THE QUARTO GROUP

Annual Report 2021

2021 Highlights

Crystals
80,000 units sold

ABC What Can She Be?
57,000 units sold

Color Me: Who's in the Ocean
22,000 units sold

In Focus Series
514,000 units sold

Magic Series
300,000 units sold

The First-Time Gardener: Growing Vegetables
44,000 units sold

Squishy Human Body
296,000 units sold

LPBD: David Attenborough
87,000 units sold

RHS Diary 2022
29,000 units sold

The Story Orchestra: The Nutcracker
45,000 units sold

Spectacular Spreads
60,000 units sold

LPBD: Captain Tom Moore
44,000 units sold

Food-x-Fire
24,000 units sold

In the Car
28,000 units sold

Baby Young, Gifted, and Black: With a Mirror!
31,000 units sold

The Art of NASA
20,000 units sold

Tiny Baking!
67,000 units sold

This Book Is Anti-Racist
103,000 units sold

Timeless Classics
75,000 units sold

Beautiful Boards
240,000 units sold

The Ultimate Guide to Tarot
23,000 units sold

Wake Me Up When It's All Over...
24,000 units sold

The Complete Language of Flowers
21,000 units sold

Zenned Out Series
88,000 units sold

Be Calm and Color
54,000 units sold

National Parks of the U.S.A.
42,000 units sold

LPBD: Stephen Hawking
50,000 units sold

Contents

Highlights

FINANCIAL

"Continued strong performance across all areas of the business, with enhanced profitability and cash generation"

REVENUE ($M)

2021	151.5
2020	126.9

ADJUSTED[1] OPERATING PROFIT ($M)

2021	16.0
2020	10.6

EBITDA ($M)

2021	17.8
2020	13.0

PROFIT BEFORE TAX ($M)

2021	14.2
2020	6.6

ADJUSTED[1] BASIC EARNINGS PER SHARE (CENTS)

2021	24.3
2020	14.1

BASIC EARNINGS PER SHARE (CENTS)

2021	24.3
2020	11.7

OPERATIONAL

- Successful completion of 2018 turnaround plan against continuing backdrop of Covid pandemic
- Clear focus on maximising the Group's core strengths, retaining a disciplined business model, further debt reduction and developing future growth opportunities
- Increase in Adjusted Operating Profit of 51% driven by improved trading and tight cost control
- Profit Before Tax up 115% at $14.2m with interest charges down $0.9m
- Revenue of custom channel of $10.7m, up 80% year on year
- Net debt down 72% at $5.5m[2]
- Banking facilities extended in February 2021 to 16 July 2024
- "Beautiful Boards: 50 Amazing Snack Boards for Any Occasion" by Maegan Brown was #1 bestselling cookbook on Amazon during 2021
- Launch of Ivy Kids being the most environmentally friendly publishing initiative in the market, Highly Commended in the Sustainability category at the Future Book Awards
- Launch of Happy Yak featuring playful, mass-market children's books
- Rockport Publishers, an art and design imprint, has partnered with Saturday AM to publish collections of manga-inspired webcomics that feature diversity and inclusion through the BIPOC and LGBTQ+ characters

1 Adjusted measures are stated before amortization of acquired intangible assets and exceptional items. Management believes this is a better reflection of our trading performance.
2 Net debt excludes lease liabilities relating to right of use assets (IFRS16).

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

GLOBAL CREATIVE AND SALES FORCE IN GROWTH SEGMENTS

- Far-reaching global sales platform
- Over 100 sales and marketing professionals and representatives

DE-LEVERAGED BALANCE SHEET WITH STRONG CASHFLOW

- Net bank cash of $21.7m
- Strong free cash flow from operations of $17.3m

TREASURE TROVE OF IP GENERATES STEADY INCOME

- c. 15,000 backlist titles generating steady sales
- Focused effort to 're-mint' backlist contents

ENABLED BY TECHNOLOGY AND DATA ANALYTICS

- Continuous efficiency improvement from IT modernization and automation
- AI platform to aid decision making

c. 15,000
TITLES IN OUR CATALOG

c. 304
TALENTED EMPLOYEES IN 7 OFFICES (UK, US & CHINA)

c. 619
INTERNATIONAL PUBLISHING PARTNERS

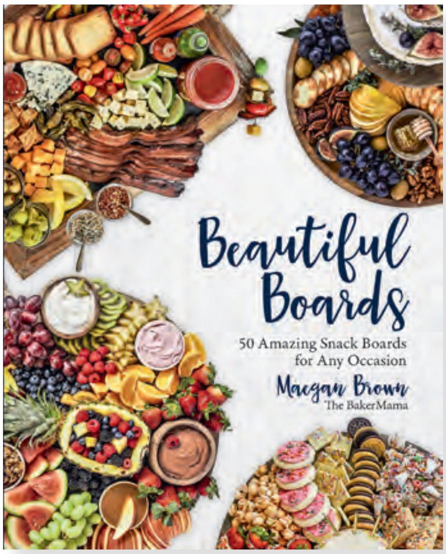
c. $20.2m
ANNUAL INTELLECTUAL PROPERTY INVESTMENT

Over 50
COUNTRY MARKETS THAT WE SELL INTO

c. 58%
OF ANNUAL SALES FROM BACKLIST TITLES

Sales Magic

Onboarding a trend-blazing bestseller … from Beautiful to Spectacular



Charcuterie has become so popular that Instagram influencers are quitting their jobs to design colorful charcuterie boards full-time. Experts attribute the popularity of handcrafting eye catching boards to a few things. One of the main factors being that putting together photogenic charcuterie boards brings together craft and food cultures, making for a satisfying DIY experience.

Maegan Brown, charcuterie mastermind and creator behind The BakerMama, a popular cooking and lifestyle blog based in Dallas, Texas, teamed up with our Rock Point team to create a book with 50 delicious and family-friendly charcuterie recipes. With her easy-to recreate snack boards, Brown's inspiring recipes make mealtimes and holidays extra memorable. This mom of four, wife, and successful business owner mixes her creativity, love for family, and inspiration to create pieces of artwork with her food. She says, "I want to inspire people to make these recipes for—and with—their own families."

Visually exciting and enticing, Brown's snack boards move beyond classic cheese and charcuterie and are comprised of easy-to-find fresh and prepared foods, arranged in beautiful, artful, and whimsical ways. *Beautiful Boards* will have you spending less time in the kitchen and more time having fun.

This amazing book has been a breakout title since its publication in September 2019 and has surpassed 330,000 in unit sales in its original trade edition. Jana Koch, Sales Director of Gift and Specialty commented, "*Boards* did several very important things: win over our sales reps and win over our customers, which in turn won us new business in so many new and diverse accounts."

Amazon and their customers alike also have embraced *Beautiful Boards* since its publication. Mary Aarons, our Sales Director, Amazon Global and Sales Operations commented, "It launched strong and has quickly become one of our evergreen backlist titles. In 2021, it was our #1 bestselling

title on Amazon, representing 4.17% of all units sold." At various times since publication, it has been one \of the top 100 book titles on the entire Amazon site. It's made their Movers & Shakers list numerous times and has been a top ten cookbook bestseller (ahead of a lot of celebrity and foodie names) several times as well.

Our publicity department has gotten stellar press for this title including from *The New York Times*, *Better Homes & Garden*, the *Huffington Post*, *Eating Well*, *The Kitchn*, *Parents* magazine and many more.

The magic of this title is that even in a crowded market, the Quarto creative team published a book that rose above the competition and has become a staple for the incredible work our powerhouse sales and marketing teams do. Our sales and marketing teams work diligently to make this book a breakout bestseller across all sales channels. I am so proud to be a part of this synergistic group that illustrates what can happen when creative, marketing, and sales teams at the top of their game have been able to accomplish.

The story does not stop with *Beautiful Boards*, we have gone from *Beautiful to Spectacular!* Building on our success with *Beautiful Boards*, we created *Spectacular Spreads*, which having sold more than 60,000 copies in its first six months, shows that the magic continues.

Rage Kindelsperger
VP, Group Publishing Director

Chairman's Statement

"A strong performance following successful completion of the turnaround plan."

Andy Cumming
Chairman

Against the continuing backdrop of the Covid pandemic, the turnaround plan initiated in 2018 has been successfully completed – this represents a major achievement for the Group.

In 2021 the Board has maintained a clear focus on:

- maximizing the Group's core strengths
- retaining a disciplined business model
- further debt reduction
- developing future growth opportunities

During 2021 the financial performance of the Group was considerably ahead of expectations and the position in relation to bank debt was significantly improved following the successful negotiation of a new US$20m facility provided by two supportive banks. In addition, the Group continued to benefit from the support provided by the shareholders 1010 Printing Limited and C.K. Lau who agreed to extend their existing US$13m unsecured and subordinated loans to the Group, with 1010 Printing Limited also providing a further US$10m loan.

The Board's vision remains for the Group to become the dominant publisher of illustrated books worldwide and to expand on the use of the Group's intellectual property in as many ways as possible. The Board also remains focused on a product offering which brings the highest values to consumers and on operating an efficient operating company which excels at the delivery of quality content in a cost effective way.

In reviewing 2021, I can only reiterate my previous comments that Quarto is a great business with great people and great products. The resilience and performance of the business have been outstanding and I have been hugely impressed by the creative energy, dedication and commitment of the staff. I am very proud to act as Chairman of Quarto and look forward with enthusiasm to the ongoing development of the business.

Dividend

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

Corporate Governance

In July 2021, Polly Powell decided to step down as Group CEO, with C.K. Lau stepping in as interim CEO while a search exercise was undertaken. In November 2021, I was delighted to announce that the highly respected publisher, Alison Goff, had been appointed as Group CEO.

In June 2021, it was announced that Ken Fund, Chief Operating Officer, Chief Executive Officer Quarto US, intended to retire in December 2021 after outstanding service with Quarto over many years. I am delighted that he has subsequently agreed to remain on the Board as a Non-Executive Director and we are therefore able to continue to benefit from his considerable experience.

Quarto and its talented staff have performed exceptionally well during the last two years, and I take this opportunity to express my gratitude to everyone for their significant contribution towards placing the company in such a strong position.

Andy Cumming
Chairman
17 March 2022

Group Chief Executive Officer's Statement

"A year of many challenges across the globe but one in which books have been valued as a source of information and entertainment. Our varied catalogue provides both of these to children and adults alike."

Alison Goff
Group Chief Executive Officer

Introduction

I joined Quarto at the beginning of January 2022 and am looking forward to steering the company through the next phase of growth. I am pleased to be writing to summarise the results of a year in which there have been extraordinary challenges but also some outstanding performance and overall we have delivered strong results. The whole team at Quarto worked incredibly hard during 2021 to mitigate the impact of the huge challenges across the world and I am very grateful to them for their diligence and perseverance.

Business Review

During 2021 the business was faced with multiple lockdowns in various countries around the world but, even when physical bookstores were closed, consumer support for books remained strong and they continued to source books from on-line retailers and, through the grocery sector which remained open. Children's books, and practical titles which support hobby interests, performed particularly well which favored the products Quarto produces.

The company ended the year with sales of \$151.5m which was ahead of the prior year by 19% (2020: \$126.9m); adjusted operating profit increased by 51% to \$16.0m (2020: \$10.6m); profit before tax increased to \$14.2m (2020: \$6.6m) and the strength of the balance sheet improved to \$53.2m (2020: \$43.7m). The group ended the year with net debt down 72.8% at \$5.5m (2020: \$19.7m). Results were driven by improved trading and reduced finance costs.

The balance of our business remains broadly 63% of revenue being derived from adult titles and 37% from children's. New books accounted for 42% of total sales and the backlist continues to deliver strong sales delivering 58% of our revenue.

Our most valuable series Little People Big Dreams continues to perform well accounting for over \$10m revenue in the year and having now sold over 7 million copies worldwide in all formats. We have also now acquired the foreign language rights to this series and are successfully selling these around the world. These foreign language sales delivered \$1.5m revenue in 2021 and are expected to continue to grow in the coming year. The standout title in the year was David Attenborough which sold over 87,000 copies in the UK.

Other significant series include The Story Orchestra, \$2.5m revenue, and Creative Keepsakes which accounted for over \$2m in the year.

Stand-out performance in the year also came from the continued strong sell-on of Beautiful Boards and the new companion title by the same author Spectacular Spreads.

Publishing

Quarto's publishing remains focussed on its key categories: Cookery, Home and Garden, Art and Craft, Children's, Reference and Wellbeing. These sectors remain strong internationally and our extensive backlist continues to offer opportunities for repurposing content to create new products from owned IP.

CHIEF EXECUTIVE OFFICER'S STATEMENT (continued)

During 2021 our key actions were:

- The launch of Ivy Kids which is the most environmentally friendly publishing initiative in the market today and has already been recognised as Highly Commended in the Sustainability category at the Future Book Awards
- The launch of Happy Yak featuring playful, mass-market children's books
- The relaunch of the adult list Aurum as a narrative non-fiction imprint. This list is building and has already published 2 titles which are currently being made into major movies (Thirteen Lessons that saved Thirteen Lives – The Thai cave rescue). As this list grows it will feed our ebook and audiobook programme.
- Frances Lincoln Children's Books remains focussed on producing top-quality award-winning titles
- We targeted growth from the value and discount channel. This sector has the added benefit of being non-returnable, direct from the printer sales and delivered $26m revenue in the year up 66% on the prior year.
- We restructured our US trade imprints and reorganized them under two creative hubs in New York and Beverly, Massachusetts. Becker & Mayer the imprint that produced licensed books for third parties, will now work closely with our New York group to publish its own titles. The imprints Motorbooks and Walter Foster are now part of the Beverly group.
- Rockport Publishers, an art and design imprint, has partnered with Saturday AM to publish collections of manga-inspired webcomics that feature diversity and inclusion through the BIPOC and LGBTQ+ characters.
- SmartLab Toys introduced six new products that encourage children to develop interest in STEM. One of the new items, Ultimate Squishy Human Body, has won the 2022 CES Editor's Choice Award.

Sales Performance

The sales teams continued to maximise every opportunity pivoting their efforts towards whichever sectors of the market were open and trading. We sought out new accounts and opened 157 new accounts in the UK market alone. We worked with customers all around the world to maintain a strong book offering in their stores and when supply chain issues delayed new titles, we focussed on selling the inventory we had on hand.

- The UK sales team topped $23m for the first time, for English language trade sales in the UK and internationally. Foreign co-edition sales grew 9% over 2020 with a stand out performance by French language sales which were up 40%.
- Despite the extensive lockdowns in ANZ sales achieved through our partner Allen & Unwin, remained level.
- Export sales were up over 40% particularly driven by Frances Lincoln Children's Books which saw growth of 84%.

IT Infrastructure

During the year we worked to create tools to help increase productivity in our editorial departments. This included building a new application which allows our custom and proprietary publishing teams to access content more quickly from our vast backlist. This has paid dividends as we saw significant growth in that area.

We saw continued improvement as we began fully realizing the benefits of our investment in digital transformation, including print procurement, logistics, and data mining which brought significant savings to the bottom line while introducing new efficiencies throughout the organization.

Top 10 Adult Titles

Beautiful Boards
Spectacular Spreads
Witchcraft
First-Time Gardener: Growing Vegetables
All New Square Foot Gardening
Crystals
Art of NASA
The Encyclopedia of Crystals
The Bucket List
The Modern Tarot Reader

Top 10 Kids Titles

Squishy Human Body
This Book Is Anti-Racist
Tiny Baking!
National Parks of the USA
David Attenborough
Smart Circuits: Electronics Lab
Archi-TECH Electronic Smart House 2020
Story Orchestra: The Nutcracker
ABC for Me: ABC What Can She Be?
Pokemon Primers: ABC
50 States

Supply Chain Challenges

There were persistent disruptions to the supply chain throughout 2021 and significant cost increases with the price of container shipping peaking at 5x the normal rate. Paper shortages, manufacturing cost increases, labor disruptions caused by Covid-19, container scarcity and port delays, led to a 2.4% increase in manufacturing and shipping costs. Some of these additional costs impacted the Income Statement immediately, whilst some flowed into inventory which will affect the forthcoming year. Supply chain delays caused extensive rescheduling of new product release dates but despite these we maintained healthy inventory turnover rates consistent with 2019 and 2020. The key challenge in the coming year will be rising freight costs which will put significant pressure on our margins and we expect paper and capacity issues to persist.

Covid-19

The Quarto team have adapted well to a blended working model which is our vision of the future workplace. We have seen a benefit in flexibility and how and where our teams are able to work and adoption of digital workflows has improved efficiency. Our offices remain open for staff who choose to come in when government guidelines allow. During 2022 we expect to see a slow return to office-based working which remains vital for creative collaboration, team building and staff morale.

Acquisitions

Quarto has built its business through organic growth and smart publishing but also by acquiring other publishing businesses. We will continue to look for such opportunities in the non-fiction sector of the market particularly where they can be leveraged across our existing operations and provide a good fit alongside our existing lists.

Outlook

Quarto is in a good financial position and has a strong list of new titles for publication in 2022. The sizeable backlist continues to perform well and we are confident in our sales teams ability to navigate the changing market. The volatile state of the shipping market will continue to present challenges and we expect that this will have a significant increase in shipping costs.

A key focus in 2022 is to bring increased focus to our people culture and work on attracting and retaining high calibre staff for the long-term health of the business. We will also explore sectors of the market in which we are not operating where I see opportunities for growth. We remain focussed on delivering a sustainable, profitable business for the future.

Alison Goff
17 March 2022

Divisional Review

US Publishing

US Publishing performed strongly and the adjusted operating profit was up 213% to $10.0m (2020: $3.2m) due to a combination of factors:

- A strong bounce back following the disruption due to Covid-19, with total revenue increasing by 28% from $63.1m to $81.1m. Strong sales in titles such as Squishy Human Body and Beautiful Boards were the foundation of this growth, with gardening titles also performing well.
- Despite the challenges due to supply chain issues, Trade margin remained consistent with 2020, although we saw some weakness in our co-edition margins.
- We continued to control our overheads, with costs being broadly flat.

UK Publishing

UK Publishing performed well, despite adjusted operating profit being down 17% to $7.0m (2020: $8.4m) largely due to a reduction in the gross profit margin. There was an increased impairment charge and the margins in our co-edition business were down across the board.

Total revenue increased by 11% from $63.7m to $70.4m with the continued success of This Book is Anti-Racist & our best-selling Little People Big Dreams series with revenue over $10m.

Gross Trade margin improved despite the issues with the supply chain, however similarly to the US, we saw some weakness in our co-edition margins.

Gross Trade margin improved despite the issues with the supply chain.

Overhead costs were broadly flat.

Group Overhead

Group overhead, or corporate costs, were flat.

Adjusted Operating Profit ($m)	2021	2020
US Publishing	10.0	3.2
UK Publishing	7.0	8.4
Group overhead	(1.0)	(1.0)
Total adjusted operating profit	**16.0**	**10.6**
Amortization of acquired intangible assets	–	(0.9)
Exceptional items	–	(0.4)
Operating profit	**16.0**	**9.3**

Market Overview

UK & International Trade Sales
In the UK, the outlook for the coming year is cautiously optimistic. Trading through online channels will continue to underpin the overall revenue in the UK. However, the continued loosening of restrictions will see the rejuvenation of trading through physical shops across trade, specialty, and cultural institutions. Challenges posed by a stressed supply chain, inflation, and a very competitive retail landscape will affect all channels but will have a disproportionate effect on physical retail as consumers will be driven to online buying for significant discounts not offered by traditional retail.

Sales for English language books across EMEA, Asia, and ANZ will remain strong, particularly children's publishing, but on-going supply chain issues, inflation and regional political disruptions have to be taken into consideration. Measures to mitigate these risks on a region-by-region basis will need to be employed. Pivoting our sales efforts accordingly will be essential.

Online Retail
Online is anticipated to track slightly behind Q1 LY due to reduced demand compared to the lockdown at the beginning of 2021. Demand for our new releases however remains strong while the backlist demand has returned to pre-pandemic levels. We continue to monitor inventory levels at Amazon and have plans to minimise returns and increase sell through. Inflation is set to affect consumer confidence and habits in 2022. This could result in increased demand with online (discount) retailers such as Amazon. In summary, softer trading is anticipated in H1 but the outlook for H2 and in particular Q4 is a return to YOY growth.

Digital is another growth channel for Quarto in 2022. We are in a strong position to capitalise on increased demand in ebooks and audio as we launch our audio programs.

Physical Retail
A vital part of the retail eco-system, physical retail is key both in direct sales of our books and indirect sales through showcasing our titles. Major chain booksellers and other key High Street retailers are continuing to feel huge pressure from online competition, inflation, and business rates. Enticing consumers to come back by offering a safe and exciting in-store experience is essential.   Strong brands and exciting merchandise mixes of our books create a strong retail story and help drive revenue. Targeted campaigns will help drive and will enhance the success of our books at retail. Supermarkets and mass retail outlets are signalling a reduction in space for books. This will be a major challenge for us in the coming year as they will focus more on major brand authors and titles with proven success.

Specialty Retail
New business development in both physical and online specialty retail is our major focus this year. Subscription boxes, specialist children's accounts and major specialty chains are key targets for us as we reach for significant growth in this area.

US Trade Sales
A generally positive outlook for bookstores as retail continues to open up and the public resumes shopping. Chain stores are able to move forward with product mix plans they had put in place prior the pandemic hitting so we expect to see concentration on non-fiction sections as stores prepare merchandising efforts that speak directly to their regions and customers. Anticipating low returns in this space as the focus continues on lower initials with strong, immediate reorders for titles that prove to be selling through. This aligns with our strategy to focus on key categories and timelines throughout the year to maximize consumer interest and relevance.

