The Quarto Group

Annual Report 2013

The Quarto Group

Entertaining, educating & enriching the lives of our readers

Operational Highlights

Initial phase of Strategic Review completed: exit from non-core assets and businesses and significant re-organisation within the businesses.

New divisional management in UK publishing and ANZ display marketing businesses.

Revenue in publishing businesses up 2% and underlying operating profits up 7% led by return to growth in US business.

Group inventory down 16% at period end at a turn of 2.0 times.

(2012: 1.8 times)

Financial Highlights

Revenue of $176.3m

(2012: $180.9m)

Underlying* Profit before Taxation of $11.5m

(2012: $11.4m)

Underlying* diluted Earnings per Share of 44.0 cents

(2012: 43.6 cents)

Net cashflow from operating activities $33.6m

(2012: $28.6m)

Net debt reduced to $71.0m

(2012: $81.0m)

Proposed final dividend of 4.55p, making the total dividend for the year 7.9p

(2012: 7.9p)

*Underlying is before amortization of acquired intangibles and exceptional items.

About The Quarto Group

The Quarto Group (LSE: QRT) is the leading global illustrated book publisher and distribution group and is listed on the London Stock Exchange. Quarto employs about 400 talented and creative people in five distinct but complementary businesses:

- **Quarto International Co-editions Group;**
- **Quarto Publishing Group USA;**
- **Quarto Publishing Group UK;**
- **Books & Gifts Direct, Australia & NZ;**
- **Regent Publishing Services.**

The Group is well positioned in resilient segments of book publishing with rich reserves of Intellectual Property. Quarto is well positioned for growth as the industry adapts to new means of marketing, sales and routes to market. The Group's headquarters are in London, where the Company was founded in 1976.

The Quarto Group

Report and Financial Statements
December 31, 2013

Chairman's Statement

The year of 2013 was a transformational and watershed year for Quarto. The restructuring of a wide-ranging and multi-national creative business to establish financial and internal efficiencies, whilst maintaining and encouraging a fierce creative heartbeat, has been a challenge.

Thanks to a freshly empowered and dedicated executive and very vigorous effort by all our employees, we have largely met that challenge. I have nothing but praise and respect to extend to all employees of Quarto during this time of extensive change.

Quarto is a robust and cash generative enterprise with a substantial amount of its annual publishing revenues derived from 'backlist' sales year-on-year. This is a relatively "no surprises" annuity model, completely unlike any other traditional book publisher. Quarto is experienced, proven and confident in book and content driven publishing.

BOARD

I have felt it important to refresh the non-executive directors on our Board. Bob Morley, a founder of the business, has re-joined the Board. Max Lesser was announced in March 2013. Since then, Mike Hartley joined us in August 2013. This month we announced that Jessica Burley agreed to join the Board bringing her considerable corporate and, specifically, digital experience to the company.

Edward Krawitt has decided not to put his name forward for re-election. I should like to extend my deep gratitude to him for his helpful and professional advice to me and the new Board during the transition from the previous management to the present one.

CORPORATE GOVERNANCE

Changing Quarto's domicile from Delaware to the UK continues to be an issue with considerable obstacles. We continue to examine ways to achieve UK domicile for the Company as circumstances allow. In the meantime, we seek to meet best practice Corporate Governance guidelines for a fully listed company and UK plc.

DIVIDEND

Notwithstanding its resolute focus on debt reduction, the Board is pleased to recommend a final dividend of 4.55p per share, making the total dividend for the year of 7.9p, level with the last two years giving dividend cover, based on underlying diluted Earnings per Share 28.2p (44.0c), of 3.6 times (2012: 3.5 times).

The continued execution of the Quarto strategy gives the Board confidence in the Company's prospects of achieving its goals of debt reduction and earnings growth.

Timothy J. M. Chadwick
Chairman
March 28, 2014

Chief Executive's Statement

Group performance

Revenues $176.3m
(2012: $180.9m)

Underlying PBT $11.5m
(2012: $11.4m)

Underlying diluted EPS 44.0c
(2012: 43.6c)

Net cashflow from operating activities $33.6m
(2012: $28.6m)

Net Debt $71.0m
(2012: $81.0m)

We went into 2013 with the Group now organised, for the first time, into four operating divisions. With operational issues having been systematically addressed as part of the initial phase of the Strategic Review business-by-business, the 2013 financial year has been encouraging.

The publishing businesses recovered lost ground in the US and stabilised in the face of much change in the UK as has the International Co-Edition business. These three publishing businesses are a portfolio with an enviable asset base of intellectual property. We have strengthened both our internal operations and our external appearance by undertaking some important streamlining and consolidating in 2013. The businesses now share domestic sales teams, international sales teams and foreign language sales teams that reduce costs and give a better quality of service to our customers. We have re-branded them all Quarto to clarify to our customers that we are one integrated global supplier and to capitalize on the 38 year old brand heritage. This means our reporting will be under these headings:

Quarto International Co-Editions

Quarto Publishing Group USA
formerly Quayside Publishing Group

Quarto Publishing Group UK
formerly Aurum Publishing Group

Quarto International Co-Editions Group

Apple Press
Global Book Publishing
Iqon Editions
Marshall Editions
Marshall Children's Books
QED Publishing
Qu:id Publishing
Quantum Publishing
Quarto Children's Books
Quarto Publishing
Quintessence
Quintet Publishing
Design Eye
words & pictures
RotoVision
Fine Wine Editions

Quarto Publishing Group USA

Book Sales
Cool Springs Press
Creative Publishing international
Fair Winds Press
Motorbooks
Quarry Books
QDS
Race Point Publishing
Rockport Publishers
Voyageur Press
Walter Foster Publishing
Walter Foster Publishing Junior
Zenith Press
Rock Point Calendars
Rock Point Gift & Stationery

Quarto Publishing Group UK

Aurum Press
Frances Lincoln
Frances Lincoln Childrens Books
Frances Lincoln Gift & Stationery
Jacqui Small
Wide-Eyed Editions

BOOKS & GIFTS DIRECT

Lifetime Distributors (Australia)
Premier Books (New Zealand)

We are not only focussed on sales, marketing and operational efficiencies but also publishing issues. In an asset portfolio that has a back catalogue generating 71% of annual publishing revenues (2012: 70%), continued investment in the future vibrancy of this asset is a key driver of Quarto's growth. We direct the spending of working capital on intellectual property (also known as pre-publication costs) to where the best return on investment can be gained after publication throughout the portfolio. In 2013, this investment was $19.5m increased from $18.2m in 2012. We will continue to report on this KPI by business segment.

The display marketing businesses in Australia and New Zealand have been a disappointment. However, we have a solid strategy in place for 2014, including new management and we expect to address quickly the dramatic fall-off in performance in 2013. We have merged the Lifetime and Premier businesses to operate as one business with one infrastructure and one combined buying team, providing us with external leverage and reduced costs in 2014. The merged business has been re-branded Books & Gifts Direct, which more accurately reflects what the business does and offers clarity to its customers.

We have successfully reduced net debt by 12.3% from $81.0m (2012) to $71.0m through cash generation from operations, selective asset disposals and continued tight cash management. During the course of the year we sold The World of Fine Wine Magazine, The Image Factory, including the freehold property from where it operated, and the freehold of our head office in London, N7, which we have leased back. Significant debt reduction will continue to be a focus in 2014. The only non-core asset we have not disposed of is a property in Switzerland, that we aim to dispose of during the course of 2014. This corporate activity has the added benefit of removing the distraction of non-core businesses from our senior management's efforts and time.

EXCEPTIONAL ITEMS

With such considerable operational change undertaken in 2013 and the sales of non-core assets, has resulted in exceptional items of $5.3m. This total is split between profits and losses on sales of businesses and assets of $3.3m and restructuring charges, closure of businesses/offices and severance of $2.0m.

With the initial operational phase of the Strategic Review now completed, no exceptional items in the 2014 financial year are anticipated unless there is strategic re-alignment of the portfolio of businesses and assets with our continued focus on debt reduction and earnings growth.

Chief Executive's Statement
Divisional performance

Quarto International Co-Editions Group

FY2013 KPIs

Revenue $40.4m
(2012: $41.4m)

Underlying Operating Profit $5.1m
(2012: $5.0m)

Backlist sales % of sales 74%
(2012: 68%)

Intellectual Property Development Spend $8.2m
(2012: $8.5m)

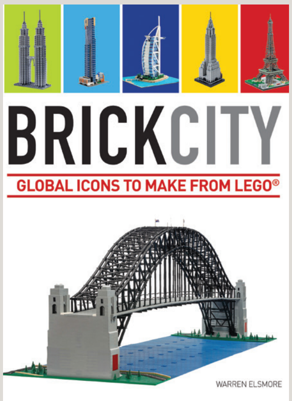
Sales by territory: US 36%, Europe 36%, UK 13%, ANZ 7%, RoW 8%
(2012: US 32%, Europe 37%, UK 12%, ANZ 10%, RoW 9%)

The founding business around which the Group was formed has seen much activity with a number of imprints being consolidated or given new direction with new personnel off a lower cost base. We now have a very good team of publishers in this business, based either in London or Brighton, capable of stretching their responsibilities and business scope to realise growth opportunities.

English language revenues were particularly robust in 2013 with the US particularly strong with both new title purchases and reprints. The UK and Europe were steady on all fronts as were Asia and Latin America but Australia and New Zealand were soft.

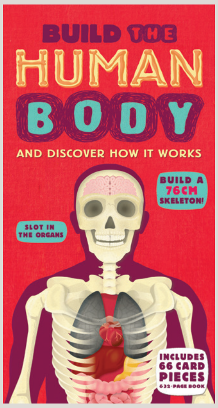
The Quarto International Co-Editions business is the undisputed market leader in its field. With a history of deserved acclaim and dogged determination in its current and long-established markets as well as tenacity in opening up new frontiers, the medium-term view is dependable for this business with some potential upside as we continue to apply our expertise in creative ways.

Stand Out Titles 2013

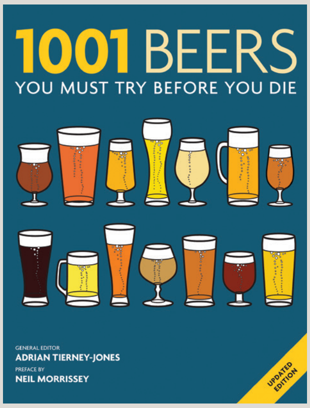


Revenue $809k

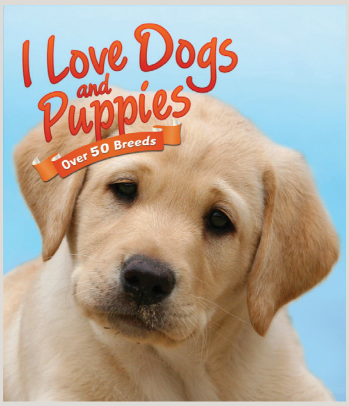
Revenue $782k



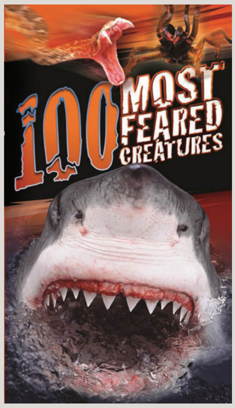
Revenue $541k



Revenue $361k



Revenue $361k



Revenue $361k

Quarto Publishing Group USA

FY2013 KPIs

Revenue $64.4m
(2012: $59.4m)

Underling Operating Profit $7.2m
(2012: $6.5m)

Backlist sales % of sales 74%
(2012: 78%)

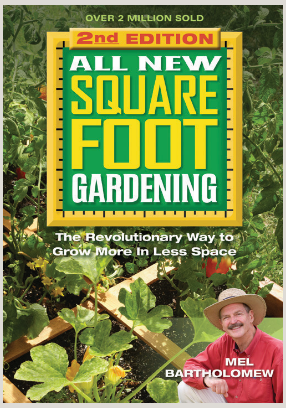
Inventory % of sales 16%
(2012: 21%)

At a turn of 2.4 times
(2012: 2.0 times)

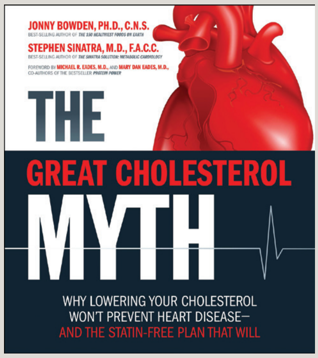
Intellectual Property Development Spend $7.9m
(2012: $7.3m)

It has been an encouraging year for the US-based imprints with a welcome return to growth after a challenging year in 2012. There was momentum in the publishing programme from almost all of the imprints. With continued refinement to our marketing and sales efforts as well as the operations of the business, the medium-term view is positive as we leverage the expertise and focus on the niche markets into which we publish.

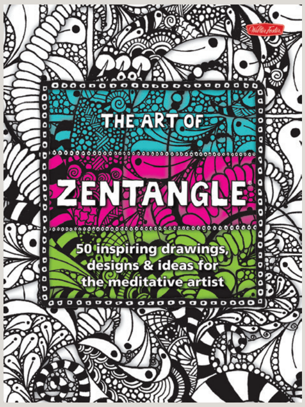
Stand Out Titles 2013



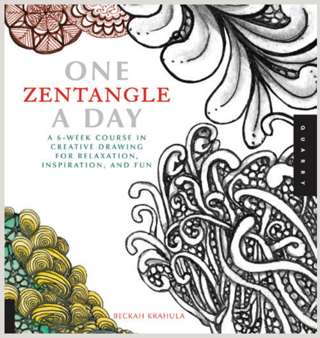
Revenue $807k



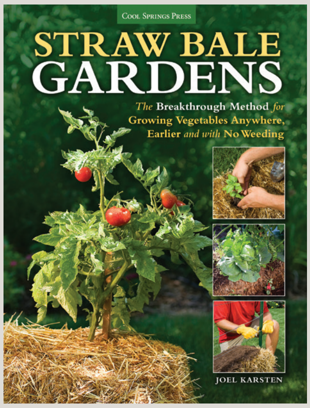
Revenue $555k



Revenue $507k



Revenue $507k



Revenue $403k

Revenue $385k

Chief Executive's Statement
Divisional performance

Quarto Publishing Group UK

FY2013 KPIs

Revenue $20.8m
(2012: $21.9m)

Underlying Operating Profit $3.1m
(2012: $3.0m)

Backlist sales % of sales 59%
(2012: 54%)

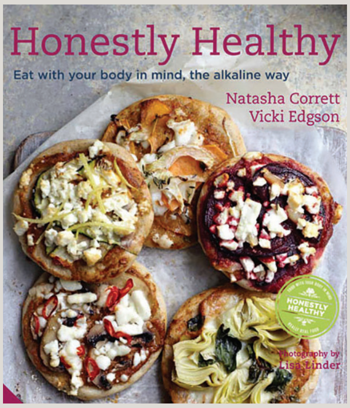
Inventory % of sales 20%
(2012: 23%)

At a turn of 1.3 times
(2012: 1.2 times)

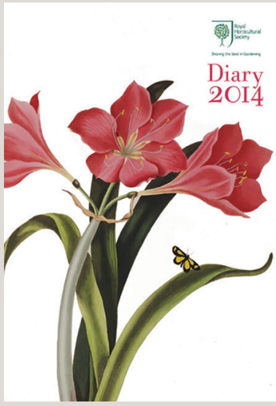
Intellectual Property Development Spend $3.4m
(2012: $2.4m)

This business has seen a great deal of organizational re-alignment with a new Managing Director and two new Publishers being brought in as well as significant operational fine tuning and focus on marketing and sales. We now have a reliable publishing and operational foundation from which to grow and are encouraged by early results.

Stand Out Titles 2013

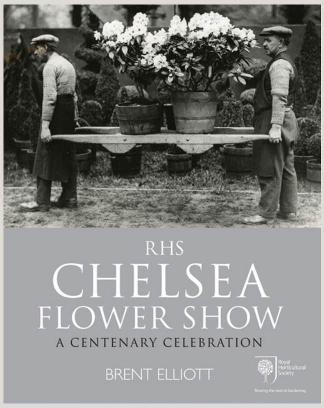


Revenue $959k



Revenue $448k

Revenue $348k



Revenue $161k

BOOKS & GIFTS DIRECT

FY2013 KPIs

Revenue $29.5m
(2012: $34.6m)

Underlying Operating Profit $3.0m
(2012: $4.2m)

Network Capacity 81%
(2012: not measured)

This has been a difficult year for our Australia and New Zealand businesses but we have re-examined the business model. We introduced new divisional management in September 2013 that has brought about the consolidation of our businesses into one, with a combined infrastructure and the resultant buying leverage. With a clear focus and turnaround strategy for the critical areas of the business, buying, recruitment, inventory disposal and marketing (including re-branding), we believe that 2014 will see a rebound in performance from this historically robust and cash generative business.

Other
Regent Publishing Services
The Image Factory

FY2013 KPIs

Revenue $21.2m
(2012: $23.6m)

Underlying Operating Profit $1.4m
(2012: $1.4m)

Our Strategic Review confirmed the view that our Hong Kong based print broking business, Regent should become more integrally involved in the quality control, print buying consolidation and component sourcing that we need increasingly to focus on in all of our businesses.

Outlook

We shall continue to refine our portfolio and work with our talented people around the world; investing in them and their abilities to make and sell books and related products to customers wherever, whenever and however they want them through our consolidated multi-channel marketing and sales teams. This is a scalable business model with the ability to be the consolidator in the global illustrated publishing industry as the landscape continues to shift. Size, scale and reach are distinct advantages.

The tactical improvements that have been made during the course of 2013 allow Quarto to focus on its strategic priorities to deliver growth in all areas of the business for 2014 and beyond. This is the year where the Group will begin to deliver its true potential.

