100389/60

FC013814

Qu.

The Quarto Group, Inc.

Report and Financial Statements
December 31, 2006

COMPANY REGISTRATION NO. FC0 13814

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
KPMG Audit Plc, 8 Salisbury Square, London, EC4Y 8BB

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 Bank 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
1CO 13814

Financial Review

RESULTS

For the year ended December 31 2005, sales increased by 19% to £95 0m (2004 £79 8m) The Group is organised into two business segments Co-edition Publishing and Publishing Co edition Publishing revenues increased by 2% to £37 0m (2004 £36 4m) Publishing revenues increased by 34% to £58 0m (2004 £43 4m), the growth being driven by the acquisitions made in the second half of 2004 and in the first half of the current year Sales by geographic market were US £46 3m (2004 £43 1m), Australasia £18 3m (2004 £8 4m), UK £15 9m (2004 £15 8m), Europe £10 4m (2004 £9 2m) and ROW £4 1m (2004 £3 3m) The US market was solid for most of our businesses The sales growth in Australasia was driven by acquisitions without which, revenues were down 13%, reflecting a difficult retail environment UK sales, excluding acquisitions, were down 7%, again reflecting a difficult retail environment for the book trade In contrast to Australasia and the UK, we achieved good growth in Europe

Gross profit increased by 20% to £34 6m (2004 £28 9m) and represented 36 4% (2004 36 2%) of sales

Profit from operations before amortisation of intangibles and non-recurring items increased by 17% to £8 8m (2004 £7 5m) and represented 9 2% (2004 9 4%) of sales Operating profit after these costs amounted to £6 6m (2004 £7 0m)

During 2005, we announced that, in order to improve the performance of our two publishing and marketing services units we had decided to amalgamate the two operations at one site We incurred one-off restructuring charges of £644 000 I am pleased to report that the savings that we had predicted, at the time of the announcement, are being realised We also incurred £102,000 of one-off aborted acquisition costs during the first half of the year

There was a much higher charge in 2005 for the amortisation of intangibles, which increased from £0 5m to £1 4m, this relates to the acquisitions made in 2004 and 2005

Net interest payable increased by 38% to £2 2m (2004 £1 6m) The increase is because the average rate of interest paid during the year increased by 15% from 4 7% to 5 4% and because of higher net debt levels as a result of the acquisitions made in the second half of 2004 and the first half of 2005

The effective tax rate for the year was 28 5% compared to 23 3% last year which was low because of the utilisation of tax losses not previously recognised

BALANCE SHEET

Goodwill and other intangible assets increased to £15 2m from £13 1m Additions, arising on acquisitions amounted to £2 5m and there was an exchange gain of £1 0m, these were offset by amortisation charges of £1 4m

Inventories increased to £23 5m from £20 6m because of currency movements (year end rate for the US$, for example, was 1 72 compared to 1 92 a year ago) and acquisitions

Trade receivables increased to £25 5m from £21 5m partly because of currency movements and partly because of strong sales in the last quarter, in particular for the co edition publishing units Trade receivables represent 2 5 months sales, compared to 2 8 months sales at the end of 2004

At the year end, our net debt was £35 1m, up £2 0m compared to 2004 (£33 1m) On a constant currency basis it is £32 7m, down £0 4m, in line with expectations The most significant items that impacted the movement in net debt, excluding the exchange difference during the year, were a spend of £2 9m on acquisitions and the conversion of 2 947,252 shares of preferred stock, which under IFRS were treated as debt with a value of £2 6m into shares of common stock Our total funding facilities at the year end were £65 7m, and of this, £58 7m was committed for more than one year

Financial Review

SHAREHOLDER RETURN

Adjusted fully diluted earnings per share (see note 10 on page 62 were 20 8p (2004 21 2p) The reduction was due to the anticipated increased tax charge Had the tax rate been the same as last year, adjusted fully diluted earnings per share would have been 21 5p, an increase of 1 4%

The proposed final dividend of 3 6p represents an increase of 2 9% on last year's final dividend The total dividend for the year is 6 5p, an increase of 4 0% on last year The total dividend is 3 2 times covered (2004 3 4 times) by adjusted fully diluted earnings per share

The market price of the shares of common stock on December 31, 2005 was 185 5p, up 2 2% compared to last year (181 5p)

Quarto's common stock has generated a very strong total shareholder return over the five years and three years ended December 31, 2005 of 170% and 128% respectively Over the same period, Quarto's common stock has significantly outperformed the FTSE small cap index and the media sector

TREASURY

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 2005, 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

	2005	2004
US Dollar	1 82	1 83
Hong Kong Dollar	14 14	14 25
Australian Dollar	2 39	2 49

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Under IFRS, there were a number adjustments to the historic figures, which are explained in detail in note 34 The three most significant differences i e the calculation of goodwill, the amortisation of intangibles and the classification of the cumulative redeemable preference shares as debt, have no impact on cash flow

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

February 23, 2006

Directors' Report

The Directors present their report and the audited financial statements of The Quarto Group, Inc , for the year ended December 31, 2005

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 13 and the Review of Operations on pages 16 to 32

RESULTS AND DIVIDENDS

The profit for the year after taxation and minority interests amounted to £2,497,000 (2004 £3,734 000) The Directors propose a final ordinary dividend of 3 6p (2004 3 5p) 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 WR Royal and the CBI He is the co-founder of Hanson Green the principal source for non-executive appointments in the UK

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 2005 had the following interests in the share capital of the Company

	Number of US$0 10 shares of common stock	
SHAREHOLDING	December 31, 2005	January 1, 2005
L I Orbach*	2,886,385	2,858,985
R J Morley	1 402 852	1 402,852
M J Mousley	51 700	42,700
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 45

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

L I Orbach held 10,000 and M J Mousley held 15,000 convertible cumulative redeemable shares of preferred stock of par value US$0 10 each at January 1, 2005 On June 1, 2005 they converted their entire holdings of convertible cumulative redeemable shares of preferred stock into common stock at a ratio of 60 common stock shares for every 100 shares of convertible cumulative redeemable shares of preferred stock

During the year the market price of the shares of common stock ranged between 176p and 214p The market price at December 31, 2005 was 185 5p

Between December 31, 2005 and February 23, 2006 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 February 23 2006, 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	4,093 172	20 0%
L F Orbach	2,886,385	14 1%
Herald Investment Trust	1,735,000	8 5%
R J Morley	1 402,852	6 9%
Invesco English & International Trust	1 265,000	6 2%
The Quarto Group Inc	886,321	4 3%
Liontrust	802,932	3 9%
Lattice Group Pension Scheme	734,882	3 6%
Ennismore Fund Management	625,000	3 1%

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's risk management strategy is set out on page 38 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 and Delaware Law 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 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 44 The Committee 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

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 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, 2005, Group creditor days amounted to 100 days (2004 107 days)
The holding company does not have any trade creditors

AUDITOR

Our independent auditor, KPMG Audit Plc, is willing to continue in office and, accordingly, a resolution is to be proposed at the annual general meeting for the reappointment of KPMG Audit Plc as auditor to the company

M J Mousley
Secretary

February 23, 2006

Directors' Remuneration Report

INTRODUCTION

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

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.

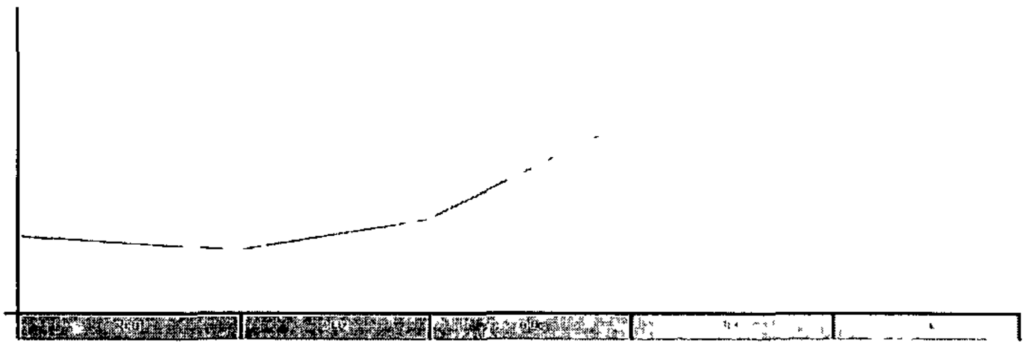
All of the Directors stand for re-election annually at the Annual General Meeting of the Company.

