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THEQUARTOGROUP

ANNUAL REPORT 2012

Entertaining, Educating and Enriching the lives of our readers

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THEQUARTOGROUP

Report and Financial Statements
December 31, 2012

THEQUARTOGROUP

Final Results for the Year Ended 31 December 2012

"These 2012 results display the fundamental resilience of the Quarto businesses even in challenging times. I believe that good foundations are in place here for a business capable of rewarding shareholders and employees alike. In order to do so, it is my intention to build an agile, product-led marketing and sales organization for a dynamic and fragmented marketplace." CEO, Marcus Leaver

About the Quarto Group

The Quarto Group (LSE QRT) is the world's leading international illustrated book publisher and distribution group and is listed on the London Stock Exchange Quarto has over 400 talented people We operate in four distinct but complementary businesses - Quarto International Co-editions, UK, Quayside Publishing Group, USA, Aurum Publishing Group, UK and Lifetime/Premier Display Marketing, Australia & NZ

Financial Highlights

- Revenue of $180 9m (2011 $186 1m)
- EBITDA of $36 5m (2011 $37 3m)
- EBITDA margin of 20 2% of revenues (2011 20 0%)
- Operating Profit of $16 6m (2011 $16 7m)
- Profit before Taxation of $11 4m (2011 $12 1m)
- Diluted Earnings per Share of 43 6 cents (2011 45 6 cents)
- Net debt reduced to $81 0m (2011 $81 4m)
- Proposed final dividend of 4 55p, making the total dividend for the year of 7 9p (2011 7 9p)

Operational Highlights

- Tim Chadwick elected as a director in November 2012 and appointed as Chairman in December 2012
- Marcus Leaver appointed COO at end of April 2012, then CEO in December 2012
- Refinement of Group into a clearer federal structure, allowing each of four divisions effective sales responsibilities alongside scope for collaboration
- Divisional operating margin up to 11 2% (2011 10 7%)
- Group inventory down 16 0% at period end and represents 12 6% of Group revenue (2011 14 6%) This represents a turn of 2 0 times (2011 1 8 times)
- Digital Revenues up 29% to $2 7m (2011 $2 1m) or 3 3% of applicable revenues
- Continued refinement to Quarto structure and shape of the business, undertaking reviews of the entire portfolio
- Strategy to reduce net debt by end of 2013 through selective asset disposals and continued tight cash management.

Entertaining, Educating and Enriching the lives of our readers

Officers and Professional Advisers

Directors
Timothy Chadwick (Chairman)
Marcus Leaver (CEO)
Michael Mousley, ACA (CFO)
Peter Campbell (Non-executive)
Peter Waine (Non-executive)
Edward Krawitt (Non-executive)
Max Lesser (Non-executive)

Secretary
Michael Mousley, ACA

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

Stockbrokers
Peel Hunt, Moor House, 120 London Wall,
London EC2Y 5ET

Auditor
Grant Thornton UK LLP, Grant Thornton House, Melton Street, London NW1 2EP

Solicitors
Olswang LLP, 90 High Holborn, London WC1V 6XX

Registrars and Transfer Office
Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

Principal Bankers
Bank of America Corporation
100 Federal Street, Boston, MA 02110, USA

Bank of Ireland
Bow Bells House, 1 Bread Street, London EC4M 9BE

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

Santander UK plc
4th Floor Santander House, 100 Ludgate Hill, London EC4M 7RE

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

Financial Advisers
Lepe Partners
17 Old Court Place, London W8 4PL

Company Registration Number
FCO 13814

Where to find us

The Quarto Group, Inc
020 7700 9004
Marcus Leaver, CEO / marcus leaver@quarto com
Michael Mousley, CFO / mick.mousley@quarto com

230 City Road
London EC1V 2TT

Website www quarto com
Twitter @TheQuartoGroup

Chairman's Statement

Tim Chadwick
Chairman

AS A RESULT of a Special Meeting called by a body of shareholders in November 2012, I was appointed to the Board and then elected Chairman The public nature of this process was regrettable and bruising to all concerned, but was motivated by the underlying desire of shareholders for Quarto to improve corporate governance, adopt a more appropriate capital structure and set a clear company strategy to deliver shareholder value

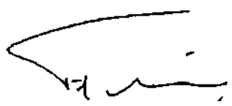
To this end, the following have been achieved