Marcus E. Leaver
Chief Executive Officer
March 28, 2014

Financial Review

The Group's Board uses a range of performance measures to monitor and manage the business. Certain of these measures are important in measuring our progress in creating shareholder value and are considered key performance indicators (KPIs). The KPIs measure past performance and also provide information to allow us to manage the business into the future. They comprise sales and operating profit, before amortization of acquired intangibles and exceptional items, by business segment, interest cover, underlying diluted earnings per share, net debt, investment in pre-publication costs and number of new titles published. KPIs for 2013, together with comparatives, are set out in the table below:

Key Performance Indicators	2013 $000	2012 $000
Sales:		
Quarto International Co-Editions Group	40,430	41,351
Quarto Publishing Group USA	64,392	59,377
Quarto Publishing Group UK	20,819	21,920
Books & Gifts Direct, ANZ	29,455	34,621
Other	21,222	23,604
	176,318	180,873
Operating profit before amortization of acquired intangibles, exceptional items and group overheads:		
Quarto International Co-Editions Group	5,089	5,017
Quarto Publishing Group USA	7,242	6,482
Quarto Publishing Group UK	3,128	2,957
Books & Gifts Direct, ANZ	3,042	4,213
Other	1,398	1,390
Operating profit before amortization of acquired intangibles, exceptional items and group overheads	19,899	20,059
Operating profit before amortization of acquired intangibles and exceptional items, after deducting group overheads	15,957	16,581
Interest cover, based on operating profit before amortization of acquired intangibles and exceptional items	3.59x	3.21x
Underlying diluted earnings per share	44.0c	43.6c
Net debt	71,015	80,978
Investment in pre-publication costs:		
Quarto International Co-Editions Group	8,163	8,480
Quarto Publishing Group USA	7,876	7,301
Quarto Publishing Group UK	3,429	2,447
	19,468	18,228

	2013 Number	2012 Number
Number of new titles published	726	648

Group

We have produced a resilient trading performance, in a year of significant change and restructuring. Revenues fell by 3% to $176.3m (2012: $180.9m). Underlying operating profit was down 4% at $16.0m (2012: $16.6m). However, underlying profit before tax was up 1% at $11.5m (2012: $11.4m). Underlying diluted earnings per share increased by 1% to 44.0c (2012: 43.6c). It has been the case for many years that not one of our titles exceeded 1% of Group revenues, and this year is no exception. The following titles were our top five sellers, with their respective revenues and original year of publication, in 2013:

Honestly Healthy (2012)	$959,000
Brick City (2013)	$809,000
All New Square Foot Gardening (1981)	$807,000
1001 Movies You Must See Before You Die (2003)	$782,000
Great Cholesterol Myth (2012)	$555,000

Quarto International Co-Editions Group

Revenue for this segment was down 2% at $40.4m (2012: $41.4m). Operating profit was up 1%, at $5.1m (2012: $5.0m). We achieved an operating profit margin of 12.6% (2012: 12.1%). Reprints accounted for 74% of co-edition book publishing revenues, compared to 68% last year. This confirms that we have a very valuable backlist and that our business model, which is to produce titles with strong backlist potential, is working effectively.

Quarto Publishing Group USA

Revenue for this segment was up 8% at $64.4m (2012: $59.4m) and operating profit was up 12% at $7.2m (2012: $6.5m). We achieved an operating profit margin of 11.2% (2012: 10.9%). Reprints accounted for 74% (2012: 78%) of revenues, again confirming the benefits of our business model.

Quarto Publishing Group UK

Revenue for this segment was down 5% at $20.8m (2012: $21.9m). However, operating profit was up 6% at $3.1m (2012: $3.0m), representing a margin of 15.0% (2012: 13.5%). Reprints accounted for 59% (2012: 54%) of revenues, reflecting the fact that the lists are more frontlist driven.

Books & Gifts Direct, ANZ

Revenue for this segment was down 15% at $29.5m (2012: $34.6m) partly due to macroeconomic factors in Australia (election year, slow down in mining boom and weak Australian dollar), and partly microeconomic factors (unfilled territories and availability of liquidated stocks, in Australia, and a shortage of appropriate inventory, in New Zealand). Operating profit was down 28% at $3.0m (2012: $4.2m), representing a margin of 10.3% (2012: 12.2%).

Other businesses

Revenue for these businesses was down 10% at $21.2m (2012: $23.6m) due to the disposal of the Image Factory business at the end of September, 2013, with its results consolidated for 9 months, as against 12 months in 2012. Operating profit was up 1% at $1.4m (2012: $1.4m), representing a margin of 6.6% (2012: 5.9%).

Exceptional items

Exceptional items comprise net losses on sales of businesses and assets of $3,282,000 (2012: $nil), restructuring charges, closure of businesses/offices, and severance of $2,036,000 (2012: $3,263,000) and excess returns on termination of a key customer relationship $nil (2012: $589,000).

Net interest payable

Net interest payable was reduced from $5,158,000 to $4,443,000, largely as a result of the conclusion of an expensive interest rate swap.

Cash Flow and indebtedness

At the year end, our net debt was $71.0m, a reduction of 12% ($10.0m) compared to 2012, when it was $81.0m.

We concluded our refinancing on February 14, 2012, signing a US$95m multicurrency revolving credit facility, with a tenor through to April 30, 2015. Committed facilities now total $111.6m, including this facility and a one-year $16.6m private placement facility, which will be repaid out of cash generated from operations and our revolving credit facility, on December 8, 2014. The Group was well within its banking covenants, details of which are included in Note 18 to the Accounts.

Trends and factors likely to affect our future development, performance and position of the Group are set out in the Chief Executive's Statement on pages 6 to 7.

Shareholder return

Quarto's common stock has generated total shareholder return over the five years ended December 31, 2013 of 255%. Over the same period, Quarto's common stock has outperformed the FTSE Small Cap Index, which has generated a return of 174%.

Adjusted fully diluted earnings per share were up 1% at 44.0c (2012: 43.6c). The mid-market price of the shares of common stock on December 31, 2013 was 163.5p, up 19% compared to last year (137.0p).

In light of our performance, the Board has proposed a maintained final dividend of 4.55p (7.55c) per share which, combined with the interim dividend of 3.35p (5.23c), results in total dividends of 7.9p (12.78c), the same as 2012.

Principal risks and uncertainties facing the Group

The Group's risk management is co-ordinated at its headquarters, in close co-operation with the Board of Directors. Details of the Group's financial risk management objectives and policies are set out in note 33.

The Group, like all businesses, faces a number of risks and uncertainties as it operates its business. Some of these have been commented upon in the Chief Executive's Statement and some are commented upon below:

- The Group's profitability depends, in part, on the economic conditions across the world. The Group has a global business and, therefore, is affected by global economic conditions that may affect or impact upon the financial health of its customers, which in turn may lead to their not being able to honour their payment obligations to the Group. The Group has built up strong relationships with its customers and is not over reliant on any one of them.
- The success of the Group's titles is also an important factor in increasing the Group's profitability. In particular, we need to continue producing titles that reprint or backlist well. We are not reliant on any one product or group of products and none of our titles accounted for more than 1% of Group revenues in 2013.
- The security and robustness of our systems, in particular our IT systems, are important in all aspects of our business. IT processes are continually updated and security improved, with daily off-site back up of electronic files.

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 team and I would, again, like to thank them all for their hard work, unstinting support and loyalty. It has been a year of significant change and restructuring and our resources have been stretched to the limit, but my team have delivered, in spite of this.

M.J.Mousley
Chief Financial Officer
March 28, 2014

Directors' Report

Group

The Directors present their report and the audited financial statements of The Quarto Group, Inc., for the year ended December 31, 2013.

Results and dividends

The profit for the year amounted to $4,346,000 (2012: $5,527,000). The Directors propose a final ordinary dividend of 4.55p/7.55c (2012: 4.55p/7.37c) per share, amounting to $1,488,000 (2012: $1,451,000), subject to approval at the Annual Meeting.

Directors

Serving Directors during the year, were as follows:

T. J. M. Chadwick (Non-executive) Chairman
R. J. Morley Deputy Chairman
(Appointed 7th August 2013)
M. E. Leaver
M. J. Mousley
P. Campbell (Non-executive) (Resigned 4th June 2013)
P. Waine (Non-executive) (Resigned 4th June 2013)
E. Krawitt (Non-executive)
M. Lesser (Non-executive) (Appointed 12th March 2013)
M. Hartley (Non-executive) (Appointed 6th August 2013)

Jessica Burley was appointed as a Non-executive Director, after the year end, on February 11, 2014, to be effective from May 22, 2014, the day of the Annual Meeting.

Excluding Timothy Chadwick, who has a three year agreement, subject to re-election, each year, as per the current by-laws, none of the Directors has a service agreement of more than one year's duration.

Save as disclosed in Note 31, no Director had a contract of significance with the company or its subsidiaries during the year.

Board

Timothy Chadwick's previous experience includes 6 years at Macmillan Publishers, 10 years as Founder and Executive Chairman of Aurum Press Ltd and 6 years as Founder and Executive Chairman of All Books for Children (ABC) Ltd. In the last 5 years Timothy has held the following Directorships in publicly quoted companies: Simon Group plc – Executive Chairman, First Artists Group plc –Director, ACM Shipping plc –Director and Madara Bulgarian Property Fund – Executive Chairman.

Marcus Leaver became Chief Executive Officer in December 2012 having joined Quarto as Chief Operating Officer in May 2012. Prior to Quarto, he worked in the USA as President of Sterling Publishing, a wholly owned subsidiary of Barnes & Noble, the leading bricks-and-mortar bookseller in the US from 2008, having joined in 2005 as Chief Operating Officer. Prior to his time living and working in the US, he worked in London for Chrysalis Group plc, a London Stock Exchange-listed media company, latterly as CEO of Chrysalis Books Group, from 2002, and prior to that Corporate Development Director and in a number of different general management roles, from 1998.

He graduated from the University of East Anglia with a degree in Art History, and received his MBA from London Business School.

Mick Mousley, Chief Financial Officer, B.Sc, A.C.A, worked for 12 years at Deloitte Haskins & Sells (now part of Pricewaterhouse-Coopers), 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.

Robert Morley co-founded The Quarto Group in 1976, setting up the original co-edition imprints and later developing the newly acquired US imprints. As a graphic design graduate from art college, Bob started out his career at Haymarket Publishing Group. He also worked as Art Director on the Sunday Telegraph magazine and with Richard Branson at the start of what is now the Virgin Group. From there he worked for IPC art directing part-work magazines followed by a period developing new ideas for Readers Digest books before setting up Jackson-Morley, a boutique editorial and design company.

Edward Krawitt is currently the CEO at Rustins Ltd (UK based coatings producer) and the former CFO at Global Strategies Group (global security and defence technology) and Group Treasurer at HMV. He also held senior treasury roles at EMI Group and the Memec Group (global specialist semiconductor distributor). Edward has an MBA from Dartmouth College and is a Fellow of The Association of Corporate Treasurers.

Max Lesser is a founding partner of Worsley Associates LLP, an investment advisory business and he is currently a non-executive director of Journey Group plc. Prior to this he was an investment manager at Guinness Peat Group plc for 11 years. Previous roles have included periods as an equity analyst at JB Were & Son (New Zealand) Ltd and BZW New Zealand Ltd.

Mike Hartley brings extensive international management experience to the Board, having spent 16 years with Coats Viyella plc, for the last three years as Chief Executive of the Viyella division. He has worked extensively in Asia, Australasia and Africa. Mike was, until 2009, Chairman of Dawson International plc and is currently Chairman of privately owned recruitment business Hartley Resourcing Limited. He was a non-executive Director of ITE Group plc from 2003 until the beginning of 2014 and was Chairman of Servocell Plc between 2006 and 2007. He holds an MBA from Manchester Business School.

Jess Burley was appointed as a non-executive Director on February 11, 2014 with effect from the next Annual Meeting. She is Global Chief Executive Officer for m/SIX the media and advertising agency joint venture between WPP's GroupM and the leading UK independent creative agency CHI & Partners. Prior to this she held Director roles at companies including the National Magazine Company, where she was responsible for the company's internet division, Hearst Digital and the company's 22 magazine brands; Future Publishing Limited; Financial Times Business and Gruner and Jahr UK. Jess is a non-executive director at UK Mail Plc and has previously been a non-executive director at Jacques Vert Plc and Talk Talk Telecom Group Plc.

Directors' interests

The Directors who held office at December 31, 2013 had the following interests in the share capital of the Company.

	Number of US$0.10 shares of common stock	
Shareholding	**December 31, 2013**	**January 1, 2013***
M. E. Leaver	10,000	–
M. J. Mousley	71,700	71,700
T. Chadwick (Non-executive)	–	–
M. Hartley (Non-executive)	2,000	–
M. Lesser (Non-executive)	–	–
E. Krawitt (Non-executive)	20,000	20,000
R. J. Morley	1,402,852	1,402,852

*or date of appointment

During the year the market price of the shares of common stock ranged between 137.0p and 163.5p. The mid-market price at December 31, 2013 was 163.5p.

Between December 31, 2013 and March 28, 2014 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.

The Board recognises the importance of diversity amongst its employees and is committed to ensuring that employees are selected and promoted on the basis of merit and ability, regardless of age, gender, race, religion, sexual orientation or disability. The gender split across the Group for the year ended December 31, 2013 is illustrated in the table below.

	Males	**Females**
Board*	7	0
Executive Committee**	6	1
All employees	154	282

* With effect from the next Annual Meeting, the Board will comprise six males and one female.

** The Executive Committee had a female appointee, in 2013. The Group's Executive Committee was established in 2013 and comprises the Group's CEO and CFO, together with seven senior managers.

Substantial shareholders

As at March 28, 2014, 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	
Harwood Capital LLP	4,000,025	19.6%
L. F. Orbach	2,909,185	14.2%
The Wellcome Trust Limited	1,987,568	9.7%
Liontrust	1,857,332	9.1%
Herald Investment Trust	1,737,500	8.5%
R. J. Morley	1,402,852	6.9%
Cavendish Asset Management	823,500	4.0%
The Quarto Group, Inc.	747,821	3.7%
Lattice Group Pension Scheme	734,882	3.6%

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

The rules for appointment and replacement of the Directors are set out in the Company's By-Laws.

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

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

Going concern basis

After making enquiries, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Statement on pages 4 to 9. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 10 to 12 and in Note 18 to the financial statements.

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

The Group has significant banking facilities. In particular, the Group has committed facilities of $111.6m, comprising a US$95m multicurrency revolving credit facility, with a tenor through to April 30, 2015 and a one year $16.6m private placement facility. The private placement facility will be repaid, on December 8, 2014, from cash generated from operations and our revolving credit facility. The Group has prepared detailed profit and cash flow budgets until March 31, 2015 which show that the Group is budgeted to have headroom within that period. The budgets have been subject to various sensitivity analyses. The Group complied with its bank covenants in 2013 and the budgets show sufficient headroom on the covenants throughout the period covered by the budgets. The covenants will be monitored closely by the Board and appropriate action would be taken if any of the covenants became under pressure.

Risk management strategy

The Group is exposed to a number of principal risks and uncertainties. The Group's financial risk management strategy is set out on page 12 of the Financial Review and in Note 33. Operational risks are set out on page 12 of the Financial Review.

Corporate Governance

The Directors have reviewed the governance arrangements of The Quarto Group, Inc. in the context of the UK Corporate Governance Code 2012. The UK Corporate Governance Code 2012 is available from the website of the Financial Reporting Council at http://www.frc.org.uk/ourwork/publications/corporate-governance/the-uk-governance-code.aspx. 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 three executive Directors and four non-executive Directors. Two non-executive Directors, M.Hartley and E. Krawitt are considered by the Board to be independent. The senior independent non-executive Director is M. Hartley, T. Chadwick (appointed November 7, 2012) and M. Lesser (appointed March 12, 2013) were not independent, at the date of appointment, because of their relationship with Harwood Capital LLP, a major shareholder.

c) The Board met six times in 2013. Each of the Directors, except P. Campbell and E. Krawitt who each missed one meeting, attended all of the relevant meetings held during the year. A formal agenda is prepared for each meeting and all board papers and information are circulated to the Board at least forty-eight hours before the meetings.

d) All of the Directors are subject to re-election by the shareholders at the Annual Meeting.

e) The remuneration of the executive Directors is recommended by the Remuneration Committee, comprising M. Hartley, T. Chadwick, M. Lesser and E. Krawitt. A separate report with respect to Directors' remuneration is included on pages 22 to 38. The Committee, which meets at least twice a year, has formal written terms of reference.

f) The Chief Executive Officer and the Chief Financial Officer 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 Chairman and Senior Independent Director meet with major shareholders from time to time. Shareholders are invited to attend the Annual Meeting at least twenty-one days in advance of that meeting. All Directors attend this meeting.

g) The Chairman ensures that new Directors receive a tailored induction on joining the Board. The search for Board candidates is conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender. All directors are able to allocate sufficient time to the Company to discharge their responsibilities.

h) The Audit Committee, comprising M. Hartley, M. Lesser and E. Krawitt, is chaired by E. Krawitt and meets with the independent auditor at least twice a year. E. Krawitt provides the Committee with financial experience. The Committee reviews 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.

i) The non-executive Directors, led by the Senior Independent Director, are responsible for performance evaluation of the Chairman, taking into account views of executive Directors. The Senior Independent Director is available to shareholders, if they have concerns, where contact through the executive Directors has failed to resolve their concerns.

j) Quarto has arranged appropriate insurance cover in respect of legal action against the Directors.

k) All Directors have access to the advice and services of the Company Secretary.

l) All of the non-executive Directors, that were members of the Board at the time of the meetings, attended all of the Audit Committee and Remuneration Committee meetings held during the year.

m) The Chairman is responsible for the leadership of the Board and ensuring its effectiveness in all aspects of its role.

n) The Board uses the Annual Meeting to communicate with investors. All shareholders receive the proposed resolutions for this meeting, with at least 21 days notice.

o) The Company has an established whistle-blowing policy.

The Group has complied throughout the year with the provisions set out in the UK Corporate Governance Code 2012, apart from those listed below. Where non-compliance is reported, this is because, in the opinion of the Board, it is not appropriate to change current practice due to the size and constitution of the Board. The provisions of the UK Corporate Governance Code 2012 not complied with are as follows:

a) A1.1 – There is no formal schedule of matters specifically reserved for the Board. A formal schedule will be agreed during the course of 2014.

b) A3.1 – As noted above, the Chairman of the board was not independent at the date of appointment.

c) A4.2 – There is no formal evaluation of the performance of the Board. A formal process will be established during the course of 2014.

d) B2.1 – The Company has a Nominations Committee (T. Chadwick, M. Hartley and M. Leaver), but there are no formal terms of reference. Formal terms of reference will be issued during the course of 2014.

e) B5.1 – The Company does not have any formal arrangements for Directors, in the furtherance of their duties, to take independent professional advice. Were a situation to arise, a board member would seek to obtain the Board's approval to take independent professional advice.

f) C2.1 – The annual review of the effectiveness of risk management is not formally documented, but it will be during the current year.

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

The directors consider that the annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

Greenhouse gas emissions reporting

During the year, the Group worked with Energy Management LLP, an energy procurement and carbon consultancy, to develop GHG reporting protocol based on DEFRA and World Resource Institute guidelines.

The Group has chosen to use Operational Control in their approach to reporting utility data, electricity and natural gas from UK and International operations. This includes sites that have been disposed of during the reporting period. Scope 1 (Natural Gas) and Scope 2 (Electricity) are reported on below, but the Group are not reporting on Scope 3 emissions covering emissions from transport and emissions from fully serviced offices where only a service charge is applied.

The Group has identified GHG (Greenhouse Gas) emissions per employee as the most appropriate available KPI (referred to as the intensity ratio).

Global GHG emissions data for the year ended December 31, 2013

	Tonnes of CO_2e
Scope 1	88
Scope 2	596
Total GHG emissions (CO_2e)	684
Average number of staff*	359
Emissions per staff member	1.91

* Excluding staff at fully serviced offices.

Internal controls and financial reporting

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. The Board has in place risk management systems in relation to the Company's financial reporting process and the Group's process for the preparation of the consolidated financial statements. However, such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Established procedures are in place to identify and consolidate reporting entities. Our control activities include policies and practices covering appropriate authorisation and approval of transactions, the application of financial reporting standards and reviews of significant judgements and financial performance.