TOTAL SHAREHOLDER RETURN

The following graph charts the total shareholder return of the Company for the last five years.

—— Quarto

FTSE Media and Entertainment



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.

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	BONUS	BENEFITS	2005 TOTAL	2004 TOTAL £000
L F Orbach	325	30	12	367	338
R J Morley	177	-	11	188	176
M J Mousley	175	25	5	205	178
P Campbell (Non-executive)	42	-	-	42	40
P Waine (Non-executive)	30	-	-	30	25
L Collins (Non-executive)	27	-	-	27	25
	776	55	28	859	782

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

	2005 £000	2004 £000
L F Orbach	89	72
R J Morley	26	26
M J Mousley	30	26
	145	124

SHARE OPTIONS

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

	At January 1, 2005	Awarded in year	At December 31, 2005	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

No gains were made by Directors on the exercise of the share options in the current or prior year Details of the performance criteria of these options are given above under Components of Remuneration The highest and lowest prices of the Company's shares during the year were 214p and 176p respectively The price at the year end was 185 5p

This report was approved by the Board of Directors on February 23, 2006

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, 2005 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 Directors Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) 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 oversea companies We also report to you if, in our opinion, the Directors Report is not consistent with the financial statements, if we have not received all the information and explanations we require for our audit or if information specified by law regarding directors' remuneration and other transactions is not disclosed as if that law were to apply

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 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 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, 2005 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, 2005, and
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985 as applicable to oversea companies

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
February 23, 2006

Consolidated income statement
Year ended December 31, 2005

	Notes	2005 £000	2004 £000
CONTINUING OPERATIONS			
Revenue	3	95 038	79 750
Cost of sales		(60,444)	(50,880)
GROSS PROFIT		34,594	28 870
Other operating income		227	126
Distribution costs		(4,148)	(3,014)
Administrative expenses before amortisation of intangibles and non-recurring items		(21 898)	(18,466)
Amortisation of intangibles		(1,381)	(509)
Non-recurring items			
Aborted acquisition costs		(102)	-
Restructuring costs		(644)	-
Total administrative expenses		(24 025)	(18,975)
PROFIT FROM OPERATIONS BEFORE AMORTISATION OF INTANGIBLES AND NON RECURRING ITEMS		8,775	7 516
OPERATING PROFIT	5	6 648	7 007
Finance income	7	128	65
Finance costs	8	(2,351)	(1,680)
PROFIT BEFORE TAX		4,425	5,392
Tax	9	(1 263)	(1,255)
PROFIT FOR THE YEAR		3,162	4,137
Attributable to			
Equity holders of the parent		2,497	3,734
Minority interest		665	403
		3 162	4 137
EARNINGS PER SHARE			
From continuing operations			
Basic	10	13 2p	20 8p
Diluted	10	12 9p	19 6p

Consolidated Statement of Recognised income and expense Year Ended December 31, 2005

	2005 £000	2004 £000
Exchange differences on translation of foreign operations	485	(390)
Net (loss) / gain on hedge of net investment in foreign subsidiaries	(120)	33
Change in the fair value of cash flow hedges	329	130
NET INCOME/(EXPENSE) RECOGNISED DIRECTLY IN EQUITY	694	(227)
PROFIT FOR THE YEAR	3,162	4 137
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR	3 856	3 910
ATTRIBUTABLE TO		
Equity holders of the parent	3 191	3,507
Minority interest	665	403
	3 856	3,910

Consolidated balance sheet at December 31, 2005

	Notes	2005 £000	2004 £000
NON-CURRENT ASSETS			
Goodwill	11	10,317	7,732
Other intangible assets	12	4,842	5,334
Property, plant and equipment	13	8,533	8,982
Deferred tax assets	20	25	4
Total non-current assets		23,717	22,052
CURRENT ASSETS			
Inventories	15	23,521	20,638
Tax receivable		152	154
Trade and other receivables	16	28,399	23,646
Cash and cash equivalents	17	14,431	12,578
Total current assets		66,503	57,016
TOTAL ASSETS		90,220	79,068
CURRENT LIABILITIES			
Short term borrowing	22	(3,932)	(7,250)
Trade and other payables	23	(26,793)	(24,995)
Tax payable		(1,258)	(1,304)
Total current liabilities		(31,983)	(33,549)
NON CURRENT LIABILITIES			
Medium and long term borrowings	18	(45,599)	(38,408)
Deferred tax liabilities	20	(668)	(630)
Other payables		(114)	(210)
Total non-current liabilities		(46,381)	(39,248)
TOTAL LIABILITIES		(78,364)	(72,797)
NET ASSETS		11,856	6,271
EQUITY			
Share capital	24,25	1,162	1,063
Paid in surplus	25	21,716	19,199
Retained earnings and other reserves	25	(14,666)	(16,678)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		8,212	3,584
MINORITY INTEREST	25	3,644	2,687
TOTAL EQUITY		11,856	6,271

The financial statements were approved by the board of directors and authorised for issue on February 23, 2006
They were signed on its behalf by

M J Mousley
Director
February 23, 2006

Consolidated cash flow statement Year ending December 31, 2005

		2004
		£000
PROFIT FOR THE PERIOD	3,162	4 137
Adjustments for		
Net finance costs	2,223	1,615
Depreciation of property, plant and equipment	1,067	1,073
Tax expense	1,263	1,255
Amortisation of intangible assets	1,381	509
Equity settled share – based payment expense	9	4
Loss/(gain) on disposal of property, plant and equipment	51	(1)
Operating cash flows before movements in working capital	9 156	8 592
Decrease/(increase) in inventories	28	(722)
(Increase)/decrease in receivables	(3,057)	301
Decrease in payables	(120)	(1 668)
Cash generated by operations	6,007	6 503
Income taxes paid	(1 428)	(1,062)
NET CASH FROM OPERATING ACTIVITIES	4 579	5 441
INVESTING ACTIVITIES		
Interest received	119	51
Proceeds on disposal of property, plant and equipment	237	38
Purchases of property, plant and equipment	(678)	(1 020)
Acquisition of subsidiaries (net of cash acquired)	(2 847)	(13 700)
NET CASH USED IN INVESTING ACTIVITIES	(3 169)	(14 631)
FINANCING ACTIVITIES		
Dividends paid	(1,197)	(1 077)
Interest payments	(2,390)	(1,753)
Proceeds on issue of share capital	18	26
New bank loans raised	2 288	10 967
Dividends paid to minority interest	(121)	(103)
NET CASH (USED IN)/FROM FINANCING ACTIVITIES	(1 402)	8 060
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	8	(1 130)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	10,611	12 455
Foreign currency exchange differences on cash and cash equivalents	1 280	(714)
CASH AND CASH EQUIVALENTS AT END OF YEAR	11,899	10,611

Notes to the Accounts Year ending December 31, 2005

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 36 The nature of the group s operations and its principal activities are set out in note 4 and in the Directors Report on page 39

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 85 to 89

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements and in preparing an opening IFRS balance sheet at January 1 2004 for the purposes of the transition to Adopted IFRSs

Transition to Adopted IFRSs

The Group is preparing its financial statements in accordance with Adopted IFRS for the first time and consequently has applied IFRS 1 An explanation of how the transition to Adopted IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 34

