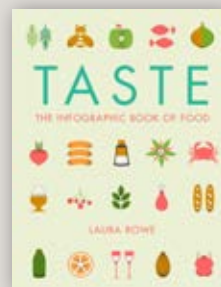
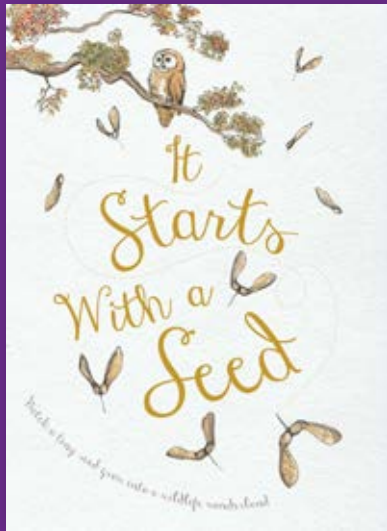


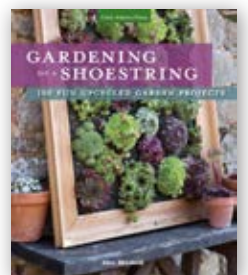
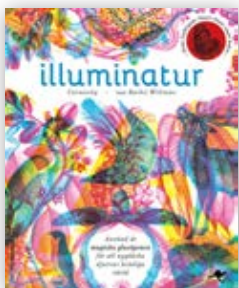


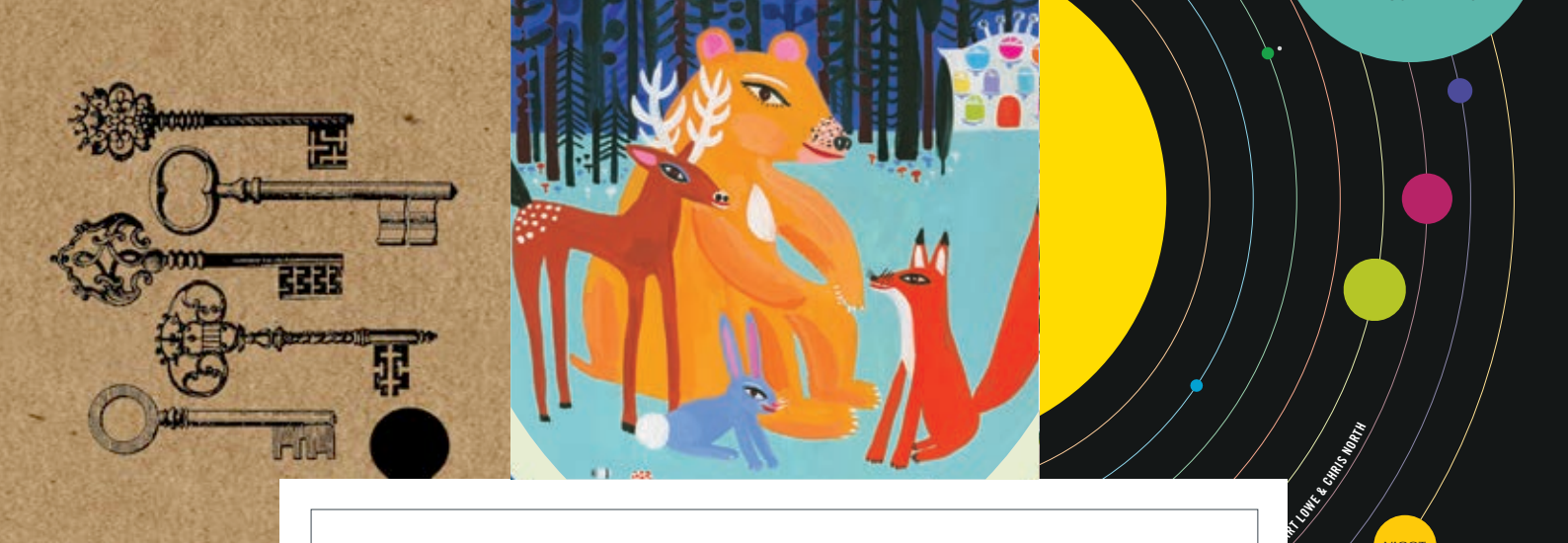
Creatively Independent

Annual Report 2016



We Are Quarto





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HIGHLIGHTS

FINANCIAL

REVENUE (\$M)	PUBLISHING REVENUE (\$M)	ADJUSTED ² PUBLISHING OPERATING PROFIT ¹ (\$M)
2016 188.4	2016 154.6	2016 21.7
2015 182.2	2015 145.4	2015 ³ 18.5
(LOSS)/PROFIT FOR THE YEAR ^{1,3} (\$M)	ADJUSTED ² EARNINGS PER SHARE (EXCLUDING BOOKS & GIFTS DIRECT) (CENTS)	BASIC (LOSS)/EARNINGS PER SHARE (CENTS)
(5.3) 2016	2016 54.7	(28.5) 2016
2015 ³ 8.5	2015 46.0	2015 ³ 41.3

¹ Includes the contribution from acquired businesses in 2015 and 2016 and a reduced amortisation charge in 2016 arising from the review of useful lives of our titles, providing consistency across all imprints in the portfolio. Further details are set out in Note 1 and Note 30.

² Adjusted measures are stated before amortisation of acquired intangible assets and other exceptional items. See Note 32 for further explanation of these alternative performance measures.

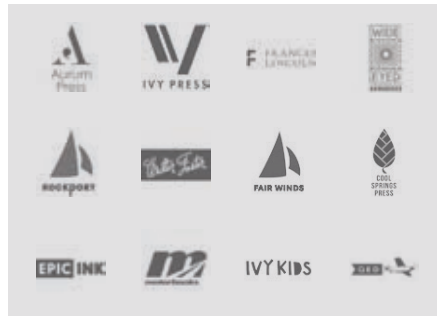
³ Restated for an error in our Books & Gifts Direct business with respect to the valuation of stock in transit at 31 December 2015 and prior periods. Further details are set out in Note 1.

OPERATIONAL

- Resilient performance in publishing business; revenue up 6%, operating profit up 17%.
- Children's publishing revenues up 34% with both organic and acquisitive growth.
- Foreign rights revenues up 8% despite currency headwinds in certain markets.
- Positive contribution from acquired businesses in 2016, Harvard Common Press and becker&mayer.
- Extended value of backlist confirmed by review of useful economic lives of titles.
- Group refocused on core publishing portfolio during the course of 2017 with new organisational and financial reporting structure.
- Resignation of Group Chief Financial Officer Michael Connole.

QUARTO AT A GLANCE

We are the leading global illustrated non-fiction book publisher. We create and own long-lasting content to make and sell great books that entertain, educate and enrich the lives of adults and children around the world.



400+
EMPLOYEES

48
IMPRINTS AND BUSINESSES

10,000
BOOKS IN OUR CATALOGUE

\$37M
ANNUAL INTELLECTUAL
PROPERTY INVESTMENT

58%
OF ANNUAL SALES
FROM BACKLIST

40
YEARS
FOUNDED IN 1976

STRATEGIC PRIORITIES



ORGANIC
GROWTH



ACQUISITION
GROWTH



OPERATING
MODEL
EFFICIENCIES










INTELLECTUAL
PROPERTY
INVESTMENT



DISTRIBUTION
DEVELOPMENT

⊕ Read more on pages 16-17

EIGHT MAIN PUBLISHING CATEGORIES

 <p>BOOKS ON FOOD AND DRINK</p>	 <p>BOOKS ON DESIGN, ART AND CRAFT</p>	 <p>BOOKS ON BODY, MIND, SPIRIT, PARENTING AND RELATIONSHIPS</p>	 <p>BOOKS ON INTERIORS, ARCHITECTURE, DIY, PETS AND GARDENING</p>	<p>STRATEGIC REPORT</p>
 <p>BOOKS ON CARS, TRAINS, BOATS, MOTORCYCLES AND PLANES</p>	 <p>BOOKS ON BIOGRAPHY, TRAVEL, HISTORY, SPACE AND MORE</p>	 <p>FUN & IMAGINATIVE BOOKS AND KITS FOR CHILDREN OF ALL AGES</p>	 <p>STATIONERY, KITS, CALENDARS AND MORE</p>	

SIX VALUES

<p>BE ACCOUNTABLE Take responsibility and do what you say.</p>	<p>BE CONSISTENT Be clear, concise and clear-headed.</p>	<p>BE CURIOUS Try things, fail well, do it quickly.</p>
<p>BE PURPOSEFUL Do what you love and make it happen.</p>	<p>BE EXCELLENT Quality matters in everything we do.</p>	<p>BE COLLABORATIVE Use 'we' and bring the best out in each other.</p>

FINANCIAL STATEMENTS

OUR IMPRINTS AND PHILOSOPHY

Our imprints make up a diversified portfolio that strengthens with each addition. They are supported by a central operational and financial platform, allowing our creative ecosystem to flourish without the distraction of non-core activities.





CREATIVITY AT OUR VERY CORE

In 1976, the founders of Quarto were the first publishers to make the economics of illustrated books work, by having the books co-published across different markets so that print runs could be big enough to reduce costs per unit. Quarto was born from creativity and innovation and 40 years later that is still in our DNA as we constantly explore new formats, new content ideas and new business ventures.

We have been a global leader in illustrated books ever since. Our size and scale have changed, but at the heart of what we do, our mission has not changed - to make and sell books that entertain, educate and enrich the lives of adults and children around the world. That is what we are passionate about.

Many issues that we deal with every day as a business are very important - commercial and financial management, sourcing, print buying, acquisitions and many others - but the creative quality of our content and books will always be our number one priority.

Ideas are our livelihood and the lifeblood of Quarto. We succeed or fail by the ideas we put into our hundreds of books every year. Big ideas inspire everyone; they shine a light on information that most of us are unable

to see. Having the best ideas for our imprints and our customers is what will make us successful.

That is why our guiding philosophy has always been - and remains - 'creative independence'. Each one of our 48 imprints can publish what they want. We believe that the autonomy given to our people ensures that we remain market-focused and relevant to our readers and customers. Each imprint has its own identity, its own lifecycle, and caters for different audiences and markets. We work hard to manage our intellectual property (IP) investment accordingly, consistently and carefully - one size does not fit all when it comes to creativity.

In order to be creative, you need to be effective. Our imprints are supported by a strong central platform that includes finance, operations, sales, marketing and foreign rights sales. Process will never trump passion, but it can enable creativity when used effectively. By removing distractions - sharing common infrastructure and support networks, designing efficient back office tools and processes, and other things that can be managed efficiently at a central level - it frees up time and space for our people to be more creative, which is what Quarto is all about.

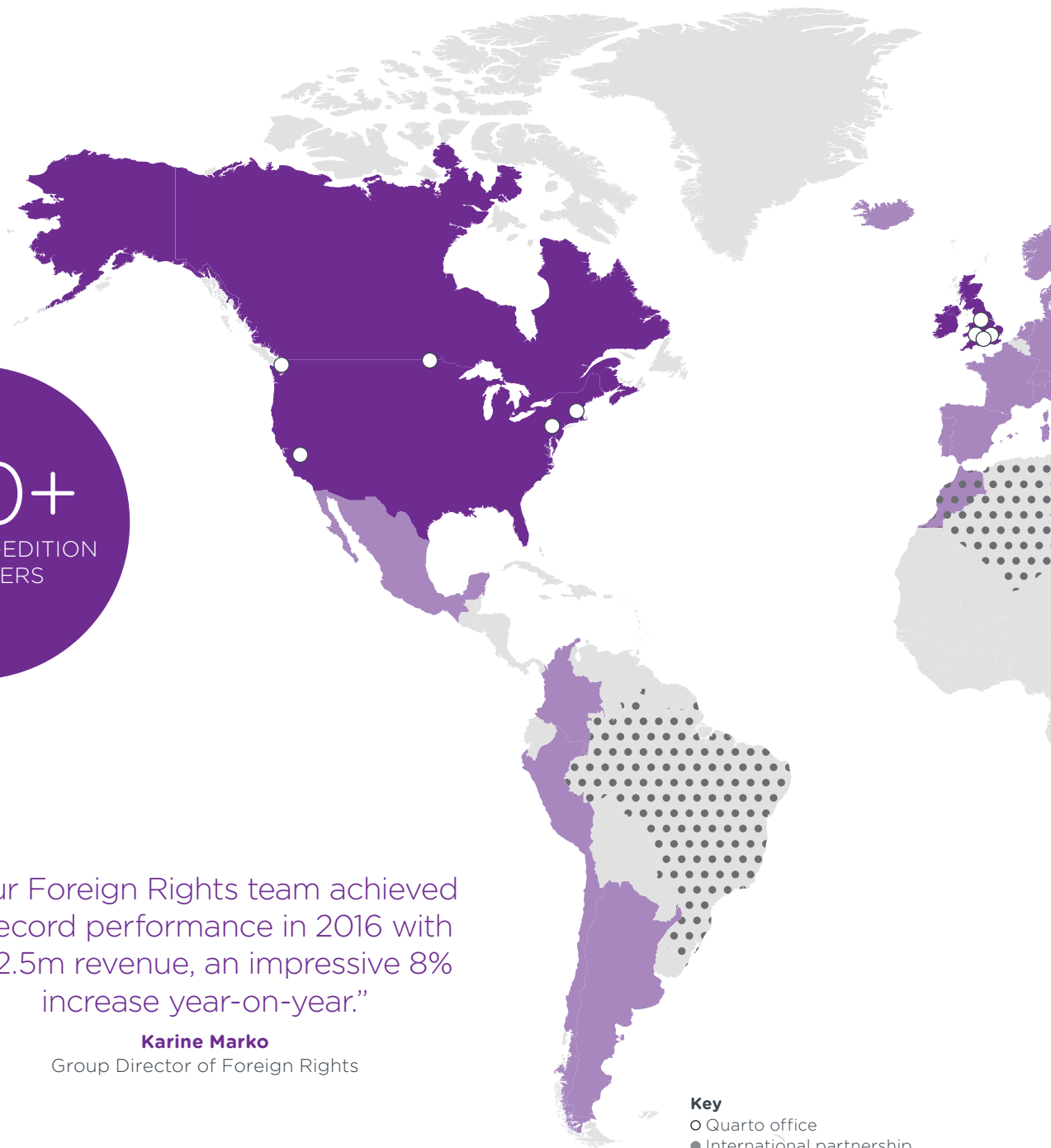
A GLOBAL BUSINESS

Quarto is a global Group that has had a strong international focus ever since we were founded in 1976.

550+
FOREIGN CO-EDITION
CUSTOMERS

“Our Foreign Rights team achieved a record performance in 2016 with \$32.5m revenue, an impressive 8% increase year-on-year.”

Karine Marko
Group Director of Foreign Rights



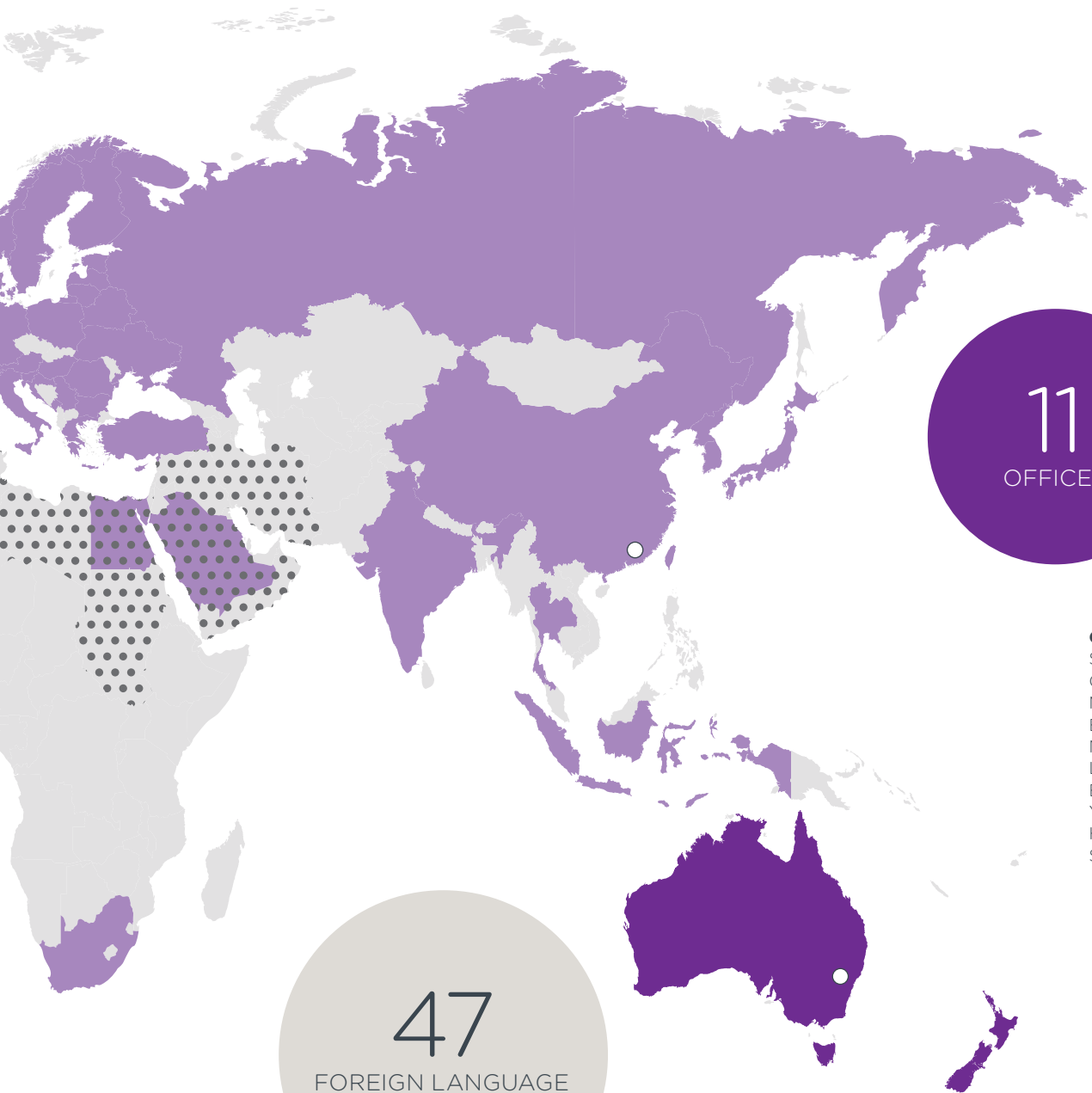
Key
○ Quarto office
● International partnership
■ English language markets
■ Foreign language markets

2
INTERNATIONAL
PUBLISHING
PARTNERSHIPS

“Launching our publishing partnership with Kalimat Group to publish and distribute books in Arabic in the Middle East and North Africa has been a major highlight as we continually seek to develop alternative models to distribute our books worldwide.”

David Inman

Managing Director, Quarto Partners



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OFFICES

Quarto Offices
Seattle, USA
California, USA
Minneapolis, USA
Boston, USA
New York, USA
London, UK (x2)
Brighton, UK
Yate, UK
Hong Kong, China
Sydney, Australia

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FOREIGN LANGUAGE
MARKETS

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

GROWTH STRATEGY

“Our goal is to become the dominant publisher of illustrated books worldwide.”

Marcus E. Leaver
Chief Executive

Organic Growth

Growing Quarto organically, either by bringing more creativity to market, expanding and developing our business with existing customers or by gaining new business with additional customers, is an integral part of our strategy to enhance shareholder value.

Building long-term relationships with our customers: We pride ourselves in the excellent business relationships we have built over the years, both in our main US and UK markets but also with over 550 foreign language co-edition partners around the world. By offering the best product range, being knowledgeable about the marketplace, and by providing excellent levels of service, we have gained our customers' trust and confidence.

Acquiring new customers: We are constantly striving to find new customers and opening new distribution channels. Bookstores are only one of the many places you can find our books in; we sell books wherever we believe our consumers might come across them. That includes, for instance, Tractor Supply, Costco, Urban Outfitters or Holland & Barrett, among many others.

Expanding our offering: We strive to expand our business with all our customers, either by expanding our product offering available to that customer, or expanding to parts of their operations where we might not have previously been a recognised supplier.

Acquisition Growth

Acquisitive growth is a key strategic area for the Group. As the market leader with a global and scalable platform in what remains a fragmented industry, the potential opportunity is significant.

When benchmarking and evaluating potential acquisition opportunities, we go through an exhaustive due diligence process and only target those businesses that meet the specific parameters that fit our business model and growth strategy.

Quarto has a long history of acquisitions. Most recent ones have included small world creations in 2014, Ivy Press in 2015, and Harvard Common Press, Burgess Lea Press and becker&mayer in 2016. All are already contributing positively to the Group.

Over the years, we have developed a successful model and track record in integrating acquired businesses quickly and effectively.

Businesses acquired bring additional innovation and expertise to Quarto. Each time we buy a company, the culture of our whole Group changes for the better.

OUR SIX KEY
ACQUISITION PARAMETERS:

1

CATEGORY ENHANCING

Adds new titles to our portfolio and expands one of our categories, e.g. Harvard Common Press.

4

STEP CHANGERS

Significant additions to the business, e.g. becker&mayer

2

ADDITIONAL EXPERTISE

Brings an area or market we do not have expertise in, e.g. small world creations, specialised in children's 0-3 formats.

5

ADJACENCIES

Complementary to existing portfolio and sales channels, such as Book Plus and educational products, e.g. SmartLab

3

COMPETITOR INGESTION

Synergistic consolidation, e.g. Ivy Press,

6

DISTRIBUTION ENHANCING

A business that owns a specific channel to market.

“We were initially a little nervous about joining a bigger company and maybe losing control and our identity. In reality, it has been a two-way process. We have benefited from Quarto’s scale, size and platform, as well as bringing our people and ideas to the Group. Now we are part of the team.”

Simon Gwynn

Group Publisher, Ivy Press



CHAIRMAN'S STATEMENT



“Quarto has a clear vision, a clear strategy for the future and an experienced Senior Leadership Team.”

Peter Read
Chairman

2016 was my first year as Chairman of The Quarto Group, following my election at the Annual Meeting in May 2016. Consistently, I have been impressed by the quality of the people I have met within the organisation, at all levels. They showed restless passion and innovation last year, whether they had been with Quarto for a long time or have joined the Group more recently, including those who have joined through acquisitions.

Quarto continues to demonstrate the market value and global demand for illustrated print books. Since 2012, debt has been reduced, adjusted Group operating profit and dividends have increased and strong foundations for future growth have been put in place. In 2016, Quarto showed a resilient performance in its publishing business, with revenue growth of 6% and adjusted operating profit growth of 17%. The Group achieved its largest publishing profit ever – a gratifying result considering the uncertain economic environment.

Quarto has a clear vision to become the dominant publisher of illustrated books worldwide, a clear strategy for the future and an experienced Senior Leadership Team.

In the course of 2017, the Group will be refocused on its core publishing expertise, following the exit of Books & Gifts Direct (BGD) in Australia/New Zealand and Regent Publishing Services in Hong Kong. The Board has regularly discussed whether Quarto was the correct owner of both businesses. BGD has disappointed for a number of years, and whilst Regent Publishing Services has performed well since it was founded in 1985, the Board believed that Quarto should focus on what it does best – making and selling books.

Refocused on its publishing activities, Quarto will be uniquely positioned to create further shareholder value, through its rich portfolio of content, the combination of organic and acquisitive growth, further distribution development and added value from the Group's operational platform.

I joined a Board comprising three Non-Executive Directors and two Executive Directors, including Chief Executive Marcus Leaver. Our Non-Executive Directors constructively challenge and advise the Executive Directors, contribute

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LANGUAGES

to the development of strategy and monitor the delivery of the Group's strategy. Michael Hartley and Jess Burley both bring very different skill sets to the Board and respectively chair the Audit Committee and Remuneration Committee. Unfortunately, our third Non-Executive Director, Marie-Louise Windeler, stepped down at the end of September for health reasons. The Nominations Committee is making good progress in its search for a new Non-Executive Director and we hope to provide an update soon.

Michael Connole submitted his resignation as CFO on 30 March 2017. The Board has commenced an executive search to identify a suitable replacement for the role. Having known Michael for more than 25 years, I am particularly sorry to see him leave the Group but wish him and his family well.

Alongside Chief Executive Marcus Leaver, Quarto has an experienced and international operational Senior Leadership Team that provides solid strategic direction to the business. I have every confidence in the successful continued development of the Group under their leadership.

Additionally, Quarto's solid institutional ownership structure, following the placing of approximately 35% of the Company's shares with blue chip investors over the last 18 months, will be a benefit to the Company as it continues to grow and deliver its potential over the coming years.

The Board is pleased to recommend a final dividend of 9.87c per share, making the total dividend for the year 15.0c per share, a 3% increase over last year, giving dividend cover excluding BGD, based on adjusted earnings per share of 54.7c (2015: 46.0c) or 3.6 times (2015: 3.2 times).

On behalf of the Board and all shareholders, I would like to thank all our people, as well as our global ecosystem of partners and suppliers, for their continued hard work and commitment to Quarto.



Peter Read
Chairman
19 April 2017

INVESTMENT CASE

Global leader in illustrated publishing

Resilient global book market, especially in illustrated books. Unrivalled footprint and size. Substantial IP with a back catalogue of 10,000 titles and an annual investment of about \$35m. Solid expertise and performance in foreign language rights.

Attractive, de-risked business model

Clear focus on enduring IP in the long term. Market, channel and customer diversity. Not dependent on immediate best-sellers with close to 60% of sales p.a. from back catalogue. Co-edition model is lower risk with high revenue visibility.

Growth story and financial strength

Publishing revenues up 26% since 2012 and publishing adjusted operating profit up 69% since 2012. Net debt reduced 24% from 2012 to date.

Balanced and growing imprint portfolio

Solidity and balance - both geographical and genre. Increasing exposure to children's books, one of the faster growing areas in publishing. Organic growth supplemented by acquisitive growth.

Global consolidation platform

International publishing platform is both flexible and scalable. Clear acquisition strategy with magnitude of possible opportunities in the short to medium term. Systems and people in place; acquisition capabilities and track record.

CHIEF EXECUTIVE OFFICER'S STATEMENT



“We celebrated our 40th anniversary with our largest publishing profits ever.”

Marcus E. Leaver
Chief Executive

Overview

We delivered a resilient performance in our publishing business in 2016 and celebrated our 40th anniversary with our largest publishing profits ever. The hard work and tenacity of every Quarto employee across the business particularly carried the Company through a challenging year.

We exploited the size, scale and reach we have built in the last five years and enhanced our business with two strategic acquisitions that are already contributing positively to the Group.

In 2017, our exit from both BGD and Regent Publishing Services will allow us to focus entirely on our publishing portfolio. We have long believed that Quarto, once fully positioned on what we do best – making and selling books – has a unique opportunity in a fragmented industry to become the dominant publisher of illustrated books worldwide.

Strategic Update

Our children's publishing revenues grew by 34% year-on-year and have increased by 135% since 2012. Our Foreign Rights sales team achieved a record performance with 8% revenue growth despite foreign currency fluctuations in certain markets. The extended value of our backlist was confirmed by the review of the useful economic lives of our titles. As we continually seek to further expand our scale and reach across the globe, our new publishing partnership with Kalimat Group to publish books in Arabic in the Middle East and North Africa is also a major highlight.