Online
Online continues to be a strong avenue and revenue driver as we explore more ways to maximize key properties and emerging trends. Consumers are ever comfortable with online shopping, and we anticipate this to continue to be a strong avenue as legacy brands and key categories benefit from a robust concentration on our part to maximize our titles in an interesting, informative, lifestyle aspect through online presence in both national online accounts and smaller online retailer arms that grew out of necessity during lockdowns.

Special Markets
Our focus will be to drive sales in retail locations outside of tradition bookstores as we continue partnerships with national chains and concentrate on building brands with key partners in premium sales as well as niche subcategories. Subscription boxes continue to be a popular purchasing platform. Tremendous growth in 2021 is proving to be a stable environment in 2022.

Foreign Rights Sales
During lockdowns around the world adult practical stay-at-home titles and educational titles for children continued to sell widely and reprint. What we have also seen is the appetite for more expensive books has come back. We expect this to translate into sales of adult reference titles and gift packages, as well as of our upmarket children's novelty titles and upmarket gift titles. Our children's franchises Little People Big Dreams, Story Orchestra and Shine a Light should also keep performing well.

The Dutch and Nordic markets, where sales had slowed down during the pandemic, show signs of recovery for 2022; Asia, Southern markets, and German language sales, after good performances in 2020-2021 we expect to remain stable; finally, French language and countries of the Central and Eastern European region, are expected to perform strongly.

High material and transport costs combined with longer production times will persist, putting pressure on margin and the supply chain, but a continued strong backlist performance and the renewed demand for higher retail products provide balance against these headwinds and support a generally positive outlook for foreign revenue.

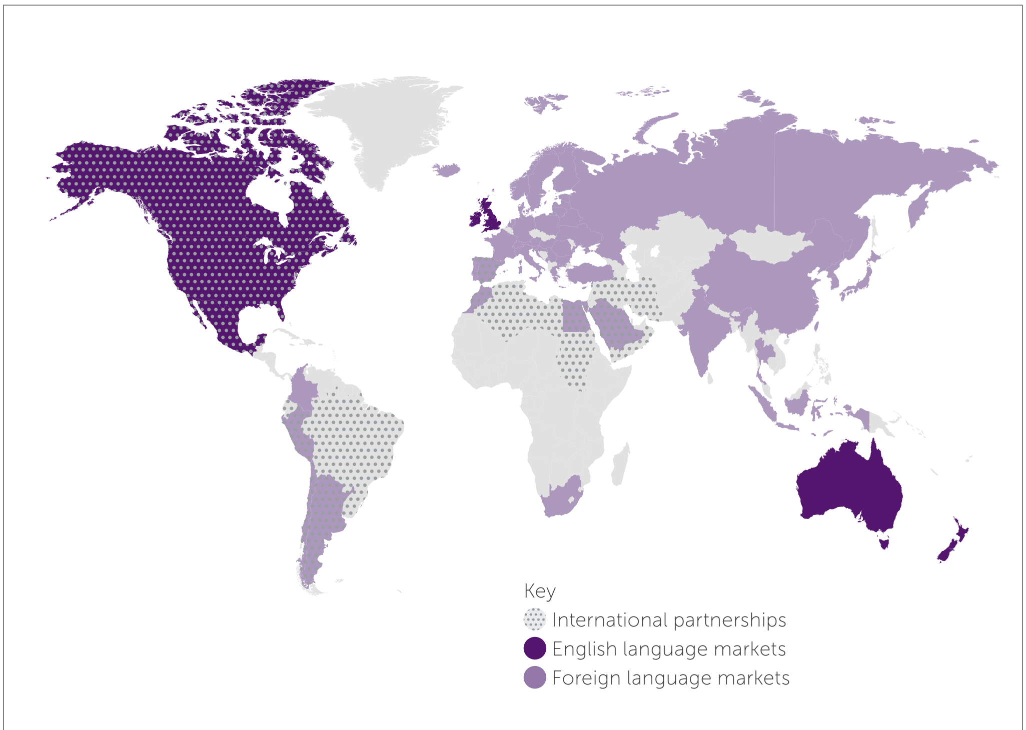
One Content, Multiple Channels

UNMATCHED SALES COVERAGE TO MAXIMIZING THE POTENTIAL OF OUR CONTENTS

TRADE SALES	The Quarto Group	CO-EDITION & CUSTOM SALES
US Trade		English Language Co-Edition
UK & EU Trade		Foreign Rights & Co-Edition
Int'l Trade		Custom Sales

Global Sales Coverage

SERVED BY OVER 100 SALES AND MARKETING PROFESSIONALS AND REPRESENTATIVES



QUARTO OFFICES

USA
SEATTLE
CALIFORNIA
BOSTON
NEW YORK

UK
LONDON
BRIGHTON

CHINA
HONG KONG

Financial Review

"Profit before tax increased by 115% to $14.2 million (2020: $6.6 million)."

Daniel Logan
Group Finance Director

Group Results

Revenue was $151.5m, an increase of 19%, compared to 2020 ($126.9m). Adjusted operating profit was up at $16.0m (2020: $10.6m) and represented 10.5% (2020: 8.4%) of revenue. Diluted earnings per share increase to 25.2c (2020: 11.6c). Two of our titles exceeded 1% of Group revenue, with Squishy Human Body being the top revenue earner for the third year in a row. The following titles were our top ten sellers in 2021, with their respective revenue and year of publication:

Squishy Human Body (2006)	$2,865,819
Beautiful Boards (2019)	$2,547,101
Spectacular Spreads (2021)	$694,825
This Book Is Anti-Racist (2019)	$679,442
Tiny Baking! (2019)	$585,204
Witchcraft (2016)	$579,798
National Parks of the USA (2018)	$550,879
David Attenborough (2020)	$530,475
First-Time Gardener: Growing Vegetables (2020)	$526,877
Smart Circuits: Electronics Lab (2016)	$515,141

US Publishing

Revenue for this segment was up 28% at $81.1m (2020: 63.1m). Operating profit before amortization of acquired intangibles and exceptional items ("adjusted operating profit") was up 215% at $10.0m (2020: $3.2m). We achieved an adjusted operating profit margin of 12% (2020: 5.1%).

UK Publishing

Revenue for this segment was up 11% at $70.4m (2020: $63.7m). Adjusted operating profit was down 17% at $7.0m (2020: $8.4m). We achieved an adjusted operating profit margin of 9.9% (2020: 13.1%).

Corporate costs

Corporate costs were flat.

Exceptional Items

No exceptional items were incurred in 2021.

Exceptional items in 2020, comprised banking and refinancing costs of $195,000, and $251,000 arising from the cost reduction program implemented to address the impact of Covid-19.

Finance costs

Finance costs were $1.8m (2020: $2.7m). The reduction was attributable to reduction in bank debt due to strong cash generation.

Tax

The tax charge for the year was $4.2m (2020: $2.0m).

Balance Sheet

The Group's net assets increased to $53.2m from $43.7m, driven by the trading performance during the year. The most significant change in the balance sheet related to Intangible Assets - Pre-publication costs, reducing from $40.9m to $29.9m. This is due to the amortization and impairment charge being greater than the amount being spent on the new publishing programs, which have become more focussed under the Group's current management teams. In February 2021 we extended our banking facilities to 16 July 2024.

Cash Flow and Indebtedness

At the year end, our net debt was $5.5m[1], a reduction of 72%, compared to 2020, when it was $19.7m[1]. Free cash flow remained strong at $17.3m, up 5% compared to 2020, when it was $16.4m.

1. Included in the debt of $5.5m (2021) & $19.7m (2020) is a loan of $2.4m relating to government support given under the Coronavirus Aid, Relief and Economic Security Act of the USA. Without reasonable assurance of forgiveness, it has been treated as debt to be repaid within 12 months. See notes 17 and 22. Net debt excludes lease liabilities relating to right of use assets (IFRS 16).

Shareholder Return

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

Principal Risks and Uncertainties

Details of the Group's principal risks and uncertainties are set out on pages 19 to 21.

FINANCIAL REVIEW (continued)

Viability Statement

In accordance with Provision 31 of the 2018 revision of the UK Corporate Governance Code, the Directors assessed the prospects of the Group over both a going concern period to 31 March 2023 and a viability period to 31 December 2024. The going concern period has a greater level of certainty and was therefore, used to set budgets for all our businesses which culminated in the approval of a Group budget by the Board. The Directors have determined that the three-year period is an appropriate term over which to provide its viability statement, being aligned with both the publishing program cycle and the 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 2024, which comprise a detailed cash forecast for the period ending 31 December 2022 based on the budget for that year and standard growth assumptions for revenue and costs for the years ending 31 December 2023 and 2024. This is to satisfy themselves of the going concern assumption used in preparing the financial statements and the Group's viability over a three-year period ending on 31 December 2024. As part of this work, the model was sensitized initially by a 5% reduction in revenue to ensure headroom within the covenants. This is deemed as a plausible scenario, given in 2020 revenue only dropped 7% year on year, even with the challenge of Covid. Management performed a reverse stress test to assess the point in which the banking covenants were breached. This occurred at a reduction in revenue of 9%. It is considered unlikely that such a reduction of revenue would occur, given, the performance in 2021 and against the backdrop of a 7% revenue drop in 2020.

In February 2021, the Group renewed its bank facilities, retiring the current syndicate. The new facility runs until July 2024. Management do not foresee this creating any issues with regards to repayment of the loans or longer-term viability of the Company. In the 3 year model we have shown that the business is profitable and therefore capable of repaying the bank loans as per the facility agreements. We continue to receive support from the banks. In carrying out their analysis of viability, the Directors took account of the Group's projected profits and cash flows and its new banking facilities and covenants.

In addition to the agreement to the new facility, 1010 Printing Limited (a subsidiary of the Lion Rock Group Limited) and C.K. Lau agreed to extend the original $13m unsecured and subordinated loans to the Group, which were entered into on 31 October 2018, on identical terms to those originally entered into and on normal commercial terms. Furthermore, 1010 Printing Limited agreed to provide a further $10m unsecured and subordinated loan to the Company on normal commercial terms. These unsecured and subordinated loans are repayable by 31 August 2024. Management do not foresee this creating any issues with regards to repayment of the loans or longer-term viability of the Company. In the 3 year model we have shown that the business is profitable and therefore capable of repaying the subordinated loans as per the agreements. The model also allows for the repayment of the $13m subordinated loan and interest, and $2m of the second subordinated loan. Approval for these specific subordinated loan repayments was agreed by the banks and payment was made in Q1 2022. We continue to receive support from 1010 Printing Limited.

The Directors also took account of the principal risks and uncertainties facing the business referred to on pages 19 to 21. The review focused on the occurrence of severe but plausible scenarios in respect of the principal risks and considered the potential of these scenarios to threaten viability.

The key principal risk that the business faces is a downturn caused by a global recession. The financial impact of this downturn has been quantified to illustrate the Group's ability to manage the impact on liquidity and covenants, with sensitivity analysis on the key revenue growth assumptions and the effectiveness of available mitigating actions. In considering this analysis, the Directors took account of the mitigating actions that had been previously taken. These actions included reductions in investment in pre-publication costs, print volumes, staffing levels and other variable costs.

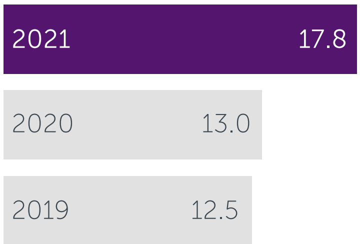
Based on the above indications, after taking into account the downside scenario projections, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation and meet its liabilities throughout the viability period to 31 December 2024.

Daniel Logan
Group Finance Director
17 March 2022

Our Key Performance Indicators

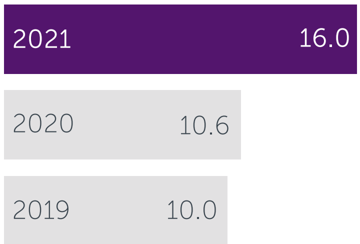
Our strategy is to grow our revenue and margins by leveraging our size, scale and reach as the leading global illustrated book publisher, to build a business with sustainable growth in earnings per share while also managing our net debt.

EBITDA ($M)[2]



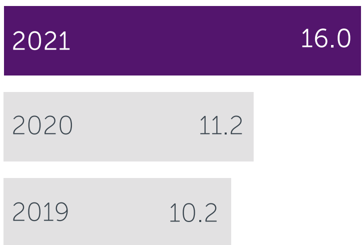
EBITDA is used to measure the operational performance of the Group and is used for banking purposes. EBITDA up 37% due to improved trading & tight cost control.

ADJUSTED[1] OPERATING PROFIT ($M)[2]



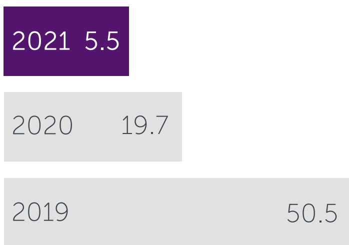
Adjusted operating profit is used to show our operational performance. This is a key measure for management and is noted in the financial review on page 12.

RETURN ON NET OPERATING ASSETS (%)[4]



The Board uses this ratio to evaluate the long-term financial health of the Group. Improved return on Operating Assets driven by increased profitability.

NET DEBT ($M)[2]



Net debt is used as a measure as it has been a strategic goal to reduce our debt. Our net debt has reduced by 72% in 2021.

ADJUSTED[1] DILUTED EARNINGS PER SHARE (CENTS)[3]

2021	24.3
2020	14.1
2019	18.8

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

Improved profitability has increased the EPS by 72%.

BACKLIST % OF SALES

2021	58.0
2020	60.0
2019	55.0

Backlist is measured as a performance of our intellectual property.

Backlist sales as a percentage of revenue are returning towards the level prior to the disruption of Covid-19.

INVENTORY % OF REVENUE (%)

2021	13.5
2020	12.2
2019	14.3

This is a measure of our inventory value as a proportion of revenue.

With the increase in inventory costs and the need to mitigate the supply chain issues, our inventory value has increased.

INTELLECTUAL PROPERTY DEVELOPMENT SPEND ($M)

2021	20.2
2020	20.3
2019	23.8

This shows our investment in new titles against frontlist revenue. See note 15 of the financial statements on page 76.

CHILDREN'S PUBLISHING REVENUE ($M)

2021	55.5
2020	49.3
2019	49.8

Children's publishing revenue represents 37% of Group revenue, down 2% from 2020.

RETURN OF FRONTLIST INVESTMENT

2021	3.13
2020	2.13
2019	2.36

Return on investment is the ratio of frontlist revenue generated from investment in frontlist Intellectual Property. Our frontlist return has increased 47% year on year, with tighter cost control of the publishing program along with an increase in revenue.

1 Adjusted measure are stated before amortization of acquired intangible assets and exceptional items
2 See note 29
3 See note 9
4 Operating profit before amortization of acquired intangibles & exceptional costs over Group net assets plus unallocated net liabilities from operating segment

Our People

Quarto employs c. 304 people across 6 locations in the UK and the US, and utilizes a network of creative contributors and freelancers. We operate in a competitive international marketplace 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 organization.

Our Values

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

We will not discriminate on the basis of 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.

The Diversity Committee formed in 2020 continued in 2021 becoming the Diversity and Inclusion Committee to take forward initiatives that will ensure the culture at Quarto is equitable and inclusive. During 2021, the Committee engaged staff with social events encouraging cultural appreciation and inclusion; worked with Awakening Minds consultancy to offer anti-racist training; and has a strong program of activity to create awareness for diversity and inclusion issues throughout 2022. Additionally, the Committee will measure staff ethnicity and disability status in 2022.

The Company acted quickly to protect its employees and contractors when the extent of Covid-19 spread became clear closing its offices from March 2020 and allowing teams to work from home, a situation which continued during 2021. In late 2021, offices were opened to allow staff who needed to access resources to work from offices taking the appropriate care to reduce occupancy at any given time and so maintain distancing protocols and adhering to government guidelines. This hybrid approach has continued in 2022.

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 2021, the breakdown of directors, senior managers and employees was:

	Male	Female
Directors	4	2
Senior managers	7	8
All employees	64	230

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. In 2022 the Company will review its practices in relation to its TCFD obligations (see page 43).

Supporting communities

Quarto launched the Quarto Foundation in 2017 as a means for our people to support local charities. The disruption of the Covid-19 pandemic has reduced the activities of The Quarto Foundation. Quarto continued its association in the US with Humble Bundle which sells ebook bundles online and donates a portion of the proceeds to charities. Bundles in which Quarto participated generated donations of $245,000 in 2021 (of which Quarto's contribution was $137,031). Throughout the year, Quarto made book donations to libraries and schools, and in the UK donated 3,000 copies of This Book is Anti-Racist to schools and libraries in support of Black History Month.

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:

- Our first choice in printing is to always use sustainable paper when available. Most of our books are printed on Forest Stewardship Council (FSC) paper supplies, or, for domestic US printing, we use Sustainable Forestry Initiative (SFI) paper when available. Most of our products are produced with sustainable-sourced materials although due to worldwide paper shortages, this level declined compared to 2020. In 2021, we estimate about 66% of books were 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 and SEDEX Care protocols.
- Office requirements are reviewed routinely and from Q1 2021, the Company's UK office footage reduced by 13%.
- 2021 saw the launch of a new children's imprint whose books will be manufactured in local markets using recycled paper and with carbon-offsetting against manufacturing emissions.

Section 172 Statement

The Directors promote the success of the Company by giving due care and attention to the following elements:

(A) LIKELY CONSEQUENCES OF DECISIONS IN THE LONG TERM

The Board's vision for the Group is to become the dominant publisher of illustrated print books worldwide and to expand on the use of the Group's intellectual property in as many ways as possible.

The Board recognizes that a coherent and viable strategy is required which (i) is nimble and responsive, (ii) is supported by a modern infrastructure, and (iii) allows the Group to grow its global reach. These are considerations which have long-term consequences, and so in executing its strategy for the Group it prioritises the greatest stability for its publishing imprints and employees with appropriate consideration for what is a challenging international marketplace.

In Q1 2021 the Company continued to reduce its indebtedness; the position in relation to bank debt has improved further with a new US$20m three year and five months bank facility.

(B) INTERESTS OF THE COMPANY'S EMPLOYEES

Quarto is a publishing company and having creative and motivated employees is essential. During the Covid-19 pandemic Quarto increased its effort to engage with its employees through online events and management briefings as it adjusted its activities during the pandemic. Andy Cumming, an independent non-executive director, is the designated employees' liaison as recommended by the Code.

The Company offers competitive market rates of remuneration and associated employment benefits. It reviewed the position in late 2021 and in January 2022 made appropriate adjustments. The Diversity Committee established in 2020 to promote workplace inclusiveness and diversity equitability continued in 2021, becoming the Diversity and Inclusion Committee (more details are given on page 16). Additionally, the Company encourages community interaction through the Quarto Foundation, established in 2017 (page 17 indicates some of the charitable work the Company has supported).

The adjustments the Company introduced to protect its employees and contractors during the Covid-19 pandemic continued during 2021. During this period, the Company encouraged contact between its employees both to manage workloads effectively; socially, including arranging online fitness sessions; and engaging employees on how to tackle the disruptions to normal business. The Company has complied with government guidelines and where offices have been opened (during late 2021) occupancy has been limited in order to maintain distancing protocols.

The Company invests in its people by providing them with tools, technology and training to meet the challenges of its market and the evolving needs of its customers. Quarto also involves employees in areas of strategy where possible.

(C) FOSTERING THE COMPANY'S BUSINESS RELATIONSHIPS WITH SUPPLIERS, CUSTOMERS AND OTHERS

The Company benefits from its association with Lion Rock which operates as one of Quarto's key suppliers enabling it to maintain a positive relationship with an essential supplier base; this connection also allows Quarto to print outside China and so provide a better service to US customers particularly sensitive to US tariffs.

The Board recognises the need to offer a flexible service to its customers, be that offering them outside-China printing, or customised publishing, as well as the need to cultivate suppliers of print-on-demand in order to manage the business efficiently and still fulfil customers' orders. By exploring all the technologies available, Quarto maximises its offer to its customers. Having realized the need for more flexible production times, and considering the delays we have experienced in the global supply chain in 2021, the Company has secured additional capacity in the domestic US printing market and is negotiating with printers in continental Europe to mitigate the supply chain disruptions.

Throughout the Covid-19 pandemic, the Company has worked hard to support its customers to ensure interruptions to product supply are minimised. It has also been able to pay its suppliers on time.

(D) IMPACT OF THE COMPANY'S OPERATIONS ON THE COMMUNITY AND THE ENVIRONMENT

The Company seeks to minimise its impact on the environment and during 2022 will review its operations in relation to TCFD requirements (see page 43). It takes advantage of schemes that promote green energy, such as in the UK where for its non-fully serviced offices the Company uses 100% green energy supplies; and when refitting its offices, it accommodates energy-saving elements (e.g. LED lighting). Energy used by its IT operations has reduced as the Company has adopted cloud-based services, and new equipment is increasingly energy-efficient. In the UK from Q1 2021 office space reduced by 13% reducing energy consumption. The Company adopts competent maintenance regimes for its office equipment so that efficient operation is maintained and energy consumption is minimized.

Quarto continues to publish socially responsible and inspiring titles such as the Little People Big Dreams series, The ABC Series, Greta and the Giants (endorsed by Greenpeace and 350.org), and This Book is Anti-Racist. We participated in charity events with Humble Bundle in the US and have helped them raise over $200,000 in 2020 and in 2021 Quarto's participation raised $137,031.

