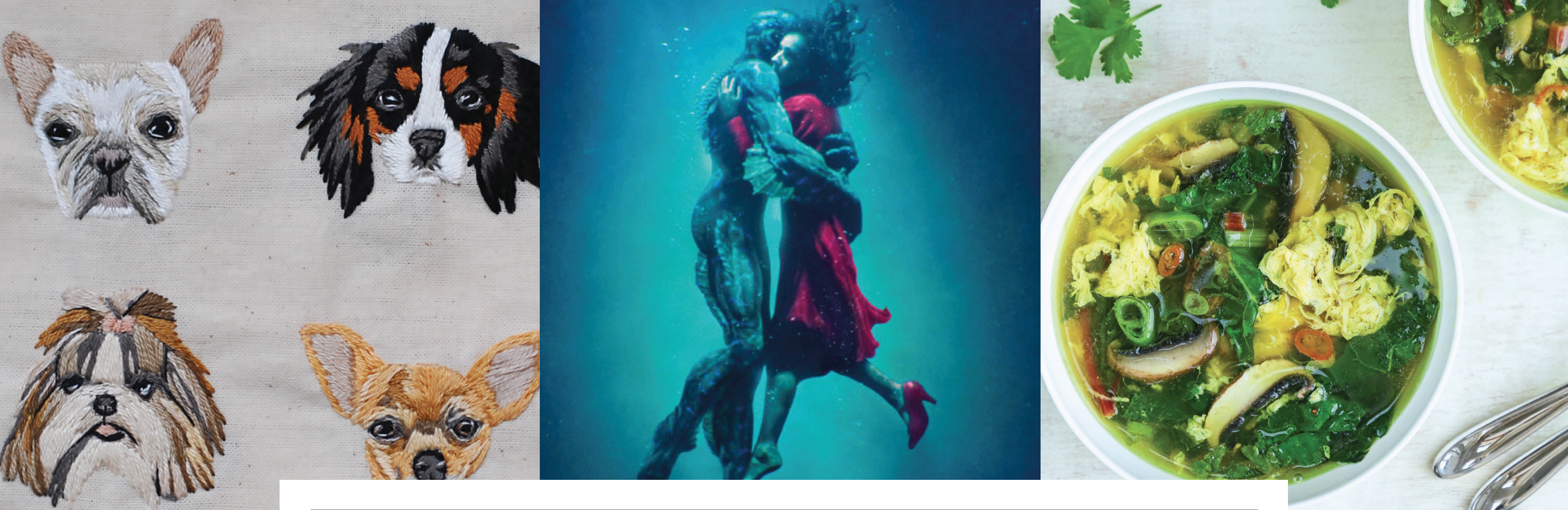
Creatively Independent

Annual Report 2018



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HIGHLIGHTS

FINANCIAL

REVENUE ($M)	
2018	149.3
2017	152.5

ADJUSTED[1] OPERATING PROFIT ($M)	
2018	10.3
2017	7.2

ADJUSTED[1] PROFIT BEFORE TAXATION ($M)	
2018	5.9
2017	3.9

LOSS FOR THE YEAR ($M)	
2018	(0.6)
2017	(18.5)

ADJUSTED[1] DILUTED EARNINGS PER SHARE (CENTS)	
2018	23.0
2017	17.8

BASIC (LOSS) PER SHARE (CENTS)	
2018	(2.7)
2017	(96.4)

1 Adjusted measures are stated before amortisation of acquired intangible assets and exceptional items.

OPERATIONAL

- Adjusted[1] operating profit and adjusted profit before taxation ahead of the prior year.
- Children's publishing revenues up 2% and now representing over one-third of Group revenues.
- 63.2% of revenue generated from backlist titles (2017: 60.3%).
- Net debt reduced by 6% to $60.4m (2017: $64.0m).
- Cost-out programme successfully implemented.
- Banking facilities extended to 31 August 2020.

QUARTO AT A GLANCE

We create a wide variety of books and intellectual property products with a mission to inspire life's experiences for the whole family.

c. 330
EMPLOYEES

33
IMPRINTS

c. 10,000
BOOKS IN OUR CATALOGUE

c. $30M
ANNUAL INTELLECTUAL PROPERTY INVESTMENT

c. 63%
OF ANNUAL SALES FROM BACKLIST

43
YEARS
FOUNDED IN 1976

EIGHT MAIN CONTENT CATEGORIES

BOOKS ON FOOD AND DRINK

BOOKS ON DESIGN, ART AND CRAFT

BOOKS ON BODY, MIND, SPIRIT, PARENTING AND RELATIONSHIPS

BOOKS ON INTERIORS, ARCHITECTURE, DIY, PETS AND GARDENING

BOOKS ON CARS, TRAINS, BOATS, MOTORCYCLES AND PLANES

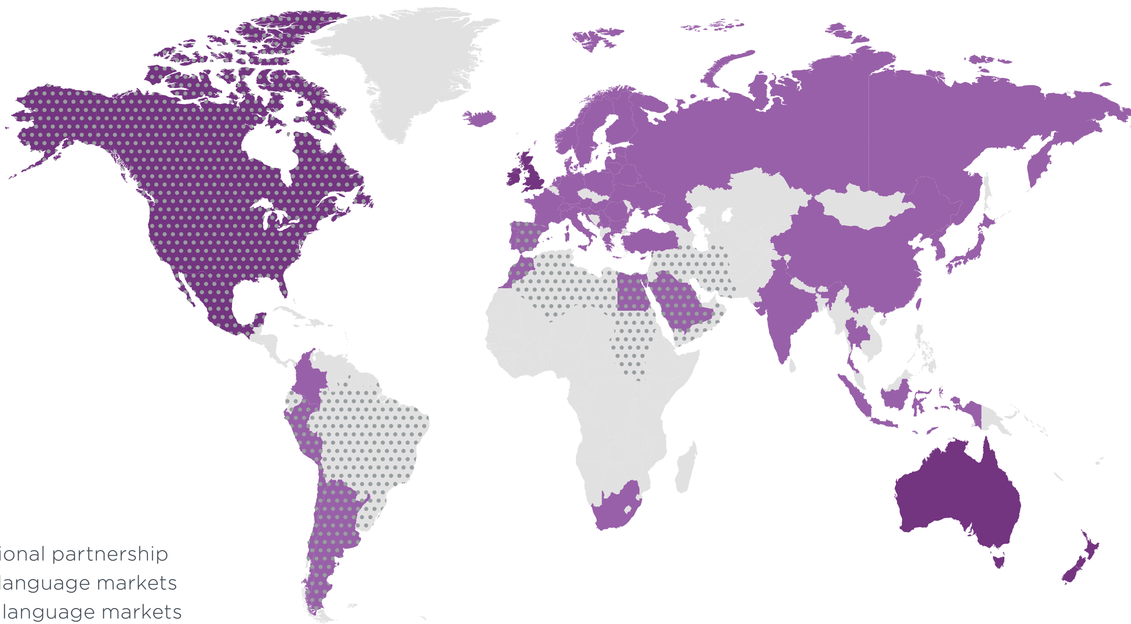
BOOKS ON BIOGRAPHY, TRAVEL, HISTORY, SPACE AND MORE

FUN & IMAGINATIVE BOOKS AND KITS FOR CHILDREN OF ALL AGES

STATIONERY, KITS, CALENDARS AND MORE

We sell our products globally through a variety of sales channels, partnerships and routes to market.

50	7	3
COUNTRY MARKETS	OFFICES WORLDWIDE	INTERNATIONAL PUBLISHING PARTNERSHIPS



Key
- International partnership
- English language markets
- Foreign language markets

QUARTO OFFICES

USA	UK
SEATTLE CALIFORNIA BOSTON NEW YORK	LONDON (X2) BRIGHTON

CHAIRMAN'S STATEMENT

"The Board has been working hard to achieve a more stable platform and the building blocks are now firmly in place."

Andy Cumming
Chairman

2018 has been a challenging year in many respects for Quarto but also for myself personally. I joined the Board as a Non-Executive Director on 1 March 2018 and following the Board changes at the 2018 Annual Meeting, I was appointed Chairman on 11 July 2018.

At the time of my appointment to the Board, there were a number of major issues facing the company, namely:

- The level of external debt, which was considerably higher than the expected norm for a company of this size.
- The level of cost within the business, which was difficult to justify given the financial performance and debt position.
- A lack of effective communication; many employees were not fully aware of the company's financial position and unsure of the future strategic direction.

I am pleased to confirm that since the creation of the new Board in the middle of this year, there has been positive progress on all the issues highlighted above. In particular:

- Following negotiations with our banking syndicate, a restructuring and extension of facilities were agreed which provide a solid base for the future. As a result of the restructuring, external debt has been reduced and there are further planned reductions over the term of the new banking arrangements.
- The cost base of the business has been extensively reviewed, and as a result of this exercise, costs have been reduced and are now at an acceptable level to support the ongoing business.
- The Board has significantly increased the level of communication to ensure that all employees understand the financial issues faced by the Company and also have more clarity regarding the short-term imperatives.

The Board has been working hard to achieve a more stable platform and there is a genuine belief that the building blocks are now firmly in place. Quarto is a great business with great people and great products and the Board is fully committed to maintaining the positive momentum which has been achieved.

Dividend

As in the previous year, the Board has not recommended a payment of a final dividend, given the need for further debt reduction and investment in the business. The dividend policy will remain under review in consultation with shareholders and other stakeholders.

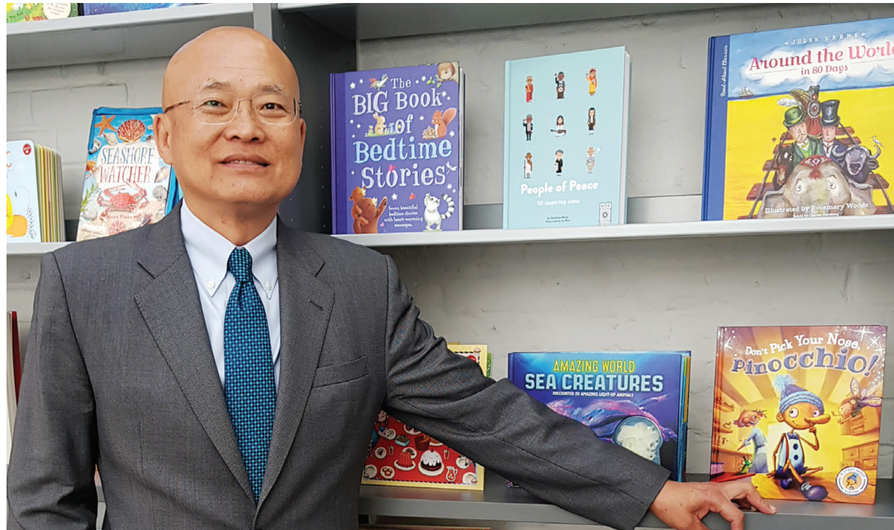
Corporate Governance

There were a number of Board changes in 2018 following the Annual Meeting. We have welcomed Ken Fund as an Executive Director and Jane Moriarty as a Non-Executive Director. Ken, as the Chief Operating Officer for Quarto, brings 34 years' publishing experience to the Board and Jane's background as a former senior partner at KPMG provides wide commercial expertise.

I am thoroughly enjoying my time as Chairman of Quarto. This is a people business and I have been really impressed by the dedication, enthusiasm and commitment of all the people I have met. I look forward to being part of this talented team as we build for the future.

Andy Cumming
Chairman
8 March 2019

CHIEF EXECUTIVE OFFICER'S STATEMENT



"We are focused on delivering stability to the business and returning the Group to full health."

C. K. Lau
Chief Executive Officer

Strategic Overview

Overall, revenue was down 2% at $149.3m (2017: $152.5m) and adjusted operating profit up 43% at $10.3m (2017: $7.2m), enabled by a strong trading performance in the first half of the year and in the fourth quarter, as well as significant cost reductions.

This is a satisfactory set of results considering that the market has continued to show softness in the book trade both in the US and the UK, and that the Group has had to adjust to various transitions in the management of the Company.

A new Board was formed following the Annual Meeting in May, with clear objectives to deliver a right-sizing of the Group; a path to sustainable debt reduction; a focus on the Group's core strengths; and a disciplined business model.

After a short tenure from Laurence Orbach, Andy Cumming was appointed Non-Executive Chairman in July and has provided a clear direction to the Group since. His experience has proven invaluable, especially through the renegotiations of our banking facilities.

I would like to thank our Chief Operating Officer, Ken Fund, who has been with Quarto for 20 years and who we welcomed to the Board last year. His commitment, leadership and experience helped the business and all of our people through a particularly challenging year. I would also like to thank Mick Mousley, who agreed to come out of retirement while we look for a permanent Chief Financial Officer.

In the last six months, both the new Board and senior management have been focused on delivering stability to the business, supporting our core operations and starting to address our balance sheet.

In November, the extension of our banking facilities to 31 August 2020 was a major milestone in returning the Group to full health. This gives us a stable position from which we can continue to improve business performance and reduce debt to a more acceptable level, as agreed with our banking syndicate.

We completed a comprehensive cost-out programme, following a thorough review of key areas of expenditure. Our portfolio has been reviewed and reduced from 40 to 33 imprints; we downsized some of our office facilities; and we effected a significant reduction in corporate overhead.

Although the benefits will not flow through immediately – as we have had to incur exceptional costs to implement the cost-out programme – we have gone into 2019 satisfied that the Group is now operating at the right size.

US Publishing revenues were down 1% at $81.2m (2017: $81.8m), and UK publishing revenues were flat at $20.4m (2017: $20.3m). Children's publishing revenues grew 2.3%, led by the success of our Lincoln Children's Books list. Adult publishing revenues were down 4.3% due to a lower performance of co-edition publishing.

The Group is now over one-third Children's products, with continued increased contribution from the Children's side. The Adult market remains more challenging, as the

CHIEF EXECUTIVE OFFICER'S STATEMENT (CONTINUED)

consolidation of publishers in the English language co-edition market continues to impact sales negatively. We are looking at new opportunities in custom publishing to grow our customer base.

Our Foreign Rights sales team delivered a solid year, with revenues of $31.3m, despite strong headwinds against them.

The Group ended the year with net debt at $60.4m, down 5.6% vs prior year (2017: $64.0m). Net debt is still sizeable and remains an immediate focus for the Board.

I am very passionate about returning the Group to full health and defining further growth strategies for 2020 and beyond. Quarto's model remains effective: talented people making high-quality and long-lasting products across a balanced portfolio, supported by an efficient operating platform that adapts to market conditions.

Our strategy for the Group in the short term is to deliver stability to the business, to continue to grow lists where the opportunity exists while supporting and improving poor performing business units and to address our balance sheet by reducing our net debt.

Operating Review

Quarto sells its products globally, in 50 countries in 40 languages, through a variety of sales channels, partnerships and routes to market – US, UK, International English language, Foreign language and other Partnerships.

Revenue is reported by the geography in which the product is sold. Adjusted Operating Profit is reported by IP portfolio, where the product is generated – US Publishing, UK Publishing and Q Partners.

Routes to Market

In the US, revenue was $81.2m, down marginally over the prior year (2017: $81.8m), with a strong performance from our Quarry and Fair Winds Press Imprints. A strength of the US program has been our ability to grow the specialty retailer accounts base, whilst the uncertainty of the book trade continues to show lower sales in our publishing categories. E-book and digital revenue, although small, showed improvement. Returns on sales were lower than prior year and back to an expected rate, following unusually high levels in 2017 due to colouring books.

In both the US and the UK, co-edition revenues were soft especially in English Language, as this market continues to decline. Specifically, some of our Star Wars licensed titles did not perform up to expectations, which affects new title sales as well as reprints.

UK revenue was $20.4m, level with the prior year (2017: $20.3m), led by a strong performance from our Lincoln Children's Books, Ivy Press/Ivy Kids and Wide Eyed Editions imprints. The Little People, Big Dreams series continues to be a major success and in 2019 we are expanding the list to include inspirational male role models. The launch of our Build and Become series (White Lion Publishing) has been well received.

Our international English language sales have performed better than prior year with revenues of $10.8m (2017: $10.3m) with a strong contribution from our Australian, Middle Eastern and Asian markets, and due to new distributors in India and South Africa.

Foreign Language sales achieved a strong year with revenues of $31.3m, although lower than prior year (2017: $34.4m), as a result of market place uncertainty, particularly in South America.

Our publishing partnerships and distribution business, Q Partners, was down 1% year-on-year with revenue of $5.6m (2017: $5.7m). Sales have been slow in Brazil and the launch of Quarto Iberoamericana, our Spanish language partnership, has still to reach critical mass. Overall the business hasn't yet reached a satisfactory level and we are looking at refining the business model.

Revenue ($m)	**2018**	**2017**
United States	81.2	81.8
United Kingdom	20.4	20.3
Rest of the World	10.8	10.3
Foreign Rights	31.3	34.4
Q Partners	5.6	5.7
Total Revenue	**149.3**	**152.5**

Intellectual Property Portfolio

Each one of our imprints and businesses within our portfolio is creatively independent and caters to different audiences and markets.

Our most profitable imprints were Lincoln Children's Books (UK, acquired in 2011, relaunched in 2014), Ivy Press (UK, acquired in 2015) and Wide Eyed Editions (UK, launched in 2013).

Adult publishing revenues declined 4.3%, suffering from a lower performance of English language co-editions against prior year. In this market, the consolidation of publishers continues to impact sales negatively. We are looking at new opportunities in custom publishing to grow our customer base. Internally, we have significantly consolidated parts of our Adults portfolio and are confident that it is better equipped to suit customer and market trends.

Children's publishing revenues grew 2.3% led by the success of our UK-based Lincoln Children's Books imprint. The Group is now over one-third Children's products, with continued increased contribution from the Children's side.

The revenue split between frontlist titles (published in 2018) and backlist titles (published before 2018) was comparable year-on-year, with 63.2% of publishing revenues generated from backlist titles vs 60.3% in 2017. This is consistent with Quarto's strategy to generate c. 60% annual recurring revenues from the Group's rich IP catalogue and reflects our expertise in creating long-lasting content.

Adults' titles represented 65% of backlist revenues (2017: 67%) and 66% of frontlist revenues (2017: 67%), while Children's titles represented 35% of backlist revenues (2017: 33%) and 34% of frontlist revenues (2017: 33%). The increased proportion of Children's titles in the backlist can be explained as some of the Group's imprints, only started a couple of years ago, are now becoming established businesses.