As in any portfolio, some areas of the business had more success than others. Each of our 48 imprints is at a different stage of maturity and point in its creative cycle, from young start-ups to longer-running imprints that might need new creative injection, and to businesses at the top of their game.

SENIOR LEADERSHIP TEAM



Michael Connole
Chief Financial Officer
(Resignation submitted
30 March 2017)



Ken Fund
Chief Operating Officer
President and CEO, Quarto
Publishing Group USA, until
31 December 2016



David Breuer
Chief Creative Officer
Managing Director, Quarto
International Co-Editions,
until 31 December 2016



Karine Marko
Group Director of
Foreign Rights



Sally Dwyer
Group Director
of People



David Inman
Managing Director,
Quarto Partners
Managing Director, Quarto
Publishing Group UK,
until 31 December 2016



Dorothee de Montgolfier
Group Director of
Communications



Anne Crompton
Group Director of Legal
and Business Affairs

CHIEF EXECUTIVE OFFICER'S STATEMENT CONTINUED

“The creativity, tenacity and team spirit of everyone employed in the business, coupled with the strategic direction provided by our experienced Senior Leadership Team, have been key to our ongoing success.”

The dedication, commitment and passion of everyone employed in the business, coupled with the strategic direction provided by our experienced Senior Leadership Team, have been key to our ongoing success. In particular, I would like to recognise Ken Fund and David Breuer, recently appointed to the new global roles of Chief Operating Officer and Chief Creative Officer, as well as Karine Marko, Group Director of Foreign Rights, who have made significant contributions to the business this year.

I would also like to express our thanks to Michael Connole, Chief Financial Officer, who has decided to resign. Significant changes have been made to the business over the last 18 months or so and the Group is now well placed as a focused publishing business. We all wish Michael and his family the best in the future.

Since I took over as Chief Executive in late 2012, my aim has been to make Quarto an even healthier and more talented company. We have become more profitable in our publishing business while continuing to invest more in the quality of our books and in our global sales and marketing teams. We have attracted new, extremely talented people to our already excellent teams. We are strategically well placed in our markets as our direct relationships with retailers continue to develop. Our model is simple but solid: the right People, high quality and long-lasting Product, efficient Processes, a balanced Portfolio of imprints and a global, scalable Platform.

The clarity of this model has facilitated the onboarding of acquired businesses in the last two years and we now have a tested and solid integration process in place.

Operating Review

Overall, our 2016 performance is a gratifying result set against a more difficult trading background than we had anticipated and a tough comparative given the success of colouring books in 2015. Undeniably, 2016 has been an uncertain and unpredictable year, economically and politically, in both our largest domestic markets. While we have fulfilled many of the business objectives that we set ourselves, there are others that we have not met.

Our net debt at 31 December 2016 was \$61.9m (2015: \$59.5m), a result of both poor trading within BGD and negative working capital timing movements in the final quarter. However, due to the strong underlying performance of the business, the Board has recommended an increase in the Company's final dividend. Working capital and debt management will remain a key point of focus in 2017.

BGD has disappointed for a number of years, including 2016, and the exceptional impairment charge of \$14.2m has impacted our overall 2016 results negatively.

+6%

PUBLISHING
REVENUE

+17%

PUBLISHING
ADJUSTED
OPERATING
PROFIT

The performance of our publishing operations is set out later in this report. Total revenue from publishing operations of \$154.6m showed a 6% increase on 2015 (\$145.3m). Adjusted operating profit for these publishing businesses for 2016 was \$21.7m which was up 17% (2015: \$18.5m). We reviewed the useful lives of our backlist of illustrated book titles during the year and the pre-publication costs for all our imprints are now amortised over three years. This review confirms the fact that, taken across all our illustrated titles, our backlist continues to sell for at least three years. This has reduced our amortisation charge for 2016 by \$2.1m.

New Organisational and Reporting Structure

On 1 January 2017, we implemented a new organisational structure which establishes a stronger partnership between creative, commercial and financial management within the Group, while enabling us to respond to changing market conditions and acquisition opportunities with enhanced agility and purpose.

We have moved on from our geographical business divisions. In line with our philosophy of creative independence, imprints no longer report into a country division but are run as independent businesses with creative, commercial and financial oversight from the centre. They are serviced and supported by our central and global platform.

As a consequence, starting in 2017, we will no longer report revenue by publishing divisions, but by the geography of where transactions take place, including the US, UK, Rest of the World and foreign rights.

Outlook

In 2016 we delivered a resilient performance in our publishing business through a combination of organic growth supplemented with two strategic acquisitions.

We were not helped by the political climate in our two domestic markets, nor by the resultant volatility in currency which resulted in slower trading in our traditionally stronger second half.

In the very short term, we feel it prudent to assume a continuation of this uncertainty in 2017 and we are budgeting accordingly. Nevertheless, for the year as a whole, we expect to show further progress in the business and redouble our efforts in net debt management and capital allocation for growth.

Looking forward, the future for Quarto remains very exciting. With the disposals of both BGD and Regent Publishing Services in the first half of 2017, we shall be able to focus resolutely on what we do best – making and selling books. The Group is full of talented entrepreneurs running a diverse portfolio of imprints, who leverage our global platform to grow their businesses and to create valuable IP, which we are selling into more markets, in more foreign languages and through more distribution channels than we have ever done before.

Quarto has a unique opportunity in a fragmented industry to become the dominant publisher of illustrated books worldwide, exploiting the size, scale and reach we have built in the last five years. In 2017, we shall continue to pursue that goal.

Lastly, a large thank you to each one of our employees worldwide. They make Quarto the success that it continues to be and their creativity, tenacity and collaboration, especially, have carried the Company through a challenging year.



Marcus E. Leaver

Chief Executive
19 April 2017

OUR BUSINESS MODEL AND STRATEGY

OUR BUSINESS MODEL

We are the leading global illustrated non-fiction book publisher. Our mission is to make and sell great books that entertain, educate and enrich the lives of adults and children around the world. We make high-quality books as economically as possible, and we sell these books as far and wide and for as long as we possibly can.

Our model is simple but solid: the right People, high quality and long-lasting Product, efficient Processes, a balanced Portfolio of imprints and a global, scalable Platform.

People

Our people and talent make Quarto. Each of our 48 imprints is creatively independent, publishing what they believe is right for their customer base and the market. That is the underpinning ethos of Quarto.

Product

Each of our imprints has a different vision for the products they produce. We are proud of the wide variety of books we publish and our unique, high quality content.

Portfolio

All our imprints make up a diversified portfolio that strengthens with each addition, whether organic start-up or acquisition.

Process

Our books are created by many different people but underpinned by one financial model.

Platform

All our imprints are sitting on the Quarto platform of operations, people, sales and marketing that we have built and adhering to the financial model through which we manage our portfolio.



Our goal in formally recognising the 'Quarto Pentagon' is to systematise our business model so that we enhance our organisational IP, allow transmission of the operating model easily throughout the Group, and support the transition of new businesses and imprints as we grow.

OUR STRATEGY



ORGANIC GROWTH

We are constantly looking to grow our publishing revenues organically, both by expanding and developing our business with existing customers and by gaining new business with additional customers.



ACQUISITION GROWTH

We also search for businesses that satisfy key criteria, including earnings accretive lists, imprints or businesses that can enhance the marketing and sales efforts of existing imprints while at the same time providing opportunities to extract further value as part of The Quarto Group.



INTELLECTUAL PROPERTY INVESTMENT

Quarto is committed to invest in long-lasting IP. In pursuing the very best ideas, writing, photography, artwork and design, we aim to safeguard the future revenue streams of the business.



OPERATING MODEL EFFICIENCIES

Each of our imprints and businesses is creatively independent while receiving support, scale and reach through the Group's global operations, sales and marketing platform. We leverage our scale to buy print and freight effectively, as well as being relentless in identifying other supply chain efficiencies.



DISTRIBUTION DEVELOPMENT

We develop direct physical distribution relationships and partnerships, and are committed to selling our books wherever consumers might come across them - and in multiple markets, languages and formats.

“Each of our imprints and businesses is creatively independent while adhering to one financial model and receiving support, scale and reach from our global platform, which includes operations, sales and foreign rights sales, marketing, IT, people and legal. We leverage our scale to buy print and freight effectively, and we are relentless in identifying other supply chain efficiencies.”

Ken Fund

Chief Operating Officer

2016 PORTFOLIO HIGHLIGHTS

“Quarto’s expertise is in creating great content that stands the test of time and constantly reinventing long-lasting niches of interest. Once again, highlights from 2016 show the breadth of our books across topics, adults and children, backlist and frontlist, individual titles and successful series.”

David Breuer
Chief Creative Officer



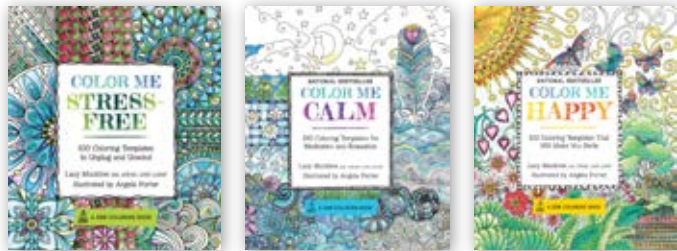
Creative Lettering and Beyond

Published 2014
\$1,388,000
0.9% publishing revenue



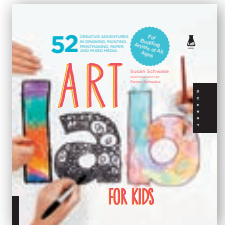
Color Me and Portable Color Me Series

Published 2015
\$2,909,000
1.9% publishing revenue



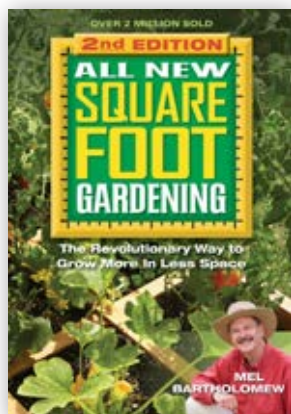
Art Lab for Kids

Published 2012
\$150,000
0.1% publishing revenue



101 Dog Tricks

Published 2007
\$274,000
0.2% publishing revenue



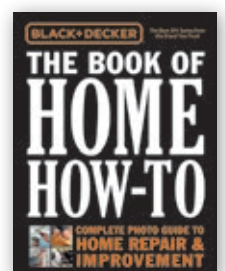
All New Square Foot Gardening - 2nd Ed.

Published 2013
\$307,000
0.2% publishing revenue



The Book of Home How-To

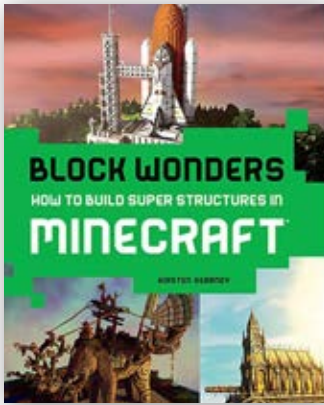
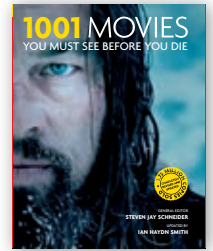
Published 2014
\$209,000
0.1% publishing revenue





1001 Movies (2016 Edition)

First published 2001
\$245,000
0.2% publishing revenue



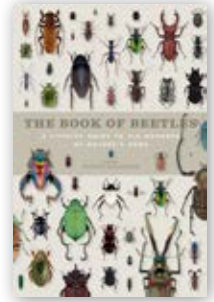
Block Wonders

Published 2016
\$410,000
0.3% publishing revenue



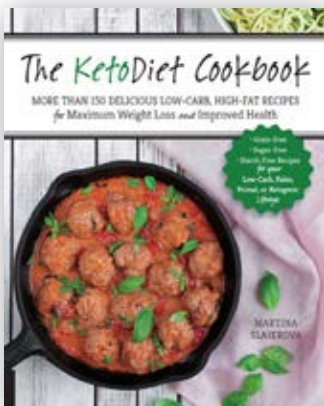
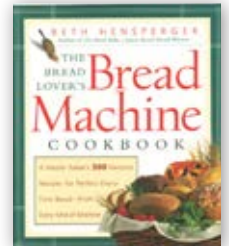
The Book of Beetles

Published 2014
\$203,000
0.1% publishing revenue



The Bread Lover's Bread Machine Cookbook

Published 2000
\$237,000
0.2% publishing revenue



The KetoDiet Cookbook

Published 2016
\$242,000
0.2% publishing revenue



Vegan Bowl Attack!

Published 2016
\$189,000
0.1% publishing revenue



Build the Dragon and Build the Human Body

First published 2013
\$690,000
0.4% publishing revenue



Secrets of... (Shine a Light)

First published 2013
\$1,843,000 (nine titles)
1.2% publishing revenue



Cutest Puppies Ever

Published 2016
\$439,000
0.3% publishing revenue



OUR KEY PERFORMANCE INDICATORS

Our strategy is to grow our revenue and margins by leveraging our size, scale and reach as the leading global illustrated book publisher, to build a business with sustainable growth in earnings per share while also managing our net debt.

ADJUSTED OPERATING PROFIT BEFORE DEPRECIATION (EBITDA) (\$M)	PUBLISHING ADJUSTED OPERATING PROFIT (\$M)
2016 17.8	2016 21.7
2015 ¹ 17.7	2015 18.5
2014 ² 17.0	2014 15.8
2013 ² 15.9	2013 14.3
2012 ² 16.5	2012 12.8

EBITDA is used to measure the operational performance of the Group.

Publishing adjusted operating profit up 69% since 2012.

RETURN ON NET OPERATING ASSETS (%)	NET DEBT (\$M)
2016 7.4	2016 61.9
2015 ¹ 13.4	2015 59.5
2014 ² 12.0	2014 66.0
2013 ² 11.8	2013 71.0
2012 ² 11.0	2012 81.0

The Board uses this ratio to evaluate the long-term financial health of the Group. Excluding Books & Gifts Direct, the return on net operating assets for 2016 was 14.1%.

Our net debt has reduced by 24% since 2012. Our 2016 net debt is a result of both poor trading within BGD and negative working capital timing movements in the final quarter, and we will redouble our efforts in net debt management in 2017.

¹ Restated as per Note 1.

² The 2014 closing balance sheet restatement was all corrected through the 2014 results as it was impractical to determine the impact on these earlier individual financial years and it is not expected to result in a material change to these years.

³ The definitions and additional information in relation to these alternative performance measures are included in Note 32 to the financial statements.

**ADJUSTED DILUTED
EARNINGS PER SHARE
(CENTS)**

2016	5.6
2015 ¹	46.1
2014 ²	39.1
2013 ²	36.1
2012 ²	41.6

The Board uses this ratio to evaluate the quality of the Company's earnings.

Excluding Books and Gifts Direct, the adjusted diluted earnings per share for 2016 was 53.5c (2015: 46.0c).

**INVENTORY % OF REVENUE
(%)**

2016	12.7
2015 ¹	13.8
2014 ²	13.9
2013 ²	11.2
2012 ²	12.6

This is a measure of the cash used up in inventory as a proportion of revenue.

PRODUCT EFFICIENCY

2016	1.57x
2015	1.34x
2014	1.16x
2013	1.01x
2012	1.02x

This is the new title sales for any given year divided by the IP spend of the previous year. It is a leading indicator of how effective and reliable our backlist sales might be.

**BACKLIST % OF SALES
(%)**

2016	58.3
2015	61.4
2014	66.6
2013	71.3
2012	69.8

Backlist has reduced as a % of sales as we have invested in new IP.

**INTELLECTUAL PROPERTY
DEVELOPMENT SPEND
(\$M)**

2016	37.2
2015	34.9
2014	33.5
2013	31.7
2012	30.5

We have increased the IP spend to grow the publishing portfolio organically. Frontlist sales have grown by 74% in the period.

**CHILDREN'S PUBLISHING
REVENUES
(\$M)**

2016	43.4
2015	32.4
2014	23.0
2013	19.6
2012	18.5

Children's publishing revenues have increased by 135% since 2012.

RISK MANAGEMENT, PRINCIPAL RISKS AND UNCERTAINTIES

The Quarto Group's risk management framework is designed to identify and assess the likelihood of risks arising, the consequences of them doing so and the actions necessary in order to mitigate their impact.

The Board has carried out its periodic assessment of the principal business risks facing our various businesses and has updated these risks in its risk register, which is regularly reviewed. The Board continues to monitor these principal risks and associated material

controls. Details of the Group's financial risk management objectives and policies are set out in Note 22 to the financial statements. The business risk review identified the following key risks that face our businesses.

MARKET AND FINANCIAL RISKS

Risk	Description	Mitigating factor
Economic conditions	The Group operates across many of the major world economies and our revenues and profits depend on the general state of the economy in those territories. A downturn caused by a global recession could reduce consumer discretionary spending, which might result in a reduction in profitability and operating cash flow. The UK's exit from the European Union and the US elections have also caused some uncertainty in the economic environment.	The Group has adequate facilities with over \$90m in available debt facilities. In addition, in such an event, the Directors have the ability to take a number of mitigating actions, including the reduction of discretionary spend on pre-publication costs.
Currency	The Group's businesses operate in a number of different currencies giving rise to a risk of exchange loss due to fluctuating exchange rates.	The Group has hedging and currency swaps in place. We have a natural hedge that mitigates against currency movements impacting our earnings in that one of our largest costs, which is print costs, are paid in US Dollars. Borrowings have been taken out in different currencies to mitigate risk of currency movements impacting our net assets.
Acquisitions integration	The Group's growth strategy includes acquisitions. Although the Group has a tested integration model for acquired businesses, there is a risk that not all of the acquisitions will be successful.	The Group continually reviews acquisition targets and has established processes and procedures with regard to detailed pre-acquisition due diligence and post-acquisition integration.

OPERATIONAL RISKS

Risk	Description	Mitigating factor
Customer	A significant dependency on a small number of customers, for instance co-edition partners or retailers, could be problematic if one of them tried renegotiating preferential terms or stopped doing business with the Group. The failure of a major customer could impact revenue and profits.	The Group has a long-established strategy of diversifying its customer base, resulting in the fact that no one customer has a significant percentage of the business. Customer relations are well managed with all Quarto's larger customers to ensure a fair trading relationship. Management monitors debts closely and maintains close relationships with all customers, which may provide prior warning of likely failure.

OPERATIONAL RISKS

Risk	Description	Mitigating factor
Supply chain and raw materials	The Group uses a number of print suppliers, many of which are based in Southern China. There is a risk that an interruption in the availability of printing services in that area or the financial failure of one printer could disrupt the distribution of new books to customers. Any increase in costs such as oil, port charges etc. would also impact shipping costs. Any disruption in supply of paper could lead to an increase in costs and production disruption. There is also a reputational risk of using non-environmental paper.	The Group maintains relationships with printers in other parts of the world and is confident that printing could be carried out by an alternative range of printers if supply from China was interrupted or to mitigate shipping costs. We maintain close relations with our printers, reducing the risk of a lack of knowledge of any printer being in financial trouble. The Group worked with our major printers on a plan to move to sustainable paper and recently instituted a Forest Stewardship Council (FSC) paper or Sustainable Forestry Initiative (SFI) paper policy across all our imprints.
Product safety	Our business is faced with increasing safety and testing requirements on various product components, especially for our Book Plus products. The risk of a product recall due to children's safety would have a severe reputational impact on the business.	All components receive safety testing from independent third parties. Management carefully selects suppliers for components. The Group has two dedicated Sourcing and Quality Managers who handle components sourcing and safety test management.
Loss of intellectual property	A loss of stored IP through failure of storage medium or loss of back-ups would impact our ability to process reprints and revisions and could cause a loss of revenue.	We regularly review our storage and back-up routines and disciplines. A new title management system for our Publishers that improves the security of and access to our IP was rolled out to our US business during the year, and we anticipate the UK roll out to be completed in 2017.
Laws and regulations	As a creative and IP business, any changes to copyright laws could have an impact on the Group's activities and any infringement could lead to increased costs. Inconsistent internal practices for negotiating contracts or clearing rights could lead to IP claims.	Quarto has recently streamlined and simplified the number of legal entities it operates through, and reviewed the structure of our Legal team, including hiring a new Group Director for Legal and Business Affairs. This will ensure that all practices are aligned and consistent across imprints and geographies within the Group.
Cyber security	Like many organisations, the Group is at risk from cyber-attack. This presents a potentially serious risk of disruption to the production process and could have a significant impact on the profitability of the business and the security of IP assets.	The Group uses firewalls and IT controls to prevent attack as well as maintaining offsite back-up of IP. Computerised files of the Group's books are also maintained by printers. We do not store any personal or credit card data on our transactional website quartoknows.com. We undertook a full review and upgrade of our IT systems in 2016.
People	As in any creative business, the Group is heavily reliant on its people and operates with the inherent risk of not making the 'right' books, or creativity being uneven year-on-year. Failure to retain existing talent and attract new talent could ultimately lead to a failure to generate new titles, leading to a drop in revenue.	Our portfolio of imprints and large number of products spread this risk. With the exception of colouring books in 2015, no single book accounts for more than 1.0% of our annual sales. Quarto's Publishers are experienced and talented, and strive to stay close to publishing trends and markets. The Group also offers competitive market rate remuneration packages and has been working on making Quarto an attractive place to work.

FINANCIAL REVIEW



“Operating profit for the Group (excluding BGD) was \$17.7m, an improvement of 22%.”

Michael Connole
Chief Financial Officer

Presentation of Results

The presentation of our results for 2016 shows the results of our Books & Gifts Direct (BGD) business separately as we have indicated that we are exiting this business. BGD did not meet the criteria to be accounted for as a discontinued operation at the balance sheet date. The additional separate disclosure was considered appropriate to allow better understanding of the Group results given the disposal of the BGD Australian business completed post year end.

Note 32 to the financial statements explains the alternative performance measures we use to judge the performance of the Group.

Group Results including BGD

Revenue for the year was \$188.4m showing an increase of 3% on the comparative figure for 2015 of \$182.2m (as restated). The Group’s operating profit of \$1.7m shows a \$13.6m reduction on the comparative figure for 2015 of \$15.3m (as restated) and principally reflects the \$14.2m exceptional impairment charge relating to the BGD business referred to above. The loss before tax for the Group was \$1.3m (2015: profit before tax of \$12.2m, as restated), also reflecting the exceptional impairment charge.

Group Results excluding BGD

The following commentary looks at our results for 2016 excluding BGD, which comprises our publishing business and Regent Publishing Services in Hong Kong. We also completed the disposal of Regent Publishing Services on 31 March 2017.

Revenue for 2016 of \$169.1m shows a 6% increase on the comparative figures for 2015 of \$160.1m. The Harvard Common Press and becker&mayer publishing businesses which we acquired in the US during 2016, account for \$12.7m of 2016 revenue.

Adjusted operating profit, which is a key measure of how the business is performing, rose by 19% from \$15.6m in 2015 to \$18.6m in 2016. This includes a combined contribution of \$2.3m from the Harvard Common Press and becker&mayer businesses. It also includes the benefit of \$2.1m relating to the reduction in the amortisation of our capitalised pre-publication costs.

During the year, we undertook a review of the useful lives of the pre-publication costs incurred in the development of illustrated book titles. Certain of our imprints that we had either started up or acquired in the last few years had been employing useful lives that were shorter than three years. We examined the sales of these imprints and determined that their respective sales profiles now justified using a three-year useful life. The capitalised pre-publication costs for all our illustrated book titles are now amortised on a straight line basis over three years. As stated in Note 1 to the financial statements, the revisions were accounted for prospectively as a change in accounting estimate and as a result, the amortisation charge of the Group for the current financial year has been reduced by \$2.1m.

The Quarto International Co-Editions business had a very good 2016, recording an adjusted operating profit of \$9.4m, an increase of 47%, with another strong contribution from children's publishing and from Ivy Press, which we acquired in March 2015. Quarto Publishing Group USA also had a good year with adjusted operating profit of \$9.6m, an increase of 8% on the 2015 figure of \$8.9m. As stated above, it benefited from the contribution of the acquired Harvard Common Press and becker&mayer businesses, which helped offset the reduction in the sales of adult art instruction/colouring books with which we had particular success in 2015. Quarto Publishing Group UK had a disappointing year with adjusted operating profit of \$2.8m showing a 15% decline on 2015, with one imprint having a particularly disappointing year and recording a contribution loss for the year.

Operating profit for the Group excluding BGD was \$17.7m (2015: \$14.5m), an improvement of 22%.

Books & Gifts Direct

We completed the disposal of the Australian operating company, Books & Gifts Direct Pty Limited (BGD Australia) on 31 March 2017. The consideration for the sale of the company is A\$1 and Quarto will also take an assignment of certain debts owed by the master franchisees to BGD Australia of A\$1.9m (US\$1.4m) which will be repayable in monthly instalments over two years, and are interest bearing. The repayments will be used to reduce the Group's bank debt as they are received. Quarto is entitled to receive 10% of the profit before interest and tax of the business for the next five years. Our direct sales business in New Zealand, remains for sale, and we are currently discussing a potential disposal with a number of interested parties.

FINANCIAL REVIEW CONTINUED

In the process of finalising the results of the BGD business for the year ended 31 December 2016, we uncovered errors in the cut-off procedures and accounting for returns in relation to stock in transit and the related liability accounts at BGD Australia. The errors were caused by a failure in controls relating to proper cut-off and reconciliation procedures in respect of stock in transit and the related purchase clearing accounts, and accounting for returns on certain products. The errors have required the restatement of the result of BGD for the year ended 31 December 2015 with a reduction in operating profit of \$0.7m through an increase in cost of sales. This has resulted in lower operating margins for that year. It has also required the restatement and reduction of retained earnings at 1 January 2015 by \$1.0m. Further details are set out in Note 1 to the financial statements.

The business recorded revenue of \$19.4m for 2016, which declined by 12% on the 2015 comparative figure of \$22.1m, indicating the continued weak economic environment in both Australia and New Zealand where the business has operated.

The operating loss for the year of \$16.1m (2015: operating profit of \$0.8m, as restated) included exceptional impairment charges of \$14.2m to write down the net and other attributable assets of BGD to reflect their recoverable value. The total impairment charge includes \$8.0m relating to the impairment of the net operating assets of the business, together with \$6.2m relating to the impairment of goodwill. Further details are set out in Note 3 to the financial statements.

Finance Costs

Finance costs of \$3.1m (2015: \$3.2m) represent the interest costs on the Group's borrowings together with the amortisation of the debt issuance costs. The decrease in net finance costs despite higher net debt at 31 December 2016 arose as our interest margin reduced.

Tax

The tax charge for the year of \$4.0m (2015: \$3.7m) arises on the loss before tax as no tax credit has been recognised on the BGD loss before tax for the year of \$16.1m. The effective tax rate for the Group excluding BGD is 27.3% (2015: 25.1%). A significant proportion of the Group's taxable profit arises in the US where the federal tax rate is 34%. In the absence of tax reform in the US, we expect the effective rate to remain at approximately the current effective rate.