Through the Quarto Foundation, which is very much staff led, Quarto contributes to local causes.

By choosing accredited production schemes like ICTI and SEDEX, which include worker welfare assessments, Quarto ensures a minimum welfare standard in its principal supplier base.

Additionally, the Group prints predominantly on paper from sustainable sources. In Q1 2021, Quarto launched a new environmentally conscious children's imprint. The books are manufactured from recycled components, with additional carbon offsetting against production emissions, and will be printed in the markets where the books are sold.

(E) DESIRABILITY OF THE COMPANY MAINTAINING A REPUTATION FOR HIGH STANDARDS OF BUSINESS CONDUCT

The Board complies with the requirements of the UK's 2018 Code of Governance (as outlined on page 42). The Board is confident that it has the right composition to deliver its strategy to the benefit of its employees, customers, and shareholders.

The Board appraises its own performance in accordance with the Code and recognises the value of fair treatment of its suppliers, honouring its commitments, so that it can achieve a competitive, reliable and responsive supply chain that serves the needs of its customers. To this end, the Board routinely assesses the performance of its supply chain partners.

The Company has an established whistle-blowing policy and anti-bribery policy.

(F) NEED TO ACT FAIRLY AS BETWEEN MEMBERS OF THE COMPANY

The Company has a single class of common shares. 1010 Printing Limited, a company controlled by C.K. Lau, is a controlling shareholder (the current level of shareholding is shown on page 41). The Company and controlling shareholder parties entered into a relationship agreement to ensure that controlling shareholders do not exert improper influence over the Company, and in accordance with the Listing Rules. In 2020, the Company's by-laws were amended to complete the requirements of the Listing Rules in relation to controlling shareholders.

Risk Management, Principal Risks and Uncertainties

The 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 maintains a Risk Register which is reviewed, updated and approved at each meeting of the Audit and Risk Committee, and presented at each quarterly Board meeting for review; this means that the Register is reviewed, typically, as many as seven times a year.

The risk review conducted by the Board is broad ranging addressing each part of the Group's business and activities. For each risk identified its impact is rated, and mitigations are identified. In addition, risks to the business are monitored regularly by the Company's Group and divisional CEOs, so that emergent risks can be identified and escalated quickly, and mitigations enacted.

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 has identified the following 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, potentially as a result of the Covid-19 pandemic, inflationary pressures and the Ukrainian-Russian conflict, could reduce consumer discretionary spending, which might result in a reduction in profitability and operating cash flow. In addition, the UK's exit from the European Union and US-Sino relations (resulting in the introduction of tariffs in 2019) contributes to uncertainty in the economic environment.	The Group has adequate liquidity with up to $24.7m 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 spend on pre-publication costs, inventory printings and other discretionary Items. The Group offers non-Chinese printing for customers in order to avoid US tariffs on books. The Company's management information systems allow it to assess sales performance quickly and so take the appropriate steps to maximise operating performance. The Group has shown itself to be adaptable by quickly accommodating the changes necessary to its sales and marketing activities during the Covid-19 pandemic. The Group has a very limited exposure to the Russian and Ukrainian markets.
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.
Financial	The Group has a banking facility that requires it to operate within covenant limits.	In 2020 the Quarto progressed in its goal to reduce its debt when it completed an open offer to shareholders in January; the net proceeds of $17m were used to pay down bank debt. In 2021, a new three year and five months banking facility of $20m was secured, together with additional shareholder support. This has enabled the Company to repay the facility that existed at the year end and a competitive auction platform introduced during 2019 to procure printing services which is providing additional cost savings. In 2021 the Company reduced its office footprint to accommodate new working styles which will further reduce operating costs. Meanwhile the Group is pursuing its strategy of organic growth through innovation (as set out on page 9). Performance during 2021 allowed the Company to accelerate its debt reduction.

RISK MANAGEMENT, PRINCIPAL RISKS AND UNCERTAINTIES (continued)

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 to secure preferential terms or stopped doing business with the Group. The failure of a major customer, or a distributor, could impact revenue and profits. The impact of Covid-19 has moved sales online which has increased the Group's exposure to Amazon and has reduced sales to traditional retailers and bookstores. Until lock-downs are over and customer buying patterns are better understood, we can expect market disruption to continue and with that there is the risk that sales to traditional customers will fall.	The Group has a long-established strategy of diversifying its international customer base, including specialty retailers, resulting in the fact that with one exception no 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, and distributors, which may provide prior warning of likely failure. The Group continues to adapt to supporting online selling and continues to offer and promote e-book versions of its books.
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. Inefficiencies in product movement introduced by 'Brexit', the departure of the UK from the EU from 2021, could disrupt timely product movement into the UK. The Covid-19 pandemic has disrupted freight shipping causing severe delays and increasing shipping and freight costs significantly, a situation that is expected to continue during 2022.	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 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. The Company recognises the disruptions from freight shipping and will take a flexible holistic approach to its supply chain activities and will work closely with logistics suppliers and its network of onshore and offshore printers.
Coronavirus	The global spread of the coronavirus (Covid-19) is causing significant business interruption by infecting the Group's workforce; closing retail outlets and impacting orders and revenues; causing lockdowns altering customer buying patterns; and impairing the Group's supply chain adding cost and delaying fulfilment of orders.	Quarto monitors and follows government advice making the necessary adjustments in order to maintain the well-being of its employees. Quarto promotes hygienic practices in its offices and avoids unnecessary travel. The Group operates modern IT systems that permit remote working with the minimum of interruption and during Q4 2021, hybrid working practices were introduced. The Group also has the ability to immediately reduce its investment in pre-publication costs and inventory and manage discretionary spending. Working with its suppliers and customers, Quarto works hard to reduce the impact of any interruption in its supply chain. During 2021 Quarto was able to adapt to the increasing value of book sales going online. It will continue to perfect its approach to supporting sales as necessary.

OPERATIONAL RISKS (continued)

Risk	Description	Mitigating factor
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. Quarto will monitor the regulatory impact of product testing following the UK's departure from the European Union.
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 our production workflow to provide storage, back-up and recovery services for product files in development. Complete backlist archives are stored in a mirrored storage array.
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, and Quarto's IP rights are properly protected.
Cyber security	Like many organizations, 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 websites www.quarto.com or www.quartoknows.com. The Group undertakes industry standard system penetration testing.
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 departure of the UK from the EU ('Brexit') in 2020 will alter the right-to-work permissions of EU-citizens to work in the UK potentially disrupting the recruitment opportunities 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 exceeding 5% of our total revenue in 2021 and no series accounted for more than 10% of our total revenue in 2021. 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 encourages diversity and inclusion in its workforce and offers competitive market rate remuneration packages and works hard to make Quarto an attractive place to work. Quarto monitors the UK's rights-to-work requirements closely, taking note of the advice of the UK Government so that it is ready to support any staff affected by post-Brexit regulations and to support its recruitment of EU-citizens so that any potential disruptions can be minimized.
Climate-related risks	As an international organization, the Group faces disruptions from climate-related factors as well as the need to comply with reporting (e.g. TCFD requirements), tax-related initiatives (e.g. CBAM), and customers' requirements.	The Group has a well-developed and flexible supply chain. It is in regular communication with its customers and their needs. During 2022, it will undertake a risk assessment to identify its principal climate-related risks and incorporate these risks into its risk management practices.

The Strategic Report was approved by the Board and was signed on behalf of the Board by:

Chuk Kin Lau
Director
17 March 2022

Board of Directors

Andy Cumming | Non-Executive Chairman

Andy joined the Board on 1 March 2018 as an independent Non-Executive Director and was appointed Non-Executive Chairman on 11 July 2018; he is a member of the Audit and Risk, and Remuneration Committees, and he Chairs the Nominations Committee.

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 a Non-Executive Director of (i) Lloyds Development Capital, the private equity arm of Lloyds Banking Group, (ii) Bluestone Consolidated Holdings Limited, a multinational financial services business, and (iii) Integrity Capital Ltd, a company investing in asset backed secured lending.

Chuk Kin Lau | Executive Director

C.K. Lau, "CK", is also an Executive Director of Lion Rock Group and an Executive Director of OPUS Group Limited, a subsidiary of Lion Rock. CK was elected to the Board on 17 May 2018 as an Executive Director. He is President of the Company.

CK is a member of the Remuneration and Nominations Committees.

Ken Fund | Non-Executive Director

Ken joined the Board as an Executive Director on 11 July 2018 and retired from the Company on 1 December 2021 becoming a Non-Executive Director on 1 December 2021. Until 1 December 2021 he was Group COO and CEO of Quarto US. Ken joined the Group in 1999 as President and CEO of the Group's subsidiary Rockport Publishers company.

Ken's career started with Dino DeLaurentiis Productions in New Business Development before moving to Simon & Schuster Publishers as Business Manager in 1984. He joined Harper Collins San Francisco in 1990 becoming senior Vice President for Adult publishing.

Ken is a graduate of SUNY Oswego and holds an MBA in Finance from Pace University.

Jane Moriarty | Non-Executive Director

Jane joined the Board of the Company on 12 November 2018. Additionally, Jane is Chair of the Audit and Risk, and Remuneration Committees; she is the Senior Independent Director. Jane is Vice-Chair.

Jane is a Fellow Chartered Accountant 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.

Jane is currently a non-executive director of (i) Mitchells & Butlers plc, one of the largest operators of pubs, bars and restaurants in the UK, (ii) NG Bailey, an independent engineering, construction and services company in the UK, (iii) Martin's Properties, a leading commercial, retail and residential property company, (iv) Nyrstar NV, a listed Belgian holding company with an investment in a global mining and smelting business, and (v) Tennants Consolidated Limited, one of Europe's leading manufacturers of chemical and chemical related products.

Mei Lan Lam | Non-Executive Director

Mei Lan is an Executive Director and Chief Financial Officer of Lion Rock Group and responsible for the financial management of Lion Rock. Mei Lan has over 30 years' experience in finance and has held senior financial positions in various listed companies and a non-profit charitable organisation in Hong Kong. She joined the Company after being elected to the Board as a Non-Executive Director on 17 May 2018.

Andrea Giunti Lombardo | Non-Executive Director

Andrea was elected to the Board on 10 February 2020.

Andrea is a member of the board of Giunti Editore S.p.A., the second largest publishing house in Italy and owner of the Giunti al Punto bookstore chain. He has been involved in different aspects of the publishing industry, and has extensive experience in finance, M&A and digital development.

Nominations Committee Report

The Nominations Committee comprises the Group's Non-Executive Directors, Andy Cumming (Committee Chair), Jane Moriarty (Senior Independent Director), and Executive Director C.K. Lau. 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 formal and transparent processes 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 Board performs an annual evaluation where the Board, its directors, chairman and committees, assess their respective performance. The results of the evaluations are presented to the Board and committees to address any issues raised and to explore opportunities to increase effectiveness. Additionally, the chairman meets each director annually to discuss their performance and to receive their feedback.

The Committee met three times during the year and was active in appointing Alison Goff as Group Chief Executive Officer.

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

Andy Cumming
Chair of the Nominations Committee
17 March 2022

Audit and Risk Committee Report

In line with FRC guidance the Committee has had two members throughout the year, Jane Moriarty as Chair and Andy Cumming.

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 Chair also meets informally with the Group Finance Director 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, the Group Finance Director, representatives of the Company's auditor, and Michael Mousley (advisor to the Board and former Company CFO), also attend Committee meetings although part of some meetings is exclusively for Committee members without executive management present.

The Chair of the Committee normally attends the Annual Meeting to address any shareholder questions relating to the Committee, however in 2021 owing to Covid-19 related restrictions shareholders were encouraged to not to attend the Annual Meeting but to vote in advance of the Meeting and to submit questions in advance by e-mail.

The Committee met 3 times during 2021 and once so far in 2022.

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 2021 and 2022, 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 2021 year-end audit and approval of the preliminary announcement and the annual report.
- 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 banking agreements, particularly with respect to ensuring the Group's compliance with its banking covenants.
- Review and consider the goodwill impairment review. See Significant Audit Risks below for more details.
- Review and consider recoverability of pre-publication costs.
- Review and consider revenue recognition and sales return.
- Review TCFD related disclosures from 2022.

Significant Audit Risks, Key Findings and Financial Judgements Relating to Year End Accounts 2021

The Committee concentrated on the following in relation to the 2021 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 signing of the Group's new 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 2021, and its forecast future performance, reflects the positive impact of the Group's renewed focus on core products and titles, the cost-out program which began in 2018, and the fund raising and resulting debt position of the open offer to shareholders that occurred in January 2020.

The Committee discussed the impact of Covid-19 on the Group and, in particular, considered the downside scenario that was prepared as part of the going concern review.

AUDIT AND RISK COMMITTEE REPORT (continued)

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 2021, the value in use calculation exceeded the carrying value of goodwill.

Further detail is set out in note 10 to the Financial Statements.

RECOVERABILITY OF PRE-PUBLICATION COSTS

Amortization of pre-publication costs is charged to the income statement on a 50% reducing balance method. Pre-publication costs are capitalized in accordance with IAS 38 and the Committee, with the external auditor, discussed the assumptions behind the amortization profile including the amortization period of the publications. Further detail is set out in note 14 to the Financial Statements.

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 received subsequent to the period end. Management assesses sales returns through quantifying the previous returns experience and post year end returns.

During 2021, 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.

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 and Risk Committee. The Auditor gave the Committee forthright views on judgement areas whilst recognising that the decisions lay with the Committee. The Committee is satisfied with the Auditor's effectiveness in 2021.

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 2021 audit of the Group and the Company's accounts, Grant Thornton UK LLP charged $365,000 (2020: $287,000).

Non-Audit Services

No non-audit services were used in 2021. The Company has a policy in regard to the provision of non-audit services by the auditor which is reviewed annually.

Internal Audit

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

The Audit and Risk Committee decided not to establish a dedicated internal audit function this year, for the reasons stated above. 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.

Quarto has continued to develop a strong and effective control environment for the business. This has built the Board's and Audit and Risk Committee's confidence in the financial management of the Group.

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 and Risk 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
Chair of the Audit and Risk Committee
17 March 2022

Remuneration Committee Report

Annual Statement

DEAR SHAREHOLDER

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2021, which has been prepared by the Committee and approved by the Board.

For the year ended 31 December 2021, there were no substantial changes in Directors' remuneration arrangements.

Though an overseas company within the meaning of the Companies Act 2006, the Company elects to continue to report 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 24 May 2022 subject to approval at the 2022 Annual Meeting. The proposed policy mirrors the existing policy implemented on 25 May 2021.

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 2021; pension entitlements; payments for loss of office; 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
Chair of the Remuneration Committee
17 March 2022

Remuneration Committee meeting attendance 2021

Committee membership	Number of meetings held during the year: 4
Andy Cumming (Appointed 1 March 2018, Chair from 17 May 2018 to 7 March 2019)	4 of 4
Jane Moriarty (Appointed 12 November 2018, Chair from 7 March 2019)	4 of 4
C. K. Lau (Appointed 17 May 2018)	4 of 4

Policy

This section sets out Quarto's Remuneration Policy for Directors which is recommended by the Board for approval at the 2022 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:

- the need to align the interests of the executive with those of the shareholders;
- the performance of the individual executive and of the Group as a whole;
- the remuneration practice in the markets in which the executive is principally based; and,
- 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.

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.

REMUNERATION COMMITTEE REPORT (continued)

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 at the beginning 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 en-sure fairness to both shareholders and participants.

VARIABLE PAY (continued)

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.

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
Ken Fund[1]	11 July 2018 (until 30 November 2021)	6 months
Polly Powell[2]	10 February 2020 until 1 July 2021	6 months

1 Ken Fund retired on 1 December 2021 at which time he became a Non-Executive Director.
2 Polly Powell resigned on 1 July 2021.

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, has a one-month notice period, and all Non-Executive Directors 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:

Non-Executive 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
Ken Fund	1 December 2021[1]	1 month
Andrea Giunti Lombardo	10 February 2020	1 month

1 Date on which Ken Fund became a Non-Executive Director having formerly been an Executive Director as noted above.

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

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

No payments 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 pro-portion 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.

REMUNERATION COMMITTEE REPORT (continued)

External appointments

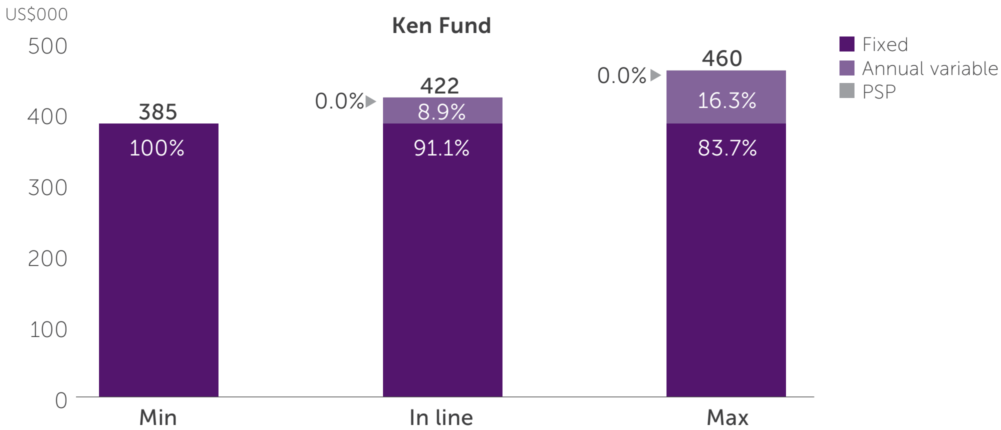
The Executive Directors may accept external appointments with the prior approval of the Board and provided only that such appointments do not prejudice the individual's ability to fulfil their duties at the Group. Whether any related fees are retained by the individual or remitted to the Group will be 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 Polly Powell (who resigned during 2021) are not included in the illustrations because neither of them is on a bonus plan. 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 25 May 2021, 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.

EXECUTIVE DIRECTORS APPLICATION OF REMUNERATION POLICY



In illustrating the application of the remuneration policy the following assumptions have been made:[1]

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 pay out 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 pay out at 100%. Full vesting of the PSP.

1 Ken Fund became a non-executive director from 1 December 2021. This illustration is based on a 12-month period as an executive director.

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
17 March 2022

Annual Report on Remuneration

THE REMUNERATION COMMITTEE

The Committee's Terms of Reference are available on the Group's website. Though an overseas company within the meaning of the Companies Act 2006, the Company has chosen to continue to provide this report on remuneration in line with UK's The Large and Medium-sized Companies and Groups (Accounts and Reports)(Amendment) Regulations 2013.

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; and
- 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 2021 Annual Meeting

The following table shows the results of the advisory vote on the 2020 Annual Remuneration Report at the Annual Meeting on 25 May 2021.

	Total number of votes	% of votes cast
For (including discretionary)	27,611,389	100.00%
Against	400	0.00%
Total votes cast	27,611,789	100%
Withheld	0	

Single total figure of remuneration (audited)

The table below sets out a single figure for the total remuneration received (or receivable) by each Director for the year ended 31 December 2021 and the prior year. These amounts are shown in the reporting currency, although the payments that were settled through the UK were paid in Sterling. The exchange rates used in 2021 and 2020 were 1.3741 and 1.2900, respectively.

	Base Salary		Benefits[1]		Annual Bonus[2]		Long-term incentives		Pension		Payment for loss of office		Total remuneration	
Executive Directors*	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000
C. K. Lau	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Polly Powell[4]	258	286	—	—	27	—	—	—	30	29	—	—	315	315
Ken Fund[5,6]	318	315	18	14	—	—	281	175	20	18	29[8]	—	666	522

ANNUAL REPORT ON REMUNERATION (continued)

	Fees[3]		Benefits		Annual Bonus		Long-term incentives		Pension		Total remuneration	
Non–Executive Directors*	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Andy Cumming	99	93	—	—	—	—	—	—	—	—	99	93
Mei Lan Lam	—	—	—	—	—	—	—	—	—	—	—	—
Jane Moriarty	69	64	—	—	—	—	—	—	—	—	69	64
Ken Fund[6]	3	—	—	—	—	—	—	—	—	—	3	—
Andrea Giunti Lombardo[7]	49	40	—	—	—	—	—	—	—	—	49	40

* For period as 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 in note 6.
3 Details of Non–Executive Directors' fees can be found on pages 31 and 37.
4 Appointed on 10 February 2020 and resigned on 1 July 2021.
5 In 2019 Ken Fund was granted a retention award (a long-term incentive) of which no part of the award payment was due before October 2021 and where payment was subject to eligibility criteria noted on page 37.
6 From 1 December 2021 Ken Fund when became a Non-Executive Director.
7 Appointed on 10 February 2020.
8 Payment in relation to early termination of Ken Fund's role as Group COO.

Directors' shareholdings

The share interests of the Directors who held office during the year ended 31 December 2021 and of their connected persons in the share capital of the Company are shown below:

	Number of share options of common stock		Number of US$0.10 shares of common stock[1]	
Executive Directors	31 December 2021[2]	31 December 2020	31 December 2021[2]	31 December 2020
C.K. Lau[3]	—	—	16,859,569	16,674,569
Polly Powell[4]	—	—	—	—
Ken Fund[5]	—[6]	25,496	24,000	24,000

During the year the market price of the shares of common stock ranged between 58.5p and 116.5p. The mid-market price on 31 December 2021 was 112.5p.