IFRS 5 Non-current assets held for sale and discontinued operations has been adopted on January 1 2005 but has no effect on the financial statements for the year

The following exemptions have been taken in these financial statements a) Business combinations – Business combinations that took place prior to January 1, 2004 have not been restated b) Fair value or revaluation as deemed cost – At the date of transition, fair value has been used as deemed cost for properties previously measured at fair value c) Cumulative translation differences – Cumulative translation differences for all foreign operations have been set to zero at January 1, 2004

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 11,16,18 and 20

The accounting policies set out below have been applied to all periods presented

Notes to the Accounts Year ending December 31, 2005

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

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 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 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, 2005

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

Inventories

Inventory is valued at the lower of cost, including an appropriate portion of overheads, and net realisable value Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and selling expenses Production costs (excluding unit print costs), including an appropriate proportion of overheads, in respect of a book are charged to the income statement on the first printing of a book

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, 2005

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

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 When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability If the hedge of a forecasted transaction subsequently results in the recognition of a financial asset or liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (i e when the income or expense is recognised)

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

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

Notes to the Accounts Year ending December 31, 2005

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 and cash 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

Borrowing costs

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

Adopted IFRS not yet applied

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

IFRS 7 'Financial instruments Disclosure' applicable for years commencing on or after January 1, 2007

The application of IFRS 7 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

REVENUE

An analysis of the group's revenue is as follows

	[illegible]	2004
	[illegible]	£000
Sales of goods	95,038	79,750
Revenue	95,038	79,750
Other operating income	227	126
Finance income	128	65
Total income	95,393	79,941

Notes to the Accounts Year ending December 31, 2005

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 2005 £000	CO EDITION PUBLISHING 2004 £000	PUBLISHING 2005 £000	PUBLISHING 2004 £000	[illegible]	TOTAL 2004 £000
REVENUE						
Total sales	38,314	37,391	57,989	43 395	96 303	80 786
Inter-segment revenue	(1,259)	(1,024)	(6)	(12)	(1,265)	(1,036)
External sales	37,055	36 367	57,983	43,383	95 038	79,750
Segment result before amortisation of intangibles	4 380	4 263	5,346	4,082	9,726	8 345
Amortisation of intangibles	(12)	(12)	(1,369)	(497)	(1,381)	(509)
Segment result	4,368	4,251	3,977	3,585	8 345	7 836
Unallocated corporate expenses					(951)	(829)
Aborted acquisition costs					(102)	-
Restructing costs					(644)	
Profit from operations					6 648	7 007
Investment income					128	65
Finance costs					(2 351)	(1 680)
Profit before tax					4,425	5,392
Tax					(1 263)	(1 255)
Profit after tax					3 162	4 137

Inter-segment revenues are on an arms-length basis

Notes to the Accounts Year ending December 31, 2005

4 BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

	CO EDITION PUBLISHING 2005 £000	CO EDITION PUBLISHING 2004 £000	PUBLISHING 2005 £000	PUBLISHING 2004 £000	TOTAL 2005 £000	TOTAL 2004 £000
Capital additions	199	711	479	309	678	1,020
Depreciation	391	376	676	697	1 067	1,073
Amortisation	12	12	1,369	497	1,381	509

There are no other significant non-cash expenses

BALANCE SHEET

ASSETS						
Segment assets	27,243	24,784	48,369	41,548	75,612	66,332
Unallocated corporate assets					14 608	12 736
Consolidated total assets					90,220	79,068
LIABILITIES						
Segment liabilities	13,747	12,348	13,160	12,857	26,907	25,205
Unallocated corporate liabilities					51 457	47 592
Consolidated total liabilities					78,364	72 797

GEOGRAPHICAL SEGMENTS

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

	Revenue 2005 £000	Revenue 2004 £000
United Kingdom	15,848	15,804
United States of America	46,305	43,072
Australia and Far East	18,344	8,375
Europe	10,415	9,211
Rest of the World	4,126	3,288
	95,038	79,750

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 2005 £000	Assets 2004 £000	Capital Additions 2005 £000	Capital Additions 2004 £000
United Kingdom	25,702	24,486	435	584
United States of America	32 326	28,453	161	201
Other	17,584	13,393	82	235
	75,612	66 332	678	1,020

Notes to the Accounts Year ending December 31, 2005

5 PROFIT FROM OPERATIONS

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

	[illegible]	2004 £000
Depreciation of property, plant and equipment	1,067	1,073
Net foreign currency exchange losses / (gains)	4	(25)
Amortisation of intangibles	1,381	509
Staff costs (see note 6)	15,707	13 963
Auditors remuneration for audit services (see below)	257	226
Cost of inventory recognised as an expense	31,739	22 684
Restructuring costs	644	
Aborted acquisition costs	102	-

Amounts payable to the auditors in respect of non-audit services were £ 136,000 (2004 £14,000) These comprised IFRS reviews £63,000 (2004 £nil), transaction services £55,000 (2004 £nil) and tax services £18,000 (2004 £14,000) Included under auditors' remuneration are audit fees in respect of the Company amounting to £56 000 (2004 £53,000) The fees have been dealt with through the financial statements of Quarto Publishing plc

6 STAFF COSTS

	2005 Number	2004 Number
The average monthly number of employees (including executive directors) was	483	480
		£000
Their aggregate remuneration comprised		
Wages and salaries	14,079	12,417
Social security costs	1,135	1,069
Other pension costs	484	423
Equity settled transactions	9	4
	15,707	13,913

7 FINANCE INCOME

	[illegible]	2004 £000
Interest on bank deposits	128	65

Notes to the Accounts Year ending December 31, 2005

8 FINANCE COSTS

	2005 £000	2004 £000
Interest on bank overdrafts and loans	2,106	1,187
Interest on obligations under finance leases	41	47
Finance charge on preference shares	204	446
Total finance costs	2 351	1 680

9 TAX

	2005 £000	2004 £000
Current tax	1,272	1,527
Deferred tax (note 20)		
Current year origination and reversal of timing differences	(9)	(272)
	1,263	1,255

Corporation tax on UK profits is calculated at 30 % (2004 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:

	2005 £000	2005 %	2004 £000	2004 %
Profit before tax	4,425		5,392	
Tax at the UK corporation tax rate of 30% (2004 30%)	1,328		1,618	
Tax effect of utilisation of tax losses not previously recognised	(8)		(397)	
Tax losses not utilised	224		82	
Effect of different tax rates of subsidiaries operating in other jurisdictions	(198)		(63)	
Other, including tax effect of expenses that are not deductible in determining taxable profit	(83)		15	
Tax expense and effective tax rate for the year	1,263	28 5%	1 255	23 3%

Notes to the Accounts Year ending December 31, 2005

10 EARNINGS PER SHARE

From continuing operations

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

Earnings

	2005 £000	2004 £000
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	2,497	3,734
Effect of dilutive potential ordinary shares		
Interest on loan notes (net of tax)	57	23
Interest on convertible redeemable preference shares	204	446
Earnings for the purposes of diluted earnings per share	2,758	4,203

Number of shares

	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	18,893,419	17,955,495
Effect of dilutive potential ordinary shares		
Share options	139,183	111,636
Dilutive loan note	1,074,288	437,347
Dilutive preference shares	1,218,131	2,923,514
Weighted average number of ordinary shares for the purposes of diluted earnings per share	21,325,021	21,427,992

	2005 pence	2004 pence
Basic	13.2p	20.8p
Diluted	12.9p	19.6p

Adjusted earnings

Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	2,497	3,734
Amortisation of intangibles (net of tax and minority interest)	925	345
Restructuring costs	644	-
Aborted acquisition costs	102	
Earnings for the purposes of adjusted earnings per share	4,168	4,079
Effect of dilutive potential ordinary shares		
Interest on loan notes (net of tax)	57	23
Interest on convertible redeemable preference shares	204	446
Earnings for the purposes of diluted earnings per share	4,429	4,548

