
M J Mousley	10,000	10,000	-	£1 115	22 2 2003	21 2 2010
	5,000	5,000	-	£0 685	31 3 2001	30 3 2008
	15,000	15,000	-	£0 825	29 3 2004	28 3 2011
	3,900	3,900	-	£0 775	26 2 2005	25 2 2012
	11,100	11,100	-	£0 775	26 2 2005	25 2 2009
	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

The following gains were made by Directors on the exercise of share options in the current year (prior year Nil) L F Orbach £6,700 and M J Mousley £41,750 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 201 0p and 164 5p respectively The price at the year end was 178 5p

This report was approved by the Board of Directors on March 7, 2007
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 oversea 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 Accounting Standards

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

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 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, 2006 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 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 46

Our responsibility is to audit the financial statements in accordance with our engagement letter

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 2003 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, 2006 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 oversea 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, 2006, and
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985 as applicable to oversea companies
- the information given in the Directors' Report is consistent with the financial statements

RSM Robson Rhodes LLP

RSM Robson Rhodes LLP
Chartered Accountants
Registered Auditor
March 7, 2007

Consolidated income statement
Year ended December 31, 2006

	Notes	2006 £000	2005 Restated £000
CONTINUING OPERATIONS			
Revenue	3	93,613	95,038
Cost of sales		(58,137)	(60,303)
GROSS PROFIT		35,476	34,735
Other operating income		281	227
Distribution costs		(4,375)	(4,148)
Administrative expenses before amortization of non-current intangibles and non-recurring items		(21,825)	(21,898)
Amortization of non-current intangibles		(1,387)	(1,381)
Non-recurring items			
Bad debt		(1,238)	-
Aborted acquisition costs		-	(102)
Restructuring costs		-	(644)
Total administrative expenses		(24,450)	(24,025)
PROFIT FROM OPERATIONS BEFORE AMORTIZATION OF NON-CURRENT INTANGIBLES AND NON-RECURRING ITEMS		9,557	8,916
OPERATING PROFIT	5	6,932	6,789
Finance income	7	298	128
Finance costs	8	(2 593)	(2 351)
PROFIT BEFORE TAX		4,637	4,566
Tax	9	(1,202)	(1,293)
PROFIT FOR THE YEAR		3,435	3,273
Attributable to			
Equity holders of the parent		2,800	2,615
Minority interest		635	658
		3,435	3,273
EARNINGS PER SHARE			
From continuing operations			
Basic	10	14 3p	13 8p
Diluted	10	13 9p	13 5p

Consolidated Statement of Recognised income and expense Year Ended December 31, 2006

	Notes	2006 £000	2005 Restated £000
Exchange differences on translation of foreign operations		(1,222)	754
Net (loss) / gain on hedge of net investment in foreign subsidiaries		-	(120)
Change in the fair value of cash flow hedges		-	329
NET (EXPENSE)/INCOME RECOGNISED DIRECTLY IN EQUITY		(1,222)	963
PROFIT FOR THE YEAR		3,435	3,273
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR		2,213	4,236
PRIOR PERIOD ADJUSTMENT	26	7,505	
TOTAL RECOGNISED INCOME AND EXPENSE SINCE LAST ANNUAL REPORT		9,718	
ATTRIBUTABLE TO			
Equity holders of the parent		1,578	3,578
Minority interest		635	658
		2,213	4,236

Consolidated balance sheet at December 31, 2006

	Notes	2006 £000	2005 Restated £000
NON-CURRENT ASSETS			
Goodwill	11	9,710	10,317
Other intangible assets	12	2,987	4,842
Property, plant and equipment	13	7,501	8,533
Deferred tax assets	21	198	25
Total non-current assets		20,396	23,717
CURRENT ASSETS			
Intangible assets Pre-publication costs	15	20,919	21,008
Inventories	16	13,948	14,079
Tax receivable		178	152
Trade and other receivables	17	27,022	28,399
Cash and cash equivalents	18	13,929	14,431
Total current assets		75,996	78,069
TOTAL ASSETS		96,392	101,786
CURRENT LIABILITIES			
Short term borrowing	23	(17,800)	(3,932)
Trade and other payables	24	(25,981)	(27,032)
Tax payable		(1,437)	(1,258)
Total current liabilities		(45,218)	(32,222)
NON CURRENT LIABILITIES			
Medium and long term borrowings	19	(27,121)	(45,599)
Deferred tax liabilities	21	(4,404)	(4,104)
Other payables		(21)	(114)
Total non-current liabilities		(31 546)	(49,817)
TOTAL LIABILITIES		(76,764)	(82,039)
NET ASSETS		19,628	19,747
EQUITY			
Share capital	25,26	1,162	1,162
Paid in surplus	26	21,740	21,716
Retained deficit and other reserves	26	(6,951)	(6,816)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		15,951	16,062
MINORITY INTEREST	26	3,677	3,685
TOTAL EQUITY		19,628	19,747

The financial statements were approved by the board of directors and authorised for issue on March 7, 2007
They were signed on its behalf by