(Loss)/Earnings Per Share

Our loss per share of 28.5c (2015: earnings per share of 41.3c, as restated) and our adjusted basic earnings per share of 5.7c (2015: 46.2c, as restated) are both principally explained by the exceptional impairment charge of \$14.2m relating to BGD. Our adjusted basic earnings per share for the Group excluding BGD of 54.7c shows an annual increase of 19% on the comparative figure for 2015 of 46.0c and reflects the increase in the profit before tax. Note 10 to the financial statements sets out how we calculate the adjusted earnings per share figures. Our adjusted dividend cover excluding BGD was 3.6 times (2015: 3.2 times) and is calculated using adjusted earnings per share. See Note 32 for details.

Return to Shareholders

The Directors are recommending a final dividend for the year of 9.87c per share, bringing the total dividend for the year to 15.0c per share (2015: 14.5c per share).

Cash Flow

Cash generated by the operations of the business amounted to \$43.7m (2015: \$51.9m) and the reduction on last year's figure reflects a disappointing last quarter of 2016 which historically is our best quarter for generating cash, with poor trading within BGD and negative working capital timing movements around the year end.

We invested \$37.2m (2015: \$34.9m) in pre-publication costs using the cash generated from operations and the increase in our investment in pre-publication costs reflects the acquisitions in the year and our continued investment in new titles we publish each year. This year's new titles become part of our backlist in the following year. We spent \$3.7m on acquiring new businesses (2015: \$1.6m) and \$1.6m on capital expenditure (2015: \$2.0m). The investment in pre-publication costs for new titles and our investment in acquiring new businesses are key factors in driving future revenue growth.

Acquisitions

We acquired becker&mayer in August 2016 for a total consideration of \$11.1m. \$2.3m was paid in cash on completion, with a further \$7.5m payable in loan notes, of which \$2.5m was paid in January 2017, with \$2.5m payable in August 2017 and \$2.5m payable in August 2018. We have also provided for \$1.5m for contingent consideration arrangements. Provisional goodwill of \$2.3m arose on the acquisition.

We also acquired the assets of Harvard Common Press in February 2017 for a total consideration of \$1.0m, of which \$0.2m was paid in cash and \$0.8m in loan notes payable in 2017. Goodwill of \$0.8m arose on the acquisition.

Both acquisitions have been accounted for under the acquisition method and further details are set out in Note 30 to the financial statements.

Net Assets

The Group's net assets of \$44.1m at 31 December 2016 show a reduction of \$9.3m on the 2015 comparative figure of \$53.4m (as restated), mainly reflecting the loss for the year, the dividends of \$2.9m paid to shareholders and deferred tax on certain exchange gains included in our currency translation reserves.

Indebtedness and Borrowing Facilities

Our net debt comprising our bank borrowings less cash balances has increased from \$59.5m to \$61.9m. Although net debt did not fall in 2016, it has reduced by \$19.1m in the last four years since 31 December 2012. The continued reduction of our net debt remains a key objective for the Group. Our bank borrowings at 31 December 2016 were \$80.7m (2015: \$84.6m).

In February 2015, the Group agreed a \$95m multi-currency term loan and revolving credit facility, which expires on 30 April 2019. We repaid \$5m of the term facility in February 2016 and February 2017.

The facility requires us to maintain certain levels of interest cover, leverage and cash flow in the business and the interest payable on the debt is based on a ratchet whereby we pay LIBOR plus a margin of between 2.1% and 2.8% depending on our leverage ratio. We also have a £5m working capital overdraft facility, which is renewable annually.

FINANCIAL REVIEW CONTINUED

A direct result of our disappointing cash generation in the final quarter of 2016 was that we did not pass the cash flow after debt service ('CFADS') cover covenant test at 31 December 2016, contained within our banking facilities agreement. This does not constitute a breach of the Group's banking facilities. The agreement states that if we do not pass a particular quarter's cash flow covenant test, it does not amount to a breach provided that it is the first time we have not passed the test and that we pass the test at the end of the next quarter. The seasonality of the publishing industry means there is always a degree of sensitivity around our working capital movements. We have identified mitigating actions that would maintain covenant headroom in such situations and the Directors are confident that the Group will comply with all financial covenants for the foreseeable future. Please refer to Note 1 and 19 to the financial statements for further details relating to our banking covenants.

Currency

The Group reports in US Dollars, which is the principal functional currency, but during 2016 it also transacted in Sterling, Euros, Australian Dollars, New Zealand Dollars and Hong Kong Dollars. We use a currency swap arrangement to mitigate the fluctuations between US Dollars and Sterling. Our borrowings are drawn in US Dollars, Sterling and Euros to hedge the movement in our

net assets in those currencies. The key exchange rates for the year are shown in the table below.

Exchange Rates

In the year, all of the currencies we transact in weakened against the US Dollar. The net impact of these currency movements on our net assets was to increase them by \$0.7m (2015: reduction of \$2.3m as restated).

Principal Risks and Uncertainties

Details of the principal risks and uncertainties are set out on pages 22 and 23.

Details of the Group's financial risk management objectives and policies are set out in Note 22 to the financial statements.

Going Concern and Viability Statement

In accordance with provision c.2.2 of the 2014 revision of the UK Corporate Governance Code, the Directors have assessed the prospects of the Group over both a one-year and a three-year period. The one-year period has a greater level of certainty and is, therefore, used to set budgets for all our businesses which culminates in the approval of a Group budget for the Board. The three-year period offers less certainty, but is aligned with long term incentives offered to Executive Directors and certain senior management.

	Year end rate			Average rate		
	2016	2015	% change	2016	2015	% change
Versus US Dollar						
Sterling	0.81	0.64	27%	0.74	0.65	14%
Euro	0.95	0.83	14%	0.90	0.90	-
Australian Dollar	1.38	1.22	13%	1.36	1.33	2%
New Zealand Dollar	1.43	1.28	12%	1.44	1.43	1%
Hong Kong Dollar	7.72	7.77	(1%)	7.79	7.73	1%

The Directors have considered the underlying robustness of the Group's business model, products and proposition and its recent trading performance, cash flows and key performance indicators. They have also reviewed the cash forecasts prepared for the three years ending 31 December 2019, which comprise a detailed cash forecast for the year ending 31 December 2017 based on the budget for that year and standard growth assumptions for revenue and costs for the years ending 31 December 2018 and 2019, to satisfy themselves of the going concern assumption used in preparing the financial statements.

The Directors have assessed the Group's viability over a three-year period ending on 31 December 2019 based on a financial model which was prepared as part of the process of considering and approving the 2017 budget. The Directors used the three-year review period for the following reasons:

- The Group's publishing programme planning cycle normally works over a two to three-year period.
- The Group's current banking facilities have just over two years to run before they will need to be refinanced in April 2019. Consistent with previous facilities, the Directors have assumed that these facilities will be renewed or extended at that time on similar terms.

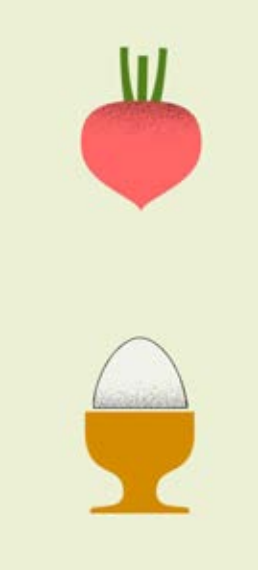
In carrying out their analysis of viability, the Directors took account of the Group's projected profits and cash flows, its banking covenants and the impact of a downturn in trading that the Group could endure whilst remaining viable.

They also took account of the principal risks and uncertainties facing the business referred to above, a sensitivity analysis on the key revenue growth assumption and the effectiveness of available mitigating actions. Based on their assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet all of its liabilities as they fall due up to 31 December 2019.

For this reason, they continue to adopt the going concern basis in preparing the financial statements. In doing so, it is recognised that such future assessments are subject to a level of uncertainty that increases with time and, therefore, future outcomes cannot be guaranteed or predicted with certainty. Note 1 to the financial statements provides additional information on the Group's banking covenants and sensitivity.



Michael Connole
Chief Financial Officer
19 April 2017



DIVISIONAL REVIEW



PUBLISHING BUSINESSES

QUARTO INTERNATIONAL CO-EDITIONS GROUP

REVENUE

\$51.9m

(2015: \$50.1m)

ADJUSTED OPERATING PROFIT

\$9.4m

(2015: \$6.4m)

Quarto International Co-Editions Group performed well in 2016 and is continuing to grow year-on-year. Revenue was \$51.9m (2015: \$50.1m), up by 4%, and adjusted operating profit grew by an impressive 47% to \$9.4m (2015: \$6.4m). The division benefited from good trading in our children's imprints - one of our key strategic areas of focus - as well as an outstanding performance by Ivy Press, which we acquired in March 2015. Like any diverse portfolio, some of our imprints performed better than others due to a variety of factors but we recognise the cyclical nature of our creative businesses and actively manage and revitalise the portfolio accordingly.

ThisIsYourCookbook.com had a steady first full year following its launch in 2015 and proved its concept of producing personalised cookbooks. We saw a nice uplift particularly before the Christmas period. We will invest some marketing funds in this business in 2017. It is still too early to say whether this new venture will reach commercial success, but investment in new ways of exploiting our IP is essential to the ongoing health of Quarto.

¹ Includes the benefit of the reduced amortisation change arising from the review of useful lives of our titles.
² Includes the contribution from acquired businesses.

QUARTO PUBLISHING GROUP USA

REVENUE

\$81.2m

(2015: \$72.4m)

ADJUSTED OPERATING PROFIT^{1,2}

\$9.6m

(2015: \$8.9m)

Quarto Publishing Group USA had an excellent year. Revenue grew by 12% over 2016, and adjusted operating profit improved by 8% from \$8.9m to \$9.6m. This was a particularly pleasing performance as the business replaced the spike in sales of adult art instruction/colouring book titles that we saw in 2015 with other titles. As anticipated, we saw signs of retail oversaturation with this category and sales of these titles have settled to a lower, more consistent level, but one in which our titles still to continue to participate.

becker&mayer, acquired in August 2016, exceeded management expectations by effectively becoming our sixth most profitable imprint in the year. As stated at the time of the deal, this acquisition has further enhanced the Group's offering in both adult and children's publishing, particularly in the USA. It is an excellent addition to our portfolio. We continue to focus the product of the SmartLab business towards Book Plus products and are pleased with the initial direction.

In addition, we are satisfied with the integration of Harvard Common Press and Burgess Lea Press, both also acquired in 2016, which performed to expectations. These acquisitions further our position as a leading publisher of lifestyle-orientated titles for the consumer markets.

The US presidential election in November did introduce some

uncertainty into the marketplace and trading was a little weaker than anticipated in the final weeks of the year. We are therefore budgeting cautiously for 2017 but we have a strong portfolio of products and increasingly, are strategically well placed in the US market.

Our direct relationships with retailers continue to develop as we focus our publishing and distribution on niche markets. Our strategy remains to diversify our channels to market in a way that matches the breadth of our publishing programmes which cater for enthusiasts.

QUARTO PUBLISHING GROUP UK

REVENUE

\$21.5m

(2015: \$22.8m)

ADJUSTED OPERATING PROFIT¹

\$2.8m

(2015: \$3.3m)

Quarto Publishing Group UK showed modest growth in 2016 in absolute terms but was badly impacted by currency volatility, resulting overall in a 6% decline, with revenue of \$21.5m. The UK market has been somewhat softer in 2016, undermined to some extent by the anticipation and result of the European Union (EU) referendum and subsequent currency volatility, and the weakness in Sterling has reduced revenue growth. As in the US, there was a slow finish to the year and we are also budgeting cautiously here. That said, this remains a portfolio of good imprints that publish excellent books.

We have seen particularly gratifying performances from Aurum Press in adults, as well as children's imprints Wide Eyed Editions and Frances Lincoln Children's Books.

CHILDREN'S PUBLISHING

CHILDREN'S PUBLISHING

REVENUE

\$43.4m

(2015: \$32.4m)

Our children's revenues have grown by 34% year-on-year, both organically and through the acquisition of becker&mayer, which comprises about 50% children's books.

Overall, our children's revenues have grown by 135% since 2012 and it remains an area of strong focus for the Group.

Our talented creative teams around the world are suitably teamed up with excellent specialist children's book sales people and marketers.

We continue to attract and develop talent, and constantly manage creative cycles by starting new imprints, renewing publishers of long-running imprints and examining potential acquisitions on both sides of the Atlantic.

"I will be forever grateful to Quarto for giving me such an amazing opportunity and allowing me to create my first book *The Bear and the Piano*. Working with such a forward thinking and creative team whilst developing my books is a joy. Their passion is incredibly inspiring and their continued support allows me to fulfil my dream job."

David Litchfield

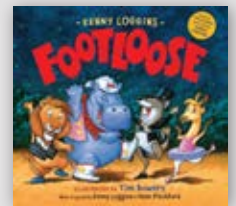
Author and illustrator



"It was fantastic to turn the iconic pop anthem 'Footloose' into a children's book working with singer and songwriter Kenny Loggins. We created MoonDance Press to make books for dreamers, books that capture young imaginations with enthralling stories."

Anne Landa

Group Publisher, California imprints



"We create the most didactic titles possible, including a wide range of books plus titles – adding components to books so that children can interact with the content and learn from it. We are the 'go-to' creators of innovative books for publishers around the world."

Zeta Jones

Group Publisher, QED Publishing, Quarto Children's Books, words & pictures



FOREIGN RIGHTS SALES

FOREIGN RIGHTS SALES

REVENUE

\$32.5m

(2015: \$30.1m)

Our Quarto Foreign Rights team achieved a record performance in 2016, particularly commendable given the uncertainties and currency headwinds in some of the markets in which we conduct business. This demonstrates their expertise and entrepreneurial approach, as well as the solid, enduring relationships they have built with co-edition partners all over the world.

Besides foreign rights sales, we continue to work to identify further opportunities for growth in both English and foreign language – in existing markets and in new markets – proceeding cautiously to ensure that we find the right partners who share our values.

In 2016, we entered into a new international publishing partnership with Sharjah-based Kalimat Group. Our new Kalimat Quarto imprint launched in November 2016 at the Sharjah Book Fair with a range of cookbooks in Arabic repurposed from our existing 500 series and distributed throughout the Middle East and North Africa. Other categories, including

children's books, are envisaged as the co-operation grows. We see great scope for developing the market for illustrated non-fiction in the United Arab Emirates (UAE) as well as the larger Arabic-speaking world. The category is currently dominated by English language imports – excluding a significant potential readership, as English is not that widely spoken in the Arabic speaking world as a whole.

Our Brazilian distribution agreement with Grupo Nobel, Quarto Editora, had a steady performance in line with management expectations. Our 2016 programme included 60 titles, with a mix of core adult categories (Food and Wine, Esoteric, Pets, Drawing) and some new topics such as Healthy Living, Interior, Gardening and Kids.

“The Foreign Rights team makes sure that every book gets sold in as many languages as possible. We’re often described as ‘the secret sauce of Quarto’ – few others in our industry can compete with our scale, reach and expertise in this field.”

Karine Marko

Group Director of Foreign Rights



“Quarto is dynamic and proactive in looking at new business opportunities – for instance unexploited opportunities to offer access to our platform and distribution network to third parties, unexploited foreign language territories, or unexploited copyright opportunities.”

David Inman

Managing Director, Quarto Partners



TRADING BUSINESSES

QUARTO HONG KONG

REVENUE

\$14.5m

(2015: \$14.8m)

ADJUSTED OPERATING PROFIT

\$1.6m

(2015: \$1.5m)

Regent Publishing Services (Regent), our long-established print broking business based in Hong Kong, performed to expectations in 2016 with operating profit up 7% from revenues down 2%.

On 3 April 2017, we announced the completion of the disposal of our 75% interest in Regent. The consideration for the disposal is \$7.0m, including a payment of \$2.5m (HK\$19.5m) for the Group's share of the excess cash in the business, payable in cash on completion, which is expected to take place on 31 March 2017. The business is being sold to 1010 Printing Group Ltd, a Hong Kong-based printing business listed on the Hong Kong Stock Exchange. The consideration will be used to reduce the Group's net debt.

Regent has performed well since it was founded and 25% shareholder George Tai has been a loyal partner to the Group for over 30 years. 1010 Printing Group Ltd, one of Quarto's long-term and most valued printing suppliers, will be a good home for Regent and its people.

BOOKS & GIFTS DIRECT

REVENUE

\$19.4m

(2015: \$22.1m)

ADJUSTED OPERATING
(LOSS)/PROFIT

\$(9.8)m

(2015: \$0.9m as restated)

BGD's revenue for the year ended 31 December 2016 was \$19.4m, showing a decline of 12% on the 2015 figure of \$22.1m. The operating loss for the year was \$16.1m (2015: operating profit of \$0.9m as restated), and includes exceptional impairment charges of \$14.2m as discussed below. Further details of the exceptional impairment charges are set out in Note 5 to the financial statements.

On 3 April 2017, we announced the completion of the disposal of BGD Australia to Zoom Pty Limited (as trustee for the Zoom Investment Trust), a company incorporated in Australia and formed for the purposes of acquiring the business by a group comprising certain of the master franchisees and former employees of the business in Australia. The consideration for the sale of the company is A\$1 and Quarto will also

take an assignment of certain debts owed by the master franchisees to BGD Australia of A\$1.9m (US\$1.4m) which will be repayable in monthly instalments over two years and are interest bearing. The repayments will be used to reduce the Group's bank debt as they are received. Quarto is entitled to receive 10% of the profit before interest and tax of Zoom Pty Limited for the next five years.

We have determined that exceptional impairment charges totalling \$14.2m are required to write down the goodwill and other net attributable assets of the BGD business at 31 December 2016 to reflect the recoverable value.

In the process of finalising the results of the Books and Gifts Direct business for the year ended 31 December 2016, errors were uncovered in the cut-off procedures and accounting for returns in relation to stock in transit and the related liability accounts at BGD Australia. The errors related to the value attributed to stock in transit at each of the three years ended 31 December 2016, 31 December 2015 and 31 December 2014 where detailed examination has shown that supplier invoices for stock in transit were not processed in the correct accounting period, nor was the correct accrual or return provision recorded in the financial statements. The impact of these errors has resulted in the lower operating margins for the year ended 31 December 2015. Full details of the error and the restatement are set out in Note 1 to the financial statements.

OUR PEOPLE



“Our priority is to invest in our talent to develop and to find people who are inspired by great work, have a growth mindset and a strong team orientation.”

Sally Dwyer

Group Director of People

More than 400 talented people help us make and sell great books every day.

As a creative business, we are particularly dependent on the imagination and passion of our people. Our priority is to invest in our own talent to grow and develop and to find people who are inspired by great work, have a growth mindset and a strong team orientation.

We focus on recruiting only the best creative talent we can find, from everywhere and anywhere in the world, and we have a responsibility to ensure that each and every member of Quarto feels they can contribute their best each and every day.

We believe our people are a competitive advantage for Quarto. Their creativity, tenacity and team spirit help grow our business – and the businesses of our customers – every day.

Culture and Values

Quarto is too human to be truly corporate – our imprints and businesses are too individual; however, we try to create a culture in which all our people flourish. Every business has to find what is authentic to them, and we believe that when our people feel able to bring their true selves to work we get the best from each other.

Our culture is a key indicator of how we treat each other and the behaviours we want to be known for. Our values shape the way we do business and select the people we work with.

Our Values

- BE ACCOUNTABLE
- BE PURPOSEFUL
- BE CONSISTENT
- BE EXCELLENT
- BE CURIOUS
- BE COLLABORATIVE

We believe in creative independence and that the autonomy we give our people ensures that we remain market-focused and relevant to all readers and customers. Our imprints are supported by a strong central platform that includes finance, operations, sales, marketing, human resources and foreign rights sales.

We have designed an organisation that at its core has de-centralised leadership into each publishing business, so that our Group Publishers and Publishers are truly running their own businesses, with complete creative control over the books they publish.

Employee Engagement

We believe that treating our people with respect, providing consistent and fair policies and allowing them to be creatively independent helps demonstrate the value we hold them in.

In 2016, we reviewed and increased our global benefits for maternity, paternity, adoption and surrogacy. We updated our internship policy to ensure that all interns we employ across our imprints and businesses are paid the minimum wage. Across our UK businesses, we harmonised the employment terms and conditions of all our employees. And we piloted new flexible workplace initiatives such as Summer hours.

In early 2017, we will conduct our first ever employee engagement survey, which will give us insights into how we can keep improving the way our leaders engage with their teams across Quarto.

Performance Management

Our priority is to make sure that all our employees feel that Quarto enables them to do their job in the best way possible.

We ensure that individual performance goals are connected to the overall strategic goals of Quarto, that people understand what behaviours are expected of them and that they have regular conversations about their performance with their line manager.

We have listened to our employees and reviewed our annual performance review process, moving away from a single annual process towards a more flexible and less formal quarterly check-in. This allows for more timely performance coaching and development.

During 2016 we undertook a review of the Quarto behaviours to ensure that they were reflective of our values and the behaviours that create success in Quarto. These will launch in 2017.

Launching our Purple Quagga Awards

We like to celebrate our people's achievements and, in 2016, we launched our first ever employee award scheme - the Purple Quagga Awards.

These consist of 12 awards in total - one awarded monthly and 11 awarded annually - across three areas: publishing (four awards), people (four awards), and sales, marketing and foreign rights sales (four awards). Eight of these are nominated directly by employees or line managers and then chosen by a panel of judges, while a few are metric or target driven. Winners can be individuals or teams and prizes range from \$500 to \$5,000. The 2016 winners across all categories will be revealed in April 2017.

Learning and Development

We want to develop our people and enable them to take on different or more senior roles within the business. We do this predominately by mentoring, coaching and on-the-job development.

Today's business environment demands greater need for collaboration, ongoing learning and agility. We believe that about 70% of an employee's development happens 'on the job' through problem solving, shadowing and special projects, as well as secondments and internal job rotations. About 20% comes from their communities of practice, both within Quarto and their external networks. Coaching and mentoring also help provide momentum. The final 10% is through active learning events. To help get the most from this 10%, we are developing Quarto & You - which will allow our people to acquire new skills in a structured and consistent way.

Fostering Diversity and Inclusivity

The diversity of people and ideas is crucial in a creative business such as Quarto. We believe that our teams should be as diverse as the communities we live and work in, and the people we publish books for. We recognise that it is a journey and we are working to become an even more inclusive business.

We do not discriminate against age, gender, ethnicity, cultural background, sexual orientation or religious beliefs. We recruit, develop and promote our staff based on their performance alone. We review each job application and do not filter them through a system that disqualifies candidates based on education, sex or age.

We also promote diversity and inclusivity through our publishing programme - particularly some of our children's books. As part of our continued efforts in this space, we will soon launch a learning workshop called 'unconscious bias' via our Quarto & You platform, to help our people understand their own biases and how these can play out in the workplace.

Sally Dwyer

Group Director of People
19 April 2017

CORPORATE RESPONSIBILITY AND SUSTAINABILITY

Our mission is to educate, entertain and enrich the lives of our readers through rich content and beautifully illustrated books, which in itself has a high social value. We focus on integrity in all of our activities, consider our impact on society and the environment, and work to be a good corporate citizen.



Supporting our Communities

Our people individually and collectively contribute to the communities in which we live and work. We are proud of the efforts our people make to educate, entertain and enrich the lives of many people, not just our readers. Some of the highlights for this year are detailed below:

- A \$10,000 donation to the Goddard Riverside Community Center in New York City in support of their annual Gala. The Goddard Riverside Community Center serves some 17,000 people each year through 26 programmes on the Upper West Side and throughout Manhattan. They have established a decade-long partnership with the publishing industry – supported by The Quarto Group – to fight against homelessness.
- Over £16,000 fundraised for Breast Cancer Now by 27 UK-based Quarto employees in May 2016, by walking 100km from London to Brighton – a significant portion of the total of £80,000 raised by Breast Cancer Now through this event.
- \$5,000 donated to the Stone Barns Center for Food and Agriculture, a 501(c)(3) nonprofit organisation

dedicated to creating “a healthy and sustainable food system”. This donation was made through an agreement that advances profits on the Burgess Lea Press book *Field & Feast*. Burgess Lea Press was acquired by Quarto in May 2016 and donates 100% of after-tax publishing profits on every book to 501(c)(3) organisations that address hunger relief, farmland preservation and culinary education.

- Our UK-based offices gave in-kind book donations to several charities across the year, including Help for Heroes, Ronald McDonald House and The Family School.
- In November 2016, our California office supported a volunteer project organised by the YMCA. Within just a couple of hours, Quarto employees helped make more than 20 blankets to keep seniors in need warm over the holiday season.
- Other local charities supported by employee initiatives in our offices in 2016 include:
 - Beverly Bootstraps www.beverlybootstraps.org;
 - Cradles to Crayons www.cradlestocrayons.org;
 - Second Harvest Heartland www.2harvest.org; and
 - Assistance League of Irvine Thrift Shop www.assistanceleague.org/irvine.

It is also worth mentioning two publishing projects that our imprints have worked on in 2016 in partnership with well-established charities, and that will publish in 2017:

- Ivy Press has created a book in partnership with Mencap, the voice of learning disability, which will receive 10% of proceeds from sales.

£16K

FUNDRAISED FOR BREAST CANCER

\$5K

DONATED TO THE STONE BARNES CENTER FOR FOOD AND AGRICULTURE

The Label is a book for new parents as a real and honest insight into what it means to have a child with Down's Syndrome in the 21st century.

- Frances Lincoln Children's Books has created a picture book of John Lennon's Imagine in partnership with Amnesty International. The book will publish on 21 September 2017 and rights have already been sold in seven languages, with Amnesty International receiving a royalty from every copy sold.



The Quarto Foundation

In 2017, we will launch The Quarto Foundation to further support our local communities in areas that are close to our hearts and business - education and knowledge. This will enable us to channel our charitable efforts to fund charities that support causes that are aligned with our Company's mission.

Every Quarto office will choose one local charity to support and will be encouraged to raise money through mechanisms such as matched giving, in-kind donations and volunteering time.

Sustainability

We try to make our business more sustainable by considering the sustainability aspects of our most important business decisions, where these efforts can create value for our shareholders while continuing to provide value to our customers, partners and communities.

The impact of our business on the environment predominantly comes from the activities we subcontract to our suppliers including the printing, production, distribution, recycling and disposal of printed books. We also have office-based product development, editorial, sales and administrative activities.

Using sustainable paper

We recently instituted a Forest Stewardship Council (FSC) paper policy across all our UK and US imprints, with the following effects:

- All of our gift and stationery products were already printed on FSC material in compliance with the European Union Timber Regulation. That remains unchanged.
- At the start of 2016, we moved to FSC paper for all our children's books published under Quarto imprints.
- As of 1 January 2017, this will be extended to all our adults' books published under Quarto imprints.



As a consequence, we estimate that about 90% of our published books printed from 2017 onwards will use FSC paper. The remaining 10% will be moved to FSC as soon as possible and we are in the process of sourcing FSC-compliant materials from products that require other specifications than the standard paper and board we usually use. We expect that, by the middle of 2017, close to 100% of our newly printed books will use FSC paper. In 2017, we will also move to FSC paper for all the co-edition books we print for our foreign language customers.

Where we print domestically in the US, and FSC material is not available, we will use Sustainable Forestry Initiative (SFI) paper.

We continue to work with partners and suppliers who are certified by the FSC, ISO 14001 which covers environmental management systems, and the ICTI CARE process covering ethical standards of manufacturing.