	2005 pence	2004 pence
Basic	22.1p	22.7p
Diluted	20.8p	21.2p

Notes to the Accounts Year ending December 31, 2005

11 GOODWILL

	£000
Cost	
At January 1, 2004	3,071
Exchange differences	(141)
Recognised on acquisition of subsidiaries	4 802
At December 31 2004 and January 1, 2005	7 732
Exchange differences	460
Recognised on acquisition of subsidiary (note 27)	2 051
Recognised on the acquisition of a minority shareholding	74
At December 31, 2005	10 317
Carrying amount	
At December 31, 2005	10,317
At December 31, 2004	7,732
At January 1, 2004	3,071

Impairment tests for cash generating units containing goodwill

The following units have significant carrying amounts of goodwill

	2005 £000	2004 £000
CPI	3,762	3 389
Premier	2,115	-
Marshall	1,861	1,861
Others	2,579	2,482
	10,317	7,732

The recoverable amount of each cash generating unit is based on value in use basis Those calculations use cash flow projections based on actual operating results and budgeted results Cash flows for a period of 20 years are extrapolated using a 2% growth rate

Notes to the Accounts Year ending December 31, 2005

12 OTHER INTANGIBLE ASSETS

	Non Contractual Relationships £000	Backlists £000	Total £000
Cost			
At January 1, 2004		339	339
Exchange differences	-	(254)	(254)
Acquired on acquisition of subsidiaries		5,810	5,810
At December 31, 2004 and January 1, 2005		5,895	5,895
Exchange differences	10	602	612
Acquired on acquisition of subsidiary (note 27)	385	-	385
At December 31, 2005	395	6 497	6 892
Amortisation			
At January 1, 2004	-	73	73
Exchange differences	-	(21)	(21)
Charge for the year	-	509	509
At December 31, 2004 and January 1, 2005	-	561	561
Exchange differences	1	107	108
Charge for the year	174	1,207	1 381
At December 31, 2005	175	1,875	2,050
Carrying Amount			
At December 31, 2005	220	4,622	4,842
At December 31, 2004	-	5 334	5 334
At January 1, 2004	-	266	266

Notes to the Accounts Year ending December 31, 2005

13 PROPERTY PLANT AND EQUIPMENT

	Freehold Property £000	Leasehold Property £000	Plant Equipment and Motor Vehicles £000	Fixtures and Fittings £000	Total £000
Group					
Cost or valuation					
At January 1, 2004	5,200	802	6,859	883	13 744
Exchange differences	(48)	(42)	(151)	(38)	(279)
Additions	128	253	377	262	1 020
Subsidiaries acquired	-	79	130	52	261
Disposals	-	(5)	(316)	(162)	(483)
At December 31, 2004 and 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	5,359	987	6,140	1,239	13,725
Depreciation					
At January 1, 2004	167	449	3 757	462	4,835
Exchange differences	(5)	(15)	(133)	(28)	(181)
Charge for the year	67	85	690	231	1 073
Disposals	-	(5)	(280)	(161)	(446)
At December 31, 2004 and 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	295	432	3,752	713	5,192
Net book value					
At December 31, 2005	5,064	555	2 388	526	8,533
At December 31, 2004	5,051	573	2,865	493	8,982

The net book value of plant equipment and motor vehicles included £1,152 000 (2004 £1,485 000) in respect of assets held under hire purchase contracts The depreciation charged on these assets during the year was £168 000 (2004 £241,000) Included in leasehold property at cost is £328,000 (2004 £294,000) in respect of a long leasehold property the net book value was £230 000 (2004 £213 000)

The total cost of freehold property comprises £3 103,000 in respect of buildings and £2,256,000 in respect of land A freehold property, with a net book value of £1,669,000, is secured against a mortgage

As stated in the accounting policy note on page 55, 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, 2005

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 5 to the company's separate financial statements All of these subsidiaries are included in the consolidated results

15 INVENTORIES

		2004
		£000
Finished goods	16,165	14,315
Work in progress	6,763	6,262
Raw materials	832	351
Less Payments on account	(239)	(290)
	23 521	20 638

16 TRADE AND OTHER RECEIVABLES

	2005	2004
	£000	£000
Trade receivables	25,523	21 547
Other receivables and prepayments	2,417	1 969
Fair value of derivatives	459	130
	28,399	23,646

The average credit period on sales of goods is 76 days (2004 85 days) An allowance has been made for estimated irrecoverable amounts from the sale of goods of £967,000 (2004 £970,000) 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, 2005

17 CASH AND CASH EQUIVALENTS

	2005 £000	2004 £000
Bank balances	10,408	9,730
Short term deposits	4 023	2,848
	14 431	12,578
Bank overdraft (note 22)	(2,532)	(1 967)
Cash and cash equivalents for cash flow statement	11,899	10 611

The carrying amount of these assets approximates their fair value

The effective interest rates on bank balances and short term deposits was 2 9% (2004 1 9%)

18 MEDIUM AND LONG TERM LOANS

	2005 £000	2004 £000
Bank loans	44,164	36,035
Loan note (note 22)	960	1,719
	45 124	37,754
Obligations under finance leases (see Note 21)	475	654
	45 599	38,408

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

On demand or within one year	3,621	2 101
In the second year	43,359	994
In the third to fifth years inclusive	1,362	36,223
After five years	403	537
	48,745	39,855
Less Amount due for settlement within 12 months (shown under current liabilities)	(3 621)	(2 101)
Amount due for settlement after 12 months	45,124	37,754

18 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	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
US dollar borrowings	30,075	17 344	12,731	4 4%	32
Other currency borrowings	9,780	-	9,780	-%	
As at December 31, 2004	39,855	17,344	22 511	4 4%	32

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

At December 31, 2005, undrawn borrowing facilities totaled £16 163,000 (2004 £3 322,000)

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 3% to 8 5% Of the total borrowings £34,424,000 (2004 £30 075,000) was denominated in US dollars, the remainder being denominated in a variety of currencies Bank loans include £1,074,000 (2004 £1,208,000) which is secured on a freehold property, with a carrying value of £1,669,000 (2004 £1,686,000) All other bank loans are unsecured The loan note is US$3,300,000 and it is convertible into 1,074,288 shares of common stock Of the total loan note, US$1,650,000 is repayable on August 4, 2006 and US$1,650,000 is repayable on August 4, 2008

The Group has a US$90m (2004 US$60m) syndicated bank facility which expires on July 15 2007 and a £4m facility which expires on June 10, 2007 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 £16 269,000 giving a maximum indebtedness of £54,175,770

(b) The consolidated operating profit before exceptional items and goodwill amortization shall exceed three times net interest payable For the year ended December 31, 2005, net interest payable was 4 33 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, 2005, net interest payable was 3 96 times covered under this covenant

Notes to the Accounts Year ending December 31, 2005

19 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 meets IAS 39's hedge accounting criteria and the instrument is carried at fair value £459,000 (2004 £130,000) at each reporting date, with any gain or loss being recognised in equity

20 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	
	2005	2004
	£000	£000
Deferred taxation provided in the financial statements is as follows		
Excess of capital allowances over depreciation – UK	244	227
Provision on property revaluation – UK	287	290
Other timing differences – UK	(116)	(70)
	415	447
Intangible assets – US	(627)	(232)
Provisions – US	867	399
Other overseas timing differences	13	16
	668	630
Deferred taxation assets		
Other timing differences – Other overseas	25	4
Net deferred taxation liability	643	626

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

	Amount Provided	
	2005	2004
	£000	£000
Net provision at January 1	626	942
Exchange difference through reserves	19	(15)
Acquisitions	7	(29)
Credit to income and expenditure account	(9)	(272)
Net provision at December 31	643	626

At the balance sheet date, the group has unused tax losses of £2,329,000 (2004 £2,090,000) 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, 2005