M J Mousley
Director
March 7, 2007

Consolidated cash flow statement Year ending December 31, 2006

	Notes	2006 £000	2005 Restated £000
PROFIT FOR THE YEAR		3,435	3,273
Adjustments for			
Net finance costs		2,295	2,223
Depreciation of property, plant and equipment		959	1,067
Tax expense		1,202	1,293
Amortization of non-current intangible assets		1,387	1,381
Amortization of pre-publication costs		7,461	7,562
Movement in fair value of derivatives		(254)	-
Equity settled share – based payment expense		7	9
(Gain) loss on disposal of property, plant and equipment		(87)	51
Operating cash flows before movements in working capital		16,405	16,859
(Increase) decrease in inventories		(1,307)	11
(Increase) in receivables		(672)	(3,057)
Decrease in payables		(267)	(232)
Cash generated by operations		14,159	13,581
Income taxes paid		(611)	(1,428)
NET CASH FROM OPERATING ACTIVITIES		13,548	12,153
INVESTING ACTIVITIES			
Interest received		298	119
Proceeds on disposal of property, plant and equipment		933	237
Investment in pre-publication costs		(8,444)	(7,574)
Purchases of property, plant and equipment		(864)	(678)
Acquisition of subsidiaries		(89)	(2,847)
NET CASH FROM USED IN INVESTING ACTIVITIES		(8,166)	(10,743)
FINANCING ACTIVITIES			
Dividends paid		(1,291)	(1,197)
Interest payments		(2,797)	(2,390)
Proceeds on issue of share capital		56	18
New bank loans raised		583	2,288
Dividends paid to minority interest		(244)	(121)
NET CASH USED IN FINANCING ACTIVITIES		(3,693)	(1,402)
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,689	8
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		11,899	10,611
Foreign currency exchange differences on cash and cash equivalents		(1,478)	1,280
CASH AND CASH EQUIVALENTS AT END OF YEAR	18	12,110	11,899

Notes to the Accounts Year ending December 31, 2006

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 ("Adopted IFRSs") The Company has elected to prepare its parent company financial statements in accordance with UK GAAP, these are presented on pages 68 to 73

The accounting policies set out below have, with the exception of pre-publication costs, been applied consistently to all periods presented in these Group financial statements

Basis of accounting

The financial statements are prepared on the historical cost basis, except that the derivative financial instruments are stated at fair value Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell

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 notes 11,15,17,19 and 21

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, 2006

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 Subsequent expenditure on capitalised intangible assets is expensed as incurred

Amortization of intangible assets is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets The estimated useful lives are 1 to 10 years

Impairment of tangible 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 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 (based upon historical returns experience), excluding customer sales taxes and inter-group sales 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 rights and obligations similar to those attached to owned assets, the amount representing the outright purchase price of such assets is included in tangible fixed assets 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 creditors 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, since January 1, 2004, the date of transition to IFRS, are recognised directly in a separate translation reserve within equity

Notes to the Accounts Year ending December 31, 2006

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 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

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 Where parts of an item of plant and equipment have separate lives they are accounted for and depreciated as separate items 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

Certain items of property, plant and equipment, that had been revalued to fair value on or before January 1, 2004, the date of transition to IFRS's, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation

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 FIFO 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

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts

Notes to the Accounts Year ending December 31, 2006

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

Trade payables

Trade payables are not interest bearing and are stated at their nominal value

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of issue costs Finance charges and issue costs are accounted for 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 foreign exchange forward contracts and 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 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

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

Compound Financial Instruments

Preference share capital

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of shareholders or if dividend payments are not discretionary Dividends thereon are included in the income statement within financial costs

Notes to the Accounts Year ending December 31, 2006

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 In accordance with the transition provisions, IFRS 2 has been applied to all grants of equity instruments after November 7, 2002 that were unvested as of January 1, 2005

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 17 and on page 28

Equity Instruments

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

Adopted IFRS not yet applied

The following Adopted IFRSs and interpretations were available for early application but have not been applied by the Group in these financial statements

IFRIC 7	Applying the Reassessment Approach under IAS 29
IFRIC 8	Scope IFRS 2
IFRIC 10	Reassessment of embedded derivatives
IFRIC 11	Interim Financial Reporting and Impairment
IFRIC 12	Service concession arrangement
IFRS 7	'Financial instruments Disclosure' and related amendment to IAS1 in capital disclosure applicable for years commencing on or after January 1, 2007

The application of IFRS 7 and the various interpretations in the current year would not have affected the balance sheets or income statement as the standard is concerned only with disclosure The Group plans to adopt it for the year ending December 31, 2007

Notes to the Accounts Year ending December 31, 2006

3 REVENUE

An analysis of the group's revenue is as follows

	2006 £000	2005 £000
Sales of goods	93,613	95,038
Revenue	93,613	95,038
Other operating income	281	227
Finance income	298	128
Total income	94,192	95,393