The main elements of the internal control and financial reporting systems are:

a) The results of individual operating segments are reported and reviewed by the Board at its board meetings during the year.

b) The management reports of each operating segment are tailored to suit the business and management needs of local management. Each operating segment has its own key performance indicators and these are regularly reviewed and assessed.

c) In addition to monthly reporting, individual operating units report certain management information more frequently, where it is considered appropriate.

d) All operating units report their bank balances twice weekly and a report is produced summarising the Group position.

e) The Chief Executive Officer and the finance department make frequent visits to all operating segments. These visits include reviews of the internal control and financial reporting systems.

f) All operating units prepare annual budgets and cash flow forecasts which are reviewed by the Board.

The UK Corporate Governance 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. The Board confirms that there are ongoing processes covering the identification, evaluation and management of the significant risks faced by the Group. The processes are carried out through Group Board meetings, quarterly subsidiary management meetings, discussion and review by the Executive Board and the finance department during the several visits per year to individual operating units, and discussions with professional advisers where appropriate. We plan to establish a more formalised process during the course of 2014.

Auditor

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

M. J. Mousley
Secretary
March 28, 2014
Company Registration Number: FC0 13814

Audit Committee Report

The current members of the Audit Committee are non-executive Directors Edward Krawitt (Chairman), Michael Hartley and Max Lesser. Peter Campbell and Peter Waine were members of the Committee until they resigned from the Board on June 4, 2013. Max Lesser was appointed to the Committee on March 12, 2013 and Michael Hartley was appointed to the Committee on August 6, 2013. The Board considers Edward Krawitt, and Michael Hartley to be independent Directors. The Board considers all members of the Committee to have recent and relevant financial experience and together have a wide range of financial and commercial experience to fulfil the Committee's duties.

Responsibilities

The Committee acts in accordance with its terms of reference adopted August 14, 2012, as available from the Group's registered office, and its specific responsibilities include:

- To consider and recommend the appointment of the Group's auditor, the audit fee, audit engagement letter and questions of auditor performance, partner rotation, resignation, and dismissal.
- To meet with the auditor to discuss all aspects of the audit including audit planning, scope, findings, accounting policies, judgements and estimates.
- To review the Group's representation letter to the auditor and the auditor's management letter and response.
- To review the use of auditors for non-audit services.
- To review financial statements released to the public including interim and annual financial statements.
- To review the Group's accounting policies, practices and use of accounting standards especially for decisions requiring major elements of judgement, significant adjustments and going concern basis.
- To review the Group's internal controls and risk management including:
  - the financial reporting process
  - identifying, managing and monitoring financial, operational, compliance and other risks
  - compliance with regulatory and legal requirements
  - detecting fraud
- To review the need for an internal audit function.

Committee meetings

The Committee meets throughout the year to fulfil its responsibilities. The Committee Chairman also meets informally with the CFO throughout the year and with the external Audit Partner from time to time to discuss issues arising.

By invitation the Company's Chairman of the Board, CEO, CFO and representatives of the Company's auditor also attend Committee meetings although some of the meetings are exclusively for Committee members without invitees present.

The Chairman of the Committee attends the Annual Meeting to address any shareholder questions relating to the Committee.

The Committee met four times during 2013 and also after the year end to discuss and approve the 2013 Annual Report and Accounts. The Committee, as part of full Board meetings, also approved announcements made to the London Stock Exchange.

Activities of the Committee

During 2013 and up to the date of this report the work of the Committee for the 2013 results included:

- Review and approval of the interim report after discussion with its external auditor.
- Review and approval of the preliminary announcement and the annual report after agreement with the external auditor.
- Review of announcements made to the London Stock Exchange.
- Review of the Group's internal controls and risk management systems including the need for an internal audit function.
- Review of the scope of the external audit.
- Discussion of the risks facing the Group with the external auditor.
- Discussion of significant accounting issues facing the Group including goodwill impairment, the amortisation of intangible assets, going concern and disclosure of exceptional items.
- Formulating and implementing a formal whistleblowing policy and procedure.
- Reviewing the effectiveness of the Company's external auditor.

Audit risks and financial judgements for 2013

The Committee concentrated on the following judgement areas in relation to the 2013 accounts.

Goodwill impairment

Goodwill arising from acquisitions is stated at cost less any accumulated impairment losses. In accordance with IAS 36 the Group tests the goodwill on an annual basis for impairment. The Committee reviewed the methodology and assumptions in the testing process with focus on the discount rate used in the discounted cash flow valuations and the sensitivity to changes in the discount rate.

Amortization of intangible assets

Amortization of intangible assets is charged to profit or loss on a straight line basis over the estimated useful lives of the intangible assets. Pre-publication costs which are capitalised in accordance with IAS 38 form much of these intangible assets and the Committee, with the external auditor, addressed the assumptions behind the amortization including the amortization period of the publications.

Exceptional items

The Committee, in consultation with the Auditor, considered the accounting standards for exceptional items and agreed with the executive directors the accounting treatment for items relating to disposals, group restructuring and office consolidation. The Committee agreed the classification for 2013 items and the policy for 2014 accounting.

Going concern

The Committee considered the underlying robustness of the Group's business model, products and proposition, and the financial resources available to it for the future to satisfy itself of the going concern assumption in preparing the financial statements. The Committee noted its current syndicated borrowing facility expires in April 2015, its compliance with the facility's covenants, and considered the likelihood of refinancing the borrowing facility upon its scheduled expiry.

External Audit

The Committee assesses the effectiveness of its external auditor through ongoing dialogue and communication with the Auditor. In the audit cycle there are two important meetings, the audit approach meeting which happens prior to the audit when the Committee discusses the plan for the audit including reporting developments, significant risks, goodwill impairment, amortization of intangible assets, exceptional item reporting and controls in the accounting process. The other important meeting is towards the end of the audit when the Committee discusses the key findings and issues of the audit with the external auditor including any issues relating to controls, judgements and estimates.

The Auditor showed diligence and openness with the Committee during meetings and through written communication. The Auditor gave the Committee forthright views on judgment areas while recognising the decisions lay with the Committee. The Committee also received feedback from the executive directors involved with the audit. The Committee is satisfied with the Auditor's effectiveness.

Appointment and independence

Grant Thornton has been the Group's auditor since 2007. The Committee considers the appointment of the external auditor each year and considers the performance of the lead audit partner and the audit manager during the audit process.

The current Grant Thornton lead audit partner for the Group is due to rotate after the 2013 audit. In 2013 the Committee reviewed its relationship with Grant Thornton and as part of that review invited four firms, including Grant Thornton, to tender for the Company's 2014 audit. After receiving written proposals and personal presentations the Committee reappointed Grant Thornton with a specific new lead Audit Partner to audit the Group for its 2014 financial year.

The Committee considers Grant Thornton to be independent. There are no restrictions on the Committee's choice of external auditor.

During the year Grant Thornton charged the Group $382,000 for audit of the Group and Company's annual accounts.

Non-Audit Services

Grant Thornton provided non-audit services to the Group amounting to $2,000 during 2013.

Internal Audit

The Committee reviews the appropriateness of having an internal audit function on at least an annual basis. The Committee does not consider that an internal audit function is required for the Group due to our size and nature of the business.

Edward Krawitt,
Chairman of the Audit Committee
March 28, 2014

Statement to shareholders from Remuneration Committee Chairman

Dear Shareholder

I am pleased to present the Directors' Remuneration Report for the year ended December 31, 2013, which has been prepared by the Remuneration Committee (the 'Committee') and approved by the Board.

Executive reward has continued to be an area of focus for shareholders and the wider public over the past year and the Committee is aware of the sensitivities regarding executive pay. We fully support the new reporting regulations introduced by the Government earlier this year and the objective of further increasing the transparency of executive remuneration arrangements. This year's report is therefore presented in line with The Large and Medium-sized Companies and Group's (Accounts and Reports) (Amendment) Regulations 2013 and is divided into two new sections. The first is the Policy Report which outlines the Group's remuneration policy, setting out components of pay, how they are linked to business strategy, and the framework for assessing performance for the Executive Directors. The second section is the Annual Report on Remuneration which reviews how the policy was implemented in 2013 and includes a table showing a single figure of total remuneration for Executive Directors. It also summarises how the Remuneration Policy will be implemented in 2014. Mindful of the increasing length of remuneration reports, we have aimed here to be concise without compromising on transparency. I hope these changes help make the Remuneration Report clearer and easier to understand and would welcome any feedback or comments.

During the year the Committee reviewed the remuneration arrangements in place at The Quarto Group to ensure they remain aligned with our business strategy, help reinforce the Group's success and provide strong alignment with the delivery of value to shareholders. As part of its review, the Committee identified the desirability of introducing far more targeted bonus schemes and long term incentives. These plans better strengthen alignment of executive pay with shareholders.

Following our review and consultation with major shareholders, the Board will be seeking shareholder approval at the Annual Meeting for a Performance Share Plan ("PSP"). The Committee was pleased that the majority of shareholders consulted were supportive of these proposals. Further details will be provided in the Notice of Meeting.

Resolutions to approve the Policy Report (subject to a binding vote) and the Annual Report on Remuneration (subject to an advisory vote) will be put to shareholders at the Annual Meeting, which I hope you will support.

Mike Hartley
Chairman of the Remuneration Committee
March 28, 2014

Directors' Remuneration Report

In line with The Large and Medium-sized Companies and Group's (Accounts and Reports) (Amendment) Regulations 2013 the following parts of the Annual Report on Remuneration are audited: the single total figure of remuneration for each director, including annual bonus outcomes for the financial year ended December 31, 2013; pension entitlements; payments to past directors and payments for loss of office; and, directors' shareholdings and share interests. All other parts of the Directors' Remuneration Report are unaudited.

Policy Report

This section provides Quarto's remuneration policy for Directors which will apply from May 23, 2014, subject to approval at the 2014 Annual Meeting. The Group's principal remuneration policy aim is to ensure that the compensation offered is appropriate to attract, retain and motivate Executive Directors and staff with the ability and experience to deliver the Group's strategy and grow the value of the business, having regard to the prevailing economic conditions and competition for such people in the markets in which the Group operates.

In formulating its policies the Committee has regard to and balances the following factors:

a) the need to align the interests of the executive with those of the shareholders;

b) the performance of the individual executive and of the Group as a whole;

c) the remuneration practice in the markets in which the executive is principally based; and,

d) the remuneration packages offered to executives in companies competing in the same markets and industry as the Group.

Summary of Quarto's remuneration policy applying from May 23, 2014

The elements of the proposed remuneration policy for Directors are set out below. The Group is proposing the introduction of a new Performance Share Plan ("PSP") and changing from what has been a largely discretionary annual bonus scheme to formally targeted short and medium term bonus schemes. The changes to the annual and medium term bonus schemes will be implemented for 2014.

Fixed pay - Base salary / fees

Purpose and link to strategy	Set at competitive levels in the markets in which Quarto operates, in order to attract and retain executives.
Operation	Reviewed annually with changes normally effective from 1 January of each year. Reviews take account of: • scope of the role and the markets in which Quarto operates; • performance and experience of the individual; • pay levels at organisations of a similar size and complexity; and, • pay and conditions elsewhere in the Group.
Opportunity	There is no prescribed maximum to avoid setting unhelpful expectations. Any salary increases are applied in line with the outcome of the review and taking into account wider factors, for example, local market inflation.
Performance metrics	Not applicable

Fixed pay - Benefits

Purpose and link to strategy	Designed to be competitive in the market in which the individual is employed.
Operation	Benefits include life insurance and private medical insurance. Where appropriate, other benefits may be offered including, but not limited to, participation in all-employee share schemes. Benefits are non-pensionable.
Opportunity	Benefits vary by role and individual circumstance and eligibility is reviewed periodically. Benefits are not anticipated to exceed 5% of salary p.a. over the period for which this policy applies. The Committee retains the discretion to approve a higher cost in exceptional circumstances (e.g. relocation) or in circumstances where factors outside of the Group's control have materially changed (e.g. increases in medical premiums).
Performance metrics	Not applicable

Fixed pay - Pension

Purpose and link to strategy	To provide cost effective retirement benefits.
Operation	Participation in defined contribution plan or cash allowance in lieu.
Opportunity	Up to 15% of base salary
Performance metrics	Not applicable

Variable pay - Annual performance bonus

Purpose and link to strategy	Designed to reinforce individual performance and contribution to the achievement of profit growth and strategic objectives.
Operation	Measures are reviewed prior to the start of the financial year to ensure they remain appropriate and reinforce the business strategy, and performance targets are set annually to ensure they are appropriately stretching and reflect those strategic objectives. At the end of the year the Committee determines the extent to which these were achieved. Awards are payable in cash. Payments made under the annual bonus are subject to claw-back for the later of one year following the date of award or the completion of the next audit of the Group's accounts, in the event of a fraud or material misstatement of results being identified in relation to the year in which the bonus is earned.
Opportunity	Maximum potential opportunity of up to 60% of base salary. Typically, 10% of potential is achieved for achieving Threshold performance of the financial goals and 100% for Stretching performance.

Performance metrics	At least half of the annual bonus is based on financial objectives with the balance on personal objectives. The Committee will vary the weightings from year-to-year to reflect the changing strategic needs for the business with a default bias towards financial objectives. In exceptional circumstances, the Committee has the ability to exercise discretion to override the formulaic bonus outcome within the limits of the Plan where it believes the outcome is not truly reflective of performance and to ensure fairness to both shareholders and participants.

Variable pay - Medium term performance bonus

Purpose and link to strategy	Designed to reinforce the achievement of continuous profit growth over a longer time frame and aid staff retention.
Operation	Measures are reviewed prior to the start of each 3 year period to ensure they remain appropriate and to ensure they are appropriately stretching. At the end of the 3 year period the Committee determines the extent to which these were achieved. Awards are payable in cash. Payments made under the medium term bonus are subject to claw-back for the later of one year following the date of award or the completion of the next audit of the Group's accounts, in the event of a fraud or material misstatement of results being identified in relation to the year in which the bonus is earned.
Opportunity	Maximum potential opportunity of up to 120% of base salary for the three year period. Typically, 10% of potential is achieved for achieving Threshold performance and 100% for Stretching performance.
Performance metrics	The medium term bonus is based entirely on cumulative increases in earnings and is only paid at the end of the three year period based on the cumulative result. In exceptional circumstances, the Committee has the ability to exercise discretion to override the formulaic bonus outcome within the limits of the Plan where it believes the outcome is not truly reflective of performance and to ensure fairness to both shareholders and participants.

Variable pay - Performance Share Plan (PSP)

Purpose and link to strategy	Ensures that Executive's interests are aligned with those of shareholders through reward for providing shareholders with substantial increases in shareholder value by June 30, 2016 and/or for achievement of a measure of sustained growth in earnings over the medium to long term.
Operation	Aside from a one-off award to the Chief Executive which vests if the target shareholder return is met by June 30, 2016, awards of nominal-cost (or nil-cost) options may be granted annually as a percentage of base salary. Vesting is based on performance measured over four years. The performance period normally starts at the beginning of the financial year in which the date of grant falls. Dividends accrue on PSP awards and are paid on those shares which vest.

Operation continued	Award levels and performance conditions are reviewed before each award cycle to ensure they remain appropriate. Payments made under the PSP are subject to claw-back, for the later of one year following date of vesting or completion of the next audit of the Group's accounts, in the event of a fraud or material misstatement of results being identified in relation to the years in which the PSP is earned.
Opportunity	With the exception of a one-off award for the CEO planned for 2014, award opportunities for participants are up to 50% of base salary. Awards of up to 100% of base salary may be provided in exceptional circumstances (e.g. recruitment). 20% of maximum vests for Threshold, rising on a straight-line basis to full vesting for Stretch performance.
Performance metrics	Apart from the initial one-off award to the Chief Executive, which is based on achieving total shareholder returns of £2.50 by June 30, 2016 from a combination of dividends, capital returns and share price, awards to Executives are subject to four year cumulative EPS performance. In exceptional circumstances, the Committee has the ability to exercise discretion to override the formulaic PSP outcome within the Plan limits to ensure alignment of pay with the underlying performance of the business during the performance period.

Fixed pay - Non-executive Directors' fees

Purpose and link to strategy	To reflect the time commitment in preparing for and attending meetings, the duties and responsibilities of the role and the contribution expected from the non-executive Directors.
Operation	Annual fee for Chairman. Annual base fee for non-executive Directors. Additional fees are paid to the Senior Independent Director and the Chairmen of the Committees to reflect additional responsibilities. Fees are reviewed annually, taking into account time commitment, responsibilities and fees paid by comparable companies.
Opportunity	There is no prescribed maximum. Non-executive Director fee increases are applied in line with the outcome of the review and taking into account wider factors, for example, inflation.
Performance metrics	Not applicable.

In addition to the above elements of remuneration, any commitment made prior to, but due to be fulfilled after, the approval and implementation of the remuneration policy detailed in this report will be honoured.

Performance measure selection and approach to target setting

The measures used under the annual bonus plan are selected annually to reflect the Group's key strategic priorities for the year and reinforce financial performance and achievement of annual objectives as well as individual performance. Financial measures include, but may not be limited to, profit after tax.

The Committee considers that profit after tax adjusted for any exceptional items is the most appropriate measure of long-term performance of the Group. It is well-aligned with shareholder interests, provides clear visibility and the scheme is simple.

Performance targets are set at such a level as to be stretching and achievable, with regard to the particular strategic priorities and economic environment. The annual bonus Threshold is based on a 3% growth in profits with Stretch target being 10% growth. The same basis is used for the medium term bonus where the targets compound annually.

The Committee reviews the performance targets applying to awards made to the proposed PSP scheme annually. Awards made to participants will be based on either one or a combination of total shareholder return and cumulative earnings per share over the measured period. These will be reported on each year in the Annual Report on Remuneration.

Differences in remuneration policy operated for other employees

Quarto's approach to annual salary reviews is consistent across the Group. Senior managers with substantial operational responsibilities are eligible to participate in an annual and medium term bonus scheme with similar metrics to those used for the Chief Executive. Opportunities and specific performance conditions vary by organisational level with business area-specific metrics incorporated where appropriate.

Senior managers are eligible to participate in the PSP. Performance conditions are consistent for all these participants, while award opportunities may vary by organisational level but are typically limited to 50% of base salary.

Shareholding guidelines

The Committee recognises the importance of aligning the interests of Executives with shareholders through the building up of a significant shareholding in the Group. Save for the initial award being made to Marcus Leaver (refer to page 35), Executive Directors are required to retain shares of a value equal to 50% of the after-tax gain made on the vesting of awards under the Plans, until they have built up a minimum shareholding of a value equivalent to at least 100% of annual base salary.