	Number of US$0.10 shares of common stock	
Non–Executive Directors	31 December 2021[2]	31 December 2020
Andy Cumming	—	—
Mei Lan Lam	—	—
Jane Moriarty	—	—
Andrea Giunti Lombardo[7,8]	8,177,820	8,177,820
Ken Fund[5]	24,000	24,000

1 Following an open offer which concluded on 31 January 2020 the allotted share capital of the Company increased from 20,444,550 shares of common stock to 40,889,100.
2 Or date of resignation.
3 Shares held on 31 December 2021 were held by 1010 Printing Limited, a company over which C.K. Lau exercises control. On 31 December 2020, C.K. Lau held 1,679,743 shares and 1010 Printing Limited held 14,994,826 shares.
4 Resigned on 1 July 2021.
5 Ken Fund was an Executive Director and became a Non-Executive Director from 1 December 2021.
6 This option granted on 28 April 2017 failed to vest on 28 April 2021.
7 Shares held by Andrea Giunti Lombardo are jointly held with Sergio Giunti and by Montecristo 2019 S.r.L. (a private limited company incorporated under the laws of Italy; it is an entity ultimately controlled by Sergio Giunti and Andrea Giunti Lombardo).
8 Appointed on 10 February 2020.

No director receives, or has an entitlement to receive, shares in the Company as part of his or her remuneration. A 50% appreciation in the Company's share price would have no impact on a director's remuneration. As noted below Ken Fund has been granted share options under the Company's PSP Scheme (see note 27).

Directors' share options

Shares: Common Stock of $0.10 each

	Date of grant	As at 1 January 2021	Granted	Lapsed in year[1]	As at 31 December 2021	Face value at date of grant (£'000)	Fair value at date of grant (£'000)	Price at exercise date
Ken Fund	28/04/2017	25,496	—	(25,496)	—	67	68	n/a

1 The option granted on 28 April 2017 did not vest in April 2021.

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

Executive directors' base salaries/fees

During the year 2021, C.K. Lau, appointed on 17 May 2018, received $nil, in accordance with his service contract.

During the year 2021, Polly Powell, appointed on 10 February 2020 and resigned on 1 July 2021, received $258,327, in accordance with her service contract.

During the year 2021 until his retirement on 1 December 2021, Ken Fund, appointed on 11 July 2018, received $317,625 in accordance with his service contract, plus $28,875 as payment for loss of office in relation to early termination of his role as Group COO. From 1 December 2021, Ken Fund became a Non-Executive Director whose fees are summarised below.

Pension and other benefits

The Group made an annual contribution to the personal pension plan of Ken Fund of $19,635, and $30,005 for Polly Powell.

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. The share options granted in April 2016 did not vest in April 2020; and the options granted in April 2017 did not vest in April 2021.

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 2017 to 28 April 2021.

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.

Retention Award

In 2020, Ken Fund was granted a retention award that offered a total payment of $500,000 that comprised of two elements: (i) a payment of $350,000 so long as he remained employed by the Company until 30 September 2021, and (ii) a performance-related payment of up to $150,000 assessed on profit-achievement by the Group for financial years 2020 and 2021. Both of the conditions were met, with payment being spread over 2021 and 2022.

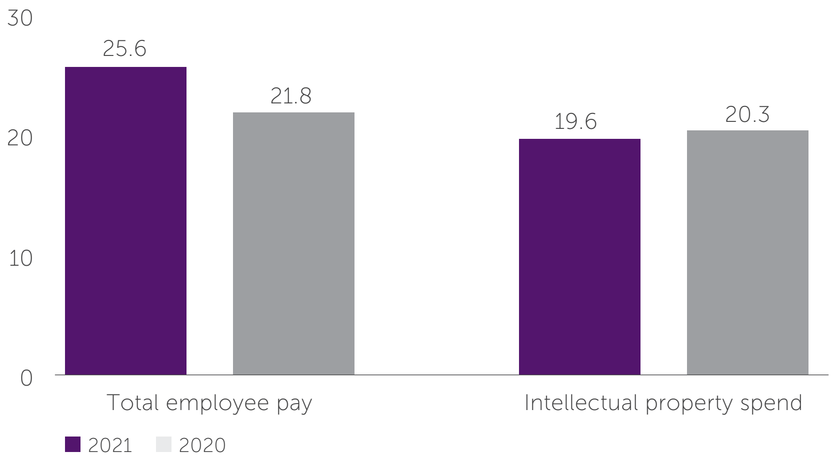
Chair and Non-Executive director fees

The Non–Executive Directors' annual fees for 2021 were as follows: Andy Cumming £72,000 ($98,935), Jane Moriarty £50,000 ($68,705), Mei Lan Lam $nil, Ken Fund (appointed on 1 December 2021) $40,000 (for 2021, Ken Fund received $3,333), and Andrea Giunti Lombardo £35,000 ($48,094).

ANNUAL REPORT ON REMUNERATION (continued)

Relative importance of spend on pay

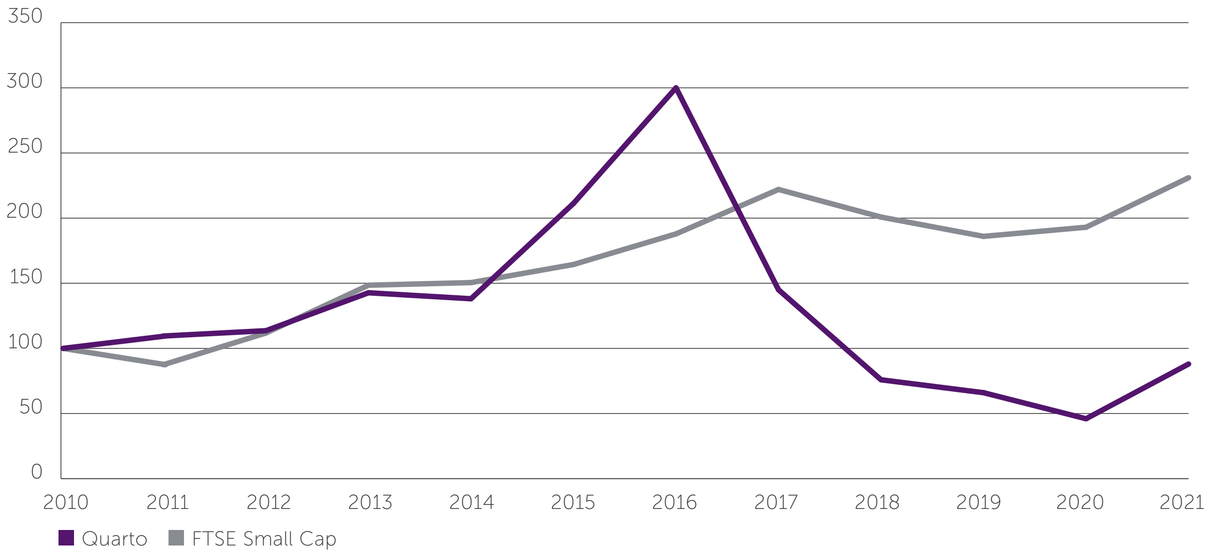
The graph below shows how total employee pay compares with expenditure on intellectual property for years ended 31 December 2020 and 31 December 2021.



Review of group performance

The chart below 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 ten financial years. The FTSE Small Cap Index has been chosen as it comprises companies of a broadly similar size to Quarto.

Performance graph



The table below shows the single figure for the CEO over the same period.

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
CEO single figure of remuneration including bonus ($'000)		750	996	1,020[1]	870	842	929	3,252	701	230[2]	—	119[4]	285[5]
Annual bonus awarded	$ amount ($'000s)	393	573	121[3]	233	169	305	34	150	—	—	—	27[3]
	% 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.
4 The figure for 2020 is a combination of remuneration of C.K. Lau who was Group CEO until 18 September 2020 when Polly Powell was appointed Group CEO.
5 The figure for 2021 is a combination of remuneration of Group CEO, Polly Powell, until 1 July 2021. C.K. Lau was Group CEO for the remainder of the year.

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 2020 to 2021.

			Group CEO	Average for other employees
$'000	2021[2]	2020[1]	% change	% change
Salary	258	119	117	19
Taxable benefits	—	—	—	—
Annual variable bonus	27	—	—	462
Total	285	119	139	23

1 From 18 September 2020 when Polly Powell replaced C.K. Lau who receives no salary or fee.
2 Until 1 July 2021 when Polly Powell resigned. C.K. Lau, who receives no salary or fee, was Group CEO for the remainder of the year.

Salary, benefits and bonuses for other employees 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 2021, awards made under the Group's share schemes represented 3.3% (2020: 3.6%) 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
17 March 2022

Directors' Report

Group

The Directors present their report and the audited financial statements of The Quarto Group, Inc., for the year ended 31 December 2021.

Though an overseas company within the meaning of the Companies Act 2006, the Company has chosen to continue to include this report in line with the UK's The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

Results

The profit for the year was $9.9m (2020: $4.6m). The Directors do not propose a dividend.

Key performance indicators showing the Company's performance in 2021 and the prior three years can be found on pages 14 and 15. An indication of likely future developments in the business of the Group is included in the Strategic Report on page 9.

Directors

Serving Directors during the year were as follows:

Andy Cumming*	(Non-Executive Chairman) Appointed 1 March 2018
C.K. Lau	(Executive Director; President; Group Chief Executive Officer between 1 July 2021 and 2 January 2022) Appointed 17 May 2018
Polly Powell	(Executive Director; Group Chief Executive Officer from 18 September 2020) Appointed 10 February 2020 and resigned on 1 July 2021
Mei Lan Lam	(Non-Executive) Appointed 17 May 2018
Ken Fund	(Executive Director; Chief Operating Officer until retirement on 1 December 2021 becoming Non-Executive Director) Appointed 11 July 2018
Jane Moriarty*	(Non-Executive; Vice-Chair; Senior Independent Director) Appointed 12 November 2018
Andrea Giunti Lombardo	(Non-Executive) Appointed 10 February 2020

* Considered by the Board to be independent.

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.

Polly Powell resigned on 1 July 2021 whereupon C.K. Lau took over the role of Group CEO until 2 January 2022.

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 requirement:	Location:
Directors' remuneration	Annual Report on Remuneration, pages 35 to 39.
Details of Long-term Incentive Plans	Annual Report on Remuneration, pages 35 to 39.
Related Party Transactions	The Company purchases printing services from 1010 Printing Limited, a company over which C.K. Lau exercises control. These purchases are made on a job-by-job basis at arm's length. Financial Statement note 28 summarizes purchases of printing services from 1010 Printing Limited. Unsecured loans provided by 1010 Printing Limited and C.K. Lau are summarized in Financial Statement note 28. 1010 Printing Limited provided an additional $10m unsecured loan in Q1 2021. Revenue generated from Pavilion Books Limited, a company over which Polly Powell (who was a director until she resigned on 1 July 2022) exercises control, is summarized in Financial Statement note 28. Revenue generated from Giunti Editore spa, a company over which Non-Executive Director Andrea Giunti Lombardo exercises control, is summarized in Financial Statement note 28.

With reference to LR 9.8.4 R (14)(a), the Company entered into a written and legally binding relationship agreement with 1010 Printing Limited, Lion Rock Group Limited and C.K. Lau. The Company confirms in relation to the requirements of LR 9.8.4 (14)(c) that: (i) it has complied with the undertakings of the relationship agreement; (ii) as far as the Company is aware, the controlling shareholder parties have complied with the relationship agreement; and (iii) so far as the Company is aware, the procurement obligations of LR 9.2.2B R (2)(a) have been complied with within the period under review. At a special shareholder meeting held on 31 January 2020 the Company's By-Laws were amended to comply with LR 9.2.2AD R (2).

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. In 2020 the Company established a Diversity Group, renamed the Diversity and Inclusion Committee, to make the Company's workplace inclusive and diversity equitable as described on page 16. During 2022, the Committee will measure staff ethnicity and disability status. The gender split across the Group as at 31 December 2021 is illustrated in the table below.

	Males	Females
Board	4	2
Senior managers	7	8
All employees	64	230

Substantial shareholders

The Directors have been advised of the following shareholders who have an interest of 5% or more in the shares of the common stock of the Company at 31 December 2021 and 15 March 2022. 15 March 2022 is the latest practicable date prior to the publication of this report.

	As at 31 December 2021		As at 15 March 2022	
	Number of US$0.10 shares of common stock[1]	% 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
1010 Printing Limited (C.K. Lau)[2]	16,859,569	41.2	18,257,569	44.7
Giunti[3]	8,177,820	20.0	8,177,820	20.0
L.F. Orbach	4,103,615	10.0	4,103,615	10.0

1 Following an open offer which concluded on 31 January 2020 the allotted share capital of the Company increased from 20,444,550 shares of common stock to 40,889,100.
2 1010 Printing Limited, which held 16,859,569 shares on 31 December 2021, is ultimately controlled by C.K. Lau.
3 Sergio Giunti and Andrea Giunti Lombardo (shareholders of the Company) plus Montecristo 2019 S.r.L., a private limited company incorporated under the laws of Italy (an entity, ultimately controlled by Sergio Giunti and Andrea Giunti Lombardo).

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 page 36. There are no restrictions on the number of shares that Directors can hold.

In 2020 the following amendment to the Company's By-Laws was approved at a Special Meeting of shareholders held on 31 January 2020: the election or re-election of any independent director by shareholders must be approved by (a) the shareholders of the Company, and (b) the independent shareholders of the Company (which excludes any controlling shareholders of the Company). At the same Special Meeting, shareholders approved a resolution to increase the authorized number of Common Shares ($0.10) to 55,000,000. The Company's Certificate of Incorporation was amended accordingly.

Bank facilities

On 16 February 2021, the Group concluded its refinancing, repaid its syndicated loan (a multi-currency facility that comprised a $25m term loan, a $8m revolving credit facility and a $2m overdraft facility), signing a new facility agreement which ends 16 July 2024. The multi-currency facility comprises a $10m term loan, a $8m revolving credit facility and a $2m overdraft facility. On the same date, Lion Rock Group Limited, a related party agreed to provide the Group a $10m loan note at 4% interest, repayable on 31 August 2024.

DIRECTORS' REPORT (continued)

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 19 of the Risk Management Review. Operational risks are set out on pages 20 and 21 of the Risk Management Review.

Post balance sheet events

C.K. Lau and 1010 Printing Limited were repaid $6m and $9m respectively in Q1 2022, including accrued interest. This repayment was made outside the agreement due to a favorable liquidity position at this point in time.

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 2018 (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 2021 and to the date of this report with the exception of Provisions 11 and 24.

From 2019, the Code provides that at least half the board of directors of a UK public listed company, excluding the chairman, should comprise non-executive directors whom the board of directors considers to be independent (Provision 11). Having considered the guidelines for independence as set out in the Code and the situation of each Director, the Board is satisfied on each Director's independence and considers that, even though the Company does not meet the quota of independent directors pursuant to the Code, two independent directors, which has been the case since late 2018, are adequate for a company of the Company's size and nature of the business conducted by the Group.

As a "smaller company" (as defined in the Code as a company below FTSE 350 index throughout the year immediately prior to the reporting year), the Company complies with the requirements of Provision 24 except that the Chair of the Board is a member of the Audit and Risk Committee. The Board is satisfied that both members of the Audit and Risk Committee are independent and bring a wide range of skills, expertise, experience and competence relevant to the sector in which the Company operates and the challenges it faces and can satisfy the responsibilities of Provision 25.

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 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.

Section 172 statement, KPIs and principal risks

The Company's section 172 statement can be found in the Strategic Report on pages 17 and 18. Included within the section 172 statement are the disclosures relevant for stakeholder engagement (SI 2008/410 7 Sch 11B) and employee engagement (SI 2008/410 7 Sch 11). KPIs can be found on pages 14 and 15; and risk management, principal risks and uncertainties can be found on pages 19 to 21.

Attendance by Directors at Board and Committee meetings in 2021

	Board	Audit and Risk Committee	Nominations Committee	Remuneration Committee
Andy Cumming	11	3	3	4
C.K. Lau	11	–	3	4
Polly Powell[1,2,3]	4	–	–	–
Ken Fund[2]	11	–	–	–
Mei Lan Lam[2]	11	–	–	–
Jane Moriarty	11	3	3	4
Andrea Giunti Lombardo[2]	11	–	–	–
Total number of meetings	11	3	3	4

1 Attended Remuneration Committee meetings in 2021 by invitation.
2 Not members of the Remuneration Committee.
3 Resigned on 1 July 2021.

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 optimizing consistent long-term financial returns.
b) As at 31 December 2021, the Board comprised one Executive Director and five 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 2021.

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 11 times in 2021. 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 5 business 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, Mei Lan Lam, Andrea Giunti Lombardo and Ken Fund 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 Chair, Andy Cumming, and C.K. Lau. A separate report with respect to Directors' remuneration is included on page 35. The Committee meets at least twice a year. In the year ended 31 December 2021 the Committee had met 4 times.
g) The Audit and Risk Committee comprises Jane Moriarty, who is Committee Chair, 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 25 to 27.
h) The Nominations Committee comprises Andy Cumming, who is Committee Chair, 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 24.
i) C.K. Lau and the Company Chairman 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 will 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. In 2021 as a result of the Covid-19 pandemic and government restrictions on travel, shareholders were advised not to attend the Annual Meeting and to vote by proxy. Quarto notified shareholders of the opportunity to ask questions via e-mail in advance of the Annual Meeting.
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) During 2021 Quarto arranged appropriate insurance cover in respect of legal action against the Directors. From February 2022, the Company will indemnify the Directors in accordance with its By-Laws.
m) The Company has an established whistle-blowing policy and anti-bribery policy.

TCFD Statement

This year is the Company's first report against the four pillars of TCFD framework in accordance with LR 9.8.7R. The Company is not fully compliant with all TCFD recommended disclosures as we will complete the assessment of climate-related risks by the end of H1 2022. The Company cannot comply with disclosures relating to the three recommended Strategy disclosures and two of the recommended disclosures regarding Metrics and Targets (disclosures a and c) until this assessment is complete.

GOVERNANCE

The Group Board has oversight of the Company's response to climate-related risks and is responsible for setting the Company's environment and climate-related strategy and with the management team, the Board assesses TCFD-related risks, determines the Company's priorities, and monitors the Company's performance as described below. The Company's risk register which addresses all risks relating to the Company is reviewed and updated at least four times in the year and is presented at quarterly Board meetings. The TCFD management team mentioned below will report on the climate-related risks as part of this routine review.

The Company's direct emissions arise from operating its office facilities and from business travel; it does not operate vehicles and does not operate its own manufacturing or distribution services. Indirect emissions arise principally from third-party suppliers of printing, shipping, and distribution and fulfilment services. Given these emission origins, the Company's TCFD-related management team comprises:

- Group Chief Executive Officer – leads the team, with the Board assesses the Company's priorities, and once the Board has confirmed targets (as outlined below), monitors the Company's performance against its climate-risk related targets and reports performance to the Board. Unless otherwise warranted, performance review will be aligned to the Company's established practice of reviewing its risk register quarterly.
- Group Director, Transformations – has an in-depth knowledge of the Company's operations and can assess practices related to direct emissions.
- Group Finance Director – as the Company addresses the climate risks and opportunities the financial impacts and requirements relevant to achieving the Company's TCFD targets will be properly addressed, including its reporting and investment proposals arising from mitigations identified in due course.
- Group Procurement Services Director – able to engage and select the Company's principal supply chain partners to support the Company's TCFD efforts.

DIRECTORS' REPORT (continued)

Energy Management Limited, an energy management consultancy, supports the management team with advice on opportunities for engaging renewable energy supplies and will assist in establishing protocols for measuring the Company's direct emissions and indirect emissions. The Company believes this team has sufficient experience to manage the short-term risks and opportunities, however, as its plans evolve it expects that additional members will be included and expert input, particularly relating to assessing risks and opportunities in its supply chain, will be sought.

The Audit and Risk Committee is responsible for reviewing the Company's TCFD disclosures (to date, other than this report, no TCFD-related statement has been made).

The management team is constituted from experienced operations and commercial managers who can brief Audit and Risk Committee and Board members on both the Company's emissions footprint and associated physical climate-related risks along with opportunities. The Company has not completed its climate-related risk assessment, and once the principal risks are identified appropriate training (and expert advice) will be sought. The Board and Board Committees review their effectiveness annually and this review process can also assist in identifying training needs.

STRATEGY

The Company will focus on estimating its direct and indirect emissions. Direct emissions arise from its office facilities and from business travel. Scope 3 business travel emissions have been reported for the first time in 2021 and we will identify how to measure Scope 1 and Scope 2 emissions for all our offices (i.e. including fully serviced offices) for 2022 onwards and so establish a baseline for all direct emissions. The Company will continue its practices relating to facilities management where it uses maintenance and operational controls to minimize energy usage, and where available use electricity supplies from renewable sources. The effectiveness of these facilities regimes will be assessed from electricity (and natural gas where used) consumption data and included in Scope 1 and Scope 2 reporting.

During 2022, the Company will establish the methodologies required to estimate its principal indirect emissions (viz. book manufacture and shipping), and use these details to support baseline and target setting. We will build on the learnings and opportunities from the Ivy Kids imprint launched in 2021 where books are manufactured in local markets using recycled paper with carbon-offsetting against manufacturing emissions. The Company needs more time to evaluate the opportunities to expand on this product approach and in the meantime explore the opportunities to reduce indirect emissions and improve its service to customers. Printing in end-markets is already underway as a means to mitigate against Covid-related supply chain interruptions experienced in 2021, and to maintain flexible production schedules that provide customers faster response times. The Company has secured additional printing capacity in the domestic US market and is negotiating increased printing capacity in Europe.