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 2006 £000	CO EDITION PUBLISHING 2005 £000	PUBLISHING 2006 £000	PUBLISHING 2005 £000	TOTAL 2006 £000	TOTAL 2005 £000
REVENUE						
Total sales	40,307	38,314	55,210	57,989	95,517	96,303
Inter-segment revenue	(1,900)	(1,259)	(4)	(6)	(1,904)	(1,265)
External sales	38,407	37,055	55,206	57,983	93,613	95,038

Segment result before amortization of non-current intangibles and non-recurring costs	5,277	4,549	5,245	5,318	10,522	9,867
Amortization of non-current intangibles	(12)	(12)	(1,375)	(1,369)	(1,387)	(1,381)
Bad debt	(1,085)	-	(153)	-	(1,238)	-
Restructuring costs	-	-	-	(644)	-	(644)
Aborted acquisition costs	-	(102)	-	-	-	(102)
Segment result	4,180	4,435	3,717	3,305	7,897	7,740
Unallocated corporate expenses					(965)	(951)
Profit from operations					6,932	6,789
Investment income					298	128
Finance costs					(2,593)	(2,351)
Profit before tax					4,637	4,566
Tax					(1,202)	(1,293)
Profit after tax					3,435	3,273

Inter-segment revenues are on an arms-length basis

Notes to the Accounts Year ending December 31, 2006

4 BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

	CO EDITION PUBLISHING 2006 £000	CO EDITION PUBLISHING 2005 £000	PUBLISHING 2006 £000	PUBLISHING 2005 £000	TOTAL 2006 £000	TOTAL 2005 £000
Capital additions	242	199	622	479	864	678
Depreciation	307	391	652	676	959	1,067
Amortization of non-current intangibles	12	12	1,375	1,369	1,387	1,381
Investment in pre-publication costs	5,249	4,633	3,195	2,941	8,444	7,574
Amortization of pre-publication costs	4,783	4,775	2,678	2,787	7,461	7,562

There are no other significant non-cash expenses

BALANCE SHEET						
ASSETS						
Segment assets	34,867	36,201	46,966	50,518	81,833	86,719
Unallocated corporate assets					14,559	15,067
Consolidated total assets					96,392	101,786
LIABILITIES						
Segment liabilities	13,071	13,986	12,931	13,160	26,002	27,146
Unallocated corporate liabilities					50,762	54,893
Consolidated total liabilities					76,764	82,039

GEOGRAPHICAL SEGMENTS

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

	Revenue 2006 £000	Revenue 2005 £000
United Kingdom	16,668	15,848
United States of America	43,070	46,305
Australia and Far East	18,384	18,344
Europe	11,860	10,415
Rest of the World	3,631	4,126
	93,613	95,038

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 2006 £000	Assets 2005 £000	Capital Additions 2006 £000	Capital Additions 2005 £000
United Kingdom	32,746	33,226	567	435
United States of America	31,362	34,700	139	161
Other	17,725	18,793	158	82
	81,833	86,719	864	678

Notes to the Accounts Year ending December 31, 2006

5 PROFIT FROM OPERATIONS

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

	2006 £000	2005 £000
(Profit) loss on sale of property, plant and equipment	(87)	51
Depreciation of property, plant and equipment	959	1,067
Net foreign currency exchange losses	139	4
Amortization of non-current intangibles	1,387	1,381
Amortization of pre-publication costs	7,461	7,562
Staff costs (see note 6)	14,958	15,707
Auditors' remuneration (see below)	135	266
Cost of inventory recognised as an expense	27,434	27,544
Bad debt	1,238	-
Restructuring costs	-	644
Aborted acquisition costs	-	102

Auditors' remuneration

	2006 £000	2005 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	30	56
Fees payable to the Company's auditor and its associates for other services		
The audit of the Company's subsidiaries pursuant to legislation	84	66
All other services	21	144
	135	266

6 STAFF COSTS

	2006 Number	2005 Number
The average monthly number of employees (including executive directors) was	457	483
	£000	£000
Their aggregate remuneration comprised		
Wages and salaries	13,343	14,079
Social security costs	1,093	1,135
Other pension costs	515	484
Equity settled share based payment expense	7	9
	14,958	15,707

7 FINANCE INCOME

	2006 £000	2005 £000
Interest on bank deposits	298	128

Notes to the Accounts Year ending December 31, 2006

8 FINANCE COSTS

	2006 £000	2005 £000
Interest on bank overdrafts and loans	2,560	2,106
Interest on obligations under finance leases	33	41
Finance charge on preference shares	-	204
Total finance costs	2,593	2,351

9 TAX

	2006 £000	2005 £000
Current tax	878	1,272
Deferred tax (note 21)		
Current year origination and reversal of timing differences	324	21
	1,202	1,293

Corporation tax on UK profits is calculated at 30% (2005 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

	2006 £000	2006 %	2005 £000	2005 %
Profit before tax	4,637		4,566	
Tax at the UK corporation tax rate of 30% (2005 30%)	1,391		1,370	
Tax effect of utilisation of tax losses not previously recognised	(127)		(8)	
Tax losses not utilised	100		224	
Effect of different tax rates of subsidiaries operating in other jurisdictions	(157)		(198)	
Other, including tax effect of expenses that are not deductible in determining taxable profit	(5)		(95)	
Tax expense and effective tax rate for the year	1,202	25 9%	1,293	28 3%