Remuneration policy for new Directors

When hiring or appointing a new executive director, including by way of internal promotion, the Committee may make use of all the existing components of remuneration as follows:

Component	Approach	Maximum value
Base salary	Determined in line with the stated policy, and taking into account their previous salary. Initial salaries may be set below market and consideration given to phasing any increases over two or three years subject to development in the role.	Not applicable
Benefits	In line with the stated policy.	Not applicable
Pension	In line with the stated policy.	Not applicable
Annual bonus	In line with stated policy, with the relevant maximum pro-rated to reflect the proportion of the year served.	60% of base salary
Medium term bonus	In line with stated policy, with the relevant maximum pro-rated to reflect the proportion of the year served.	120% of base salary over 3 years
PSP	In line with the stated policy.	100% of base salary (200% in exceptional circumstances)

In determining appropriate remuneration for a new executive, the Committee will take into consideration all relevant factors (including quantum, nature of remuneration and the jurisdiction from which the candidate was recruited) to ensure that arrangements are in the best interests of both the Quarto Group and its shareholders. The Committee may consider it appropriate to grant an award under a structure not included in the policy, for example to 'buy out' incentive arrangements forfeited on leaving a previous employer, and will exercise the discretion available under Listing Rule 9.4.2 R where necessary. In doing so, the Committee will consider relevant factors including the expected value of all outstanding equity awards using a Black-Scholes, or equivalent valuation and, where applicable, taking into account toughness of performance conditions attached to these awards and the likelihood of those conditions being met.

In cases of appointing a new Executive Director by way of internal promotion, the Group will honour any contractual commitments made prior to their promotion to Executive Director.

In cases of appointing a new Non-Executive Director, the approach will be consistent with the policy.

Service contracts and exit payments policy

Non-executive Directors are engaged on the basis of a letter of appointment. In line with the UK Corporate Governance Code, all Directors are subject to re-election annually at the Annual Meeting. The Chairman has a three year contract, subject to re-election each year and the non-executive Directors have a one month notice period. The non-executive Director Letters of Appointment are available to view at the Group's registered office and the effective dates of their Letters of Appointment are as follows:

Director	Date of Appointment	Appointment Letter	Notice period
Tim Chadwick	November 7, 2012	February 20, 2013	3 years subject to annual re-election
Michael Hartley	August 6, 2013	August 22, 2013	1 month
Edward Krawitt	February 7, 2011	January 25, 2011	1 month
Max Lesser	March 12, 2013	May 23, 2013	1 month
Jess Burley	After the Annual Meeting	January 17, 2014	1 month

Executive Director service contracts have no fixed term and, save for Bob Morley, have a notice period of not more than 12 months from either the Executive or the Group. These notice periods meet best practice guidelines and give protection, mutually, to the Group and the Executive. Executive Director service contracts are available to view at the Group's registered office. The dates of the Executive Director service contracts and the relevant notice period are as follows:

Director	Effective date of contract	Notice period
Marcus Leaver	April 30, 2012	12 months
Mick Mousley	April 4, 1989	12 months
Bob Morley	August 6, 2013	None*

* Bob Morley's contract provides ongoing employment, without limit, whilst he meets certain conditions, including, but not limited to, him not selling or otherwise disposing of his shares in the Company in a manner that qualifies for Entrepreneur's Relief. This contract precedes his re-appointment to the Board.

The Committee's policy is to limit severance payments on termination to pre-established contractual arrangements and the rules of the relevant incentive plans. In doing so, the Committee's objective is to avoid rewarding poor performance. Furthermore, the Committee will take account of the Executive Director's duty to mitigate their loss.

Termination payments are limited to base salary and benefits during the unexpired notice period which cannot be mitigated.

In addition to the contractual provisions regarding payment on termination set out above, the Group's incentive plans and share schemes contain provisions for termination of employment.

Component	Bad leaver	Good leaver	Change-of-control
Annual bonus	No annual bonus payable	Eligible for an award to the extent that performance conditions have been satisfied and pro-rated for the proportion of the financial year served, with Committee discretion to treat otherwise	Eligible for an award to the extent that performance conditions have been satisfied up to the change of control and pro-rated for the proportion of the financial year served, with Committee discretion to treat otherwise
Medium term bonus	No annual bonus payable	Eligible for an award to the extent that performance conditions have been satisfied and pro-rated for the proportion of the three financial years served, with Committee discretion to treat otherwise	Eligible for an award to the extent that performance conditions have been satisfied up to the change of control and pro-rated for the proportion of the three financial years served, with Committee discretion to treat otherwise
PSP	Outstanding awards are forfeited	Outstanding awards will normally continue and be tested for performance over the full period, and pro-rated for time based on the proportion of the period served, with Committee discretion to treat otherwise	Outstanding awards will normally vest and be tested for performance over the period to change-of-control, and pro-rated for time based on the proportion of the period served, with Committee discretion to treat otherwise

Any commitment made prior to, but due to be fulfilled after the policy comes into force, will be honoured.

An individual would normally be considered a good leaver if they leave for reasons of death, injury, ill-health, disability, redundancy, part of the business in which the individual is employed or engaged ceasing to be a member of the Group, circumstances that are considered by the Committee to be retirement, or any other reason as the Committee decides. Bad leaver provisions apply under other circumstances.

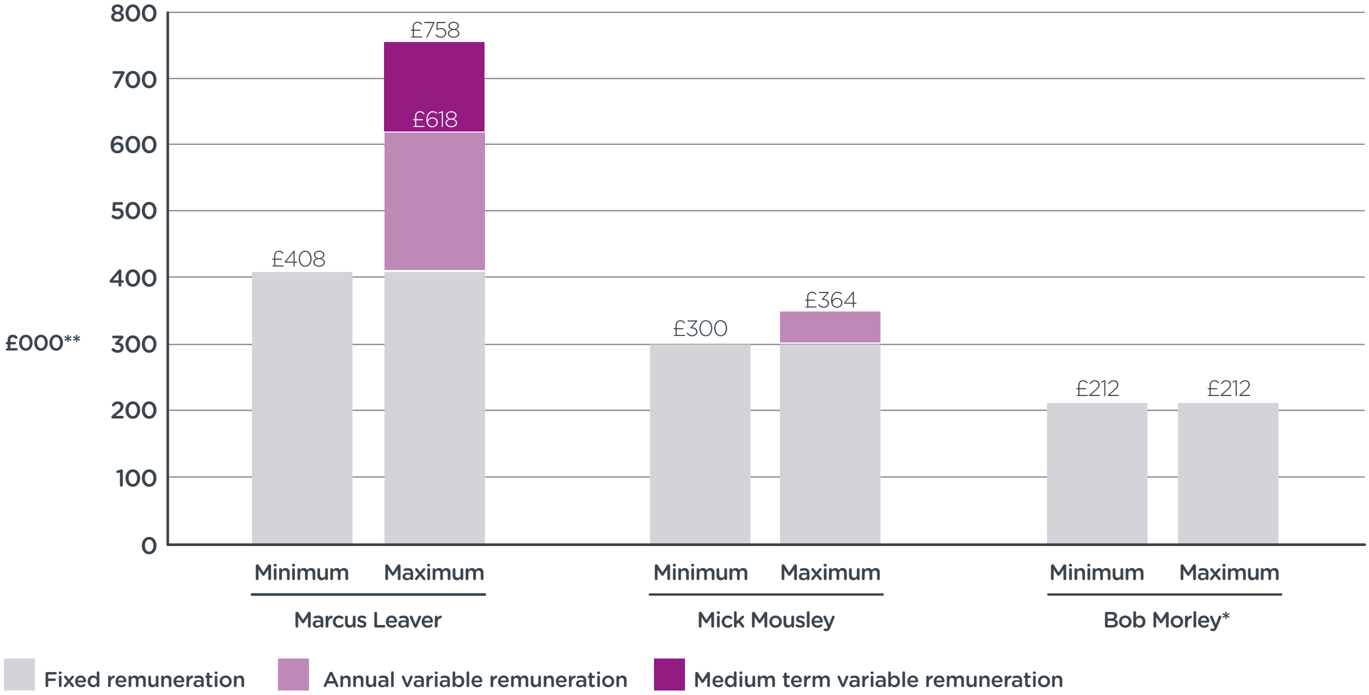
External appointments

The Executive Directors may accept external appointments with the prior approval of the Board and provided only that such appointments do not prejudice the individual's ability to fulfil their duties at the Group. Whether any related fees are retained by the individual or remitted to the Group will be considered on a case-by-case basis.

Illustration of the application of the remuneration policy

The chart on page 31 shows the remuneration that the Executive Directors could be expected to obtain based on varying performance scenarios. Illustrations are intended to provide further information to shareholders regarding the relationship between pay and performance.

Potential reward opportunities illustrated are based on the policy proposed to apply from May 23, 2014, applied to the latest known base salaries, pension, other benefits and short term incentive opportunities. Medium term incentive opportunities have been illustrated for the Chief Executive Officer only. PSP is not included in the model, as no awards have been made, pending shareholder approval. Actual pay delivered, however, will be influenced by these factors.



* Does not include commissions which may become due (refer to Annual Report on Remuneration)
** Remuneration is contracted in sterling

Assumptions underlying each element of pay are provided in the below table:

Component		'Minimum'	'Maximum'
Fixed	Base salary	Latest known salary	
Fixed	Pension	Contribution rate applied to latest known salary	
Fixed	Other benefits	Benefits as provided in the single figure table on page 33	
Annual bonus		No bonus payable	Maximum bonus
Medium term bonus*		No bonus payable	Maximum bonus

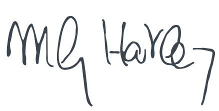
* The maximum bonus has been prorated over three years

Consideration of conditions elsewhere in the Group

When reviewing and setting executive remuneration, the Committee takes into account the pay and employment conditions of all employees of the Group. The Group-wide pay review budget is one of the key factors when reviewing the salaries of the Executive Directors. Although the Group has not carried out a formal employee consultation regarding Board remuneration, it does comply with local regulations and practices regarding employee consultation more broadly.

Consideration of shareholder views

It is the Committee's policy to consult with major shareholders or their chosen shareholder representative body prior to any changes to its Executive Director remuneration structure. During the year, the Remuneration Committee consulted with major shareholders who, at the time, held approximately 75% of the Group's issued share capital on the proposed introduction of a new long-term incentive plan. The Committee noted that the majority of investors indicated their support for the plans.



Mike Hartley
Chairman of the Remuneration Committee
March 28, 2014

Annual Report on Remuneration

The Remuneration Committee ("the Committee")

The current members of the Committee are the Group's non-executive Directors, Michael Hartley (Chairman), Tim Chadwick, Edward Krawitt and Max Lesser. Peter Campbell and Peter Waine were members of the Committee until they resigned from the Board on June 4, 2013, with the latter serving as Chairman. Tim Chadwick was appointed to the Committee and in addition served as Chairman from June 5, 2013, until Michael Hartley was appointed on August 6, 2013.

The Committee met five times during the year. Further details of attendance of non-executive Directors at Remuneration Committee meetings can be found in the Corporate Governance Report on page 17.

No individual was present when their own remuneration was being discussed. The Remuneration Committee's Terms of Reference are available on the Group's website.

The Committee is responsible for:

- Recommending to the Board the remuneration and terms and conditions of employment of the Chairman (who absents himself from discussions regarding his own remuneration), Executive Directors and key members of senior management;
- Measuring subsequent performance as a prelude to determining the Executive Directors' and key managers' total remuneration on behalf of the whole Board;
- Determining the structure and quantum of short-term and medium-term bonus schemes; and,
- Granting awards under the PSP Share Award Scheme.

The main issues discussed and/or approved during the financial year under review and up to the date of this report included:

- Annual review of the executive directors' salaries and benefits ;
- Approval of the Chairman's three year contract
- Approval of the Chief Executive's contract
- Approval of senior managers' salaries, fee arrangements and bonus plans who fall within the remit of the Committee;
- Setting the 2013 annual bonus plans for the executive directors;
- Setting the policy for approval of expenses for the Chairman, Executive Directors and non-executive directors
- Review of the executive directors' and the senior managers' performance under the 2013 annual bonus scheme and approval of the discretionary bonus awards;
- Review of the design and targets for the 2014 annual bonus scheme including personal objectives and the medium term bonus scheme;
- Review of the key design features for the Group's long-term incentive plan, which is to be put to shareholders for approval at the next Annual Meeting on May 22, 2014;
- Consultation with shareholders on the new Performance Share Plan.
- Approval of the Terms of Reference for the Committee; and,
- Approval of the Directors' Remuneration Report.

Advisers

The Committee has not paid fees to any advisers during the financial year.

Statement of shareholder voting at the 2013 Annual Meeting

The following table shows the results of the advisory vote on the 2012 Remuneration Report at the Annual Meeting on June 4, 2013.

	Total number of votes	% of votes cast
For (including discretionary)	10,544,292	99.91
Against	10,000	0.09
Total votes cast*	10,554,292	100%

* Representing 53.6% of the total voting shares.

Single total figure of remuneration (Audited)

The table below sets out a single figure for the total remuneration received by each Director for the year ended December 31, 2013 and the prior year. These amounts are shown in the reporting currency, although set in sterling. The exchange rates used in 2013 and 2012 were 1.56 and 1.59, respectively.

	Base Salary		Benefits[1]		Pension		Annual Bonus[2]		Long-term incentives[3]		Total remuneration	
Executive Directors	**2013 $000**	2012 $000	**2013 $000**	2012 $000	**2013 $000**	2012 $000	**2013 $000**	2012 $000	**2013 $000**	2012 $000	**2013 $000**	2012 $000
Marcus Leaver	546	329	9	4	82	49	233	165	-	-	870	547
Mick Mousley	398	390	11	9	60	58	83	40	-	-	552	497
Robert Morley*	134	129	8	6	-	14	-	-	-	-	142	149
Laurence Orbach	-	590	-	57	-	149	-	79	-	-	-	875

* For period for which he was a Director, in both years.

	Fees[4]		Benefits		Pension		Annual Bonus		Long-term incentives[3]		Total remuneration	
Non-executive Directors	**2013 $000**	2012 $000	**2013 $000**	2012 $000	**2013 $000**	2012 $000	**2013 $000**	2012 $000	**2013 $000**	2012 $000	**2013 $000**	2012 $000
Tim Chadwick	156	23	-	-	-	-	-	-	-	-	156	23
Edward Krawitt	55	52	-	-	-	-	-	-	-	-	55	52
Max Lesser	38	-	-	-	-	-	-	-	-	-	38	-
Mike Hartley	22	-	-	-	-	-	-	-	-	-	22	-
Peter Waine	23	60	-	-	-	-	-	-	-	-	23	60
Peter Campbell	31	73	-	-	-	-	-	-	-	-	31	73

1 Benefits comprise private medical insurance contributions
2 Annual bonus for performance over the relevant financial year. Further details of performance criteria, achievement, and resulting awards can be found on pages 34-35.
3 Further details of Long-term incentives can be found on pages 35-36.
4 Further details of Non-executive Director fees can be found on page 36. Peter Campbell's fees included $10,000 (2012: $24,000) of consulting fees on an arm's length basis.

There has been no withholding, clawback or deferral of remuneration during the period.

Executive Director base salaries/fees

During the year, Marcus Leaver, the Chief Executive, received £350,000 in salary. His salary has not been increased for 2014.

During the year, Mick Mousley, the Chief Financial Officer, received £255,000 in salary, an increase of £10,000. His salary has not been increased for 2014.

During the year, Bob Morley, the Deputy Chairman, received £215,000 in salary. From January 1, 2014 his salary has been set at £129,000 to reflect his reduced executive responsibilities and time commitments. In addition, on June 30, 2014, he shall be paid a lump sum of £82,692, in part payment of notice in lieu of the termination of his former contract. He is also entitled to a commission of 37.5% of gross profit generated on projects that he creates for the Children's Design Eye imprint, from 2014.

Executive Director salary increases for 2014 were less than the typical increase across the UK employee population. The next salary review date will be January 1, 2015.

Pension and other benefits

The Group makes a contribution equal to 15% of Marcus Leaver's and Mick Mousley's base salary to their personal pension schemes. Benefits are in line with the policy.

Annual Performance Bonus

2013 bonus framework

For the 2013 financial year, the maximum annual bonus opportunity was 75% of salary for Marcus Leaver and 40% of salary for Mick Mousley. In each case the annual bonus was based 80% on financial targets and 20% on personal targets.

Of the financial element, 62.5% was based upon the achievement of an underlying profit before tax and 37.5% split equally between the reduction of average monthly net debt, group inventory and accounts receivable. Ranges were set for underlying profit before tax between Base of $11,046,000 to Stretch of $12,000,000 with 0% potential at Base and 100% potential at Stretch and straight line vesting between. A similar basis was used for monthly net debt with Base of 2% and Stretch of 5% reduction; group inventory with Base of 4% and Stretch of 14% reduction; and accounts receivable with Base at 2.5 months sales, which was the 2012 level, and Stretch at 2.35 months sales.

		Performance targets, $000			
Financial measure	**Weighting**	**Base**	**Stretch**	**Actual performance**	**Actual bonus as % of maximum**
Underlying profit before tax	62.5%	11,046	12,000	11,514	49.1%
Monthly net debt	12.5%	2% reduction	5%	4.1%	70.0%
Monthly Group Inventory	12.5%	4% reduction	14%	12.5%	85.0%
Monthly accounts receivable	12.5%	2.5 months sales	2.35	2.61	0.0%

Personal objectives for Marcus Leaver and Mick Mousley were set by the Committee based on the business development plan proposed by the CEO and approved by the Chairman. The Committee reviewed and judged the level of achievement against the objectives at the end of the performance period.

Marcus Leaver's personal objectives for 2013 were related to non-core disposals, implementation of revised organisational structure, satisfactory communication with existing and potential shareholders, production of a three year plan, and implementing consolidation of UK operations and USA warehousing. Payout under this element of the bonus was assessed at 84.4% of the potential award on personal objectives.

Mick Mousley's personal objectives for 2013 related to non-core disposals, implementation of an inclusive budget process, production of a three year plan, production of a tax and treasury strategy and gross debt reduction. Payout under this element of the bonus was assessed at 59.1% of the potential award on personal objectives.

After taking account of their personal targets, Marcus Leaver and Mick Mousley earned 56.9% and 51.9% of their respective potential bonus opportunities.

2014 annual bonus framework

For the financial year commencing January 1, 2014, the Executive Bonus Plan will operate in line with the new remuneration policy which is at a lower level of annual bonus than 2013. Bonuses for Marcus Leaver are based three quarters on group profit after tax adjusted for exceptional items and one quarter on personal objectives with a maximum opportunity of 60% of salary. For Mick Mousley the split is normally half on underlying group profit after tax and half on personal objectives with a maximum opportunity of 20% of salary. For 2014, exceptionally, there is an additional 5% on personal objectives relating to the refinancing making a maximum overall potential for the year of 25%. The Committee intends to disclose personal objectives retrospectively in next year's Annual Report on Remuneration, subject to these no longer being considered by the Board to be commercially sensitive. The financial target is a Threshold of $9,704,000 and Stretch of $10,363,000, adjusted retrospectively in the event of any exceptional items.