Outlook

The newly constituted Board is fully focused on achieving stability in the business after a period of considerable change, returning the Group to full health and defining further growth strategies for 2020 and beyond.

Quarto expects the ongoing soft market conditions to continue in 2019, impacting foreign language markets and the Adults portfolio, in particular. The Group expects some organic growth in Children's and further benefits from the cost-out programme.

In the medium to long term, our strategy remains to grow organically through innovation and, where applicable, by acquisition and to continue to drive circa 60% annual recurring revenue through the Group's enduring backlist and innovative use of its rich IP catalogue.

DIVISIONAL REVIEW

US Publishing

US Publishing adjusted operating profit was up 15% to $5.3m (2017: $4.6m) due to a combination of positive factors:

- Lower returns on sales, which came back to an expected rate after reaching an unusually high point in 2017 due to colouring books.
- A significant reduction in expenses through the cost-out programme put in place during the year.

Overall, we saw a 1% reduction in margin. Some elements of this decline have been ongoing challenges which we are addressing. Cost of Goods sold were slightly higher in 2018, impacted negatively by an increase in paper costs. Paper costs have now stabilised, which should have a positive impact on margin in 2019.

Product development costs were in line with expectations and the prior year. Investment in new titles has started to be reduced as part of our cost-out programme, and as we use our IP in new and innovative ways.

UK Publishing

UK Publishing adjusted operating profit was up 11% to $7.9m (2017: $7.1m) due to the following factors:

- A strong performance from our Lincoln Children's Books, Ivy Press/ Ivy Kids and Wide Eyed Editions imprints.
- Lower royalty costs following a negotiation of more favourable terms. The increasing mix of sales to the trade is a trend that we expect to continue.
- Benefits from our cost-out programme, with a reduction in investment in new titles being acquired, as well as an overall reduction in administrative, selling and staffing costs.
- Improved margin in our newly formed White Lion Street Adults imprint, due to efficiencies across print, staffing costs and investment in new product.

Q Partners

Q Partners' adjusted operating profit remained flat year-on-year, with a small loss of $0.4m in 2018 (2017: loss $0.4m).

The business hasn't yet reached a satisfactory level as volumes remain small. We are looking at refining the business model.

Adjusted Operating Profit ($m)	2018	2017
US Publishing	5.3	4.6
UK Publishing	7.9	7.1
Q Partners	(0.4)	(0.4)
Group overhead	(2.5)	(4.1)
Total adjusted operating profit	10.3	7.2

OUR PEOPLE

Quarto employs c. 330 people across 7 locations in the UK and the US, as well as a network of creative contributors and freelancers. We operate in a competitive international market place and need to attract, develop and retain creative, talented and resourceful employees.

Our values

Quarto's values shape our business. They make Quarto an attractive place to develop a career, and a responsible organisation.

Our Values

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

We will not discriminate against age, gender, ethnicity, cultural background, sexual orientation or religious beliefs. We operate a robust recruitment policy, including right to work checks and commitment to a policy of equal opportunity and treatment, to foster an inclusive, fair and diverse environment.

Quarto has an employee code of conduct, operates anti-bribery and corruption, equal opportunities, anti-harassment and whistle-blowing policies and observes health and safety requirements, demonstrating our commitment to acting ethically and with integrity in all employee and business relationships. These policies are also readily available to staff via the Quarto intranet site and in the staff handbooks.

Quarto honours the dignity of all people and respects the laws, customs and values of the communities in which we operate. We are committed to ensuring that there is no modern slavery or human trafficking in our supply chains or in any part of our business.

At the end of 2018, the breakdown of directors, senior managers and employees was:

	Male	Female
Directors	4	2
Senior managers	8	10
All employees	90	240

CORPORATE RESPONSIBILITY AND SUSTAINABILITY

Corporate responsibility and sustainability

Quarto wants to be a good corporate citizen and considers the impact our activities have on the environment; as well as make a positive contribution to society by making inspirational books and actively supporting our communities.

Supporting communities

Quarto launched the Quarto Foundation in 2017 as a means for our people to support local charities. The Quarto Foundation continued to support local charities during 2018, holding events across all Quarto's offices to raise money that the company then matches, from "Blind Date with a Book" to a sponsored abseil.

Environmental impact and sustainability

Most of our impact arises through the materials and services we procure such as printing, production, distribution, recycling and disposal of books. To reduce our impact, we adopt the following practices:

- Use of sustainable paper: most books are printed on Forest Stewardship Council (FSC) paper supplies, or, for domestic US printing, we use Sustainable Forestry Initiative (SFI) paper. We estimate 80% of books are printed on sustainable paper.
- Increasing sustainable operations: we continue to consolidate shipments wherever possible so that the number of journeys made is minimised.
- Ethical production: we continue to work with our suppliers to adopt ethical standards of manufacture using ICTI Care processes.

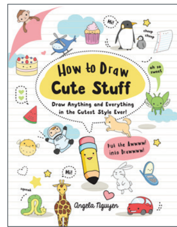
2018 PORTFOLIO HIGHLIGHTS

Adults

Bucket LIst Journal
Published 2016
$479k
0.3% of revenue

RHS Desk Diary
Published 2018
$264k
0.2% of revenue

How to Draw Cute Stuff
Published 2017
$252k
0.2% of revenue



History of Space Exploration
Published 2018
$213k
0.1% of revenue

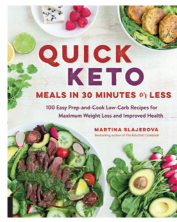
Super Squishies: Slime and Putty
First Published 2018
$213k
0.1% of revenue

The Complete Pattern Directory
Published 2018
$199k
0.1% of revenue

Beginner's Keto
Published 2018
$914k
0.6% of revenue

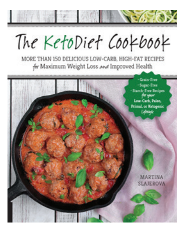
Keto Slow Cooker & One-Pot Meals
Published 2017
$613k
0.4% of revenue

Quick Keto Meals In 30 Minutes or Less
Published 2017
$559k
0.4% of revenue



Instant Pot® Electric Pressure Cooker Cookbook
Published 2017
$415k
0.3% of revenue

Keto Diet Cookbook
Published 2017
$334k
0.2% of revenue



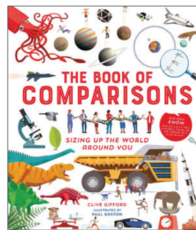
Electric Pressure Cooker Cookbook
Published 2017
$312k
0.2% of revenue

Children

Little People, Big Dreams: Coco Chanel
Published 2016
$455k
0.3% of revenue

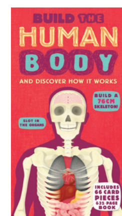
Little People, Big Dreams: Frida Kahlo
Published 2016
$415k
0.3% of revenue

The Book of Comparisons
Published 2018
$383k
0.3% of revenue



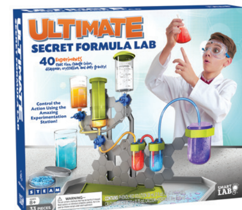
The Nutcracker
Published 2017
$374k
0.3% of revenue

Build: The Human Body
Published 2017
$346k
0.2% of revenue



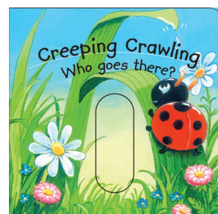
Storytime BU: The Big Book of Bedtime Stories
Published 2017
$268k
0.2% of revenue

Ultimate Secret Formula Lab
Published 2016
$486k
0.3% of revenue



World of Birds
Published 2018
$187k
0.1% of revenue

Mini Movers
Published 2014
$284k
0.2% of revenue

words & pictures


Squishy Human Body
Published 2006
$1,216k
0.8% of revenue

All-natural Lip Balm Boutique
Published 2016
$725k
0.5% of revenue

Smart Circuits: Electronics Lab
Published 2016
$686k
0.5% of revenue

STRATEGIC REPORT
GOVERNANCE
FINANCIAL STATEMENTS

OUR BUSINESS MODEL

We make visually appealing, information-rich books and related products in a multitude of formats, for adults, children and the whole family. Our creative portfolio of imprints develops long-lasting content across many areas of interest.

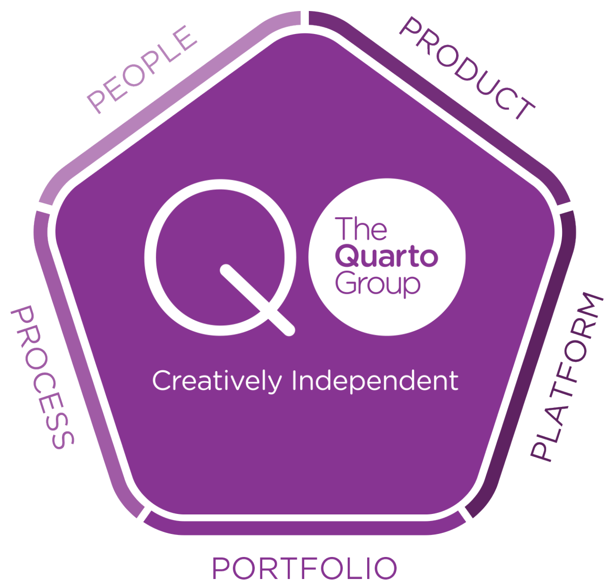
People
Our people and talent make Quarto who we are. Our 36 imprints are creatively independent, producing what we believe is right for our customer base and the market.

Product
Each imprint has a different vision. We are proud of the wide variety of books we publish and our unique, high quality content.

Platform
Our imprints sit on the Quarto platform of people, sales, marketing and operations that we have built and adhere to the financial model through which we manage our portfolio.

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

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



MARKET OVERVIEW

Quarto has been firmly anchored in international illustrated publishing since its founding in 1976.

Quarto privately commissioned a piece of research[1] on the trends of the global illustrated book market.

Market size and potential
As of 2017, Quarto's addressable market in the US and the UK combined is worth $14.1bn[1]. The US market has grown 4.6% since 2013 and is forecast to grow by a further 8.8% by 2020; while the UK market has grown 6.6% since 2013 and is forecast to grow by 6.7% by 2020.

General trends
The market is overall quite mature and stable with consumers very loyal to the book product. On average, adult non-fiction buyers purchase eight books a year, and children's book buyers, nine.

There is a healthy co-existence between print books and the digital world. Physical books are vibrant and preserving a diverse retail landscape. E-Book sales have been flatlining with limited success outside of adult fiction.

Children's and new/young adult publishing are leading the way in all markets and all channels. Children's books have grown ahead of other categories in recent years. Consumers overwhelmingly recognise the role books play in children's development and do not believe digital content can provide the same type of learning.

In the retail space, the market share of physical book specialists vs online retailers and physical non-book specialists has reduced in the past few years, and is expected to decrease further by 2020.

International book markets are flourishing, with significant economic and demographic changes in large countries, for instance Brazil and Argentina. This can present opportunities and challenges for publishers with global reach, such as Quarto.

1 This report was commissioned by and produced for The Quarto Group in November 2017 by Pragma Consulting Limited as part of a market and channel review.

GROWTH STRATEGY

"We are delivering stability for the business in the short term, while defining growth strategies for 2020 and beyond."

C. K. Lau
Chief Executive Officer

The vision for Quarto remains to become the dominant publisher of illustrated books worldwide and to expand on the use of our IP in as many ways as possible.

We understand that, as a publicly traded business, we need to deliver stability to the market in the short term. We are focused on becoming best in class in operating an efficient publishing company, in which we excel in delivering quality content in a cost-effective way, and product offerings that bring the highest value to our readers.

Organic Growth

We constantly review our portfolio to ensure it remains dynamic and aligned to the broader market trends, and we strive to diversify and expand the distribution of our products.

In the mature market that is illustrated publishing, we believe organic growth can be achieved by:

- Innovation in products and product development, which means working to understand what our end consumers want and thinking harder about using our IP in as many ways and formats as possible. Examples for our 2018 programme include sound books, glow in the dark books, as well as our Scratch and Learn series.
- Communication Innovation, i.e. how can we better market our products directly to consumers? For instance, we have focused on marketing by channel as well as by title, to ensure we reach potential consumers in the outlets where they come to learn and shop.
- Business Innovation, which is about finding new ways to expand and enhance parts of our business, including:
  - Finding the right title for the market at the right price;
  - Developing formats and products driven by the channel they sell in, effectively making it easier for consumers to find our products at the retailer they usually shop at, for the price they want and in a format that works for them. We sell our products in physical stores and online; in bookstores, gift stores, toys stores and wherever we believe consumers might come across them. That includes, for instance, Tractor Supply, Costco, Urban Outfitters or Holland & Barrett among many others.

Acquisition Growth

In the medium to long term, acquisitive growth is likely to remain a key strategic area for the Group. As a market leader with a global and scalable platform in what remains a fragmented industry, the potential opportunity is significant.

Quarto has a long history of acquisitions and has established specific parameters to evaluate acquisition opportunities.

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.
2. **Additional expertise**
   Brings an area or market we do not previously have expertise in, e.g. small world creations, specialised in children's 0–3 formats.
3. **Competitor Ingestion**
   Synergistic consolidation, e.g. Ivy Press,
4. **Step Changers**
   Significant additions to the business, e.g. becker&mayer
5. **Adjacencies**
   Complementary to existing portfolio and sales channels, such as Book Plus and educational products, e.g. SmartLab
6. **Distribution Enhancing**
   A business that owns a specific channel to market.

FINANCIAL REVIEW

"Operating profit for the Group before amortization of acquired intangibles and exceptional items increased by 43% ($3.1m) to $10.3m (2017: $7.2m)."

Michael Mousley
Interim Chief Financial Officer

Group Results

Revenue was $149.3m, a decrease of 2%, compared to 2017 ($152.5m). Operating profit, before amortisation of intangibles and exceptional items, ("adjusted operating profit") was up 43% at $10.3m (2017: $7.2m) and represented 6.9% (2017: 4.7%) of revenue. Adjusted diluted earnings per share increased by 29% to 23.0c (2017: 17.8c). It has been the case for many years, that not one of our titles exceeded 1% of Group revenue, and this year is no exception. The following titles were our top ten sellers in 2018, with their respective revenue and year of publication:

Title	Revenue
Squishy Human Body (2006)	$1,216,000
Beginner's Keto Diet Cookbook (2018)	$914,000
All-Natural Lip Balm Boutique (2016)	$725,000
Smart Circuits: Electronics Lab (2016)	$686,000
Keto Slow Cooker & One-Pot Meals (2017)	$613,000
Quick Keto Meals in 30 Minutes or Less (2017)	$559,000
Ultimate Secret Formula Lab (2016)	$486,000
The Bucket List (2016)	$479,000
Little People, Big Dreams: Coco Chanel (2016) [1]	$455,000
Little People, Big Dreams: Frida Kahlo (2016) [1]	$415,000

1 The Little People, Big Dreams titles are part of a series that generated $4.3m of revenue in 2018 (2017: $1.8m)

US Publishing

Revenue for this segment was down 2% at $73.0m (2017: $74.1m). Adjusted operating profit was up 13% at $5.3m (2017: $4.6m). We achieved an operating profit margin of 7.2% (2017: 6.3%). Reprints accounted for 65% of revenue, compared to 64% in 2017.

UK Publishing

Revenue for this segment was down 3% at $70.7m (2017: $72.7m). Adjusted operating profit was up 11% at $7.9m (2017: $7.1m). We achieved an operating profit margin of 11.2% (2017: 9.8%). Reprints accounted for 61% of revenue, compared to 54% in 2017.

Q Partners

Revenue for this segment was down 1% at $5.6m (2017: $5.7m). We incurred an adjusted operating loss of $0.4m (2017: loss $0.4m).

Corporate costs

Corporate costs were reduced by 41% from $4.1m to $2.5m, due to the cost-out programme, which was initiated in the second half of the year.

Exceptional Items

Exceptional items, in 2018, comprised reorganization costs of $2.9m, arising from the cost-out programme, $0.8m with respect to the board changes that occurred in May 2018 and $1.5m of refinancing costs. Exceptional items, in 2017, comprised goodwill impairment of $17.4m, impairment of pre-publication costs of $4.9m and other items of $1.9m. Further details are disclosed in note 5.

Finance Costs

Finance costs were $4.4m (2017: $3.3m). The increase was attributable to an increase in interest rates, an increase in the interest margin and a charge with respect to the deferred consideration for a prior period acquisition.

Tax

The tax charge for the year was $0.5m (2017: Credit $1.5m). The Group incurred taxable losses in the US which, following tax legislation changes from 1 January 2018, cannot be fully recovered.

Balance Sheet

The Group's net assets decreased to $21.1m from $24.1m, largely because the Group has net Sterling assets. The weakness of Sterling against the US dollar, which is the Group's principal functional currency, has resulted in a translation loss on exchange. During 2018, the Group transacted in Sterling, Euros, Australian Dollars, New Zealand Dollars and Hong Kong Dollars. Our borrowings are drawn in US Dollars, Sterling and Euros to provide a partial hedge against the movement in our net assets excluding borrowings in those currencies. The key exchange rates for the year are shown in the table on page 15.

We signed an agreement with our banking syndicate to extend the maturity of our facilities to 31 August 2020. The revised facilities incorporate an immediate reduction in bank debt and a subsequent amortization programme. As part of the agreement with the banking syndicate, certain of the Company's larger shareholders and a related company agreed to provide unsecured and subordinated loans to the Group, totaling $13m. These loans are

repayable by 31 August 2020 and have been used to reduce bank facilities and to provide additional working capital. This gives us a stable position to continue our focus on improving the performance of our business and reducing debt to a more acceptable level.

Cash Flow and Indebtedness

At the year end, our net debt was $60.4m, a reduction of 6%, compared to 2017, when it was $64.0m. The Group was well within its banking covenants, details of which are included in note 18 to the Financial Statements. Free cash flow, during the year, was $8.4m, up 8% compared to 2017, when it was $7.7m.

Shareholder Return

The Directors have decided to continues the Group's policy of not paying a divident for the time being, until debt can be brought down to a more acceptable level.

Cost-Out Programme

We initiated a cost-out programme in the second half of the year. This was designed to achieve the following: a right-sizing of the Group, a path to sustainable debt reduction and a focus on our core strengths. The process involved a thorough review of key areas of expenditure, including but not limited to, prepublication expenditure, occupancy costs, payroll and discretionary expenditure. The benefit of the cost-out programme has not flowed through immediately, as we have incurred one-time exceptional costs to implement the plan. We expect this plan to lead to improved cash flows in 2019 and 2020.