20 DEFERRED TAX (continued)

Included in unrecognised tax losses are losses of £1,391,000 (2004 £1,365,000) that will expire in the following years

	2005	2004
	£000	£000
Year ending December 31		
2007	-	30
2008	227	234
2009	756	780
2010	39	40
2011	272	281
2012	97	-
	1 391	1,365

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 £1,257,000 (2004 £1 026,000) 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

21 OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments	
	2005	2004
	£000	£000
Amounts payable under finance leases		
Within one year	346	339
In the second to fifth years inclusive	546	749
	892	1 088
Less future finance charges	(106)	(135)
	786	953
Less Amount due for settlement within 12 months (shown under current liabilities)	(311)	(299)
Amount due for settlement after 12 months	475	654

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, 2005, the average effective borrowing rate was 6 2% (2004 6 6%) 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, 2005

22 SHORT-TERM BORROWINGS

	2005 £000	2004 £000
Current loan instalments	134	134
Loan note	955	-
Bank overdrafts	2,532	1 967
Borrowings (note 18)	3 621	2 101
Finance lease obligations (note 21)	311	299
Redeemable preference shares	-	4 850
	3,932	7,250

US$1,650,000 of the US$3,300,000 loan note is due on August 4, 2006. The US$3,300,000 loan note is convertible into 1,074,288 shares of common stock.

2,947 252 redeemable preference shares were converted into shares of common stock on June 1, 2005 at a rate of 60 shares of common stock for every 100 shares of preferred stock. The remaining 2 255,272 shares were redeemed at par on December 31, 2005.

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

The effective interest rate on the bank overdrafts was 5.5% (2004: 5.3%).

23 TRADE AND OTHER PAYABLES

	2005 £000	2004 £000
Trade payables	22,486	20 776
Other payables	4,307	4,219
	26,793	24,995

The average credit period for trade purchases is 100 days (2004: 107 days). The Directors consider that the carrying amount of trade payables approximates to their fair value.

24 SHARE CAPITAL

Authorised
28,000,000 (2004: 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 (2004: US$2,800,000).

	2005 £000	2004 £000
Equity share capital		
Allotted, called up and fully paid		
Shares of common stock of par value US$0.10 each		
20 444,550 (2004: 18,676,206)	1,162	1,063

The Company has one class of common stock which carry no right to fixed income. The change in issued share capital during the year resulted from the conversion of 2,947,252 shares of preferred stock into 1,768 344 shares of common stock.

Notes to the Accounts Year ending December 31, 2005

25 RETAINED EARNINGS AND OTHER RESERVES

	Share Capital £000	Paid in surplus £000	Hedging reserve £000	Translation reserve £000	Treasury shares £000	Retained earnings £000	Equity attributable to equity holders of the parent £000	Minority interest £000	Total £000
Balance at January 1, 2004	1,063	19,184	-	-	(477)	(18,651)	1,119	2,436	3,555
Total recognised income and expense	-	-	130	(357)	-	3,734	3,507	403	3 910
Share options exercised	-	10	-	-	16	-	26	-	26
Equity element of loan note	-	5	-	-	-	-	5	-	5
Equity-settled transactions, net of tax	-	-	-	-	-	4	4	-	4
Dividends to shareholders	-	-	-	-	-	(1,077)	(1,077)	-	(1,077)
Dividends paid to minority interest	-	-	-	-	-	-	-	(103)	(103)
Foreign exchange difference	-	-	-	-	-	-	-	(178)	(178)
Minority interest arising on acquisition	-	-	-	-	-	-	-	129	129
Balance at December 31, 2004	1,063	19,199	130	(357)	(461)	(15 990)	3,584	2,687	6,271
Balance at January 1, 2005	1,063	19,199	130	(357)	(461)	(15,990)	3 584	2 687	6 271
Total recognised income and expense	-	-	329	365	-	2,497	3,191	665	3,856
Share options exercised by employees	-	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		-	-	-	-	-	-	324	324
Minority interest arising on acquisition		-	-	-	-	-	-	89	89
Balance at December 31 2005	1,162	21,716	459	8	(449)	(14,684)	8,212	3,644	11,856

Notes to the Accounts Year ending December 31, 2005

26 RETAINED EARNINGS AND OTHER RESERVES

Revaluation reserve

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

Hedging reserve

Hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred

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 886,321 (2004 714,000), representing 4 3% (2004 3 8%) of its shares of common stock and none (2004 330,000) of its shares of preferred stock The changes during the year were

a Issue of shares in satisfaction of options exercised during the course of the year 20 000 on March 21, 2005 and 5,000 on April 19, 2005

b Acquisition of 198,000 shares following the conversion of the Company's preferred stock holding

c Sale of 679 shares on December 30, 2005

Dividends	2005 £000	2004 £000
Amounts recognised as distributions to equity holders in the period		
Interim dividend for the year ended December 31 2005 of 2 9p (2004 2 75p) per share	567	494
Final dividend for the year ended December 31, 2004 of 3 5p (2004 3 25p) per share	630	583
	1,197	1,077
Proposed final dividend for the year ended December 31, 2005 of 3 6p (2004 3 5p) per share	736	629
	736	629

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, 2005

27 ACQUISITION OF SUBSIDIARIES

On May 6, 2005, the group acquired 70% of the issued share capital of Premier Books Limited, New Zealand's leading display marketing books business, for a cash consideration of NZ$5,600,000 (£2 153,846) This transaction has been accounted for by the purchase method of accounting

	Book Value £000	Fair value adjustments £000	Fair value £000
Net assets acquired			
Intangibles		385	385
Property, plant and equipment	34		34
Inventories	893	(61)	832
Trade and other receivables	3	-	3
Cash and cash equivalents	(513)	-	(513)
Trade and other payables	(426)	(10)	(436)
Corporation tax		(7)	(7)
Minority interest	3	(92)	(89)
	(6)	215	209
Goodwill			2 051
Total consideration			2 260
Satisfied by			
Cash			2 154
Acquisition costs			106
			2,260
Net cash outflow arising on acquisition			
Cash consideration			2,260
Cash and cash equivalents acquired			513
			2 773

If the acquisition of Premier Books Limited had been completed on the first day of the financial year group revenues for the period would have been £96,214,000 and group profit attributable to equity holders of the parent would have been £2,489,000 The profit of Premier Books Limited since acquisition which has been included in the group profit for the period was £346,000

Cash flow on other acquisitions during the year amounted to £74,000

Notes to the Accounts Year ending December 31, 2005

27 ACQUISITION OF SUBSIDIARIES (continued)

Acquisitions in 2004 comprised Creative Publishing international on August 4, 2004 and majority shareholdings in Aurum Press Limited on July 28, 2004 and Lifetime Distributors 'The Book People' Pty Limited on November 12, 2004

These acquisitions were accounted for by the purchase method of accounting as follows

	Book Value £000	Accounting Policy Adjustments £000	Fair value Adjustments £000	Fair Value £000
Intangibles	-	-	5,810	5 810
Property, plant and equipment	309	-	(48)	261
Inventories	9,397	(4,266)	(1,628)	3,503
Trade and other receivables	5,271	(589)	(771)	3,911
Cash and cash equivalants	(5,663)	-	-	(5,663)
Trade and other payables	(4,090)	-	(429)	(4,519)
Deferred tax		-	23	23
Minority interest	(264)		135	(129)
	4,960	(4,855)	3,092	3,197
Goodwill		-		4,802
Total consideration				7 999
Satisfied by				
Cash				5,660
Loan note				1,803
Acquisition costs				536
				7 999

Net cash outflow in 2004 on acquisitions comprised	
Cash consideration	7,999
Cash and cash equivalents acquired	5,663
Deferred consideration in respect of prior period acquisitions	38
	13,700

Notes to the Accounts Year ending December 31, 2005

28 NOTES TO THE CASH FLOW STATEMENT

Additions to property, plant and equipment during the year amounting to £147,000 (2004 £nil) 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 £2 532,000 of overdrafts of subsidiaries (2004 £1,967 000) and bank loans of £45,253,000 (2004 £36,169,000) The Group has also issued guarantees in respect of £786,000 (2004 £953,000) of hire purchase creditors and a loan note of subsidiaries £1 914,000 (2004 £1,714,000) 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

30 OPERATING LEASE ARRANGEMENTS AND OTHER FINANCIAL COMMITMENTS

	2005 £000	2004 £000
Minimum lease payments under operating leases recognised in income for the year	1 682	1 415

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

	2005 £000	2004 £000
Within one year	1 251	1 121
In the second to fifth years inclusive	2 737	2 972
After five years	21	162
	4,009	4,255

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 £148 000 (2004 £nil)

Notes to the Accounts Year ending December 31, 2005

31 SHARE BASED PAYMENTS

Equity-settled share option plan

The group plan provides for a grant price equal to the average quoted market price of the group shares on the date of grant. The vesting period is generally 3 years. If the options remain unexercised after a period of 7 to 10 years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the group before the options vest.

