Quarto Publishing PLC

Annual report and consolidated financial statements for the year ended 31 December 2018

Registered number 01252863

Quarto Publishing PLC

Contents

Quarto Publishing PLC

Strategic report

Principal activities and objectives

Quarto Publishing PLC (the "Company") and its subsidiaries (the "Group") conduct an international business whose principal activity is the creation and marketing of high quality illustrated books covering a wide range of topics. The Group's operations are based in United Kingdom and previously in Hong Kong.

The Group's principal objectives are to publish books in niche non-fiction sectors such as arts, crafts, reference and cookery as well as children's books that have international potential and achieve strong backlist sales.

Business review and key performance indicators

The board uses a range of performance measures to monitor and manage the business. Certain of these measures are important in measuring our progress in creating shareholder value and are considered key performance indicators (KPIs). The KPIs measure past performance and provide information to allow us to manage the business into the future. KPIs for 2018, together with comparatives, are set out in the table below:

	2018	**2017**
		Restated (note 1)
	£000	£000
Turnover	52,780	58,023
Gross profit margin %	34.2%	33.2%
Operating profit margin %	3.8%	(3.5%)
Stock turn	1.58x	1.52x
Net debt (Note 25)	54,885	57,400

Turnover and gross profit margins are key indicators as to the growth of the Group and the strength of its intellectual property. The directors expect a gross profit margin of around 35%. The operating profit margin is a key indicator as to the underlying profitability of the business and the directors expect a minimum operating profit margin of 5%. This year was a disappointing performance.

Stock turn is an indicator of how quickly our inventories are sold through. The calculation is based on annual cost of stock recognised as an expense and year-end value of finished goods.

Net debt highlights the Group's cash generation and its ability to fund growth and potential acquisitions.

Quarto Publishing PLC

Strategic report (*continued*)

The full results of the Group are set out on page 10. Trading improved in 2018 and whilst the directors expect continued market volatility, we expect 2019 to produce an improved year, subject to other principal risks and uncertainties facing the Group, as set out below.

Principal risks and uncertainties facing the Group

The board of the ultimate parent company, The Quarto Group Inc., carried out its periodic assessment of the principal business risks facing the business and has updated these risks in its risk register, which is regularly reviewed. The risks of the Group are principally the same as The Quarto Group, Inc., and have been disclosed below where relevant.

The business risk review identified the following key risks that face our businesses.

- *Customer Risk* : The Group has a long-established strategy of diversifying its customer base, resulting in the fact that no one customer has over 10% of the business. Customer relations are managed with to ensure a fair-trading relationship. Management monitors debts closely and maintains close relationships with all customers, which may provide prior warning of likely failure.
- *Currency Risk* : The Group has a natural hedge that mitigates against currency movements impacting our earnings in that one of our largest costs, which is print costs, are paid in US Dollars. Borrowings have been taken out in different currencies to mitigate risk of currency movements impacting our net assets.
- *Loss of Intellectual Property* : A cloud storage solution is integrated into production workflow for storage, back-up and recovery services for product files in development. Two archive data arrays that will be a replication of each other were purchased in the first half of 2018.
- *Economic conditions* : The Group has adequate banking facilities including US$72.5 million in available debt facilities. In addition, in such an event, the directors have the ability to a number of mitigating actions, including reduction of discretionary spend on pre-publication costs.
- *Supply chain risk* : The Group relies on a group of print suppliers, many of which are based in Southern China. The Group maintains relationships with printers in other parts of the world and is confident that printing could be carried out by an alternative range of printers if supply from China was interrupted or to mitigate shipping costs. We maintain close relations with our printers, reducing the risk of a lack of knowledge of any printer being in financial trouble. The Group worked with its major printers on a plan to move to sustainable paper and recently instituted a Forest Stewardship Council (FSC) paper or Sustainable Forestry Initiative (SFI) paper policy across all our imprints.
- *Cyber Security* : The Group uses enterprise level firewalls and IT controls to prevent attack as well as maintaining Cloud-based copies and offsite backup of intellectual property. Computerised files of the Group's books are also maintained by printers. We do not store any personal or credit card data on our transactional website www.quartoknows.com.
- *People :* As in any creative business, the Group is heavily reliant on its people and operates with the inherent risk of not making the 'right' books, or creativity being uneven year-on-year. Failure to retain talent and attract new talent could ultimately lead to a failure to generate successful new titles, leading to a drop in revenue. Our portfolio of imprints and large number of products spread this risk. The overall portfolio is well diversified with no single book or series accounting for more than 6% of our total sales in 2018. Our publishers are experienced and talented, and strive to stay close to publishing trends and markets. The Group also offers competitive market rate remuneration packages and works hard on making Quarto an attractive place to work.

Future developments

The directors expect the general level of activity to remain consistent with 2018 in the forthcoming year.

Financial risk management policies and objectives

The Group's borrowings, liquidity, interest rate and foreign exchange exposures are managed through the parent company. The following policies have been applied during the year to manage the financial risks faced by the Group with regard to funding and liquidity, interest rate exposure and currency rate exposures:

- Liquidity risk: The Group prepares an annual cash flow forecast which is reviewed by the Board covering the next 12 months. This forecast is reviewed in the light of the facilities available to the Group, with shorter term cash forecasts also prepared and monitored alongside identified mitigating actions, to ensure that we have adequate liquidity. The Directors, having made enquiries, consider that the Group will have adequate resources for the foreseeable future.
- Interest rate risk: In order to protect the Group from increases in US$ interest rates, while still allowing it to take advantage of lower potential interest payments from a fall in rates, the Group enters into interest rate swaps. The overall objective is to fix the interest rates on approximately 50% of our borrowings.
- Currency rate exposure: The Group's functional currency is the Sterling but with a proportion of our sales and expenditure being denominated in both US$ and Euros. We try to match our annual US dollar and Euro receipts and payments in order to mitigate the impact from exchange rate fluctuations. The average exchange rate for the US dollar in 2018 was US$1.34 (2017: US$1.29) and for the Euro was €1.13 (2017: €1.14).

Employees

Applications for employment of disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

The Group places considerable value on the involvement of its employees and has continued its practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings. Employees are consulted regularly on a wide range of matters affecting their current and future interests.

The directors recognise the importance of diversity amongst its employees and are 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.