Exchange Rates	Year-end rate			Average rate		
Versus US Dollar	2018	2017	% change	2018	2017	% change
Sterling	0.78	0.74	5.4%	0.75	0.78	(3.8)%
Euro	0.87	0.84	3.6%	0.84	0.88	(4.5)%
Australian Dollar	1.41	1.28	10.2%	1.34	1.30	3.1%
New Zealand Dollar	1.48	1.41	5.0%	1.44	1.41	2.1%
Hong Kong Dollar	7.80	7.83	(0.4)%	7.82	7.79	0.4%

Principal Risks and Uncertainties

Details of the Group's principal risks and uncertainties are set out on pages 18 and 19.

Going Concern

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 it is aligned with long-term incentives offered to Executive Directors and certain senior management.

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 2021, which comprise a detailed cash forecast for the year ending 31 December 2019 based on the budget for that year and standard growth assumptions for revenue and costs for the years ending 31 December 2020 and 2021, 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 2021 based on a financial model which was prepared as part of the process of considering and approving the 2019 budget. The Directors used the three-year review period for the following reason:

The Group's publishing program planning cycle normally works over a two- to three-year period.

The Group's current banking facilities have 18 months to run before they will need to be refinanced in August 2020. 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, and its banking covenants.

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 its liabilities as they fall due up to 31 December 2021.

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 Mousley
Interim Chief Financial Officer

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[1] OPERATING PROFIT BEFORE DEPRECIATION (EBITDA) ($M)

Year	$M
2018	11.1
2017	8.5
2016	18.3
2015	17.9
2014	17.0
2013	15.9
2012	16.5

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

ADJUSTED[1] OPERATING PROFIT ($M)

Year	$M
2018	10.3
2017	7.2
2016	17.0
2015	18.5
2014	15.8
2013	14.3
2012	12.8

Adjusted operating profit improvement, largely as a result of our cost-out programme.

RETURN ON NET OPERATING ASSETS (%)

Year	%
2018	11.3
2017	7.7
2016	14.3
2015	13.4
2014	12.0
2013	11.8
2012	11.0

The Board uses this ratio to evaluate the long-term financial health of the Group.

NET DEBT ($M)

Year	$M
2018	60.4
2017	64.0
2016	61.9
2015	59.5
2014	66.0
2013	71.0
2012	81.0

Our net debt has reduced by 6% in 2018.

1 Adjusted measures are stated before amortisation of acquired intangible assets and exceptional items.

ADJUSTED[1] DILUTED EARNINGS PER SHARE (CENTS)

Year	Value
2018	23.0
2017	17.8
2016	48.7
2015	46.1
2014	39.1
2013	36.1
2012	41.6

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

BACKLIST % OF SALES (%)

Year	Value
2018	63.2
2017	60.3
2016	58.3
2015	61.4
2014	66.6
2013	71.3
2012	69.8

Backlist has increased as a percentage of sales.

INVENTORY % OF REVENUE (%)

Year	Value
2018	15.0
2017	14.8
2016	15.5
2015	13.8
2014	13.9
2013	11.2
2012	12.6

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

INTELLECTUAL PROPERTY DEVELOPMENT SPEND ($M)

Year	Value
2018	29.7
2017	35.6
2016	37.2
2015	34.9
2014	33.5
2013	31.7
2012	30.5

We reduced the IP spend in 2018, as a result of our cost-out programme.

CHILDREN'S PUBLISHING REVENUES ($M)

Year	Value
2018	50.2
2017	49.1
2016	41.1
2015	32.4
2014	23.0
2013	19.6
2012	18.5

Children's publishing revenues have increased by 171% 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 21 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 its 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 planned exit from the European Union and US-Sino relations contribute to uncertainty in the economic environment.	The Group has adequate facilities with up to $74.5m 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 currencies giving rise to a risk of exchange loss from fluctuating exchange rates.	The Group has 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.
Financial	The Group's relatively high level of debt makes the Group sensitive to interest rates and potential covenant breaches. .	Quarto shares financial information with its banks routinely and during 2018 negotiated a re-financing to extend the maturity of its bank facilities to 31 August 2020 which incorporated an immediate reduction in bank debt and a subsequent amortisation programme. This agreement was supported with unsecured and subordinated loans of US$13m from several large shareholders allowing bank facilities to be reduced and to provide additional working capital. Further mitigations to manage risk arise from a programme introduced in the second half of 2018 to reduce operating costs across the Group whilst we continue to build the balance sheet with a strong publishing programme.

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 over 20% of the business. Customer relations are managed to ensure a fair-trading relationship. Management monitors debts closely and maintains close relationships with its customers, which may provide prior warning of likely failure.

OPERATIONAL RISKS (continued)

Risk	Description	Mitigation
Supply chain and raw materials	The Group relies on a group 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 supply 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-environmentally friendly paper. 'Brexit', the planned departure of the UK from the EU, could disrupt product movement into the EU.	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 has worked with its major printers on a plan to adopt sustainable paper and recently instituted a Forest Stewardship Council (FSC) paper or Sustainable Forestry Initiative (SFI) paper policy across all our imprints. Quarto monitors the Brexit-situation closely, taking note of the advice of the UK Government and key suppliers so that it is ready to make appropriate preparations to ensure minimal disruption. Most of Quarto's product is shipped directly to EU countries from its printers based principally in China. These shipments are not expected to be affected by Brexit.
Product safety	Our business is faced with increasing safety and testing requirements on various product components. 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 specialist and accredited independent third parties. Management carefully selects suppliers for components.
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.	A cloud storage solution is integrated into production workflow for storage, back-up and recovery services for product files in development. Two archive data arrays that will be a replication of each other was introduced in the first half of 2018 – one in the UK and one in the US with each hosting a complete set of backlist archives.
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.	During 2018 an information system was introduced Group-wide to harmonise the management of contracts. Quarto reviews its licensing, permission-acquisitions and other contracts routinely receiving advice from relevant professional firms (including the possible impact of Brexit) so that legal instruments remain current and represent best practices so that we ensure that our practices are aligned and consistent across imprints.
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 its IP assets.	The Group uses enterprise level firewalls and IT controls to prevent attack as well as maintaining cloud-based copies and 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 www.quartoknows.com.
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 talent and attract new talent could ultimately lead to a failure to generate successful new titles, leading to a drop in revenue. The manner in which the UK leaves the EU ('Brexit') in 2019 could affect permission of EU-citizens to work in the UK potentially disrupting the resourcing of our UK-based rights selling team.	Our portfolio of imprints and large number of products spread this risk. The overall portfolio is well diversified with no single title or series accounting for more than 5% of our total revenue in 2018. Quarto's Publishers are experienced and talented professionals who work alongside sales and marketing teams and strive to stay close to publishing trends and markets. The Group also offers competitive market rate remuneration packages and works hard to make Quarto an attractive place to work. Quarto monitors the Brexit-situation closely, taking note of the advice of the UK Government so that it is ready to support any staff affected by Brexit and can maintain its business activities.

BOARD OF DIRECTORS

Andy Cumming
Non-Executive Chairman

Andy joined the Board on 1 March 2018.

Andy has over 40 years' experience in banking and risk management. The last 17 years of his full-time career were spent with Lloyds Banking Group in a variety of senior positions, including seven years as the Chief Credit Officer of the Commercial Banking Division and four years as Managing Director of the Global Non-Core Division. He was also a member of the Group Risk and Commercial Banking Executive Committees.

Andy is currently Non-Executive Director of Lloyds Development Capital, the private equity arm of Lloyds Banking Group, Bluestone Holdings Limited, a multinational financial services business, and Seadrill Partners LLC, which focuses on the acquisition, ownership and operation of offshore drilling rigs.

Andy is a member of the Audit, Nominations and Remuneration Committees.

Chuk Kin Lau
Chief Executive Officer

C.K. Lau is an executive director of Lion Rock Group Limited and an executive director of OPUS Group Limited, a subsidiary of Lion Rock Group. CK joined Quarto in May 2018 after being elected to the Board as an Executive Director.

Ken Fund
Chief Operating Officer

A graduate of SUNY Oswego and with an MBA in Finance at Pace University, Ken first started with Dino DeLaurentiis Productions in New Business Development moving on to Simon & Schuster Publishers as Business Manager in 1984. He joined Harper Collins San Francisco in 1990 where he was Senior Vice President of Finance and Operations, Trade Group, responsible for all of the publishing imprints. In 1999 Ken joined Quarto as President and CEO of Rockport Publishers. He has been COO of Quarto since July 2016 and joined the Board on 12 July 2018.

Michael Mousley
Interim Chief Financial Officer

Michael worked for 12 years at Deloitte Haskins & Sells (now part of PWC), spending the last two years of his tenure there as a senior manager in the Mergers and Acquisitions Department. He joined Quarto in 1987, and was appointed Finance Director in 1989. Michael remained with Quarto for 28 years before retiring from his post as Chief Financial Officer in 2015. Michael rejoined Quarto as a Non-Executive Director in May 2018 and became Interim Chief Financial Officer in June 2018.

Mei Lan Lam
Non-Executive Director

M. L. Lam is an executive director of Lion Rock Group Limited. She is the chief financial officer of Lion Rock Group and was responsible for the financial management of Lion Rock Group. Mei Lan has 30 years' experience in finance and has held senior financial positions in various listed companies and a non-profit charitable organization in Hong Kong. She joined Quarto after being elected to the Board as a Non-Executive Director, in May 2018.

Jane Moriarty
Non-Executive Director

Jane is an FCA who worked with KPMG LLP for over 29 years. During her time with KPMG she worked with a broad range of businesses helping them to develop strategies to realise opportunities and manage threats in fast moving environments.

She has built and managed market leading teams and believes in the importance of effective teamwork.

Jane is currently Non-Executive Director of Mitchells & Butlers plc, one of the largest operators of pubs, bars & restaurants in the UK, NG Bailey, an independent engineering, construction and services company in the UK and Martin's Properties, a leading commercial, retail and residential property company.

She joined the Board of Quarto on 12 November 2018.

NOMINATIONS COMMITTEE REPORT

Following the Board changes that took place in 2018, the Nominations Committee now comprises the Group's Non-Executive Directors, Andy Cumming (Committee Chairman) and Jane Moriarty (Senior Independent Director). 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 Director will chair the Committee instead of the Chairman.

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 twice during the year and was active in appointing Andy Cumming as an independent Non-Executive Director on 1 March 2018 and Jane Moriarty as Senior Independent Director on 12 November 2018.

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

Andy Cumming
Chairman of the Nominations Committee
8 March 2019

AUDIT COMMITTEE REPORT

On 17 May 2018 a number of members of the Audit Committee resigned. Andy Cumming was the sole remaining member. On 12 November 2018, Jane Moriarty joined the Committee and became its Chairman. In line with FRC guidance the committee now has 2 members.

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 CFO throughout the year and with senior management. She also meets with the external Audit Partner from time to time to discuss issues and be appraised of regulatory changes.

By invitation the Company's CEO and 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 3 times during 2018 and once so far in 2019.

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 2018 and 2019, 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 2018 year-end audit and approval of the preliminary announcement and the annual report.
- Review of the Directors' viability statement.
- Consider the external auditor's comments in relation to internal controls and review the need and potential scope of internal audit functions.
- Consider the Group's extended and amended banking agreements, particularly with respect to ensuring the Group's compliance with its banking covenants.
- Review and approval of the interim report 2018 after discussion with management and the external auditor.
- Review and consider the goodwill impairment review.

Significant Audit Risks, Key Findings and Financial Judgements Relating to Year End Accounts 2018

The Committee concentrated on the following in relation to the 2018 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.

Following the extension and amendment of the Group's banking facilities, the Committee reviewed the Group's forecasts to confirm the Group was able to meet its current and future banking covenants.

The Group's financial performance in 2018, and its forecast future performance, reflects the positive impact of the Group's renewed focus on core products and titles as well as the cost-out programme (both of which are discussed in more detail earlier in this report).

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. In the tests carried out at 31 December 2018, the value in use calculation exceeded the carrying value of goodwill.

Further detail is set out in note 11 to the Financial Statements.

AUDIT COMMITTEE REPORT (CONTINUED)

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 to the Financial Statements.

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 2018 accounts, there have been significant exceptional items. These include $2.9m in respect of restructuring costs ($1.7m for people and other reorganization costs and $1.2m of impairments and provision against imprint assets), $1.5m of refinancing costs and $0.8m in respect of Board changes. All of these items were included within Exceptional Items due either to their scale and one-off nature or to being non-trading items.

For the 2017 accounts, there were significant exceptional items. These included goodwill impairment ($17.4m), $5.9m in respect of restructuring costs ($0.5m for people costs and $5.4m of impairments and provision against imprint assets),and $0.9m of corporate costs including costs in respect of the security package put in place in relation to the overall financing facilities ($0.6m), costs incurred in relation to the unsuccessful bid for the Group in the year ($0.2m) and abortive acquisition costs ($0.1m).

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 is required to provide for returns, which may be made subsequent to the period end. Management assesses sales returns through quantifying the previous returns experience and post year end returns.

During 2018, 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. As a result the returns provision for 2018 is considered to be fully provided.

Inventory provisioning

The economics of manufacturing and wholesaling of books in the publishing businesses inherently leads to substantial inventories. Most of these are 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 management's methodology and discussed the testing performed by the Auditor to provide comfort that these estimates were reasonable.

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.

External Audit

The Committee assesses the effectiveness of its external auditor through on-going dialogue and communication with the Auditor. The audit cycle includes formal meetings. The audit planning meeting, which happens prior to the audit, was when the Committee discussed reporting developments, significant accounting risks, 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 interim CFO involved with the audit. The Committee is satisfied with the Auditor's effectiveness in 2018.

Appointment of Auditor and Independence

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.

For the 2018 audit of the Group and the Company's accounts, Grant Thornton charged $244,000 (2017: $256,000).

Non-Audit Services

Grant Thornton has not been engaged to provide any non-audit services. The Company has a policy in regard to the provision of non-audit services by the auditor.

Internal Audit

To date there has not been a separate internal audit function, given the size and scale of the Group's operations.

In June 2018 a new interim CFO, Michael Mousley, was appointed. He has continued to develop a strong and effective control environment for the business. This has built the Board's and Audit Committee's confidence in the financial management of the Group.

The Audit Committee decided not to establish a dedicated internal audit function this year. It will review this decision on an annual basis.

Internal control and risk management systems

The Executive Board is responsible for ensuring appropriate risk management control procedures are in place, and regularly conducts reviews of the effectiveness of the Company's risk management and internal control systems. These reviews cover all material controls designed to respond to financial, operational and compliance risks.

The Executive Board is satisfied that the Company had appropriate risk management and risk control procedures in place throughout the year and up to the date of approval of this Annual Report to prevent or detect any material exposures. The Audit Committee reviewed and monitored the work of the Executive Board during the year.

The internal control framework comprises principles, procedures and measures that are geared towards the implementation of controlled management decisions. It is designed to ensure the effectiveness and efficiency of business activities, the quality and reliability of internal and external accounting, compliance with the legal frameworks that the Company must adhere to, and to ensure that measures are in place that safeguard proper IT-based processing and data.

The following structures and processes have been implemented by Quarto to mitigate potential risks in the accounting function:

- The Executive Board is responsible for the internal control and risk management framework with regard to the accounting and consolidation processes.
- The reporting structure relating to all companies included in the Consolidated Financial Statements requires that significant risks are to be reported immediately to the Executive Board by the individual businesses on identification.
- Certain accounting-related processes (in particular payroll) are outsourced.

We consider the following items to be significant to the effectiveness of the internal control and risk-management framework in the accounting and consolidation processes:

- Identification of significant risk and control areas of relevance to the Group-wide accounting process,
- Controls to monitor the consolidation process and its results at the level of the Executive Board and at the level of the companies included in the Consolidated Financial Statements,
- Preventative control measures in the accounting system of the Group and in the processes that generate significant information used to prepare the Consolidated Financial Statements – areas include the Group management report, segmental analysis and commitment disclosures.

Jane Moriarty
Chairman of the Audit Committee
8 March 2019

REMUNERATION COMMITTEE REPORT

Annual Statement

Dear shareholder

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2018, which has been prepared by the Committee and approved by the Board.

For the year ended 31 December 2018, there were no substantial changes in Directors' remuneration arrangements.

This is the Company's fifth 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 2019 subject to approval at the 2019 Annual Meeting. The proposed policy mirrors the existing policy implemented on 17 May 2018.

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

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 2018; 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.

Jane Moriarty
Chairman of the Remuneration Committee
8 March 2019

Remuneration Committee meeting attendance 2018

Committee membership	Number of meetings held during the year: 2
Jess Burley (Chair until 17 May 2018)	1 of 1 (held before 17 May 2018)
Peter Read (Until 17 May 2018)	1 of 1 (held before 17 May 2018)
Claire Capeci (Until 17 May 2018)	1 of 1 (held before 17 May 2018)
Leslie-Anne Reed (Until 17 May 2018)	0 of 1 (held before 17 May 2018)
Andy Cumming (Appointed 1 March 2018, Chair from 17 May 2018 to 7 March 2019)	2 of 2
Jane Moriarty (Appointed 12 November 2018, Chair from 7 March 2019)	1 of 1 (held after appointment)
C. K. Lau (Appointed 17 May 2018)	1 of 1 (held after appointment)

Other Board members may be invited to attend parts of some committee meetings. No individual is permitted to participate in any matters 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 2019 Annual Meeting. The Group's principal remuneration policy aim is to ensure that the Executive Directors' remuneration is designed to promote long-term value creation through transparent alignment with the agreed corporate strategy.

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: • scope of the role and the markets in which Quarto operates; • performance and experience of the individual; • pay and conditions 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, individual circumstance and eligibility and are 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 % 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.	Measures are reviewed prior to the start of the financial year to ensure they remain appropriate and reinforce the business strategy. Performance targets are set annually to ensure they are appropriately stretching and reflect those strategic objectives. At the end of the year the Committee determines the extent to which these were achieved. Awards are payable in cash. Payments made under the annual bonus are subject to claw-back for the later of one year following the date of award or the completion of the next audit of the Group's accounts, in the event of a fraud or material misstatement of results being identified in relation to the year in which the bonus is earned.	Maximum potential opportunity of up to 100% of base salary for the CEO and 50% for the COO. For the financial target, the threshold bonus starts at 10% of the total potential for exceeding the base EBITDA target by 2% and up to 100% of the total potential for exceeding the base EBITDA target by 10%.	60% on financial objectives and 40% on personal objectives. The Committee will vary the weightings from year-to-year to reflect the changing strategic needs for the business with a default bias towards financial objectives. In exceptional circumstances, the Committee has the ability to exercise discretion to override the formulaic bonus outcome within the limits of the Plan where it believes the outcome is not truly reflective of performance and to ensure fairness to both shareholders and participants.