	2005 Options	2005 Weighted average exercise price (in £)	2004 Options	2004 Weighted average exercise price (in £)
Outstanding at beginning of period	310,000	1.06	259,500	0.87
Granted during the period	-	-	80,500	1.63
Exercised during the period	25,000	0.72	26,000	1.02
Expired during the period	19,500	0.99	4,000	0.83
Outstanding at the end of the period	265,500	1.09	310,000	1.06
Exercisable at the end of the period	118,500	0.91	100,500	0.94

The options outstanding at December 31, 2005 had a weighted average remaining contractual life of 5.2 years.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share options is measured based on a binomial lattice model. The contractual life of the option (7 to 10 years) is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

	£000
Fair value at measurement date	26

Share prices	£0.815/£1.615
Exercise prices	£0.83/£1.63
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	20%
Risk free rate (based on national government bonds)	3.75%/4.75%

The expected dividend is based on the assumption that the Company's past dividend policy will continue.

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of share options) adjusted for any expected changes to future volatility due to publicly available information.

Share options are granted under a service condition and a non-market performance condition. Such conditions are not taken into account in the grant date fair value measurement of the services received. Options are exercisable if there has been an increase in the Company's earnings per share of at least 2% per annum above the growth in the retail prices index over a period of three years.

The Group recognised total expenses of £9,000 and £4,000 related to equity –settled share-based payment transactions in 2005 and 2004 respectively.

Notes to the Accounts Year ending December 31, 2005

31 SHARE BASED PAYMENTS (continued)

At December 31, 2005, 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
7,000	March 31, 2001 - March 30, 2008	£0 685
23,000	February 22, 2003 - February 21, 2007	£1 115
28,000	February 22, 2003 - February 21, 2010	£1 115
22 500	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
11,100	February 26, 2005 –February 25, 2009	£0 775
3,900	February 26 2005 –February 25, 2012	£0 775
33 000	February 14, 2006 –February 13, 2010	£0 83
37,500	February 14 2006 –February 13, 2013	£0 83
42,686	September 30, 2007 – September 29 2011	£1 63
33,814	September 30 2007 – September 29, 2014	£1 63

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 44 to 45

	2005	2004
	£000	£000
Short term employee benefits	859	782

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 £1,700 (2004 £3,300) During the year I I Orbach loaned money to the Group and has earned an arm's length return of 4% The total amount of interest earned during the year was £3,000 (2004 £4,000) The balance outstanding at the beginning of the year was £94,000, and the balance at the end of the year, which was also the highest amount outstanding was £ 147,000

Notes to the Accounts Year ending December 31, 2005

34 EXPLANATION OF TRANSITION TO IFRSs

Notes to the reconciliation of equity at January 1, 2004

The analysis below sets out the most significant adjustments arising from the transition to IFRS

Reconciliation of equity at January 1, 2004 (date of transition to IFRSs)

	UK GAAP £000	Effect of transition to IFRSs £000	IFRSs £000
Property, plant and equipment	8,909	-	8 909
Goodwill	3,337	(266)	3 071
Intangible assets	-	266	266
Total non-current assets	12,246	-	12,246
Trade and other receivables	20,667	(103)	20,564
Inventories	17,451	33	17,484
Taxation recoverable	94	-	94
Cash and cash equivalents	12 490	-	12,490
Total current assets	50,702	(70)	50,632
Total assets	62,948	(70)	62 878
Short term borrowings	(528)	-	(528)
Trade and other payables	(23,021)	439	(22 582)
Corporation tax liabilities	(848)	-	(848)
	(24,397)	439	(23 958)
Net current assets	26,305	369	26,674
Total assets less total liabilities	38,551	369	38 920
Medium and long term borrowings	(29,349)	(4,835)	(34 184)
Other payables	(239)	-	(239)
Deferred tax liability	(875)	(67)	(942)
	(30,463)	(4,902)	(35,365)
Total liabilities	(54,860)	(4,463)	(59,323)
Net assets	8,088	(4,533)	3,555
Issued capital	1,341	(278)	1,063
Share premium account	23,893	(4,709)	19,184
Retained earnings and other reserves	(19,582)	454	(19,128)
Equity shareholders' funds	5,652	(4,533)	1,119
Minority interest	2 436	-	2 436
Total equity and liabilities	8 088	(4,533)	3 555

The adjustments relating to the balance sheet as at January 1, 2004 are described below

Notes to the Accounts Year ending December 31, 2005

34 EXPLANATION OF TRANSITION TO IFRSs (continued)

Reconciliation of equity at December 31, 2004 (date of last UK GAAP financial statements)

	UK GAAP £000	Effect of transition to IFRSs £000	IFRSs £000
Property, plant and equipment	8,982	-	8,982
Goodwill	12,773	(5 041)	7,732
Intangible assets	232	5,102	5,334
Deferred tax	4		4
Total non-current assets	21 991	61	22 052
Trade and other receivables	24,066	(420)	23,646
Inventories	20 727	(89)	20 638
Taxation recoverable	154	-	154
Cash and cash equivalents	12 578	-	12 578
Total current assets	57,525	(509)	57 016
Total assets	79,516	(448)	79 068
Short term borrowings	(2,400)	(4,850)	(7 250)
Trade and other payables	(25 377)	382	(24 995)
Corporation tax liabilities	(1,304)		(1,304)
	(29,081)	(4,468)	(33,549)
Net current assets	28,444	(4,977)	23 467
Medium and long term borrowings	(38,408)	-	(38,408)
Other payables	(210)	-	(210)
Deferred tax liability	(650)	20	(630)
	(39 268)	20	(39 248)
Total liabilities	(68,349)	(4 448)	(79 797)
Net assets	11 167	(4 896)	6 271
Issued capital	1 341	(278)	1 063
Share premium account	23 903	(4 704)	19,199
Retained earnings and other reserves	(16 797)	119	(16 678)
Equity shareholders' funds	8 447	(4 863)	3,584
Minority interest	2 720	(33)	2 687
	11,167	(4,896)	6,271
Total equity and liabilities	(79,516)	448	(79,068)

Notes to the Accounts Year ending December 31, 2005

34 EXPLANATION OF TRANSITION TO IFRSs (continued)

The transitional information is as previously published except that

- Overdrafts of £35,000 at January 1, 2004 and £1,967,000 at December 31, 2004 have been reclassified from cash to short term borrowings, and
- Management have reassessed the fair value of the assets acquired in the acquisitions made in 2004 This has resulted in the following movements in the balance sheet at December 31, 2004
  - An increase of £488,000 in goodwill
  - A decrease of £225,000 in inventory
  - A decrease of £230,000 in receivables
  - An increase of £66,000 in creditors
  - A decrease of £33,000 in minority interest