Medium Term Performance Bonus

2014-2016 medium term bonus framework

This is a new scheme largely funded from decreasing potential earnings from the annual bonus. It is in line with the new remuneration policy in the previous section and is designed to motivate management to focus on continual profit improvement. The Committee recognises that profit development is not within an annual financial cycle. Rather, the publications (which are a substantial part of the Group's businesses) are substantially created in the year before the sales are achieved. Thus within any one financial year, there is a limit to the influence of management on profits. These in-year influences are the marketing of the publications and cost control. Emphasis on a single year can motivate cost cutting of creative publishing resources to the detriment of the following year's results. Thus the Committee has developed a mix of annual and medium term performance goals. To most align these goals with shareholders, the targets are based on improving profits from the prior year/s as the Committee believes that ultimate shareholder value is most driven by a continual improvement in profits from which cash is generated for dividend growth.

The profit targets are based on a base year of 2013. The Base is the achieved profits after tax for 2013 adjusted upwards to account for a one-off gain in 2014 on interest charges from an interest rate swap and for the after tax effect of exceptional items, in 2013. The results will be adjusted to account for any exceptional costs (or gains) recorded in the period. The target is based on compound increases over three years over the Base with Threshold for a 9.3% increase and Stretch for a 33.1% increase. Payments are made at the end of the period based on the 2016 results.

Marcus Leaver has a maximum opportunity of 120% of salary, with 10% of maximum potential for Threshold and 100% for Stretch . The target is a Threshold of $10,295,000 and Stretch of $12,539,000.

Long-term incentives

PSP framework

Initial awards are anticipated to be granted as soon as practicable after the Annual Meeting under the new PSP, for which shareholder approval will be sought at the Annual Meeting 2014 as detailed in the policy. The initial awards will be made primarily to CEO, Marcus Leaver with a grant of 666,666 shares (3.3%

of share capital) and would vest on June 30, 2016 subject to a stretching performance condition of achieving an average share price of £2.50 over any consecutive 90 day period occurring before vesting date, adjusted for an agreed challenging minimum level of dividends and other cash distributions paid to shareholders from December 31, 2012.

Subsequent awards made under the scheme to any executive directors or other senior managers would be based on a measure of growth of earnings in line with the new policy outlined in this report. It is not envisaged that there would be any grants of PSP in 2014 other than those outlined in the paragraph above.

Other long term incentives

On appointment to Chairman, Timothy Chadwick was awarded a potential bonus of £750,000 if, during the three year period commencing December 18, 2012, shareholders are able to sell their shares at a price of £2.50 or more, in the context of a general offer to acquire all the shares of the Company by a third party or by way of sale of shares in the market provided that the shares are traded on the market at a bid price of £2.50 or more for a continuous period of at least 6 months and during that period the shares are trading with sufficient liquidity to enable up to 15% of the shares to be sold in the market on a regular monthly basis at a bid price of at least £2.50 per share without the bid price falling as a consequence.

Chairman and Non-Executive Director fees

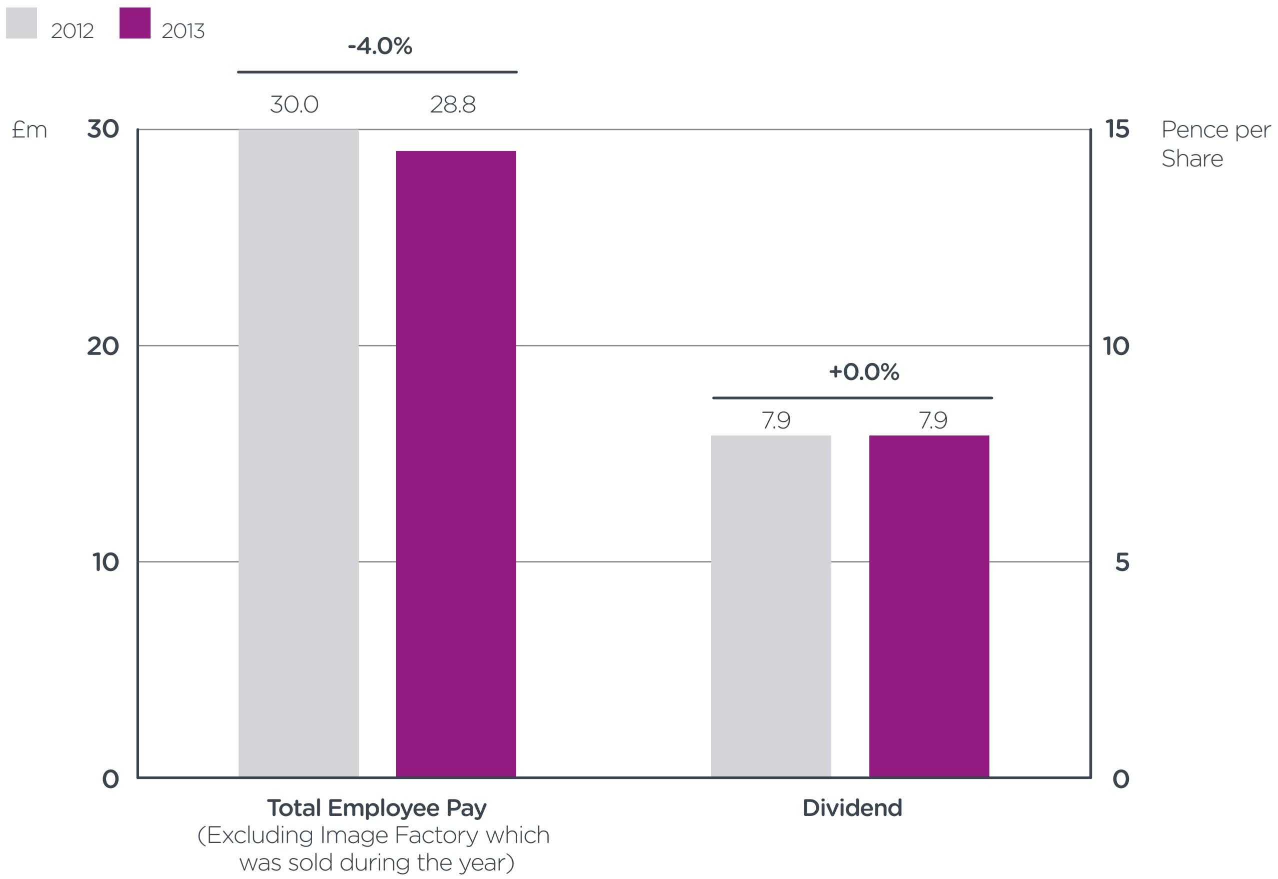
From the date of the Annual Meeting, held in 2013, the non-executive Directors have received an annual base fee of £30,000, with an additional fee for the Audit and Remuneration Committee Chairs of £5,000. From January 1, 2014 an additional fee of £5,000 for the Senior Independent Director has been paid.

With effect from the date of the Annual Meeting in 2014, the non-executive Directors receive an annual base fee of £35,000, with an additional annual fee for Audit and Remuneration Committee Chairs of £3,500 and the Senior Independent Director of £3,000. The non-executive Directors' fees for the period commencing May 23, 2014 are therefore as follows: Michael Hartley £45,000, Max Lesser £35,000 and Jess Burley £35,000.

The Chairman's fee remains at £100,000.

Relative importance of spend on pay

The graph below shows Quarto's distributions to shareholders and total employee pay expenditure for the financial years ended December 31, 2012 and December 31, 2013, and the percentage change.



Review of Group performance

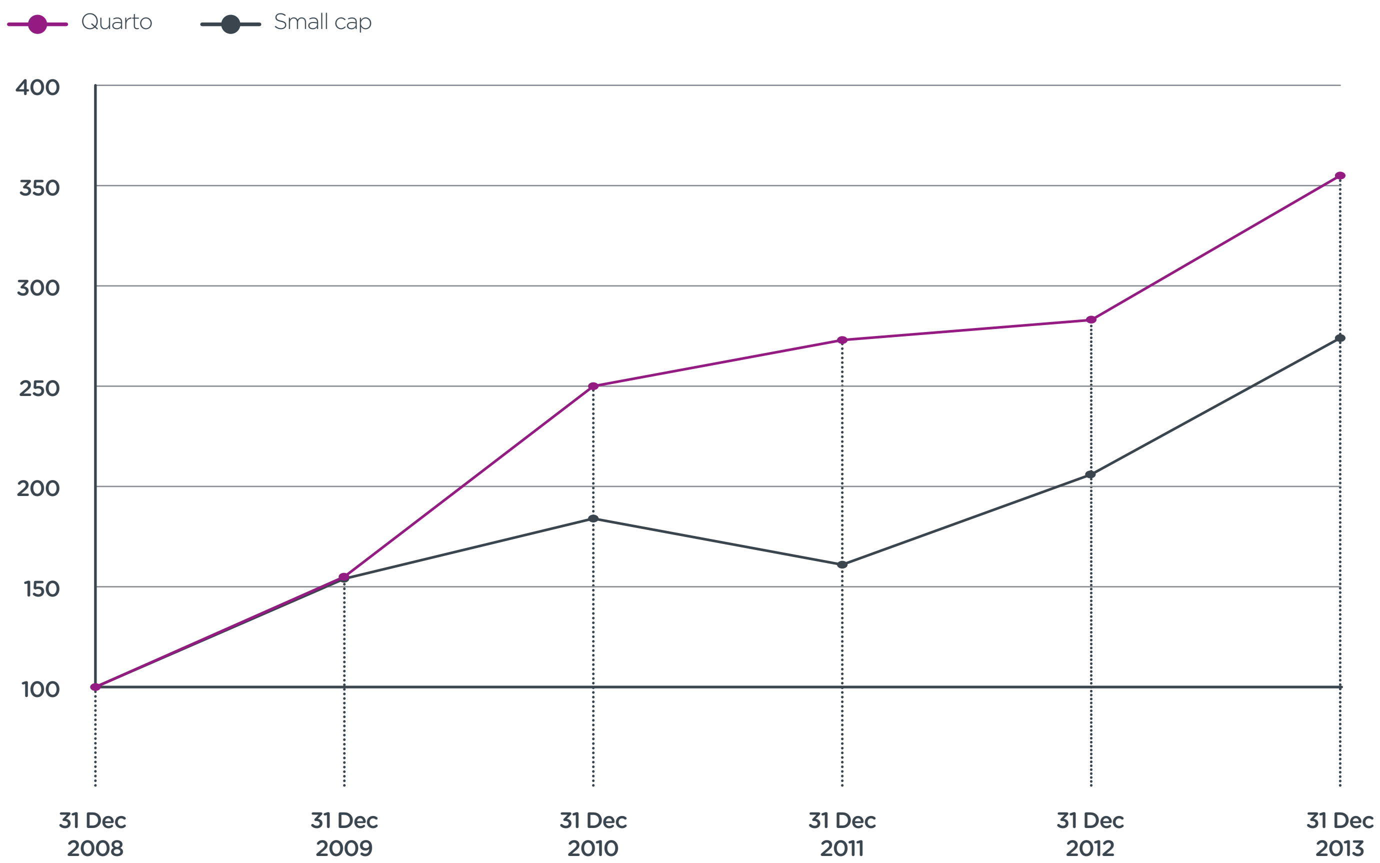
The chart below compares the value of £100 invested in Quarto shares, including re-invested dividends, on December 31, 2008 compared to the equivalent investment in the FTSE Small Cap Index, over the last five financial years. The FTSE Small Cap Index has been chosen as it comprises companies of a broadly similar size to Quarto. The table below shows the single figure for the CEO over the same period.

FYE December		2009	2010	2011	2012	2013
CEO single figure of remuneration including bonus ($000)		898	916	996	1,020[1]	870
Annual bonus awarded	$ amount ($000s)	-	39*	57*	121*	233
	% of maximum opportunity	-	-	-	-	56.9%
LTI vesting	$ amount ($000s)	-	-	-	-	-
	% of maximum opportunity	-	-	-	-	-

[1] The figure for 2012 is a combination of remuneration of Laurence Orbach, the previous CEO, and Marcus Leaver for the respective periods.

* Discretionary

Performance graph



Change in CEO remuneration and for employees as a whole over FY 2013

The table below shows the change in CEO annual cash, defined as salary, taxable benefits and annual bonus, compared to the average employees for 2012 to 2013.

	CEO			Average for other employees
CEO annual cash ($000)	**2012***	**2013**	**% change**	**% change**
Salary	670	546	(18.5) %	2.1%
Taxable benefits	58	9	(84.5) %	11.4%
Annual variable	131	233	77.9 %	98.1%
Total	859	788	(8.3) %	3.5%

*The figure for 2012 is a combination of remuneration of Laurence Orbach, the previous CEO, and Marcus Leaver for the respective periods.

Payments to past directors & payments for loss of office

There have been payments of $261,000, during the year, to Laurence Orbach, in line with his contractual entitlements.

Dilution limits

The Group has at all times complied with the dilution limits set out in the rules of its share plans (principally a limit of 10% in 10 years). The Group will also operate within a dilution limit of 5% in any rolling 10 year period for discretionary schemes. In the 10 year period to December 31, 2013, awards made under the Group's share schemes represented 0.4% (2012: 0.4%) of the Group's issued share capital.

Directors' shareholding guidelines and share scheme interests

To date there has been no requirement for Executive Directors to retain shares as there has been no vesting of share based incentives.

Mike Hartley
Chairman of the Remuneration Committee
March 28, 2014

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

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

The Company is an 'overseas' company within the meaning of the Companies Act 2006. 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 applicable law and UK GAAP.

The directors have accepted responsibility for preparing group financial statements as required by IFRSs as adopted by the EU which present fairly the financial position and the performance of the group. The Companies Act 2006 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 and profit or loss 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 judgements and estimates that are reasonable and prudent;
- for the group financial statements, state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the group financial statements;
- 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 are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Remuneration report comply with the Companies Act 2006 (except that a Strategic Report has not been included) and Article 4 of the IAS Regulation. We aim to produce a Strategic Report within the 2014 Annual Report. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for preparing the annual report in accordance with applicable law and regulations. Having taken advice from the Audit Committee, the directors consider the annual report and the financial statements, taken as a whole, provides the information necessary to assess the Company's performance, business model and strategy and is fair, balanced and understandable.

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

To the best of our knowledge:

- the Group financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
- the annual report, which incorporates a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

- the Chairman's Statement, Chief Executive's Statement, Financial Review and Directors' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

M.J. Mousley,
Secretary
March 28, 2014

Independent auditor's report to the members of The Quarto Group, Inc.

We have audited the financial statements of The Quarto Group Inc. (the 'Group') for the year ended December 31, 2013 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Company Balance Sheet, the related notes 1 to 34 to the Accounts, and related notes 1 to 10 to the Company Balance Sheet. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In addition to our audit of the financial statements, the Directors of The Quarto Group Inc. have engaged us to:

- audit the information in the Directors' Remuneration report that is described as having been audited, which has been prepared as if The Quarto Group Inc. were a UK incorporated company and required to comply with the Companies Act 2006; and
- review whether the Corporate Governance Statement reflects compliance with the nine provisions of the UK Corporate Governance Code 2012 as if The Quarto Group Inc. were required to comply with paragraph 9.8.6R of the FCA Listing Rules, and we report if it does not.

This report is made solely to the company's members, as a body, on terms that have been agreed. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 39 to 40, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Auditor commentary

An overview of the scope of our audit

Our audit approach included a full audit of the financial statements of the parent company, The Quarto Group Inc.

The Group is currently organised into four operating segments: Quarto Publishing Group USA, Quarto Publishing Group UK, Quarto International Co-Editions Group, and Books & Gifts Direct ANZ. The Group financial statements are a consolidation of 17 principal reporting units (listed in Note 4 to the Parent Company Balance Sheet) comprising the Group's operating businesses within these divisions and centralised functions.

In establishing the overall approach to the Group audit, we determined the work that needed to be performed at the reporting units by us, as the Group engagement team, or component auditors operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

The reporting units vary significantly in size and we identified 10 reporting units that, in our view, required an audit of their complete financial information, due to their size or risk characteristics, providing 69% coverage of the Group's revenues. Specific audit procedures on certain balances and transactions were performed at a further 7 reporting units, comprising the businesses in the Group's Books & Gifts Direct ANZ and other operating segments due to their size and contribution to underlying profits.

We undertook interim visits of the Group's components in the UK and the US, which we identified as key to the Group, in November 2013 to review the internal control environment, including IT systems. We evaluated controls over key financial systems identified as part of our risk assessment, reviewed the accounts production process and addressed critical accounting matters. This included performing some early substantive testing. At our year-end audit visit, we performed substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls over individual systems and the management of specific risks.

Our application of materiality

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. For the purpose of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of a misstatement or an omission from the financial statements or related disclosures that would make it probable that the judgement of a reasonable person relying on the information would have been changed or influenced by the misstatement or omission. For the Group audit, we established materiality for the financial statements as a whole to be $572,000, which is 5% of profit before taxation, exceptional items and amortization of acquired intangibles. For the financial information of the individual subsidiary undertakings, we set our materiality based on a proportion of Group materiality appropriate to the relative scales of the businesses.

We determined the threshold at which we will communicate misstatements to the Audit Committee to be $28,600. In addition we communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Our assessment of risk

Without modifying our opinion, we highlight the following matters that are, in our judgement, likely to be most important to users' understanding of our audit. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual transactions, account balances or disclosures.

Goodwill

As more fully explained in Notes 1 and 10 to the financial statements, goodwill of $41.4 million has an indefinite life and the directors are required to make an annual review for impairment, to determine whether there is an indication that the goodwill may be impaired. The process for measuring and recognising impairment under IAS 36 Impairment of Assets is complex and highly judgemental. We therefore identified the carrying value of goodwill as a risk that requires particular audit attention.

Our audit work included, but was not restricted to, an assessment of the methodology used by management. We engaged a specialist from our Valuation Services team and compared the methodologies applied and the assumptions used by the directors, in particular those relating to the forecasted revenue growth and profit margins of the Quarto Publishing Group USA and Books and Gifts Direct cash-generating units to our expectations and emerging market activity. We also focused on the adequacy of the disclosures in the financial statements on the sensitivity of the key assumptions used in the impairment assessment.

The Group's accounting policy and note in respect of goodwill impairment are included in Notes 1 and 10 respectively.

Exceptional items

The classification of exceptional items is determined by the Group's accounting policy, which states that management apply judgement when assessing whether non-recurring items need to be separately disclosed for the user to obtain a proper understanding of the financial information. The classification of exceptional items is therefore a risk that requires particular audit attention.

Our audit work included, but was not restricted to, a review of whether significant unusual or significant non-recurring transactions throughout the Group had been measured, presented and disclosed in accordance with the Group's accounting policy. We challenged management on both the classification of significant exceptional items and the adequacy of the related disclosures provided in Note 4 to the financial statements.

Pre-publication costs

The Group has significant pre-publication costs capitalised as intangible assets in accordance with IAS 38 Intangible Assets. The process to measure the amount of pre-publication costs that can be recognised as intangible assets in the financial statements, including the determination of the appropriate timing of recognition, involves significant management judgement. We therefore identified the capitalisation of pre-publication costs as intangible assets as a risk that requires particular audit attention.