Developing more sustainable operations

We are working towards developing sustainable operations such as managing our carbon emissions by ensuring that we consolidate shipments across the Group and ship as infrequently as possible. This limits the shipping of empty space across the oceans, and reduces energy waste and our impact on the environment.

We ship most of our books to two warehouses - one in the UK and one in the US. The majority of our books are printed in southern China and shipments are consolidated. As a rule, we consolidate palletised shipments from the printer and limit movements to only full 40 foot containers to reduce our impact on the environment. When a container is not full, we will hold shipment until the following week barring exceptional circumstances. We have been applying these guidelines as standard practice for US-bound shipments for the last two years, and we started for UK-bound shipments in mid-2016. Since we started for the UK, our average pallet loading for each container has been 49 pallets out of a maximum capacity of 52 - so we are performing efficiently in this area.

BOARD OF DIRECTORS



Peter Read (60)
Chairman

Peter joined the Board in May 2016.

Peter is currently a non-executive director of EVR Holdings, Concha, Quayle Munro Holdings, the Professional Cricketers' Association, the Royal Automobile Club, and the Motor Sports Association. He was formerly chairman of KPMG's Telecoms, Media and Technology practice and a partner for over 20 years.

Peter chairs the Nominations Committee and is a member of the Remuneration Committee.



Marcus E. Leaver (46)
Chief Executive Officer

Marcus has been Chief Executive Officer since December 2012 having joined the Board of Quarto as Chief Operating Officer in May 2012. Prior to Quarto, he worked in the USA from 2005, latterly as President of Sterling Publishing, a subsidiary of Barnes & Noble, the leading bricks-and-mortar bookseller in the US.

Before living and working in the US, he worked in London for Chrysalis Group plc, a London Stock Exchange-listed media company, latterly as Chief Executive Officer of Chrysalis Books Group, from 2002, and prior to that as Corporate Development Director and in a number of different general management roles, from 1998.

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

Marcus is a member of the Nominations Committee.



Michael Connole FCA (52)
Chief Financial Officer
(resignation submitted 30 March 2017)

Michael joined Quarto as Chief Financial Officer on 1 September 2015.

Michael has considerable experience in media, being Chief Financial Officer of Global Radio, the UK's largest commercial radio group, from June 2008 to August 2015, and before that Group Finance Director at Chrysalis Group plc, where he worked from 1997 to 2008. He has also been Vice President - Finance (Europe) for Management Consulting Group plc and spent seven years with KPMG's London office. He qualified as a chartered accountant in 1988.

Michael has decided to take a career break after 21 years in senior finance roles and has submitted his resignation. An executive search is underway for the Group's new CFO. In the meantime, Michael continues to support the business during his notice period. Accordingly, Michael is not seeking re-election as a Director.



Jess Burley (51)
Non-Executive Director

Jess has over 20 years' experience in media, working previously as the Group Managing Director of Hearst in the UK, responsible for Hearst Digital Media and the National Magazine Company portfolio. Jess joined m/SIX (the WPP joint venture between CHI&Partners and GroupM) as Chief Executive Officer in May 2010, bringing a wealth of knowledge across all media. Jess has also held a number of non-executive roles working previously with UK Mail Group Plc, the fashion retailer Jacques Vert Plc and TalkTalk Telecom Plc. She is also a trustee of the young people's charity Get Connected. Jess was appointed to the Board as a Non-Executive Director of Quarto in 2014 and was appointed Chairman of the Remuneration Committee on 1 December 2016.

Jess is a member of the Nominations and Audit Committees.



Michael Hartley (68)
Non-Executive Director

Mike was appointed to the Board in August 2013 as Senior Independent Director and Chair of the Audit Committee from May 2014.

Mike brings considerable board and international experience and a broad knowledge of strategic management. He formerly held a series of senior executive positions in both retail and manufacturing, serving latterly as Chief Executive Officer of the £800m turnover Viyella division of Coats Viyella plc, retiring in 2003. He has held a series of non-executive roles, including Chairman of Dawson International PLC from 2003 to 2009 and Senior Independent Director of ITE Group plc from 2003 to 2014. He is currently Chairman of US-based Dawson Forte LLP.

Mike is a member of the Nominations and Remuneration Committees.



Anne Crompton (40)
Company Secretary

Anne was appointed in January 2017 and is also Group Director of Legal and Business Affairs.

Anne is responsible for managing and safeguarding all our intellectual property and contractual processes, as well as assisting the Chief Financial Officer in managing our risk across the Group. She also advises the Board and the Senior Leadership Team on both regulatory and M&A matters, and acts as Secretary to the Board and various Board Committees.

Anne has 10 years of experience as a lawyer in the creative industries. She joins us from media and entertainment group This Is Global Ltd, where she had been Head of Legal since 2010. She was previously a lawyer with the law firm Harbottle & Lewis LLP, where she trained.

NOMINATIONS COMMITTEE REPORT

The members of the Nominations Committee are the Group's non-executive Directors, Peter Read (Committee Chairman), Michael Hartley, and Jess Burley, and the Chief Executive Officer, Marcus Leaver. A copy of the Committee's formal terms of reference can be found on the Company's website. (www.quarto.com)

The search for Board candidates is conducted and appointments made, on merit, against objective criteria and with due regard to the benefits of diversity on the Board, including gender. External search consultants are engaged, as appropriate, and a formal and transparent process is followed. When dealing with the appointment of a successor to the Chairman, the senior independent non-executive Director will chair the Committee instead of the Chairman, though in 2016, the meetings held regarding the appointment of the successor to the Chairman were chaired by Tim Chadwick with Michael Hartley present.

All Directors are required to allocate sufficient time to discharge their responsibilities and new Directors receive a tailored induction on joining the Board. This includes presentations on the business, current strategy, shareholder expectations, and familiarisation with the Group's operations worldwide. Guidance is also given on the duties, responsibilities and liabilities of a Director of a listed company and key Board policies and procedures.

The Committee met three times during the year and was active, under its previous chairman, in my appointment as Quarto's new Chairman on 24 May 2016. Other activities included a review of the balance of skills and experience on the Board to consider if any changes were necessary, a review of the output from the annual Board evaluation process, and a review of the Company's management structure and succession plans.

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

Following the announcement that Michael Connole, CFO, has submitted his resignation, the Nominations Committee on behalf of the Board has commenced an executive search to identify a suitable replacement. Michael continues to support the business in the normal course of his notice period. The Board thanks Michael for the significant changes made to the business since his appointment and wish him and his family the best in the future.



Peter Read
Chairman of the
Nominations Committee
19 April 2017

AUDIT COMMITTEE REPORT

The members of the Audit Committee who served throughout the year are non-executive Directors Michael Hartley (Chairman), Jess Burley, Christopher Mills served until the AGM on 24 May 2016 and Marie Louise Windeler from the AGM until 27 September 2016. The Board considers Jess Burley, Michael Hartley and Marie Louise Windeler to be independent Directors. The Board considers that Michael Hartley and Christopher Mills have recent and relevant financial experience and together the Committee has 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, 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, management judgements and estimates.
- To review the Board's representation letter to the auditor.
- To review the auditor's management letter and management's response.
- To set policy and review the use of any non-audit services and assess the independence of the auditor.
- 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, long term viability and going concern.
- 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 at least annually.

Committee Meetings

The Committee meets throughout the year to fulfil its responsibilities. The Committee Chairman also meets informally with the Chief Financial Officer throughout the year and with senior management. He also meets with the external Audit Partner from time to time to discuss issues and be appraised of regulatory change.

By invitation the Company's Chairman of the Board, Chief Executive Officer, CFO and representatives of the Company's auditor also attend Committee meetings although part of some meetings are exclusively for Committee members without executive management 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 2016 and once in 2017.

The Committee, as part of full Board meetings, was also involved in approving announcements made to the London Stock Exchange.

Activities of the Committee

During 2016 and 2017 to date the work of the Committee included:

- Review of the plan and scope of the external audit.
- Review of the external auditor's report on the 2016 year end audit and approval of the preliminary announcement and the annual report.
- Recommend to the Board its support for management's recommendation for the final and interim dividend.
- Consider the external auditor's comments in relation to internal control and review the need and potential scope of internal audit functions.
- Review compliance of the policy relating to use of the auditors for non-audit work.

- Review and approval of the interim report 2016 after discussion with management and the external auditor.
- Discussion of significant accounting issues and judgements in the 2016 accounts as detailed below.
- Review of the Directors' viability statement.
- Review of the independence of the external auditor.

Performance Evaluation

The Committee assessed its performance, constitution and terms of reference during 2016 (based on a questionnaire completed by its members). The Committee was deemed by the Board to have performed satisfactorily.

Significant Audit risks, key findings and financial judgements relating to year end accounts 2016

The Committee concentrated on the following in relation to the 2016 accounts.

Going Concern and Covenant Compliance

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.

On finalisation of the 2016 results, management identified that the Group had failed the Q4 2016 CFADS covenant test. This does not imply a breach of the bank covenants, providing it does not recur. Rigorous analysis of future cash flows and covenants was performed, together with scenario testing and mitigation options, which showed forecast compliance. The Auditor challenged key assumptions in management's model, performed historical forecasting accuracy analysis, applied sensitivities and evaluated management's sensitivities, and looked at breakeven points on the covenants.

Management consulted with the lead bank to ensure that they concurred that it is appropriate to exclude certain items as exceptional items

AUDIT COMMITTEE REPORT CONTINUED

when calculating covenant compliance. This confirmation was reviewed by the Auditor.

The Committee noted these matters, including the significant control observations on this area, and the forecast compliance with the facility's covenants for the foreseeable future.

Accounting for the potential Books & Gifts Direct ('BGD') disposal

The Group has been seeking to dispose of the Australia and New Zealand BGD businesses. Heads of Terms were signed post year end. The Australia business sale contract exchanged on 27 March and completed on 31 March. New Zealand discussions remain on-going.

Management have disclosed additional information on the income statement to show separately the results of BGD and the other businesses, as they believe this supplementary information was more useful for the reader.

They have also shown within exceptional items \$6.2m impairment of BGD goodwill and intangible assets as well as a write down of certain current assets totalling \$8.0m given the size and non-recurring nature of these items.

The Audit Committee and Auditor concluded this treatment and presentation to be reasonable.

Inventory accounting and prior year adjustment

During the year end processes and in preparing due diligence for the intended transaction, management identified an error, as a result of control failings, in the BGD Australia accounts for the stock in transit of \$3.5m relating to cut-off errors and errors in accounting for inventory returns which related to the current year income statement and prior years. After management analysis and adjustment, the component audit team performed extensive testing on this balance and on the creditors and purchase clearing accounts. The testing identified further errors which management corrected with the total impact of adjustments identified and recorded as per Note 1 in the accounts.

Acquisition accounting

During 2016, the Group acquired becker&mayer and Harvard Common Press, both in the US. Management prepared opening fair value balance sheets with both being treated as a business combination within the scope of IFRS3. Management also used external valuation specialists to value the acquired intangibles within the acquisition.

The Auditor assessed the nature of the transaction, reviewed the purchase agreements, assessed the acquisition accounting, engaged their valuation experts to assess the work of management's external expert and audited the acquired assets and liabilities.

Failings in financial reporting controls were identified across the two acquisitions with material reclassification adjustments identified to the opening balance sheets. The identified errors have been corrected by management in the 2016 accounts.

The Committee reviewed the results and management's methodology and discussed the testing performed by the Auditor to provide comfort that any estimates used in the preparation of the balance sheets were reasonable.

Assessment of the carrying value of Goodwill

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.

Failings in financial reporting controls arose as the Auditor identified errors in the determination of the value in use and headroom resulting in a material reduction in the disclosed headroom following corrections made by management.

The Committee reviewed the final methodology and assumptions used in the testing process with focus on both the discount rate and growth rates used in the discounted cash flow valuations and the sensitivity to changes in the discount rate and growth rate. Further detail is set out

in Note 11. No impairment provision for the publishing businesses was required.

The Committee noted the continued sensitivity of the CGU to reasonably possible changes in key assumptions and confirmed the appropriateness of the continued disclosure of this.

Goodwill relating to BGD was impaired by \$6.0m as detailed above.

Recoverability of pre-publication costs

Amortisation of pre-publication costs is charged to the income statement on a straight line basis over the estimated useful lives of the intangible assets. Pre-publication costs are capitalised in accordance with IAS 38 and the Committee, with the external auditor, discussed the assumptions behind the amortisation profile including the amortisation period of the publications. Further detail is set out in Note 15.

In 2016, management amended their estimate of the useful life of certain assets to better reflect the expected useful life of the assets. The changes had the effect of increasing operating profit by \$2.1m following the prospective application of the change in lives from the start of the year. The Committee noted the effect of this on the Income Statement. The Auditor reviewed the presentation and concurred with management's treatment of these changes to the estimates prospectively under IAS8.

Exceptional items

The Committee, in consultation with the Auditor, considered the latest regulatory guidelines issued by the FRC in December 2013 and agreed with the Executive Directors to restrict exceptional items to significant items outside the scope of normal business that need to be disclosed by virtue of their size or incidence. This has been applied consistently from 2014.

For the 2016 accounts, there have been significant exceptional items in relation to BGD. These have included items relating to impairment of goodwill and intangibles of \$6.2m as well as \$8.0m relating to the

write-down of assets including receivables and inventory. These have been included within Exceptional items due to their scale and one-off nature rather than being non-trading items. Further detail is set out in Note 5.

Revenue recognition and sales returns

The Committee considered the risk that revenue may not be captured in the relevant period. Apart from the usual risks relating to the timing of revenue recognition, management are required to provide for returns, which may be made subsequent to the period end. This requires a significant degree of judgement as management assesses sales returns through quantifying the previous returns experience and post year end returns.

The Committee reviewed management's methodology, and discussed the procedures followed to ensure that revenue was booked into the correct period in line with the stated accounting policies and that returns provisions were reasonable.

Inventory provisioning

The economics of manufacturing and wholesaling of books in the publishing businesses inherently leads to substantial inventories. Most of these are not printed without guaranteed sales so there is a degree of judgement as to the provisions required to hold this inventory at the lower of cost or net realisable value.

The Committee reviewed managements' methodology and discussed the testing performed by the Auditor to provide comfort that these estimates were reasonable.

For BGD, management booked substantial inventory provisions within exceptional items to best reflect the estimated recoverable values from the transaction and without a long term trading future.

Receivables provisioning

Trade receivables is inherently a critical accounting estimate in relation to the risk of non recoverability of trade receivables. The Committee has discussed and challenged the overall receivables position and considered the reasonableness of the level of provisioning. The Committee noted the much-reduced level of overdue receivables in the publishing and printing businesses.

In BGD, trading in the final months of 2016 deteriorated sharply for our master franchisee customers

and substantial provisions were booked within exceptional items, also taking into account the estimated recoverable values from the transaction.

External Audit

The Committee assesses the effectiveness of its external auditor through on-going dialogue and communication with the Auditor. The audit cycle included formal meetings. The audit planning meeting, which happens prior to the audit, was when the Committee discussed reporting developments, significant accounting risks, the new requirements in relation to the viability statement and other Corporate Governance Code changes, improvement in relation to risk management and internal control and controls in the accounting process.

At the end of the audit process, the Committee met with the auditors to receive their report on the key findings with focus on identified key audit risks, any misstatements in management's initial accounts and to consider areas of judgement and estimates.

The Auditor showed diligence and openness with the Committee during meetings and through written communication and during intermediate briefing sessions with the Chair of the Audit Committee. The Auditor gave the Committee forthright views on judgement areas whilst recognising that 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 in 2016.

Appointment and independence

Deloitte was appointed the Group's auditor in December 2014 and as auditor to the UK and US subsidiaries. Deloitte member firms were also appointed auditor of the Australian, Hong Kong and New Zealand subsidiaries in 2015.

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.

A tender process for the Company's audit was last completed in early 2014. There are no restrictions on the Committee's choice of external auditor.

For the 2016 audit of the Group and the Company's accounts, Deloitte was paid £442,400 (2015: £266,600).

Non-Audit services

Deloitte provided agreed upon procedures in respect of the interim financial statements at a fee of £5,000 (2015: £5,000).

Internal Audit

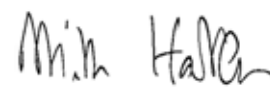
The Committee reviews the appropriateness of having an internal audit function. To date there has not been a separate internal audit function, given the size and scale of the Group's operations. However, in 2016, the Committee started to implement more formalisation of the internal review using a set list of required internal control tasks with reports on these items coming to the Committee for review.

This intermediate step towards an internal audit function has proved to be ineffective. Whilst senior members of the financial management performed internal audits, the reports have not been published timeously, and the remote locations coupled with the additional pressures on management time in the current year resulted in insufficient follow up to the problems identified.

The year-end audit identified a number of errors. These were mostly BGD trading accounting, acquisition accounting and goodwill impairment testing. The operations accounting within the publishing businesses was generally found to be adequate.

In view of the lack of real progress on internal control and the issues identified during the audit, the Committee intends to install some form of dedicated internal audit resource, which will report internal audit matters direct to the Committee.

The Committee notes that most of the items identified in 2015 have been adequately progressed, particularly in the operational finance functions in the US and the UK. However, the scale of accounting errors in 2016 and the need for another restatement of the accounts highlights the need for much improved financial management. The Committee has highlighted these concerns to the Board and in conjunction with the CEO, action is being taken to address identified shortcomings.



Michael Hartley

Chairman of the Audit Committee
19 April 2017

REMUNERATION COMMITTEE REPORT

Annual Statement

Dear shareholder

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2016, which has been prepared by the Committee and approved by the Board.

For the year ended 31 December 2016, there were no substantial changes in Directors' remuneration arrangements.

This is the Company's fourth year of reporting in line with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The report is divided into two sections:

The first is Quarto's Remuneration Policy recommended by the Board, which will apply from 16 May 2017 subject to approval at the 2017 Annual Meeting. The proposed policy mirrors the existing policy first implemented on 23 May 2014, save for the annual bonus threshold which is 2% growth in profit with stretch target of 10% (previously 3% threshold with stretch target of 10%).

During the first quarter of 2017, the Committee has worked with Smith & Williamson LLP on remuneration benchmarking and reviewing Committee procedures. Following this exercise the Committee and the Board will consider appropriate amendments to the Remuneration Policy during 2017.

The second section is the Annual Report on Remuneration, which reviews how the existing policy has been implemented.

Performance Evaluation

The Committee assessed its performance, constitution and terms of reference during 2016 (based on a questionnaire completed by its members). The Committee was deemed by the Board to have performed satisfactorily.

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 31 December 2016; pension entitlements; and, directors' shareholdings and share interests. All other parts of the Directors' Remuneration Report are unaudited.

I would be happy to receive any comments you may have on this report. I hope you find the report clear and comprehensive and that it helps demonstrate how remuneration is linked to the performance of the company, and that you are able to support the resolutions on remuneration being presented at this year's Annual Meeting.



Jess Burley

Chairman of the Remuneration Committee
19 April 2017

Committee meeting attendance 2016

Committee membership	Number of meetings held during the year: 4
Jess Burley (Chair from 21 December 2016)	4 of 4
Mike Hartley (Chair until 21 December 2016)	4 of 4
Peter Read	2 of 2
Tim Chadwick (resigned 24 May 2016)	2 of 2
Christopher Mills (resigned 24 May 2016)	1 of 2

During 2016 the Remuneration Committee ('the Committee') held four meetings. During 2017 the Committee has held 3 meetings, and met for 1 presentation by appointed Remuneration Consultants, Smith & Williamson LLP.

Marie Louise Windeler was appointed to the Board and the Committee on 24 May 2016 and resigned on 27 September 2016 due to health reasons. She had been appointed as the Chair of the committee but no meetings were held during her period of appointment.

The Chief Executive Officer, Chief Financial Officer and the Group Director of People have also been invited to attend parts of some Committee meetings. No individual is permitted to participate in any matter concerning details of their own remuneration.

Policy

This section sets out Quarto's Remuneration Policy for Directors which is recommended by the Board for approval at the 2017 Annual Meeting. The Group's principal remuneration policy aim is to ensure that the Executive Directors' remuneration is designed to promote the long-term success of the Company.

Performance related elements are designed to be transparent, stretching and are rigorously applied.

In formulating its policies the Committee had regard to and balanced 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, but exercising caution, in view of the risk of an upward ratchet of remuneration levels with no corresponding improvement in corporate and individual performance.

REMUNERATION COMMITTEE REPORT CONTINUED

Quarto's remuneration policy summary

FIXED PAY				
Element of Remuneration	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Base Salary/ Fees	Set at competitive levels in the markets in which Quarto operates, in order to attract and retain executives.	Reviewed annually with changes normally effective from 1 January of each year. Reviews take account of: <ul style="list-style-type: none"> • 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. 	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.	Not applicable.
Benefits	Designed to be competitive in the market in which the individual is employed.	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.	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).	Not applicable.
Pension	To provide cost effective retirement benefits.	Participation in defined contribution plan or cash allowance in lieu.	Up to 15% of base salary.	Not applicable.

VARIABLE PAY				
Element of Remuneration	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Annual performance bonus	Designed to reinforce individual performance and contribution to the achievement of profit growth and strategic objectives.	<p>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.</p> <p>Awards are payable in cash.</p> <p>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.</p>	<p>Maximum potential opportunity of up to 60% of base salary.</p> <p>Typically, 10-15% of potential is achieved for Threshold performance of the financial goals and 100% for Stretching performance.</p>	<p>At least half of the annual bonus is based on financial objectives with the balance on personal objectives.</p> <p>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.</p> <p>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.</p>
Medium-term performance bonus	Designed to reinforce the achievement of continuous profit growth over a longer time frame and aid staff retention.	<p>Measures are reviewed prior to the start of each three year period to ensure they remain appropriate and to ensure they are appropriately stretching. At the end of the three year period the Committee determines the extent to which these were achieved.</p> <p>Awards are payable in cash.</p> <p>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.</p>	<p>Maximum potential opportunity of up to 120% of base salary for the three year period.</p> <p>Typically, 10% of potential is achieved for achieving Threshold performance and 100% for Stretching performance.</p>	<p>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.</p> <p>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.</p>

REMUNERATION COMMITTEE REPORT CONTINUED

VARIABLE PAY				
Element of Remuneration	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Performance Share Plan (PSP)	Ensures that the Executive's interests are aligned with those of shareholders through reward for providing shareholders with substantial increases in shareholder value and/or for achievement of a measure of sustained growth in earnings over the medium to long term.	<p>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.</p> <p>Dividends accrue on PSP awards and are paid on those shares which vest. Award levels and performance conditions are reviewed before each award cycle to ensure they remain appropriate.</p> <p>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.</p>	<p>Award opportunities for participants are up to 50% of base salary.</p> <p>Awards of up to 100% of base salary may be provided in exceptional circumstances (e.g. recruitment).</p> <p>20% of maximum vests for Threshold, rising on a straight-line basis to full vesting for Stretch performance.</p>	<p>Awards to Executives are subject to four year cumulative earnings per share (EPS) and/or total shareholder return (TSR) performance.</p> <p>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.</p>
FIXED PAY				
Non-executive Directors' fees	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.	<p>Annual fee for Chair.</p> <p>Annual base fee for non-executive Directors. Additional fees are paid to the Senior Independent Director and the Chair of the Committees to reflect additional responsibilities.</p> <p>Fees are reviewed annually, taking into account time commitment, responsibilities and fees paid by comparable companies.</p>	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.	Not applicable

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 before tax.

The Committee considers that profit before 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 2% 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. Key management personnel and senior managers with substantial operational responsibilities are eligible to participate in an annual and, in certain cases, the medium-term bonus scheme with similar metrics to those used for the Chief Executive Officer. Opportunities and specific performance conditions vary by organisational level with business area-specific metrics incorporated where appropriate.

Key management personnel and 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 made to Marcus Leaver in May 2014, 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:	Base Salary	Benefits	Pension	Annual Bonus	Medium-Term Bonus	PSP
Approach	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.	In line with the stated policy.	In line with the stated policy.	In line with stated policy, with the relevant maximum pro-rated to reflect the proportion of the year served.	In line with stated policy, with the relevant maximum pro-rated to reflect the proportion of the year served.	In line with the stated policy.
Maximum Value	Not applicable	Not applicable	Not applicable	60% of base salary	120% of base salary over three years	100% of base salary (200% in exceptional circumstances)

REMUNERATION COMMITTEE REPORT CONTINUED

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 Monte Carlo, Black-Scholes, or other relevant 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 Chair, Peter Read, was appointed on 24 May 2016 with an initial one year contract, subject to review prior to 24 May 2017. The Chair, together with the other non-executive Directors, have a one month notice period, and are subject to re-election each year.

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	Notice period
Peter Read	24 May 2016 (coincident with the 2016 AGM)	1 month
Jess Burley	22 May 2014	1 month
Mike Hartley	6 August 2013	1 month

Executive Director service contracts have no fixed term and 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	30 April 2012	12 months
Michael Connole	1 September 2015	12 months (resignation submitted 30 March 2017)

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.

No payments to past Directors or payments for loss of office were made during the year ended 31 December 2016.

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	Annual bonus	Medium-term bonus	PSP
Bad leaver	No annual bonus payable	No annual bonus payable	Outstanding awards are forfeited
Good leaver	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 and pro-rated for the proportion of the three financial years served, with Committee discretion to treat otherwise	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
Change-of-control	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	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	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

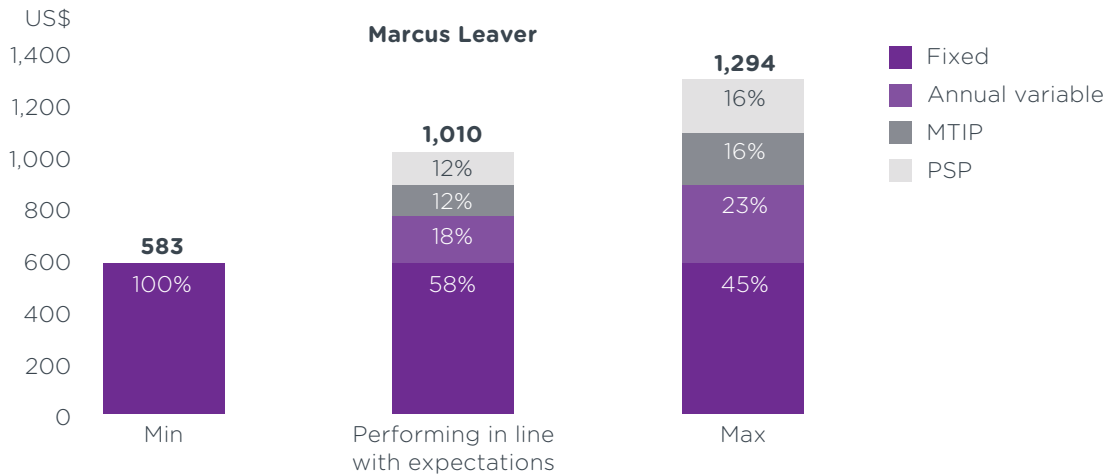
The chart on page 54 shows the remuneration that the Executive Directors could be expected to obtain based on varying performance scenarios. Illustrations are intended to provide further information to shareholders regarding the relationship between pay and performance.