When preparing the Group's IFRS balance sheet at January 1, 2004, the date of transition the following optional exemptions, provided by IFRS 1 First-time Adoption of International Financial Reporting Standards from full retrospective application of IFRS accounting policies, have been adopted

- Business combinations – the provisions of IFRS 3 have been applied from January 1, 2004 The net carrying value of goodwill at December 31, 2003 under the previous accounting policies has been deemed to be the cost at January 1 2004,
- Cumulative translation differences arising on consolidation of subsidiaries – IAS 21 requires differences to be held in a separate reserve rather than included in the profit and loss reserve under UK GAAP This reserve has been deemed to be nil on January 1, 2004

IAS 38, "Intangible Assets" requires that goodwill is not amortized Instead it is subject to an annual impairment review As permitted, the group has elected not to apply IFRS 3 retrospectively to business combinations prior to the opening balance sheet date under IFRS Consequently, the UK GAAP goodwill has been included in the opening IFRS consolidated balance sheet at the carrying value as at December 31, 2003 (£3,071,000) and is no longer amortized £266,000 of separately acquired backlists, previously included within goodwill, have been presented as separate intangible assets and will continue to be amortized over their useful economic life

The goodwill amortization in the year to December 31, 2004 of £376,000 under UK GAAP has been reversed The amortization of intangibles under UK GAAP in the year to December 31, 2004 of £34,000 remains in the financial statements under IFRS

The group made three acquisitions of businesses during 2004 These acquisitions included the purchase of finite-lived intangible assets not previously recognised under UK GAAP Under IFRS, these intangible assets are reclassified from goodwill, and amortized over their useful economic lives

The reclassified intangible assets are being amortized over various periods not exceeding five years, depending on their nature, the corresponding amortization charge for the reclassified intangible assets for the year to December 31, 2004 was £475,000

The balance sheet reclassification of goodwill to intangibles arising from 2004 acquisitions as at December 31 2004 was £5,810,000

Under IAS 21, goodwill and intangibles are carried in the currency of the acquired company The balance sheet value of goodwill at December 31, 2004 has been reduced by £141,000 and the balance sheet value of intangibles at December 31, 2004 has been reduced by £233,000

Employee Benefits

IAS 19 requires short term accumulating benefits such as holiday pay entitlement and sick pay to be accrued over the period in which the entitlement is earned

The additional liability in the balance sheet at December 31, 2004 is £205,000

The impact on profit before tax for the year to December 31, 2004 is a charge of £50 000

34 EXPLANATION OF TRANSITION TO IFRSs (continued)

Dividends
IAS 10, "Events after the Balance Sheet Date" requires that dividends declared after the balance sheet date should not be recognised as a liability at that balance sheet date as they do not represent a present obligation as defined by IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'

Under IFRS, dividends are shown as a deduction from reserves therefore the income statement no longer shows the deduction of dividends

The final dividend in the 2004 UK GAAP financial statements in relation to the financial year ended December 31 2004 of £629 000 has been reversed in the balance sheet at December 31 2004

Deferred and Current Taxes
IAS 12 "Income Taxes' requires that deferred tax assets and liabilities are calculated by reference to temporary differences, the difference between the carrying amount of an asset and its tax base

Deferred tax on US Goodwill
Goodwill from the acquisition of US businesses previously written off to reserves under UK GAAP is deductible for US tax purposes, the tax balance carried forward under IAS 12 gives rise to a deferred tax asset

At December 31, 2004 a deferred tax asset of £128,000 has been recognised under IFRS which partially offsets US deferred tax liabilities

The impact on the income statement for the year to December 31, 2004 is to increase the tax expense by £10 000

Deferred tax on revalued asset
A deferred tax liability has been established with regard to the property revaluation At December 31 2004, this amounted to £290 000

The impact on the income statement for the year to December 31 2004 is to reduce the tax expense by £3 000

Other tax adjustments
The non-tax IFRS adjustments outlined elsewhere within this document have been tax effected as at December 31 2004

Financial Instruments
IAS 32, "Financial Instruments Disclosure and Presentation" and IAS 39 'Financial Instruments Recognition and Measurement" address the accounting for, and reporting of financial instruments IAS 39 sets out detailed accounting requirements in relation to financial assets and liabilities

All derivative financial instruments are accounted for at fair value whilst other financial instruments are accounted for either at amortized cost or at fair value depending on their classification Subject to stringent criteria, financial assets and financial liabilities may be designated as forming hedge relationships as a result of which fair value changes are offset in the income statement or charged/credited to equity depending on the nature of the hedge relationship

Quarto has three types of financial instrument that are impacted by IAS 32 and IAS 39, as follows

Interest rate swap
In order to provide a hedge against changes in interest rates, the group has taken out an interest rate swap to swap variable to fixed rates on US$ 30 million of borrowings The swap was taken out in 2004 and that is why it has no effect on the January 1, 2004 equity reconciliation

Under IAS 39, the group has designated the interest rate swap as a cash flow hedge of its interest cost on the borrowings concerned, and the directors have determined that the hedge was effective in the year ended December 31, 2004

Notes to the Accounts Year ending December 31, 2005

34 EXPLANATION OF TRANSITION TO IFRSs (continued)

The impact of recognising this instrument at fair value on the balance sheet as at December 31, 2004 is an increase in net assets of £130,000, with a corresponding adjustment in the hedging reserves

Preference shares / Convertible loan note
These two financial instruments have been recognised / presented in the financial statements under IAS 32 The impact of IAS 32 is to recognise a significant portion of the preference shares as a liability and to recognise an element of the convertible loan note as equity in accordance with the rights attaching to those instruments

The impact of recognising these instruments, in accordance with IAS 32, on the balance sheet is to increase short term borrowings by £4,850,000 to reduce share capital by £278,000, to reduce the share premium account by £4,704 000 and to increase retained earnings by £132,000

The impact on the income statement for the year to December 31, 2004 is to increase the interest charge by £446 000

Other
The impact of other IFRS requirements, primarily the calculation of deferred tax on eliminated inter-company profit, has been minimal

In the income statement at December 31, 2004, other IFRS requirements led to a reduction in profit before tax of £34,000 and £24,000 in profit after tax In the balance sheet at December 31, 2004, net assets were reduced by £67 000

Reconciliation of profit or loss for 2004

	UK GAAP £000	Effect of transition to IFRSs £000	IFRSs £000
Revenue	79,835	(85)	79 750
Cost of sales	(50,931)	51	(50,880)
Gross profit	28,904	(34)	28 870
Operating costs	(21,710)	(153)	(21,863)
Operating profit	7,194	(187)	7,007
Finance income	65	-	65
Finance costs	(1,234)	(446)	(1,680)
Profit before tax	6,025	(633)	5,392
Tax expense	(1 337)	82	(1,255)
Net profit/(loss)	4,688	(551)	4 137

Notes to the reconciliation of profit or loss for 2004

Share Based Payments
IFRS 2, "Share-based Payment" requires that an expense for share options granted be recognised in the financial statements based on their fair value at the date of grant This expense is recognised over the vesting period of the options

The group has measured this expense for options granted after November 7, 2002, that had not vested at January 1 2005, in accordance with the exemption permitted under IFRS 1 Quarto has used a binomial model for the purposes of computing fair value

The charge to the income statement for the year to December 31, 2004 was £4 000

As this transaction is settled in equity, rather than cash, the charge to the income statement is matched by a corresponding increase in equity and there is therefore a net nil effect on the balance sheet