On behalf of the board

CK Lau
Director

22 May 2019

Quarto Publishing PLC

Directors' report

The directors present their annual report and the audited consolidated financial statements of Quarto Publishing PLC for the year ended 31 December 2018.

Financial risk management policies and objectives

These are discussed in the Strategic Report on pages 1 to 3.

Proposed dividend and transfer to reserves

The directors do not propose a dividend for the year (*2017: £nil*). The total comprehensive income for the year is £1,249,000 (*2017: total comprehensive loss of £2,310,000*).

Directors and directors' interests

The directors who held office during the year and subsequently were as follows:

M E Leaver (Resigned 24 May 2018)
D M Breuer (Resigned 30 April 2018)
C K Lau (Appointed 24 May 2018)
L F Orbach (Appointed 23 May 2018; resigned 25 July 2018)
C M Bresh (Appointed 30 April 2018; resigned 5 June 2018)
M J Mousley (Appointed 26 July 2018)

The Company has made qualifying third party indemnity provisions for the benefit of the directors which were made during the year and remain in force at the date of this report.

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the Company.

The directors are not required to notify their interests in the shares and debentures of the ultimate holding company, The Quarto Group, Inc., because the ultimate holding company is incorporated outside Great Britain.

Going concern basis

The directors have assessed the prospects of the Group over both a one-year and three-year period. The one-year period has a greater level of certainty and is, therefore, used to set approved budgets for the Group. The three-year period offers less certainty, but is aligned with long-term incentives offered to Executive Directors and certain senior management. The directors have considered the underlying robustness of the Group's business model, products and proposition and its recent trading performance, cash flows and key performance indicators. They have also reviewed the cash forecast prepared for the three years ending 31 December 2021, which comprise a detailed cash forecast for the year ending 31 December 2019 based on the budget for that year and standard growth assumptions for revenue and costs for the years ending 31 December 2020 and 2021, to satisfy themselves of the the going concern assumption used in preparing the financial statements.

The directors have assessed the Group's viability over a three-year period ending on 31 December 2021 based on a financial model which was prepared as part of the process of considering and approving the 2019 budget. The directors used the three-year review period as the Group's publishing program planning cycle normally works over a two to three-year period.

The Group's current banking facilities have 17 months to run before they will need to be refinanced in August 2020. Consistent with previous facilities, the directors have assumed that these facilities will be renewed or extended at that time on similar terms.

In carrying out their analysis of viability, the directors took account of the Group's projected profits and cash flows, and its banking covenants.

Quarto Publishing PLC

Directors' report (*continued*)

Going concern basis (continued)

They also took account of the principal risks and uncertainties facing the business referred to above, a sensitivity analysis on the key revenue growth assumption and the effectiveness of available mitigating actions. Based on their assessment, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due up to 31 December 2021. For this reason, they continue to adopt the going concern basis in preparing the financial statements. In doing so, it is recognised that such future assessments are subject to a level of uncertainty that increases with time and, therefore, future outcomes cannot be guaranteed or predicted with certainty.

Future developments and events after the balance sheet date

Details of future developments can be found in the Strategic Report on page 2.

Financial Reporting Standard No. 102 – The Financial Reporting Standard Applicable in the UK and Republic of Ireland ("FRS 102").

The financial statements set out on pages 11 to 45 have been prepared in accordance with FRS 102. The Directors consider that the company is a qualifying entity under section 1 of FRS 102 and they have availed themselves of the disclosure exemptions. The financial statements do not include a reconciliation of shares outstanding in the period, and share-based payment disclosures.

Political donations

There were no political donations in either year.

Employees

Details of the Group's policies on employee participation and disabled person can be found in the Strategic report on page 3.

Auditor

The auditor, Grant Thornton UK LLP, are deemed to be reappointed under section 487(2) of the Companies Act 2006.

On behalf of the board

CK Lau
Director

Registered office:
The Old Brewery
6 Blundell Street
London
N7 9BH

22 May 2019

Registered company number: 01252863

Statement of directors' responsibilities

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

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) and applicable law, including Financial Reporting Standard 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 of the 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 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 comply with the Companies Act 2006. 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.

Independent auditor's report to the members of Quarto Publishing PLC

Opinion

We have audited the financial statements of Quarto Publishing PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise consolidated profit and loss account, consolidated statement of comprehensive income, consolidated balance sheet, company balance sheet, consolidated and company statements of changes in equity, consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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, 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent auditor's report to the members of Quarto Publishing PLC (*continued*)

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.

Opinions on other matters prescribed by 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
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
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 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.

Responsibilities of directors for the financial statements
As explained more fully in the directors' responsibilities statement set out on page 7, 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.

Independent auditor's report to the members of Quarto Publishing PLC (*continued*)

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.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Henshaw
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
United Kingdom

22 May 2019

Quarto Publishing PLC

Consolidated profit and loss account
for the year ended 31 December 2018

	Notes	**2018** **Continuing operations** **£000**	2017 Restated (note1) Continuing operations £000	2017 Restated (note1) Discontinued operations £000	2017 Restated (note1) Total £000
Turnover	3	**52,780**	55,991	2,032	58,023
Cost of sales		**(34,750)**	(37,228)	(1,523)	(38,751)
Gross profit		**18,030**	18,763	509	19,272
Distribution costs		**(1,620)**	(1,532)	-	(1,532)
Administrative expenses		**(12,181)**	(17,900)	(664)	(18,564)
Exceptional items	4	**(2,226)**	(3,769)	-	(3,769)
Profit on disposal of operations		**-**	-	2,568	2,568
Operating profit/(loss)		**2,003**	(4,438)	2,413	(2,025)
Finance income	7	**2,678**	2,302	69	2,371
Finance costs	8	**(3,056)**	(2,706)	-	(2,706)
Profit/(loss) on ordinary activities before tax	4	**1,625**	(4,842)	2,482	(2,360)
Tax on profit/(loss) on ordinary activities	9	**(332)**	34	3	37
Profit/(loss) for the year		**1,293**	(4,808)	2,485	(2,323)
Profit/(loss) for the year attributable to:					
Owners of the parent		**1,293**			(2,302)
Non-controlling interest		**-**			(21)
		1,293			(2,323)

The notes on pages 16 to 45 form part of these financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2018

	2018 £000	2017 Restated (note1) £000
Profit/(loss) for the financial year	**1,293**	(2,323)
Items that may be reclassified to profit or loss:		
Cash flow hedges		
(Losses)/gains arising during the year	**(44)**	13
Tax relating to items that may be reclassified to profit or loss	**-**	-
Other comprehensive (expenses)/income	**(44)**	13
Total comprehensive income/(expense)	**1,249**	(2,310)
Total comprehensive income/(expense) for the year attributable to:		
Owners of the parent	**1,249**	(2,289)
Non-controlling interest	**-**	(21)
	1,249	(2,310)

The notes on pages 16 to 45 form part of these financial statements.