Notes to the Accounts Year ending December 31, 2006

10 EARNINGS PER SHARE

From continuing operations

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

Earnings

	2006 £000	2005 £000
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	2,800	2,615
Effect of dilutive potential ordinary shares		
Interest on loan notes (net of tax)	45	57
Interest on convertible redeemable preference shares	-	204
Earnings for the purposes of diluted earnings per share	2,845	2,876

Number of shares

	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	19,563,900	18,893,419
Effect of dilutive potential ordinary shares		
Share options	104,651	139,183
Dilutive loan note	855,015	1,074,288
Dilutive preference shares	-	1,218,131
Weighted average number of ordinary shares for the purposes of diluted earnings per share	20,523,566	21,325,021

	2006 pence	2005 pence
Basic	14 3p	13 8p
Diluted	13 9p	13 5p

Adjusted earnings

	2006	2005
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	2,800	2,615
Amortization of non-current intangibles (net of tax and minority interest)	962	925
Bad debt (net of tax and minority interest)	818	-
Restructuring costs	-	644
Aborted acquisition costs	-	102
Earnings for the purposes of adjusted earnings per share	4,580	4,286
Effect of dilutive potential ordinary shares		
Interest on loan notes (net of tax)	45	57
Interest on convertible redeemable preference shares	-	204
Earnings for the purposes of diluted earnings per share	4,625	4,547

	2006 pence	2005 pence
Basic	23 4p	22 7p
Diluted	22 5p	21 3p

Notes to the Accounts Year ending December 31, 2006

11 GOODWILL

	£000
Cost	
At January 1, 2005	7,732
Exchange differences	460
Recognised on acquisition of subsidiaries	2,051
Recognised on acquisition of a minority shareholding	74
At December 31, 2005 and January 1, 2006	10,317
Exchange differences	(696)
Recognised on acquisitions	89
At December 31, 2006	9,710
Carrying amount	
At December 31, 2006	9,710
At December 31, 2005	10,317
At January 1, 2005	7,732

Impairment tests for cash generating units containing goodwill
The following units have significant carrying amounts of goodwill

	2006 £000	2005 £000
CPI	3,305	3,762
Premier	1,943	2,115
Marshall	1,861	1,861
Others	2,601	2,579
	9,710	10,317

The recoverable amount of each cash generating unit ("GGU") 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 in the range of 6 5% to 8 9%, 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

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

Notes to the Accounts Year ending December 31, 2006

12 OTHER INTANGIBLE ASSETS

	Non Contractual Relationships £000	Backlists £000	Total £000
Cost			
At January 1, 2005	-	5,895	5,895
Exchange differences	10	602	612
Acquired on acquisition of subsidiaries	385	-	385
At December 31, 2005 and January 1, 2006	395	6,497	6,892
Exchange differences	(35)	(707)	(742)
At December 31, 2006	360	5,790	6,150
Amortization			
At January 1, 2005	-	561	561
Exchange differences	1	107	108
Charge for the year	174	1,207	1,381
At December 31, 2005 and January 1, 2006	175	1,875	2,050
Exchange differences	(11)	(263)	(274)
Charge for the year	196	1,191	1,387
At December 31, 2006	360	2,803	3,163
Carrying Amount			
At December 31, 2006	-	2,987	2,987
At December 31, 2005	220	4,622	4,842
At January 1, 2005	-	5,334	5,334

Notes to the Accounts Year ending December 31, 2006

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 or valuation					
At January 1, 2005	5,280	1,087	6,899	997	14,263
Exchange differences	80	69	249	66	464
Additions	3	89	415	171	678
Subsidiaries acquired	–	4	25	5	34
Disposals	(4)	(262)	(1,448)	–	(1,714)
At December 31, 2005 and January 1, 2006	5,359	987	6,140	1,239	13,725
Exchange differences	-	(82)	(263)	(65)	(410)
Additions	-	26	751	87	864
Disposals	(655)	(364)	(403)	(64)	(1,486)
At December 31, 2006	4,704	567	6,225	1,197	12,693
Depreciation					
At January 1, 2005	229	514	4,034	504	5,281
Exchange differences	8	29	233	–	270
Charge for the year	62	106	690	209	1,067
Disposals	(4)	(217)	(1,205)	–	(1,426)
At December 31, 2005 and January 1, 2006	295	432	3,752	713	5,192
Exchange differences	-	(63)	(202)	(54)	(319)
Charge for the year	55	92	627	185	959
Disposals	(39)	(161)	(386)	(54)	(640)
At December 31, 2006	311	300	3,791	790	5,192
Net book value					
At December 31, 2006	4,393	267	2,434	407	7,501
At December 31, 2005	5,064	555	2,388	526	8,533

The net book value of plant, equipment and motor vehicles included £1,230,000 (2005 £1,152,000) in respect of assets held under hire purchase contracts The depreciation charged on these assets during the year was £170,000 (2005 £168,000) Included in leasehold property at cost is £Nil (2005 £328,000) in respect of a long leasehold property, the net book value was £Nil (2005 £230,000)