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.	Awards of nominal-cost (or nil-cost) options may be granted annually as a percentage of base salary. Vesting is based on performance measured over four years. The performance period normally starts at the beginning of the financial year in which the date of grant falls. Dividends accrue on PSP awards and are paid on those shares which vest. Award levels and performance conditions are reviewed before each award cycle to ensure they remain appropriate. Payments made under the PSP are subject to claw-back, for the later of one year following date of vesting or completion of the next audit of the Group's accounts, in the event of a fraud or material misstatement of results being identified in relation to the years in which the PSP is earned.	Award opportunities for participants are up to 50% of base salary. Awards of up to 100% of base salary may be provided in exceptional circumstances (e.g. recruitment). 20% of maximum vests for Threshold, rising on a straight-line basis to full vesting for Stretch performance.	Awards to Executives are subject to four-year cumulative earnings per share (EPS) and/or total shareholder return (TSR) performance. In exceptional circumstances, the Committee has the ability to exercise discretion to override the formulaic PSP outcome within the Plan limits to ensure alignment of pay with the underlying performance of the business during the performance period.

FIXED PAY

Element of remuneration	Purpose and link to strategy	Operation	Opportunity	Performance metrics
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.	Annual fee for Chair. 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. Fees are reviewed annually, taking into account time commitment, responsibilities and fees paid by comparable companies.	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 are based on the amount of EBITDA generated compared to budget. The Committee considers this measure is the most appropriate measure of long-term performance of the Group.

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 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 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. 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	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 the stated policy.
Maximum Value	Not applicable.	Not applicable.	Not applicable.	50% to 100% of base salary	50% of base salary (100% in exceptional circumstances)

In determining appropriate remuneration for a new Executive Director, 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 Company 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.

REMUNERATION COMMITTEE REPORT (CONTINUED)

In the case of appointing a new Executive Director by way of internal promotion, the Group will honour any contractual commitments made prior to his or her promotion to Executive Director.

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

Executive Service contracts, Non-Executive letters of appointment and exit payments policy

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
C. K. Lau	17 May 2018	3 months
Michael Mousley	4 June 2018	3 months
Ken Fund	11 July 2018	6 months

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, 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
Andy Cumming	1 March 2018	1 month
Mei Lan Lam	17 May 2018	1 month
Jane Moriarty	12 November 2018	1 month

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.

During the year ended 31 December 2018, Marcus Leaver was paid compensation for loss of office amounting to $622,000 (comprising $616,000 in lieu of his salary for his notice period and $6,000 in respect of benefit entitlements) and no payments were made to past Directors.

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	PSP
Bad leaver	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	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	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, part of the business in which the individual is employed or engaged ceasing to be a member of the Group or any other reason as the Committee decides. Bad leaver provisions apply under other circumstances.

External appointments

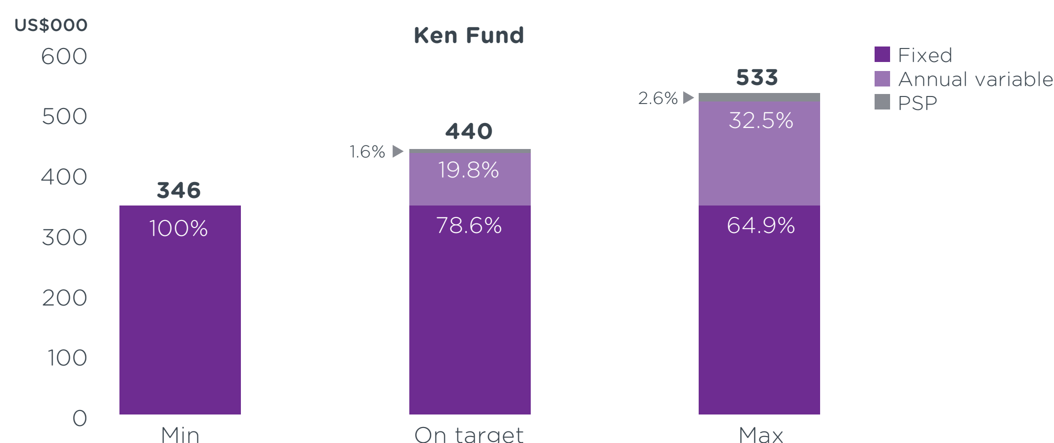
The Executive Directors may accept external appointments with the prior approval of the Board and provided only that such appointments do not prejudice the individual's ability to fulfil their duties at the Group. Whether any related fees are retained by the individual or remitted to the Group will be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

Illustration of the application of the remuneration policy

The chart below shows the remuneration that the Executive Directors could be expected to obtain based on varying performance scenarios. C. K. Lau and Michael Mousley are not included in the illustrations because neither of them are on bonus plans. 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 17 May 2018, applied to the latest known fixed pay of base salaries, pension, other benefits and variable pay of annual bonus and PSP. To better illustrate the annual potential reward opportunities, the remuneration and PSP Awards are pro-rated to an annual equivalent. All remuneration is contracted in Sterling.

EXECUTIVE DIRECTORS APPLICATION OF REMUNERATION POLICY



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

Minimum	Basic salary, pension or cash in lieu of pension and benefits. No bonus and no vesting of the PSP.
On target	Basic salary, pension or cash in lieu of pension and benefits. Bonus payout at 50% of the maximum bonus. PSP vesting at 50% 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 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.

Jane Moriarty
Chair of the Remuneration Committee
8 March 2019

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 scheme; and,
- Granting awards under the Performance Share Plan.

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;

Statement of shareholder voting at the 2018 Annual Meeting

The following table shows the results of the advisory vote on the 2017 Annual Remuneration Report at the Annual Meeting on 17 May 2018.

	Total number of votes	% of votes cast
For (including discretionary)	9,597,781	66.94%
Against	4,741,090	33.06%
Total votes cast	14,338,871	100%
Withheld	1,000	

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 2018 and the prior year. These amounts are shown in the reporting currency, although settled in Sterling. The exchange rates used in 2018 and 2017 were 1.3375 and 1.29, respectively.

	Base Salary		Benefits[1]		Annual Bonus[2]		Compensation for loss of office		Total remuneration	
Executive Directors	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Marcus Leaver*	224	545	6	6	—	150	622	—	852	701
Michael Connole*	—	269	—	6	—	—	—	—	—	275
Carolyn Bresh*	109	—	—	—	—	—	—	—	109	—
C. K. Lau*	—	—	—	—	—	—	—	—	—	—
Laurence Orbach*	42	—	—	—	—	—	—	—	42	—
Michael Mousley*	265	—	—	—	—	—	—	—	265	—
Ken Fund*	164	—	10	—	—	—	—	—	174	—

Non-Executive Directors	Fees[3] 2018 $'000	Fees[3] 2017 $'000	Benefits 2018 $'000	Benefits 2017 $'000	Annual Bonus 2018 $'000	Annual Bonus 2017 $'000	Compensation for loss of office 2018 $'000	Compensation for loss of office 2017 $'000	Total remuneration 2018 $'000	Total remuneration 2017 $'000
Peter Read*	40	93	—	—	—	—	—	—	40	93
Mike Hartley*	—	40	—	—	—	—	—	—	—	40
Jess Burley*	23	51	—	—	—	—	—	—	23	51
Claire Capeci*	17	28	—	—	—	—	—	—	17	28
Leslie-Ann Read*	21	20	—	—	—	—	—	—	21	20
Andy Cumming* [4]	77	—	—	—	—	—	—	—	77	—
Mei Lan Lam*	—	—	—	—	—	—	—	—	—	—
Jane Moriarty*	9	—	—	—	—	—	—	—	9	—

* 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 36.
3 Details of Non-Executive Directors' fees can be found on page 37.
4 The fees for Andy Cumming include $14,000 of consulting fees, on an arm's length basis.

Directors' shareholdings

The share interests of the Directors who held office during the year ended 31 December 2018 and of their connected persons in the share capital of the Company are shown below:

Executive Directors	Number of share options of common stock 31 December 2018*	Number of share options of common stock 31 December 2017**	Number of US$0.10 shares of common stock 31 December 2018*	Number of US$0.10 shares of common stock 31 December 2017**
Marcus Leaver	312,149	312,149	395,000	395,000
Laurence Orbach	—	—	4,103,615	4,103,615
C. K. Lau	—	—	5,754,672	5,554,672
Michael Mousley	—	—	45,700	45,700
Ken Fund	75,188	75,188	24,000	4,000

During the year the market price of the shares of common stock ranged between 65.5p and 186p. The mid-market price on 31 December 2018 was 74p.

Non-Executive Directors	Number of US$0.10 shares of common stock 31 December 2018*	Number of US$0.10 shares of common stock 31 December 2017**
Peter Read	25,625	25,625
Jess Burley	7,355	7,355
Claire Capeci	10,000	10,000
Leslie-Ann Read	—	—
Andy Cumming	—	—
Mei Lan Lam	—	—
Jane Moriarty	—	—

*Or date of resignation
** Or date of appointment

ANNUAL REPORT ON REMUNERATION (CONTINUED)

Directors' share options

Shares: Common Stock of $0.10 each

	Date of grant	As at 1 January 2018*	Granted	Forfeited	As at 31 December 2018	Face value at date of grant (£'000)	Fair value at date of grant (£'000)	Price at exercise date
Marcus Leaver	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
	28/04/17	70,935	—	(70,935)	—	187	190	n/a
		312,149	—	(312,149)	—			
Ken Fund*	19/04/2016	49,692	—	—	49,692	122	126	n/a
	28/04/2017	25,496	—	—	25,496	67	68	n/a
		75,188	—	—	75,188			

*Or date of appointment

All awards under the PSP schemes have a four-year vesting period.

Executive directors' base salaries/fees

During the year 2018, Marcus Leaver, the Chief Executive Officer, resigned on 24 May 2018 and was paid salary in line with his service contract (£419,486 p.a.).

During the year 2018, Carolyn Bresh, who was appointed on 9 April 2018 and resigned on 5 June 2018, was paid salary in line with her service contract (£287,500 p.a.)

During the year 2018, C. K. Lau, appointed on 17 May 2018, received $nil, in accordance with his service contract.

During the year 2018, Michael Mousley, appointed on 17 May 2018, received £198,000, in accordance with his service contract.

During the year 2018, Ken Fund, appointed as COO on 11 July 2018, received $164,000, in accordance with his service contract.

Pension and other benefits

The Group makes an annual contribution to the personal pension plan of Ken Fund of $17,000. Annual pension contributions for Marcus Leaver were £10,000. Benefits are in line with the policy.

Long-Term Incentives – PSP Awards

Under the Remuneration Policy, awards of nominal-cost (or nil-cost) options may be granted annually up to 50% (in exceptional circumstances up to 100%) of base salary to the Executive Directors. Adhering to the same principles, other applicable employees may receive an award (up a maximum of 40% of base salary, but typically much less). In considering the size of awards, the Remuneration Committee has regard to the principles set out on page 30 of this report.

Half of the awards have a performance condition relating to cumulative Adjusted Diluted EPS performance for the four financial years 2017 to 2020 inclusive. The other half of these awards have a performance condition relating to total shareholder returns ('TSR') from a combination of dividends 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 28 April 2016 to 28 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.

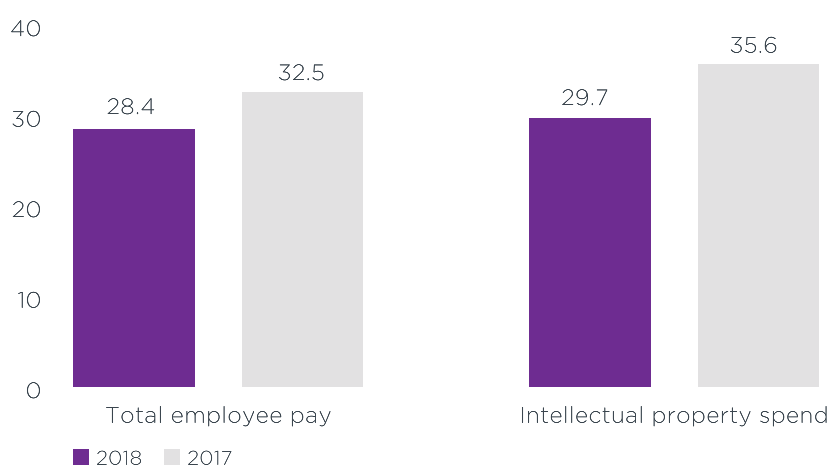
The Committee believes the TSR directly measures shareholder returns and thereby aligns the goals of management and shareholders. However, TSR can be affected by a variety of investment factors, which are far removed from those which management can directly affect. The Committee believes that cumulative 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.

Chair and Non-Executive director fees

The Non-Executive Directors' annual fees for 2018 were as follows: Peter Read £72,000, Jess Burley £41,500, Claire Capeci £35,000, Leslie-Ann Reed £38,500, Andy Cumming £35,000 (increased to £72,000 on becoming Chair) and Jane Moriarty £50,000.

Relative importance of spend on pay

The graph below shows how total employee pay compares with expenditure on intellectual property for years ended 31 December 2017 and 31 December 2018.



Review of group performance

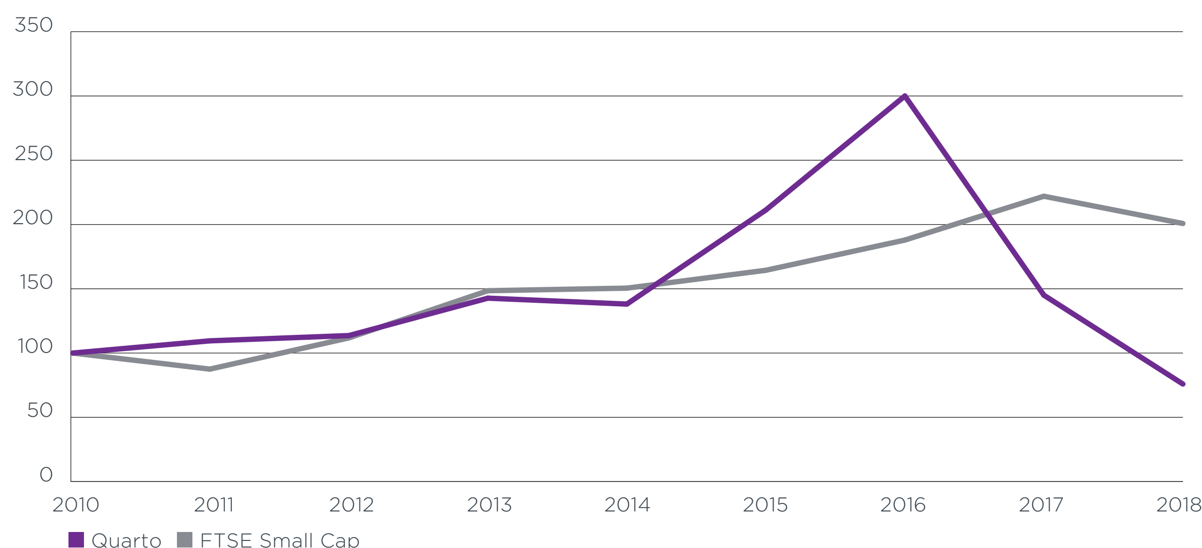
The chart on page 38 compares the value of £100 invested in Quarto shares, including re-invested dividends, on 31 December 2010 compared to the equivalent investment in the FTSE Small Cap Index, over the last nine financial years. The FTSE Small Cap Index has been chosen as it comprises companies of a broadly similar size to Quarto. The table below shows the single figure for the CEO over the same period.

		2010	2011	2012	2013	2014	2015	2016	2017	2018
CEO single figure of remuneration including bonus ($'000)		750	996	1,020[1]	870	842	929	3,252	701	230
Annual bonus awarded	$ amount ($'000s)	393	573	121[3]	233	169	305	34	150	–
	% of maximum opportunity	–	–	–	56.90%	33.50%	95.00%	12.0%	31%	–
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 The figure for 2018 is a combination of remuneration of Marcus Leaver, the previous CEO, and C. K. Lau for the respective periods.
3 Discretionary.

ANNUAL REPORT ON REMUNERATION (CONTINUED)

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 2017 to 2018.

		CEO		Average for other employees
$'000	2018	2017	% change	% change
Salary	224	545	(59)%	8%
Taxable benefits	6	6	nil	15%
Annual variable bonus	—	150	(100)%	(70)%
Total	230	701	(67)%	8%

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 2018, awards made under the Group's share schemes represented 4.5% (2017: 6.4%) of the Group's issued share capital.

Directors' shareholding guidelines and share scheme interests

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.

Jane Moriarty
Chair of the Remuneration Committee
8 March 2019

DIRECTORS' REPORT

Group

The Directors present their report and the audited financial statements of The Quarto Group, Inc., for the year ended December 31, 2018.

Results

The loss for the year is $0.6m (2017: loss of $18.5m). The Directors do not propose a dividend.

An indication of likely future developments in the business of the Group is included in the Strategic Report on page 7.

Directors

Serving Directors during the year were as follows:

P. Read	(Non-Executive) Not re-appointed 17 May 2018
M. E. Leaver	(Chief Executive Officer) Resigned 24 May 2018
J. Burley	(Non-Executive) Not re-appointed 17 May 2018
C. Capeci	(Non-Executive) Not re-appointed 17 May 2018
L-A. Reed	(Non-Executive) Not re-appointed 17 May 2018
A. J. Cumming	(Non-Executive Chairman) Appointed 1 March 2018
C. M. Bresh	(Chief Financial Officer) Appointed 9 April 2018, Resigned 5 June 2018
L. F. Orbach	(Executive) Appointed 17 May 2018, Resigned 25 July 2018
C. K. Lau	(Chief Executive Officer) Appointed 17 May 2018
M. J. Mousley	(Interim Chief Financial Officer) Appointed 17 May 2018
M. L Lam	(Non-Executive) Appointed 17 May 2018
K. I. Fund	(Chief Operating Officer) Appointed 11 July 2018
J. Moriarty	(Non-Executive) Appointed 12 November 2018

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 letters of appointment of the 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 Directors' Report:

LR 9.8.4 R	Location
Directors' remuneration	Annual Report on Remuneration, pages 34 to 38
Details of Long-term Incentive Plans	Annual Report on Remuneration, pages 34 to 38

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 as at 31 December 2018 is illustrated in the table below.