Quarto Publishing PLC

Consolidated balance sheet

at 31 December 2018

	Notes	2018 £000	2018 £000	2017 Restated (note1) £000	2017 Restated (note1) £000
Fixed assets					
Intangible assets: goodwill	10		**547**		1,042
Intangible assets: website costs	11		**-**		75
Tangible fixed assets	12		**705**		941
			1,252		2,058
Current assets					
Stocks	14	**4,218**		3,835	
Debtors: amounts falling due within one year	15	**97,669**		102,395	
Cash at bank and in hand	19	**4,296**		3,272	
		106,183		109,502	
Creditors: amounts falling due within one year	16	**(33,133)**		(36,797)	
Net current assets			**73,050**		72,705
Total assets less current liabilities			**74,302**		74,763
Creditors: amounts falling due after more than one year	17		**(55,275)**		(56,969)
Deferred tax liabilities	18		**(6)**		(24)
Net assets			**19,021**		17,770
Capital and reserves					
Called-up share capital	21		**100**		100
Hedging reserve			**82**		126
Profit and loss account			**18,839**		17,544
Shareholders' funds			**19,021**		17,770
Non-controlling interest			**-**		-
Total capital employed			**19,021**		17,770

These consolidated financial statements of Quarto Publishing PLC (registered number 01252863) were approved by the board of directors on 22 May 2019 and were signed on its behalf by:

CK Lau
Director

The notes on pages 16 to 45 form part of these financial statements.

Quarto Publishing PLC

Company balance sheet
at 31 December 2018

	Notes	2018 £000	2018 £000	2017 Restated (note1) £000	2017 Restated (note1) £000
Fixed assets					
Intangible assets: goodwill	10		-		167
Intangible assets: website costs	11		-		75
Tangible fixed assets	12		**705**		933
Investments	13		-		-
			705		1,175
Current assets					
Stocks	14	**4,218**		3,835	
Debtors: amounts falling due within one year	15	**101,612**		102,389	
Cash at bank and in hand		**4,279**		3,235	
		110,109		109,459	
Creditors: amounts falling due within one year	16	**(53,291)**		(52,971)	
Net current assets			**56,818**		56,488
Total assets less current liabilities			**57,523**		57,663
Creditors: amounts falling due after more than one year	17		**(55,275)**		(56,969)
Deferred tax liabilities	18		**(6)**		(24)
Net assets			**2,242**		670
Capital and reserves					
Called-up share capital	21		**100**		100
Hedging reserve			**82**		126
Profit and loss account			**2,060**		444
Equity shareholders' funds			**2,242**		670

The Company reported a profit for the year of £1,616,000 (*2017: Profit £12,618,000 (Restated see note 1)*).

These financial statements of Quarto Publishing PLC (registered number 01252863) were approved by the board of directors on 22 May 2019 and were signed on its behalf by:

CK Lau
Director

The notes on pages 16 to 45 form part of these financial statements.

Quarto Publishing PLC

Consolidated statement of changes in equity
for the year ended 31 December 2018

Group

	Called up share capital £000	Profit and loss account £000	Hedging reserve £000	Share-holders' funds £000	Minority interest £000	Total equity £000
At 1 January 2017 (as previously stated)	100	19,473	113	19,686	3,964	**23,650**
Prior year adjustment (note1)	-	(335)	-	(335)	-	**(335)**
At 1 January 2017	100	19,138	113	19,351	3,964	**23,315**
Loss for the financial year	-	(2,302)	-	(2,302)	(21)	**(2,323)**
Other comprehensive income	-	-	13	13	-	**13**
Disposals	-	-	-	-	(3,769)	**(3,769)**
Exchange differences	-	708	-	708	(174)	**534**
At 31 December 2017	100	17,544	126	17,770	-	**17,770**
Profit for the financial year	-	1,293	-	1,293	-	**1,293**
Other comprehensive expense	-	-	(44)	(44)	-	**(44)**
Exchange differences	-	2	-	2	-	**2**
At 31 December 2018	100	18,839	82	19,021	-	**19,021**

Company

	Called up share capital £000	Profit and loss account £000	Hedging reserve £000	Total equity £000
At 1 January 2017 (as previously stated)	100	(11,839)	113	(11,626)
Prior year adjustment (note1)	-	(335)	-	(335)
At 1 January 2017	100	(12,174)	113	(11,961)
Profit for the financial year	-	12,618	-	12,618
Other comprehensive expense	-	-	13	13
At 31 December 2017	100	444	126	670
Profit for the financial year	-	1,616	-	1,616
Other comprehensive expense	-	-	(44)	(44)
At 31 December 2018	100	2,060	82	2,242

The notes on pages 16 to 45 form part of these financial statements.

Quarto Publishing PLC

Consolidated cash flow statement

for the year ended 31 December 2018

	2018	2017 Restated (note 1)
	£000	£000
Profit/(loss) for the year	**1,293**	(2,323)
Adjustments for:		
Net finance costs	**337**	335
Depreciation of property, plant and equipment	**311**	413
Tax charge/(credit)	**332**	(37)
Share-based payments	**(239)**	139
Amortisation of goodwill and intangible assets	**495**	552
Unrealised exchange losses/(gains)	**2,606**	(3,685)
Profit on disposal of subsidiary	**-**	(2,568)
Movement in fair value of derivatives	**-**	(100)
Operating cash flows before movement in working capital	**5,135**	(7,274)
(Increase) in inventories	**(272)**	(261)
Decrease/(Increase) in receivables	**4,226**	(297)
(Decrease)/Increase in payables	**(526)**	4,460
Cash generated by operations	**8,563**	(3,372)
Income taxes paid	**(905)**	-
Net cash from operating activities	**7,658**	(3,372)
Investing activities		
Interest received	**4**	24
Purchases of property, plant and equipment	**(75)**	(409)
Disposal of subsidiaries and business combinations	**-**	3,452
Net cash used in investing activities	**(71)**	3,067
Financing activities		
Interest payments	**(2,243)**	(2,274)
Drawdown of borrowings	**13,799**	8,989
(Repayment) of term loan and revolving credit facility	**(18,121)**	(10,284)
Net cash used in financing activities	**(6,565)**	(3,569)
Net increase/(decrease) in cash and cash equivalents	**1,022**	(3,874)
Cash and cash equivalents at beginning of year	**3,272**	7,417
Foreign currency exchange differences on cash and cash equivalents	**2**	(271)
Cash and cash equivalents at end of year	**4,296**	3,272

The notes on pages 16 to 45 form part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2018

1. Significant accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

General information and basis of accounting

The Company is incorporated in the United Kingdom under the Companies Act. The address of the registered office is shown on page 6. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 1 to 3.