Climate-related risks being addressed by this assessment fall into the following risk categories:

- **Disruptions related to availability of raw materials:** the Company prints in Asia, Europe, and in the US and is reliant upon an international supply of wood pulp from sustainable sources for printing. Climate changes can adversely impact its availability and cost of printing as a result of low harvest and as the result of extreme climatic-related events damaging plantations – such events will reduce profitability. The Company relies on having a broad, flexible and diverse supply base, however, on-going, the Company needs to work with its partners to ensure security of supply as well as maintaining efficient inventory management (e.g. proactive use of print-on-demand services).
- **Disruptions to production capacity related to extreme weather events:** the Company produces highly illustrated books printed by specialised high quality four-color printers in Asia, Europe and the US. Extreme weather events could disrupt production and supply, by interrupting printing, or in extreme events, damage the printer's production facility.
- **Failure to adapt to customers' needs:** customers' requirements represent a risk and an opportunity. The Company needs to satisfy the climate-related eco-production specifications of its co-edition customers, and for its Trade publishing businesses it risks reputational damage if it does not satisfy its readers' expectations. The Company will work with its suppliers and co-edition customers accordingly and will pursue the learnings of its eco-imprint, Ivy Kids, as it develops its climate-friendly practices. Failure to adapt can decrease sales revenue.
- **Managing transition arrangements:** currently, the Company's supply chain is diverse and broad; it is capable of managing business disruptions by flexing this supply chain. As the Company pursues its emissions-reducing ambitions and as supply sectors themselves transition towards net-zero practices, the Company needs to address the impact of supplier changes, competition for printing capacity in local markets, and regulatory changes capable of affecting its product cost and pricing (e.g. the impact of the EU's CBAM levy when printing in Europe) on its commercial choices. As suppliers invest and adjust to low-carbon economies and demands, capacities and new product opportunities are expected. With the prospect of many things changing however, and without careful management, sales revenues could fall.

Once the Company has a fuller view of its direct and indirect emissions it can become confident in reduction target-setting and its approach to the specific risks and opportunities it identifies. The Company will prepare its performance targets (short, medium, and long term) and confirm its principal metrics by end of H1 2022 and update the Company's risk register accordingly. At this stage, the Company will then establish an appropriate action program to work towards its targets.

The foregoing will include the Company's assessment of the transition risks (i.e. market and supply. sector risks the Company perceives as being associated with transitioning to a low carbon economy) and associated opportunities and with feedback from its supply chain partners, it will get insight on climate-related physical risks whose details will be incorporated in the Company's risk register and managed accordingly. Once the Company has completed its risk assessment, it will then be able to undertake appropriate climate-related scenarios assessments to address the Company's resilience.

RISK MANAGEMENT

The TCFD management team is expected to conclude the Company's risk assessment – risks and opportunities related to transition and physical climate-related issues – during H1 2022, with expert input (e.g. consultants) as appropriate, and will be active in (i) identifying the principle climate risks facing the business for approval by the Board; (ii) proposing emissions reductions targets for approval by the Board; (iii) establishing and managing an activity program to achieve the stated targets; and (iv) reporting performance to the Audit and Risk Committee.

Risks identified will be categorized in the normal manner, by severity of impact and likelihood of impact. Mitigations will be identified as appropriate in accordance with (i) the targeted reductions in emissions, and (ii) actions required to mitigate against physical climate effects. Risks are assessed as market risks (viz. those affecting consumer choice, including impact on the Company's reputation); operational risks (viz. opportunities to improve the Company's market and product position and those issues that can disrupt operations, typically supply chain related); and financial risks (viz. increased costs arising from climate-related matters and the need for investment). The TCFD management team will produce the initial assessment by end of H1 2022.

Once the principal climate-related risks are identified and approved by the Board, the risks will be entered into the Company's risk register. The Chair of the Audit and Risk Committee will report performance to the Board as part of the Company's established risk management practices – the Board reviews the risk register four times a year.

The proposed TCFD management team is constituted in a manner that will permit Company policies and operations to be updated as appropriate.

METRICS AND TARGETS

Scopes 1, 2 and 3 direct GHG emissions will continue to be measured as tCO_2e using industry standards methods as reported below and as part of SECR requirements for the Company's UK company (as reported below). This year our reporting has expanded to include Scope 3 reporting relating to business travel. In 2022, Scope-reporting will expand further as the Company will estimate GHG emissions from all its offices including its fully serviced offices. The intensity measure used is tCO_2e per staff member.

Direct emissions are managed by the Company, and opportunities for improvement can be achieved through suitable office systems controls, adopting IT systems to reduce business travel, and adopting renewable electricity supplies where possible.

Indirect emissions are more difficult to estimate, and as regards indirect Scope 3 emissions suitable protocols need to be identified in order to establish a baseline. Until this protocol is confirmed and the Board has approved performance targets, the Company cannot make disclosures related to metrics and targets.

Greenhouse gas emissions reporting

During the year, the Group worked with Energy Management Ltd, 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 fully serviced offices where only a service charge is applied. 2021 is the first year that the Group has reported on Scope 3 emissions originating from business travel.

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

	Total (tCO_2e) 2021	UK (tCO_2e) 2021	UK (kWh) 2021	Total (tCO_2e) 2020	UK (tCO_2e) 2020	UK (kWh) 2020
Scope 1	7	7	37,741	11	11	60,364
Scope 2	79	29	137,285	117	45	191,975
Scope 3[1,2]	48	4	15,639	—	—	—
Total	134	40	190,665	128	56	252,339
Average number of staff	304	170	170	302	172	172
Emissions per staff member	0.44	0.24	1,122	0.42	0.33	1,471

1 These emissions relate to business travel.
2 2021 is the first year of Scope 3 reporting.

DIRECTORS' REPORT (continued)

Streamlined Energy and Carbon Reporting

The Company's principal source of emissions arises from the operation of its facilities, and following a review of office space in the UK, office square footage reduced by 13% from March 2021. UK emissions are identified in the above table as measured by tCO_2e and kWh for 2021 and 2020.

The UK's SECR requirement expands on the emissions that relate to the Company's UK subsidiary, Quarto Publishing plc, and so an appropriate report will be given in that company's annual report.

During 2021, the Company started to report on its estimated Scope 3 related emissions for business travel and reviewed its UK office maintenance schedules (including TM44 inspections relating to air conditioning systems) and controls to ensure correct operation and avoid excess energy usage. The Company will continue to review its activities in relation to SECR during 2022.

Risk management and internal controls

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. As noted earlier, 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 authorization 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 summarizing 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 set out on pages 19 to 21 during 2021.

Michael Clarke
Company Secretary
17 March 2022
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 'UK Adopted' International Financial Reporting Standards (IFRSs) 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 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 and Risk 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 'UK Adopted' IFRSs, 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.

Chuk Kin Lau
Executive Director
17 March 2022

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 2021, which comprise of 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 UK-adopted international accounting standards. 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 2021 and of the group and of the parent company's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- 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 parent company incorporated in the United Kingdom.

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 going concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the group or the parent company to cease to continue as a going concern.

As part of our risk assessment, we evaluated the Group's and the parent company's cash position, assessed the Group's and the parent company's performance and headroom against bank covenants throughout the year, considered the Group's and the parent company's lack of reliance on government assistance throughout the current year, and concluded that the Group's and the parent company's ability to continue as a going concern was not a significant risk that required special audit consideration.

Our evaluation of the directors' assessment of the Group's and the parent company's ability to continue to adopt the going concern basis of accounting included reviewing management's base case cash flow forecasts covering the period to 31 March 2023, challenging the underlying assumptions and reviewing forecast covenant compliance throughout the going concern period. We obtained management's reverse stress test prepared to consider the scenario that would cause a breach in covenant compliance and evaluated the impact and availability of mitigating actions available to management to restrict the impact on the Group's and the parent company's performance and covenant compliance. Our assessment also included a review of the accuracy of management's past forecasting and an assessment of the adequacy of related disclosures within the annual report.

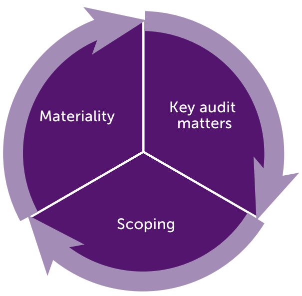
In our evaluation of the directors' conclusions, we considered the inherent risks associated with the group's and the parent company's business model including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the group's and the parent company's financial resources or ability to continue operations over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

Our approach to the audit



Overview of our audit approach

OVERALL MATERIALITY:

- **Group:** $693,600, which represents approximately 0.5% of the group's revenue.
- **Parent company:** $48,000, which represents 1% of the parent company's total assets.

KEY AUDIT MATTERS WERE IDENTIFIED AS:

- completeness of the sales return provision; and
- valuation and accuracy of pre-publication intangible assets.

Our auditor's report for the year ended 31 December 2020 included two key audit matters that have not been reported as key audit matters in our current year's report. These relate to the assessment of the carrying value of goodwill and the going concern assessment.

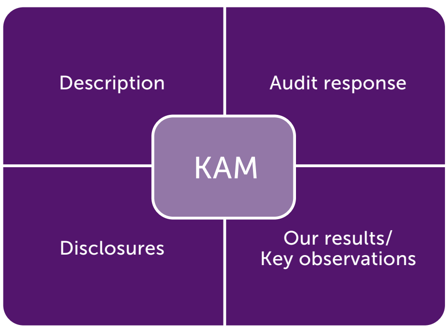
The exclusion of these matters from our current year's report reflects our risk assessment, wherein the group's continued improvement in profitability and performance over the past several years, combined with decreased uncertainty surrounding the impact of Covid-19 has informed a lower risk assessment relating to these matters. Therefore, these have not been reported as key audit matters for the year ended 31 December 2021.

We have performed an audit of the financial information of the components using component materiality (full-scope audit) for the parent company, of Quarto Publishing plc ('Quarto UK'), and of Quarto Publishing Group USA Inc. ('Quarto US').

We have performed analytical procedures on the financial information of other companies within the group. This is consistent with the scope of the audit in the prior year.

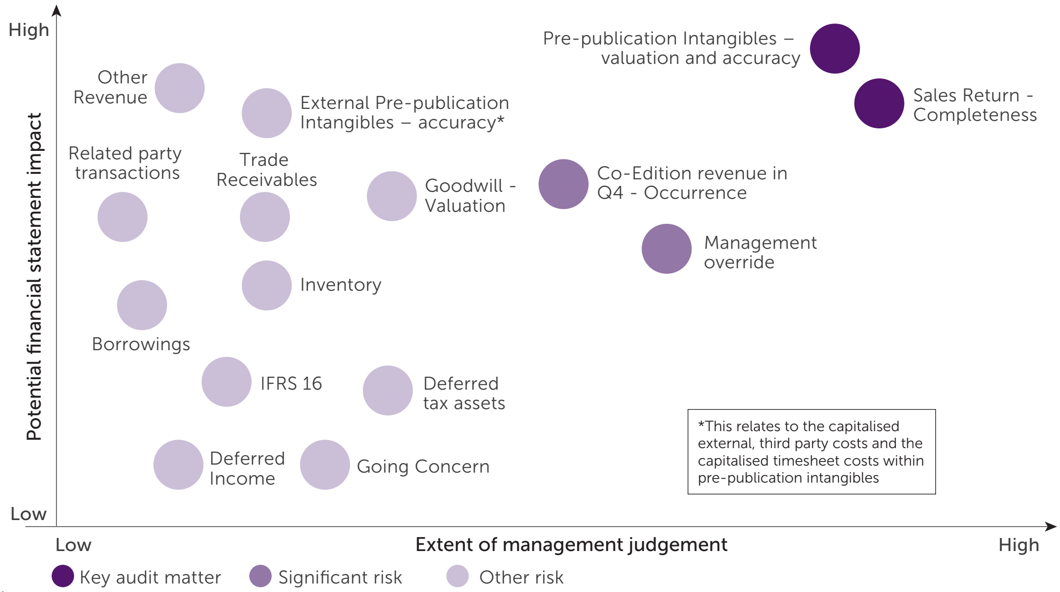
Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.



INDEPENDENT AUDITOR'S REPORT (continued)

In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.



Key Audit Matter – Group

RISK 1: COMPLETENESS OF SALES RETURN PROVISION

We identified the completeness of the sales returns provision as one of the most significant assessed risks of material misstatement due to error.

The Group generates material revenues from published books. Certain trade 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 2021, this provision totals $5,776,000. 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 to predict future returns and therefore the provision which is required to be made.

RELEVANT DISCLOSURES IN THE ANNUAL REPORT AND ACCOUNTS 2021

- Financial statements: Note 1, General information and significant accounting policies and Note 20, Trade and other payables
- Audit and Risk Committee Report: Page 25

How our scope addressed the matter – Group

In responding to the key audit matter, our audit work included but was not restricted to:

- Considering the appropriateness of the accounting policy for the provision for sales returns by checking whether it is in accordance with the financial reporting framework, including IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and IFRS 15 'Revenue from Contracts with Customers';
- Selecting a sample of returns made during the year and agreeing 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;
- Obtaining actual returns for the period after the balance sheet date and comparing these with the returns provision for the same period; and
- Inquiring of sales and operations staff as to their knowledge of any exceptional returns in the period or the potential for these in the returns period.

OUR RESULTS

- Our audit work did not identify any material errors in the completeness of the sales returns provision.

Key Audit Matter – Group	How our scope addressed the matter – Group
RISK 2: VALUATION AND ACCURACY OF PRE-PUBLICATION INTANGIBLE ASSETS We have identified valuation and accuracy of pre-publication intangible assets as one of the most significant assessed risks of material misstatement due to error. The Group holds capitalised pre-publication costs as intangible assets which have a net book value of $29,941,000 on its consolidated balance sheet. There is judgement involved in assessing the useful economic life of these assets, which informs management's amortisation policy. Therefore, there is a risk that intangible assets are misstated due to an inappropriate amortisation policy. During the period management have amended the useful economic life of these assets from a three-year straight-line policy to a reducing balance method. A significant portion of the capitalised costs relate to creative staff time and internal overheads, which management have determined relate to the development of book titles. There is management judgement involved in determining the portion of overhead costs and employee time which is directly attributable to the development of books, as well as assessing the split between research and development activities, which would determine how much of this time should be capitalised. **RELEVANT DISCLOSURES IN THE ANNUAL REPORT AND ACCOUNTS 2021** • Financial statements: Note 1, General information and significant accounting policies and Note 14, Intangible assets – pre-publication costs; • Audit and Risk Committee Report: Page 25	In responding to the key audit matter, our audit work included but was not restricted to: • Considering the appropriateness of the amortisation policy by checking whether it is in accordance with the financial reporting framework, including IAS 38 'Intangible Assets'; • Challenging management on the appropriateness of the assumption of a three-year useful economic life by reviewing historic sales patterns and assessing how well these support management's estimate; • Obtaining management's paper on their proposed amendments to the group's amortisation policy and challenging management's assumptions; • Selecting a sample of the underlying sales and publishing data which underpins management's analysis and agreeing these to support; • Recalculating the amortisation charge to confirm it is appropriate, in accordance with management's policy and reflects the economic pattern of the underlying assets useful life; • Performing a benchmarking analysis against businesses of a similar size and industry to Quarto; • Recalculating management's impairment analysis of titles held in pre-publication intangibles, challenging management's underlying assumptions and agreeing a sample of the underlying data to support; • Assessing the adequacy of financial statement disclosures in relation to the management estimate associated with the useful economic life of pre-publication intangibles; • Considering the appropriateness of the capitalisation policy by checking whether it is in accordance with the financial reporting framework, including IAS 38 'Intangible Assets'; • Challenging judgements made by management in determining which costs are directly attributable to the development of book titles; • Challenging management over the assumptions used to determine the capitalisation percentages applied to overheads and corroborating these assumptions to support where appropriate; • Selecting a sample of costs capitalised in the year and agreeing to supporting documentation to confirm they are directly attributable to the development of book titles; and • Making inquiries with members of the creative team to understand their role and the appropriateness of their time being capitalised to pre-publication costs. **OUR RESULTS** Our audit work identified that the straight line amortisation of pre-publication intangibles over a useful economic life of three years was no longer appropriate given the sales profile of the assets. Management subsequently revised their amortisation policy for the current and future years, to a 50% reducing balance method. Following the application of the revised amortisation policy, our audit work did not identify any material errors in the accuracy or valuation of pre-publication intangibles.

We did not identify any key audit matters relating to the audit of the financial statements of the parent company.

INDEPENDENT AUDITOR'S REPORT (continued)

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

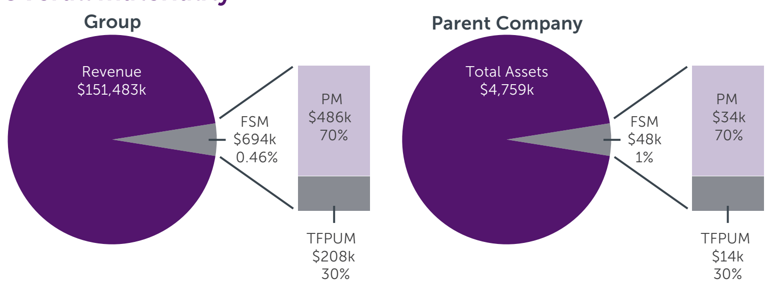
Materiality was determined as follows:

Materiality measure	Group	Parent company
MATERIALITY FOR FINANCIAL STATEMENTS AS A WHOLE	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.	
Materiality threshold	$693,600, which is approximately 0.5% of group revenue.	$48,000, which is approximately 1% of the parent company's total assets.
Significant judgements made by auditor in determining materiality	This benchmark is considered the most appropriate because revenue is a key driver and a key performance indicator of the business, monitored by management and the directors. As part of this assessment, we considered the use of earnings before tax as the benchmark however as there have been significant fluctuations in the group's earnings before tax in recent years this was not deemed to be appropriate. Given the current uncertainties in the macro-economic environment a percentage of 0.5% of the revenue benchmark has been applied. We also referred to key metrics and performance indicators raised in the annual report to determine our revenue based materiality; this is therefore also a reflection of what the entity deem to be key benchmarks for users of the financial statements. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2020 to reflect the increase in the group's revenue in the current year.	This benchmark is considered the most appropriate because the parent company is a holding company and has no revenue. Materiality for the current year is the same as the level that we determined for the year ended 31 December 2020.
Significant revision of materiality threshold that was made as the audit progressed	We calculated materiality during the planning stage of the audit based on a straight-line extrapolation of revenue earned from January 2021 to September 2021. During the course of our audit, we re-assessed initial materiality based on actual revenue for the year ended 31 December 2021 and adjusted our audit procedures accordingly. This was to ensure our audit work has been completed to an appropriate level based on the materiality benchmark selected.	No reassessment of materiality was required.

Materiality measure	Group	Parent company
PERFORMANCE MATERIALITY USED TO DRIVE THE EXTENT OF OUR TESTING	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.	
Performance materiality threshold	$486,000, which is 70% of financial statement materiality.	$33,600, which is 70% of financial statement materiality.
Significant judgements made by auditor in determining performance materiality	In determining performance materiality, we made the following significant judgements: • Our experience with auditing the financial statements of the Group in previous years – based on the number and quantum of identified misstatements in the prior year audit and management's attitude to correcting misstatements identified; • Our assessment of the strength and effectiveness of the control environment; and • The number of components within the Group and the extent of audit procedures planned and performed at these components.	In determining performance materiality, we made the following significant judgements: • Our experience with auditing the financial statements of the parent company in previous years – based on the number and quantum of identified misstatements in the prior year audit and management's attitude to correcting misstatements identified; and • Our assessment of the strength and effectiveness of the control environment.
SPECIFIC MATERIALITY	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	
Specific materiality	We determined a lower level of specific materiality for the following areas: • Related party transactions; and • Directors' remuneration	We determined a lower level of specific materiality for the following areas: • Related party transactions; and • Directors' remuneration
COMMUNICATION OF MISSTATEMENTS TO THE AUDIT COMMITTEE	We determine a threshold for reporting unadjusted differences to the audit committee.	
Threshold for communication	$34,680 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	$2,400 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality



FSM: Financial statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements

An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the group's and the parent company's business and in particular matters related to:

UNDERSTANDING THE GROUP, ITS COMPONENTS, AND THEIR ENVIRONMENTS, INCLUDING GROUP-WIDE CONTROLS

- The engagement team obtained an understanding of the group and its environment, including group-wide controls, and assessed the risks of material misstatement at the group level; and
- The group comprises of two trading components alongside multiple dormant components. The groups financial system is independent at each component however input is provided into the group wide controls by group management.

INDEPENDENT AUDITOR'S REPORT (continued)

IDENTIFYING SIGNIFICANT COMPONENTS
- The group audit team evaluated the various components to assess their significance and determined 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.

TYPE OF WORK TO BE PERFORMED ON FINANCIAL INFORMATION OF PARENT AND OTHER COMPONENTS
- The parent entity has been subjected to a full scope audit, being an audit of the financial information of the component using component materiality, of its financial statements;
- Based on our evaluation we considered that the only significant components of the group are Quarto Publishing plc and Quarto Publishing Group (USA) Inc. due to their significance to the group;
- We have performed a full-scope audit of all significant components of the group as identified above;
- Key audit matters were identified within the group as part of our risk assessment procedures. Disclosures as to how the key audit matters identified have been addressed can be found within the key audit matter section of our audit report;
- The financial information of the other components in the group has been subjected to analytical procedures at a group level.