	Males	Females
Board	4	2
Senior managers	8	10
All employees	90	240

DIRECTORS' REPORT (CONTINUED)

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 2018 and 8 March 2019. 8 March 2019 is the latest practicable date prior to the publication of this report.

	As at 31 December 2018		As at 8 March 2019	
	Number of US$0.10 shares of common stock	% holding of the issued capital of the Company	Number of US$0.10 shares of common stock	% holding of the issued capital of the Company
C. K. Lau	5,754,672	28.15	5,754,672	28.15
Dr. L. F. Orbach	4,103,615	20.07	4,103,615	20.07
Herald Investment Management	1,812,045	8.86	1,812,045	8.86
Intrepid Capital Management	1,159,466	5.67	1,159,466	5.67
Lazard Freres Gestion	993,674	4.86	993,674	4.86
Gresham House Asset Management Limited	898,837	4.40	898,837	4.40

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 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 pages 35 and 36. 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 on page 18 of the Risk Management Review. Operational risks are set out on pages 18 and 19 of the Risk Management 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'), available from the FRC website at www.frc.org.uk. The Board considers that the Company has been in compliance with the principles and provisions of the Code throughout the year ended 31 December 2018 and to the date of this report, except as outlined below:

B.6.1. – It was decided that, because of the substantial additional workload for the Board, Committees and Directors arising from the numerous and material matters affecting the Company during the year, there was insufficient time to review the performance of the Board, its Committees and the Directors. It was also the case that a number of the Directors joined the Company part way through the year and therefore it would have been premature to review their performance.

C.3.1. – Following the board changes on 17 May 2018, there was only one member of the Audit Committee, until the appointment of Jane Moriarty on 12 November 2018.

The Board will continue to monitor its corporate governance arrangements, in the light of the Code (and future changes), as the Group develops and grows. The Company intends to review the performance of the Board, its Committees and Directors in 2019.

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.

Attendance by Directors at Board and Committee meetings in 2018

	Board	Audit Committee	Nominations Committee	Remuneration Committee
Jess Burley[1 5]	8	—	1	1
Claire Capeci[2]	8	2	1	1
Marcus Leaver[5 6]	9	1	1	—
Leslie-Ann Reed[4]	8	2	1	—
Peter Read[3]	8	1	1	1
Andy Cumming[7]	16	2	1	2
Carolyn Bresh[5 8]	4	1	—	—
Laurence Orbach[9]	5	—	—	—
C. K. Lau[10]	11	—	1	1
Michael Mousley[5 11 15]	11	1	—	1
Mei Lan Lam[12 15]	11	—	—	1
Ken Fund[13 15]	3	—	—	1
Jane Moriarty[14]	2	1	—	1
Total number of meetings	**19**	**3**	**1**	**2**

1 Jess Burley not re-appointed on 17 May 2018.
2 Claire Capeci not re-appointed on 17 May 2018.
3 Peter Read not re-appointed on 17 May 2018.
4 Leslie-Ann Reed not re-appointed on 17 May 2018.
5 These Directors were not members of the Audit Committee (as referred to below) and attend by invitation only.
6 Marcus Leaver resigned on 24 May 2018.
7 Andy Cumming appointed on 1 March 2018.
8 Carolyn Bresh appointed on 9 April 2018, resigned on 5 June 2018.
9 Laurence Orbach appointed on 17 May 2018, resigned on 25 July 2018.
10 C. K. Lau appointed on 17 May 2018.
11 Michael Mousley appointed on 17 May 2018.
12 Mei Lan Lam appointed on 17 May 2018.
13 Ken Fund appointed on 11 July 2018.
14 Jane Moriarty appointed on 12 November 2018.
15 Not members of the Remuneration Committee.

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 2018, the Board comprised three 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. Jane Moriarty, the Senior Independent Director, is available to shareholders, if they have concerns that are not able to be resolved through normal channels. Two Non-Executive Directors, Andy Cumming and Jane Moriarty were considered by the Board to be independent throughout 2018.
c) 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).
d) The Board met 19 times in 2018. 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 2 days before the meetings except in the case of meetings that are convened on short notice.
e) 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 Andy Cumming, Jane Moriarty and Mei Lan Lam 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.
f) The remuneration of the Executive Directors is recommended by the Remuneration Committee, comprising Jane Moriarty, who is the Committee Chairman, Andy Cumming and C. K. Lau. A separate report with respect to Directors' remuneration is included on pages 34 to 38. The Committee meets at least twice a year. In the year ended 31 December 2018 the Committee had met 2 times.
g) The Audit Committee comprises Jane Moriarty, who is Committee Chairman, and Andy Cumming. The Board is satisfied that the members of the Committee have appropriate financial experience to fulfil their role. Further details of the Committee's work can be found on pages 23 to 25.

DIRECTORS' REPORT (CONTINUED)

h) The Nominations Committee comprises Andy Cumming, who is Committee Chairman, Jane Moriarty and C. K. Lau. Details of the work of the Nominations Committee during the year are set out in its report on page 22.
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 in order to understand their views, that are then 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 20 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.

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 is 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

	2018	2017
		Tonnes of CO_2e
Scope 1	13	13
Scope 2	129	174
Total GHG emissions (CO_2e)	142	187
Average number of staff	372	425
Emissions per staff member	0.38	0.44

* Excluding staff at fully serviced offices.

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) 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 which cover 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. We will continue to develop our risk management framework during 2019.

Michael Clarke
Company Secretary
8 March 2019

Company Registration Number: FC0 13814

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

The Directors are responsible for preparing the Strategic Report, Annual Report and the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

The Company is an 'overseas' company within the meaning of the Companies Act 2006.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) and applicable law including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and group for that period. In preparing these 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 applicable UK Accounting Standards for the parent company and IFRSs as adopted by the European Union for the Group have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' 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.

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 Company's 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.

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 Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

C. K. Lau
Chief Executive Officer
8 March 2019

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

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of The Quarto Group, Inc. (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which 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 company balance sheet, the company statement of comprehensive income, the company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

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 2018 and of the group's loss and the parent company's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with 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; 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; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on page 18 and 19 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation, set out on page 15 of the annual report 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 directors' statement, set out on page 15 of the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation, set out on page 15 of the annual report 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Overview of our audit approach

- Overall materiality: $780k, which represents 0.52% of group revenue;
- Key audit matters were identified as assessing the completeness of the sales return provision, assessment of the carrying value of goodwill in relation to Quarto US and assessment of the carrying value of pre-publication costs.
- We have performed a full scope audit of Quarto Publishing plc ('Quarto UK') and Quarto Publishing Group USA Inc. ('Quarto US'), representing 100% of continuing revenue for the Group, 96% of group assets and 100% of group liabilities. We have performed analytical procedures on the other companies within the group.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. 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. These matters are the same as those identified during the planning stage of our audit.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Completeness of sales returns provision Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. The Group generates material revenues from published books. Certain customers have a right of return for these books and therefore the revenue is recognised net of a provision for these returns. At 31 December 2018, this provision totals $5,391k. Management judgement is required when assessing the level of returns which are expected to occur subsequent to the year end for sales made during the year. The key assumption applied is in relation to historical return experience, which is used in order to predict future returns and the provision required. We therefore identified the completeness of sales return provision as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Testing a sample of returns made during the year to supporting documentation in order to confirm the accuracy of the data used to calculate the rates of returns used in management's calculation of the provision; • Recalculating the provision to confirm that it is appropriate and in accordance with management's policy; • Comparing actual returns in the period to the provision made in the prior period in order to evaluate the accuracy of management's forecasting. • Comparing actual returns in January and February to the provision made in order to evaluate whether the current year provision is accurate. The group's accounting policy on the sales returns provision is shown in note 1 to the financial statements and related disclosures are included in notes 1 and 17. The Audit Committee identified the sales returns provision as a significant issue in its report on page 24, where the Audit Committee also described the action that it has taken to address this issue. **Key observations** We concur with management's view that the provision made for sales returns against revenue is reasonable and has been calculated on an appropriate basis. Our audit work did not identify any material errors in the completeness of the sales return provision recognised in the year.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Assessment of the carrying value of goodwill in relation to Quarto US The Group holds $18,954k of goodwill on its balance sheet, with the largest balance ($12,882k) relating to Quarto US as shown in note 11 to the accounts. In accordance with International Accounting Standard 36: Impairment of Assets ('IAS 36') Goodwill is subject to an annual impairment test. We consider that the carrying value of the goodwill for this CGU is a key risk due to the current economic environment and performance of the US CGU leading to sensitivity of the impairment calculations to a reasonably possible change in the key assumptions, including the discount rate, cash flow forecasts and growth rates. We therefore identified the assessment of the carrying value of goodwill in relation to Quarto US as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Obtaining managements impairment review model and testing the mathematical accuracy; • Assessing the appropriateness of the asset and liability amounts included in the carrying value of each of the cash generating units which were assessed by management as part of the impairment review; • Assessing the discount rate applied, including an assessment by our valuation specialists and benchmarking the rate against that used by competitors; • Performing sensitivity analysis around the value in use calculation performed by management; • Considering the post year end performance of the Group against budgeted profit and cashflow and comparing historical budgets to actual performance in order to assess the accuracy of budgets prepared by management. The group's accounting policy on goodwill is shown in note 1 to the Financial Statements and related disclosures are included in note 11. The Audit Committee identified the carrying value of goodwill as a significant issue in its report on page 23, where the Audit Committee also described the action that it has taken to address this issue. **Key observations** No impairment charge has been recognised during the year in relation to the goodwill held. Quarto US goodwill remains sensitive to changes in key assumptions and these continue to be disclosed in the accounts.
Assessment of the carrying value of pre-publication costs The Group's net book value of capitalised pre-publication costs at 31 December 2018 was $56,741k as detailed in note 15. This represents costs which are capitalised by the Group in relation to the development of book titles. These costs are amortised over a three-year period on a straight-line basis to reflect the expected useful economic life of this asset. There is management judgement in relation to the length of life of this asset and whether it is recoverable. We therefore identified the assessment of the carrying value of pre-publication costs as a significant risk which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Assessing the recoverability of pre-publication costs allocated to each CGU as part of the impairment test performed under IAS 36 to ensure that pre-publication costs are recoverable based on management's value in use calculation for each CGU in order to assess overall recoverability; • For imprints which were closed during the year it was ensured that the related pre-publication cost was appropriately impaired; • Analysing historic sales patterns to ensure that they support the estimate made by management of a three-year useful economic life; • Benchmarking of the useful economic life applied by peers. The group's accounting policy on pre-publication costs is shown in note 1 to the financial statements and related disclosures are included in note 15. The Audit Committee identified the carrying value of pre-publication costs as a significant issue in its report on page 24, where the Audit Committee also described the action that it has taken to address this issue. **Key observations** Our testing did not identify any material misstatements in the carrying value of pre-publication costs. We found no reason for impairment of pre-publication costs or any additional factors to be considered that would affect the carrying value recognised within the financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key Audit Matter – Parent	How the matter was addressed in the audit – Parent
There are no key audit matters in relation to the parent company.	

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 in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	Materiality was set at $780,000, which is based on our initial assessment of a number of benchmarks for the Group and represents 0.52% of group revenue. This is considered to be the most appropriate benchmark for the Group as it drives performance during the year, and we do not consider it appropriate to use earnings before tax given the loss made during the year. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2017 to reflect this being the second year we have acted as auditors and the improvement in the performance of the Group during the year.	Materiality was set at $8,000 which is 1% of our initial assessment of total assets. This benchmark is considered the most appropriate because the company is a holding company and does not trade. Materiality for the current year is at the same level that we determined for the year ended 31 December 2017 to reflect that there has been no change in the investment held.
Performance materiality used to drive the extent of our testing	65% of financial statement materiality.	65% of financial statement materiality.
Specific materiality	We determine a lower level of specific materiality for certain areas which includes directors' remuneration and related party transactions where they are balances which are material by their nature. We have set this at $5,000.	We have determined a lower level of specific materiality of $5,000 for certain areas being directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	$39,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	$1,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- Evaluation by the group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality. Significance was determined as a percentage of the group's total assets, revenues and profit before taxation;
- Based on this evaluation it is considered that the only significant components are Quarto Publishing plc ('Quarto UK') and Quarto Publishing Group USA Inc. ('Quarto US') due to financial significance;
- We have also performed a full scope audit of the parent company;
- For Quarto US we performed a full scope audit to component materiality, capped at 65% of group materiality.
- For Quarto UK we performed a full scope statutory audit to a materiality level which was lower than would have applied had we performed procedures only for group purposes.
- The full scope audits performed represent 100% of continuing revenue for the year, 96% of total assets, and 100% of total liabilities.
- The other entities in the group have been subject to analytical review.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report set out on pages 1 to 44, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable – the statement given on page 40 by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting - the section set out on pages 23 to 25 does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 40 – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Our opinions on other matters prescribed by the Companies Act 2006 were it to apply to the company, are unmodified

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- 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.

Matters on which we are required to report under the Companies Act 2006, were it to apply to the company

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception, were the Companies Act 2006 to apply to the company

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- 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 and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 44, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

We are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK). Our audit approach is a risk-based approach and is explained more fully in the 'An overview of the scope of our audit' section of our audit report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the audit committee on 20 November 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods.

The period of total uninterrupted engagement is two years, covering the years ending 31 December 2017 to 31 December 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of report

This report is made solely to the company's members, as a body, in accordance with the terms that have been agreed in our engagement letter dated 17 December 2018. 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.

Mark Henshaw
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
8 March 2019

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 $'000	2017 $'000
Continuing operations			
Revenue	2	149,292	152,512
Cost of sales		(107,195)	(109,848)
Gross profit		42,097	42,664
Administrative expenses		(23,873)	(27,922)
Distribution costs		(7,919)	(7,549)
Operating profit before amortisation of acquired intangibles and exceptional items		10,305	7,193
Amortisation of acquired intangibles		(850)	(840)
Exceptional items	5	(5,152)	(24,235)
Operating profit/(loss)		4,303	(17,882)
Finance income	7	21	25
Finance costs	8	(4,381)	(3,325)
Loss before tax		(57)	(21,182)
Tax	9	(495)	1,480
Loss for the year		(552)	(19,702)
Discontinued operations			
Profit for the year from discontinued operations	31	—	1,163
Loss for the year		(552)	(18,539)
Attributable to:			
Owners of the parent		(552)	(18,513)
Non-controlling interests		—	(26)
		(552)	(18,539)
Earnings/(Loss) per share (cents)			
From continuing operations			
Basic	10	(2.7)	(96.4)
Diluted	10	(2.7)	(96.4)
Adjusted basic	10	23.2	18.3
Adjusted diluted	10	23.0	17.8
From discontinued operations			
Basic	10	—	5.8
Diluted	10	—	5.7

The results of the discontinued businesses of BGD and Regent have been classified separately in the consolidated income statement for the previous year.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 $'000	2017 $'000
Loss for the year	(552)	(18,539)
Items that may be reclassified to profit or loss		
Foreign exchange translation differences	(1,950)	35
Reclassification to income statement on disposal of business	—	3,540
Cash flow hedge: (losses)/gains arising during the year	(60)	25
Tax relating to items that may be reclassified to profit or loss	(246)	471
Total other comprehensive (expense)/income	(2,256)	4,071
Total comprehensive expense for the year net of tax	(2,808)	(14,468)
Total comprehensive expense for the year attributable to:		
Owners of the parent	(2,808)	(14,442)
Non-controlling interests	—	(26)
	(2,808)	(14,468)

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2018

	Notes	2018 $'000	2017 $'000
Non-current assets			
Goodwill	11	18,954	19,286
Other intangible assets	12	2,368	3,516
Property, plant and equipment	13	1,552	2,129
Intangible assets: Pre-publication costs	15	56,741	60,278
Deferred tax assets	19	3,901	3,901
Total non-current assets		83,516	89,110
Current assets			
Inventories	16	22,324	22,637
Trade and other receivables	17	54,476	53,460
Derivative financial instruments		105	205
Cash and cash equivalents	18	15,384	17,946
Total current assets		92,289	94,248
Total assets		175,805	183,358
Current liabilities			
Short-term borrowings	18	(5,000)	(5,000)
Trade and other payables	20	(64,917)	(60,796)
Tax payable		(4,167)	(5,243)
Total current liabilities		(74,084)	(71,039)
Non-current liabilities			
Medium and long-term borrowings	18	(70,752)	(76,907)
Deferred tax liabilities	19	(8,753)	(8,520)
Tax payable		(544)	(1,116)
Other payables	20	(554)	(1,673)
Total non-current liabilities		(80,603)	(88,216)
Total liabilities		(154,687)	(159,255)
Net assets		21,118	24,103
Equity			
Share capital	24	2,045	2,045
Paid in surplus		33,764	33,764
Retained earnings and other reserves		(14,691)	(11,706)
Equity attributable to owners of the parent		21,118	24,103
Non-controlling interests		—	—
Total equity		21,118	24,103

The financial statements were approved by the Board of Directors and authorised for issue on 8 March 2019.
They were signed on its behalf by:

C. K. Lau, Director

STRATEGIC REPORT

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FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital $'000	Paid in surplus $'000	Hedging reserve $'000	Translation Reserve $'000	Retained earnings $'000	Equity attributable to owners of the parent $'000	Non-controlling interests $'000	Total $'000
Balance at 1 January 2017	2,045	33,764	140	(8,850)	12,120	39,219	4,892	44,111
Loss for the year	—	—	—	—	(18,513)	(18,513)	(26)	(18,539)
Other comprehensive income								
Foreign exchange translation differences	—	—	—	46	—	46	(11)	35
Reclassification to income statement on disposal of business	—	—	—	3,540	—	3,540	—	3,540
Cash flow hedge: gains arising during the year	—	—	25	—	—	25	—	25
Tax relating to items that may be reclassified to profit or loss	—	—	—	471	—	471	—	471
Total comprehensive income/ (expense) for the year	—	—	25	4,057	(18,513)	(14,431)	(37)	(14,468)
Dividends paid to shareholders	—	—	—	—	(2,018)	(2,018)	—	(2,018)
Dividends in-specie paid to non-controlling interests	—	—	—	—	—	—	(3,744)	(3,744)
Adjustment arising from change in non-controlling interests	—	—	—	—	1,111	1,111	(1,111)	—
Share based payments charge	—	—	—	—	222	222	—	222
Balance at 31 December 2017	2,045	33,764	165	(4,793)	(7,078)	24,103	—	24,103
Loss for the year	—	—	—	—	(552)	(552)	—	(552)
Other comprehensive income								
Foreign exchange translation differences	—	—	—	(1,950)	—	(1,950)	—	(1,950)
Cash flow hedge: losses arising during the year	—	—	(60)	—	—	(60)	—	(60)
Tax relating to items that may be reclassified to profit or loss	—	—	—	(246)	—	(246)	—	(246)
Total comprehensive expense for the year	—	—	(60)	(2,196)	(552)	(2,808)	—	(2,808)
Share based payments credit	—	—	—	—	(177)	(177)	—	(177)
Balance at 31 December 2018	2,045	33,764	105	(6,989)	(7,807)	21,118	—	21,118