The financial statements have been prepared under the historical cost basis of accounting, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The Parent Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own Statement of Comprehensive Income in these financial statements and has not adopted the following disclosure exemptions:

- The requirement to present a statement of cash flow and relates 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.

The Group financial statements consolidate, under the acquisition method, the financial statements of Quarto Publishing PLC and all of its subsidiary undertakings, all of which have a 31 December year end. 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 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.

The functional currency of the Group is pounds sterling because that is the currency of the primary economic environment in which the group operates.

Restatement of prior year results

During the current year it was identified that equity-settled share-based payments issued to employees of the Group by its parent company, were being incorrectly accounted for in the Group's financial statements. Previously the charge or credit in relation to these share-based payments was borne by the parent company when they should have been charged or credited to the Group, who benefits from the employee services. The Group's accounting policy has been updated to reflect the correct treatment.

The amount for share-based payment charges which should have been recognised as an expense in prior periods is £474,000. An adjustment has been made to opening reserves for the prior year of £335,000 to reflect the correct treatment of share-based payment charges in 2015 and 2016, with a corresponding adjustment to the value of amounts owed by fellow Group undertakings, included in debtors falling due within one year brought forward at 1 January 2017. An adjustment of £139,000 has been made in the year ended 31 December 2017 in order to reflect the share-based payment charge for that year. An adjustment of £474,000 to debtors falling due within one year has been made to reflect the correct treatment in the year ended 31 December 2017.

Notes to the financial statements

For the year ended 31 December 2018

1. Significant accounting policies (continued)

Restatement of prior year results (continued)

The cash flow statement has also been updated to reflect the prior year adjustment with the loss for the year restated to £2,323,000 as shown below and a line being added for share-based payments. As a result, the prior year figures have been restated as follows:

Group	Per prior year financial statements	Restatement	Per current year financial statements
	£000	£000	£000
Retained earnings brought forward	19,473	(335)	19,138
Debtors: amounts falling due within one year at 31 December 2017	102,869	(474)	102,395
Retained earnings at 31 December 2017	18,018	(474)	17,544
Administrative expenses	(18,425)	(139)	(18,564)
Loss on ordinary activities before tax	(2,221)	(139)	(2,360)
Loss for the year	(2,184)	(139)	(2,323)

Company	Per prior year financial statements	Restatement	Per current year financial statements
	£000	£000	£000
Retained (deficit) brought forward	(11,839)	(335)	(12,174)
Debtors: amounts falling due within one year at 31 December 2017	102,863	(474)	102,389
Retained earnings at 31 December 2017	918	(474)	444
Profit for the year	12,757	(139)	12,618

Going concern

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

The Directors have considered the underlying robustness of the Group's business model, products and proposition and its recent trading performance, cash flows and key performance indicators. They have also reviewed the cash forecasts prepared for the three years ending 31 December 2021, which comprise a detailed cash forecast for the year ending 31 December 2019, based on the budget for that year, and the growth assumptions for revenue and costs, together with cash forecasts, for the years ending 31 December 2020 and 2021, to satisfy themselves of the appropriateness of the going concern basis used in preparing the financial statements.

In carrying out their analysis of viability, the Directors took account of the Group's projected profits and cash flows and its banking covenants and these have been subjected to sensitivity analysis over the three-year period. Based on our assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet all of its liabilities as they fall due up to 31 December 2021.

Notes to the financial statements
For the year ended 31 December 2018

1. Significant accounting policies (continued)

Going concern (continued)

For these reasons, the Directors continue to adopt the going concern basis in preparing the financial statements. In doing so, it is recognised that such future assessments are subject to a level of uncertainty that increases with time and, therefore, future outcomes cannot be guaranteed or predicted with certainty.

Related party transactions

As the Company is a wholly-owned subsidiary of The Quarto Group, Inc., the Company has taken advantage of the exemption contained in FRS 102 and has therefore not disclosed material transactions or balances with entities which form part of The Quarto Group, Inc. (where 100% of the voting rights are controlled within the Group). The consolidated financial statements of The Quarto Group, Inc., within which the company is included, can be obtained from the address given in Note 26.

Intangible assets - goodwill

Goodwill arising on the acquisition of businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight- line basis over its useful economic life of 5 years. Provision is made for any impairment.

Negative goodwill is similarly included in the balance sheet and is credited to the consolidated profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale. Negative goodwill in excess of the fair values of the non-monetary assets acquired is credited to the consolidated profit and loss account in the periods expected to benefit.

Fixed assets investments

Fixed assets investments comprise investments in subsidiary undertakings and are held at historical cost less any provision for impairment.

Intangible assets – website costs

Research expenditure is written off as incurred. Development expenditure is also written off as incurred, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is capitalised as an intangible asset and amortised over the period during which the company is expected to benefit. This period is between three and five years. Provision is made for any impairment.

Pre-publication costs

Pre-publication costs are internally generated intangible assets relating to the development of book titles, prior to their publication, including an appropriate portion of overheads. These costs are fully expensed to the profit and loss as incurred.

Notes to the financial statements
For the year ended 31 December 2018

1. Significant accounting policies (continued)

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, net of sales taxes, rebates and discounts, and after eliminating sales within the Group. Revenues are recognised on the despatch of goods and when the significant risks and rewards of ownership have been passed to the buyer.

The following specific criteria also apply:

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

- Revenue from e-books is recognised when the content is delivered.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its estimated useful life, as follows:

Short leasehold property	- over the period of the lease
Plant, equipment and vehicles	- 10% - 25% per annum
Fixtures and fittings	- 15% - 20% per annum

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life.