The total cost of freehold property comprises £2,775,000 in respect of buildings and £1,929,000 in respect of land A freehold property, with a net book value of £2,066,000, 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 The principal freehold property in the UK, with a historical cost of £382,000, was revalued on the basis of an open market value for existing use at December 31, 1989 by Conway Kersh, independent Professional Valuers The valuation was £1 7 million but the Directors ascribed a value of £1 4 million, on the grounds of prudence The valuation was in accordance with RICS Statements of Asset Valuation Practice and Guidance Notes

Notes to the Accounts Year ending December 31, 2006

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

	2006 £000	2005 £000
Cost		
At January 1	30,198	28,890
Exchange differences	(1,625)	1,418
Additions	8,444	7,574
Disposals	(8,269)	(7,684)
At December 31	28,748	30,198
Amortization		
At January 1	9,190	8,804
Exchange differences	(553)	508
Charge for the year	7,461	7,562
Disposals	(8,269)	(7,684)
At December 31	7,829	9,190
Carrying amounts	20,919	21,008

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

	2006 £000	2005 £000
Finished goods	12,910	12,795
Work in progress	415	452
Raw materials	623	832
	13,948	14,079

Notes to the Accounts Year ending December 31, 2006

17 TRADE AND OTHER RECEIVABLES

	2006 £000	2005 £000
Trade receivables	24,980	25,523
Other receivables and prepayments	1,788	2,417
Fair value of derivatives	254	459
	27,022	28,399

The average credit period on sales of goods is 79 days (2005 76 days) An allowance has been made for estimated irrecoverable amounts from the sale of goods of £1,755,000 (2005 £967,000) This allowance has been determined by reference to past default experience

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

Credit risk

The group's principal financial assets are bank balances and cash, trade and other receivables which represent the group's maximum exposure to credit risk in relation to financial assets

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 credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies

The group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers

Notes to the Accounts Year ending December 31, 2006

18 CASH AND CASH EQUIVALENTS

	2006 £000	2005 £000
Bank balances	8,412	10,408
Short term deposits	5,517	4,023
	13,929	14,431
Bank overdraft (note 23)	(1,819)	(2,532)
Cash and cash equivalents for cash flow statement	12,110	11,899

The carrying amount of these assets approximates their fair value

The effective interest rates on bank balances and short term deposits was 4 1% (2005 2 9%)

19 MEDIUM AND LONG TERM LOANS

	2006 £000	2005 £000
Bank loans	25,902	44,164
Loan note	842	960
	26,744	45,124
Obligations under finance leases (see note 22)	377	475
	27,121	45,599

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

	2006 £000	2005 £000
On demand or within one year	17,436	3,621
In the second year	976	43,359
In the third to fifth years inclusive	403	1,362
After five years	25,365	403
	44,180	48,745
Less Amount due for settlement within 12 months (shown under current liabilities)	(17,436)	(3,621)
Amount due for settlement after 12 months	26,744	45,124

Notes to the Accounts Year ending December 31, 2006

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	30,166	16,148	14,018	4 4%	7
Other currency borrowings	14,014	-	14,014	-	-
As at December 31, 2006	44,180	16,148	28,032	4 4%	7
US dollar borrowings	34,424	19,355	15,069	4 4%	19
Other currency borrowings	14,321	–	14,321	–%	–
As at December 31, 2005	48,745	19,355	29,390	4 4%	19

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

At December 31, 2006, undrawn borrowing facilities totaled £45,334,000 (2005 £16,163,000)

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 1 7% to 8 9% Of the total borrowings £30,579,000 (2005 £34,424,000) was denominated in US dollars, the remainder being denominated in a variety of currencies Bank loans include £940,000 (2005 £1,074,000) which is secured on a freehold property, with a carrying value of £2,066,000 (2005 £2,092,000) All other bank loans are unsecured The loan note is US$1,650,000, is convertible into 537,144 shares of common stock, and is repayable on August 4, 2008

The Group has a US$90m (2005 US$90m) syndicated bank facility which expires on July 15, 2007 and a £4m facility which expires on June 10, 2007 In addition, the group has an eight year floating rate of US$50m (2005 Nil) These facilities are subject to three principal covenants, calculated in accordance with UK GAAP, namely

(a) Total consolidated net indebtedness shall not exceed 3 33 times EBITDA (the consolidated operating profit before depreciation, amortization, exceptional items and development costs (production costs excluding printing) charged to the profit and loss but not paid in cash in the year) This measure amounted to £16,700,000 giving a maximum indebtedness of £55,611,000

(b) The consolidated operating profit before exceptional items and goodwill amortization shall exceed three times net interest payable For the year ended December 31, 2006, net interest payable was 4 04 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, 2006, net interest payable was 3 49 times covered under this covenant

Notes to the Accounts Year ending December 31, 2006

20 DERIVATIVE FINANCIAL INSTRUMENTS

The group uses derivative financial instruments to hedge its exposure to interest rate risks arising from financing activities