Potential reward opportunities illustrated are based on the remuneration policy presented for shareholder approval at the Annual Meeting on 16 May 2017, applied to the latest known fixed pay of base salaries, pension, other benefits and variable pay of annual bonus, medium term bonus and PSP. To better illustrate the annual potential remuneration, the medium-term bonus potential and PSP Awards are pro-rated to an annual equivalent. All remuneration is contracted in sterling.

No illustration is presented for Michael Connole due to his resignation submitted on 30 March 2017. An executive search has commenced to identify a suitable replacement. Michael will step down as a director later in 2017, until that time he will be eligible for his full salary, benefits and pension.

REMUNERATION COMMITTEE REPORT CONTINUED

EXECUTIVE DIRECTORS APPLICATION OF REMUNERATION POLICY



In illustrating the application of the remuneration policy the following assumptions have been made:

Minimum performance	Basic salary, pension or cash in lieu of pension and benefits. No bonus and no vesting of the PSP.
In line with expectation	Basic salary, pension or cash in lieu of pension and benefits. Bonus payout at 60% of the maximum bonus. PSP vesting at 60% of maximum vesting.
Maximum	Basic salary, pension or cash in lieu of pension and benefits. Bonus payout at 100%. Full vesting of the PSP.

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.

The Group has not carried out a formal employee consultation regarding Board remuneration, though 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.

Jess Burley

Chair of the Remuneration Committee
19 April 2017

ANNUAL REPORT ON REMUNERATION

The Remuneration Committee

The 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 Chair, 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:

- Approval of the prior year Directors' Remuneration Report;
- Annual review of the Executive Directors' salaries and benefits;
- Review of the Executive Directors' and the senior managers' performance under the prior year's annual bonus scheme, including a review of their performance against their personal objectives and approval of the bonus awards;
- Review of the design and targets for the forthcoming annual bonus scheme, including personal objectives;
- Approval of awards made in the year under the Performance Share Plan; and
- Approval of terms for new senior management appointments falling within the remit of the Committee.

Advisors

The Committee has not paid fees to any advisors during 2016. During 2017 the Committee has paid fees of £31,800 to Smith & Williamson LLP.

Statement of shareholder voting at the 2016 annual meeting

The following table shows the results of the advisory vote on the 2015 Annual Remuneration Report at the Annual Meeting on 24 May 2016.

	Total number of votes	% of votes cast
For (including discretionary)	8,869,928	99.99%
Against	1,000	0.01%
Total votes cast	8,870,928	100%
Withheld	8,000	-

The following table shows the results of the vote on the proposal to amend the performance conditions relating to grants under the Performance Share Plan, at the Annual Meeting on 24 May 2016.

	Total number of votes	% of votes cast
For (including discretionary)	8,673,524	97.81%
Against	194,404	2.19%
Total votes cast	8,867,928	100%
Withheld	11,000	-

ANNUAL REPORT ON REMUNERATION CONTINUED

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 31 December 2016 and the prior year. These amounts are shown in the reporting currency, although set in sterling. The exchange rates used in 2016 and 2015 were 1.35 and 1.53, respectively.

	Base Salary		Benefits ¹		Pension		Annual Bonus ²		Long-term incentives ³		Total remuneration	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Executive Directors												
Marcus Leaver	488	536	6	8	73	80	34	305	2,651	-	3,252	929
Michael Connole	324	122	5	2	49	18	-	59	-	-	378	201
Bob Morley*	17	258	-	21	-	-	-	-	-	-	17	279
	Fees ⁴		Benefits		Pension		Annual Bonus		Long-term incentives ³		Total remuneration	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Non-executive Directors												
Peter Read*	57	-	-	-	-	-	-	-	-	-	57	-
Mike Hartley	60	69	-	-	-	-	-	-	-	-	60	69
Jess Burley	48	54	-	-	-	-	-	-	-	-	48	54
Tim Chadwick*	54	153	-	-	-	-	-	-	-	-	54	153
Christopher Mills*	19	54	-	-	-	-	-	-	-	-	19	54
Marie Louise Windeler*	19	0	-	-	-	-	-	-	-	-	19	-

* For period for which he/she was a Director/Non-executive Director.

¹ Benefits comprise private medical insurance contributions.

² Annual bonus for performance over the relevant financial year. Further details can be found on page 60.

³ On 31 March 2016, Marcus Leaver's Performance Share Plan award of 666,666 shares vested and were capable to being exercised at any time after 30 June 2016. On 9 August 2016 the options were exercised and the shares were transferred to Marcus Leaver out of treasury stock. The closing mid-market price on that date was £2.64. Upon exercise of the options, he was also entitled to a dividend equivalent payment in respect of dividends paid from 31 December 2012 and 9 August 2016, subject to withholdings tax and National Insurance contributions. The dividend equivalent payment was £203,890.

⁴ Details of non-executive Directors' fees can be found on page 60.

Directors' shareholdings

The share interests of the Directors who held office at 31 December 2016 and of their connected persons in the share capital of the Company are shown below:

Executive Directors	Number of share options of common stock		Number of US\$0.10 shares of common stock	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Marcus Leaver	241,214	750,398	393,500	14,000
Michael Connole	108,980	60,000	15,423	10,000

Non-executive Directors	Number of US\$0.10 shares of common stock	
	31 December 2016 ¹	31 December 2015 ¹
Peter Read	10,000	-
Jess Burley ²	3,300	3,300
Mike Hartley	10,000	10,000
Tim Chadwick	-	-
Christopher Mills	-	100,000
Marie-Louise Windeler	-	-

¹ Or date of appointment.

² Jess Burley purchased 4,055 shares on 4 April 2017.

During the year the market price of the shares of common stock ranged between 221p and 310p.

The mid-market price at 31 December 2016 was 304p.

Directors' Share Options

Shares: Common Stock of \$0.10 each

	Date of grant	As at			As at 31 December 2016	Face value at date of grant (£'000)	Fair value at date of grant (£'000)	Price at exercise date
		1 January 2016	Granted	Exercised				
Marcus Leaver	22/04/2014	666,666	-	(666,666)	-	1,133	153	£2.64
	24/09/2015	83,732	-	-	83,732	175	239	n/a
	19/04/2016	-	73,750	-	73,750	181	187	n/a
	4/08/2016	-	83,732	-	83,732	175	239	n/a
		750,398	157,482	(666,666)	241,214			
Michael Connole	24/09/2015	60,000	-	-	60,000	125	171	n/a
	19/04/2016	-	48,980	-	48,980	120	124	n/a
		60,000	48,980	-	108,980			

All awards under the PSP schemes have a 4 year vesting period. For the option grant on 22 April 2014 to Marcus Leaver shareholder approval was gained at the Annual Meeting held on 22 May 2014 to amend the vesting terms to 30 June 2016.

ANNUAL REPORT ON REMUNERATION CONTINUED

Executive director base salaries/fees

During the year, Marcus Leaver, the Chief Executive Officer, received £361,375 in salary. His salary was increased by 3.25% for 2017. This was set in line with the typical increase across the good performing UK employee population.

The next salary review date will be 1 January 2018.

During the year, Michael Connole, the Chief Financial Officer, was paid £240,000 in salary in line with his contract on appointment dated 1 September 2015.

During the year, Bob Morley, the Deputy Chair, received £12,500 in salary. Bob Morley resigned on 31 March 2016.

Pension and other benefits

The Group makes a contribution to the personal pension schemes of Marcus Leaver and Michael Connole equal to 15% of their base salary which may, at their discretion, be taken as cash in line with the policy. Benefits are in line with the policy.

Annual performance bonus**2016 bonus framework**

For the 2016 financial year, the maximum annual bonus opportunity was 60% of salary for Marcus Leaver and 50% for Michael Connole.

The annual bonus opportunity was split between targeted growth in adjusted profit before tax and other financial and personal goals. 45% of total bonus potential for Marcus Leaver and 42.5% for Michael Connole is based on growth in adjusted profit before tax. The balance is based on achievement of personal objectives.

The adjusted group profit before tax target was based on the 2015 actual result, adjusted upwards to reflect the becker&mayer and Harvard Common Press acquisitions giving a Threshold of \$15.65m and a Stretch of \$16.72m.

The actual adjusted profit before tax for the year for bonus purposes was \$14.5m and thus neither the Threshold nor the Stretch targets were exceeded and no bonus is payable in respect of this element of the overall annual bonus for both Marcus Leaver and Michael Connole.

Personal objectives for Marcus Leaver and Michael Connole were set by the Committee in discussion with the Chairman. For both executive directors, personal objectives included both financial and non financial criteria with 15% of salary potentially payable for Marcus Leaver and 7.5% of salary potentially payable for Michael Connole. Neither director achieved the financial objective which was based on a reduction in net debt.

After taking account of their financial targets and personal goals, bonus awards were:

	\$'000	% of maximum
Marcus Leaver	34	12%
Michael Connole	-	n/a

2017 annual bonus framework

Following the review of Smith & Williamson LLP, the Remuneration Committee plan to review the remuneration structure in 2017 to be implemented in 2018 following approval at the Annual Meeting.

Medium-term performance bonus

2014-2016 medium-term bonus framework

This is the third and final year of the current medium term bonus scheme which 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 targets have been changed by the Committee to reflect the preferred measure of adjusted profit before tax in line with the Annual Bonus Awards. Base is the achieved adjusted profits before tax for 2013 adjusted upwards to account for a one-off gain in 2014 on interest charges from the effect of terminating an interest rate swap, in 2013. There has been no adjustment for acquisitions. The target is based on compound increases over three years over the Base of \$12.46m giving Threshold for a 9.3% increase at \$13.62m and Stretch for a 33.1% increase at \$16.6m.

The Adjusted Profit before Tax for the year ended 31 December 2016 for the purposes of the Medium Term performance bonus was \$12.42m, on the base figure for 2013 of \$12.46m, therefore the target performance was missed and no medium-term performance bonus is payable to Marcus Leaver.

Long-term incentives

PSP Awards

Marcus Leaver was granted an award of 666,666 shares on 22 May 2014 which did not vest until 30 June 2016, subject to performance criteria of achieving an average share price of 250p per share over any consecutive 90 day period occurring before the vesting period. On 31 March 2016, the Company confirmed that the performance criteria attaching to the award had been achieved, and that the shares became capable of being exercised at any time after 30 June 2016. On 9 August 2016, 666,666 shares were transferred to Marcus Leaver out of Treasury Stock. The mid-market closing price on that date was 263.75p. Marcus Leaver informed the Company on 12 August 2016 that he had sold 313,333 shares at a price of 250p to settle the tax liability arising on the exercise of the award.

On 18 April 2016, Marcus Leaver was granted 73,750 PSP Awards and Michael Connole was awarded 48,980 PSP Awards. The value of these awards was £180,688 and £120,000 respectively based on a closing price of 245p on the day before. They represented 50% of salary respectively. On 24 May 2016, following approval at the Annual Meeting held on that date, Marcus Leaver was issued with a further 83,732 PSP Awards. These awards which required shareholder consent, are treated as though they were issued on 24 September 2015 and represented 50% of salary at that time. The value of these awards was £175,000 based on the closing price of 2.09p on 23 September 2015.

Half of the awards set out above have a performance condition relating to cumulative Adjusted Diluted EPS performance for the four financial years 2016 to 2019 inclusive. The other half of these awards have a performance condition relating to total shareholder returns ('TSR') from a combination of dividends, capital returns and share price growth (measured as an average over a 20 business day period leading up to grant and vesting as appropriate). The TSR period runs from 18 April 2016 to 18 April 2020.

Targets for EPS are annual compounded growth of 5% for Threshold to 10% for Stretch. Targets for total shareholder returns over the period are annual compounded growth of 7% for Threshold and 15% for Stretch.

The Committee believes the TSR directly measures shareholder returns and thereby aligns the goals of management and shareholders. However, TSR can be affected by a variety of investment factors, which are far removed from those which management can directly affect. The Committee believes that cumulative diluted EPS to be a good measure of managements' long-term impact on the business and which over time translates into shareholder value. Thus a combination of TSR and EPS is believed to be suitable goals for the PSP Awards. Major shareholders have been consulted about adding the TSR condition.

ANNUAL REPORT ON REMUNERATION CONTINUED

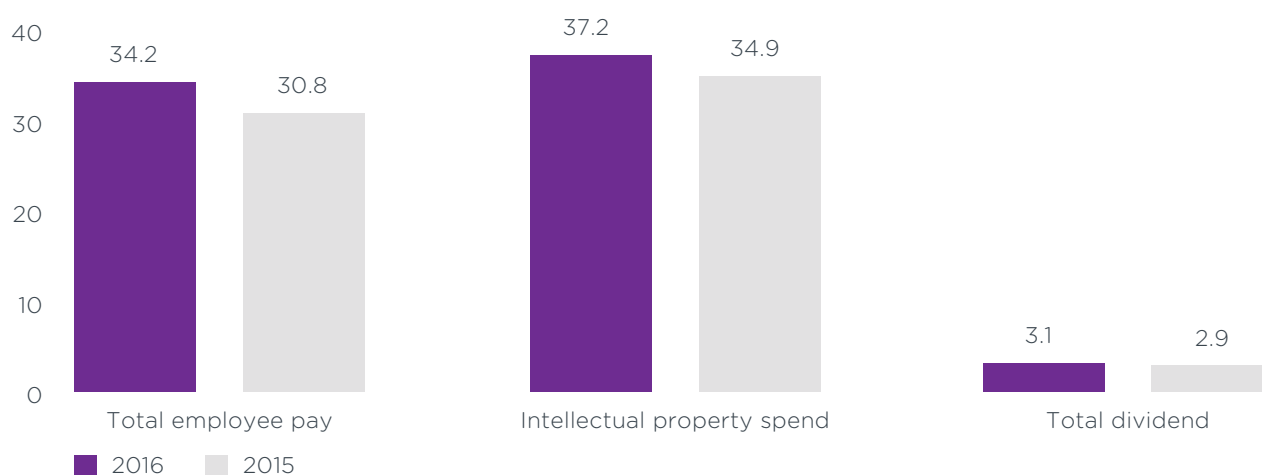
Chair and non-executive director fees

With effect from the date of the Annual Meeting in 2014, the non-executive Directors received 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 Chair receives an annual fee of £70,000.

The non-executive Directors' fees for 2017 are as follows: Jess Burley £38,500 and Mike Hartley £41,500. Following a review of Peter Read's appointment in accordance with his letter of appointment, it is proposed that he receives a fee increase of £2,500, increasing his annual fee to £72,500, to take effect subsequent to the Annual Meeting on 16 May 2017.

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 31 December 2015 and 31 December 2016.



Total employee pay has been impacted by exchange rate movements.

Review of group performance

The chart on page 61 compares the value of £100 invested in Quarto shares, including re-invested dividends, on 31 December 2010 compared to the equivalent investment in the FTSE Small Cap Index, over the last eight 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.

	2009	2010	2011	2012	2013	2014	2015	2016
CEO single figure of remuneration including bonus (\$'000)	729	750	996	1,020 ¹	870	842	929	3,252
Annual bonus awarded								
\$ amount (\$'000s)	-	39 ²	57 ²	121 ²	233	169	305	34
% of maximum opportunity	-	-	-	-	56.9%	33.5%	95.0%	12.0%
PSP vesting								
\$ amount (\$'000s)	-	-	-	-	-	-	-	2,651
% of maximum opportunity	-	-	-	-	-	-	-	100%

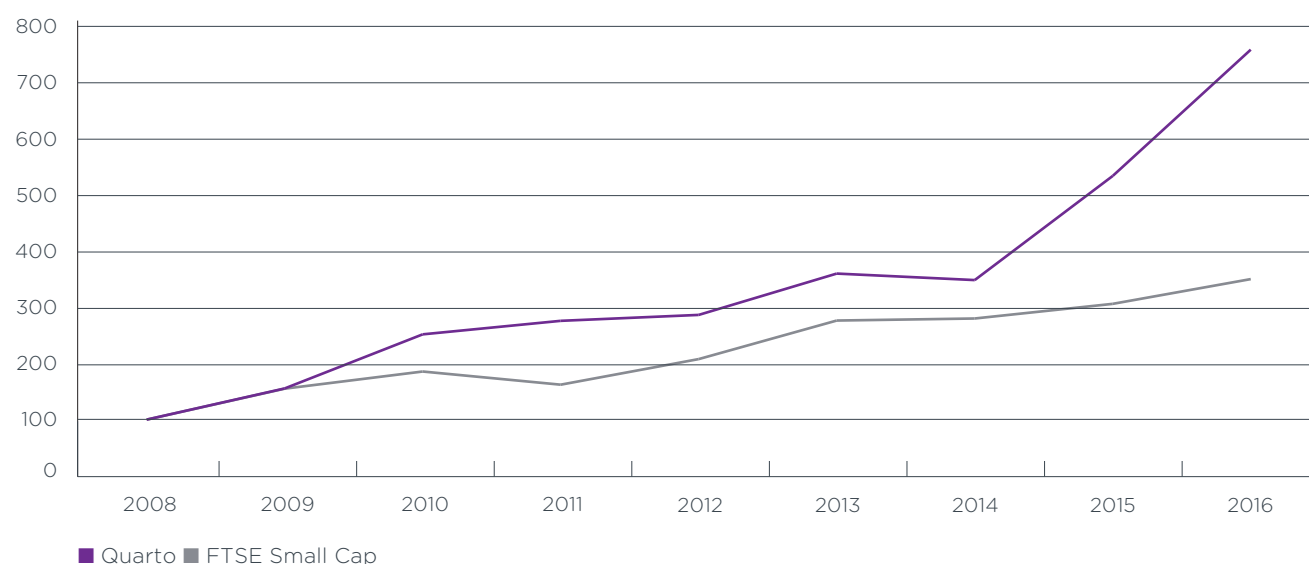
¹ The figure for 2012 is a combination of remuneration of Laurence Orbach, the previous CEO, and Marcus Leaver for the respective periods.

² Discretionary

2015 annual performance bonus

The Committee considered, in light of the restatement of 2015 accounts, whether any clawback is activated on 2015 annual performance bonus awards and concluded no clawback is required.

Performance graph



Change in CEO remuneration and for employees as a whole

The table below shows the change in CEO annual cash remuneration, defined as salary, taxable benefits and annual bonus, compared to the average employees for 2015 to 2016.

\$'000	CEO			Average for other employees
	2016	2015	% change	% change
Salary	488	536	(9%)	(2.4%)
Taxable benefits	6	8	(25%)	(4%)
Annual variable bonus	34	305	(88%)	33%
Total	528	849	(38%)	(1.6%)

Salary, benefits and bonuses have been impacted by exchange rate movements.

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). In the 10 year period to 31 December 2016, awards made under the Group's share schemes represented 6.8% (2015: 4%) of the Group's issued share capital.

Directors' shareholding guidelines and share scheme interests

Marcus Leaver's award of 666,666 shares (granted May 2014) vested in June 2016 and he was not required to retain any proportion of these shares.

Otherwise, to date, there has been no requirement for Executive Directors to retain shares as no other shares have vested and they are compliant with the shareholding guidelines.

Jess Burley

Chair of the Remuneration Committee
19 April 2017

DIRECTORS' REPORT

Group

The Directors present their report and the audited financial statements of The Quarto Group, Inc., for the year ended December 31, 2016.

Results and dividends

The loss for the year is \$5.3m (2015 restated: profit of \$8.5m). The Directors propose a final ordinary dividend of 9.87c (7.96p) per share (2015: 9.41c (1.9p) per share), amounting to \$2.0m (2015: \$1.9m), subject to approval at the Annual Meeting.

Details of significant events since the balance sheet date are included in Note 31 to the financial statements. An indication of likely future developments in business of the Group and included in the Strategic Report on page 15.

Directors

Serving Directors during the year and subsequently, were as follows:

P. Read	(Non-executive) Chairman Appointed 24 May 2016
M. E. Leaver	
M. D. Connole	Resignation submitted 30 March 2017
J. Burley	(Non-executive)
M. G. Hartley	(Non-executive)
T. J. M. Chadwick	(Non-executive) Chairman, Resigned 24 May 2016
M. L. Windeler	(Non-executive) Appointed 24 May 2016, Resigned 27 September 2016
R. J. Morley	(Non-executive) Deputy Chairman, Resigned 31 March 2016
C. H. B. Mills	(Non-executive) Resigned 24 May 2016

None of the Directors have a service agreement of more than one year's duration. All of the directors are subject to annual re-election. The terms and conditions of appointment of non-executive directors are made available for inspection at the company's registered office.

No Director had a contract of significance with the company or its subsidiaries during the year.

Disclosure of information under Listing Rule 9.8.4

For the purpose of compliance with LR 9.8.4 R, the following information is included by reference within the Director's Report:

LR 9.8.4 R	Location
Directors' remuneration	Directors' Remuneration Report, pages 55 to 61
Details of Long-term Incentive Plans	Directors' Remuneration Report, pages 55 to 61

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 31 December 2016 is illustrated in the table below.

	Males	Females
Board	4	1
Senior Leadership Team	5	3
All employees	136	314

The Group's Senior Leadership Team comprises the Group's CEO and CFO, together with seven senior managers.

The gender split of the Senior Leadership Team changed post year-end to five males and four females.

Substantial shareholders

The Directors have been advised of the following shareholders who have an interest of 3% or more in the shares of the common stock of the Company at 31 December 2016 and 31 March 2017. 31 March 2017 is the latest practicable date prior to the publication of this report.

	As at 31 December 2016		As at 31 March 2017	
	Number of US\$0.10 shares of common stock	% holding of the capital of the Company	Number of US\$0.10 shares of common stock	% holding of the capital of the Company
Mr L F Orbach	2,934,185	14.35	2,934,185	14.35
Liontrust Asset Management	2,630,282	12.87	2,556,282	12.50
Herald Investment Management	1,812,045	8.86	1,812,045	8.86
Henderson Global Investors	1,160,233	5.68	1,160,233	5.68
Unicorn Asset Management	1,081,582	5.29	1,150,000	5.63
Gresham House Asset Management Limited	898,837	4.40	898,837	4.40
River & Mercantile Asset Management	896,555	4.39	401,555	1.96
AXA Investment Managers UK	875,000	4.28	875,000	4.28
Lazard Freres Gestion	830,000	4.06	993,674	4.86
Cavendish Asset Management	791,000	3.87	685,000	3.35
JP Morgan Asset Management	769,969	3.77	769,969	3.77

The rights attaching to the Company's shares of common stock are set out in the Company's By-Laws, which can be found on the Company's website, www.quarto.com. 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. The Directors' interests in the shares of the Company are set out on page 57. There are no restrictions on the number of shares that Directors can hold.

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 in Note 22. Operational risks are set out on page 22 of the Financial Review.

Corporate governance

The Company is committed to high standards of corporate governance and supports the principles laid down in the UK Corporate Governance Code issued by the Financial Reporting Council in 2016 (the 'Code'). The Board considers that the Company has been in compliance with the principles and provisions of the Code, with the exception of those outlined below, throughout the year ended 31 December, 2016 and to the date of this report.

DIRECTORS' REPORT CONTINUED

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) As at 31 December 2016, the Board comprised two Executive Directors and three Non-executive Directors. The Chairman is responsible for the leadership of the Board and ensuring its effectiveness. The different roles of the Chairman and Chief Executive Officer are acknowledged. The senior independent Non-executive Director is Michael Hartley who is available to shareholders, if they have concerns which are not able to be resolved through normal channels. Three Non-executive Directors, Peter Read, Michael Hartley and Jess Burley are considered by the Board to be independent. During the year, Timothy Chadwick (resigned 24 May 2016) and Christopher Mills (resigned 24 May 2016) were not deemed to be independent because of their relationship with Harwood Capital LLP, which was a major shareholder. Bob Morley, (resigned 31 March 2016), who co-founded the Group and previously served as a Director until May 2012, was also not deemed independent.

There are a number of standing Committees of the Board to which various matters are delegated. They all have formal terms of reference approved by the Board which are available on the Company's website (www.quarto.com).

Attendance by Directors at Board and Committee meetings in 2016

	Board	Audit Committee	Nominations Committee	Remuneration Committee
Jess Burley	5	3	3	4
Timothy Chadwick ¹	2	-	1	2
Michael Hartley	7	4	3	4
Marcus Leaver ⁶	7	4	3	2
Michael Connole ⁶	8	4	-	2
Christopher Mills ²	-	-	1	1
Robert Morley ³	1	-	-	-
Peter Read ⁴	5	4	2	2
Marie-Louise Windeler ⁵	3	2	-	-
Total number of meetings	8	4	3	4

¹ Timothy Chadwick resigned on 24 May 2016

² Christopher Mills resigned on 24 May 2016

³ Robert Morley resigned on 31 March 2016

⁴ Peter Read appointed on 24 May 2016

⁵ Marie-Louise Windeler appointed on 24 May 2016 and resigned on 27 September 2016

⁶ These Directors are not members of the Audit or Remuneration Committees and attend by invitation only.

- c) The Board met eight times in 2016. Attendance details are set out above. A formal agenda is prepared for each meeting and all board papers and information are circulated to the Board at least a week before the meetings.
- d) All of the Directors are subject to re-election by the shareholders at the Annual Meeting. The Board is satisfied to support the re-election of Peter Read, Mike Hartley and Jess Burley as non-executive Directors as they have individually produced excellent performance in their duties and have shown a high level of commitment to their roles.
- e) The remuneration of the Executive Directors is recommended by the Remuneration Committee, comprising Jess Burley, who is the Committee Chairman, Michael Hartley and Peter Read. A separate report with respect to Directors' remuneration is included on pages 55 to 61. The Committee meets at least three times a year. At year end 31 December 2016 the Committee had met four times.
- f) The Audit Committee is comprised of Michael Hartley, who is Committee Chairman, and Jess Burley. The Board is satisfied that Michael Hartley, together with Jess Burley, has appropriate financial experience to fulfil their role. Further details of the Committee's work can be found on pages 43 to 45.

- g) The Nominations Committee is comprised of Peter Read, who is Committee Chairman, Michael Hartley, Jess Burley and Marcus Leaver. Details of the work of the Nominations Committee during the year are set out in its report on page 42.
- h) A formal review of the performance of the Board, its Committees and the Directors was carried out before the year end, led by the Chairman and assisted by the Company Secretary. A questionnaire was used as part of the process and individual performance was reviewed by the Chairman. The Chairman's own performance was subject to a review led by the Senior Independent Director. The output from the appraisal confirmed that the Board and its Committees were operating effectively.
- i) The Chief Executive Officer and 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 the meeting. All Directors attend the meeting which is used to communicate with shareholders.

- j) The Board has a procedure for Directors to take independent professional advice at the Company's expense, if required.
- k) All Directors have access to the advice and services of the Company Secretary.
- l) Quarto has arranged appropriate insurance cover in respect of legal action against the Directors.
- m) The Company has an established whistle-blowing policy.

The provisions of the Code not complied with are as follows:

A.3.1. - As noted above, Timothy Chadwick, the Chairman of the Board until 24 May 2016, was not independent.

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

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) and has chosen 2014 as our Base Year, following the disposal of our silk screen printing business in 2013.

Global GHG emissions

	2016	2015
	Tonnes of CO ₂ e	
Scope 1	13	17
Scope 2	258	268
Total GHG emissions (CO ₂ e)	271	285
Average number of staff	499	321*
Emissions per staff member	0.54	0.89

* Excluding staff at fully serviced offices.