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 $'000	2017 $'000
Loss for the year		(552)	(18,539)
Adjustments for:			
Net finance costs		4,360	3,300
Depreciation of property, plant and equipment		693	817
Software amortisation		298	315
Tax expense/(credit)		495	(1,480)
Impairment of goodwill		—	17,418
Impairment of pre-publication costs		501	4,868
Share based payments		(177)	222
Amortisation and amounts written off acquired intangibles		910	841
Amortisation and amounts written off pre-publication costs		31,426	32,212
Movement in fair value of derivatives		—	(130)
Gain on divestment of business		—	(2,541)
Operating cash flows before movements in working capital		37,954	37,303
Decrease in inventories		21	1,281
(Increase) in receivables		(2,280)	(784)
Increase in payables		4,639	6,822
Cash generated by operations		40,334	44,622
Income taxes paid		(1,962)	—
Net cash from operating activities		38,372	44,622
Investing activities			
Interest received		21	25
Investment in pre-publication costs		(29,744)	(35,551)
Purchases of property, plant and equipment		(169)	(1,063)
Purchase of software		(77)	(266)
Acquisition of businesses		(1,887)	(7,041)
Disposal of subsidiaries		—	4,588
Net cash used in investing activities		(31,856)	(39,308)
Financing activities			
Dividends paid		—	(2,018)
Interest payments		(2,980)	(2,935)
Drawdown of revolving credit facility		18,457	6,600
Repayment of term loan and revolving credit facility		(24,238)	(8,271)
Net cash used in financing activities		(8,761)	(6,624)
Net decrease in cash and cash equivalents		(2,245)	(1,310)
Cash and cash equivalents at beginning of year		17,946	18,824
Foreign currency exchange differences on cash and cash equivalents		(317)	432
Cash and cash equivalents at end of year		15,384	17,946

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 97. 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 5.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those financial statements. Two new accounting standards, IFRS 9 and IFRS 15, have been adopted during the period. The accounting policies on revenue and financial instruments have been updated, as a consequence of these accounting standards. IFRS 15 has been applied using a modified retrospective ('cumulative catch-up') approach under which changes having a material effect on the consolidated statement of financial position as at 1 January 2018 are presented together as a single adjustment to the opening balance of retained earnings. Accordingly, the Group is not required to present a third statement of financial position as at that date. IFRS 15 requires that the Group's reserve for sales returns is reclassified. The reserve was previously netted off in trade receivables and from 1 January 2018 this is now shown as a liability within trade and other payables. The effect on transition was to increase trade and other receivables as at 1 January 2018 by $6,401,000, with a corresponding increase in trade and other payables. As of 31 December 2018 trade receivables and other payables would have been $5,391,000 lower under previous accounting standards. There was no adjustment to the opening balance of retained earnings.

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

Statement of compliance

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

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP, including The Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS 102'). These are presented on pages 89 to 95.

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, 17 The revenue recognition policy details our judgement in respect of sales returns and the method of estimating the related sales returns allowance

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

Going concern basis

The Board has assessed the Group's ability to operate as a going concern based on a financial model which was prepared as part of the process of considering and approving the 2019 budget.

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 2021, which comprise a detailed cash forecast for the year ending 31 December 2019, based on the budget for that year, and the growth assumptions for revenue and costs, together with cash forecasts, for the years ending 31 December 2020 and 2021, to satisfy themselves of the appropriateness of the going concern basis used in preparing the financial statements.

1 General information and significant accounting policies (continued)

In carrying out their analysis of viability, the Directors took account of the Group's projected profits and cash flows and its banking covenants and these have been subjected to sensitivity analysis over the three-year period.

Based on our 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 2021.

For these reasons, the Directors 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.

Basis of consolidation

The Group financial statements include the results of the Company and all of its subsidiary undertakings. A subsidiary is an entity controlled, directly or indirectly, by the Group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

The interest of 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.

Profit or loss from discontinued operations

A discontinued operation is a component of the Group that has been disposed of. Profit or loss from discontinued operations comprises the post-tax profit or loss of discontinued operations.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 General information and significant accounting policies (continued)

Revenue recognition

Revenue arises largely from the sale of physical products. Each contract is for an agreed price and revenue is recognised at a point in time when the Group satisfies performance obligations by transferring the products to its customers; this is determined with reference to delivery terms. Invoices for products transferred are due on the terms specified in the contract.

Revenue from the sale of publishing rights is recognised when the Group has discharged its performance obligations under the contractual arrangements.

On certain contracts, the customer has a right to return the products. The Group makes an allowance for this, based on a review of the historical returns patterns associated with the customer, as well as current market trends. This allowance is included within other payables. The Group also recognise an asset in relation to stock which is expected to be returned within inventory.

Leasing

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

Foreign currencies

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

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into US Dollars at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into US Dollars at average 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.

1 General information and significant accounting policies (continued)

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. Residual values are reassessed on an annual basis. Land is not depreciated.

Estimated useful lives are as follows:	
Freehold property and long leasehold property improvements	50 years
Short leasehold property improvements	Over the period of the lease
Plant, equipment and motor vehicles	4 to 10 years
Fixtures and fittings	5 to 7 years

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

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

Pre-publication costs

Pre-publication costs represent 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 and net realisable value, on a first in, first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

Financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 General information and significant accounting policies (continued)

Financial assets

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

- financial assets at amortised cost; 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 21 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.

After initial recognition, Financial Assets are measured at amortized cost using the effective interest method. Discounting is ignored, where the effect is immaterial. The Group's cash and cash equivalents, trade and most other receivables, fall into this category of financial instrument. Assets in this category are measured, initially, at fair value with gains or losses recognized in profit or loss.

In considering impairment of financial assets, the Group uses a wide range of information when assessing credit risk and measuring credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expanded collectability of future cash flows of the instrument.

The Group adopts a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. The Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

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 21.

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

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of financial liabilities.

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.

1 General information and significant accounting policies (continued)

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 interest rate 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.

The Group applies the new hedge accounting requirements IFRS 9 prospectively. All hedging relationships that were hedging relationships under IAS 39 at 31 December 2017 reporting date meet the IFRS 9's criteria for hedge accounting at 1 January 2018 and are therefore regarded as continuing hedging relationships.

Derivative financial instruments are accounted for at fair value through profit and loss, except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet all of the following requirements:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

All derivative financial instruments used for hedge accounting are recognized initially at fair value and reported subsequently at fair value in the statement of financial position.

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognized in other comprehensive income and included within cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognized immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognized as a result of the hedged transaction, the gains and losses previously recognized in other comprehensive income are included in the initial measurement of the hedged item.

If a forecast transaction is no longer expected to occur, any related gain or loss recognized in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 21.

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 16	Leases	1 January 2019

IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for lease contracts, subject to exceptions for short-term leases and leases of low-value assets. Management is in the process of assessing the full impact of the Standard. So far, the Group:

- has decided to make use of the practical expedient not to perform a full review of existing leases and apply IFRS 16 only to new or modified contracts.
- believes that the most significant impact will be that the Group will need to recognise a right of use asset and a lease liability for the office and production buildings currently treated as operating leases. At 31 December 2018, the future minimum lease payments, to be recognised on the balance sheet, amounted to $11,217,000. This will mean that the nature of the expense of the above cost will change from being an operating lease expense to depreciation and interest expense.

The Group is planning to adopt IFRS 16 on 1 January 2019 using the Standard's modified retrospective approach. Under this approach, the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to equity at the date of initial application. Comparative information is not restated.

Choosing this transition approach results in further policy decisions the Group need to make as there are several other transitional reliefs that can be applied. These relate to those leases previously held as operating leases and can be applied on a lease-by-lease basis. The Group are currently assessing the impact of applying these other transitional reliefs.

2 Revenue

	2018 $'000	2017 $'000
Sales of products	149,292	152,512

All revenue recognition is from products transferred at a point in time.

During the year, sales to one customer exceeded 10% of Group revenue (2017: one customer). The value of these sales was $26,664,000 (2017: $24,257,000).

3 Operating segments

The core publishing businesses comprises three divisions: US Publishing, UK Publishing and Q Partners. This is the basis on which operating results are reviewed and resources allocated by the Chief Executive Officer.

2018	US Publishing $'000	UK Publishing $'000	Q Partners $'000	Total Group $'000
Continuing operations				
Revenue	72,971	70,734	5,587	149,292
Operating profit/(loss) before amortisation of acquired intangibles and exceptional items	5,240	7,913	(418)	12,735
Amortisation of acquired intangibles	(596)	(254)	—	(850)
Segment result	4,644	7,659	(418)	11,885
Exceptional pre-publication asset impairment and write-off (note 5)	(1,164)	—	—	(1,164)
Exceptional items other (note 5)	(811)	(402)	—	(1,213)
	2,669	7,257	(418)	9,508
Unallocated corporate expenses				(2,430)
Corporate exceptional items				(2,775)
Operating profit				4,303
Finance income				21
Finance costs				(4,381)
Loss before tax				(57)
Tax				(495)
Loss after tax from continuing operations				(552)
Profit after tax from discontinued operations				—
Loss after tax				(552)
Capital expenditure	135	111	—	246
Depreciation and software amortisation	575	416	—	991
Investment in pre-publication costs	15,133	14,611	—	29,744
Amortisation of and amounts written off pre-publication costs	16,628	15,299	—	31,927

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 Operating segments (continued)

2017	US Publishing $'000	UK Publishing $'000	Q Partners $'000	Total Group $'000
Continuing Operations:				
Revenue	74,134	72,737	5,641	152,512
Operating profit/(loss) before amortisation of acquired intangibles and exceptional items	4,641	7,099	(431)	11,309
Amortisation of acquired intangibles	(596)	(244)	—	(840)
Segment result	4,045	6,855	(431)	10,469
Exceptional pre-publication asset impairment (note 5)	(1,041)	(3,827)	—	(4,868)
Exceptional impairment of goodwill (note 5)	(17,100)	(314)	—	(17,414)
Exceptional items other (note 5)	(82)	(842)	(46)	(970)
	(14,178)	1,872	(477)	(12,783)
Unallocated corporate expenses				(4,116)
Corporate exceptional items				(983)
Operating loss				(17,882)
Finance income				25
Finance costs				(3,325)
Loss before tax				(21,182)
Tax				1,480
Loss after tax from continuing operations				(19,702)
Profit after tax from discontinued operations				1,163
Loss after tax				(18,539)
Capital expenditure	539	790	—	1,329
Depreciation and software amortisation	267	865	—	1,132
Investment in pre-publication costs	18,958	16,593	—	35,551
Amortisation of and amounts written off pre-publication costs	16,308	20,772	—	37,080

3 Operating segments (continued)

Balance sheet

	2018 $'000	2017 $'000
Continuing operations:		
Quarto Publishing Group USA	85,995	93,085
Quarto Publishing Group UK	70,525	67,984
Unallocated (Deferred tax and cash)	19,285	21,848
Discontinued operations		
Books & Gifts Direct, ANZ	—	441
Total assets	175,805	183,358
Continuing operations:		
Quarto Publishing Group USA	30,518	31,518
Quarto Publishing Group UK	34,953	36,390
Unallocated (Deferred tax and debt)	89,216	91,331
Discontinued operations:		
Books & Gifts Direct, ANZ	—	16
Total liabilities	154,687	159,255

Geographical areas

The Group operates in the following main geographic areas:

	Revenue		Non-current assets	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
United States of America	86,092	86,444	51,488	53,649
United Kingdom	20,384	20,256	32,028	35,443
Europe	25,314	29,098	—	—
Rest of the World	17,502	16,714	—	18
	149,292	152,512	83,516	89,110

Note: the assets for Q Partners are included within those of United States of America and United Kingdom.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 Operating profit

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

	2018 $'000	2017 $'000
Depreciation of property, plant and equipment	693	817
Depreciation of software	298	315
Net foreign currency exchange differences	(129)	72
Amortisation of acquired intangibles	850	841
Amortisation of pre-publication costs	30,762	32,212
Staff costs (note 6)	28,368	32,504
Auditor's remuneration (see below)	244	256
Cost of inventory recognised as an expense	36,080	35,174
Share based payments	(177)	222
Exceptional items (note 5)	5,152	24,235

Auditor's remuneration

	2018 $'000	2017 $'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	93	90
Fees payable to the Company's auditor and its associates for the audit of subsidiary companies	151	166
Fees payable to the Company's auditor for other assurance services	—	—
	244	256

5 Exceptional items

	2018 $'000	2017 $'000
Goodwill impairment (note 11)	—	17,414
Reorganisation costs		
– Impairment of pre-publication intangible assets (note 15)	501	4,868
– Impairment of backlists (note 12)	60	—
– Write-off of pre-publication costs	603	—
– Staff severance costs	1,039	544
– Royalty advance provisions	—	409
– Inventory provisions	—	75
– Other reorganisation costs	672	—
– Board changes	831	—
Refinancing costs	1,446	597
Aborted corporate transaction costs	—	241
Aborted business acquisition costs	—	87
Total	5,152	24,235

During 2018, the Group incurred the following exceptional costs: (a) staff severance and reorganisation costs relating to a cost-out programme that was implemented in order to right-size the Group and to provide a path to sustainable debt reduction (of the costs incurred, $634,000 would ordinarily have been included within cost of sales and $1,077,000 would ordinarily have been included within administrative costs), (b) costs relating to Board changes, following the Annual Meeting, which would ordinarily have been included within administrative costs, (c) refinancing costs, which would ordinarily have been included within administrative costs and (d) impairment and write-off of pre-publication costs as a consequence of the cost-out programme, which would ordinarily have been included within cost of sales.

5 Exceptional items (continued)

During 2017, the Group undertook a review of all imprints and certain reorganisations plans to either close or restructure the imprints. In relation to the imprints affected, this resulted in the related pre-publication intangible assets, royalty advances and inventory being impaired. The charges in respect of pre-publication costs, staff costs, royalty advance provisions and inventory provisions would ordinarily be included within cost of sales. The charges in respect of implementing the facility security package and transaction costs would ordinarily be included within administrative costs.

6 Staff costs

	2018 Number	2017 Number
Average monthly number of employees (excluding Executive Directors)	374	461
	$'000	$'000
Wages and salaries	24,745	28,421
Social Security costs	2,617	2,906
Other pension costs	1,006	1,177
	28,368	32,504

Directors' remuneration is disclosed in the Remuneration Committee Report on pages 34 and 35.

The remuneration of the Executive Directors (2017: Executive 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.

	2018	2017
Short-term employee benefits	1,442	2,426
Post-employment benefits	18	70
	1,460	2,496

7 Finance income

	2018 $'000	2017 $'000
Interest income	21	25

8 Finance costs

	2018 $'000	2017 $'000
Interest expense on borrowings	3,710	2,941
Amortisation of debt issuance costs	301	384
Other interest	370	—
	4,381	3,325

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 Taxation

	2018 $'000	2017 $'000
Corporation tax		
Current tax	73	1,552
Prior periods	176	804
Total current tax	249	2,356
Deferred tax (note 19)		
Origination and reversal of temporary differences	246	(3,836)
Total tax expense/(credit)	495	(1,480)

Corporation tax on UK profits is calculated at 19%, based on the UK standard rate of corporation tax, (2017: 19%) 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 19% and the Group's total tax expense for the year.

	2018 $'000	2017 $'000
Loss before tax	(57)	(21,182)
Tax at the UK corporation tax rate of 19% (2017: 19%)	(11)	(4,025)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(101)	—
Adjustment to prior years	(85)	804
Tax effect of changes in legislation	—	1,116
Tax effect of items that are not deductible in determining taxable profit	606	625
Other	86	—
Tax expense/(credit)	495	(1,480)
Effective tax rate	(868.4)%	7.0%

On 22 December 2017, the United States enacted tax reform legislation commonly known as the Tax Cuts and Jobs Act resulting in significant modifications to existing law. These changes included a reduction in the corporate tax rate from 35% to 21% and a one-time deemed repatriation transition tax on unrepatriated foreign earnings. The Group, in consultation with its US tax advisors, has completed its evaluation of these changes in determining the additional tax liability and has recorded a liability of $0.6m, which will be settled over a period of 7 years.

10 Earnings per share

	2018 $'000 Group	2017 $'000 Group
From continuing operations		
Loss for the year	(552)	(19,702)
Amortisation of acquired intangibles (net of tax)	701	591
Exceptional items (net of tax)	4,603	22,852
Earnings for the purposes of adjusted earnings per share	4,752	3,741
From continuing and discontinued operations		
Loss attributable to owners of the parent	(552)	(18,513)
Amortisation of acquired intangibles (net of tax)	701	591
Exceptional items (net of tax)	4,603	22,852
Profit from discontinued operations	—	(1,189)
Earnings for the purpose of adjusted earnings per share	4,752	3,741

Number of shares	Number	Number
Weighted average number of ordinary shares	20,444,450	20,444,450
Effect of potentially dilutive share options	256,655	575,631
Diluted weighted average number of ordinary shares	20,701,105	21,020,081
Loss per share (cents) – continuing operations		
Basic	(2.7)	(96.4)
Diluted	(2.7)	(96.4)
Adjusted earnings per share (cents)		
Basic	23.2	18.3
Diluted	23.0	17.8
Earnings/(loss) per share (cents) – discontinued operations		
Basic	—	5.8
Diluted	—	5.7
Loss per share (cents): from continuing and discontinued operations		
Basic	(2.7)	(90.6)
Diluted	(2.7)	(90.6)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Goodwill

	2018 $'000	2017 $'000
Cost		
At 1 January	43,007	42,425
Exchange differences	(332)	582
At 31 December	42,675	43,007
Accumulated impairment losses		
At 1 January	(23,721)	(6,281)
Impairment	—	(17,414)
Exchange differences	—	(26)
At 31 December	(23,721)	(23,721)
Carrying value		
At 31 December	18,954	19,286

Impairment tests for cash generating units containing goodwill

The following units have significant carrying amounts of goodwill:

	2018 $'000	2017 $'000
Quarto Publishing Group USA (QUS)	12,882	12,882
Quarto Publishing Group UK (QUK)	6,072	6,404
	18,954	19,286

The recoverable amount of each cash generating unit ('CGU') is determined using the value in use basis. In determining value in use, management prepares a detailed bottom-up budget for the initial twelve-month period, with reviews conducted at each business unit. A further two years are forecast using relevant growth rates and other assumptions. Cash flows beyond the three year period are extrapolated into perpetuity, by applying a 2% growth rate. The cashflows are then discounted using a country-specific pre-tax WACC. The growth rates used are consistent with the growth expectations for the sector in which the company operates and the discount rate has been calculated using Weighted Average Cost of Capital analysis. These are as follows:

	Terminal Growth Rates		Discount Rates	
	2018	2017	2018	2017
United States of America	2%	2%	10.90%	11.72%
United Kingdom	2%	2%	10.38%	11.16%

Neither a 1% decrease in the terminal growth rate or a 1% increase in the discount rate would have led to an impairment.