PERFORMANCE OF OUR AUDIT
- The full scope audits performed represent 100% of the group's continuing revenue for the year, 100% of the group's total assets, and 99.1% of the group's total liabilities;
- As part of our procedures a review of the group's IT systems and controls has been completed.

CHANGES IN APPROACH FROM PREVIOUS PERIOD
- Our approach is consistent with the approach used in the previous year, due to travel restrictions imposed as a result of COVID-19, our audit work in relation to Quarto Publishing Group (USA) Inc. had to be completed virtually as opposed to an on-site visit.
- We have been able to complete site visits through the audit engagement at the client site for Quarto Publishing plc as well as completing in person stock counts for Quarto Publishing Group (USA) Inc at the main distribution site in the US.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, 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.

Our opinions on other matters prescribed by the Companies Act 2006, were it to apply to the parent 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.

Matter on which we are required to report under the Companies Act 2006, were it to apply to the parent 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 parent 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.

Corporate governance statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's and the parent company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- the directors' statement in 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's 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;
- the directors' explanation in the annual report as to how they have assessed the prospects of the group and the parent company, 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 and the parent company will be able to continue in operation and meet their liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions;
- the directors' statement 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 and the parent company's performance, business model and strategy;
- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal and emerging risks facing the group and the parent company, including the impact of Brexit and Covid-19, and the disclosures in the annual report that describe the principal risks, procedures to identify emerging risks and an explanation of how they are being managed or mitigated;
- the section of the annual report that describes the review of the effectiveness of group's and the parent company's risk management and internal control systems, covering all material controls, including financial, operational and compliance controls; and
- the section of the annual report describing the work of the audit committee, including significant issues that the audit committee considered relating to the financial statements and how these issues were addressed.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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.

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.

EXPLANATION AS TO WHAT EXTENT THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

INDEPENDENT AUDITOR'S REPORT (continued)

- We obtained an understanding of the legal and regulatory frameworks applicable to the parent company and the group and the industry in which they operate. We determined that the following laws and regulations were most significant: UK-adopted international accounting standards, for the Group, Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' for the parent company, Listing Rules, Companies Act 2006, Tax rules in the UK and US and the UK Corporate Governance Code.
- We obtained an understanding of how the parent company and the group is complying with those legal and regulatory frameworks by making inquiries of management, at a group and component level, inquiring with those responsible for legal and compliance procedures and with the company secretary. We corroborated our inquiries through our review of board minutes and papers provided to the Audit Committee.
- We evaluated the design and implementation of controls over the financial reporting systems and the effectiveness of the control environment as part of our risk assessment.
- We assessed the susceptibility of the parent company's and group's financial statements to material misstatement, including how fraud might occur. Audit procedures performed included:
  - identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
  - understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
  - challenging assumptions and judgments made by management in its significant accounting estimates; and
  - identifying and testing journal entries posted in the year which were deemed to be unusual.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The engagement partner assessed whether the engagement team collectively had the appropriate competence and capabilities to identify and recognise non-compliance with laws and regulations through an assessment of the engagement team's:
  - understanding of, and practical experience with, audit engagements of a similar nature and complexity, through appropriate training and participation; and
  - knowledge of the industry in which the Group and parent company operate
- We note our key audit matter in relation to the completeness of the sales return provision relates to irregularities, including fraud. Refer to key audit matters for work completed and our results from the procedures performed.
- We note that there is no specific industry legislation that significantly impacts The Quarto Group, inc. and the engagement team are deemed to hold appropriate competence and capabilities to identify non-compliance with laws and regulations.

Other matters which we are required to address

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

The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 5 years, covering the periods ending 31 December 2017 to 31 December 2021.

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 our 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 23 November 2021. 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.

David White
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
17 March 2022

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 $000	2020 $000
Continuing operations			
Revenue	2	151,483	126,883
Cost of sales		(103,897)	(89,298)
Gross profit		47,586	37,585
Administrative expenses		(22,314)	(18,264)
Impairment of financial assets	16	(874)	(1,571)
Distribution costs		(8,439)	(7,132)
Operating profit before amortization of acquired intangibles and exceptional items	4	15,959	10,618
Amortization of acquired intangibles		(7)	(890)
Exceptional items	5	—	(446)
Operating profit		15,952	9,282
Finance costs	7	(1,796)	(2,693)
Profit before tax		14,156	6,589
Tax	8	(4,230)	(2,020)
Profit for the year		9,926	4,569
Attributable to:			
Owners of the parent		9,926	4,569
		9,926	4,569
Earnings per share (cents)			
From continuing operations			
Basic	9	24.3	11.7
Diluted	9	24.3	11.6

The notes on pages 62 to 89 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 $000	2020 $000
Profit for the year	9,926	4,569
Items that may be reclassified to profit or loss		
Foreign exchange translation differences	(506)	1,087
Tax relating to items that may be reclassified to profit or loss	66	54
Total other comprehensive income	(440)	1,141
Total comprehensive income for the year	9,486	5,710
Total comprehensive income for the year attributable to:		
Owners of the parent	9,486	5,710
	9,486	5,710

The notes on pages 62 to 89 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

AS AT 31 DECEMBER 2021

	Notes	2021 $000	Restated[1] 2020 $000
Non-current assets			
Property, plant and equipment	12	5,181	6,818
Goodwill	10	19,286	19,381
Intangible assets: Pre-publication costs	14	29,941	40,913
Other intangible assets	11	51	159
Intangible assets		49,278	60,453
Deferred tax assets	18	2,436	1,360
Total non-current assets		56,895	68,631
Current assets			
Inventories	15	20,393	15,465
Trade and other receivables	16	51,242	44,519
Cash and cash equivalents	17	28,432	22,079
Total current assets		100,067	82,063
Total assets		156,962	150,694
Current liabilities			
Short term borrowings	17	(5,438)	(41,819)
Trade and other payables	20	(53,789)	(50,064)
Lease liabilities	19	(1,363)	(1,968)
Tax payable		(7,467)	(4,355)
Total current liabilities		(68,057)	(98,206)
Non-current liabilities			
Long term borrowings	17	(28,508)	–
Deferred tax liabilities	18	(3,130)	(4,079)
Tax payable		(386)	(386)
Lease liabilities	19	(3,672)	,(4,310)
Total non-current liabilities		(35,696)	(8,775)
Total liabilities		(103,753)	(106,981)
Net assets		53,209	43,713
Equity			
Share capital	23	4,089	4,089
Paid in surplus	23	48,701	48,701
Retained earnings and other reserves	24	419	(9,077)
Total equity		53,209	43,713

1 Please refer to note 18.

The notes on pages 62 to 89 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors and authorized for issue on 17 March 2022. They were signed on its behalf by:

Chuk Kin Lau
Director
17 March 2022

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital $000	Paid in surplus $000	Translation Reserve $000	Retained earnings $000	Equity attributable to owners of the parent $000
Balance at 1 January 2020	2,045	33,764	(6,748)	(8,007)	21,054
Profit for the year	–	–	–	4,569	4,569
Other comprehensive income					
Foreign exchange translation differences	–	–	1,087	–	1,087
Tax relating to items that may be reclassified to profit or loss	–	–	54	–	54
Total comprehensive income for the year	–	–	1,141	4,569	5,710
Transactions with owners					
Share capital raised	2,044	16,307	–	–	18,351
Costs of raising share capital	–	(1,370)	–	–	(1,370)
Share based payments credit	–	–	–	(32)	(32)
Total transactions with owners for the year	2,044	14,937	–	(32)	16,949
Balance at 31 December 2020	4,089	48,701	(5,607)	(3,470)	43,713
Profit for the year	–	–	–	9,926	9,926
Other comprehensive income					
Foreign exchange translation differences	–	–	(506)	–	(506)
Tax relating to items that may be reclassified to profit or loss	–	–	66	–	66
Total comprehensive income for the year	–	–	(440)	9,926	9,486
Transactions with owners					
Share based payments credit	–	–	–	10	10
Total transactions with owners for the year	–	–	–	10	10
Balance at 31 December 2021	4,089	48,701	(6,047)	6,466	53,209

The notes on pages 62 to 89 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 $000	2020 $000
Profit for the year	9,926	4,569
Adjustments for:		
Net finance costs	1,796	2,693
Depreciation of property, plant and equipment	1,741	2,160
Software amortization	101	231
Tax expense	4,230	2,020
Profit on disposal of right-of-use assets	—	(35)
Share based payments/(credits)	10	(32)
Amortization of acquired intangibles	7	890
Amortization and impairment of pre-publication costs	31,000	28,646
Operating cash flows before movements in working capital	48,811	41,142
(Increase)/decrease in inventories	(5,036)	4,023
(Increase)/decrease in receivables	(7,106)	2,721
Increase/(decrease) in payables	4,035	(9,205)
Cash generated by operations	40,704	38,681
Income taxes paid	(3,053)	(1,760)
Net cash from operating activities	37,651	36,921
Investing activities		
Investment in pre-publication costs	(20,229)	(20,324)
Purchases of property, plant and equipment	(111)	(34)
Net cash used in investing activities	(20,340)	(20,358)
Financing activities		
Interest payments	(1,866)	(1,297)
New share capital raised	—	18,351
Costs of raising new share capital	—	(1,370)
Lease payments	(1,426)	(1,995)
Drawdown of revolving credit facility and other loan	22,994	4,520
Repayment of term loan and revolving credit facility	(30,840)	(28,413)
Net cash used in financing activities	(11,138)	(10,204)
Net increase in cash and cash equivalents	6,173	6,359
Cash and cash equivalents at beginning of year	22,079	15,621
Foreign currency exchange differences on cash and cash equivalents	180	99
Cash and cash equivalents at end of year	28,432	22,079

The notes on pages 62 to 89 are an integral part of these consolidated financial statements.

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

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 the Chief Executive Officer's Statement on page 7.

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

CHANGE IN ESTIMATE

The group undertook a review of the amortization period and method of the pre-publication costs in the development of the books title prior to publication. The review resulted in the change of method used to amortize the pre-publication costs in accordance with IAS 38 - Intangible Assets. The amortization rate has now changed prospectively from a 3 year straight line to a 50% reducing balance basis. The impact of this change is that the amortization charge of the group for the current year has been reduced by $1.26m.

During 2021, actual returns reduced by 31% year on year. As the directors believe this to be a short-term issue, the directors have extended the period which they monitor historical returns to ensure that the longer term trend is reflected in the provision. Accordingly, the period that sales and returns are reviewed was extended from 1 to 3 years. The estimated period that returns are made from the point of sale remains at 6 months, being the final six months of the financial year.

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 'UK Adopted' International Financial Reporting Standards ('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 90 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.

STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN ADOPTED EARLY BY THE GROUP

A number of amendments to accounting standards and Interpretations, effective in the current financial year have been adopted but have not had a material impact on the Group financial statements.

The Group has not applied any other standards, Interpretations or amendments that have been issued but are not yet effective.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement.

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 recognized 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:

GOODWILL

Note 10:
Management makes estimates and assumptions in measuring the carrying amount of goodwill. In considering whether goodwill has been impaired, the recoverable amount of cash generating units has been determined based on value in use calculations. These calculations require management to estimate future cash flows, a long-term growth rate and an appropriate discount rate. The sensitivity of the carrying amount of goodwill to these variables are considered.

INTANGIBLE ASSETS

Note 14:
Management makes estimates and assumptions when assessing the estimated economic life attributed to such titles. The capitalisation of these assets and the related amortization and impairment charges are based on estimates about the value and economic life of such items. The Group undertook a review of the pre-publication cost amortization with the benefits generated from the book title revenues. We concluded that a 50% reducing balance method of amortization was now appropriate rather than the 3 year straight line basis.

1 General information and significant accounting policies (continued)

The carrying amount of the intangible 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.

SALES RETURNS ALLOWANCE

Note 1, 2, 20:
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 return patterns associated with each customer, as well as current market trends. During 2021, actual returns reduced by 31% year on year which the directors believe was due to a large extent, by logistic and distribution issues that resulted in a significant backlog of returns and a change in customer habits. As this is believed to be a short-term issue, the directors have extended the period which they monitor historical returns to ensure that the longer-term trend is reflected in the provision. Accordingly, the period that sales and returns are reviewed to form an expectation of the sales return percentage was extended from 1 year to 3 years, with equal weighting given to each year. The estimated period that returns are made from the point of sale remains at 6 months, being the final six months of the financial year. The returns provision for the group, was $5.8m at 31 December 2021 which in accordance with the requirements of IFRS 15 - Revenue from Contracts with Customers, represents a weighted expectation of returns and the estimation of the variable income as a result of the sales returns has been constrained to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised. However, if the prior year methodology of 1 year had been used, the impact to the provision would have been a decrease of $1.1m.

Management deem that the sales returns provision could have a reasonable possible range from $3.4m to $6.1m as a result of the estimation uncertainty. The lower range reflects actual returns for 2022 to date increased by the expected backlog which has been extrapolated across the 6 month returns period.

This allowance is included within other payables. The Group also recognize an asset in relation to stock which is expected to be returned within inventory, based on average print margins and an additional allowance for unsaleable returns.

Key judgements at the balance sheet date are:

GOVERNMENT GRANTS

During 2020, the Group received a loan of $2,422,000 relating to government support given under the Coronavirus Aid, Relief and Economic Security Act of the USA. The loan is forgivable under certain prescribed conditions. As at the balance sheet date, the Group couldn't adequately ascertain that the prescribed conditions had all been satisfied and, therefore, without such reasonable assurance, the loan has continued to be treated as a borrowing. Please see note 22 for more details.

GOING CONCERN BASIS

The Board assessed the Group's ability to operate as a going concern for at least the next 12 months from the date of signing the financial statements.

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 in detail to 31 March 2023. This is to satisfy themselves of the going concern assumption used in preparing the financial statements. The base case model was built using a detailed sales forecast driven by the publishing program for 2022. Core margins have been reviewed, with the ongoing Issues of freight and shipping pushing margins down. Trade receivable days remaining consistent with 2021.

As part of this work, the model was sensitized initially by a 5% reduction in revenue to ensure headroom within the covenants. This is deemed as a severe but plausible scenario. Management performed a reverse stress test to assess the point in which the banking covenants were breached. This occurred at a reduction in revenue of 9% from the base case. It is considered unlikely that such a reduction of revenue would occur, given, the detailed nature of the sales forecast and even with the challenges of 2020, revenue dropped by only 7% year on year. Should we start to see a reduction in revenue, then mitigating action will be taken, such as reduction in investment in pre-publication costs, print volumes, staffing levels and other variable costs.

Based on the above indications, the Directors believe that it remains appropriate to continue to adopt the going concern in preparing the financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 General information and significant accounting policies (continued)

The interest of non-controlling interests on an acquisition is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

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. Quarto identifies its cash-generating units based on its operating model and how data is collected and reviewed for management reporting and strategic planning purposes, in accordance with IAS36 - Impairment of Assets. Corporate overheads have been divided between cash-generating units and factored into the value in use calculation.

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

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

VOLUME REBATES

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

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 recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

GOVERNMENT GRANTS

During 2020, the Group received financial support from Governments in UK and USA. The grants related to expense items. Any monies received or receivable are initially held as liabilities on the balance sheet. Grants are subsequently recognized in profit and loss when there is reasonable assurance that compliance has been satisfied. Additional Information is disclosed in note 6 and note 17.

SEGMENT REPORTING

The Group has two operating segments: US Publishing and UK Publishing. In identifying these operating segments, management follows the information provided to the chief operating decision maker of our business which relates to the two geographical locations. The two segments are managed separately and focus on different geographic markets. For management purposes, the Group uses the same measurement policies as those used in its financial statements.

REVENUE RECOGNITION

Revenue arises largely from the sale of physical products. To determine whether to recognize revenue, the Group considers the following criteria:

- Identifying the contract with a customer
- Identifying the performance obligations
- Determining the transaction price
- Allocating the transaction price to the performance obligations
- Recognizing revenue as/when performance obligations are satisfied

Each contract is for an agreed price and revenue is recognized 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. Contracts can span over 1 year. Where invoices are issued prior to transfer of the product to the customer, and there are unconditional rights to consideration the amounts invoiced are recorded as contract liabilities on the balance sheet, under deferred Income. In most cases this contract liability will be recognized within 12 months. When the product has been transferred to the customer, the liabilities are released and treated as revenue accordingly.

Revenue from the sale of publishing rights is recognized at the point the customer is able to use and benefit from the right to use the license. This is when the Group has discharged its performance obligations under the contractual arrangements. The sale of publishing rights includes the right to future sales based royalties. Revenue generated from the sales based royalties is only recognized when the subsequent sale occurs. Quarto licences the intellectual property rights to the customer on a right to use basis. This allows the customer to use the intellectual property as detailed in the contract. Once the term of the contract has expired, the licence becomes cancelled.

1 General information and significant accounting policies (continued)

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 return patterns associated with the customer, as well as current market trends. The estimated returns period is a key input of the returns allowance and is calculated by reference to historic returns data. The estimated returns period for the current and prior year is 6 months. The estimation of the variable income as a result of the sales returns is constrained to the extent that it is deemed highly probable that there will be no significant reversal in the amount of cumulative revenue recognized. This allowance is included within other payables. The Group also recognize an asset in relation to stock which is expected to be returned within inventory, based on average print margins and an additional allowance for unsaleable returns.

QUARTO DISTRIBUTION SERVICES
Quarto acts as an agent for our distributed customers facilitating sales through our distribution channels. Quarto recognizes the revenue from the sales in line with the above-mentioned revenue recognition policy.

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 recognized 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 recognized in the currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognized in equity are reclassified to profit or loss and are recognized 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 recognized 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 recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Changes in deferred tax assets or liabilities are recognized as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to other comprehensive income or equity, in which case the related deferred tax is also charged or credited directly to other comprehensive income or equity, respectively.

PROPERTY, PLANT AND EQUIPMENT
Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairments in value.

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

Estimated useful lives are as follows:

Right-of-use assets	Over the period of the lease
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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 General information and significant accounting policies (continued)

In the case of right-to-use assets, expected useful lives are determined by reference to comparable owned assets or the lease term, if shorter. Material residual value estimates and estimates of useful life are updates as required, but at least annually.

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 recognized in income.

LEASED ASSETS

For any new contracts entered into on or after 1 January 2021, the Group considers whether a contract is, or contains, a lease. A lease is defined as a 'contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Group recognizes a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate. The Group's incremental borrowing rate reflects the marginal interest rates available to the Group, in the countries in which the assets reside. Lease payments included in the measurement of the lease liability are made up of fixed payments, variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are any changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term lease and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities are disclosed separately.

INTANGIBLE ASSETS - 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 recognized as non-current intangible assets in accordance with IAS38 - Intangible Assets, where the book title will generate future economic benefits and costs can be measured reliably. Management has made judgements and assumptions when assessing the estimated economic life attributed to such titles. The capitalisation of these assets and the related amortization charges are based on judgements about the value and economic life of such items. The Group undertook a review of the pre-publication cost amortization with the benefits generated from the book title revenues. Specific imprints that had been impaired were excluded from the review. The review resulted in the change of method used to amortize the pre-publication costs in accordance with IAS 38 - Intangible Assets. The amortization rate has now changed prospectively from a 3 year straight line to a 50% reducing balance basis. The impact of this change is that the amortization charge of the group for the current year has been reduced by $1.26m. The investment in pre-publication costs has been disclosed as part of the investing activities in the cash flow statement.

Pre-publication costs include work-in-progress. Costs on such unpublished titles are regularly reviewed and if they fail to meet economic expectations, the costs are impaired.

1 General information and significant accounting policies (continued)

INVENTORIES
Inventory is valued at the lower of cost and net realisable value, on a weighted average cost 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 recognized on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

FINANCIAL ASSETS
Financial assets are measured at amortized cost using the effective interest method.

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 recognized 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 recognizes 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 recognized 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 their transaction price 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 expected 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.

FINANCIAL LIABILITIES
The Group's financial liabilities include borrowings, trade and other payables (including lease liabilities).

After initial recognition at fair value, all financial liabilities, with the exception of derivative financial instruments, are measured at amortized cost using the effective interest rate method. A summary of the Group's financial liabilities by category is given in note 21.

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 amortization of debt issuance costs.

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.

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)

BORROWING COSTS

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

No borrowing costs have been capitalized in the current or prior years in relation to any asset.

FINANCIAL RISK MANAGEMENT

The principal risk factors faced by the Group are disclosed in note 21.

2 External revenue

	Products 2021 $000	Publishing Rights 2021 $000	Products 2020 $000	Publishing Rights 2020 $000
Sales	147,939	3,544	122,848	4,035

See accounting policies for detail of the revenue recognition concerning the above revenue streams.

During the year, sales to our primary distributor exceeded 10% of Group revenue (2020: one primary distributor). The value of these sales was $62.0m (2020: $58.8m).

3 Operating segments

The core publishing businesses comprises two divisions: US Publishing and UK Publishing. This is the basis on which operating results are reviewed and resources allocated by the Chief Executive Officer, who is deemed to be the chief operating decision maker.