Interest rate swaps

The group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings Contracts with nominal values of $30,000,000 have fixed interest payments at an average rate of 4 4% for periods up until July 15, 2007 The instrument is carried at fair value £254,000 (2005 £459,000) at each reporting date, with any gain or loss being recognised in the profit and loss amount

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	
	2006	2005
	£000	£000
Deferred taxation provided in the financial statements is as follows		
Excess of capital allowances over depreciation – UK	264	244
Provision on property revaluation – UK	284	287
Other timing differences – UK	2,570	2,153
	3,118	2,684
Intangible assets – US	(52)	(627)
Provisions – US	1,050	1,674
Other overseas timing differences	288	373
	4,404	4,104
Deferred taxation assets		
Other timing differences – Other overseas	(198)	(25)
Net deferred taxation liability	4,206	4,079

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

	Amount Provided	
	2006	2005
	£000	£000
Net provision at January 1	4,079	3,971
Exchange difference through reserves	(197)	80
Acquisitions	-	7
Charge to income and expenditure account	324	21
Net provision at December 31	4,206	4,079

At the balance sheet date, the group has unused tax losses of £2,339,000 (2005 £2,329,000) 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

Notes to the Accounts Year ending December 31, 2006

21 DEFERRED TAX (continued)

Included in unrecognised tax losses are losses of £1,450,000 (2005 £1,391,000) that will expire in the following years

	2006 £000	2005 £000
Year ending December 31		
2008	214	227
2009	715	756
2010	37	39
2011	257	272
2012	227	97
	1,450	1,391

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 £927,000 (2005 £1,257,000) 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 2006 £000	2005 £000
Amounts payable under finance leases		
Within one year	412	346
In the second to fifth years inclusive	423	546
	835	892
Less future finance charges	(94)	(106)
	741	786
Less Amount due for settlement within 12 months (shown under current liabilities)	(364)	(311)
Amount due for settlement after 12 months	377	475

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, 2006, the average effective borrowing rate was 6 1% (2005 6 2%) 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, 2006

23 SHORT TERM BORROWINGS

	2006 £000	2005 £000
Current loan instalments	15,617	134
Loan note	-	955
Bank overdrafts	1,819	2,532
Borrowings (note 19)	17,436	3,621
Finance lease obligations (note 22)	364	311
	17,800	3,932

The carrying amount of these liabilities approximates to their fair value

The effective interest rate on the bank overdrafts was 5 9% (2005 5 5%)

24 TRADE AND OTHER PAYABLES

	2006 £000	2005 £000
Trade payables	21,203	22,486
Other payables	4,778	4,546
	25,981	27,032

The average credit period for trade purchases is 97 days (2005 100 days) The Directors consider that the carrying amount of trade payables approximates to their fair value

25 SHARE CAPITAL

Authorised
28,000,000 (2005 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 (2005 US$2,800,000)

	2006 £000	2005 £000
Equity share capital		
Allotted, called up and fully paid		
Shares of common stock of par value US$0 10 each		
20,444,550 (2005 20,444,550)	1,162	1,162

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

Notes to the Accounts Year ending December 31, 2006

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, 2005 as previously reported	1,063	19,199	130	(357)	(461)	(15,990)	3,584	2,687	6,271
Prior year adjustment	-	-	-	-	-	7,463	7,463	42	7,505
Balance at January 1, 2005, as adjusted	1,063	19,199	130	(357)	(461)	(8,527)	11,047	2,729	13,776
Total recognised income and expense	-	-	329	634	-	2,615	3,578	658	4,236
Share options exercised	-	6	-	-	12	-	18	-	18
Equity-settled transactions, net of tax	-	-	-	-	-	6	6	-	6
Shares issued	99	2,511	-	-	-	-	2,610	-	2,610
Dividends to shareholders	-	-	-	-	-	(1,197)	(1,197)	-	(1,197)
Dividends paid to minority interest	-	-	-	-	-	-	-	(121)	(121)
Foreign exchange difference	-	-	-	-	-	-	-	330	330
Minority interest arising on acquisition	-	-	-	-	-	-	-	89	89
Balance at December 31, 2005	1,162	21,716	459	277	(449)	(7,103)	16,062	3,685	19,747
Balance at January 1, 2006	1,162	21,716	459	277	(449)	(7,103)	16,062	3,685	19,747
Total recognised income and expense	-	-	-	(1,222)	-	2,800	1,578	635	2,213
Share options exercised by employees	-	24	-	-	32	-	56	-	56
Equity-settled transactions, net of tax	-	-	-	-	-	5	5	-	5
Release of hedging reserve	-	-	(459)	-	-	-	(459)	-	(459)
Dividends to shareholders	-	-	-	-	-	(1,291)	(1,291)	-	(1,291)
Dividends paid to minority interest	-	-	-	-	-	-	-	(244)	(244)
Foreign exchange difference	-	-	-	-	-	-	-	(399)	(399)
Balance at December 31, 2006	1,162	21,740	-	(945)	(417)	(5,589)	15,951	3,677	19,628