Goodwill, specific to the US Publishing Group, was impaired by $17.1m at 31 December 2017 reducing its carrying value to $12.9m. The impairment principally arose due to the decrease in profitability experienced in 2017. One imprint in the UK was closed in 2017 and the previous carrying value of its goodwill of $0.3m was impaired to nil.

12 Other intangible assets

	Backlists $'000	Software $'000	Total $'000
Cost			
At 1 January 2017	21,124	2,312	23,436
Exchange differences	218	—	218
Additions	—	313	313
Disposals	—	(1,046)	(1,046)
At 1 January 2018	21,342	1,579	22,921
Exchange differences	(138)	—	(138)
Additions	—	77	77
Disposals	—	(26)	(26)
At 31 December 2018	21,204	1,630	22,834
Amortisation and impairment			
At 1 January 2017	17,701	1,384	19,085
Exchange differences	163	—	163
Charge for the year	841	315	1,156
Disposals	—	(999)	(999)
At 1 January 2018	18,705	700	19,405
Exchange differences	(121)	—	(121)
Charge for the year	850	298	1,148
Amount written off for the year	60	—	60
Disposals	—	(26)	(26)
At 31 December 2018	19,494	972	20,466
Carrying amount			
At 31 December 2018	1,710	658	2,368
At 31 December 2017	2,637	879	3,516

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Property, Plant and Equipment

Cost	Leasehold Property Improvements $'000	Plant, Equipment & Motor Vehicles $'000	Fixture & Fittings $'000	Total $'000
At 1 January 2017	1,250	1,050	996	3,296
Exchange difference	101	98	38	237
Additions	433	406	317	1,156
Disposals	(327)	(248)	(52)	(627)
Disposal of businesses	(149)	(190)	(182)	(521)
At 1 January 2018	1,308	1,116	1,117	3,541
Exchange difference	(57)	(58)	(23)	(138)
Additions	—	167	2	169
Disposals	(9)	(282)	(11)	(302)
At 31 December 2018	1,242	943	1,085	3,270
Depreciation				
At 1 January 2017	653	210	576	1,439
Exchange differences	53	50	29	132
Charge for the year	152	444	221	817
Disposals	(307)	(223)	(4)	(534)
Disposal of businesses	(117)	(186)	(139)	(442)
At 1 January 2018	434	295	683	1,412
Exchange differences	(30)	(35)	(20)	(85)
Charge for the year	113	413	167	693
Disposals	(9)	(282)	(11)	(302)
At 31 December 2018	508	391	819	1,718
Net book value				
At 31 December 2018	734	552	266	1,552
At 31 December 2017	874	821	434	2,129

All property, plant and equipment has been pledged as security for the Group's bank borrowings (note 18)

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

	2018 $'000	2017 $'000
Cost		
At 1 January	193,492	181,791
Exchange differences	(3,353)	4,609
Additions	29,744	35,551
Reclassification to other balance sheet lines	—	(2,113)
Disposals	(75,122)	(26,346)
At 31 December	144,761	193,492
Amortisation		
At 1 January	133,214	120,658
Exchange differences	(1,999)	1,822
Charge for the year	30,823	32,212
Amount written-off for the year	603	—
Impairment charge	501	4,868
Disposals	(75,122)	(26,346)
At 31 December	88,020	133,214
Net Book Value		
At 31 December	56,741	60,278

The assessment of the useful life of pre-publication costs and amortisation involves a significant amount of judgement based on historical trends and management estimates of future potential sales, in accordance with the accounting policy stated in note 1. The reclassification in 2017 relates to final review of the becker&mayer acquired balances and apart from this reclassification, no further adjustments were required. The impairment charge and the amount written-off for the year, for 2018 and for 2017, is included in exceptional items and further information is included in note 5. Pre-publication costs form part of the carrying value of the CGU for each segment and are considered for impairment of goodwill in note 11.

16 Inventories

	2018 $'000	2017 $'000
Finished goods	22,098	22,309
Raw materials	226	328
	22,324	22,637

All of the Group's inventories have been reviewed for indicators of impairment. Certain inventories were found to be impaired and a provision of $2,079,000 (2017: $2,045,000) has been recorded accordingly.

All inventories have been pledged as security for the Group's bank borrowings (note 18)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 Trade and other receivables

	2018 $'000	2017 $'000
Trade receivables	45,430	43,127
Other receivables and prepayments	9,046	10,333
	54,476	53,460

The average credit period on sales of goods is 71 days (2017: 71 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 $826,000 (2017: $801,000) 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:

	2018 $'000	2017 $'000
Less than one month	1,022	2,475
More than one month but less than two months	687	860
More than two months but less than three months	182	699
More than three months but less than six months	171	245
More than six months	49	341
	2,111	4,620

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:

	2018 $'000	2017 $'000
Balance at beginning of year	801	670
Amounts written off in the year	(215)	(476)
Amounts recovered during the year	12	17
Exchange differences	(17)	25
Increase in allowance recognised in profit or loss	245	565
Balance at end of the year	826	801

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. Before 2018, trade receivables were disclosed after deducting a reserve for sales returns. Under IFRS 15, the reserve for sales returns in 2018 ($5.4m) is included in other payables. The reserve in 2017 was $6.4m. The reserve is calculated based on a time lag between sales and returns and historical return patterns. Management monitor actual returns against the reserve on a regular basis.

Note 21 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses. The 2017 impairment provision was determined on an incurred model basis, under IAS 39, whereas the current year provision was determined on an expected loss model, under IFRS 9.

18 Cash, borrowings and net debt

Cash

	2018 $'000	2017 $'000
Bank balances	11,134	17,946
Short-term deposits	4,250	-
Cash and cash equivalents	15,384	17,946

The carrying amount of these assets approximates to their fair value.
The effective interest rate on bank balances and short-term deposits was 0.4% (2017: 0.2%).

Total borrowings

	2018 $'000	2017 $'000
Bank and other loans	75,752	81,907
On demand or within one year	5,000	5,000
In the second year	70,752	76,907
	75,752	81,907
Less: Amount due for settlement within 12 months (shown under current liabilities)	(5,000)	(5,000)
Amount due for settlement after 12 months	70,572	76,907

	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	55,450	23,000	32,450	4.0	14.6
Other currency borrowings	20,302	—	20,302	—	—
As at 31 December 2018	75,752	23,000	52,752	4.0	14.6
US dollar borrowings	55,500	20,000	35,500	3.8	13.5
Other currency borrowings	26,407	—	26,407	—	—
As at 31 December 2017	81,907	20,000	61,907	3.8	13.5

Other loans

	2018 $'000	2017 $'000
Bank and other loans	13,000	—
On demand or within one year	—	—
In the second year	13,000	—
	13,000	—
Less: Amount due for settlement within 12 months (shown under current liabilities)	—	—
Amount due for settlement after 12 months	13,000	—

Other loans are with related parties, as disclosed in note 32, are unsecured, are repayable, together with the accrued interest, on 31 August 2020 and carry an interest rate of 3.5%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 Cash, borrowings and net debt (continued)

	Total $'000	Fixed rate borrowings $'000	Variable rate borrowings $'000	Weighted average interest rate for fixed rate borrowings %	Average time over which interest rate is fixed Months
US dollar borrowings	13,000	13,000	—	3.5	20.0
As at 31 December 2018	13,000	13,000	—	3.5	20.0
As at 31 December 2017	—	—	—	—	—

Bank loans

	2018 $'000	2017 $'000
Bank loans	62,752	81,907
On demand or within one year	5,000	5,000
In the second year	57,752	76,907
	62,752	81,907
Less: Amount due for settlement within 12 months (shown under current liabilities)	(5,000)	(5,000)
Amount due for settlement after 12 months	57,752	76,907

	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	42,450	10,000	32,450	5.8	7.5
Other currency borrowings	20,302	—	20,302	—	—
As at 31 December 2018	62,752	10,000	52,752	5.8	7.5
US dollar borrowings	55,500	20,000	35,500	3.8	13.5
Other currency borrowings	26,407	—	26,407	—	—
As at 31 December 2017	81,907	20,000	61,907	3.8	13.5

At 31 December 2018, undrawn borrowing facilities totalled $9.4m (2017: $3.1m). The variable rate borrowings carry interest based on LIBOR plus a margin, depending on the leverage ratio. The Directors estimate the fair value of the Group's borrowings to be equal to book value, by reference to market rates.

At 31 December 2018 the Group had a US$72.5m (2017: US$85m) multi-currency syndicated bank facility (signed on 31 October 2018) which is due to expire on 31 August 2020. The previous loan was de-recognized during the year and a new loan has been recognized. Banking EBITDA used for bank covenant purposes was $11,707,000 in 2018.

These facilities are subject to three principal covenants which vary over the course of the financial year. At December 31, 2018, the covenants were:

(a) Total consolidated net banking indebtedness shall not exceed 4.88 times EBITDA (as defined in the committed facility agreement). At December 31, 2018 net indebtedness was 4.05 times EBITDA.

(b) EBITDA shall exceed 2.43 times net finance charges (as defined in the committed facility agreement). For the year ended December 31, 2018, net finance charges were 3.05 times covered under this covenant.

(c) Cash flow (as defined in the committed facility agreement) shall exceed 1.1 times Debt Service. For the year ended December 31, 2018, Debt Service was 1.42 times covered under this covenant.

18 Cash, borrowings and net debt (continued)

Net debt

	1 January 2018 $'000	Cashflows $'000	Non-cash items $'000	Foreign exchange $'000	31 December 2018 $'000
Borrowings	(81,907)	5,781	(301)	675	(75,752)
Cash and cash equivalents	17,946	(2,245)	—	(317)	15,384
Net debt	(63,961)	3,536	(301)	358	(60,368)

	1 January 2017 $'000	Cashflows $'000	Non-cash items $'000	Foreign exchange $'000	31 December 2017 $'000
Borrowings	(80,748)	1,761	(384)	(2,536)	(81,907)
Cash and cash equivalents	18,824	(1,310)	—	432	17,946
Net debt	(61,924)	451	(384)	(2,104)	(63,961)

All of the assets of the Group have been pledged as security for the Group's bank borrowings.

19 Deferred tax

	2018 $'000	2017 $'000
Deferred tax liabilities		
Excess of capital allowances over depreciation – UK	8	32
Pre-publication costs and other temporary differences – UK	4,688	5,060
	4,696	5,092
Pre-publication costs and other temporary differences – US	4,057	3,428
Other overseas temporary differences	—	—
	8,753	8,520
Deferred tax assets		
Tax losses and other timing differences – UK	99	509
Goodwill, intangible assets and other temporary differences – US	3,802	3,392
	3,901	3,901
Net deferred taxation liability	4,852	4,619

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

	2018 $'000	2017 $'000
Net provision at 1 January	4,619	8,480
Credit/(debit) direct to equity	246	(471)
Exchange difference through other comprehensive income	(259)	446
Charge (credit) to profit and loss	246	(3,836)
Net provision at 31 December	4,852	4,619

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 Trade and other payables

Current Liabilities

	2018 $'000	2017 $'000
Trade payables	45,850	46,514
Other payables	19,067	14,282
Total	64,917	60,796

Other payables include the discounted deferred and contingent consideration liabilities of $1.2m in respect of prior year acquisitions (2017: $1.9m). $1.9m was paid in the year.

Non-current Liabilities

Other payables comprise the discounted deferred and contingent liability of $0.6m in respect of prior year acquisitions (2017: $1.7m). The contingent liability is based on the future profitability of the aquired business for the year ending 31 December 2019.

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

21 Financial instruments

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:

	2018		2017	
	$'000 Sterling	$'000 Other	$'000 Sterling	$'000 Other
Financial assets:	8,232	1,948	6,512	3,167
Financial liabilities	(1,603)	(1,045)	(1,868)	(394)
Short-term exposure	6,629	903	4,644	2,773
Financial liabilities:				
Long-term exposure	(16,841)	(3,459)	(22,823)	(3,584)
At 31 December	(10,212)	(2,556)	(18,179)	(811)

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

It assumes a +/– 5% change of the Sterling/US Dollar exchange rate.

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% (2017: 5%) then this would have had the following impact:

21 Financial instruments (continued)

	2018 $'000	2017 $'000
(Loss)/profit for the year	61	840
Equity	2,609	2,474

If Sterling had weakened against the US Dollar by 5% (2017: 5%) then this would have had the following impact:

	2018 $'000	2017 $'000
(Loss)/profit for the year	(61)	(840)
Equity	(2,609)	(2,474)

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

Interest rate sensitivity

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

At 31 December 2018, the Group is exposed to changes in market interest rates through its bank borrowings, which are subject to variable interest rates – see note 18 for further information.

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

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

	2018 $'000	2017 $'000
(Loss)/profit for the year	(118)	(155)
Equity	(118)	(155)

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

	2018 $'000	2017 $'000
(Loss)/profit for the year	118	155
Equity	118	155

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 Financial instruments (continued)

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:

	2018 $'000	2017 $'000
Cash and cash equivalents	15,384	17,946
Trade receivables	45,430	43,127
Derivative financial instruments	105	205
	60,919	61,278

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 ongoing credit risk is managed through regular review of ageing analysis together with credit limits per customer.

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. Credit losses written off during the year which are subject to enforcement activity are minimal.

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

Liquidity risk analysis

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

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

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

31 December 2018	Current		Non-Current	
	Within 6 months $'000	6 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000
Bank and other loans	7,130	2,165	74,686	—
Trade payables	45,850	—	—	—
Other short-term financial liabilities	17,836	1,250	—	—
Other long-term payables	—	—	569	—
	70,816	3,415	75,255	—

21 Financial instruments (continued)

31 December 2017	Current		Non-Current	
	Within 6 months $'000	6 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000
Bank loans	6,454	1,478	78,289	—
Trade payables	46,514	—	—	—
Other short-term financial liabilities	14,282	—	—	—
Other long-term payables	—	—	1,673	—
	67,250	1,478	79,962	—

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.

	2018 $'000	2017 $'000
Current assets		
Derivative financial instruments designated as hedging instruments:		
– Interest rate swap	105	205
Financial assets at amortised cost		
– Trade receivables	45,430	43,127
– Cash and cash equivalents	15,384	17,946
	60,919	61,278
Non-current liabilities		
Financial liabilities measured at amortised cost:		
– Borrowings	70,752	76,907
Other payables	554	1,673
	71,306	78,580
Current liabilities		
Financial liabilities measured at amortised cost:		
– Borrowings	5,000	5,000
– Trade payables	45,850	46,514
– Other payables	19,067	14,282
	69,917	65,796

Capital risk management

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

The Board reviews the capital structure, including the level of indebtedness and interest cover, as required. The Board's objective is to maintain the optimal level of indebtedness and manage interest cover to comply with the covenant requirements set out in note 18. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Group has complied with its covenant obligations during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 Other Financial Assets/Liabilities

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

	2018 $'000	2017 $'000
Current financial assets		
Derivative financial instruments – interest rate swaps	105	205
Total	105	205

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 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 IFRS 9.

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:

	Interest rate		Principal amounts		Committed interest payments	
	2018 %	2017 %	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Within one year	5.8	4.0	10,000	10,000	(370)	(257)
Within one to two years	—	3.7	—	10,000	—	(605)
Derivative			10,000	20,000	(370)	(862)

23 Contingent Liabilities

Under the terms of the syndicated bank facility, a fee of $745,000 would be payable on 31 August 2020 to the Royal Bank of Scotland plc, if certain conditions are not met.

24 Share Capital

	2018 $'000	2017 $'000
Authorised		
28 million shares of common stock of par value of US$0.10 each	2,800	2,800
Allotted, called up and fully paid:		
20,444,550 (2016: 20,444,550) shares of common stock of par value of US$0.10 each	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.

26 Dividends

	2018 $'000	2017 $'000
Final dividend for the year ended 31 December 2017 of nil (2016: 9.87c/7.95p) per share	—	2,018
	—	2,018
Proposed final dividend for the year ended 31 December 2018 of nil (2017: nil) per share	—	—

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.

28 Share based payments

Performance Share Plan ('PSP')

The Company operates a PSP scheme that awards free shares.

2015 award

The awards under this scheme were granted on 24 September 2015. The vesting period is 4 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 ('TSR') 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:

	2018 Number	2017 Number
Outstanding at beginning of the year	167,464	227,464
Forfeited during the year	(167,464)	(60,000)
Outstanding at the end of the year	—	167,464

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	4
Fair value per award	£1.78	£1.07
Weighted average remaining contractual life (years)	2.7	3.7
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 4 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 TSR 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:

	2018 Number	2017 Number
Outstanding at beginning of the year	287,136	366,728
Forfeited during the year	(134,944)	(79,592)
Outstanding at the end of the year	152,192	287,136

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	4
Fair value per award	£2.10	£0.44
Weighted average remaining contractual life (years)	2.3	3.3
Dividend yield (%)	3.88	3.88
Expected volatility of share price (%)	n/a	19.1
	Dividend discount	Monte Carlo

2017 award

The awards under this scheme were granted on 28 April 2017. The vesting period is 4 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.