2021	US Publishing $000	UK Publishing $000	Total Group $000
Continuing operations			
External revenue	81,062	70,421	151,483
Operating profit before amortization of acquired intangibles and exceptional items	10,024	7,001	17,025
Amortization of acquired intangibles	(7)	—	(7)
Segment result	10,017	7,001	17,018
Unallocated corporate expenses			(1,066)
Corporate exceptional items			—
Operating profit			15,952
Finance costs			(1,796)
Profit before tax			14,156
Tax			(4,230)
Profit after tax			9,926
Capital expenditure	39	72	111
Disposals	(44)	—	(44)
Depreciation and software amortization	(1,399)	(443)	(1,842)
Depreciation on disposals	44	—	44
Investment in pre-publication costs	10,280	9,949	20,229
Amortization and impairment of pre-publication costs	(14,438)	(16,562)	(31,000)
Deferred Income released	1,811	10,617	12,428

3 Operating segments (continued)

2020	US Publishing $000	UK Publishing $000	Total Group $000
Continuing operations:			
External revenue	63,137	63,746	126,883
Operating profit before amortization of acquired intangibles and exceptional items	3,249	8,360	11,609
Amortization of acquired intangibles	(851)	(39)	(890)
Segment result	2,398	8,321	10,719
Unallocated corporate expenses			(991)
Corporate exceptional items			(446)
Operating profit			9,282
Finance costs			(2,693)
Profit before tax			6,589
Tax			(2,020)
Profit after tax			4,569
Capital expenditure	7	27	34
Depreciation and software amortization	(1,333)	(1,058)	(2,391)
Investment in pre-publication costs	10,349	9,975	20,324
Amortization of pre-publication costs	(15,702)	(12,944)	(28,646)
Deferred income released	964	12,769	13,733

BALANCE SHEET

	2021 $000	Restated[1] 2020 $000
Quarto Publishing Group USA	54,313	69,330
Quarto Publishing Group UK	71,877	57,925
Unallocated (Deferred tax and cash)	30,772	25,439
Total assets	156,962	150,694
Quarto Publishing Group USA	28,472	26,930
Quarto Publishing Group UK	30,351	29,413
Unallocated (Deferred tax, corporation tax and debt)	44,930	50,638
Total liabilities	103,753	106,981

1 Refer to note 18 for further details.

GEOGRAPHICAL AREAS

The Group operates in the following main geographic areas:

	Revenue		Non-current assets	
	2021 $000	2020 $000	2021 $000	Restated[1] 2020 $000
United States of America	93,399	76,061	31,333	36,858
United Kingdom	20,241	18,250	23,127	30,413
Europe	21,204	17,446	—	—
Rest of the world	16,639	15,126	—	—
	151,483	126,883	54,460	67,271

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 Operating segments (continued)

1 The comparative value for non-current assets held within the United States of America operating segment has been restated. In the prior year financial statements, the non-current assets incorrectly included a balance of $3,604k in relation to deferred tax assets. The comparative numbers have been amended to reflect the revision.

The revenue in the above table has been allocated by country of destination, whilst the non-current assets have been allocated by location.

4 Operating profit

Whilst costs have been shown on the Income statement by function within the company, the following table shows costs grouped by nature:

	2021 $000	2020 $000
Direct costs		
Purchase of goods and changes in inventories	61,414	50,078
Royalties and product development	11,483	10,574
Amortization of pre-publication costs (note 14)	19,808	23,304
Impairment of pre-publication costs (note 14)	11,192	5,342
	103,897	89,298
Operating costs		
Staff	14,651	12,068
Depreciation of property, plant and equipment (note 12)	1,741	2,160
Software amortization (note 11)	101	231
Distribution Costs	8,439	7,131
Marketing Costs	4,461	3,075
Impairment of losses of financial assets	874	1,450
Other	1,361	852
	31,628	26,967

AUDITOR'S REMUNERATION

Fees payable to the Company's auditor for the audit of the Company's annual accounts	142	108
Fees payable to the Company's auditor and its associates for the audit of subsidiary companies	223	179
	365	287

5 Exceptional items

	2021 $000	2020 $000
Staff severance costs	—	251
Refinancing costs	—	195
Total	—	446

During the year, there were no exceptional Items (2020: $446,000), in accordance with the accounting policy disclosed in note 1. In 2020, costs comprised $251,000 in respect of redundancy costs following restructuring during the Covid-19 pandemic and a further $195,000 of refinancing costs in connection with amendments to the existing facility agreement. There was no charge, net of taxation for the year (2020: $349,000).

6 Staff costs

	2021 Number	2020 Number
Average monthly number of employees (excluding Executive Directors)	304	302

	$000	$000
Wages and salaries	23,107	19,074
Share-based credits	(38)	(32)
Social security costs	2,214	1,969
Other pension costs	918	730
	26,201	21,741
Less monies received by UK Government under Coronavirus Job Retention Scheme	—	(387)
	26,201	21,354

Directors remuneration is disclosed in the Remuneration Committee Report on page 28.

Total emoluments for Directors was:

	2021 $000	2020 $000
Short term employee benefits	900	878
Long term employee benefits	281	175
Termination benefits	29	—
Post-employment benefits	50	47
	1,260	1,110

The Directors' remuneration disclosed above included the following amounts earned in respect of the highest paid director:

	2021 $000	2020 $000
Short term employee benefits	620	504
Post-employment benefits	20	18
	640	522

The Group considers key management personnel as defined under IAS 24 - Related Party Disclosures. To be Directors of the company, this includes Non-Executive Directors and those having authority and responsibility for planning, directing and controlling the activities of Quarto.

Total emoluments for Executive Directors and other key personnel were:

	2021 $000	Restated[1] 2020 $000
Short term employee benefits	1,366	1,043
Long term employee benefits	281	175
Termination benefits	29	—
Post-employment benefits	88	67
	1,765	1,285

1 The key management personnel disclosure for the comparative year has been restated. The 2020 disclosure of key management personnel has been amended to include non-executive directors and those having authority and responsibility for planning, directing and controlling the activities of the group, as well as to include employer's NI contribution with respect of key management personnel and the reclassification of long-term employee benefits which were previously disclosed within short-term employee benefits. The impact of these amendments is an increase in key management remuneration of $244k.

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 Finance costs

	2021 $000	2020 $000
Interest expense on borrowings	1,399	1,724
Amortization of debt issuance costs and bank fees	85	543
Interest expense on lease liabilities arising from the adoption of IFRS 16	276	390
Other interest	36	36
	1,796	2,693

8 Taxation

	2021 $000	2020 $000
Corporation tax		
Current tax	6,209	3,156
Prior periods	—	2
Total current tax	6,209	3,158
Deferred tax (note 18)		
Origination and reversal of temporary differences	(1,979)	(1,138)
Total tax expense	4,230	2,020

Corporation tax on UK profits is calculated at 19%, based on the UK standard rate of corporation tax, (2020: 19%) of the estimated assessable profit for the year. An increase in the UK corporation rate from 19% to 25% is effective 1 April 2023. This will increase the company's future current tax charge accordingly and would increase our net tax liability by $361k. 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.

	2021 $000	2020 $000
Profit before tax	14,156	6,589
Tax at the UK corporation tax rate of 19% (2020: 19%)	2,690	1,252
Effect of different tax rates of subsidiaries operating in other jurisdictions	1,058	161
Change in overseas tax rates during the year	—	68
Adjustment to prior years	—	2
Tax effect of items that are not deductible in determining taxable profit	(16)	240
Other	498	297
Tax expense	4,230	2,020
Effective tax rate	29.9%	30.7%

9 Earnings per share

	2021 $000	2020 $000
From continuing operations		
Profit for the year	9,926	4,569
Amortization of acquired intangibles (net of tax)	5	626
Exceptional items (net of tax)	—	349
Earnings for the purposes of adjusted earnings per share	9,931	5,544

9 Earnings per share (continued)

Number of shares	Number	Number
Weighted average number of ordinary shares	40,889,100	39,185,388
Average number of potentially dilutive share options	—	123,037
Diluted weighted average number of ordinary shares	40,889,100	39,308,425
Earnings per share (cents) – continuing operations		
Basic	24.3	11.7
Diluted	24.3	11.6
Adjusted earnings per share (cents)		
Basic	24.3	14.1
Diluted	24.3	14.1

10 Goodwill

	2021 $000	2020 $000
Cost		
At 1 January	43,102	42,913
Exchange differences	(95)	189
At 31 December	43,007	43,102
Accumulated impairment losses		
At 1 January	(23,721)	(23,721)
Exchange differences	—	—
At 31 December	(23,721)	(23,721)
Carrying value		
At 31 December	19,286	19,381

IMPAIRMENT TESTS FOR CASH GENERATING UNITS CONTAINING GOODWILL

The following units have significant carrying amounts of goodwill:

	2021 $000	2020 $000
Quarto Publishing Group USA (QUS)	12,882	12,882
Quarto Publishing Group UK (QUK)	6,404	6,499
	19,286	19,381

Quarto identifies its cash-generating units based on its operating model and how data is collected and reviewed for management reporting and strategic planning purposes, in accordance with IAS36 - Impairment of Assets. Corporate overheads have been divided between cash-generating units and factored into the value in use calculation.

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 from the addressable market. The cashflows are then discounted using a country-specific discount rate. 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 pre-tax Weighted Average Cost of Capital analysis.

The key assumptions for calculating value in use are:

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 Goodwill (continued)

	Terminal Growth Rates		Discount Rates	
	2021	2020	2021	2020
United States of America	2%	2%	11.13%	11.40%
United Kingdom	2%	2%	10.86%	11.12%

Revenue growth rates: forecast sales growth rates are based on those applied to the Board approved budget for the year ending 31 December 2022 and three-year plan. They incorporate future expectations of growth driven by investment plans for each CGU.

Long-term growth rates: the three-year forecasts are extrapolated to perpetuity on the basis that the CGU's are long-established business units. The long-term growth rates are blended rates formed from the territory-specific long-term growth rates.

Gross margins: gross margins are based on historic performance and expected changes to the sales mix in future periods.

The Group has undertaken various sensitivities of the QUK and QUS CGU's. There were no reasonably possible changes in QUK that would lead to impairment. QUS, which has the largest goodwill and non-current assets, carries a greater risk that reasonably possible changes would result in impairment. Based on the above long-term growth rate and discount rate, QUS exceeded the carrying value of goodwill by $9m. The following sensitivities were applied to this CGU:

- 1.5% increase in discount rate, at which level there was no impairment. The recoverable amount exceeded the carrying value of goodwill by $1.8m. The discount rate would need to increase to 13.05% to record any impairment.
- 0.5% terminal growth rate, at which level there was no impairment. The recoverable amount exceeded the carrying value of goodwill by $1.8m. The terminal growth rate would need to be 0% before any impairment was recorded.
- 5% decline in first year revenues, at which level there was no impairment. The recoverable amount exceeded the carrying value of goodwill by $5.4m.
- 5% decline in first year revenues and an increased discount rate of 12.3% would cause impairment if there were no mitigation actions.

Should there be a headline change in revenues and margins, this could create an impairment.

11 Other intangible assets

	Backlists $000	Software $000	Total $000
Cost			
At 1 January 2020	21,174	1,630	22,804
Exchange differences	79	—	79
At 1 January 2021	21,253	1,630	22,883
Exchange differences	(39)	—	(39)
At 31 December 2021	21,214	1,630	22,844
Amortization and impairment			
At 1 January 2020	20,274	1,248	21,522
Exchange differences	81	—	81
Charge for the year	890	231	1,121
At 1 January 2021	21,245	1,479	22,724
Exchange differences	(39)	—	(39)
Charge for the year	7	101	108
At 31 December 2021	21,213	1,580	22,793
Carrying amount			
At 31 December 2021	1	50	51
At 31 December 2020	8	151	159

12 Property, plant and equipment

Cost	Short-term Leasehold Improvements $000	Right-of-use Leasehold Property $000	Plant, Equipment and Motor Vehicles $000	Fixture and Fittings $000	Total $000
At 1 January 2020	1,010	11,202	1,197	1,086	14,495
Exchange difference	21	(22)	25	2	26
Additions	—	227	34	—	261
Remeasurement	—	2	—	—	2
Disposals	—	(2,313)	—	—	(2,313)
At 31 December 2020	1,031	9,096	1,256	1,088	12,471
Exchange difference	(11)	—	(13)	(1)	(25)
Additions	27	—	84	—	111
Disposals	—	—	(44)	—	(44)
At 31 December 2021	1,047	9,096	1,283	1,087	12,513
Depreciation					
At 1 January 2020	362	1,545	782	923	3,612
Exchange differences	13	—	50	2	65
Charge for the year: right of use asset	—	1,760	—	—	1,760
Charge for the year: other property, plant and equipment	105	—	217	78	400
Disposals	—	(184)	—	—	(184)
At 31 December 2020	480	3,121	1,049	1,003	5,653
Exchange differences	(7)	—	(11)	—	(18)
Charge for the year: right of use asset		1,432			1,432
Charge for the year: other property, plant and equipment	115	—	129	65	309
Disposals	—	—	(44)	—	(44)
At 31 December 2021	588	4,553	1,123	1,068	7,332
Net book value					
At 31 December 2021	459	4,543	160	19	5,181
At 31 December 2020	551	5,975	207	85	6,818

All property, plant and equipment has been pledged as security for the Group's bank borrowings (note 17).

13 Subsidiaries

A list of the 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 Intangible assets – pre-publication costs

	2021 $000 Work in progress	2021 $000 Published products	2021 $000 Total	2020 $000 Work in progress	2020 $000 Published products	2020 $000 Total
Cost						
At 1 January	11,442	86,496	97,938	12,929	118,271	131,200
Exchange difference	(64)	(1,037)	(1,101)	147	2,056	2,203
Additions	20,229	—	20,229	20,324	—	20,324
Transfers	(17,069)	17,069	—	(18,508)	18,508	—
Amounts expensed	(4,433)	—	(4,433)	(3,450)	—	(3,450)
Disposals	—	—	—	—	(52,339)	(52,339)
At 31 December	10,105	102,528	112,633	11,442	86,496	97,938
Amortization and impairment						
At 1 January	—	57,025	57,025	—	82,503	82,503
Exchange difference	—	(900)	(900)	—	1,665	1,665
Amortization charge	—	19,808	19,808	—	23,304	23,304
Amounts expensed	—	6,759	6,759	—	1,892	1,892
Disposals	—	—	—	—	(52,339)	(52,339)
At 31 December	—	82,692	82,692	—	57,025	57,025
Net book value	10,105	19,836	29,941	11,442	29,471	40,913

The assessment of the useful life of pre-publication costs and amortization involves a significant management estimate based on historical trends and future potential sales, in accordance with the accounting policy stated in note 1. The Group undertook a review of the pre-publication cost amortization with the benefits generated from the book title revenues. We concluded that a 50% reducing balance method of amortization was now appropriate rather than the 3 year straight line basis.

The carrying amount of the intangible 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.

Pre-publication costs form part of the carrying value of the CGU for each segment and are considered for impairment of goodwill in note 10.

15 Inventories

	2021 $000	2020 $000
Finished goods	20,267	15,285
Raw materials	126	180
	20,393	15,465

All of the Group's inventories have been reviewed for indicators of impairment. Certain inventories were found to be impaired and a provision of $1,967,000 (2020: $2,220,000) has been recorded accordingly.

All inventories have been pledged as security for the Group's bank borrowings (Note 17).

16 Trade and other receivables

	2021 $000	2020 $000
Trade receivables	45,086	38,361
Other receivables and prepayments	6,156	6,158
	51,242	44,519

The average credit period on sales of goods is 79 days (2020: 77 days).

The Group applies the IFRS 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component. In measuring the expected credit losses, the trade receivables have been assessed on an individual basis, as much as possible, because credit risk characteristics vary by customer. The expected loss rates are based on the payment profile over the last 12 months, to reflect the current and future economic environment. Trade receivables are written off (ie, derecognized) when there is no reasonable expectation of recovery.

On the above basis, the expected credit loss for trade receivables as at 31 December 2021 and 31 December 2020 was determined as follows:

31 December 2021	Current	Overdue Less Than 30 Days	Overdue Less Than 60 Days	Overdue Less Than 90 Days	Overdue More Than 90 Days	Total
Gross carrying amount $000	39,177	3,317	2,010	1,166	2,195	47,865
Expected credit loss rate	3.1%	3.1%	4.2%	13.2%	55.3%	5.8%
Lifetime expected credit loss $000	1,223	103	85	154	1,214	2,779

31 December 2020	Current	Overdue Less Than 30 Days	Overdue Less Than 60 Days	Overdue Less Than 90 Days	Overdue More Than 90 Days	Total
Gross carrying amount $000	33,877	2,039	1,506	1,096	1,757	40,275
Expected credit loss rate	1.0%	1.8%	3.8%	18.1%	72.5%	4.8%
Lifetime expected credit loss $000	347	37	58	199	1,273	1,914

Movement in provision for lifetime expected credit loss is as follows:

	2021 $000	2020 $000
Provision at beginning of year	1,914	1,168
Amounts de-recognized in the year	(109)	(977)
Amounts recovered during the year	124	138
Exchange differences	(24)	14
Increase in allowance recognized in profit or loss	874	1,571
Provision at end of the year	2,779	1,914

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

Note 21 includes disclosures relating to credit risk exposures and analysis relating to the allowance for expected credit losses.

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17 Cash, borrowings and net debt

CASH

	2021 $000	2020 $000
Cash and cash equivalents	28,432	22,079

The carrying amount of these assets approximates to their fair value.
The effective interest rate on bank balances and short-term deposits was 0% (2020: 0%).

BORROWINGS

	2021 $000	2020 $000
Bank and other loans	33,946	41,819
On demand or within one year	5,438	41,819
	33,946	41,819
Less: Amount due for settlement within 12 months (shown under current liabilities)	(5,438)	(41,819)
Amount due for settlement after 12 months	28,508	—

	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	33,879	27,212	6,667	3.75	32
Other currency borrowings	67	—	67	—	—
As at 31 December 2021	33,946	27,212	6,734	3.75	32
US dollar borrowings	39,408	16,408	23,000	3.1	6.5
Other currency borrowings	2,411	—	2,411	—	—
As at 31 December 2020	41,819	16,408	25,411	3.1	6.5

OTHER LOANS

	2021 $000	2020 $000
Other loans (unsecured)	27,212	16,408
On demand or within one year	2,771	16,408
	27,212	16,408
Less: Amount due for settlement within 12 months (shown under current liabilities)	(2,771)	(16,408)
Amount due for settlement after 12 months	24,441	—

Other loans comprise:

(a) Loans of $13,000,000 (2020: $11,500,000) from related parties, as disclosed in note 28, are repayable 31 August 2024, together with the accrued interest.
(b) A loan for $10,000,000 from related parties, as disclosed in note 28 is repayable on 31 August 2024 and carries an interest rate of 4%.
(c) A loan of $2,422,000 (2020: $2,422.000) relates to government support given under the Coronavirus Aid, Relief and Economic Security Act of the USA. This attracts an interest rate of 1%. Without reasonable assurance of forgiveness, it has been treated as debt to be repaid within the next 12 months. See note 22.
(d) Accrued Interest of $1,790,000 (2020: $986,000) on the above loans.

17 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					
As at 31 December 2021	27,212	27,212	–	3.75	32
As at 31 December 2020	16,408	16,408	–	2.8	6.5

BANK LOANS

	2021 $000	2020 $000
Bank loans	6,734	25,411
On demand or within one year	2,667	25,411
	6,734	25,411
Less: Amount due for settlement within 12 months (shown under current liabilities)	(2,667)	(25,411)
Amount due for settlement after 12 months	4,067	–

At 31 December 2021, undrawn borrowing facilities totalled $9.7m (2020: $9.6m). The variable rate borrowings carry interest based on SOFR plus a margin, depending on the leverage ratio. The banking facilities expire on 16 July 2024. The Directors estimate the fair value of the Group's borrowings to be equal to book value, by reference to market rates.

	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	6,667	–	6,667	–	–
Other currency borrowings	67	–	67	–	–
As at 31 December 2021	6,734	–	6,734	–	–
US dollar borrowings	23,000	–	23,000	–	–
Other currency borrowings	2,411	–	2,411	–	–
As at 31 December 2020	25,411		25,411	–	–

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 Cash, borrowings and net debt (continued)

CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 January 2021 $000	Profit and Loss $000	Cashflows $000	Non-cash items $000	Foreign exchange $000	31 December 2021 $000
Borrowings	(41,819)	—	7,846	(417)	444	(33,946)
IFRS 16 lease liabilities	(6,278)	—	1,426	(207)	24	(5,035)
Interest	—	(1,796)	1,866	(70)	—	—
Cash and cash equivalents	22,079	—	6,173	—	180	28,432
Net debt	(26,018)	(1,796)	17,311	(694)	648	(10,549)

	1 January 2020 $000	Profit and Loss $000	Cashflows $000	Non-cash items $000	Foreign exchange $000	31 December 2020 $000
Borrowings	(66,077)	—	23,893	(92)	457	(41,819)
IFRS 16 lease liabilities	(9,866)	—	1,995	1,574	19	(6,278)
Interest	—	(2,693)	1,297	1,396	—	—
Cash and cash equivalents	15,621	—	6,359	—	99	22,079
Net debt	(60,322)	(2,693)	33,544	2,878	575	(26,018)

18 Deferred tax

	2021 $000	2020 $000
Deferred tax liabilities		
Pre-publication costs and other temporary differences – UK	3,131	4,103
Pre-publication costs and other temporary differences – US	—	2,220
	3,131	6,323
Deferred tax assets		
Goodwill, intangible assets and other temporary differences – US	2,436	3,604
	2,436	3,604
Net deferred taxation liability	695	2,719

Quarto US have a deferred tax asset of $3,604k and a deferred tax liability of $2,220k. In the prior year statement of financial position these were incorrectly disclosed as gross balances, however, in accordance with IAS 12 - Income Taxes, the deferred tax asset and deferred tax liabilities have been offset as they relate to the same taxable entity. The comparative numbers within the statement of financial position have been amended to reflect the revision. A restated statement of financial position as at 1 January 2020 has not been presented, in accordance with IAS 1 - Presentation of Financial Statements, on the grounds that the misstatement does not impact on net assets and as it represents a grossing up on assets and liabilities is not considered to be qualitatively material.