Notes to the Accounts Year ending December 31, 2006

26 RETAINED DEFICIT AND OTHER RESERVES

Revaluation reserve

The revaluation reserve relates to the revaluation of freehold property in a previous year

Hedging reserve

The hedging reserve at the beginning of the year comprised the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions The loan to which the hedge related was repaid during the year This resulted in the loss of the hedging relationship and, therefore the hedging reserve has been recycled through the income statement

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations of the Company since January 1, 2004 as well as from the translation of liabilities which hedge the Company's net investment in a foreign subsidiary

Treasury stock

Treasury stock represents the Company's purchase of its own shares The Company owns 823,321 (2005 886 321), representing 4 0% (2005 4 3%) of its shares of common stock The changes during the year were for the issue of shares in satisfaction of options exercised 8,000 on May 2, 2006 and 55,000 on December 29, 2006

Dividends	2006 £000	2005 £000
Amounts recognised as distributions to equity holders in the period		
Interim dividend for the year ended December 31, 2006 of 3 0p (2005 2 9p) per share	587	567
Final dividend for the year ended December 31, 2005 of 3 6p (2005 3 5p) per share	704	630
	1,291	1,197
Proposed final dividend for the year ended December 31, 2006 of 3 75p (2005 3 6p) per share	736	704
	736	704

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

Notes to the Accounts Year ending December 31, 2006

27 PRIOR PERIOD ADJUSTMENT

The prior period adjustment relates to non-compliance with IAS 38 The Group's pre-publication costs meet all the criteria set out in IAS 38 and therefore these costs should have been capitalised as development expenditure The financial statements have been restated to correct this The effect of the restatement on these financial statements is summarised below

	2006 £000	2005 £000
Decrease in cost of goods sold	305	141
Increase in tax	(115)	(30)
Increase in profit for the year	190	111
Increase in intangible assets	20,919	21,008
Decrease in inventories	(9,408)	(9,442)
Increase in trade and other payables	(246)	(239)
Increase in deferred tax liabilities	(3,417)	(3,436)
Increase in net assets	7,848	7,891
Increase in total equity	7,848	7,891
Decrease in minority interest share of profit for the year	10	7
Increase in minority interest at the year end	29	41
Increase in basic earnings per share	1 0p	0 6p
Increase in diluted earnings per share	1 0p	0 6p

The effect on opening reserves at January 1, 2005 of this prior period adjustment is £7,505,000

28 NOTES TO THE CASH FLOW STATEMENT

Additions to property, plant and equipment during the year amounting to £321,000 (2005 £147,000) were financed by new finance leases

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less

29 CONTINGENT LIABILITIES

The Quarto Group, Inc has issued guarantees in respect of £1,819,000 of overdrafts of subsidiaries (2005 £2,532,000) and bank loans of £41,932,000 (2005 £44,299,000) The Group has also issued guarantees in respect of £741,000 (2005 £786,000) of hire purchase creditors and a loan note of subsidiaries £842,000 (2005 £1,914,000) 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

Notes to the Accounts Year ending December 31, 2006

30 OPERATING LEASE ARRANGEMENTS AND OTHER FINANCIAL COMMITMENTS

	2006 £000	2005 £000
Minimum lease payments under operating leases recognised in income for the year	1,591	1,682

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

	2006 £000	2005 £000
Within one year	1,334	1,251
In the second to fifth years inclusive	1,987	2,737
After five years	-	21
	3,321	4,009

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 £69,000 (2005 £148 000)

31 SHARE OPTIONS

At December 31, 2006, 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
2,000	March 31, 2001- March 30, 2008	£0 685
13,000	February 22, 2003 - February 21, 2007	£1 115
18,000	February 22, 2003 - February 21, 2010	£1 115
7,500	March 29, 2004 – March 28, 2011	£0 825
11,000	February 15, 2005 –February 14, 2009	£0 67
12,000	February 15, 2005 –February 14, 2012	£0 67
33,000	February 14, 2006 –February 13, 2010	£0 83
29,500	February 14, 2006 –February 13, 2013	£0 83
42,686	September 30, 2007 – September 29, 2011	£1 63
29,814	September 30, 2007 – September 29, 2014	£1 63

Notes to the Accounts Year ending December 31, 2006

32 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

	2006 £000	2005 £000
Salary	831	831
Benefits	34	28
Pensions	140	145
	1,005	1,004

33 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 £300 (2005 £1,700) During the year L I Orbach loaned money to the Group and has earned an arm's length return of 4 2% The total amount of interest earned during the year was £3,000 (2005 £3,000) The balance outstanding at the beginning of the year was £147,000, which was also the highest amount outstanding, and the balance at the end of the year, was £136,000

P Cambell, a non-executive director, earned consulting fees of £15,000 (2005 £15,000) during the year These fees were on an arms length basis