28 Share based payments (continued)

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

	2018 Number	2017 Number
Outstanding at beginning of the year	178,131	—
Granted during the year	—	189,063
Forfeited during the year	(73,668)	(10,932)
Outstanding at the end of the year	104,463	178,131

The key inputs used to value the options are:

	EPS Portion	TSR Portion
Share price at date of grant	£2.64	£2.64
Expected life (years)	4	4
Fair value per award	£2.20	£0.48
Weighted average remaining contractual life (years)	3.3	3.3
Dividend yield (%)	4.55	4.55
Expected volatility of share price (%)	n/a	18.6%
Model used	Dividend discount	Monte Carlo

29 Operating lease commitments

	2018 $'000	2017 $'000
Lease payments under operating leases recognised in income for the year	1,911	1,489

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:

	2018 $'000	2017 $'000
Minimum lease payments under operating leases within one year	1,876	1,885
In the second to fifth years inclusive	6,329	6,264
After more than five years	3,803	4,038
	12,008	12,187

Operating lease payments represent rentals payable by the Group, primarily for its office properties. There were no capital commitments outstanding at the year end (2017: $nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 Acquisitions

There were no acquisitions in the year. On 8 August 2016, the Group acquired the publishing business of becker&mayer LLC for a consideration of $9.8m, together with a working capital adjustment payment capped at $1.0m and further contingent consideration of up to $1.0m, based on performance of the business over the next year. The remaining consideration is payable in stages over the next two years (note 20).

31 Discontinued operations

On 30 March 2017, the Group completed the disposal of its 75% interest in Regent Publishing Services Limited ("Regent"), its Hong Kong based publishing services business.

On 3 April 2017, the Group completed the disposal of its 100% share of Books & Gifts Direct Pty Limited ("BGD Australia"), its direct sales business in Australia.

On 7 July 2017, the Group completed the disposal of the trade and selected net assets of Books & Gifts Direct Limited ("BGD New Zealand"), its direct sales business in New Zealand.

These disposals were completed in line with the Group's strategy of disposing of non-core businesses. Proceeds from the disposals were used to manage the Group's net debt position as received. The results of the discontinued operations which have been included in the consolidated income statement were:

Regent	2017 $'000
Revenue	2,632
Expenses	(2,803)
(Loss)/profit before tax	(171)
Tax	3
(Loss)/profit after tax	(168)
Profit on disposal	3,236
Net profit attributable to discontinued operations	3,068

Net cash inflow arising on disposal	
Cash consideration	7,000
Less: Cash disposed	(3,350)
Net cash inflow	3,650

BGD Australia	2017 $'000
Revenue	1,199
Expenses	(1,970)
Loss before tax	(771)
Tax	—
Loss after tax	(771)
Loss on disposal	(325)
Net loss attributable to discontinued operations	(1,096)

Net cash outflow arising on disposal	
Cash consideration	—
Less: Cash disposed	—
Net cash outflow	(767)

31 Discontinued operations (continued)

BGD New Zealand	2017 $'000
Revenue	3,070
Expenses	(3,667)
Loss before tax	(597)
Tax	–
Loss after tax	(597)
Loss on disposal	(212)
Net loss attributable to discontinued operations	(809)

Net cash inflow arising on disposal	
Cash consideration	540
Net cash inflow	540

32 Related Party Transactions

The Group had the following related party transactions between 17 May 2018 and 31 December 2018.

Printing purchases:

1010 Printing Limited	2018 $'000
Accounts payable at 17 May 2018	4,806
Purchases	1,872
Payments	(595)
Accounts payable at 31 December 2018	6,083

Loans and accrued interest:

	At 31 December 2018 $'000
Loans (advanced on 1 and 2 November 2018)	13,000
Accrued interest on loans at 31 December 2018	76

The loans are from 1010 Printing Limited ($7.0m), Recruit & Company Limited ($1.5m) and C. K. Lau ($4.5m). The loans are unsecured, are repayable, together with the accrued interest, on 31 August 2020, and carry interest at 3.5%.

1010 Printing Limited and Recruit & Company Limited are companies over which C. K. Lau exercises control.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33 Reconciliation of figures included in other parts of the financial statements

	2018 $'000	2017 $'000
Adjusted Operating Profit		
Operating profit/(loss) (continuing operations)	4,303	(17,882)
Add back: – Amortisation of acquired intangibles	850	840
– Exceptional items (note 5)	5,152	24,235
Adjusted operating profit	10,305	7,193
EBITDA		
Operating profit before amortisation of acquired intangibles and exceptional items	10,305	7,193
Net finance costs	(4,360)	(3,300)
Adjusted profit before tax (before amortisation of acquired intangibles and exceptional items)	5,945	3,893
Net finance costs	4,360	3,300
Depreciation of property, plant and equipment and software	991	1,132
Share based payments	(177)	222
EBITDA	11,119	8,547
Adjusted profit before tax before amortisation of acquired intangibles and exceptional items		
Adjusted operating profit before amortisation of acquired intangibles and exceptional items	10,305	7,193
Less: net finance costs	(4,360)	(3,300)
Adjusted profit before tax before amortisation of acquired intangibles and exceptional items	5,945	3,893
Free cashflow		
Net cash from operating activities	38,372	44,622
Investment in pre-publication costs	(29,744)	(35,551)
Purchases of property, plant and equipment	(169)	(1,063)
Purchases of software	(77)	(266)
Free cashflow	8,382	7,742
Net debt		
Short-term borrowings	5,000	5,000
Medium and long-term borrowings	70,752	76,907
Cash and cash equivalents	(15,384)	(17,946)
Net debt	60,368	63,961

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2018

	Notes	2018 $'000	Restated (note 1) 2017 $'000
Fixed Assets			
Investments	4	1,209	1,436
		1,209	**1,436**
Current liabilities			
Creditors: Amounts falling due within one year	6	(15,167)	(15,939)
		(15,167)	**(15,939)**
Creditors: Amounts falling due after more than one year		(544)	(1,116)
Net liabilities		**(14,502)**	**(15,619)**
Equity			
Called up share capital	7	2,045	2,045
Reserves – Paid in surplus		33,764	33,764
– Profit and loss		(50,311)	(51,428)
Total equity		**(14,502)**	**(15,619)**

The financial statements were approved by the Board of Directors and authorised for issue on 8 March 2019.
They were signed on its behalf by

C. K. Lau
Director
8 March 2019

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

COMPANY STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 $'000	Restated (note 1) 2017 $'000
Administrative expenses		—	(98)
Impairment of investments		—	(3,308)
Foreign exchange gain/(loss)		822	(1,239)
Profit/(loss) before tax		**822**	**(4,645)**
Tax	3	472	(1,116)
Profit/(loss) for the year		**1,294**	**(5,761)**

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital $'000	Paid in surplus $'000	Retained earnings $'000	Equity attributable to owners $'000
Balance at 1 January 2017 (as previously stated)	2,045	33,764	(44,313)	(8,504)
Prior year adjustment (note 1)	—	—	442	442
Balance at 1 January 2017	2,045	33,764	(43,871)	(8,062)
Loss for the year	—	—	(5,761)	(5,761)
Transactions with owners				
Dividends to shareholders	—	—	(2,018)	(2,018)
Share based payments	—	—	222	222
Balance at 1 January 2018	2,045	33,764	(51,428)	(15,619)
Profit for the year	—	—	1,294	1,294
Transactions with owners				
Dividends to shareholders	—	—	—	—
Share based payments	—	—	(177)	(177)
Balance at 31 December 2018	2,045	33,764	(50,311)	(14,502)

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 the Group.

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.

The Company has adopted the following disclosure exemptions:

- the requirement to present a statement of cash flow and related notes; and
- financial instrument disclosures, including,
- categories of financial instruments;
  - items of income, expenses, gains or losses relating to financial instruments; and
  - exposure to, and management of, financial risks.

There were no significant judgements or estimates in preparing the financial statements of the Company.

Restatement of Prior Year Results

During the current year it was identified that equity-settled share-based payments issued to employees of subsidiaries were being incorrectly accounted for in the parent company financial statements. Previously the charge or credit in relation to these share-based payments has been included in the Company Statement of Comprehensive Income when they should be accounted for as a capital contribution to the subsidiaries of the Company. The Company's accounting policy has been updated to reflect the correct accounting treatment.

The amount for share-based payment charges which should have been recognised as capital contributions in prior periods is $664,000. An adjustment has been made to opening reserves for the prior year of $442,000 to reflect the correct treatment of share-based payment charges in 2015 and 2016, with a corresponding adjustment to the value of investments in subsidiaries brought forward at 1 January 2017. An adjustment of $222,000 to investment in subsidiaries has been made to reflect the correct treatment in the year ended 31 December 2017. As a result, the prior year figures have been restated as follows.

	Per prior year financial statements $'000	Restatement $'000	Per current year financial statements $'000
Investments brought forward	4,080	442	4,522
Investments at 31 December 2017	772	664	1,436
Retained earnings brought forward	(44,313)	442	(43,871)
Retained earnings at 31 December 2017	(52,092)	664	(51,428)
Administrative expenses	(320)	222	(98)
Loss before tax	(4,867)	222	(4,645)
Loss for the year	(5,983)	222	(5,761)

NOTES TO THE COMPANY ACCOUNTS

AT 31 DECEMBER 2018

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 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 Company operates a number of equity-settled, share based compensation plans that are awarded to employees of the Company's subsidiary undertakings. The fair value of the employee services received under such schemes is recognised as an expense in the subsidiary undertakings financial statements, which benefit from the employee services. The Company has recognised the fair value of the share-based payments as an increase to equity with a corresponding adjustment to investments. 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 to the group consolidated Financial Statements.

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 Tax

	2018 $'000	2017 $'000
Current tax (Credit)/Charge	(472)	1,116

Corporation tax is calculated at 21%, based on the US standard rate of corporate tax (2017: 21%) of the estimated assessable profit for the year. The table below explains the difference between the expected expense at the US statutory rate of 21% and the Company's total tax expense for the year.

3 Tax (continued)

	2018 $'000	2017 $'000
Profit/(loss) before tax	822	(4,645)
Tax at the US corporation tax rate of 21% (2017: 21%)	173	(975)
Adjustment to prior year	(472)	—
Tax effect of changes in legislation	—	1,116
Tax effect of items that are not deductible in determining taxable profit	(173)	975
Tax (Credit)/charge	(472)	1,116

4 Investments

	2018 $'000	Restated (note 1) 2017 $'000
At 1 January	1,436	4,522
Capital contribution (note 2)	(227)	222
Amounts written off during year	—	(3,308)
At 31 December	1,209	1,436

5 Subsidiaries
a) Trading companies

	Incorporation					
Name	Place	Date	Registered address key	Issued and fully paid up share capital	% held	Segment
Global Book Publishing Pty. Limited	Australia	4 November 1999	D	1,000 shares of A$1 each	100*	UK Publishing
Quarto Australia Pty Limited	Australia	14 September 1981	D	110 shares of $A1 each	100	UK Publishing
Quarto Group HK Ltd	Hong Kong	26 January 2015	E	100 shares of HKD1 each	100	UK/US Publishing
Quarto Publishing Group USA Inc.	Delaware, USA	28 June 2004	B	380 shares of US$0.01 each	100	US Publishing
Quarto Publishing plc	United Kingdom	1 April 1976	A	100,000 shares of £1 each	100*	UK Publishing
Quarto, Inc.	Delaware, USA	16 October 1986	B	86 shares of no par value	100*	US Publishing
RotoVision S.A.	Switzerland	18 July 1977	F	1,500 shares of SFr500 each	100*	UK Publishing

b) Non-trading company

	Incorporation				
Name	Place	Date	Registered address key	Issued and fully paid up share capital	% held
Books & Gifts Direct Limited	New Zealand	27 September 1996	C	400,000 shares of NZ$1 each	100*

* Directly held by The Quarto Group, Inc.

STRATEGIC REPORT GOVERNANCE FINANCIAL STATEMENTS

NOTES TO THE COMPANY ACCOUNTS AT 31 DECEMBER 2017 (CONTINUED)

5 Subsidiaries (continued)

c) Dormant companies

Name	Incorporation Place	Incorporation Date	Registered address key	Issued share capital	% held
AP Screen Printers Limited	United Kingdom	30 September 1980	A	1000 shares of £1 each	100
Apple Press Limited	United Kingdom	5 June 1984	A	100 shares of £1 each	100
Aurum Press Limited	United Kingdom	31 May 1977	A	382,502 shares of £1 each	100
Cartographica Press Limited	United Kingdom	27 July 1981	A	1000 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
EYE Quarto Inc	Delaware, USA	19 December 2002	B	1000 shares of no par value	100
Fine Wine Editions Limited	United Kingdom	23 June 1949	A	9020 shares of £1 each	100
Frances Lincoln Limited	United Kingdom	15 December 1980	A	565,000 shares of 10p each	100
Frances Lincoln Publishers Limited	United Kingdom	11 March 1987	A	100 shares of £1 each	100
Global Book Publishing Pty Limited	United Kingdom	7 July 1986	A	1000 shares of £1 each	100
Great American Trading Company Limited (THE)	United Kingdom	24 February 1982	A	100 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
Ivy Press (The)	United Kingdom	9 July 1996	A	1042 shares of 10p each	100
JR Books Limited	United Kingdom	9 September 1986	A	43,004 shares of £1 each	100
Lewes Holdings Limited	United Kingdom	21 July 2005	A	20,840 shares of £0.01 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
QEB Publishing Inc	Delaware, USA	27 April 2004	B	1500 shares of no par value	100
QED Publishing Limited	United Kingdom	12 November 1974	A	400 shares of £1 each	100
QU:ID Publishing Limited	United Kingdom	30 September 1980	A	100 shares of £1 each	100
Quantum Books Limited	United Kingdom	7 February 1983	A	100 shares of £1 each	100
Quarto Children’s Books Limited	United Kingdom	6 January 1976	A	2 shares of £1 each	100
Quarto (JS) LLP	United Kingdom	6 November 1998	A	100 units	100
Quarto Magazines Limited	United Kingdom	20 May 1986	A	1000 shares of £1 each	100
Quarto Marketing Inc	Delaware, USA	26 April 1995	B	3000 shares of no par value	100
Quarto Media Inc	Delaware, USA	10 December 2010	B	1000 shares of $1 each	100
Quarto Multi-Media Limited	United Kingdom	14 December 1984	A	1000 shares of £1 each	100
Quill Publishing Limited	United Kingdom	14 May 1979	A	1000 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
Small World Creations Limited	United Kingdom	20 September 1997	A	1,536 share of £1 each	100

5 Subsidiaries (continued)

d) 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 Room 2306, Technology Plaza, 651 King's Road, North Point, Hong Kong
F Passage Perdonet 1, 1005 Lausanne, Switzerland

6 Creditors: Amounts falling due within one year

	2018 $'000	2017 $'000
Amounts owed to subsidiary undertakings	15,167	15,939

7 Called up share capital

Details of called up share capital are set out in note 24 of the consolidated Financial Statements.

8 Contingent liabilities

The Quarto Group, Inc. has issued guarantees in respect of bank loans of subsidiaries of $62,752,000 (2017: $81,907,000). Refer to note 18 of the group consolidated Financial Statements.

9 Related parties

The company borrowed an amount of $0.1m from its wholly owned subsidiary, Quarto Publishing plc, during the year (2017: $2.0m borrowed in the year). The balance on the loan at 31 December 2018 was $15.2m (2017: $15.9m). These balances are non-interest bearing and repayable on demand.

FIVE-YEAR SUMMARY

	2018 $'000	2017 $'000	2016 $'000	2015# $'000	2014# $'000
Results					
Revenue	149,292	152,512	154,610	182,165	171,339
Operating profit before amortisation of acquired intangibles and exceptional items	10,305	7,193	16,989	16,475	14,927
Operating (loss)/profit	4,303	(17,882)	16,144	15,306	14,990
Profit before tax, amortisation of acquired intangible assets and exceptional items	5,945	3,893	13,880	13,377	10,950
(Loss)/Profit before tax	(57)	(21,182)	13,035	12,208	11,013
(Loss)/Profit after tax	(552)	(18,539)	(5,277)	8,523	8,091
Assets employed					
Non-current assets	83,516	89,110	105,507	104,433	102,416
Current assets	92,289	94,248	97,133	107,413	98,709
Current liabilities	(74,084)	(71,039)	(68,872)	(71,275)	(144,918)
Non-current liabilities	(80,603)	(88,216)	(89,657)	(87,127)	(6,464)
Net assets	21,118	24,103	44,111	53,444	49,743
Financed by					
Equity	21,118	24,103	39,219	48,285	44,802
Non-controlling interests	–	-	4,892	5,159	4,941
	21,118	24,103	44,111	53,444	49,743
Earnings per share (cents)					
Basic	(2.7)	(96.4)	46.4	41.3	39.5
Diluted	(2.7)	(96.4)	45.4	41.2	39.5
Adjusted basic	23.2	18.3	49.8	46.2	39.1
Adjusted diluted	23.0	17.8	48.7	46.1	39.1

The results of 2014 to 2015 have not been adjusted to reflect the effect of discontinued operations.

OFFICERS & PROFESSIONAL ADVISERS

Directors
C. K. Lau, Chief Executive Officer
Michael Mousley, Chief Financial Officer
Ken Fund, Chief Operating Officer
Andy Cumming*, Chairman
Jane Moriarty*
Mei Lam*

* Non-executive

Secretary
Michael Clarke

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

Stockbrokers
Stockdale Securities Limited
100 Wood Street
London EC2V 7AN

Auditor
Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

Solicitors
Taylor Wessing LLP
5 New Street Square
London EC4A 3TW

Registrars and Transfer Office
Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

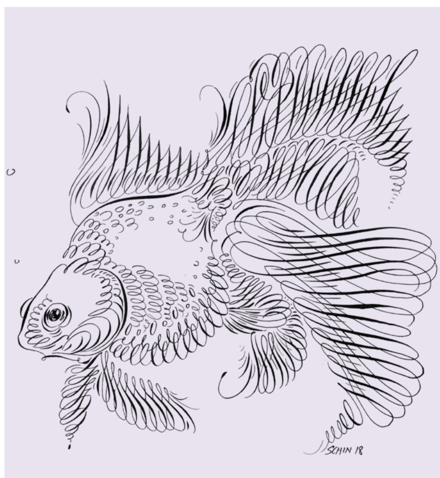
Principal Banks
Abbey National Treasury Services PLC
4th Floor Santander House
100 Ludgate Hill
London EC4M 7RE

Bank of America Corporation
100 Federal Street
Boston MA 02110 USA

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

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

Company Registration Number
FC0 13814



The Old Brewery
6 Blundell Street
London N7 9BH
United Kingdom

Tel: +44 (0)20 7700 6700
Fax: +44 (0)20 7700 8066
Email: info@quarto.com