Share-based payments

The parent company operates a number of equity-settled, share based compensation plans that are awarded to employees of the parent company's subsidiary undertakings. The fair value of the employee services rendered under such schemes is recognised as an expense in the subsidiary undertaking's financial statements, which benefit from the employee services. The Company has recognised the fair value of the share-based payments as a charge to the consolidated profit and loss account with a corresponding adjustment to amounts due from fellow group undertakings. Equity settled share-based payments are measured at fair value at the date of the grant. The fair value, determined at the grant date, of equity settled share-based payments is expenses on a straight-line basis over the vesting period, based on the parent company's estimate of shares that will eventually vest.

Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument. 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 company after deducting all its liabilities.

Notes to the financial statements

For the year ended 31 December 2018

1. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets and liabilities
All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing arrangement. If an arrangement constitutes a finance transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Non-current debt instruments which meet the following conditions, are subsequently measured at amortised cost using the effective interest method:

a) Returns to the holder are (i) a fixed amount; or (ii) a fixed rate of return over the life of the instrument; or (iii) a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate; or (iv) some combination of such fixed rate and variable rates, providing that both rates are positive.
b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
c) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in relevant taxation or law.
d) There are no conditional returns or repayment provisions except for the variable return described in (a) and prepayment provisions described in (c).

- Financial assets and liabilities

Debt instruments that are classified as payable or receivable within one year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment. Other debt instruments not meeting these conditions are measured at fair value through profit or loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Notes to the financial statements

For the year ended 31 December 2018

1. Significant accounting policies (continued)

Financial instruments (continued)

- Investments

In the balance sheet, investments in subsidiaries acquired for consideration including the issue of shares for merger relief, cost is measured by reference to the nominal value only of the shares issued. Any premium is ignored.

- Equity instruments

Equity instruments issued by the Group are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

- Derivative financial instruments

The Group used derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

- Fair value measurement

The best evidence of a fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value using a valuation technique.

- Hedge accounting

The Group designates certain derivatives as hedging instruments in respect of variable interest rate risk of the cash flows associated with recognised debt instruments measured at amortised cost and in respect of foreign exchange risk in firm commitments and highly probable forecast transactions.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with clear identification of the risk in the hedged item that is being hedged by the hedging instrument. Furthermore, at the inception of the hedge and on an ongoing basis, the Group assesses whether the hedging instrument is highly effective in offsetting the designated hedged risk.

The effective portion of changes in fair value of the designated hedging instrument is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time is reclassified to profit or loss when the hedged item is recognised in profit or loss. When a forecast transaction is no longer expected to occur, any gain or loss that was recognised in other comprehensive income is reclassified immediately to profit or loss.

1. Significant accounting policies (continued)

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Cost is calculated using the FIFO (first-in, first-out) method. Provision is made for obsolete, slow-moving or defective items where appropriate.

Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

- Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

The recoverable amount of goodwill is derived from measurement of the present value of the future cash flows of the cash-generating units of which the goodwill is part. Any impairment loss in respect of a CGU is allocated first to the goodwill attached to that CGU, and then to the other assets within that CGU on a pro-rata basis.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Where a reversal of impairment occurs in respect of a CGU, the reversal is applied first to the other assets (other than goodwill) of the CGU on pro-rata basis and then to any goodwill allocated to that CGU.

- Financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Notes to the financial statements
For the year ended 31 December 2018

1. Significant accounting policies (continued)

Taxation

Current tax, including corporation tax and foreign tax if appropriate, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not stated at discounted values.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax liabilities are recognised for timing differences arising from investments in subsidiaries except where the company is able to control the reversal of the timing difference and it is probable that it will not reverse in the future.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing differences. Deferred tax relating to property, plant and equipment is measured using the revaluation model.

The tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Retirement benefits

The Group only operates defined contribution schemes. The amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions paid are shown as either accruals or prepayments in the balance sheet. The amounts charged to the profit and loss for the year amounted to £376,000 (*2017: £415,000*). There were no outstanding liabilities at the end of the year *(2017: £nil)*.

1. Significant accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Exchange differences are recognised in profit or loss in the period in which they arise.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on that basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term. In accordance with the transitional provisions of FRS 102, lease incentives on leases which were in existence prior to the date of transition have been spread over the shorter of the lease term and the period to the first review date on which the rent is first expected to be adjusted to the prevailing market rate.

Exceptional items

Exceptional items are those which the Group defines as significant items outside the scope of normal business that need to be disclosed because of their size or incidence in order for the user to obtain a proper understanding of the financial information.

Royalties in advance

Advances paid to authors against future royalties on the sale of books are carried forward as an asset in the balance sheet and recouped against royalties earned. Provision is made for any unearned advances as soon as the royalty balance is considered doubtful.

Sales in advance

Advances paid to the Group from other publishers for the sale of future publications are carried forward as deferred income in the balance sheet until the books are published.

Volume rebates

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

Notes to the financial statements

For the year ended 31 December 2018

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not clear from other sources. The estimates and associated assumptions are based on historical experience and other factors that are relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flow expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Receivables provisioning

Trade debtors are inherently a critical accounting estimate in relation to the risk of non-recoverability of trade debtors. Management have discussed and challenged the overall receivables position and considered the reasonableness of the level of provisioning.

Sales returns

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

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

Notes to the financial statements
For the year ended 31 December 2018

3. Turnover

	2018	2017
	£000	£000
Geographical analysis of turnover by destination		
United Kingdom	**11,360**	11,702
United States of America	**18,757**	20,604
Canada	**259**	771
Europe	**15,312**	16,977
Australasia and Far East	**1,839**	2,137
Rest of the World	**5,253**	5,832
	52,780	58,023

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

Sale of goods	**52,780**	58,023

All the turnover relates to one class of business, publishing.