34 RECONCILIATION OF FIGURES INCLUDED IN THE CHAIRMAN S LETTER

	2006 £000	2005 £000
Profit before tax, before amortization of non-current intangibles and non-recurring items	7,262	6,693
Amortization of non-current intangibles	(1,387)	(1,381)
Non-recurring items	(1,238)	(746)
Profit before tax	4,637	4,566
EBITDA		
Profit before tax, before amortization of non-current intangibles and non-recurring items	7,262	6,693
Net interest	2,295	2,223
Depreciation	959	1,067
Amortization of pre-publication costs	7,461	7,562
EBITDA, before non-recurring items	17,977	17,545
Net debt		
Medium and long term borrowings	27,121	45,599
Short term borrowings	17,800	3,932
Cash and cash equivalents	(13,929)	(14,431)
	30,992	35,100

Company Balance Sheet Year ended December 31, 2006

	Notes	2006 £000	2005 £000
Fixed assets			
Investments	3	7,153	7,231
		7,153	7,231
Creditors Amounts falling due within one year	5	(1,036)	(37)
NET CURRENT LIABILITIES		(1,036)	(37)
NET ASSETS		6,117	7,194
CAPITAL AND RESERVES			
Called up share capital	6	1,162	1,162
Treasury stock	6	(417)	(449)
Reserves - Paid in surplus	7	21,740	21,716
- Profit and loss	7	(16,368)	(15,235)
SHAREHOLDERS' FUNDS	8	6,117	7,194

The financial statements were approved by the board of directors and authorised for issue on March 7, 2007
They were signed on its behalf by

M J Mousley
Director

Notes to Company Balance Sheet
Year ended December 31, 2006

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 - 68

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

The introduction of FRS 23 'The effects of changes in foreign exchange rates' and FRS 26 ' Financial instruments measurement' has had no material effect in the current or prior years

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

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

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

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

Notes to Company Balance Sheet
Year ended December 31, 2006

2 PROFIT (LOSS) ATTRIBUTABLE TO THE COMPANY

The profit (loss) for the financial year dealt with in the financial statements of the parent company was £153,000 (2005 £(210,000)) 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

	£000
At January 1, 2006	7,231
Additions	80
Loans repaid	(158)
At December 31, 2006	7,153

The additions comprise the purchase of the minority interest in Global Book Publishing Pty Ltd

Notes to Company Balance Sheet
Year ended December 31, 2006

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 Zeland 27 September, 1996	400,000 shares of NZ$1 each	70*	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	80	Publishing
Lifetime Distributors 'The Book People' Pty Limited	Australia 3 December, 1990	100,004 shares of A$1 each	75	Publishing

Notes to Company Balance Sheet
Year ended December 31, 2006

5 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006	2005
	£000	£000
Amounts owed to subsidiary undertakings	1,036	37

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	Profit and loss account
	£000	£000
At beginning of year	21,716	(15,235)
On shares issued during the year	24	-
Result for the year	-	153
Equity settled transactions net of tax	-	5
Dividends	-	(1,291)
At end of year	21,740	(16,368)

Notes to Company Balance Sheet
Year ended December 31, 2006

8 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS FUNDS

	2006 £000	2005 £000
Profit (loss) for the financial year	153	(210)
Dividends	(1,291)	(1,197)
Retained (loss) for the financial year	(1,138)	(1,407)
Issue of shares	56	2 628
Equity settled transactions net of tax	5	6
Net movement in shareholders' funds	(1,077)	1,227
Shareholders' funds at January 1, 2006	7,194	5,967
Shareholders' funds at December 31, 2006	6,117	7,194

9 CONTINGENT LIABILITIES

Contingent liabilities are disclosed in note 29 to the group accounts

Five Year Summary

	2006 £000	IFRS 2005 Restated £000	2004 £000	UK GAAP 2003 £000	UK GAAP 2002 £000
Results					
Revenue	93,613	95,038	79,750	74,623	74,735
Operating profit	6,932	6,789	7,007	5,965	6,031
Profit before tax	4,637	4,566	5,392	4,873	4,880
Profit attributable to equity holders	2,800	2,615	3,734	4,559	4,537
Assets employed					
Non-current assets	20,396	23,717	22,052	12 246	9,251
Current assets	75,996	78,069	57,016	50,608	51,509
Current liabilities	(45,218)	(32,222)	(33,549)	(24,303)	(24,576)
Non-current liabilities	(31,546)	(49,817)	(39,248)	(30,463)	(30,291)
Net assets	19,628	19,747	6,271	8,088	5,893
Financed by					
Equity	15,951	16,062	3,584	5,652	3,387
Minority interests	3,677	3,685	2,687	2,436	2,506
	19,628	19,747	6,271	8,088	5,893
Key statistics					
Earnings per share	14 3p	13 8p	20 8p	18 9p	20 1p
Diluted earnings per share	13 9p	13 5p	19 6p	18 2p	19 3p
Adjusted diluted earnings per share	22 5p	21 3p	21 2p	21 2p	20 1p

The amounts disclosed for 2004 have not been restated for the prior period adjustment referred to in note 27 to these Financial Statements because it is not practical to do so

The amounts disclosed for 2003 and earlier periods are stated on the basis of UK GAAP because it is not practicable to restate amounts for periods prior to the date of transition to IFRS