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

	2021 $000	2020 $000
Net provision at 1 January	2,719	3,808
Charge direct to equity	—	(54)
Exchange difference through other comprehensive income	(45)	103
Credit to profit and loss	(1,979)	(1,138)
Net provision at 31 December	695	2,719

19 Lease liabilities

	2021 $000	2020 $000
Current	1,363	1,968
Non-current	3,672	4,310
Total	5,035	6,278

The Group has leases for its offices and some IT equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Group revenues) are excluded from the initial measurement of the lease liability and asset. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (note 12).

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. For leases over office buildings the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Group's leasing activities by type of right-to-use asset recognized on the balance sheet:

Right-of-use asset	No of right-of-use assets leased	Range of remaining term	Average remaining lease term	No of lease with extension options	No of lease with options to purchase	No of lease with variable payments linked to an index	No of lease with termination options
Office building	6	4-9 years	6 years	1	—	4	1

Properties with extension, or termination, options are assessed on a case-by-case basis in determining take-up of the options. The property lease in Seattle includes the option to extend this lease by 5 years. At this point in time, there is no intention by the company to exercise this extension. However, if we were to extend, the future cash flow would be $1.75m.

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 31 December 2021 were as follows:

	Minimum lease payments due US$000						
	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	Total
31 December 2021							
Lease payments	1,601	794	450	272	161	2,414	5,692
Finance charges	(223)	(164)	(122)	(80)	(42)	(26)	(657)
Net present values	1,378	630	328	192	119	2,388	5,035
31 December 2020							
Lease payments	2,358	1,551	1,585	1,044	1,013	—	7,551
Finance charges	(390)	(269)	(219)	(161)	(234)	—	(1,273)
Net present values	1,968	1,282	1,366	883	779	—	6,278

The total cash outflow in relation to lease liabilities during the year was $1,426,000 (2020: $1,995,000). Please see note 17.

The Group has elected not to recognize a lease liability for short term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis and amounted to $4,000 in the year (2020: $26,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 Trade and other payables

CURRENT LIABILITIES

	2021 $000	2020 $000
Trade payables	29,450	28,529
Other payables	24,339	21,535
Total	53,789	50,064

Under IFRS 15, the reserve for sales returns is included in other payables; it amounts to $5,776,000 (2020: $6,481,000). The reserve is calculated based on a time lag between sales and returns and historical return patterns. Management monitors actual returns against the reserve on a regular basis. If the rate of sales return had been 1% higher during the year, the provision would have increased by $545,000 (2020: $512,000).

Included within other payables is $1,957,000 in respect of deferred Income (2020: $2,274,000), detailed below:

	2021 $000	2020 $000
Opening liability	2,274	2,525
Deferred income invoiced	12,136	13,436
Revenue recognized	(12,428)	(13,733)
Exchange difference	(25)	46
Closing liability	1,957	2,274

We expect deferred Income to be recognized within the next 12 months.

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, and, to a much lesser extent in Euros. The Group has minimal exposure to other foreign currencies.

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

	2021		2020	
	$000 Sterling	$000 Other	$000 Sterling	$000 Other
Financial assets	15,465	1,394	11,792	1,053
Financial liabilities	(1,362)	(1,000)	(755)	(3,033)
Short-term exposure	14,103	394	11,037	(1,980)
Financial liabilities	—	—	—	—
Long-term exposure	—	—	—	—
At 31 December	14,103	394	11,037	(1,980)

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

It assumes a $\pm$ 5% change of the Sterling/US-Dollar exchange rate, in line with the movement over the last year.

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% (2020: 5%) then this would have had the following impact:

21 Financial instruments (continued)

	2021 $000	2020 $000
Profit/(loss) after tax for the year	46	(240)
Equity	46	(240)

If Sterling had weakened against the US Dollar by 5% (2020: 7.5%) then this would have had the following impact:

	2021 $000	2020 $000
(Loss)/profit after tax for the year	(46)	240
Equity	(46)	240

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 minimize 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 sometimes, therefore, at fixed rates.

At 31 December 2021, the Group is exposed to changes in market interest rates through its bank borrowings, which are subject to variable interest rates – see note 17 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:

	2021 $000	2020 $000
Loss for the year	(13)	(48)
Equity	(13)	(48)

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

	2021 $000	2020 $000
Profit for the year	13	48
Equity	13	48

CREDIT RISK ANALYSIS

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

	2021 $000	2020 $000
Cash and cash equivalents	28,432	22,079
Trade receivables	45,086	38,361
	73,518	60,440

The Group's credit risk is primarily attributable to its trade receivables. There is minimal credit risk within other 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Financial instruments (continued)

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.

A new facility agreement was signed on 16 February 2021 with borrowing facilities of US$20m. This facility is subject to two principal covenants in 2021, being:

(a) Net banking Indebtedness shall not exceed 2.0 times EBITDA (as defined in the facility agreement)
(b) EBITDA shall exceed 4 times net finance charges (as defined in the facility agreement)

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

	Current		Non-Current	
31 December 2021	Within 6 months $000	6 to 12 months $000	1 to 5 years $000	Over 5 years $000
Bank and other loans	348	2,422	28,508	—
Lease liabilities	800	800	4,092	—
Trade payables	29,450	—	—	—
Other short-term financial liabilities	24,339	—	—	—
	54,937	3,222	32,600	—

	Current		Non-Current	
31 December 2020	Within 6 months $000	6 to 12 months $000	1 to 5 years $000	Over 5 years $000
Bank and other loans	3,132	40,965	—	—
Lease liabilities	984	984	4,310	—
Trade payables	28,529	—	—	—
Other short-term financial liabilities	21,535	—	—	—
	54,180	41,949	4,310	—

SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

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

21 Financial instruments (continued)

	2021 $000	Restated[1] 2020 $000
Current assets		
Financial assets at amortized cost:		
Trade receivables	45,086	38,361
Cash and cash equivalents	28,432	22,079
	73,518	60,440
Current liabilities		
Financial liabilities measured at amortized cost:		
Borrowings	5,438	41,819
Trade payables	29,450	28,529
Other payables	21,475	19,146
	56,363	89,494
Non-current liabilities		
Financial liabilities measured at amortized cost:		
Borrowings	28,508	–
	28,508	–

1 The comparative year has been restated to reflect disclosure errors identified within the prior year financial statements in relation to the financial liabilities. Within the prior year financial statements amounts for non-financial liabilities, including contractual liabilities and statutory obligations had been incorrectly disclosed. The comparative numbers have been amended to reflect the revision which has reduced current liabilities by $2,389k. The comparative year has also been restated with the removal of lease liabilities as these have been disclosed on the face of the Statement of financial position.

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 17, 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 17. 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.

22 Post balance sheet events

C.K. Lau and 1010 Printing Limited were repaid $6m and $9m respectively in Q1 2022, including accrued interest. This repayment was made outside the agreement due to a favorable liquidity position at this point in time.

In February 2022, we received notification from Bank of America advising that $2.272m of the loan relating to government support given under the Coronavirus Aid, Relief and Economic Security Act of the USA of $2.422m was being forgiven. We are still in the process of finalising the repayment of the unforgiven portion, which will take place once agreement has been reached.

23 Share capital and paid in surplus

SHARE CAPITAL

	2021 $000	2020 $000
Authorized		
55,000,000 (2020: 55,000,000) shares of common stock of par value of US$0.10 each	5,500	5,500
Allotted, called up and fully paid:		
40,889,100 (2020: 40,889,100) shares of common stock of par value of US$0.10 each	4,089	4,089

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

23 Share capital and paid in surplus (continued)

PAID IN SURPLUS

This reserve records the amount above par value received for common stock sold less transaction costs. The movement on this reserve was as follows:

	2021 $000	2020 $000
At 1 January	48,701	33,764
Issue of new common stock	—	14,937
At 31 December	48,701	48,701

24 Retained earnings and other reserves

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.

RETAINED EARNINGS

The retained earnings reserve comprises profit for the year attributable to owners of the Group and other items recognized directly through equity as presented on the consolidated statement of changes in equity.

25 Dividends

No dividends have been declared in the current or prior year.

26 Notes to the cash flow statement

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

27 Share based payments

PERFORMANCE SHARE PLAN ('PSP')

The Company operates a PSP scheme that awards free shares.

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 Total Shareholder Return being between 7% and 15%, resulting in vesting on a sliding scale of 20% to 100%.

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

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

	2021 Number	2020 Number
Outstanding at beginning of the year	—	143,784
Forfeited during the year	—	(33,673)
Lapsed during the year	—	(110,111)
Outstanding at the end of the year	—	—

27 Share based payments (continued)

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.

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

	2021 Number	2020 Number
Outstanding at beginning of the year	65,223	84,995
Forfeited during the year	—	(19,772)
Lapsed during the year	(65,223)	—
Outstanding at the end of the year	—	65,223

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

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28 Related party transactions

The Group had the following related party transactions over the periods under review:

PRINTING PURCHASES:

Lion Rock Group Limited	2021 $000	2020 $000
Accounts payable at start of year	12,895	13,692
Purchases	23,830	14,720
Rebate received	—	(1,464)
Payments	(20,123)	(14,053)
Accounts payable at end of year	16,602	12,895

LOANS AND ACCRUED INTEREST:

	At 31 December 2021 $000	At 31 December 2020 $000
Loans	23,000	11,500
Accrued interest on loans at end of year	1,789	874

The loans are from 1010 Printing Limited $17m (2020: $7m) and C.K. Lau $6m ($6m). The loans are unsecured, are repayable, on 31 August 2024, and carry interest at 3.5% and 4.0%. Interest is paid annually on one loan with the remaining accrued interest to be paid at the end of the term.

Lion Rock Group Limited and 1010 Printing Limited are companies over which C.K. Lau exercises control.

The rebate received in 2020 was accounted for in accordance with the accounting policy disclosed in note 1. The rebate scheme was not renewed in 2021.

REVENUES AND TRADE RECEIVABLES:

	At 31 December 2021 $000	At 31 December 2020 $000
Revenues	631	137
Outstanding receivables balance at end of year	126	63

The Group recorded revenues of $623,000 (2020: $129,000) with Giunti Editore S.p.A, a company over which Andrea Giunti Lombardo, a non-executive director, exercises control. The transactions were in the normal course of business on arms-length terms. The amount outstanding at 31 December 2021 was $126,000 (2020: $58,000).

The Group recorded revenues of $8,000, up to 30 June 2021, (2020: $8,000) with Pavilion Books Limited, a company over which Polly Powell, the CEO for Pavilion Books, exercises control. The transactions were in the normal course of business on arms-length terms.

DISTRIBUTION SERVICES:

Pavilion Books Limited	At 31 December 2021 $000	At 31 December 2020 $000
Net sales less distribution fees	1,357	—

From January to June 2021, Quarto provided distribution services to Pavilion Books Group Limited, which was owned by Polly Powell, who resigned on 1 July 2021.

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

		2021 $000	2020 $000
Adjusted operating profit			
Operating profit		15,952	9,282
Add back:	Amortization of acquired intangibles	7	890
	Other exceptional items (note 5)	—	446
Adjusted operating profit		15,959	10,618
EBITDA			
Operating profit before amortization of acquired intangibles and exceptional items		15,959	10,618
Less: Net finance costs		(1,796)	(2,693)
Impact of IFRS 16		(18)	(270)
Adjusted profit before tax		14,145	7,655
Net finance costs		1,796	2,693
Depreciation of property, plant and equipment and software (excluding right-of-use assets)		410	631
Share based payments/(credits)		10	(32)
One off non-cash costs		—	1,892
EBITDA for banking purposes		16,361	12,839
Impact of IFRS 16		18	270
Depreciation of right-of-use assets		1,432	1,760
Less: one off non-cash costs		—	(1,892)
EBITDA		17,811	12,977
Adjusted profit before tax before amortization of acquired intangibles and exceptional items			
Adjusted operating profit before amortization of acquired intangibles and exceptional items		15,959	10,618
Less: net finance costs		(1,796)	(2,693)
Adjusted profit before tax before amortization of acquired intangibles and exceptional items		14,163	7,925
Free cashflow			
Net cash from operating activities		37,651	36,921
Investment in pre-publication costs		(20,229)	(20,324)
Purchases of property, plant and equipment excluding IFRS 16 assets		(111)	(34)
Free cashflow		17,311	16,563
Net debt			
Short-term borrowings		5,438	41,819
Long-term borrowings		28,508	—
Cash and cash equivalents		(28,432)	(22,079)
Net debt		5,514	19,740

Company Balance Sheet

AS AT 31 DECEMBER 2021

	Notes	2021 $000	2020 $000
Fixed assets			
Investments	4	1,244	1,234
		1,244	1,234
Current assets			
Other receivables falling due within one year	6	3,515	3,370
		3,515	3,370
Current liabilities			
Creditors falling due within one year	7	(431)	(52)
		(431)	(52)
Creditors falling due after more than one year			
Tax payable		—	(430)
Net assets		4,328	4,122
Equity			
Called up share capital	8	4,089	4,089
Paid in surplus		48,701	48,701
Retained earnings		(48,462)	(48,668)
Total equity		4,328	4,122

The company reported a profit for the financial year ended 31 December 2021 of $195,000 (2020 $2,214,000).

The notes on pages 92 to 95 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors and authorized for issue on 17 March 2022.

They were signed on its behalf by

Chuk Kin Lau
Director
17 March 2022

Company Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 $000	2020 $000
Other operating income			
Dividends received		–	1980
Administrative expenses		196	–
Foreign exchange (loss)/gain		(52)	224
Profit before tax		144	2,204
Tax	3	52	10
Profit for the year		196	2,214

The notes on pages 92 to 95 are an integral part of these consolidated financial statements.

Company Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital $000	Paid in surplus $000	Retained earnings $000	Equity attributable to owners $000
Balance at 1 January 2020	2,045	33,764	(50,850)	(15,041)
Profit for the year	–	–	2,214	2,214
Transactions with owners				
Share capital raised	2,044	16,307	–	18,351
Costs of raising share capital	–	(1,370)	–	(1,370)
Share based charges	–	–	(32)	(32)
Balance at 1 January 2021	4,089	48,701	(48,668)	4,122
Profit for the year			196	196
Transactions with owners				
Share capital raised	–	–	–	–
Costs of raising share capital	–	–	–	–
Share based payments/charges	–	–	10	10
Balance at 31 December 2021	4,089	48,701	(48,462)	4,328

The notes on pages 92 to 95 are an integral part of these consolidated financial statements.

Notes to the Company Accounts

AT 31 DECEMBER 2021

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.

2 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements. The functional currency of the company is Pounds Sterling, with the parent company accounts presented in US Dollars.

INVESTMENTS

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

OTHER RECEIVABLES

Amounts owed by subsidiary undertakings are initially recognized at fair value, and subsequently measured at amortized cost using the effective interest method.

CREDITORS

Amounts owed to subsidiary undertakings are initially recognized at fair value, and subsequently measured at amortized 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 recognized as an expense in the subsidiary undertakings financial statements, which benefit from the employee services. The Company has recognized 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 27 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 recognized in the income statement.

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.

NOTES TO THE COMPANY ACCOUNTS (continued)

3 Tax

	2021 $000	2020 $000
Current tax credit	(52)	(10)

Corporation tax is calculated at 21%, based on the US standard rate of corporate tax (2020: 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.

	2021 $000	2020 $000
Profit before tax	144	2,204
Tax at the US corporation tax rate of 21% (2020: 21%)	30	463
Tax effect of items that are not (taxable)/deductible in determining taxable profit	(30)	(463)
Other	—	(10)
Tax Credit	—	(10)

4 Investments

	2021 $000	2020 $000
At 1 January	1,234	1,266
Movement during the year	10	(32)
At 31 December	1,244	1,234

5 Subsidiaries

A) TRADING COMPANIES

	Incorporation					
Name	Place	Date	Registered address key	Issued and fully paid up share capital	% held	Segment
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

*Directly held by The Quarto Group, Inc.

NOTES TO THE COMPANY ACCOUNTS (continued)

5 Subsidiaries (continued)

B) 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
Books & Gifts Direct Limited	New Zealand	27 September 1996	C	400,000 shares of NZ$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
Global Book Publishing Pty Limited[1]	Australia	4 November 1999		1,000 shares of A$1 each	100
The Great American Trading Company Limited	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
The Ivy Press Limited	United Kingdom	9 July 1996	A	1042 shares of 10p each	100
Quarto (JS) LLP	United Kingdom	6 November 1998	A	100 units	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
Quarto Australia Pty Limited[2]	Australia	14 September 1981	D	110 shares of $A1 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 China Company Limited	Hong Kong	16 March 2021	E	1 share of HKD1 each	100
Quarto Group HK Ltd[3]	Hong Kong	26 January 2015		100 shares of HKD1 each	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
RotoVision S.A.[2]	Switzerland	18 July 1977	F	1,500 shares of SFr500 each	100
Small World Creations Limited	United Kingdom	20 September 1997	A	1,536 share of £1 each	100

*Directly held by The Quarto Group, Inc.
1 Deregistered on 24 February 2021.
2 In the process of deregistration.
3 Deregistered on 5 March 2021.

NOTES TO THE COMPANY ACCOUNTS (continued)

5 Subsidiaries (continued)

C) LIST OF REGISTERED OFFICES

A The Old Brewery, 6 Blundell Street, London, N7 9BH, United Kingdom
B 100 Cummings Center, Suite 265D, Beverly, MA 01915-6115, USA
(Quarto Publishing Group USA Inc., 251 Little Falls Drive, Wilmington, DE 19808, Delaware, USA; Quarto Inc., 1209 Orange Street, Wilmington, Delaware 19801, USA)
C c/o Brownes CA Limited, Unit K, 215 Rosedale Road, Albany, Auckland, 0632, New Zealand
D c/o ZM Partners, Suite 10 Ground Floor, 123 Clarence Street, Sydney, NSW 2000, Australia
E Level 11 East Wing, NEO, 123 Hoi Bun Road, Kwun Tong, Hong Kong
F Passage Perdonet 1, 1005 Lausanne, Switzerland

6 Other receivables falling due within one year

	2021 $000	2020 $000
Amounts owed by subsidiary undertakings	3,515	3,370
	3,515	3,370

7 Creditors falling due within one year

	2021 $000	2020 $000
Amounts owed to subsidiary undertakings	–	–
Tax payable	(431)	52
	(431)	52

8 Called up share capital

Details of called up share capital are set out in note 23 of the consolidated Financial Statements.

9 Contingent liabilities

The Quarto Group, Inc. has issued guarantees in respect of bank loans of subsidiaries of $6.7m, (2020: $25,411,000). Refer to note 17 of the group consolidated Financial Statements.

10 Related parties

The Company made no repayments to its wholly owned subsidiary, Quarto Publishing plc, during the year (2020: $19,184,000 borrowed in the year). The balance on the loan at 31 December 2021 was $3.5m (due to the company) (2020: $3.4m owed by the company). These balances are non-interest bearing and repayable on demand.

Five Year Summary

	2021[2] $000	2020[2] $000	2019[2] $000	2018[1] $000	2017[1] $000
Results					
Revenue	151,483	126,883	135,807	149,292	152,512
Operating profit before amortization of acquired intangibles and exceptional items	15,417	10,618	10,004	10,305	7,193
Operating profit/(loss)	15,410	9,282	8,774	4,303	(17,882)
Profit before tax, amortization of acquired intangible assets and exceptional items	13,621	7,925	5,074	5,945	3,893
Profit/(loss) before tax	13,614	6,589	3,844	(57)	(21,182)
Profit/(loss) after tax	9,862	4,569	2,882	(552)	(18,539)
Assets employed					
Non-current assets	58,154	70,875	83,385	79,481	85,075
Current assets	100,067	82,063	81,396	92,289	94,248
Current liabilities	(68,057)	(98,206)	(128,226)	(74,084)	(71,039)
Non-current liabilities	(36,996)	(11,019)	(15,501)	(79,698)	(87,311)
Net assets	53,168	43,713	21,054	17,988	20,973
Financed by					
Equity	53,168	43,713	21,054	17,988	20,973
Non-controlling interests	—	—	—	—	—
	53,168	43,713	21,054	17,988	20,973
Earnings/(loss) per share (cents)					
Basic	33.8	11.7	14.1	(2.7)	(96.4)
Diluted	33.8	11.6	14.0	(2.7)	(96.4)
Adjusted basic	33.8	14.1	19.0	23.2	18.3
Adjusted diluted	33.8	14.1	18.8	23.0	17.8

1 The results of 2017 and 2018 have not been restated to reflect the change in accounting for the absorption of overheads to pre-publication costs as set out in note 1.
2 IFRS16 ('Leases') have been adopted on a modified retrospective basis and accordingly the prior year has not been restated. The impact of this is disclosed in note 1 of Notes to the Financial Statements.

Officers and Professional Advisers

Directors
C.K. Lau, Executive Director, President
Andy Cumming*, Chairman
Jane Moriarty*, Vice Chair
Ken Fund*
Mei Lan Lam*
Andrea Giunti Lombardo*

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