Our audit work included, but was not restricted to, understanding and testing pre-publication costs, to ensure that they meet capitalisation criteria, together with an understanding of management's calculation of related amortization charges. We examined and assessed the appropriateness of the capitalisation of a sample of development costs during the period. We discussed the estimate of useful life of pre-publication costs with management, challenging management's key assumptions underlying future economic benefit, taking into consideration management's historical success at forecasting.

The Group's accounting policies on intangible assets are included in Note 1.

Going concern

The accounts are prepared on a going concern basis in accordance with IAS 1 Presentation of Financial Statements. However, the Group has significant debt obligations due for repayment within one year, and the Company has an on-going net liability position. As these conditions may cast doubt on the Group's and Company's ability to continue as a going concern we therefore identified going concern as requiring particular audit attention.

Our audit work included, but was not restricted to, an evaluation of management's assessment of the Group's and the Company's ability to continue as a going concern including an analysis of cash flow forecasts and an evaluation of the reliability of the underlying data. We also confirmed the existence of arrangements to maintain financial support with related and third parties, through to April 2015, being the date the current syndicated borrowing facility expires.

The Group's disclosures about going concern are included in the accounting policies in Note 1 to the financial statements.

Revenue recognition

Under ISAs (UK & Ireland) there is a presumed risk of fraud in revenue recognition. Because of this, we focussed on revenue recognition, particularly the timing of revenue recognition. We therefore identified revenue recognition as a significant risk requiring special audit consideration.

Our audit work included, but was not restricted to, an evaluation of the revenue recognition policies and testing a sample for each material revenue stream, to assess the timing of revenue recognition and whether the Group appropriately recorded revenue taking into account contractual terms and obligations with distributors and other customers. We tested accounts receivable balances through a combination of third party confirmations, subsequent receipt and proof of delivery.

We also tested journal entries posted to revenue to identify unusual or irregular items and tested the methodology of key revenue accounting estimates, including provisions for bad debt and sales returns.

The Group's accounting policy in respect of revenue recognition is included in Note 1.

Management override of financial controls

Under ISAs (UK & Ireland), for all of our audits we are required to consider the risk of management override of financial controls. Due to the unpredictable nature of this risk we are required to assess it as a significant risk requiring special audit consideration.

Our audit work included, but was not restricted to, specific procedures relating to this risk that are required by ISA 240 ' The Auditors Responsibilities relating to Fraud in an Audit of Financial Statements'. This included tests of journal entries, the evaluation of judgements and assumptions in management's estimates and tests of significant transactions outside the normal course of business.

In particular, our work on the goodwill impairment, pre-publication costs, provision for bad debts and sales returns and exceptional items addressed key aspects of ISA 240.

Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at December 31, 2013 and of the Group's profit for the year then ended;
- The consolidated financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- The Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Other reporting responsibilities

Opinion on other matters prescribed by the terms of our engagement

In our opinion the part of the Directors' Remuneration Report, which we were engaged to audit, has been properly prepared in accordance with the Companies Act 2006 as if those requirements were to apply to The Quarto Group, Inc.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- Materially inconsistent with the information in the audited financial statements; or
- Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- Otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that were communicated to the audit committee which we consider should have been disclosed.

Under the terms of our engagement we are required to review:

- The directors' statement, set out on page 16, in relation to going concern; and
- The part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the Corporate Governance Code specified for our review.

Grant Thornton UK LLP
Statutory Auditor

London
March 28, 2014

Consolidated Statement of Comprehensive Income
Year Ended December 31, 2013

	Notes	2013 $000	2012 $000
Continuing operations			
Revenue	2	176,318	180,873
Cost of sales		(111,807)	(115,332)
Gross profit		64,511	65,541
Other operating income		261	250
Distribution costs		(6,306)	(6,629)
Administrative expenses		(42,509)	(42,581)
Operating profit before amortization of acquired intangibles and exceptional items		15,957	16,581
Amortization of acquired intangibles		(434)	(436)
Exceptional items	4	(5,318)	(3,852)
Operating profit		10,205	12,293
Finance income	6	353	485
Finance costs	7	(4,796)	(5,643)
Profit before tax		5,762	7,135
Tax	8	(1,416)	(1,608)
Profit for the year		4,346	5,527
Other comprehensive income which may be reclassified to profit or loss			
Foreign exchange translation differences		(2,002)	306
Reclassification of translation reserve on disposal		202	-
Cash flow hedge: change in fair value		(120)	(348)
Transfer from profit and loss on cash flow hedges		1,256	1,758
		(664)	1,716
Total comprehensive income for the year		3,682	7,243
Profit for the year attributable to:			
Owners of the parent		3,934	5,104
Non-controlling interests		412	423
		4,346	5,527
Total comprehensive income for the year attributable to:			
Owners of the parent		3,247	6,814
Non-controlling interests		435	429
		3,682	7,243
Earnings per share			
Basic	9	20.0c	25.9c
Diluted	9	20.0c	25.9c

Consolidated Balance Sheet at December 31, 2013

	Notes	2013 $000	2012 $000	2011 $000
Non-current assets				
Goodwill	10	41,367	41,501	40,898
Other intangible assets	11	991	1,422	1,840
Property, plant and equipment	12	3,752	10,041	9,785
Trade and other receivables	16	-	-	1,228
Deferred tax assets	20	2,226	2,534	1,765
Total non-current assets		48,336	55,498	55,516
Current assets				
Intangible assets: Pre-publication costs	14	56,221	53,539	52,437
Inventories	15	19,181	22,843	27,165
Trade and other receivables	16	56,043	57,504	57,072
Cash and cash equivalents	17	23,879	26,718	34,303
Total current assets		155,324	160,604	170,977
Total assets		**203,660**	**216,102**	**226,493**
Current liabilities				
Short term borrowing	22	(16,603)	(16,822)	(82,348)
Derivative financial instruments	19	(427)	(49)	(133)
Trade and other payables	23	(52,784)	(49,251)	(54,560)
Tax payable		(671)	(880)	(857)
Total current liabilities		(70,485)	(67,002)	(137,898)
Non-current liabilities				
Medium and long term borrowings	18	(78,291)	(90,874)	(33,376)
Deferred tax liabilities	20	(4,938)	(5,594)	(5,782)
Derivative financial instruments	19	–	(1,453)	(2,863)
Other payables		–	(49)	(54)
Total non-current liabilities		(83,229)	(97,970)	(42,075)
Total liabilities		**(153,714)**	**(164,972)**	**(179,973)**
Net assets		**49,946**	**51,130**	**46,520**
Equity				
Share capital	24	2,045	2,045	2,045
Paid in surplus		33,764	33,759	33,756
Retained profit and other reserves		9,328	8,379	4,032
Equity attributable to owners of the parent		45,137	44,183	39,833
Non-controlling interests		4,809	6,947	6,687
Total equity		**49,946**	**51,130**	**46,520**

The financial statements were approved by the Board of Directors and authorised for issue on March 28, 2014. They were signed on its behalf by: M. J. Mousley, Director

Consolidated Statement of Changes in Equity Year Ended December 31, 2013

	Share capital (note 24)	Paid in surplus	Hedging reserve (note 25)	Translation reserve (note 25)	Treasury shares (note 25)	Retained earnings	Equity attributable to owners the parent	Non controlling interests	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000
Balance at January 1, 2012	**2,045**	**33,756**	**(2,863)**	**(2,158)**	**(648)**	**9,701**	**39,833**	**6,687**	**46,520**
Profit for the year	–	–	–	–	–	5,104	5,104	423	5,527
Other comprehensive income									
Foreign exchange translation differences	–	–	–	300	–	–	300	6	306
Cash flow hedge: change in fair value	–	–	(348)	–	–	–	(348)	–	(348)
Transfer to profit and loss on cash flow hedges	–	–	1,758	–	–	–	1,758	–	1,758
Total comprehensive income for the year	–	–	1,410	300	–	5,104	6,814	429	7,243
Transactions with owners									
Share options exercised by employees	–	3	–	–	5	–	8	–	8
Dividends to shareholders (note 25)	–	–	–	–	–	(2,472)	(2,472)	–	(2,472)
Dividends paid to noncontrolling interests	–	–	–	–	–	–	–	(169)	(169)
Balance at December 31, 2012 and January 1, 2013.	**2,045**	**33,759**	**(1,453)**	**(1,858)**	**(643)**	**12,333**	**44,183**	**6,947**	**51,130**
Profit for the year	–	–	–	–	–	3,934	3,934	412	4,346
Other comprehensive income									
Foreign exchange translation differences	–	–	–	(2,025)	–	–	(2,025)	23	(2,002)
Reclassification of translation reserve on disposal	–	–	–	202	–	–	202	–	202
Cash flow hedge: change in fair value	–	–	(120)	–	–	–	(120)	–	(120)
Transfer to profit and loss on cash flow hedges	–	–	1,256	–	–	–	1,256	–	1,256
Total comprehensive income for the year	–	–	1,136	(1,823)	–	3,934	3,247	435	3,682
Transactions with owners									
Share options exercised by employees	–	5	–	–	9	–	14	–	14
Dividends to shareholders (note 25)	–	–	–	–	–	(2,427)	(2,427)	–	(2,427)
Dividends paid to noncontrolling interests	–	–	–	–	–	–	–	(168)	(168)
Purchase of non-controlling interests	–	–	–	–	–	120	120	(2,405)	(2,285)
Balance at December 31, 2013	**2,045**	**33,764**	**(317)**	**(3,681)**	**(634)**	**13,960**	**45,137**	**4,809**	**49,946**

Consolidated Cash Flow Statement
Year Ended December 31, 2013

	2013	2012
	$000	$000
Profit for the year	4,346	5,527
Adjustments for:		
Net finance costs	4,443	5,158
Depreciation of property, plant and equipment	1,374	1,479
Tax expense	1,416	1,608
Amortization of acquired intangible assets	434	436
Amortization of and amount written off pre-publication costs	17,899	18,449
Movement in fair value of derivatives	61	(84)
Loss on disposal of subsidiaries and businesses	1,801	-
Loss/(gain) on disposal of property, plant and equipment	1,367	(126)
Operating cash flows before movements in working capital	33,141	32,447
Decrease in inventories	2,329	4,762
(Increase)/decrease in receivables	(1,858)	1,915
Increase/(decrease) in payables	2,102	(7,935)
Cash generated by operations	35,714	31,189
Income taxes paid	(2,087)	(2,614)
Net cash from operating activities	**33,627**	**28,575**
Investing activities		
Interest received	353	442
Proceeds on disposal of subsidiaries and businesses	1,057	-
Proceeds on disposal of property, plant and equipment	4,861	151
Investment in pre-publication costs	(19,468)	(18,228)
Purchases of property, plant and equipment	(1,998)	(1,361)
Net cash used in investing activities	**(15,195)**	**(18,996)**
Financing activities		
Dividends paid	(2,427)	(2,472)
Interest payments	(4,886)	(5,799)
Proceeds on issue of share capital	14	8
Bank loans repaid	(13,184)	(9,163)
Dividends paid to non-controlling interest	(168)	(169)
Net cash used in financing activities	**(20,651)**	**(17,595)**
Decrease in cash and cash equivalents	(2,219)	(8,016)
Cash and cash equivalents at beginning of year	26,718	34,303
Foreign currency exchange differences on cash and cash equivalents	(620)	431
Cash and cash equivalents at end of year (Note 17)	**23,879**	**26,718**

Notes to the Accounts

1 General information and significant accounting policies

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 85. The nature of the group's operations and its principal activities are set out in Note 3 and in the Chief Executive's Statement on page 4.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended December 31, 2012, as described in those financial statements.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The presentational currency of the Group is US dollars.

Statement of compliance

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

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 80 to 83.

No new standards have had a material impact on these financial statements.

Basis of accounting

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

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

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

Note 10: Key assumptions in making the assessment of carrying value of goodwill

Note 14: Presentation of pre-publication costs and the assessment of their useful life

Note 16: Assessment of the impairment of trade receivables and the estimated allowance for sales returns

Note 20: Calculation of temporary differences in the assessment of deferred tax liabilities

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

Going concern basis

After making enquiries, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Statement on pages 4 to 9. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 10 to 12 and in Note 18 to the financial statements.

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

The Group has significant banking facilities. In particular, the Group has committed facilities of $111.6m, comprising a US$95m multicurrency revolving credit facility, with a tenor through to April 30, 2015 and a one year $16.6m private placement facility. The private placement facility will be repaid, on December 8, 2014, from cash generated from operations and our revolving credit facility. The Group has prepared detailed profit and cash flow budgets until March 31, 2015 which show that the Group is budgeted to have headroom within that period. The budgets have been subject to various sensitivity analyses. The Group complied with its bank covenants in 2013 and the budgets show sufficient headroom on the covenants throughout the period covered by the budgets. The covenants will be monitored closely by the Board and appropriate action would be taken if any of the covenants became under pressure.

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 intra-group transactions are eliminated in preparing the consolidated financial statements.

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

Business combinations, intangible assets and goodwill

All business combinations are accounted for by applying the acquisition method. Goodwill represents the excess of the consideration transferred over the fair value of the net assets and any contingent liabilities acquired. Acquisition costs are expensed as incurred.

Goodwill arising on acquisitions is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and 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.

Amortization of intangible assets is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The amortization period for noncontractual relationships is 2.5 years and for backlists is between 4 and 10 years.

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

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

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, net of sales taxes, rebates and discounts, and after eliminating sales within the Group. For each of the Group's operating segments, revenues are recognised on the despatch of goods and when the significant risks and rewards of ownership have been passed to the buyer. The following specific criteria also apply:

- The Group's publishing revenues are stated net of an estimated allowance for sales returns, which is based on a review of the historical return patterns associated with the various sales outlets, as well as current market trends in the business in which the Group operates.
- Revenue from e-books is recognised when the content is delivered.

Leasing

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

Foreign currencies

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

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into US Dollars at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into US Dollars at average annual exchange rates. Foreign exchange differences arising on retranslation are charged or credited to other comprehensive income and are recognised in the currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

Exceptional items

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

Retirement benefit costs

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

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 profit or loss as an expense as they are incurred.

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

Estimated useful lives are as follows:

Freehold property and long leasehold property improvements – 50 years

Short leasehold property improvements – over the period of the lease

Plant, equipment and motor vehicles – 4 to 10 years
Fixtures and fittings – 5 to 7 years

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

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

Pre-publication costs

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

Inventories

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

Financial instruments

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

Financial assets

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

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

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses is recognised in profit or loss or directly in equity. See Note 33 for a summary of the Group's financial assets by category.

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

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

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

Derivative financial instruments are initially recognised at fair value, and subsequently classified as financial assets at fair value through profit and loss. Any gain or loss arising from derivative financial instruments is based on changes in fair value, which is determined by direct reference to active market transactions or using a valuation technique where no active market exists.

Financial liabilities

The Group's financial liabilities include borrowings, trade and other payables (including finance lease liabilities). After initial recognition at fair value, all financial liabilities, with the exception of derivative financial instruments, are measured at amortized cost using the effective interest rate method. A summary of the Group's financial liabilities by category is given in Note 33.

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

Financial liabilities and equity instruments

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 Financial Liabilities and equity.

Finance costs

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

Finance income

Finance income comprises interest receivable, which is recognised in profit or loss as it accrues using the effective interest method.

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.

Derivative financial instruments and hedge accounting

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

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

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. If the cash flow of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in profit or loss are included in initial recognition of that asset or liability, amounts deferred in other comprehensive income are recognised in the same period in which the hedged item affects net profit or loss. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

The Group's derivatives are split between level 1 and level 2 financial instruments under IFRS 7. The foreign currency exchange rate derivatives are level 1 and they are valued based on a quoted price in an active market. The interest rate swaps are level 2 financial instruments and they are valued using techniques based significantly on observable market data such as yield curves as at the balance sheet date.

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

Treasury shares

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

Share-based payments

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

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

Borrowing costs

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

The Group does not incur any borrowing costs which are directly attributable to the acquisition, construction or production of qualifying assets.

Financial risk management

The principal risk factors faced by the Group are disclosed in Note 33 and on page 12.

IFRSs and interpretations issued not yet effective

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

IFRS 10 – Consolidated Financial Statements (effective 1 January 2014)

IFRS 11 – Joint Arrangements (effective 1 January 2014)

IFRS 12 – Disclosure of Interests in Other Entities (effective 1 January 2014)

IAS 27 (Revised) – Separate Financial Statements (effective 1 January 2014)

IAS 28 (Revised) – Investments in Associates and Joint Ventures (effective 1 January 2014)

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (effective 1 January 2014)

In addition, the following IFRSs and interpretations are in issue but have not been adopted by the EU, hence cannot be applied early:

IFRS 9 – Financial Instruments (effective 1 January 2015) – Amendments to IFRS 9 and IFRS 7 (effective 1 January 2015)

Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12 (effective 1 January 2014)

Amendments to IAS 36 - Recoverable Amount Disclosures of Non-Financial Assets (effective 1 January 2014)

Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting (effective 1 January 2014)

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the presentation or measurement of the financial statements of the Group, but will result in increased disclosures of fair value measurements.

2 Revenue

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

	2013 $000	2012 $000
Sales of goods	176,318	180,873
Revenue	176,318	180,873
Other operating income	261	250
Finance income	353	485
Total income	**176,932**	**181,608**

3 Operating Segments

The analysis by segment is presented below. This is based upon the operating results reviewed by the Chief Executive Officer.

Year ended December 31, 2013

	Quarto Publishing Group USA	Quarto Publishing Group UK	Quarto International Co-Editions Group	Books & Gifts Direct, ANZ	Other	Total
	$000	$000	$000	$000	$000	$000
External revenue	**64,392**	**20,819**	**40,430**	**29,455**	**21,222**	**176,318**
Operating profit before amortization of acquired intangibles and exceptional items	7,242	3,128	5,089	3,042	1,398	19,899
Amortization of acquired intangibles	(346)	(88)	-	-	-	(434)
Exceptional costs :						
Restructuring costs	(69)	(582)	(549)	(124)	-	(1,324)
Profit/(Loss) on disposal of businesses and assets	-	-	348	-	(3,190)	(2,842)
Segment result	**6,827**	**2,458**	**4,888**	**2,918**	**(1,792)**	**15,299**
Unallocated corporate expenses						(3,942)
Restructuring costs						(662)
Loss on disposal of assets						(490)
Investment income						353
Finance costs						(4,796)
Profit before tax						5,762
Tax						(1,416)
Profit after tax						4,346
Capital expenditure	165	240	1,446	100	47	1,998
Depreciation	323	197	307	237	310	1,374
Investment in pre-publication costs	7,876	3,429	8,163	-	-	19,468
Amortization of and amount written off pre-publication costs	7,268	2,260	8,574	-	-	18,102

3 Operating Segments *(continued)*

Year ended December 31, 2012

	Quarto Publishing Group USA	Quarto Publishing Group UK	Quarto International Co-Editions Group	Books & Gifts Direct, ANZ	Other	Total
	$000	$000	$000	$000	$000	$000
External revenue	**59,377**	**21,920**	**41,351**	**34,621**	**23,604**	**180,873**
Operating profit before amortization of acquired intangibles and exceptional items	6,482	2,957	5,017	4,213	1,390	20,059
Amortization of acquired intangibles	(391)	(45)	-	-	-	(436)
Restructuring costs	(384)	(508)	(211)	–	(294)	(1,397)
Excess returns on termination of key customer relationship	(589)	-	-	-	-	(589)
Segment result	**5,118**	**2,404**	**4,806**	**4,213**	**1,096**	**17,637**
Unallocated corporate expenses						(3,478)
Corporate restructuring costs						(1,866)
Investment income						485
Finance costs						(5,643)
Profit before tax						7,135
Tax						(1,608)
Profit after tax						5,527
Capital expenditure	156	520	294	146	245	1,361
Depreciation	356	81	319	197	526	1,479
Investment in pre-publication costs	7,301	2,447	8,480	-	-	18,228
Amortization of and amount written off pre-publication costs	7,852	2,202	8,395	-	-	18,449

There are no other significant non-cash expenses.