DIRECTORS' REPORT CONTINUED

Risk management and internal controls

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. As stated previously, the Directors have carried out a robust assessment of the principal businesses and considered the controls in place to eliminate or mitigate the impact of key risks. 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 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 weekly and a report is produced summarising the Group position.
- e) The Chief Executive Officer and the Chief Financial Officer make frequent visits to all operating segments. These visits include reviews of the internal control and financial reporting systems. In 2017, dedicated internal audit resource will assume responsibility for internal audit reviews, reporting directly to the Audit Committee.
- 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 perform on-going monitoring and review of 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 and covers all material controls. 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. The Board identified

significant failings in respect of financial reporting controls during the year, which together with remedial action is discussed in the Audit Committee Report on pages 43 to 45. We will continue to develop our risk management framework during 2017.



Anne Crompton
Secretary
19 April 2017
Company Registration Number:
FCO 13814

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 Conduct 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, including FRS102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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 the parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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 and Article 4 of the IAS Regulation. 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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS CONTINUED

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 auditor is 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.

We confirm 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;
- the Strategic Report includes 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; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.



Anne Crompton

Secretary

19 April 2017

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF THE QUARTO GROUP, INC.

Opinion on financial statements of The Quarto Group, Inc.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 which would have applied were the company incorporated in the United Kingdom.

The financial statements that we have audited comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated balance sheet;
- the consolidated statement of changes in equity;
- the consolidated cash flow statement;
- the related notes to the consolidated financial statements 1 to 32;
- the parent company balance sheet;
- the parent company statement of changes in equity; and
- the related notes to the parent company financial statements 1 to 9.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Summary of our audit approach

Key risks	<p>The key risks that we identified in the current year were:</p> <ul style="list-style-type: none"> • Accounting for the potential Books & Gifts Direct ('BGD') disposal transactions; • BGD Australia Stock in transit accounting and prior year adjustment; • Going concern and covenant compliance; • Acquisition accounting for becker&mayer; • Assessment of the carrying value of goodwill of Quarto US 'QUS'; • Assessment of the carrying value of pre-publication costs; and • Assessing the level of sales returns against revenue recognised. <p>Within this report, any new risks are identified with \blacktriangle and any risks which are the same as the prior year identified with \blacktriangledown.</p>
Materiality	<p>The materiality that we used in the current year was \$745,000 (2015: \$697,000) which was determined on the basis of 5.7% of adjusted profit before tax (although our adjusted profit before tax does not add back amortisation of intangibles).</p>
Scoping	<p>We complete full scope audits of Quarto US and Quarto UK components. We also include Australia, New Zealand and Hong Kong as full scope audits.</p> <p>These locations represent the principal business units and account for 98% of the Group's revenue (2015: 99%), 94% of the Group's adjusted profit before tax (2015: 97%) and 99% of the Group's net assets (2015: 98%).</p>
Significant changes in our approach	<ul style="list-style-type: none"> • Following management announcing their intention to divest the BGD business and given the estimated proceeds were significantly below the carrying value of the goodwill and net assets, we therefore identified this as a key audit risk. • As a result of Group management's identification of material errors in the stock in transit 'SIT' balance in Australia we identified this as a new key risk. • As a result of management identifying that the Q4 2016 Cashflow after debt service ('CFADS') covenant test had failed, we identified going concern and covenant compliance as a key risk. • We included the acquisition of becker&mayer as a key risk given that this was a significant acquisition in the year.

INDEPENDENT AUDITOR'S REPORT CONTINUED

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within Note 1 to the financial statements and the directors' statement on the longer-term viability of the group contained within the financial review on page 29.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the directors' confirmation on page 22 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 22 and 23 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in Note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation on page 29 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

^ Accounting for the potential BGD disposal transactions

Risk description The Group has been seeking to dispose of its BGD Australia and New Zealand businesses. Heads of terms were signed in January 2017 and further negotiations followed. A disposal in Australia was agreed on 25 March 2017 and completed on 31 March 2017 for consideration of A\$1 together with the assignment of A\$1.9m of certain debts owed by the master franchisees acquiring the business to BGD Australia. New Zealand disposal discussions remain ongoing. These transactions gave rise to management judgements in particular in relation to the impact on the valuation of the business given the actual and potential proceeds were significantly below the carrying value of the goodwill and net assets, resulting in an exceptional impairment of \$14.2m.

Management have also set out supplementary information on the face of the income statement to show the results of the BGD segment separately, as the transactions did not meet the assets held for sale criteria at the balance sheet date, and management thought this additional disclosure would be beneficial to the readers. This was discussed by the Audit Committee (see page 44). Note 5 to the accounts sets out the material impairments recognised as exceptional items and subsequent events Note 31 sets out the status of the transactions.

How the scope of our audit responded to the risk

- We obtained and reviewed the signed sale and purchase agreement for the Australia disposal.
- We obtained the broker information in relation to the New Zealand discussions.
- We reviewed a report from management's external advisors relating to potential Australia and New Zealand disposal options and valuation impacts and considered the evidence contained in the report.
- We reviewed the Group's board minutes to confirm the board's conclusions on potential transactions in 2017.
- We considered the component auditor reporting in particular on receivables confirmations received.

Key observations

- We concluded, consistent with management, that the BGD transaction completed post year end and did not represent an asset held for sale at the balance sheet date.
- Our audit identified adjustments to the local reported results which were corrected by Group management. At a Group level these adjustments were offset against the Group's impairment charge arising from the estimated transaction proceeds with no overall impact on the segment results.
- Management's estimated proceeds based on the concluded transaction, existing discussions and other available information appeared reasonable.

^ BGD Australia Stock in transit accounting and prior year adjustment

Risk description Group management's identification of material errors in the stock in transit 'SIT' inventory balance, increasing cost of sales by \$0.7m on the 2015 results and reducing 2014 and earlier period retained earnings by \$1.0m in Australia, required assessment of the nature and timing of the errors to determine the appropriate corrections and whether there was a prior period impact which may result in a prior year restatement.

A high level assessment was performed by a third party adviser of the business. UK management then undertook a detailed assessment with local management to establish the corrections required noting that the prior period errors related to cut off procedures in relation to stock in transit and errors in relation to the accounting for certain inventory returns.

The resulting prior year restatement has been detailed in Note 1 of the accounts. The audit committee report on page 44 discusses the control failures identified which resulted in the errors.

INDEPENDENT AUDITOR'S REPORT CONTINUED

How the scope of our audit responded to the risk	<ul style="list-style-type: none"> • We reviewed the reports from the third party adviser to understand their consideration of the underlying cause of the errors and their preliminary quantification and assessment of the errors. • We reviewed management's paper and held regular meetings with management to understand the nature of the errors identified and evaluate the adequacy of the work performed during the audit process. • We assessed the prior period errors in light of IAS 8 'Accounting policies, changes in accounting estimates and errors'.
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Key observations	<ul style="list-style-type: none"> • We reported control deficiencies relating to the financial reporting processes and reconciliations relating to the Australian and New Zealand businesses. These are discussed in the Audit Committee report on pages 44 and 45. • We concur that it is appropriate to account for the prior year errors as a prior year restatement, and we consider that the disclosures recorded by management are appropriate.
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^ Going concern and covenant compliance

Risk description	<p>Management identified post year end that the Q4 2016 CFADS covenant test had failed although this did not constitute a breach as the current agreement allows for a covenant test to fail once. Additional sensitivities were identified for the Q1 CFADS 2017 covenant headroom and subsequent periods due to the seasonality of the business. The exclusion of the exceptional impairments from the future covenant tests was also a key factor for forecast compliance. In light of this we elevated going concern to a significant risk.</p> <p>Page 84 and Note 1 to the accounts sets out management's disclosure and page 43 of the Audit Committee report highlights the control failures identified in this area.</p>
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How the scope of our audit responded to the risk	<ul style="list-style-type: none"> • We analysed the going concern model and additional sensitivities applied by management in light of the Q4 CFADS fail, together with the impact of available and committed mitigating actions. • We reviewed the bank's confirmation for the permitted exclusion of the exceptional impairment charges from the covenant calculations.
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Key observations	<p>We consider that meeting the Q1 covenant test, the forecast covenant compliance and the mitigating actions available to management reasonably support the Board's assessment that there is not a material uncertainty in relation to going concern. As noted in the Audit Committee report on page 43 we also highlighted control deficiencies in relation to this risk.</p>
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^ Acquisition accounting for becker&mayer

Risk description	<p>The Group acquired b&m on 31 July 2016 for consideration of \$11.3m. Management judgement is involved in acquisition accounting in relation to: the identification and valuation of acquired intangibles (being pre-publication costs and backlists) and estimation of useful economic lives; the fair value of consideration; the fair value of the assets and liabilities acquired; and the alignment of accounting policies. The purchase price allocation and fair value of assets acquired is set out in Note 30. This is also discussed in the Audit Committee report on page 44.</p>
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How the scope of our audit responded to the risk	<ul style="list-style-type: none"> • We have assessed the nature of the transaction with reference to IFRS3 '<i>Business Combinations</i>'. • We reviewed the purchase agreements. • We engaged our valuation specialists to assess the appropriateness of the valuation model and certain key assumptions within of intangibles valuation prepared by management's external expert. • We assessed the forecasts and discount rates used in estimating contingent consideration for consistency with the impairment review and going concern analysis. • We audited the acquired assets and liabilities to supporting documentation, agreements, as well as post acquisition receipts and payments, and inventory count procedures rolled back to acquisition date.
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Key observations We concur with management's view that the b&m acquisition is a business combination within the scope of IFRS3 '*Business Combinations*'.

We identified reclassification adjustments between other assets and liabilities, and goodwill which were corrected by management as referenced in the Audit Committee report on page 44 and identified a deficiency in the controls around acquisition accounting, as referenced in the Audit Committee report on page 44.

› **Assessment of the carrying value of QUS goodwill**

Risk description The Group holds \$36.1m of goodwill on its balance sheet following the recognition of \$3.1m of goodwill on acquisitions, \$6.0m of impairment relating to BGD (see earlier section) and exchange movements. The largest balance relates to QUS (\$30.0m) as shown in Note 11 to the accounts and the Group's impairment policies for this balance are disclosed in Note 1 to the accounts.

We identify the carrying value of QUS goodwill as a key risk due to the continuing sensitivity of this CGU to reasonable possible changes in key assumptions around discount rates, cash flow forecasts and growth rates and the inclusion of these disclosures in the 2016 annual report. This is also discussed in the Audit Committee report on page 44.

- How the scope of our audit responded to the risk**
- We challenged management on the appropriateness of including the acquisition goodwill as part of the QUS CGU through evidencing the level of integration of businesses and the internal reporting of the Group and reviewed the acquisition board papers and the due diligence reports where available.
 - We critically challenged the key judgements made by management around cash flow forecasts, growth rates and discount rates through:
 - testing the integrity of management's model;
 - engaging our valuation specialists to independently establish an appropriate discount rate;
 - performing historical forecasting accuracy analysis and assessing key changes in forecasts;
 - performing benchmarking of competitors and industry data;
 - considering post year end trading performance; and
 - performing sensitivity analysis to assess breakeven points and scenario combinations.

- Key observations**
- We identified certain process deficiencies in this area, which are discussed in the Audit Committee report on page 44.
 - QUS goodwill remains sensitive to changes in key assumptions. It is appropriate to disclose reasonably possible change scenarios.

› **Assessment of the carrying value of pre-publication costs**

Risk description The Group's net book value of capitalised pre-publication costs at 31 December 2016 was \$61.1m (2015: \$59.4m) as detailed in Note 15. The Group capitalises third party costs incurred and directly attributable costs in developing book titles prior to their publication. The Group amortises its pre-publication costs over a period of up to three years on a straight line basis which is considered to reflect the life of its imprints on a portfolio basis.

The nature of the asset involves judgement in respect of the life of an imprint and ultimately its recoverability.

Management also undertook an exercise to review the useful economic lives of its imprints and increased the lives of certain imprints to 3 years following this exercise. The \$2.1m reduction in 2016 amortisation charge (if applying legacy UELs) has been disclosed as a change in accounting estimate with the effect being applied prospectively, in accordance with IAS8 '*Accounting Policies, Changes in Accounting Estimates and Errors*'.

This is also discussed in the Audit Committee report on page 44.

INDEPENDENT AUDITOR'S REPORT CONTINUED

How the scope of our audit responded to the risk	<ul style="list-style-type: none"> • We analysed the Group's historical revenue profile by looking at the profile of revenue earned from 2013 and 2014 additions in the UK and US. • We performed testing of third party costs and directly attributable internal costs capitalised in accordance with the requirements of IAS 38 'Intangible Assets' by sample testing them to supporting invoices as well as assessing the validity and allocation of payroll costs to titles through review of timesheets. • We performed benchmarking of the amortisation policy and profile against a number of industry peers. • We assessed the recoverability based on a CGU basis as well as a on a sample basis of current year contribution per title.
Key observations	<ul style="list-style-type: none"> • The results of our procedures were satisfactory and we agree that management's change in accounting estimate and disclosure appears reasonable and consistent with the requirements of IAS 8, '<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>'.
> Assessment of sales returns against revenue recognition	
Risk description	<p>The Group primarily generates revenue from publishing new titles and sales of back catalogue (see revenue recognition policy in Note 1). In certain business units customers have a right of return for a limited period and revenue is recorded net of a provision for these returns based on historical data. Management judgement is required when assessing the level of sales returns subsequent to the year-end to be provided for at the year-end. Key assumptions principally surround historical return experience when estimating future sale return levels against revenue recognised in the year. This is also discussed in the Audit Committee report on page 45.</p>
How the scope of our audit responded to the risk	<p>The audit procedures we performed in respect of this risk included:</p> <ul style="list-style-type: none"> • Testing a sample of underlying returns data used to develop the sales return estimate for completeness and accuracy and challenging the appropriateness of the rate by reference to current and post year end sales returns levels. • Independently recalculated the returns provision and reviewed the level of sales post year end for relative consistency with year-end assumptions with no significant issues arising. • Using analytical techniques to assess monthly returns by reference to historical trends. • Considering forecasting accuracy by comparing actual returns against accrual estimates.
Key observations	<p>We concur with management's view that the adjustment for sales returns against revenue appears reasonable.</p>

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	\$745,000 (2015: \$697,000)
Basis for determining materiality	Our materiality is 5.7% of adjusted profit before tax (2015: 5.0% of adjusted profit before tax). Adjusted profit before tax is derived from the loss before tax with exceptional items added back. The exceptional items per Note 5 have been added back to the reported loss before tax. Management's adjusted profit before tax measure also adds back the amortisation of acquired intangibles.
Rationale for the benchmark applied	We have determined a profit based measure is appropriate in line with prior year. The adjusted profit before tax measure excludes those items identified as exceptional in the annual report (Note 5) and is consistent with the measures used by the Group for internal and external reporting requirements. This measure has been used to facilitate a better understanding of the trading performance of the Group, it is consistent with our approach adopted in previous years.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of \$37,250 (2015: \$13,900), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group, its environment and assessing the risks of material misstatement at the Group level.

Based on that assessment we include Quarto Publishing Plc, Quarto Publishing USA Inc., (including the businesses acquired during the year), and The Quarto Group Inc. as full scope audit (Scope A) procedures to statutory or component materiality completed by Deloitte London.

We include Australia, New Zealand and Hong Kong as full scope audits (scope B) where the audit work is performed by overseas component auditors under our direction and supervision to component materiality or local statutory materiality.

These locations which were subject to full scope audit procedures and represent the principal business units and account for 98% of the Group's revenue (2015: 99%), 94% of the Group's adjusted profit before tax (2015: 97%) and 99% of the Group's net assets (2015: 98%).

We completed analytical procedures for operations in Switzerland and for other holding companies on an entity only basis to confirm there are no significant risks of material misstatements within these entities.

At the parent entity level we also test the Group consolidation process.

In the current year given the errors identified in the BGD Australia business we performed an increased level of supervision of our component audit team as they performed their audit procedures. We held regular conference calls to discuss the issues identified and the progress of the procedures. We performed a detailed file review of their 2016 audit working papers.

INDEPENDENT AUDITOR'S REPORT CONTINUED

Opinion on other matters prescribed by our engagement letter

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006 were the requirements of the Act to apply to The Quarto Group Inc.;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records **We have nothing to report in respect of these matters.**

Under our engagement letter we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

Directors' remuneration

Under our engagement letter we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (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 we communicated to the audit committee which we consider should have been disclosed.

We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, 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). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

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 and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; 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.

Deloitte LLP

Chartered Accountants and Statutory Auditor
 London
 19 April 2017

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Year ended 31 December 2016			Year ended 31 December 2015		
		Group excluding Books & Gifts Direct \$'000	Books & Gifts Direct \$'000	Group \$'000	Group excluding Books & Gifts Direct \$'000	Restated (Note 1) Books & Gifts Direct \$'000	Restated (Note 1) Group \$'000
Continuing operations							
Revenue	2	169,076	19,358	188,434	160,105	22,060	182,165
Cost of sales		(114,095)	(17,070)	(131,165)	(105,956)	(17,578)	(123,534)
Gross profit		54,981	2,288	57,269	54,149	4,482	58,631
Other operating income			-		-	-	-
Distribution costs		(6,870)	(388)	(7,258)	(6,548)	(648)	(7,196)
Administrative expenses		(29,533)	(3,720)	(33,253)	(32,008)	(2,952)	(34,960)
Exceptional impairment of BGD operating assets	5	-	(7,997)	(7,997)	-	-	-
Operating profit/(loss) before amortisation of acquired intangibles and other exceptional items	3	18,578	(9,817)	8,761	15,593	882	16,475
Amortisation of acquired intangibles		(654)	(51)	(705)	(672)	(52)	(724)
Other exceptional items	5	(191)	(6,206)	(6,397)	(445)	-	(445)
Operating profit/(loss)	4	17,733	(16,074)	1,659	14,476	830	15,306
Finance income	7	153	11	164	116	26	142
Finance costs	8	(3,109)	-	(3,109)	(3,240)	-	(3,240)
(Loss)/profit before tax		14,777	(16,063)	(1,286)	11,352	856	12,208
Tax	9	(4,031)	40	(3,991)	(2,849)	(836)	(3,685)
(Loss)/profit for the year		10,746	(16,023)	(5,277)	8,503	20	8,523
(Loss)/profit for the year attributable to:							
Owners of the parent		10,326	(16,023)	(5,697)	8,115	20	8,135
Non-controlling interests		420	-	420	388	-	388
		10,746	(16,023)	(5,277)	8,503	20	8,523
(Loss)/earnings per share (cents)							
Basic	10	51.7		(28.5)	41.2		41.3
Diluted	10	50.5		(28.5)	41.1		41.2
Adjusted basic	10	54.7		5.7	46.0		46.2
Adjusted diluted	10	53.5		5.6	45.9		46.1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 \$'000	Restated (Note 1) 2015 \$'000
(Loss)/profit for the year	(5,277)	8,523
Items that may be reclassified to profit or loss		
Foreign exchange translation differences	706	(2,340)
Cash flow hedge: gains/(losses) arising during the year	150	(64)
Cash flow hedge: reclassification adjustment for net income recognised directly in equity	-	68
Tax relating to items that may be reclassified to profit or loss	(1,609)	(14)
Total comprehensive (expense)/income for the year	(6,030)	6,173
Total comprehensive (expense)/income for the year attributable to:		
Owners of the parent	(6,450)	5,799
Non-controlling interests	420	374
	(6,030)	6,173

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2016

	Notes	2016 \$'000	Restated (Note 1) 2015 \$'000	Restated (Note 1) 2014 \$'000
Non-current assets				
Goodwill	11	36,144	40,112	41,069
Other intangible assets	12	4,351	1,510	956
Property, plant and equipment	13	1,857	3,368	2,731
Intangible assets: Pre-publication costs	15	61,133	59,443	57,534
Deferred tax assets	20	2,022	-	126
Total non-current assets		105,507	104,433	102,416
Current assets				
Inventories	16	24,006	25,191	23,859
Trade and other receivables	17	54,162	57,145	51,740
Derivative financial instruments		141	18	-
Cash and cash equivalents		18,824	25,059	23,110
Total current assets		97,133	107,413	98,709
Total assets		202,640	211,846	201,125
Current liabilities				
Short term borrowings	19	(5,000)	(5,000)	(89,150)
Derivative financial instruments		(94)	(10)	(67)
Trade and other payables	21	(59,718)	(63,716)	(53,271)
Tax payable		(4,060)	(2,549)	(2,430)
Total current liabilities		(68,872)	(71,275)	(144,918)
Non-current liabilities				
Medium and long term borrowings	19	(75,748)	(79,562)	-
Deferred tax liabilities	20	(10,502)	(7,466)	(5,927)
Other payables		(3,407)	(99)	(537)
Total non-current liabilities		(89,657)	(87,127)	(6,464)
Total liabilities		(158,529)	(158,402)	(151,382)
Net assets		44,111	53,444	49,743
Equity				
Share capital	24	2,045	2,045	2,045
Paid in surplus		33,764	33,764	33,764
Retained earnings and other reserves		3,410	12,476	8,993
Equity attributable to owners of the parent		39,219	48,285	44,802
Non-controlling interests		4,892	5,159	4,941
Total equity		44,111	53,444	49,743

The financial statements were approved by the Board of Directors and authorised for issue on 19 April 2017.
They were signed on its behalf by:



Marcus E. Leaver, Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital \$'000	Paid in surplus \$'000	Hedging reserve \$'000	Translation reserve \$'000	Treasury shares \$'000	Retained earnings \$'000	Equity attributable to owners of the parent \$'000	Non-controlling interests \$'000	Total \$'000
Balance at 1 January 2015 (as previously stated)	2,045	33,764	-	(5,611)	(634)	16,230	45,794	4,941	50,735
Prior year adjustment (Note 1)	-	-	-	-	-	(992)	(992)	-	(992)
Balance at 1 January 2015	2,045	33,764	-	(5,611)	(634)	15,238	44,802	4,941	49,743
Profit for the period	-	-	-	-	-	8,135	8,135	388	8,523
Other comprehensive income/(expense)									
Foreign exchange translation differences	-	-	-	(2,326)	-	-	(2,326)	(14)	(2,340)
Cash flow hedge: losses arising during the period	-	-	(64)	-	-	-	(64)	-	(64)
Cash flow hedge: reclassification adjustment for gain included in profit	-	-	68	-	-	-	68	-	68
Tax relating to items that may be reclassified to profit or loss	-	-	(14)	-	-	-	(14)	-	(14)
Total comprehensive income for the period	-	-	(10)	(2,326)	-	8,135	5,799	374	6,173
Dividends paid to shareholders	-	-	-	-	-	(2,502)	(2,502)	-	(2,502)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(156)	(156)
Share based payments charge	-	-	-	-	-	186	186	-	186
Balance at 31 December 2015	2,045	33,764	(10)	(7,937)	(634)	21,057	48,285	5,159	53,444
(Loss)/profit for the period	-	-	-	-	-	(5,697)	(5,697)	420	(5,277)
Other comprehensive income/expense									
Foreign exchange translation differences	-	-	-	696	-	-	696	10	706
Cash flow hedge: losses arising during the period	-	-	150	-	-	-	150	-	150
Tax relating to items that may be reclassified to profit or loss	-	-	-	(1,609)	-	-	(1,609)	-	(1,609)
Total comprehensive income/(expense) for the period	-	-	150	(913)	-	(5,697)	(6,460)	430	(6,030)
Dividends paid to shareholders	-	-	-	-	-	(2,902)	(2,902)	-	(2,902)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(697)	(697)
Share based payments charge	-	-	-	-	-	256	256	-	256
Shares released/sold from treasury shares	-	-	-	-	634	(594)	40	-	40
Balance at 31 December 2016	2,045	33,764	140	(8,850)	-	12,120	39,219	4,892	44,111

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 \$'000	Restated (Note 1) 2015 \$'000
(Loss)/profit for the year	(5,277)	8,523
Adjustments for:		
Net finance costs	2,945	3,098
Depreciation of property, plant and equipment and software intangible assets	1,080	1,189
Tax charge	3,991	3,685
Exceptional impairment of BGD assets	14,203	-
Share-based payment charges	256	186
Amortisation of acquired intangibles	705	724
Amortisation of and amount written off pre-publication costs	30,540	33,258
Movement in fair value of derivatives	120	(85)
Operating cash flows before movements in working capital	48,563	50,578
Decrease/(increase) in inventories	1,270	(1,198)
Decrease/(increase) in receivables	1,628	(6,156)
(Decrease)/increase in payables	(7,715)	8,724
Cash generated by operations	43,746	51,948
Income taxes paid	(1,436)	(1,981)
Net cash from operating activities	42,310	49,967
Investing activities		
Interest received	164	142
Investment in pre-publication costs	(37,165)	(34,872)
Purchases of property, plant and equipment and software intangible assets	(1,562)	(2,010)
Acquisition of subsidiaries and business combinations	(3,718)	(1,614)
Net cash used in investing activities	(42,281)	(38,354)
Financing activities		
Dividends paid	(2,902)	(2,502)
Interest payments	(2,725)	(2,891)
Drawdown/(repayment) of revolving credit facility	5,583	(3,283)
Repayment of term loan	(5,000)	-
Dividends paid to non-controlling interests	(697)	(156)
Net cash used in financing activities	(5,741)	(8,832)
Net (decrease)/increase in cash and cash equivalents	(5,712)	2,781
Cash and cash equivalents at beginning of year	25,059	23,110
Foreign currency exchange differences on cash and cash equivalents	(523)	(832)
Cash and cash equivalents at end of year	18,824	25,059

NOTES TO THE FINANCIAL STATEMENTS

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 123. The nature of the Group's operations and its principal activities are set out in Note 3 and in the Chief Executive Officer's Statement on page 12.

The accounting policies adopted, are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those financial statements, except as described below.

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.

Change in estimate

During the year, the Group undertook a review of useful lives of the pre-publications costs incurred in the development of book titles prior to publication. The review resulted in the change in useful life of certain imprints to a three-year useful life in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, the revisions were accounted for prospectively as a change in accounting estimate and as a result, the amortisation charge of the Group for the current financial year has been reduced by \$2.1m.

Restatement of prior year results

In the process of finalising the results of the Books and Gifts Direct business for the year ended 31 December 2016, errors were uncovered in the cut-off procedures and accounting for returns in relation to stock in transit and the related liability accounts at BGD Australia. The errors related to the value attributed to stock in transit at each of the three years ended 31 December 2016, 31 December 2015 and 31 December 2014 where detailed examination has shown that supplier invoices for stock in transit were not processed in the correct accounting period, nor was the correct accrual or return provision recorded in the financial statements. The impact of these errors has resulted in the lower operating margins for the year ended 31 December 2015.

The error was caused by a failure in controls relating to cut-off and reconciliation procedures in respect of stock in transit and the related purchase clearing accounts, and accounting for returns on certain products.

The error has now been corrected and impacts the Consolidated Income Statement as follows:

- Cost of sales for the year ended 31 December 2015 increased by \$0.7m from \$122.8m to \$123.5m which is included in the restated operating results for the year; and
- Opening retained earnings as at 1 January 2015 have been restated and decreased by \$1.0m.