Quarto Publishing PLC

Notes to the financial statements

For the year ended 31 December 2018

4. Profit/(loss) on ordinary activities before taxation

	2018	2017
	£000	£000
		Restated (note1)
Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets	**311**	413
Auditor's remuneration (see below)	**59**	61
Amortisation of intangibles: goodwill	**495**	515
Amortisation of intangibles: website costs	**75**	37
Cost of stock recognised as an expense	**6,302**	5,323
Recognised impairment losses on inventory	**344**	525
Loss on derivative financial instruments recognised at fair value through profit and loss	**-**	(38)
Share based (credits)/payments	**(239)**	139
Rentals payable under operating leases in respect of:		
Plant and machinery	**63**	31
Land and buildings	**527**	493
Exceptional items (see below)	**2,226**	3,769
Foreign exchange (gains)/losses	**(417)**	3,033

Exceptional items comprise:		
Impairment provisions	**75**	2,569
Reorganisation costs	**312**	556
Severance costs	**758**	-
Refinancing costs	**1,081**	459
Abortive corporate transaction costs	**-**	185
	2,226	3,769

Auditor's remuneration		
Fees payable to the Company auditor for the audit of the Company's annual financial statements	**59**	61
Fees payable to the Company auditor and its associates for other services:		
The audit of the Company's subsidiaries	**-**	-
	59	61

Notes to the financial statements

For the year ended 31 December 2018

5. Directors' remuneration

Emoluments receivable by directors in respect of qualifying services were:

	2018	2017
	£000	£000
Emoluments	**456**	868
Compensation for loss of office	**465**	-
Contributions to defined contribution pension schemes	**13**	100
	934	968

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

Emoluments	**172**	539
Compensation for loss of office	**465**	-
Contributions to defined contribution pension schemes	**7**	63
	644	602

Retirement benefits accrued to two directors under defined contribution pension schemes during the year (2017: four).

6. Staff numbers and costs

The average monthly number of persons employed (including directors) during the year, was as follows:

	Number of employees	
	2018	2017
Group		
Total	**210**	251
Company		
Total	**208**	248

The aggregate payroll costs of these persons employed by the Group were as follows:

	2018	2017 Restated (note1)
	£000	£000
Wages and salaries	**8,903**	10,635
Severance costs	**758**	-
Social security costs	**1,096**	1,126
Pension costs	**376**	415
Share-based payments	**(239)**	139
	10,894	12,315

Notes to the financial statements

For the year ended 31 December 2018

6. Staff numbers and costs (continued)

The remuneration of the directors (2017: directors and executive committee) who are the key management personnel of the Group, were as follows:

	2018 £000	2017 £000
Emoluments	**456**	1,715
Compensation for loss of office	**465**	-
Contributions to defined contribution pension schemes	**13**	156
	934	1,871

7. Finance income

	2018 £000	2017 £000
Interest receivable on short-term deposits and third party loans	**4**	24
Interest receivable from affiliates	**2,674**	2,347
	2,678	2,371

8. Finance costs

	2018 £000	2017 £000
On bank loans, overdrafts and other loans wholly repayable within five years, not by instalments	**2,790**	2,297
On loans from affiliates	**41**	135
Amortisation of debt issuance costs	**225**	274
	3,056	2,706

9. Taxation

	2018 £000	2017 Restated (note1) £000
UK corporation tax charge	**350**	(25)
Deferred tax (see note 18)	**(18)**	(12)
Total tax on profit/(loss) on ordinary activities	**332**	(37)

The current tax charge for the year is higher (2017: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2018 £000	2017 £000
Profit/(loss) on ordinary activities before tax	**1,625**	(2,360)
Current tax at 19% (2017: 19.25%)	**309**	(454)
Effects of:		
Expenses not deductible for tax purposes	**58**	358
Income not taxable in determining taxable profit	**-**	(216)
Withholding taxes written off	**51**	51
(Utilisation)/write off of tax losses	**(193)**	263
Adjustment in respect of prior years	**107**	(39)
Total tax charge/(credit) (see above)	**332**	(37)

The Group has tax losses of £339,000 carried forward at the end of the year (2017: £1,387,000).

10. Intangible assets: goodwill

	Group £000	Company £000
Cost		
At beginning and end of year	**7,258**	**2,050**
Amortisation		
At beginning of the year	**6,216**	**1,883**
Charged in the year through administrative expenses	**495**	**167**
At end of year	**6,711**	**2,050**
Net book value		
At 31 December 2018	**547**	**-**
At 31 December 2017	1,042	167

Notes to the financial statements
For the year ended 31 December 2018

11. Intangible assets: website costs

	Group and Company £000
Cost	
At beginning and end of year	**150**
Amortisation	
At beginning of the year	**75**
Charged in the year through exceptional items	**75**
At end of year	**150**
Net book value	
At 31 December 2018	**-**
At 31 December 2017	75

12. Tangible fixed assets

Group

	Leasehold property £000	Plant, equipment and vehicles £000	Fixtures and fittings £000	Total £000
Cost				
At the beginning of year	813	926	214	**1,953**
Additions	-	75	-	**75**
Disposals	-	(201)	-	**(201)**
At end of year	813	800	214	**1,827**
Depreciation				
At beginning of year	363	501	148	**1,012**
Charge for year	56	200	55	**311**
Disposals	-	(201)	-	**(201)**
At end of year	419	500	203	**1,122**
Net book value				
At 31 December 2018	**394**	**300**	**11**	**705**
At 31 December 2017	450	425	66	**941**

12. Tangible fixed assets (continued)

Company

	Leasehold property £000	Plant, equipment and vehicles £000	Fixtures and fittings £000	Total £000
Cost				
At the beginning of year	524	829	269	1,622
Additions	-	83	-	83
Disposals	-	(201)	-	(201)
At end of year	524	711	269	1,504
Depreciation				
At beginning of year	74	404	211	689
Charge for year	56	208	47	311
Disposals	-	(201)	-	(201)
At end of year	130	411	258	799
Net book value				
At 31 December 2018	**394**	**300**	**11**	**705**
At 31 December 2017	450	425	58	933

Notes to the financial statements
For the year ended 31 December 2018

13. Fixed asset investments

	Shares in group undertakings £000
Cost	
At the beginning of year	14,983
Disposals	-
At the end of year	14,983
Provisions	
At the beginning of year	14,983
Charged during the year	-
At the end of year	14,983
Net book value	
At 31 December 2017 and 2018	-

Trading subsidiaries

During the year, the Company had the following trading subsidiary, which operates principally in the country of incorporation.

Name	Country of incorporation	Registered address key	Issued and fully paid share capital	% held
Quarto Group Hong Kong Ltd	Hong Kong	B	100 shares of £1 each	100

The above shares are directly held by Quarto Publishing PLC.