3 Operating Segments *(continued)*

Balance sheet

Total assets	2013 $000	2012 $000
Quarto Publishing Group USA	83,979	81,811
Quarto Publishing Group UK	22,684	20,791
Quarto International Co-Editions Group	46,624	56,096
Books & Gifts Direct, ANZ	17,050	17,835
Other	7,218	10,317
Unallocated (Deferred tax and cash)	26,105	29,252
Total assets	**203,660**	**216,102**
Total liabilities		
Quarto Publishing Group USA	15,060	12,020
Quarto Publishing Group UK	6,640	5,391
Quarto International Co-Editions Group	20,609	19,883
Books & Gifts Direct, ANZ	6,617	6,993
Other	3,858	5,013
Unallocated (Borrowings, derivatives, deferred tax and tax payable)	100,930	115,672
Total liabilities	**153,714**	**164,972**

Geographical areas

The Group operates in the following main geographic areas:

	Revenues **2013**	Revenues **2012**	Non-current assets **2013**	Non-current assets **2012**
	$000	$000	$000	$000
United States of America	83,936	77,070	28,114	28,624
Australasia and Far East	34,658	40,516	7,943	8,452
United Kingdom	29,465	34,073	8,800	14,639
Europe	20,353	19,503	1,253	1,249
Rest of the World	7,906	9,711	–	–
	176,318	**180,873**	**46,110**	**52,964**

Revenues are allocated based on the country in which the customer is located, irrespective of the origin of the goods. Non-current assets are based on the subsidiaries country of domicile and comprise goodwill, other intangible assets and property, plant and equipment.

4 Operating Profit

Operating profit has been arrived at after charging/(crediting):

	2013 $000	2012 $000
Loss/(profit) on sale of property, plant and equipment	1,367	(126)
Depreciation of property, plant and equipment	1,374	1,479
Net foreign currency exchange differences	(208)	(180)
Amortization of acquired intangibles	434	436
Amortization of and amount written off pre-publication costs	18,102	18,449
Staff costs (see Note 5)	30,762	32,801
Auditor's remuneration (see below)	384	407
Cost of inventory recognised as an expense	35,104	36,262
Exceptional items	5,318	3,852

Exceptional items comprise the net loss on sales of businesses and assets of $3,282,000 (2012:$nil), restructuring charges, closure of businesses/offices and severance of $2,036,000 (2012: $3,263,000). Exceptional items, in 2012, also included excess returns on termination of a key customer relationship of $589,000.

Auditor's remuneration

Fees payable to the Company's auditor for the audit of the Company's annual accounts	54	54
Fees payable to the Company's auditor and its associates for other services: The audit of the Company's subsidiaries pursuant to legislation	328	353
Fees payable to the Company's auditor for other assurance services	2	-
	384	**407**

5 Staff Costs

	2013 Number	2012 Number
The average monthly number of employees (including executive directors) was:	**436**	**474**

Their aggregate remuneration comprised:

	$000	$000
Wages and salaries	27,724	29,326
Social security costs	2,184	2,348
Other pension costs	854	1,127
	30,762	**32,801**

Directors' remuneration is disclosed in the Remuneration Committee Report on page 23.

6 Finance Income

	2013 $000	2012 $000
Interest income on financial assets carried at amortized cost	**353**	**485**

7 Finance Costs

	2013 $000	2012 $000
Interest expense for borrowings at amortized cost	4,794	5,641
Interest expense for finance lease arrangements	2	2
Total finance costs	**4,796**	**5,643**

8 Tax

	2013 $000	2012 $000
Current tax on profit for the year	**1,892**	**2,555**
Total current tax	1,892	2,555
Deferred tax (Note 20)		
Current year origination and reversal of temporary differences	(476)	(947)
	1,416	**1,608**

Corporation tax on UK profits is calculated at 23.25%, based on the UK standard rate of corporation tax, (2012: 24.5%) 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:

	2013 $000	2013 %	2012 $000	2012 %
Profit before tax	**5,762**		**7,135**	
Tax at the UK corporation tax rate of 23.25% (2012: 24.5%)	1,340		1,748	
Effect of different tax rates of subsidiaries operating in other jurisdictions	(131)		(165)	
Other, including tax effect of expenses that are not deductible in determining taxable profit	207		25	
Tax expense and effective tax rate for the year	**1,416**	**24.6%**	**1,608**	**22.5%**

9 Earnings Per Share

From continuing operations

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

Earnings	**2013** $000	**2012** $000
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the parent	**3,934**	**5,104**

Number of shares	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	19,694,658	19,685,212
Effect of dilutive potential ordinary shares:		
Share options	942	4,521
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**19,695,600**	**19,689,733**

Earnings per share	**2013** cents	**2012** cents
Basic	**20.0**	**25.9**
Diluted	**20.0**	**25.9**
Underlying earnings	$000	$000
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the parent :	3,934	5,104
Amortization of acquired intangibles (net of tax)	297	296
Exceptional items (net of tax and non-controlling interest)	4,442	3,194
Earnings for the purposes of underlying earnings per share	**8,673**	**8,594**

Underlying earnings per share	**2013** cents	**2012** cents
Basic	**44.0**	**43.7**
Diluted	**44.0**	**43.6**

10 Goodwill

	2013 $000	2012 $000	2011 $000
Cost			
At January 1	41,869	41,250	37,551
Exchange differences	(125)	619	(104)
Recognised on acquisitions	–	–	3,803
At December 31	41,744	41,869	41,250
Accumulated impairment losses			
At January 1	(368)	(352)	(354)
Exchange differences	(9)	(16)	2
At December 31	(377)	(368)	(352)
Carrying amount			
At December 31	**41,367**	**41,501**	**40,898**

Impairment tests for cash generating units containing goodwill

The following units have significant carrying amounts of goodwill:

	2013 $000	2012 $000	2011 $000
Quarto Publishing Group USA	26,878	26,878	26,878
Quarto Publishing Group UK	2,440	2,381	2,279
Quarto International Co-Editions Group	4,987	4,931	4,731
Books & Gifts Direct, ANZ	7,062	7,311	7,010
	41,367	**41,501**	**40,898**

The recoverable amount of each cash generating unit ('CGU') is based on the value in use basis. In determining value in use, management prepare a detailed bottom up budget, with reviews conducted at each business unit. Cash flows beyond the budget period of twelve months are extrapolated into perpetuity, by applying the growth and discount rates applicable to each unit. The key assumptions used in the value in use calculations were:

Discount rate: 10.0%, which reflects current assessments of the time value of money. The discount rate has been calculated using Weighted Average Cost of Capital analysis, with the same discount rate applied to each CGU reflecting the similar risk profiles of the Group's businesses.

Cash flow growth rates: based on a growth rate of 2%, into perpetuity, to reflect the long term risks in each of the key markets. Changes in selling prices and direct costs: based on past experience and expectations of future changes in the market.

Determining whether goodwill is impaired requires an estimation of the value of use of each CGU based on the key assumptions above. Neither a 1% decrease in the long term growth rate or a 2% increase in the discount rate would have led to an impairment.

11 Other Intangible Assets

	Non-contractual relationships	Backlists	Total
	$000	$000	$000
Cost			
At January 1	1,078	18,010	19,088
Exchange differences	43	72	115
At December 31, 2012 and January 1, 2013	1,121	18,082	19,203
Exchange differences	6	39	45
At December 31, 2013	1,127	18,121	19,248
Amortization and impairment			
At January 1, 2012	1,078	16,170	17,248
Exchange differences	43	54	97
Charge for the year	–	436	436
At December 31, 2012 and January 1, 2013	1,121	16,660	17,781
Exchange differences	6	36	42
Charge for the year	–	434	434
At December 31, 2013	1,127	17,130	18,257
Carrying amount			
At December 31, 2013	**–**	**991**	**991**
At December 31, 2012	**–**	**1,422**	**1,422**
At December 31, 2011	**–**	**1,840**	**1,840**

12 Property, Plant and Equipment

	Freehold Property	Leasehold Property Improvements	Plant Equipment & Motor Vehicles	Fixtures & Fittings	Total
	$000	$000	$000	$000	$000
Cost					
At January 1, 2012	7,454	924	8,771	1,654	18,803
Exchange difference	336	35	301	39	711
Additions	-	349	882	130	1,361
Disposals	-	(3)	(1,711)	(82)	(1,796)
At December 31, 2012 and January 1, 2013	7,790	1,305	8,243	1,741	19,079
Exchange difference	(206)	59	(255)	7	(395)
Additions	860	402	257	479	1,998
Disposals	(7,073)	(513)	(1,234)	(28)	(8,848)
Disposal of subsidiaries	-	-	(2,550)	(710)	(3,260)
At December 31, 2013	1,371	1,253	4,461	1,489	8,574
Depreciation					
At January 1, 2012	919	803	6,252	1,044	9,018
Exchange differences	42	27	214	29	312
Charge for the year	88	49	1,245	97	1,479
Disposals	-	(3)	(1,692)	(76)	(1,771)
At December 31, 2012 and January 1, 2013	1,049	876	6,019	1,094	9,038
Exchange differences	(29)	(5)	(179)	(18)	(231)
Charge for the year	83	256	823	212	1,374
Disposals	(934)	(471)	(1,192)	(23)	(2,620)
Disposal of subsidiaries	-	-	(2,109)	(630)	(2,739)
At December 31, 2013	169	656	3,362	635	4,822
Net book value					
At December 31, 2013	**1,202**	**597**	**1,099**	**854**	**3,752**
At December 31, 2012	**6,741**	**429**	**2,224**	**647**	**10,041**
At December 31, 2011	**6,535**	**121**	**2,519**	**610**	**9,785**

The net book value of plant, equipment and motor vehicles included $7,000 (2012: $10,000) in respect of assets held under hire purchase contracts. The depreciation charged on these assets during the year was $3,000 (2012: $3,000).

The Directors have chosen to hold the cost of freehold property at previous valuation on transition to International Financial Reporting Standards. The cost of freehold property held at previous valuation comprises buildings of $767,000 and land of $604,000.

13 Subsidiaries

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

14 Intangible assets – pre-publication costs

	2013 $000	2012 $000	2011 $000
Cost			
At January 1	76,210	76,267	74,829
Exchange differences	858	1,808	(308)
Transfer from work in progress	691	–	-
Acquired on acquisition of subsidiaries	–	–	1,433
Additions	19,468	18,228	18,681
Disposals	(19,026)	(20,093)	(18,368)
At December 31	78,201	76,210	76,267
Amortization			
At January 1	22,671	23,830	23,224
Exchange differences	233	485	(73)
Charge for the year	17,899	18,449	19,047
Amount written off	203	–	–
Disposals	(19,026)	(20,093)	(18,368)
At December 31	21,980	22,671	23,830
Carrying amount	**56,221**	**53,539**	**52,437**

The assessment of the useful life of pre-publication costs and amortization involves a significant amount of judgement based on historical trends and management estimates of future potential sales, in accordance with the accounting policy stated in Note 1. An overstatement of useful lives could result in excess amounts being carried forward in intangible assets that otherwise would have been written off to the income statement in an earlier period. Reviews are performed regularly to assess the recoverability of the carrying amount.

15 Inventories

	2013	2012	2011
	$000	$000	$000
Finished goods	18,117	20,676	25,336
Work in progress	946	1,944	1,607
Raw materials	118	223	222
	19,181	**22,843**	**27,165**

All of the Group's inventories have been reviewed for indicators of impairment. Certain inventories were found to be impaired and a provision of $2,117,000 (2012: $3,135,000) has been recorded accordingly.

16 Trade and Other Receivables

	2013	2012	2011
	$000	$000	$000
Trade receivables	46,305	47,175	46,046
Other receivables and prepayments	9,738	10,329	11,026
Amounts falling due within one year	**56,043**	**57,504**	**57,072**
Amounts falling due after more than one year	**-**	**-**	**1,228**

The average credit period on sales of goods is 80 days (2012: 76 days).

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables, including certain trade receivables not yet due, were found to be impaired and a provision of $1,185,000 (2012: $957,000) has been recorded accordingly. The impaired trade receivables are customers which are experiencing trading difficulties. In addition, some of the unimpaired trade receivables are past due as at the reporting date. The extent of financial assets past due but not impaired is as follows:

	2013	2012	2011
	$000	$000	$000
Less than one month	3,310	3,801	5,061
More than one month but less than two months	1,365	1,281	1,041
More than two months but less than three months	385	294	249
More than three months but less than six months	300	374	101
More than six months	172	173	146
	5,532	**5,923**	**6,598**

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

16 Trade and Other Receivables *(continued)*

Movement in allowance for doubtful debts:

	2013 $000	2012 $000	2011 $000
Balance at beginning of year	957	1,617	2,020
Amounts written off in the year	(607)	(1,068)	(1,080)
Amounts recovered during the year	268	10	261
Exchange difference	2	(6)	22
Increase in allowance recognised in profit or loss	565	404	394
Balance at end of the year	**1,185**	**957**	**1,617**

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. Trade receivables are disclosed after deducting a reserve for sales returns. The reserve is calculated based on a time lag between sales and returns and historical return patterns.

17 Cash and Cash Equivalents

	2013 $000	2012 $000	2011 $000
Bank balances	15,145	18,035	25,311
Short term deposits	8,734	8,683	8,992
Cash and cash equivalents for cash flow statement	**23,879**	**26,718**	**34,303**

The carrying amount of these assets approximates their fair value.

The effective interest rates on bank balances and short term deposits was 0.7% (2012: 1.4%).

18 Medium and Long Term Loans

	2013 $000	2012 $000	2011 $000
Bank loans	78,287	90,867	33,367
Obligations under finance leases (see Note 21)	4	7	9
	78,291	**90,874**	**33,376**

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

On demand or within one year	16,600	16,819	82,345
In the second year	78,287	16,600	16,841
In the third to fifth years inclusive	–	74,267	16,526
	94,887	107,686	115,712
Less: Amount due for settlement within 12 months (shown under current liabilities)	(16,600)	(16,819)	(82,345)
Amount due for settlement after 12 months	78,287	90,867	33,367

	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	62,635	44,000	18,635	3.8%	11
Other currency borrowings	32,252	–	32,252	–	–
As at December 31, 2013	94,887	44,000	50,887	3.8%	11
US dollar borrowings	71,686	49,000	22,686	5.6%	17
Other currency borrowings	36,000	–	36,000	–	–
As at December 31, 2012	107,686	49,000	58,686	5.6%	17
US dollar borrowings	81,500	49,000	32,500	6.9%	21
Other currency borrowings	34,212	–	34,212	–	–
As at December 31, 2011	115,712	49,000	66,712	6.9%	21

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

At December 31, 2013, undrawn borrowing facilities totalled $16,138,000 (2012: $19,198,000).

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

The above borrowings carry interest at commercial rates ranging from 2.8% to 7.1%. Bank loans include $Nil (2012: $225,000) which is secured on a freehold property, with a carrying value of $Nil (2012: $3,096,000). All other bank loans are unsecured.

At December 31, 2013, the Group had a US$95m (2012: US$95m) syndicated bank facility which is due to expire on April 30, 2015. In addition, the group has a one year floating rate note of US$16.6m (2012: US$33.3m).

18 Medium and Long Term Loans *(continued)*

These facilities are subject to four principal covenants, namely:

(a) Total consolidated net indebtedness shall not exceed 3 times EBITDA (as defined in the committed facility agreements). For the year ended December 31, 2013, net indebtedness was 2.02 times (2012: 2.22 times) EBITDA.

(b) The consolidated operating profit before exceptional items and goodwill amortization shall exceed three times net interest payable. For the year ended December 31, 2013, net interest payable was 3.59 times (2012: 3.21 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, 2013, net interest payable was 2.39 times (2012: 2.47 times) covered under this covenant.

(d) Cash flow shall exceed 1.1 times Debt Service. For the year ended December 31, 2013, Debt Service was 3.50 times (2012: 1.27 times) covered under this covenant.

19 Other Financial Assets/Liabilities

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

	2013	2012	2011
	$000	$000	$000
Current financial liabilities			
Derivative financial liabilities – exchange rate swap	110	49	133
Derivative financial instruments – interest rate swaps	317	-	-
	427	49	133
Non-current financial liabilities			
Derivative financial instruments – interest rate swaps	-	1,453	2,863

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses exchange rate swaps to hedge exchange rate exposures. The Group uses interest rate swap contracts to hedge the interest rate exposure on US Dollar variable rate borrowings of $44,000,000. The Group does not use derivative financial instruments for speculative purposes. All interest rate swaps have been designated as hedging instruments in cash flow hedges in accordance with IAS 39. The Group's interest rate swaps have been designed to match the corresponding loan terms to maximise the effectiveness of the hedging instrument. There was no ineffectiveness during the year and all movements were recorded in other comprehensive income, with amounts reclassified to finance costs within profit or loss. Exchange rate swaps are not treated as hedging instruments for hedge accounting purposes.

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

	2013	2012	2011	2013	2012	2011	2013	2012	2011
	%	%	%	$000	$000	$000	$000	$000	$000
Within one year	3.8%	6.7%	7.0%	44,000	25,000	16,000	(317)	(848)	(521)
Within one to two years	–	5.1%	6.7%		24,000	25,000	-	(605)	(1,549)
Within two to five years	–	– %	7.1%	–	-	8,000	–	-	(793)
Derivative				**44,000**	**49,000**	**49,000**	**(317)**	**(1,453)**	**(2,863)**

The fair value of interest rate swaps is determined by using mark to market values at the balance sheet date, based on quoted prices in active markets.

20 Deferred Tax

	2013 $000	2012 $000	2011 $000
		Amount Provided	
Deferred taxation provided in the financial statements is as follows:			
Excess of capital allowances over depreciation – UK	13	-	44
Provision on property revaluation – UK	-	400	383
Other temporary differences – UK	4,756	4,778	4,780
	4,769	5,178	5,207
Other overseas temporary differences	169	416	575
	4,938	5,594	5,782
Deferred taxation assets			
Other temporary differences – Other overseas	(33)	(34)	(23)
Other temporary differences – US	(2,193)	(2,500)	(1,742)
	(2,226)	(2,534)	(1,765)
Net deferred taxation liability	**2,712**	**3,060**	**4,017**

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

	2013 $000	2012 $000	2011 $000
		Amount Provided	
Net provision at January 1	3,060	4,017	3,953
Disposals/acquisitions	48	–	580
Exchange difference through other comprehensive income	80	(10)	(35)
Credit to profit or loss	(476)	(947)	(481)
Net provision at December 31	**2,712**	**3,060**	**4,017**

At the balance sheet date, the group has unused tax losses of $12,610,000 (2012: $14,390,000) available for offset against future profits. A deferred tax asset has not been recognised in respect of certain losses, due to the unpredictability of future profit streams.