Expected tax losses of \$0.5m have not been recognised as there is insufficient evidence that future profits are available against which the losses could be applied.

The impact on the Consolidated Balance Sheet as at 31 December 2015 and as at 31 December 2014 is:

	As reported 2015 \$'000	Adjustment \$'000	Restated 2015 \$'000	As reported 2014 \$'000	Adjustment \$'000	Restated 2014 \$'000
Inventories	26,147	(956)	25,191	24,851	(992)	23,859
Trade payables	(63,076)	(640)	(63,716)	(53,271)	-	(53,271)
Impact on net assets	55,040	(1,596)	53,444	50,735	(992)	49,743
Impact on total equity	55,040	(1,596)	53,444	50,735	(992)	49,743
Earnings per share (cents)						
Basic	45.0	3.7	41.3			
Diluted	44.9	3.7	41.2			

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, including The Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS 102'); these are presented on pages 116 to 121.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 General information and significant accounting policies continued**Basis of accounting**

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

Significant accounting estimates and judgements

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 year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years. Key estimates at the balance sheet date are:

Note 1: The revenue recognition policy details our judgement in respect of sales returns and the method of estimating the related sales returns allowance

Note 5: Assessment of the recoverable value of the net assets of the BGD business

Note 11: Key assumptions in making the assessment of carrying value of goodwill and acquired intangible assets

Note 15: Recoverability of pre-publication costs and the assessment of their useful life

Note 17: Assessment of the impairment of trade receivables

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

There are no critical judgements that have a significant impact on the financial statements, apart from those involving estimates which are detailed above.

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. See also the Group going concern and viability statement on pages 28 and 29.

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 Officer's Statement on pages 12 to 15.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 24 to 29 and in Notes 18 and 19 to the financial statements.

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

The Group has significant banking facilities including committed facilities comprising a US\$90m multi-currency revolving credit and term loan facility. These facilities were agreed with the Group's bankers on 6 February 2015 and expire on 30 April 2019. The Group has prepared a three-year financial plan comprising a budget for the year ending 31 December 2017 together with projections for the two years ending 31 December 2019. These show that the Group is forecasting to have sufficient headroom within that period. The Group did not pass the CFADS covenant test at 31 December 2016. This does not constitute a breach of the Group's banking facilities as it was the first permitted time we have not passed the test and we are forecasting to pass the test at the next quarter testing date. The covenants will be monitored closely by the Board and we have identified mitigating actions that would maintain compliance with all covenants for the foreseeable future.

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.

1 General information and significant accounting policies continued

The interest of non-controlling interests 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.

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

Amortisation of intangible assets is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The amortisation period for non-contractual relationships is 2.5 years, for backlists is 5 years and software is 4 years.

Volume rebates

In the ordinary course of business, the Group receives volume rebates from its printers. This is accounted for in accordance with contractual terms and is credited in full to cost of sales.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 General information and significant accounting policies continued

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 those which the Group defines as significant items outside the scope of normal business that 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. Tax provisions are based on Management's interpretation of country specific tax law and recognised when it is considered probable that there will be a future outflow of funds to a tax authority. Provisions are made annually based on the specific information available at that time and therefore there is limited risk of change in the estimates in the short term. 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.

1 General information and significant accounting policies continued

Pre-publication costs

Pre-publication costs represent directly attributable costs and attributable overheads incurred in the development of book titles prior to their publication. Attributable overheads are allocated on a title by title basis. 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 amortised on a straight line basis upon publication of the book title over estimated economic lives of three years or less, being an estimate of the expected useful economic life of a book title. The investment in pre-publication costs 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; and
- 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 22 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 amortised 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 amortised cost using the effective interest rate method. A summary of the Group's financial liabilities by category is given in Note 22.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 General information and significant accounting policies continued**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.

Finance costs

Finance costs comprise interest payable on borrowings calculated using the effective interest method together with the amortisation of debt issuance costs.

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 comprise 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 forecast 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 forecast transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in initial recognition of that asset or liability. Amounts previously recognised in other comprehensive income are recognised in the profits and loss 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 forecast 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 equity.

Share-based payments

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

The fair value of employee share option grants is calculated using a Monte Carlo 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.

1 General information and significant accounting policies continued

Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred. Debt issuance costs comprising arrangement fees and legal costs are capitalised and amortised on a straight line basis over the period of the borrowing facility or included within the amortised cost calculation as appropriate. The annual amortisation charge is included within finance costs in the Consolidated Statement of Comprehensive Income.

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 22 and on page 104.

New standards and interpretations not applied

The International Accounting Standards Board and the International Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations for annual periods beginning on or after the effective dates noted below.

IAS/IFRS Standard		Effective for years starting on or after
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Leases	1 January 2019
IAS 7	Amendments to IAS 7 Statement of Cash Flows	1 January 2017
IAS 12	Amendments to Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017

The potential impact of the future adoption of IFRS 15 and IFRS 16 on the Group's accounts is ongoing and it is not practical to provide a reasonable estimate of the impact until this review is completed. Apart from these standards, the Directors do not consider that the adoption of the other standards listed above will have a material impact on the Group's accounts in the period of initial application.

2 Revenue

	2016 \$'000	2015 \$'000
Sales of goods	188,434	182,165
Finance income	164	142
Total	188,598	182,307

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3 Operating segments

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

2016	Quarto International Co-Editions Group \$'000	Quarto Publishing Group USA \$'000	Quarto Publishing Group UK \$'000	Total Publishing \$'000	Books & Gifts Direct, ANZ \$'000	Quarto HK \$'000	Total \$'000
Revenue	51,915	81,189	21,506	154,610	19,358	14,466	188,434
Operating profit/(loss) before amortisation of acquired intangibles and exceptional items	9,372	9,589	2,777	21,738	(9,817)*	1,589	13,510
Amortisation of acquired intangibles	(253)	(356)	(45)	(654)	(51)	-	(705)
Segment result	9,119	9,233	2,732	21,084	(9,868)	1,589	12,805
Other exceptional items (Note 5)	-	(191)	-	(191)	(6,206)	-	(6,397)
	9,119	9,042	2,732	20,893	(16,074)	1,589	6,408
Unallocated corporate expenses	-	-	-	-	-	-	(4,749)
Operating profit/(loss)	9,119	9,042	2,732	20,893	(16,074)	1,589	1,659
Finance income							164
Finance costs							(3,109)
(Loss)/profit before tax							(1,286)
Tax							(3,991)
(Loss)/profit after tax							(5,277)
Capital expenditure	(662)	(739)	(20)	(1,421)	(134)	(8)	(1,563)
Depreciation	406	320	159	885	147	48	1,080
Investment in pre- publication costs	15,506	17,363	4,296	37,165	-	-	37,165
Amortisation of pre- publication costs	14,580	13,017	2,943	30,540	-	-	30,540

* Includes exceptional impairment charge of \$8.0m. Further detail is included in Note 5.

3 Operating segments continued

2015 (restated)	Quarto International Co-Editions Group \$'000	Quarto Publishing Group USA \$'000	Quarto Publishing Group UK \$'000	Total Publishing \$'000	Books & Gifts Direct, ANZ \$'000	Quarto HK \$'000	Total \$'000
Revenue	50,147	72,441	22,765	145,353	22,060	14,752	182,165
Operating profit before amortisation of acquired intangibles and exceptional items	6,351	8,884	3,302	18,537	882	1,487	20,906
Amortisation of acquired intangibles	(240)	(346)	(86)	(672)	(52)	-	(724)
Segment result	6,111	8,538	3,216	17,865	830	1,487	20,182
Other exceptional items							(445)
Unallocated corporate expenses							(4,431)
Operating (loss)/profit							15,306
Finance income							142
Finance costs							(3,240)
(Loss)/profit before tax							12,208
Tax							(3,685)
(Loss)/profit after tax							8,523
Capital expenditure	529	773	38	1,340	546	124	2,010
Depreciation	539	329	181	1,049	86	54	1,189
Investment in pre- publication costs	15,724	14,888	4,260	34,872	-	-	34,872
Amortisation of pre- publication costs	16,246	13,014	3,998	33,258	-	-	33,258

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3 Operating segments continued**Balance sheet**

	2016 \$'000	Restated (Note 1) 2015 \$'000
Quarto Publishing Group USA	110,010	92,154
Quarto Publishing Group UK	17,277	20,562
Quarto International Co-Editions Group	46,055	49,957
Books & Gifts Direct, ANZ	1,720	16,285
Quarto HK	6,591	7,811
Unallocated (Deferred tax and cash)	20,987	25,077
Total assets	202,640	211,846
Quarto Publishing Group USA	29,569	22,567
Quarto Publishing Group UK	5,851	7,848
Quarto International Co-Editions Group	18,668	23,246
Books & Gifts Direct, ANZ	5,141	5,829
Quarto HK	3,895	4,325
Unallocated (Deferred tax and cash)	95,405	94,587
Total liabilities	158,529	158,402

Geographical areas

The Group operates in the following main geographic areas:

	Revenue		Non-current assets	
	2016 \$'000	2015 \$'000	2016 \$'000	Restated (Note 1) 2015 \$'000
United States of America	104,109	92,758	68,586	55,507
Australasia and Far East	25,172	28,556	98	8,066
United Kingdom	20,900	24,150	36,823	39,304
Europe	26,303	24,453	-	1,556
Rest of the World	11,950	12,248	-	-
	188,434	182,165	105,507	104,433

4 Operating profit

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

	2016 \$'000	Restated 2015 \$'000
Depreciation of property, plant and equipment	1,080	1,189
Foreign currency exchange differences	241	(118)
Amortisation of acquired intangibles	705	724
Amortisation of pre-publication costs	30,540	33,258
Staff costs (Note 6)	34,274	30,843
Auditor's remuneration (see below)	604	408
Cost of inventory recognised as an expense	41,474	43,413
Share based payment charges	256	186
Loss/(gain) on derivative financial instruments recognised at fair value through profit and loss	120	(85)
Exceptional items (Note 5)	14,394	445

Auditor's remuneration

Fees payable to the Company's auditor for the audit of the Company's annual accounts	30	30
Fees payable to the Company's auditor and its associates for the audit of subsidiary companies	567	370
Fees payable to the Company's auditor for other assurance services	7	8
	604	408

5 Exceptional items

	2016 \$'000	2015 \$'000
Impairment of BGD assets	7,997	-
Write-off of BGD goodwill	6,000	-
Write-off of BGD intangible assets	206	-
Acquisition costs	191	257
Aborted corporate transaction costs	-	188
Other exceptional items	6,397	445
Total	14,394	445

The impairment of assets comprises principally inventory of \$1.9m, trade receivables of \$4.3m and property, plant and equipment of \$1.1m. This impairment and the write-off of goodwill and intangible assets reflect the changes to reduce the carrying value of the assets of BGD to their recoverable value. There are no tax credits associated with these impairments.

Acquisition costs relate to the purchase of the assets of becker&mayer and Harvard Common Press with a related tax credit of \$65,000 (2015: purchase of the Ivy Press Limited).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6 Staff costs

	2016 Number	2015 Number
Average monthly number of employees (excluding Executive Directors)	499	434
	\$'000	\$'000
Wages and salaries	30,869	27,560
Social security costs	2,296	2,119
Other pension costs	1,109	1,164
	34,274	30,843

Directors' remuneration is disclosed in the Remuneration Committee Report on page 46.

The remuneration of 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.

	2016 \$'000	2015 \$'000
Short term employee benefits	2,735	3,424
Long term employee benefits	2,650	-
Post-employment benefits	256	317
	5,641	3,741

7 Finance income

	2016 \$'000	2015 \$'000
Interest income on financial assets carried at amortised cost	164	142

8 Finance costs

	2016 \$'000	2015 \$'000
Interest expense on borrowings	2,728	2,837
Amortisation of debt issuance costs	381	403
	3,109	3,240

9 Taxation

	2016 \$'000	2015 \$'000
Current tax		
Corporation tax	2,344	2,277
Total current tax	2,344	2,277
Deferred tax (Note 20)		
Origination and reversal of temporary differences	1,647	1,408
	1,647	1,408
Total tax expense	3,991	3,685

Corporation tax on UK profits is calculated at 20%, based on the UK standard rate of corporation tax, (2015: 20.25%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The table below explains the difference between the expected expense at the UK statutory rate of 20% and the Group's total tax expense for the year.

	Group excluding Books & Gifts Direct \$'000	Books & Gifts Direct \$'000	2016 Group \$'000	Restated (Note 1) 2015 Group \$'000
(Loss)/profit before tax	14,777	(16,063)	(1,286)	12,208
Tax at the UK corporation tax rate of 20% (2015: 20.25%)	2,956	(3,213)	(257)	2,472
Effect of different tax rates of subsidiaries operating in other jurisdictions	1,095	-	1,095	1,163
Tax effect of items that are not deductible in determining taxable profit	64	3,173	3,237	50
Other	(84)	-	(84)	-
Tax expense	4,031	(40)	3,991	3,685
Effective tax rate for the year	27.3%			30.2%

The effective tax rate for the year excluding BGD is 27.3% (2015: 25.1%).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10 Earnings per share

	2016			2015		
	Group excluding Books & Gifts Direct \$'000	Books & Gifts Direct \$'000	Group \$'000	Group excluding Books & Gifts Direct \$'000	Restated (Note 1) Books & Gifts Direct \$'000	Restated (Note 1) Group \$'000
(Loss)/profit attributable to owners of the parent	10,326	(16,023)	(5,697)	8,115	20	8,135
Amortisation of acquired intangibles (net of tax)	473	36	509	508	18	526
Exceptional items (net of tax)	126	6,206	6,332	441	-	441
Adjusted profit/(loss) attributable to owners of the parent	10,925	(9,781)	1,144	9,064	38	9,102
Number of shares	Number	Number	Number	Number		Number
Weighted average number of ordinary shares	19,984,824	19,984,824	19,984,824	19,696,729		19,696,729
Effect of potentially dilutive share options	452,031	452,031	452,031	38,591		38,591
Diluted weighted average number of ordinary shares	20,436,855	20,436,855	20,436,855	19,735,320		19,735,320
(Loss)/earnings per share (cents)						
Basic	51.7	(28.5)	(28.5)	41.2		41.3
Diluted	50.5	(28.5)	(28.5)	41.1		41.2
Adjusted earnings per share (cents)						
Basic	54.7	5.7	5.7	46.0		46.2
Diluted	53.5	5.6	5.6	45.9		46.1

11 Goodwill

	2016 \$'000	2015 \$'000	2014 \$'000
Cost			
At 1 January	40,448	41,423	41,744
Exchange differences	(1,128)	(1,244)	(971)
Recognised on acquisitions (Note 30)	3,105	269	650
At 31 December	42,425	40,448	41,423
Accumulated impairment losses			
At 1 January	(336)	(354)	(377)
Impairment	(6,000)	-	-
Exchange differences	55	18	23
At 31 December	(6,281)	(336)	(354)
Carrying value			
At 31 December	36,144	40,112	41,069

Impairment tests for cash generating units containing goodwill

The following units have significant carrying amounts of goodwill:

	2016 \$'000	2015 \$'000	2014 \$'000
Quarto Publishing Group USA (QUS)	29,982	26,878	26,878
Quarto Publishing Group UK (QUK)	1,816	2,176	2,293
Quarto International Co-Editions Group (QIC)	4,346	5,145	5,171
Books & Gifts Direct, ANZ (BGD)	-	5,913	6,727
	36,144	40,112	41,069

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 rates applicable to each unit discounted to present value. The key assumptions used in the value in use calculations were:

- Discount rate: 14.57% (2015: 11.58%) pre-tax for QUS, 11.66% (2015: 12.17%) for QUK and QIC and 15.60% (2015: 11.58%) for BGD which reflects current assessments of the time value of money. The discount rate has been calculated using Weighted Average Cost of Capital analysis adjusted to derive the pre-tax discount rate.
- Cash flow growth rates: based on a short term forecast growth rate of 2% (2015: 3%) for the next three years, and reverting to 3% (2015:3%) into perpetuity, to reflect the long term expected growth in each of the key markets. Changes in selling prices and direct costs are based on past experience and expectations of future changes in the market.

Determining whether goodwill, specific to the US, is impaired requires an estimation of the value of use of each CGU based on the key assumptions above. The headroom of the US CGU as at 31 December 2015 was \$5.0m (2015: \$12.7m). Neither a 0.9% decrease in the long term growth rate or a 0.6% increase in the discount rate would have led to an impairment.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12 Other intangible assets

	Non- contractual relationships \$'000	Backlists \$'000	Software \$'000	Total \$'000
Cost				
At 1 January 2015	1,080	18,493	-	19,573
Exchange differences	(55)	(223)	-	(278)
Recognised on acquisitions (Note 30)	-	1,365	-	1,365
Disposals	(1,025)	-	-	(1,025)
At 1 January 2016	-	19,635	-	19,635
Transfer	1,033	(1,033)	-	-
Exchange differences	28	(458)	-	(430)
Recognised on acquisitions (Note 30)	-	2,980	-	2,980
Impairment charge for the year	(1,061)	-	-	(1,061)
Transfer from property, plant & equipment	-	-	2,312	2,312
At 31 December 2016	-	21,124	2,312	23,436
Amortisation and impairment				
At 1 January 2015	1,080	17,537	-	18,617
Exchange differences	(55)	(136)	-	(191)
Charge for the year	-	724	-	724
Disposals	(1,025)	-	-	(1,025)
At 1 January 2016	-	18,125	-	18,125
Transfer	782	(782)	-	-
Exchange differences	22	(296)	-	(274)
Charge for the year	51	654	-	705
Impairment charge for the year	(855)	-	-	(855)
Transfer from Property, plant & equipment	-	-	1,384	1,384
At 31 December 2016	-	17,701	1,384	19,085
Carrying amount				
At 31 December 2016	-	3,423	928	4,351
At 31 December 2015	-	1,510	-	1,510
At 31 December 2014	-	956	-	956

13 Property, Plant and Equipment

	Leasehold Property Improvements \$'000	Plant, Equipment & Motor Vehicles \$'000	Fixtures & Fittings \$'000	Total \$'000
Cost				
At 1 January 2015	857	4,527	984	6,368
Exchange difference	(46)	(335)	(38)	(419)
Recognised on acquisitions	-	2	-	2
Additions	253	1,525	232	2,010
Disposals	(2)	(177)	(58)	(237)
At 1 January 2016	1,062	5,542	1,120	7,724
Exchange difference	(105)	(266)	(86)	(457)
Recognised on acquisitions (Note 30)	-	175	85	260
Additions	425	1,115	22	1,562
Impairment charge for the year	(54)	(2,134)	(56)	(2,244)
Disposals	(78)	(1,070)	(89)	(1,237)
Transfer to intangible assets	-	(2,312)	-	(2,312)
At 31 December 2016	1,250	1,050	996	3,296
Depreciation				
At 1 January 2015	498	2,718	421	3,637
Exchange differences	(25)	(206)	(8)	(239)
Charge for the year	193	825	171	1,189
Disposals	-	(177)	(54)	(231)
At 1 January 2016	666	3,160	530	4,356
Exchange differences	(76)	(158)	(48)	(282)
Charge for the year	188	682	210	1,080
Impairment charge for the year	(48)	(1,020)	(32)	(1,100)
Disposals	(77)	(1,070)	(84)	(1,231)
Transfer to intangible assets	-	(1,384)	-	(1,384)
At 31 December 2016	653	210	576	1,439
Net book value				
At 31 December 2016	597	840	420	1,857
At 31 December 2015	396	2,382	590	3,368
At 31 December 2014	359	1,809	563	2,731

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14 Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in Note 5 to the Company's balance sheet. All of these subsidiaries are included in the consolidated results.

15 Intangible Assets - Pre-publication costs

	2016 \$'000	2015 \$'000	2014 \$'000
Cost			
At 1 January	151,733	117,077	102,701
Exchange differences	(7,671)	(2,217)	(2,774)
Transfer from inventories	-	-	660
Recognised on acquisitions (Note 30)	564	2,001	102
Additions	37,165	34,872	33,525
At 31 December	181,791	151,733	134,214
Amortisation			
At 1 January	92,290	59,543	46,480
Exchange differences	(2,172)	(511)	(733)
Charge for the year	30,540	33,258	30,933
At 31 December	120,658	92,290	76,680
Carrying Amount	61,133	59,443	57,534

The amortisation charge is included in cost of sales in the Consolidated Income Statement. The assessment of the useful life of pre-publication costs and amortisation involves a significant amount of judgement based on historical trends. A review of useful lives took place during the year. Details are included in Note 1.

16 Inventories

	2016 \$'000	Restated (Note 1) 2015 \$'000	Restated (Note 1) 2014 \$'000
Finished goods	23,655	24,933	23,533
Work in progress	153	151	114
Raw materials	198	107	212
	24,006	25,191	23,859

All of the Group's inventories have been reviewed for indicators of impairment. Certain inventories were found to be impaired and a provision of \$4,360,000 (2015: \$1,649,000) has been recorded accordingly. This includes an exceptional impairment charge of \$1,630,000 in respect of Books & Gifts Direct.

17 Trade and other receivables

	2016 \$'000	2015 \$'000	2014 \$'000
Trade receivables	42,259	45,475	40,225
Other receivables and prepayments	11,903	11,670	11,515
	54,162	57,145	51,740

The average credit period on sales of goods is 70 days (2015: 65 days).

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 not considered to be recoverable and a provision of \$670,000 (2015: \$908,000) has been recorded accordingly. The trade receivables considered irrecoverable relate to customers which are experiencing trading difficulties. In addition, some of the recoverable trade receivables are past due as at the reporting date. The extent of financial assets past due but not impaired is as follows:

	2016 \$'000	2015 \$'000	2014 \$'000
Less than one month	3,869	3,338	3,018
More than one month but less than two months	765	1,182	783
More than two months but less than three months	270	339	342
More than three months but less than six months	92	599	823
More than six months	82	73	444
	5,078	5,531	5,410

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

Movement in allowance for doubtful debts:

	2016 \$'000	2015 \$'000	2014 \$'000
Balance at beginning of year	908	1,509	1,185
On acquisition of subsidiaries	-	46	-
Amounts written off in the year	(682)	(1,571)	(434)
Amounts recovered during the year	11	150	337
Exchange difference	(66)	(26)	(16)
Increase in allowance recognised in profit or loss	499	800	437
Balance at end of the year	670	908	1,509

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.

18 Cash and cash equivalents

	2016 \$'000	2015 \$'000	2014 \$'000
Bank balances	12,824	18,274	13,375
Short term deposits	6,000	6,785	9,735
Cash and cash equivalents	18,824	25,059	23,110

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

The effective interest rates on bank balances and short term deposits was 0.2% (2015: 0.4%).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19 Borrowings

	2016 \$'000	2015 \$'000	2014 \$'000
Bank loans	80,748	84,562	89,150
On demand or within one year	5,000	5,000	89,150
In the second year	5,000	5,000	-
In the third to fifth years inclusive	70,748	74,562	-
	80,748	84,562	89,150
Less: Amount due for settlement within 12 months (shown under current liabilities)	(5,000)	(5,000)	(89,150)
Amount due for settlement after 12 months	75,748	79,562	-

	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	56,500	30,000	26,500	3.6	19.5
Other currency borrowings	24,248	-	24,248	-	-
As at 31 December 2016	80,748	30,000	50,748	3.6	19.5
US dollar borrowings	57,000	30,000	27,000	3.5	19.5
Other currency borrowings	27,562	-	27,562	-	-
As at 31 December 2015	84,562	30,000	54,562	3.5	19.5
US dollar borrowings	60,000	-	60,000	-	-
Other currency borrowings	29,150	-	29,150	-	-
As at 31 December 2014	89,150	-	89,150	-	-

The variable rate borrowings bear interest by reference to LIBOR plus a margin. At 31 December 2016, undrawn borrowing facilities totalled \$8,320,000 (2015: \$16,540,000).

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 based on LIBOR plus a margin of between 2.1% and 2.8%, depending on the leverage ratio and are secured on the assets of the Group.

At 31 December 2016 the Group had a US\$90m (2015: US\$95m) multi-currency syndicated bank facility which is due to expire on 30 April 2019.

These facilities are subject to three principal covenants.

	2016	2015
Consolidated net debt shall not exceed three times EBITDA	1.76 times	1.63 times
Consolidated adjusted operating profit shall exceed three times net interest payable	6.15 times	5.55 times
Cash flow shall exceed 1.2 times Debt Service	0.74 times	3.89 times

The cashflow cover covenant test was not passed at 31 December 2016; this does not constitute a breach of the Group's banking facilities. The agreement states that if on a quarter end test date the cashflow covenant test is not complied with due to an adverse movement in working capital, then it shall not constitute a breach provided that it is the first time that such non-compliance has occurred, and on the following test date, the covenant is complied with. The seasonality of the industry means there is always a degree of sensitivity around the Group's working capital movements. Having identified mitigating actions which would maintain working capital headroom in such situations, the Directors are confident that the Group will comply with all financial covenants for the foreseeable future.

20 Deferred tax

	2016 \$'000	2015 \$'000	2014 \$'000
Deferred tax liabilities			
Excess of capital allowances over depreciation - UK	48	59	25
Other temporary differences - UK	5,369	4,190	4,493
	5,417	4,249	4,518
Other temporary differences - US	4,909	2,924	1,545
Other overseas temporary differences	176	293	(136)
	10,502	7,466	5,927
Deferred tax assets			
Other temporary differences - US	(2,022)	-	(126)
Net deferred taxation liability	8,480	7,466	5,801

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

	2016 \$'000	2015 \$'000	2014 \$'000
Net provision at 1 January	7,466	5,801	5,452
Acquisitions	-	394	145
Exchange difference through other comprehensive income	56	(137)	(305)
Charge/(credit) to profit and loss	1,647	1,408	509
Net provision at 31 December	8,480	7,466	5,801

At the balance sheet date, the group had no tax losses (2015: \$2.9m) available for offset against future profits.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax has not been recognised was \$22.7m (2015: \$20.2m). The Group has not recognised the amount as it is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

21 Trade and other payables

	2016 \$'000	Restated (Note 1) 2015 \$'000	Restated (Note 1) 2014 \$'000
Trade payables	43,423	49,856	44,047
Other payables	16,295	13,860	9,224
Total	59,718	63,716	53,271

Other payables includes contingent consideration payments and loan notes of \$5.8m in respect of current year acquisitions. The Directors consider that the carrying amount of trade payables approximates to their fair value.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

22 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 below.

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:

	2016		2015	
	\$'000	\$'000	\$'000	\$'000
	Sterling	Other	Sterling	Other
Financial assets	6,691	7,103	44	5,423
Financial liabilities	(2,880)	(6,599)	(123)	(4,497)
Short-term exposure	3,811	504	(79)	926
Financial liabilities				
Long-term exposure	(21,082)	(3,168)	-	(3,265)
At 31 December	(17,271)	(2,664)	(79)	(2,339)

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 US-Dollar/Sterling exchange rate.

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% (2015: 5%) then this would have had the following impact:

	2016 \$'000	2015 \$'000
(Loss)/profit after tax for the year	(661)	(3)
Equity	151	(101)

If Sterling had weakened against the US Dollar by 5% (2015: 5%) then this would have had the following impact:

	2016 \$'000	2015 \$'000
(Loss)/profit after tax for the year	661	3
Equity	(151)	101

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.