Quarto Publishing PLC

Notes to the financial statements
For the year ended 31 December 2018

13. Fixed asset investments (continued)

Dormant subsidiaries

Name	Country of incorporation	Registered address key	Issued and fully paid share capital	% held
AP Screen Printers Limited	Great Britain	A	1000 shares of £1 each	100
Apple Press Limited	Great Britain	A	100 shares of £1 each	100
Aurum Press Limited	Great Britain	A	382,502 shares of £1 each	100
Cartographica Press Limited	Great Britain	A	1000 shares of £1 each	100
Design Eye Holdings Limited	Great Britain	A	200 shares of £1 each	100
Design Eye Limited	Great Britain	A	100 shares of £1 each	100
Design Eye Publishing Limited	Great Britain	A	2 shares of £1 each	100
Fine Wine Editions Limited	Great Britain	A	9020 shares of £1 each	100
Frances Lincoln Limited	Great Britain	A	565,000 shares of 10p each	100
The Great American Trading Company Ltd	Great Britain	A	100 shares of £1 each	51
IQON Editions Limited	Great Britain	A	300 shares of £1 each	100
Iqu-digital.com Limited	Great Britain	A	100 shares of £1 each	100
Ivy Press (The) Limited	Great Britain	A	1042 shares of 10p each	100
Quarto(JS)LLP	Great Britain	A	100 units	100
JR Books Limited	Great Britain	A	43004 shares of £1 each	100
Marshall Editions Limited	Great Britain	A	1 share of £1 each	100
Marshall Publishing Limited	Great Britain	A	1 share of £1 each	100
Quarto Magazines Limited	Great Britain	A	1000 shares of £1 each	100
Quarto Children's Books Limited	Great Britain	A	2 shares of £1 each	100
QED Publishing Limited	Great Britain	A	400 shares of £1 each	100
Quantum Books Limited	Great Britain	A	100 shares of £1 each	100
Quarto Multi-Media Ltd	Great Britain	A	1000 shares of £1 each	100
QU:ID Publishing Limited	Great Britain	A	100 shares of £1 each	100
Quill Publishing Limited	Great Britain	A	1000 shares of £1 each	100
Quintessence Editions Ltd	Great Britain	A	1 share of £1 each	100
Quintet Publishing Limited	Great Britain	A	100 shares of £1 each	100
Small World Creations Limited	Great Britain	A	1,536 shares of £1 each	100
Lewes Holdings Limited	Great Britain	A	20,840 shares of 1p each	100

List of registered offices

A The Old Brewery, 6 Blundell Street, London N7 9BH, United Kingdom
B Room 2306, Technology Plaza, 651 King's Road, North Point, Hong Kong

Notes to the financial statements
For the year ended 31 December 2018

14. Stocks

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Finished goods	**4,218**	3,835	**4,218**	3,835
	4,218	3,835	**4,218**	3,835

15. Debtors: amounts falling due within one year

	Group		Company	
	2018	2017 Restated (note 1)	**2018**	2017 Restated (note 1)
	£000	£000	**£000**	£000
Trade debtors	**13,985**	16,904	**13,985**	16,904
Amounts owed by group undertakings	**80,628**	82,067	**84,579**	82,067
Other debtors	**1,749**	2,815	**1,749**	2,815
Prepayments and accrued income	**1,225**	457	**1,217**	451
Derivative financial instruments	**82**	152	**82**	152
	97,669	102,395	**101,612**	102,389

All amounts owed by group undertakings are repayable on demand.

Notes to the financial statements

For the year ended 31 December 2018

16. Creditors: amounts falling due within one year

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Bank loans	**3,906**	3,703	**3,906**	3,703
Total borrowings due within one year	**3,906**	3,703	**3,906**	3,703
Trade creditors	**20,260**	18,596	**20,260**	18,596
Amounts owed to group undertakings	**3,069**	6,213	**23,252**	22,387
Other creditors including taxation and social security:				
Other taxes and social security	**237**	1,264	**237**	1,264
Other creditors	**2,539**	3,295	**2,539**	3,295
Corporation tax	**375**	930	**373**	930
Accruals and deferred income	**2,747**	2,796	**2,724**	2,796
	33,133	36,797	**53,291**	52,971

At 31 December 2018, the Group had a $72.5m (2017: $95m) multi-currency syndicated bank facility (signed on 31 October 2018) which is due to expire on 31 August 2010. The previous loan was de-recognised during the year and a new loan has been recognised.

All amounts owed to group undertakings are repayable on demand.

Notes to the financial statements
For the year ended 31 December 2018

17. Creditors: amounts falling due after more than one year

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Bank loans	**45,119**	56,969	**45,119**	56,969
Other loans	**10,156**	-	**10,156**	-
	55,275	56,969	**55,275**	56,969

Total borrowings are repayable as follows:

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
In one year or less, or on demand	**3,906**	3,703	**3,906**	3,703
Between one and two years	**55,275**	56,969	**55,275**	56,969
	59,181	60,672	**59,181**	60,672

At 31 December 2018, undrawn borrowing facilities totalled US$9.4m (2017: $3.1m). The above borrowings carry interest based on LIBOR plus a margin, depending on the leverage ratio.

At 31 December 2018 the Group had a US$72.5m (2017: US$95m) multi-currency syndicated bank facility (signed on 31 October 2018) which is due to expire on 31 August 2020. The previous loan was de-recognised during the year and a new loan has been recognised. These facilities are subject to three principal covenants which vary over the course of the year. All the covenants were met during the year.

All bank loans are secured on the assets of the Group and on the assets of the group headed by The Quarto Group, Inc., the parent company. Other loans are with related parties, as disclosed in note 24, are unsecured, are repayable, together with accrued interest on 31 August 2010 and carry an interest rate of 3.5%.