Notes to the Accounts Year ending December 31, 2005

34 EXPLANATION OF TRANSITION TO IFRSs (continued)

Explanation of material adjustments to the cash flow statement for 2004

	UK GAAP £000	Effect of transition to IFRSs £000	IFRSs £000
Cash flows from operating activities			
Profit for the period	4,688	(551)	4,137
Tax expense	1,337	(82)	1,255
Net finance costs	1,169	446	1,615
Depreciation	1,073	-	1 073
Amortization	410	99	509
Profit on sale of tangible fixed assets	(1)	-	(1)
Equity settled share-based payment expense	-	4	4
Operating profit before changes in working capital and provisions	8 676	(84)	8 592
Decrease in trade and other receivables	215	86	301
Increase in inventories	(675)	(47)	(722)
Decrease in trade and other payables	(1,713)	45	(1 668)
Corporation tax paid	(1,062)		(1 062)
Net cash flow from operating activities	5,441	-	5 441
Cash flow from investing activities			
Purchase of tangible fixed assets	(1 020)	-	(1 020)
Proceeds from sale of tangible fixed assets	38		38
Purchase of subsidiary undertakings	(13,700)		(13 700)
Interest received	51	-	51
Net cash flow from investing activities	(14 631)	-	(14 631)
Cash flow from financing activities			
Interest paid	(1,327)	(426)	(1 753)
Proceeds from the issue of share capital	26	-	26
Preference dividends paid	(426)	426	
Dividend paid to minority shareholder	(103)	-	(103)
New loans	10,967		10 967
Ordinary dividends paid	(1 077)	-	(1,077)
Net cash flow from financing activities	8,060	-	8 060
Net decrease in cash and cash equivalents	(1 130)	-	(1,130)

The effects on the cash flow are considered as part of the notes to profit and loss and balance sheet above

Company Balance Sheet Year ended December 31, 2005

	Notes	2005 £000	2004 (restated note 2) £000
Fixed assets			
Investments	4	7,231	10,817
		7,231	10,817
Creditors Amounts falling due within one year	6	(37)	(4,850)
NET CURRENT LIABILITIES		(37)	(4,850)
NET ASSETS		7,194	5,967
CAPITAL AND RESERVES			
Called up share capital	7	1,162	1,063
Treasury stock	7	(449)	(461)
Reserves - Paid in surplus	8	21,716	19,199
- Profit and loss	8	(15,235)	(13,834)
SHAREHOLDERS FUNDS	9	7,194	5,967

The financial statements were approved by the board of directors and authorised for issue on February 23, 2006
They were signed on its behalf by

M J Mousley
Director

Notes to Company Balance Sheet Year ended December 31, 2005

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 49 - 84

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

As the company is a wholly owned subsidiary of The Quarto Group, Inc the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed 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 company has adopted a number of new accounting standards in these financial statements The accounting policies under these new standards are set out below together with an indication of the effects of their adoption

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 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 indebtness 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, 2005

2 PRIOR YEAR ADJUSTMENTS

Following the adoption of FRS 20 'Share-based payments' the company has changed its accounting policy to recognise share-based payment transactions in its financial statements

The company policy for the recognition of dividends declared after the balance sheet date has changed to comply with the new requirements under FRS 21 'Events after the balance sheet date', which became mandatory in this accounting period The company's policy is now to only recognise dividends that are declared before the balance sheet date The change has no effect on 'loss for the year' in both the current and prior year

The convertible preference shares and the convertible loan note have been recognised and presented in the financial statements under FRS 25 The impact of FRS 25 is to recognise a significant portion of the preference shares as a liability and to recognise an element of the convertible loan note as equity, in accordance with the rights attaching to these instruments The adjustment impacted creditors falling due within one year, called up share capital, treasury stock, reserves (paid in surplus) and reserves (profit and loss)

The effects of the change in policies are summarised as follows

	2004
	£'000
Profit and loss account	
Administrative expenses – share based payment	(4)
Finance costs – preference shares	(446)
Increase in loss for the year	(450)
Balance sheet	
Creditors Amounts falling due within one year	
Dividends payable – reduction in creditor	629
Short term borrowings – increase in borrowings	(4,850)
Total decrease in net assets	(4,221)
Capital and reserves	
Called up share capital	(278)
Treasury stock	325
Paid in surplus	(4,704)
Profit and loss account	436
Total decrease in shareholders' funds	(4,221)

3 LOSS ATTRIBUTABLE TO THE COMPANY

The loss for the financial year dealt with in the financial statements of the parent company was £210 000 (2004 £450,000 – restated) As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the parent company

Notes to Company Balance Sheet Year ended December 31, 2005

4 INVESTMENTS

	£
At January 1, 2005	10 817
Additions	2,311
Transfer to subsidiary	(5,897)
At December 31, 2005	7 231

The additions comprise the acquisition of Premier Books Limited (note 27) and the purchase of the minority interest in Global Book Publishing Pty Ltd

5 SUBSIDIARIES

NAME	PLACE AND DATE OF INCORPORATION	ISSUED AND FULLY PAID SHARE CAPITAL	PERCENTAGE HELD	[illegible]
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 US 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, 2005

6 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 £000	2004 (restated note 2) £000
Amounts owed to subsidiary undertakings	37	-
Short term borrowings	-	4,850
	37	4,850

7 CALLED UP SHARE CAPITAL AND TREASURY STOCK

Details of called up share capital and treasury stock are set out in notes 24 to 26 of the consolidated financial statements

8 RETAINED EARNINGS AND OTHER RESERVES

	Paid in surplus (restated note 2) £000	Profit and loss account (restated note 2) £000
At beginning of year	23,903	(14 270)
Prior year adjustment (note 2) - dividends	-	629
- preference shares / loan note	(4 704)	(193)
Adjusted balance at beginning of year	19 199	(13 834)
On shares issued during the year	2,517	-
Loss for the year	-	(210)
Equity settled transactions net of tax	-	6
Dividends	-	(1,197)
At end of year	21,716	(15,235)

Notes to Company Balance Sheet Year ended December 31, 2005

9 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

		2004 (restated note 2) £000
Loss for the financial year	(210)	(450)
Dividends	(1 197)	(1 077)
Retained profit / (loss) for the financial year	(1 407)	(1 527)
Equity element of loan note		5
Issue of shares	2,628	26
Equity settled transactions net of tax	6	4
Net movement in shareholders' funds	1 227	(1 492)
Shareholders' funds at January 1, 2005	5 967	7 459
Shareholders' funds at December 31 2005	7 194	5,967

The opening shareholders' funds at January 1, 2004 as previously reported amounted to £11 711,000 This has been increased by the prior year adjustment of £583,000 with respect to dividends and reduced by £4,835,000 with respect to preference shares

10 CONTINGENT LIABILITIES

Contingent liabilities are disclosed in note 29 to the group accounts

Five Year Summary

	IFRS		UK GAAP		
	2005	2004	2003	2002	2001
	£000	£000	£000	£000	£000
Results					
Revenue	95,038	79,750	74,623	74,735	73,620
Operating profit	6,648	7,007	5,965	6,031	4,923
Profit before tax	4,425	5,392	4,873	4,880	3,190
Profit attributable to equity holders	2,497	3,734	4,559	4,537	2,838
Assets employed					
Non-current assets	23,717	22,052	12,246	9,251	7,662
Current assets	66,503	57,016	50,608	51,509	52,306
Current liabilities	(31,983)	(33,549)	(24,303)	(24,576)	(54,225)
Non-current liabilities	(46,381)	(39,248)	(30,463)	(30,291)	(1,692)
Net assets	11,856	6,271	8,088	5,893	4,051
Financed by					
Equity	8,212	3,584	5,652	3,387	502
Minority interests	3,644	2,687	2,436	2,506	3,549
	11,856	6,271	8,088	5,893	4,051
Key statistics					
Earnings per share	13.2p	20.8p	18.9p	20.1p	11.7p
Diluted earnings per share	12.9p	19.6p	18.2p	19.3p	11.7p
Adjusted diluted earnings per share	20.8p	21.2p	21.2p	20.1p	18.1p

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. The principal differences between UK GAAP and IFRS are explained in note 34 to the accounts which provides an explanation of the transition to IFRSs.