Included in unrecognised tax losses are losses of $802,000 (2012: $616,000) that will expire in the following years:

Year ending December 31	2013 $000	2012 $000	2011 $000
2012	–	–	531
2013	–	269	265
2016	237	228	224
2018	124	119	–
2019	441	–	–
	802	**616**	**1,020**

21 Obligations Under Finance Leases

	2013 $000	2012 $000	2011 $000
Amounts payable under finance leases:			
Within one year	4	5	5
In the second to fifth year inclusive	4	7	11
	8	12	16
Less: future finance charges	(1)	(2)	(4)
	7	10	12
Less: Amount due for settlement within			
12 months (Note 22)	(3)	(3)	(3)
Amount due for settlement after 12 months	**4**	**7**	**9**

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, 2013, the average effective borrowing rate was 14.0% (2012: 14.0%). 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 US dollars.

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.

22 Short Term Borrowings

	2013 $000	2012 $000	2011 $000
Current loan instalments	16,600	16,819	82,345
Borrowings (Note 18)	16,600	16,819	82,345
Finance lease obligations (Note 21)	3	3	3
	16,603	**16,822**	**82,348**

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

23 Trade and Other Payables

	2013 $000	2012 $000	2011 $000
Trade payables	41,025	39,763	44,931
Other payables	11,759	9,488	9,629
In the second to fifth years inclusive	**52,784**	**49,251**	**54,560**

The Directors consider that the carrying amount of trade payables approximates to their fair value.

24 Share Capital

Authorised:
28,000,000 (2012: 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 (2012: US$2,800,000).

	2013 $000	2012 $000	2011 $000
Equity share capital			
Allotted, called up and fully paid:			
Shares of common stock of par value US$0.10 each 20,444,550 (2012: 20,444,550)	**2,045**	**2,045**	**2,045**

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

25 Retained Earnings and Other Reserves

Hedging reserve

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

Translation reserve

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

Treasury stock

Treasury stock represents the Group's purchase of its own shares. The Group owns 747,321 (2012: 758,321) shares, representing 3.7% (2012: 3.7%) of its shares of common stock.

Dividends

	2013 $000	2012 $000
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the year ended December 31, 2013 of 3.35p/5.23c (2012: 3.35p/5.33c) per share	1,029	1,049
Final dividend for the year ended December 31, 2012 of 4.55p/7.10c (2011: 4.55p/7.23c) per share	1,398	1,423
	2,427	**2,472**
Proposed final dividend for the year ended December 31, 2013 of 4.55p/7.55c (2013: 4.55p/7.37c) per share	1,488	1,451
	1,488	**1,451**

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

25 Retained Earnings and Other Reserves *(continued)*

The Quarto Group, Inc., as a US incorporated company, is required to collect US dividend withholding taxes on dividend distributions made to its non-US shareholders. The US dividend withholding tax is generally 30% of any dividends paid to Quarto's non-US shareholders, but this amount can potentially be reduced pursuant to an applicable income tax treaty between the US and the country of residence of the non-US shareholder. For example, under the US/UK income tax treaty, the US dividend withholding tax rate can range from nil (applicable to certain UK resident pension trusts and tax exempt entities) to 15% (applicable to UK resident individual shareholders and certain UK corporate shareholders). For US shareholders, no US dividend withholding tax is generally applicable. It should be noted that certain documentation requirements must be met by all shareholders prior to the payment of any dividends to certify their status as a US or non-US shareholder, and, if a non-US shareholder to claim any applicable benefits under the US/UK or other applicable income tax treaty. Each shareholder should consult their own tax adviser to determine whether and to what extent they may be entitled to claim a reduced amount of US dividend withholding taxes under a US income tax treaty.

26 Notes to the Cash Flow Statement

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

27 Contingent Liabilities

The Quarto Group, Inc. has issued guarantees in respect of bank loans of subsidiaries of $94,887,000 (2012: $107,686,000).

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.

28 Operating lease arrangements and other financial commitments

	2013 $000	2012 $000	2011 $000
Minimum lease payments under operating leases recognised in income for the year	2,632	2,683	2,518

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:

	2013 $000	2012 $000	2011 $000
Minimum lease payments under operating leases	2,098	2,517	2,424
In the second to fifth years inclusive	3,994	4,458	2,217
After more than five years	1,462	343	–
	7,554	**7,318**	**4,641**

Operating lease payments represent rentals payable by the group, primarily for its office properties. There were capital commitments amounting to $184,000 at the year end for which no provision had been made (2012: $nil).

29 Share Options

At December 31, 2013, 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
14,500	September 30, 2007 – September 29, 2014	£1.63

30 Remuneration of key management personnel

The remuneration of the directors and the executive committee, 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 page 33.

	2013 $000	2012 $000
Short term employee benefits	3,197	3,456
Compensation for loss of office	170	995
Post-employment benefits	217	342
	3,584	**4,793**

31 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. In 2012, T. Chadwick received fees of $31,000 for services to be provided to the Group. Following the Remuneration Committee's agreement regarding his annual fees, T. Chadwick was voted fees of $23,000, in respect of 2012, leaving a balance of $8,000 at December 31, 2012. This balance was repaid.

P. Campbell, a former non-executive director, earned consulting fees of $10,000 (2012: $24,000) during the year. These fees were on an arm's length basis.

32 Reconciliation of figures included in the Chief Executive's Statement

	2013 $000	2012 $000
Underlying profit before tax (before amortization of acquired intangibles and non-recurring items)	11,514	11,423
Amortization of acquired intangibles	(434)	(436)
Exceptional items	(5,318)	(3,852)
Profit before tax	**5,762**	**7,135**
EBITDA (as defined in the committed facility agreements)		
Underlying profit before tax (before amortization of acquired intangibles and exceptional items)	11,514	11,423
Net interest	4,443	5,158
Depreciation	1,374	1,479
Amortization of pre-publication costs	17,899	18,449
EBITDA, before exceptional items	**35,230**	**36,509**
Net debt		
Medium and long term borrowings	78,291	90,874
Short term borrowings	16,603	16,822
Cash and cash equivalents	(23,879)	(26,718)
	71,015	**80,978**

33 Risk management objectives and policies

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

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

Foreign currency sensitivity

Exposures to currency exchange rates arise from the Group's overseas sales and costs, which are primarily denominated in Sterling.

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

	2013 $000 Sterling	2013 $000 Other	2012 $000 Sterling	2012 $000 Other
Financial assets	671	2,345	1,435	8,467
Financial liabilities	(75)	(4,571)	(238)	(5,578)
Short-term exposure	596	(2,226)	1,197	2,889
Financial liabilities	–	(6,512)	–	(7,417)
Long-term exposure	–	(6,512)	–	(7,417)
At December 31	**596**	**(8,738)**	**1,197**	**(4,528)**

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

It assumes a +/– 5% change of the Sterling/US-Dollar exchange rate. This percentage has been determined based on the average market volatility in exchange rates in the year ended December 31, 2013. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each balance sheet date.

If Sterling had strengthened against the US Dollar by 5% (2012: 5%) then this would have had the following impact:

	2013 $000	2012 $000
Profit after tax for the year	24	48
Equity	506	430

If Sterling had weakened against the US Dollar by 5% (2012: 5%) then this would have had the following impact:

	2013 $000	2012 $000
Profit after tax for the year	(22)	(43)
Equity	(504)	(425)

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

Interest rate sensitivity

The Group's policy is to minimise interest rate cash flow risk exposures on long-term financing, through interest rate swaps. A large part of longer-term borrowings are, therefore, usually at fixed rates.

At December 31, 2013, the Group is exposed to changes in market interest rates through its bank borrowings, which are subject to variable interest rates – see Note 18 for further information.

The following table illustrates the sensitivity of the profit after tax for the year and equity to a reasonably possible change in interest rates of +/–0.25%, with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments held at each balance sheet date. All other variables are held constant.

A 0.25% increase in interest rates would have the following impact:

	2013 $000	2012 $000
Profit after tax for the year	(65)	(70)
Equity	(21)	27

A 0.25% decrease in interest rates would have had the following impact:

	2013 $000	2012 $000
Profit after tax for the year	65	70
Equity	(21)	(27)

Credit risk analysis

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

	2013 $000	2012 $000
Cash and cash equivalents	23,879	26,718
Trade and other receivables : Current	56,043	57,504
	79,922	84,222

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

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

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

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

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

Liquidity risk analysis

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

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

As at December 31, 2013, the Group's liabilities have contractual maturities which are summarised below:

December 31, 2013	**Current**		**Non-Current**	
	within 6 months	6 to 12 months	1 to 5 years	Over 5 years
	$000	$000	$000	$000
Bank loans	–	17,249	82,475	–
Finance lease obligations	2	2	4	-
Trade payables	41,025	–	–	–
Other short term financial liabilities	11,759	–	–	–
At December 31	**52,786**	**17,251**	**82,479**	**-**

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

December 31, 2012	**Current**		**Non-Current**	
	within 6 months	6 to 12 months	1 to 5 years	Over 5 years
	$000	$000	$000	$000
Bank loans	115	17,883	99,884	–
Finance lease obligations	3	2	7	-
Trade payables	39,763	–	–	–
Other short term financial liabilities	9,488	–	–	–
At December 31	**49,369**	**17,885**	**99,891**	**-**

Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities as recognised at the balance sheet date of the reporting periods under review may also be categorised as follows. See Note 1, significant accounting policies, covering financial assets, financial liabilities and derivative financial instruments and hedge accounting for explanations about how the category of instruments affects their subsequent measurement.

	2013 $000	2012 $000
Current assets		
Loans and receivables:		
– Trade and other receivables	51,714	53,078
– Cash and cash equivalents	23,879	26,718
	75,593	**79,796**
Non-current liabilities		
Derivative financial instruments designated as hedging instruments:		
– Interest rate swap	317	1,453
Financial liabilities measured at amortized cost:		
– Borrowings	78,291	90,874
– Other payables	-	49
	78,608	**92,376**
Current liabilities		
Derivative financial instruments carried at fair value through profit and loss:		
– Exchange rate swap	110	49
Financial liabilities measured at amortized cost:		
– Borrowings	16,603	16,822
– Trade payables and other short term financial liabilities	52,784	49,251
	69,497	**66,122**

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through an optimal balance of debt and equity. The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 18, 21 and 22, cash and cash equivalents and equity attributable to equity holders of the parent, comprising share capital and reserves as disclosed in the consolidated statement of changes in equity on page 47.

The Board reviews the capital structure, including the level of indebtedness and interest cover, as required. The Board's objective is to maintain the optimal level of indebtedness and manage interest cover to comply with the covenant requirements set out in note 18. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Details of the level of indebtedness, in the form of net debt to EBITDA, and interest cover are given in note 18, including a comparison with the covenants under the Group's financing facilities.

34 Business disposal

On September 26, 2013, the Group sold its wholly owned subsidiary Western Screen & Sign Limited, together with the property from which it operated, for a cash consideration of $2,691,000. The loss on disposal was determined as follows:

	$000
Net proceeds	2,543
Cash disposed of	161
Net cash inflow on disposal	2,382
Net assets disposed (other than cash)	
Property, plant and equipment	(3,471)
Inventories	(420)
Trade and other receivables	(2,530)
Deferred tax	(48)
Trade and other payables	1,099
	(5,370)
Reclassification of translation reserve on disposal	(202)
Loss on disposal	**(3,190)**

The loss on disposal is included in the net loss on sales of businesses and assets, within exceptional items.

Western Screen & Sign Limited contributed a post-tax profit of $119,000 (2012: $143,000) to the Group's post-tax results.

Company Balance Sheet
at December 31, 2013

	Notes	2013 $000	2012 $000
Fixed assets			
Investments	3	12,833	12,586
		12,833	12,586
Creditors: Amounts falling due within one year	5	(18,236)	(15,552)
Net liabilities		(18,236)	(15,552)
Net liabilities		(5,403)	(2,966)
Capital and reserves			
Called up share capital	6	2,045	2,045
Treasury stock	6	(634)	(643)
Reserves – Paid in surplus	7	33,764	33,759
– Profit and loss	7	(40,578)	(38,127)
Shareholders' deficit	8	(5,403)	(2,966)

The financial statements were approved by the Board of Directors and authorised for issue on March 28, 2014. They were signed on its behalf by

M. J. Mousley
Director

Notes to Company Balance Sheet at December 31, 2013

1 Significant accounting policies

The separate financial statements of the company are presented and 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 45 to 79.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. The company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with wholly owned subsidiaries 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 accounting policies adopted are consistent with those of the annual financial statements for the year ended December 31, 2012, as described in those financial statements.

The functional currency of the company is Pounds Sterling, with the parent company accounts presented in US Dollars.

Investments

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

Creditors

Amounts owed to subsidiary undertakings are initially recognised at fair value, and subsequently measured at amortised cost using the effective interest method.

Share-based payments

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

Financial guarantee contracts

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

2 Profit attributable to the company

The profit for the financial year dealt with in the financial statements of the parent company was $212,000 (2012: $nil). No separate profit and loss account is presented in respect of the parent company.

3 Investments

	$000
At January 1, 2013	12,586
Exchange differences	308
Disposals	(61)
At December 31, 2013	**12,833**

4 Subsidiaries

Name	Place and date of incorporation	Issued and fully paid share capital	Percentage held	Segment
Lifetime Distributors 'The Book People' Pty. Limited	Australia 3 December, 1990	100,004 shares of A$1 each	100	Books & Gifts Direct, ANZ
Premier Books Limited	New Zealand 27 September, 1996	400,000 shares of NZ$1 each	100*	Books & Gifts Direct, ANZ
Quarto Publishing plc	England 1 April, 1976	100,000 shares of £1 each	100*	Quarto International Co-Editions Group
Quarto, Inc.	Delaware, USA 16 October, 1986	60 shares of no par value	100*	Quarto International Co-Editions Group
RotoVision S.A.	Switzerland 18 July, 1977	1,500 shares of SFr500 each	100*	Quarto International Co-Editions Group
Global Book Publishing Pty. Limited	Australia 4 November, 1999	1,000 shares of A$1 each	100*	Quarto International Co-Editions Group
Apple Press Limited	England 5 June, 1984	100 shares of £1 each	100	Quarto Publishing Group UK
Aurum Press Limited	England 31 May, 1977	382,502 shares of £1 each	100	Quarto Publishing Group UK
Jacqui Small LLP	England 6 November, 1998	100 units	100	Quarto Publishing Group UK
Frances Lincoln Limited	England 15 December, 1980	565,000 shares of 10p each	100	Quarto Publishing Group UK
Rockport Publishers, Inc.	Massachusetts, USA 4 December, 1985	4,000 shares of no par value	100	Quarto Publishing Group USA
Book Sales Inc.	Delaware, USA 13 December, 1972	100 shares of US$0.01 each	100	Quarto Publishing Group USA
Walter Foster Publishing, Inc.	Delaware, USA 10 February, 1988	19,625 shares of US$0.01 each	100	Quarto Publishing Group USA
Quarto Publishing Group USA Inc.	Delaware, USA 28 June, 2004	100 shares of US$0.01 each	100	Quarto Publishing Group USA
MBI Publishing Company LLC	Delaware, USA 6 January, 2000	100 units	100	Quarto Publishing Group USA
Cool Springs Press LLC	Tennessee, USA 3 October, 2006	100 shares of no par value	100	Quarto Publishing Group USA
Regent Publishing Services Limited	Hong Kong 23 October, 1985	1,000 shares of HK$10 each	75	Other

* Directly held by The Quarto Group, Inc.

5 Creditors: Amounts falling due within one year

	2013 $000	2012 $000
Amounts owed to subsidiary undertakings	18,236	15,552

6 Called up share capital and treasury stock

Details of called up share capital and treasury stock are set out in Notes 24 to 25 of the consolidated financial statements.

7 Retained deficit and other reserves

	Paid in surplus $000	Profit & loss account $000
At beginning of year	33,759	(38,127)
Result for the year	–	212
Exercise of share options	5	–
Exchange differences	–	(236)
Dividends	–	(2,427)
At end of year	**33,764**	**(40,578)**

8 Reconciliation of movement in shareholders' deficit

	2013 $000	2012 $000
Profit for the financial year	212	-
Dividends	(2,427)	(2,472)
Deficit for the financial year	(2,215)	(2,472)
Shareholders' deficit at January 1	(2,966)	(436)
Exercise of share options	14	8
Exchange differences	(236)	(66)
Shareholders' deficit at December 31	**(5,403)**	**(2,966)**

9 Contingent liabilities

Contingent liabilities are disclosed in Note 27 to the Group accounts.

10 Related Party Disclosure

The company has taken advantage of the exemption in Financial Reporting Standard No 8 "Related party disclosures" and has not disclosed transactions with group undertakings.

Five Year Summary

	2013 $000	2012 $000	2011 $000	2010 $000	2009 $000
Results					
Revenue	176,318	180,873	186,126	176,409	167,411
Operating profit before amortization of acquired intangibles and exceptional items	15,957	16,581	16,735	16,377	16,000
Operating profit	10,205	12,293	14,056	12,640	10,943
Profit before tax before amortization of acquired intangibles and exceptional items	11,514	11,423	12,106	11,505	10,769
Profit before tax	5,762	7,135	9,427	7,768	5,712
Profit after tax	4,346	5,527	8,071	6,405	4,030
Assets employed					
Non-current assets	48,336	55,498	55,516	50,234	50,442
Current assets	155,324	160,604	170,977	170,035	169,910
Current liabilities	(70,485)	(67,002)	(137,898)	(52,574)	(53,356)
Non-current liabilities	(83,229)	(97,970)	(42,075)	(125,081)	(129,814)
Net assets	49,946	51,130	46,520	42,614	37,182
Financed by					
Equity	45,137	44,183	39,833	34,340	29,650
Minority interests	4,809	6,947	6,687	8,274	7,532
	49,946	51,130	46,520	42,614	37,182
Key statistics					
Earnings per share	20.0c	25.9c	38.9c	29.2c	20.4c
Diluted earnings per share	20.0c	25.9c	38.8c	29.2c	20.4c
Underlying diluted earnings per share	44.0c	43.6c	45.6c	42.3c	40.8c

Officers & Professional Advisers

Directors

Timothy Chadwick (Non-executive Chairman)
Robert Morley (Deputy Chairman)
Marcus Leaver (CEO)
Michael Mousley, ACA (CFO)
Edward Krawitt (Non-executive)
Michael Hartley (Non-executive)
Max Lesser (Non-executive)

Secretary

Michael Mousley, ACA

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Company Registration Number

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