Notes to the financial statements

For the year ended 31 December 2018

18. Deferred taxation

	Group 2018 £000	**Company 2018 £000**
Liability at beginning of year	**(24)**	**(24)**
Credit for year in the profit and loss account	**18**	**18**
Liability at end of year	**(6)**	**(6)**

The elements of deferred taxation are as follows:

Group	**2018 £000**	2017 £000
Difference between accumulated depreciation and amortisation and capital allowances	**(6)**	(24)
	(6)	(24)

Company	**2018 £000**	2017 £000
Difference between accumulated depreciation and amortisation and capital allowances	**(6)**	(24)
	(6)	(24)

Notes to the financial statements
For the year ended 31 December 2018

19. Financial instruments

The carrying values of the Group's financial assets and liabilities are summarised by category below:

	2018	2017 Restated (note 1)
	£000	£000
Financial assets		
Measured at fair value and designated in an effective hedging relationship		
Derivative financial assets	**82**	152
Measured at undiscounted amount receivable		
Trade debtors (see note 15)	**13,985**	16,904
Amounts due from related undertakings (see note 15)	**80,628**	82,067
Cash at bank and in hand	**4,296**	3,272
	98,991	102,395
Financial liabilities		
Measured at undiscounted amount payable		
Trade payables (see note 16)	**20,260**	18,596
Bank loan and overdrafts (see note 16)	**3,906**	3,703
Amounts due from related undertakings (see note 16)	**3,069**	6,213
Measured at amortised cost		
Bank and other loans (see note 17)	**55,275**	56,969
	82,510	85,481

The Group's income, expense, gains and losses in respect of financial instruments are summarised below:

	2018	2017
	£000	£000
Finance income and finance costs		
Total finance income for financial assets at amortised cost	**2,678**	2,371
Total finance costs for financial liabilities at amortised cost	**(2,831)**	(2,432)

Notes to the financial statements

For the year ended 31 December 2018

20. Derivative financial instruments

	2018	2017
	£000	£000
Derivatives that are designated and effective as hedging instruments carried at fair value		
Current assets		
Interest rate swaps	**82**	152
	82	152

Interest rate swaps are valued at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Interest rate swap contracts

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

	Average contract fixed interest rate 2018 %	Average contract fixed interest rate 2017 %	**Notional principal value 2018 £000**	Notional principal value 2017 £000	**Fair value 2018 £000**	Fair value 2017 £000
Less than one year	**5.8**	3.3	**7,813**	7,407	**7,813**	7,407
1 to 2 years	**-**	2.9	**-**	7,407	**-**	7,407
			7,813	14,814	**7,813**	14,814

The interest rate swaps settle on a monthly basis. The floating rate on the interest rate swaps is one month LIBOR. The Group will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts are designated as hedges of variable interest rate risk of the Group's floating rate borrowings. The hedged cash flows are expected to occur and to affect profit or loss over the period to maturity of the interest rate swaps.

Losses of £44,000 (*2017: gains £13,000*) were recognised in other comprehensive income. £nil was reclassified to profit or loss for the period (*2017: £nil*).

Notes to the financial statements

For the year ended 31 December 2018

21. Called-up share capital

	2018	2017
	£000	£000
Authorised, allotted, called up and fully paid		
100,000 ordinary shares £1 each	**100**	100

22. Share based payments

Performance Share Plan ('PSP')

The parent company operates a PSP scheme that awards free shares.

2015 award

The awards under this scheme were granted on 24 September 2015. The vesting period is 4 years from the date of grant. The award vests in the following proportion:

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

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

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

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

The key inputs used to value the options are:

	EPS Portion	TSR Portion
Share price at date of grant	£2.09	£2.09
Expected life (years)	4	4
Fair value per award	£1.78	£1.07
Weighted average remaining contractual life (years)	2.7	3.7
Dividend yield (%)	3.97	3.97
Expected volatility of share price (%)	n/a	19
Model used	Dividend discount	Monte-Carlo

2016 award

The awards under this scheme were granted on 19 April 2016. The vesting period is 4 years from the date of grant. The award vests in the following proportion:

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

Notes to the financial statements
For the year ended 31 December 2018

22. Share based payments (continued)

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

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

	2018 Number	2017 Number
Outstanding at beginning of the year	199,860	279,452
Forfeited during the year	(122,370)	(79,592)
Outstanding at the end of the year	77,490	199,860

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.

	2018 Number	2017 Number
Outstanding at beginning of the year	135,312	-
Granted during the year	–	146,244
Forfeited during the year	(73,668)	(10,932)
Outstanding at the end of the year	61,644	135,312

22. Share based payments (continued)

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

23. Financial Commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2018 Land and buildings £000	**2018 Other £000**	2017 Land and buildings £000	2017 Other £000
Group				
Within one year	**572**	**62**	543	38
In the second to fifth years inclusive	**1,971**	**62**	1,281	76
After 5 years	**1,154**	**-**	582	-
	3,697	**124**	2,406	114

	2018 Land and Buildings £000	**2018 Other £000**	2017 Land and buildings £000	2017 Other £000
Company				
Within one year	**568**	**62**	543	38
In the second to fifth years inclusive	**1,971**	**62**	1,281	76
After 5 years	**1,154**	**-**	582	-
	3,693	**124**	2,406	114

There were no capital commitments at the year end (*2017: £nil*).

Notes to the financial statements

For the year ended 31 December 2018

24. Related party transactions

The Group had the following related party transactions with 1010 Printing Limited between 24 May 2018 and 31 December 2018:

	2018
	£000
Trade creditor balance at 24 May 2018	**1,174**
Purchases	**567**
Payments	**(165)**
Trade creditor balance at 31 December 2018	**1,576**

	2018
	£000
Loans (advanced on 1 and 2 November 2018)	**10,156**
Accrued interest on loans at 31 December 2018	**59**

The loans are from 1010 Printing Limited (£5,469,000), Recruit & Company Limited (£1,172,000) and C.K.Lau (£3,516,000). The loans are unsecured, are repayable, together with accrued interest, on 31 August 2020 and carry interest at 3.5%. 1010 Printing Limited and Recruit & Company Limited are companies over which C.K.Lau exercises control.

25. Reconciliation of figures included in other parts of the financial statements

Net debt comprises:

	2018	2017
	£000	£000
Cash at bank and in hand	**4,296**	3,272
Borrowings due within one year (note 16)	**(3,906)**	(3,703)
Borrowings due after more than one year (note 17)	**(55,275)**	(56,969)
	(54,885)	(57,400)

26. Ultimate parent company and parent undertaking of larger group

The Company is a subsidiary undertaking of The Quarto Group, Inc. which is the ultimate parent company and the controlling party, incorporated in the United States of America.

The largest group in which the results of the Company are consolidated is that headed by The Quarto Group, Inc.

The consolidated financial statements of The Quarto Group, Inc. are available to the public and may be obtained from:

The Old Brewery
6 Blundell Street
London
N7 9BH