22 Risk management objectives and policies continued

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 31 December 2016, the Group is exposed to changes in market interest rates through its bank borrowings, which are subject to variable interest rates – see Note 19 for further information.

The following table illustrates the sensitivity of the profit after tax for the year and equity to a reasonably possible change in interest rates of +/-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:

	2016 \$'000	2015 \$'000
Profit after tax for the year	(78)	(108)
Equity	(78)	(108)

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

	2016 \$'000	2015 \$'000
Profit after tax for the year	78	108
Equity	78	108

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:

	2016 \$'000	2015 \$'000
Cash and cash equivalents	18,824	25,059
Trade receivables	42,259	45,475
Other receivables	3,249	3,250
Derivative financial instruments	141	18
	64,473	73,802

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

22 Risk management objectives and policies continued**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.

The Group's liabilities have contractual maturities which are summarised below:

31 December 2016	Current		Non-Current	
	Within 6 months \$'000	6 to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000
Bank loans	6,294	1,316	80,148	-
Trade payables	43,423	-	-	-
Other short term financial liabilities	16,295	-	-	-
Derivative financial instruments	94	-	-	-
Other payables	-	-	3,407	-
	66,106	1,316	83,555	-
31 December 2015 (restated)	Current		Non-Current	
	Within 6 months \$'000	6 to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000
Bank loans	5,016	-	87,696	-
Trade payables	49,856	-	-	-
Other short term financial liabilities	13,860	-	-	-
Derivative financial instruments	10	-	-	-
Other payables	-	-	99	-
	68,742	-	87,795	-

22 Risk management objectives and policies continued

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.

	2016 \$'000	Restated (Note 1) 2015 \$'000
Current assets		
Derivative financial instruments carried at fair value through profit and loss:		
- Forward exchange contract	-	18
Derivative financial instruments designated as hedging instruments:		
- Interest rate swap	141	-
Loans and receivables:		
- Trade receivables	42,259	45,475
Other receivables	3,249	3,250
- Cash and cash equivalents	18,824	25,059
	64,473	73,802
Non-current liabilities		
Financial liabilities measured at amortised cost:		
- Borrowings	75,748	79,562
Other payables	3,407	99
	79,155	79,661
Current liabilities		
Derivative financial instruments carried at fair value through profit and loss:		
- Forward exchange contract	94	-
Derivative financial instruments designated as hedging instruments:		
- Interest rate swap	-	10
Financial liabilities measured at amortised cost:		
- Borrowings	5,000	5,000
- Trade payables	43,423	49,856
Other payables	16,295	13,860
	64,812	68,726

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 (Note 19), cash and cash equivalents (Note 18) and equity attributable to equity holders of the parent (Notes 24 and 25), comprising share capital and reserves as disclosed in the consolidated statement of changes in equity on page 81.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23 Other Financial Assets/Liabilities

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

	2016 \$'000	2015 \$'000	2014 \$'000
Current financial assets			
Derivative financial assets - forward exchange contracts	-	18	-
Derivative financial instruments - interest rate swaps	141	-	-
Total	141	18	-
Current financial liabilities			
Derivative financial liabilities - forward exchange contracts	(94)	-	(67)
Derivative financial instruments - interest rate swaps	-	(10)	-
Total	(94)	(10)	(67)

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 and interest rate swap contracts to hedge the interest rate exposures. 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 designated 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:

	2016 %	2015 %	2014 %	2016 \$'000	2015 \$'000	2014 \$'000	2016 \$'000	2015 \$'000	2014 \$'000
Within one year	2.8	3.1	-	10,000	10,000	-	(175)	(134)	(317)
Within one to two years	3.1	3.5	-	10,000	10,000	-	(505)	(384)	-
Within two to five years	2.7	3.8	-	10,000	10,000	-	(714)	(674)	-
				30,000	30,000	-	(1,394)	(1,192)	(317)

24 Share Capital

	2016 \$'000	2015 \$'000	2014 \$'000
Authorised			
28 million shares (2015: 28 million shares) of common stock of par value of US\$0.10 each	2,800	2,800	2,800
Allotted, called up and fully paid:			
20,444,550 (2014: 20,444,550) shares of common stock of par value of US\$0.10 each	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 1 January 2004.

Treasury stock

Treasury stock represents the Group's purchase of its own shares. During the year, 666,666 of the treasury stock was used to settle the obligations under the 2014 PSP plan and the remainder was sold. At 31 December 2015, the Group owned 747,821 shares, representing 3.7% of its shares of common stock.

26 Dividends

	2016 \$'000	2015 \$'000	2014 \$'000
Amounts recognised as distributions to equity holders in the period: Interim dividend for the year ended 31 December 2016 of 5.13c/3.35p (2015: 5.13c/3.35p) per share	1,049	1,010	1,089
Final dividend for the year ended 31 December 2015 of 8.17c/4.95p (2014: 8.17c/4.95p) per share	1,853	1,492	1,478
	2,902	2,502	2,567
Proposed final dividend for the year ended 31 December 2016 of 9.87c/7.95p (2015: 9.41c/6.15p) per share	2,018	1,853	1,521

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.

27 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

28 Share based payments**Performance Share Plan ('PSP')**

The Company operates a PSP scheme that awards free shares.

2014 award

The awards under this scheme were granted on 22 May 2014 and vest on 30 June 2016. Vesting is conditional on the average share price being equal to or greater than £2.50 over any consecutive period of 90 days during the performance period, adjusted for dividends and other cash distributions paid, where the minimum value of such dividends and other cash distributions paid is no less than £2.25p per share. Participants are entitled to receive dividend equivalents over the vesting period of the awards, which are payable on vesting.

For the year ended 31 December 2014 the awards under this scheme were valued at \$nil as the performance criteria were not expected to be met.

During the year ended 31 December 2015 the performance criteria was amended such that vesting is only conditional on the average share price being equal to or greater than £2.50 over any consecutive period of 90 days during the performance period. Following this change, the fair value of the award was reassessed at \$226,000.

This award was exercised on 9 August 2016 by the Chief Executive Officer Marcus Leaver. Full details are set out in the Remuneration Report on page 55. The share price on 9 August 2016 was £2.64.

	2016 Number	2015 Number
Outstanding at beginning of the year	666,666	666,666
Exercised during the period	(666,666)	-
Outstanding at the end of the year	-	666,666
Share price at date of grant		£1.70
Expected life (years)		2.1
Fair value per award		£0.23
Weighted average remaining contractual life		0.50
Dividend yield		n/a
Expected volatility of share price (%)		16.6
Model used		Monte-Carlo

2015 award

The awards under this scheme were granted on 24 September 2015. The vesting period is four years from the date of grant. The award vests in the following proportion:

- 50% is conditional on the cumulative growth in Adjusted Diluted EPS being between 5% and 10% over the performance period, resulting in the awards vesting on a sliding scale of 20% to 100%; and
- 50% is conditional on Total Shareholder Return being between 7% and 15%, resulting in vesting on a sliding scale of 20% to 100%.

Participants are not entitled to receive dividends until awards have vested.

Details of the share options outstanding during the year are as follows.

	2016 Number	2015 Number
Outstanding at beginning of the year	143,732	-
Granted during the year	83,732	143,732
Outstanding at the end of the year	227,464	143,732

28 Share based payments continued

The key inputs used to value the options are:

	EPS Portion	TSR Portion
Share price at date of grant	£2.09	£2.09
Expected life (years)	4.0	4.0
Fair value per award	£1.78	£1.07
Weighted average remaining contractual life (years)	3.0	3.0
Dividend yield (%)	3.97	3.97
Expected volatility of share price (%)	n/a	19
Model used	Dividend discount	Monte-Carlo

2016 award

The awards under this scheme were granted on 19 April 2016. The vesting period is four years from the date of grant. The award vests in the following proportion:

- 50% is conditional on the cumulative growth in Adjusted Diluted EPS being between 5% and 10% over the performance period, resulting in the awards vesting on a sliding scale of 20% to 100%; and
- 50% is conditional on Total Shareholder Return being between 7% and 15%, resulting in vesting on a sliding scale of 20% to 100%.

Participants are not entitled to receive dividends until awards have vested.

Details of the share options outstanding during the year are as follows.

	2016 Number
Outstanding at beginning of the year	-
Granted during the year	366,728
Outstanding at the end of the year	366,728

The key inputs used to value the options are:

	EPS Portion	TSR Portion
Share price at date of grant	£2.45	£2.45
Expected life (years)	4.0	4.0
Fair value per award	£2.10	£0.44
Weighted average remaining contractual life (years)	3.3	3.3
Dividend yield (%)	3.88	3.88
Expected volatility of share price (%)	n/a	19.1
Model used	Dividend discount	Monte-Carlo

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29 Operating lease commitments

	2016 \$'000	2015 \$'000
Lease payments under operating leases recognised in income for the year	2,264	2,153

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:

	2016 \$'000	2015 \$'000
Minimum lease payments under operating leases within one year	1,679	1,915
In the second to fifth years inclusive	4,805	3,836
After more than five years	4,427	2,399
	10,911	8,150

Operating lease payments represent rentals payable by the Group, primarily for its office properties. There were no capital commitments amounting at the year end (2015: \$nil).

30 Acquisitions**becker&mayer**

On 8 August 2016, the Group acquired the publishing business and net assets of becker&mayer LLC ('becker&mayer') through its US subsidiary Quarto Publishing Group USA Inc, for a consideration of \$9.8m, together with a working capital adjustment payment capped at \$1.0m and further deferred contingent consideration of up to \$1.0m. Consideration of \$2.3m was paid on completion. A further \$2.5m was paid in January 2017 and the remaining balance is payable in separate tranches over the next three years. The fair value of the deferred contingent consideration was estimated based on the Group's expectation of the future performance of the business, discounted to reflect the timing of the expected payments.

If the acquisition had been completed on the first day of the financial year, Group revenue for the year would have been \$197.9m and Group loss for the year would have been \$6.1m. The revenue and operating profit of becker&mayer since the date of acquisition included in the consolidated statement of comprehensive income are \$11.4m and \$1.9m respectively.

Harvard Common Press

On 1 February 2016, the Group acquired selected assets of the publishing business of The Harvard Common Press through its US subsidiary Quarto Publishing Group USA Inc, for a consideration of \$1.0m. Of the consideration \$0.1m was paid during the year ended 31 December 2015, a further \$0.1m was paid on completion of the acquisition and \$0.4m was paid in July 2016. The final payment of \$0.4m was made in January 2017.

The revenue and operating profit of The Harvard Common Press since the date of acquisition included in the consolidated statement of comprehensive income is \$1.3m and \$0.4m respectively. There would be no difference in these results had the acquisition completed on the first day of the financial year.

These companies were acquired because of their strategic fit within the Group. The transaction costs of \$191,000 were incurred in relation to the acquisition. The transactions have been accounted for under the acquisition method. The goodwill arising on these acquisitions is largely attributable to the anticipated incremental sales and cost synergies achievable as part of The Quarto Group and is expected to be deductible for tax purposes.

Burgess Lea Press

On 25 May 2016, the Group acquired the publishing business of Burgess Lea Press and recognised intangible backlist assets of \$128,000.

30 Acquisitions continued

The fair value of acquired assets and liabilities is summarised below.

	becker&mayer Fair values \$'000	Harvard Common Press Fair values \$'000
Intangible assets - pre-publication costs	564	-
Other intangible assets - backlists	2,415	436
Property, plant and equipment	259	-
Inventories	2,461	297
Trade and other receivables	6,340	79
Trade and other payables	(3,225)	(551)
Net assets acquired	8,814	261
Goodwill	2,332	773
Total consideration paid (including deferred consideration)	11,146	1,034
Net cash outflow arising on acquisition		
Satisfied by:		
Cash	2,300	230
Loan notes	7,319	804
Contingent consideration arrangements	1,527	-
Total	11,146	1,034
Net cash outflow arising on acquisition		
Cash consideration	2,300	502

The goodwill for becker&mayer is provisional using an estimate of fair value and will be reviewed and adjusted in the next eight months as necessary.

31 Subsequent events

On 30 March 2017, the Group completed the disposal of its 75% interest in Regent Publishing Services Ltd, its Hong Kong based publishing services business. The consideration for the disposal was \$7.0m including a payment of \$2.5m (HK\$19.5m) for the group's share of the excess cash in the business, payable in cash on completion. The business was sold to 1010 Printing Group Ltd, a Hong Kong based printing business listed on the Hong Kong Stock Exchange. The consideration will be used to reduce the Group's net debt. For the 12 months ended 31 December 2016, Regent Publishing Services Ltd recorded a profit before tax of \$1.6m and had net assets of \$6.6m.

On 3 April 2017, the Group completed the disposal of BGD Australia which has been acquired by Zoom Pty Limited (as trustee for the Zoom Investment Trust), a company incorporated in Australia and formed for the purposes of acquiring the business by a group comprising certain of the master franchisees and former employees of the business in Australia. The consideration for the sale of the company was A\$1 and Quarto will also take an assignment of certain debts owed by the master franchisees to BGD Australia of A\$1.9m (US\$1.4m) which are repayable in monthly instalments over two years and are interest bearing. The repayments will be used to reduce the Group's bank debt as they are received. Quarto is entitled to receive 10% of the profit before interest and tax of Zoom Pty Limited for the next five years.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

32 Alternative performance measures

The Group uses alternative performance measures to explain and judge its performance.

Adjusted operating profit is operating profit excluding amortisation of acquired intangibles and exceptional items. The Directors consider this to be a useful measure of the Group operating performance as it approximates the underlying operating cash flow.

Exceptional items are those which the Company defines as significant non-recurring items outside the scope of normal business that 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.

Backlist % of sales refers to book titles that were published in previous calendar years and is a key measure of the performance of our intellectual property assets.

Intellectual property development spend refers to the amounts spent annually on the creation and publication of book titles against which we monitor subsequent sales (see Note 15).

Inventory % of revenue is the book value of inventory divided by total revenue for the year. Inventory turn is cost of sales divided by book value of inventory and measures the number of times inventory is sold through the business in a year.

Product efficiency is the ratio of new title revenue to intellectual property spend in the previous year and is an indicator of the reliability of our back list sales.

Return on net operating assets is the ratio of adjusted operating profit to net operating assets and is used to evaluate the long term financial performance of the Group,

32 Alternative performance measures continued

	2016 \$'000	Restated (Note 1) 2015 \$'000
Adjusted Operating Profit		
Operating profit	1,659	15,306
Add back: - Amortisation of acquired intangibles	705	724
- Other exceptional items (Note 5)	6,397	445
Adjusted operating profit	8,761	16,475
Add/(deduct): Books & Gifts Direct operating (loss)/profit	9,817	(882)
Adjusted operating profit (excluding Books & Gifts Direct)	18,578	15,593
EBITDA		
Adjusted profit before tax (before amortisation of acquired intangibles and exceptional items)	13,813	13,377
Net interest	2,945	3,098
Depreciation	1,080	1,189
EBITDA, before exceptional items	17,838	17,664
Amortisation of pre-publication costs	17,244	18,184
EBITDA (as defined in the committed facility agreement)	35,082	35,848
Net debt		
Short term borrowings	5,000	5,000
Medium and long term borrowings	75,748	79,562
Cash and cash equivalents	(18,824)	(25,059)
	61,924	59,503
Net operating assets		
Net assets	44,111	53,444
Unallocated segment assets	(20,987)	(25,077)
Unallocated segment liabilities	95,405	94,587
	118,529	122,954
Return on net operating assets	7.4%	13.4%
Adjusted dividend cover (excluding BGD)		
Adjusted basic earnings per share (cents)	54.7	46.0
Total dividend for the year (cents)	15.0	14.5
Dividend cover (times)	3.6	3.2

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2016

	Notes	2016 \$'000	2015 \$'000
Fixed Assets			
Investments	4	4,080	8,444
		4,080	8,444
Current liabilities			
Creditors: Amounts falling due within one year	6	(21,962)	(20,992)
		(21,962)	(20,992)
Net liabilities		(17,882)	(12,548)
Equity			
Called up share capital	7	2,045	2,045
Treasury stock		-	(634)
Reserves - Paid in surplus		33,764	33,764
- Profit and loss		(53,691)	(47,723)
Total equity		(17,882)	(12,548)

The Company reported a loss for the year of \$4.4m (2015: \$3.8m).

The financial statements were approved by the Board of Directors and authorised for issue on 19 April 2017.
They were signed on its behalf by:



Marcus E. Leaver

Director

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital \$'000	Paid in surplus \$'000	Treasury stock \$'000	Retained earnings \$'000	Equity attributable to owners \$'000
Balance at 1 January 2015	2,045	33,764	(634)	(42,680)	(7,505)
Loss for the year	-	-	-	(3,802)	(3,802)
Other comprehensive income					
Foreign exchange translation differences	-	-	-	1,075	1,075
Total comprehensive income for the year	-	-	-	1,075	1,075
Transactions with owners					
Dividends to shareholders	-	-	-	(2,502)	(2,502)
Share based payments charges	-	-	-	186	186
Balance at 31 December 2015	2,045	33,764	(634)	(47,723)	(12,548)
Loss for the year	-	-	-	(4,428)	(4,428)
Other comprehensive income					
Foreign exchange translation differences	-	-	-	2,265	2,265
Total comprehensive income for the year	-	-	-	2,265	2,265
Transactions with owners					
Dividends to shareholders	-	-	-	(2,902)	(2,902)
Share based payments charges	-	-	-	256	256
Shares released/sold from treasury	-	-	634	(1,159)	(525)
Balance at 31 December 2016	2,045	33,764	-	(53,692)	(17,882)

NOTES TO THE COMPANY BALANCE SHEET

AT 31 DECEMBER 2016

1 Basis of preparation

The separate financial statements of the Company are presented and have been prepared in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. These financial statements present information for the Company, not about its Group, which is presented on pages 78 to 115.

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules modified to include certain items as fair value and in accordance with FRS 102. The financial statements have been prepared using the going concern basis, as discussed in the Group going concern disclosure on page 84.

2 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the 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 Group issues equity settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant. The fair value, determined at the grant date, of equity settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The fair value of employee share option grants is calculated using a Monte Carlo 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. Further detail is set out in Note 28.

Cash and cash equivalents

There were no cash transactions during the year and accordingly no cash flow statement has been presented.

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.

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.

3 Loss attributable to the Company

The loss for the financial year dealt with in the financial statements of the parent company was \$4.4m (2015: \$3.8m). No separate profit and loss account is presented in respect of the parent company as permitted by section 408 of the Companies Act 2006.

4 Investments

	2016 \$'000	2015 \$'000
At 1 January	8,444	12,060
Amounts written off during year	(4,364)	(3,616)
At 31 December	4,080	8,444

The write-off in the year relates to the Company's investment in Books & Gifts Directly Limited, a New Zealand company.

5 Subsidiaries

a) Trading companies

Name	Incorporation		Registered address key [†]	Issued and fully paid up share capital	% held	Segment
	Place	Date				
Books & Gifts Direct (Pty) Limited	Australia	3 December 1990	D	100,004 shares of A\$1 each	100	Books & Gifts Direct, ANZ
Books & Gifts Direct Limited	New Zealand	27 September 1996	C	400,000 shares of NZ\$1 each	100* [#]	Books & Gifts Direct, ANZ
Quarto Publishing plc	United Kingdom	1 April 1976	A	100,000 shares of £1 each	100*	Quarto International Co-Editions Group
Quarto, Inc.	Delaware, USA	16 October 1986	B	86 shares of no par value	100*	Quarto International Co-Editions Group
RotoVision S.A.	Switzerland	18 July 1977	F	1,500 shares of SFr500 each	100*	Quarto International Co-Editions Group
Global Book Publishing Pty. Limited	Australia	4 November 1999	D	1,000 shares of A\$1 each	100*	Quarto International Co-Editions Group
Apple Press Limited	United Kingdom	5 June 1984	A	100 shares of £1 each	100	Quarto International Co-Editions Group
Small World Creations Limited	United Kingdom	20 September 1997	A	1,536 share of £1 each	100	Quarto International Co-Editions Group
Lewes Holdings Limited	United Kingdom	21 July 2005	A	20,840 shares of £0.01 each	100	Quarto International Co-Editions Group
Aurum Press Limited	United Kingdom	31 May 1977	A	382,502 shares of £1 each	100	Quarto Publishing Group UK
Quarto (JS) LLP	United Kingdom	6 November 1998	A	100 units	100	Quarto Publishing Group UK
Frances Lincoln Limited	United Kingdom	15 December 1980	A	565,000 shares of 10p each	100	Quarto Publishing Group UK
Quarto Australia (Pty) Limited	Australia	14 September 1981	D	110 shares of A\$1 each	100	Quarto International Co-Editions Group
Quarto Publishing Group USA Inc.	Delaware, USA	28 June 2004	B	380 shares of US\$0.01 each	100	Quarto Publishing Group USA
Regent Publishing Services Limited	Hong Kong	23 October 1985	E	1,000 shares of HK\$10 each	75 [#]	Quarto HK

[†] See Note 5c on page 120.

* Directly held by The Quarto Group, Inc.

[#] The shares held in this company were sold after the year end. See Note 30 for further details.

NOTES TO THE COMPANY BALANCE SHEET AT 31 DECEMBER 2016 CONTINUED

5 Subsidiaries continued**b) Dormant companies**

Name	Incorporation		Registered address key [†]	Issued share capital	% held
	Place	Date			
AP Screen Printers Limited	United Kingdom	30 September 1980	A	1,000 shares of £1 each	100
Cartographica Press Limited	United Kingdom	27 July 1981	A	1,000 shares of £1 each	100
Design Eye Holdings Limited	United Kingdom	22 June 1992	A	200 shares of £1 each	100
Design Eye Limited	United Kingdom	18 March 1988	A	100 shares of £1 each	100
Design Eye Publishing Limited	United Kingdom	17 June 1992	A	2 shares of £1 each	100
Fine Wine Editions Limited	United Kingdom	23 June 1949	A	9,020 shares of £1 each	100
Frances Lincoln Publishers Limited	United Kingdom	11 March 1987	A	100 shares of £1 each	100
Great American Trading Company Limited (THE)	United Kingdom	24 February 1982	A	100 shares of £1 each	100
Global Book Publishing Pty Limited	United Kingdom	7 July 1986	A	1,000 shares of £1 each	100
IQON Editions Limited	United Kingdom	5 December 1972	A	300 shares of £1 each	100
iqu-digital.com Limited	United Kingdom	30 November 1978	A	100 shares of £1 each	100
JR Books Limited	United Kingdom	9 September 1986	A	43,004 shares of £1 each	100
Marshall Editions Limited	United Kingdom	7 February 2002	A	1 shares of £1 each	100
Marshall Publishing Limited	United Kingdom	7 February 2002	A	1 shares of £1 each	100
Quarto Magazines Limited	United Kingdom	20 May 1986	A	1,000 shares of £1 each	100
Quarto Children's Books Limited	United Kingdom	6 January 1976	A	2 shares of £1 each	100
QED Publishing Limited	United Kingdom	12 November 1974	A	400 shares of £1 each	100
Quantum Books Limited	United Kingdom	7 February 1983	A	100 shares of £1 each	100
Quarto Multi-Media Limited	United Kingdom	14 December 1984	A	1,000 shares of £1 each	100
QU:ID Publishing Limited	United Kingdom	30 September 1980	A	100 shares of £1 each	100
Quill Publishing Limited	United Kingdom	14 May 1979	A	1,000 shares of £1 each	100
Quintessence Editions Limited	United Kingdom	7 February 2002	A	1 shares of £1 each	100
Quintet Publishing Limited	United Kingdom	14 May 1979	A	100 shares of £1 each	100
QEB Publishing Limited	Delaware, USA	27 April 2004	B	1,500 shares of no par value	100
Quarto Media Inc	Delaware, USA	10 December 2010	B	1,000 shares of \$1 each	100
Quarto Marketing Inc	Delaware, USA	26 April 1995	B	3,000 shares of no par value	100
EYE Quarto Inc	Delaware, USA	19 December 2002	B	1,000 shares of no par value	100

[†] See Note 5c below.

c) List of registered offices

- A The Old Brewery, 6 Blundell Street, London, N7 9BH, United Kingdom
- B 400 First Avenue North, Minneapolis, MN 55401, USA
- C 135b Morrin Road, Saint Johns, Auckland, 1072, New Zealand
- D c/o ZM Partners, Suite 10 Ground Floor, 123 Clarence Street, Sydney, NSW 2000, Australia
- E Unit B & C, 7th Floor, Genisi, No. 33-35 Wong Chuk Hand Road, Hong Kong
- F Passage Perdonet 1, 1005 Lausanne, Switzerland

6 Creditors: Amounts falling due within one year

	2016 \$'000	2015 \$'000
Amounts owed to subsidiary undertakings	21,962	20,992

7 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.

8 Contingent liabilities

The Quarto Group, Inc. has issued guarantees in respect of bank loans of subsidiaries of \$80,748,000 (2015: \$84,562,000). Refer to Note 19 of the consolidated financial statements.

9 Related parties

The company borrowed an amount of \$3,236,000 from its wholly owned subsidiary, Quarto Publishing plc, during the year (2015: \$2,511,000 borrowed in the year). The balance on the loan at 31 December 2016 was \$15,471,000 (2015: \$14,995,000). These balances are non-interest bearing and repayable on demand.

FIVE YEAR SUMMARY

	2016 \$'000	2015* \$'000	2014# \$'000	2013# \$'000	2012# \$'000
Results					
Revenue	188,434	182,165	171,339	175,481	180,632
Operating profit before amortisation of acquired intangibles and exceptional items	8,761	16,475	14,927	14,565	14,986
Operating profit	1,659	15,306	14,990	10,726	12,962
Profit before tax, amortisation of acquired intangible assets and exceptional items	5,816	13,377	10,950	9,294	9,034
(Loss)/profit before tax	(1,286)	12,208	11,013	5,455	7,010
(Loss)/profit after tax	(5,277)	8,523	8,091	3,761	5,124
Assets employed					
Non-current assets	105,507	104,433	102,416	102,364	106,537
Current assets	97,133	107,413	98,709	97,907	106,157
Current liabilities	(68,872)	(71,275)	(144,918)	(70,485)	(67,002)
Non-current liabilities	(89,657)	(87,127)	(6,464)	(83,776)	(98,019)
Net assets	44,111	53,444	49,743	46,010	47,673
Financed by					
Equity	39,219	48,285	44,802	41,201	40,726
Non-controlling interests	4,892	5,159	4,941	4,809	6,947
	44,111	53,444	49,743	46,010	47,673
Earnings per share (cents)					
Basic	(28.5)	41.3	39.5	17.0	23.9
Diluted	(28.5)	41.2	39.5	17.0	23.9
Adjusted basic	5.7	46.2	39.1	36.1	41.6
Adjusted diluted	5.6	46.1	39.1	36.1	41.6

* Restated as per Note 1.

The 2014 closing balance sheet restatement was all corrected through the 2014 results as it was impractical to determine the impact on these earlier individual financial years and it is not expected to result in a material change to these years.

OFFICERS & PROFESSIONAL ADVISERS

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Marcus Leaver, Chief Executive
Michael Connole, FCA, Chief Financial Officer
Michael Hartley*
Jess Burley*

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