- With my appointment as Non-Executive Chairman, I brought forward the appointment of Marcus Leaver as Chief Executive, thereby splitting the two roles Marcus, who had been recruited as Chief Operating Officer at the end of April 2012 (with an eye to taking over as CEO in June 2013), has had excellent publishing experience on both sides of the Atlantic and we have already established a good working relationship He reports on the Company strategy in his statement.
- The three current Non-Executives, Peter Waine, Peter Campbell and Edward Krawitt, have informed me they will not be seeking re-election to the Board at the Annual Meeting We thank them for their efforts over the years on the Company's behalf and wish them well Accordingly, Quarto will be appointing a new Non-Executive Board to help support executive management in its task. We are pleased to welcome to the Board, Max Lesser, a partner in Worsley Associates LLP, an investment advisory business, and a former investment manager at Guinness Peat Group plc
- Along with a refreshed Board and Senior Management, we have appointed new company lawyers (Olswang), brokers (Peel Hunt) and financial advisors (Lepe Partners) We would like to thank our previous advisors for the good work and counsel they have provided to Quarto in the past
- We have instructed our advisors to investigate ways in which The Quarto Group can cease to be governed by Delaware law and be restructured as a conventional UK plc We shall report back during the course of the year on our progress
- I have instituted an immediate strategic review of Quarto with the objective of lifting earnings and improving shareholder returns This will include the identification and subsequent exit of all businesses detracting from shareholder value The proceeds will be used to accelerate the reduction of debt.

Away from the Boardroom, the underlying businesses have clearly been run well by the same management team for some thirty-seven years We are grateful to Laurence Orbach for his contribution to Quarto and wish him well in the future

As some of you may know, the first 20 years of my working life were spent in book publishing, first at Macmillan and then at Aurum Press, which I founded I am delighted that the imprint is now thriving within Quarto Since those days I have spent time in both the US and UK building up and directing other public companies in other sectors To be back among a team of creative, dedicated and energetic people is exciting and I relish the opportunities ahead

Lastly, despite the challenges the Company faced last year, the Board is pleased to recommend a final dividend of 4 55p per share, making the total dividend for the year of 7 9p, level with last year



Timothy J M Chadwick
Chairman

Chief Executive's Statement

Marcus Leaver
CEO

I am grateful to all my colleagues for making me welcome at the end of April 2012 as Chief Operating Officer, and being extremely supportive when I became Chief Executive Officer in December 2012 They have worked assiduously in the face of turbulence both in their markets and their workplaces with the well-documented corporate events at the end of 2012 To have lost in Laurence Orbach a co-founder, Chairman, CEO and mentor to many, would have been an unassailable shock to a company with employees of lesser stature and quality

In the five months I have been running Quarto so far I have taken the time to visit our businesses throughout the UK, US, Hong Kong, Australia and New Zealand, meeting customers and partners as well as colleagues What I have found has been exciting and it only takes a simple visit to experience and even further stimulate the real sense of energy in the Group

These 2012 results display the fundamental resilience of the Quarto businesses even in challenging times I believe that good foundations are in place here for a business capable of rewarding shareholders and employees alike In order to do so, it is my intention to build an agile, product-led marketing and sales organization for a dynamic and fragmented marketplace

We are now reporting the structure of the Group in a different way via four distinct but complementary businesses Two other businesses beyond this structure also made a contribution in the year

- **Quarto Co-Edition Group, UK;**
- **Quayside Publishing Group, USA;**
- **Aurum Publishing Group, UK; and**
- **Lifetime/Premier Display Marketing, ANZ**
- **Other Businesses** (Regent and Image Factory)

This clarity should provide investors with a better understanding of the very different market dynamics and growth profiles of each business unit, demonstrating that the Group is well positioned in attractively resilient segments of the publishing market which present opportunities for growth as the industry adapts to new means of marketing, sales and consumption

The portfolio nature of our publishing businesses – **Quarto, Quayside** and **Aurum** – gives us an enviable asset base of intellectual property generating properties This is underpinned by our trading businesses – **Lifetime** and **Premier** – which enable us to look at the book business from a very different angle as well as generate significant cash flow to invest back into the business as a whole

Strategy

At Quarto, we have made excellent quality books and sold them in great quantities around the world since 1976 In order to achieve continued success, we need to do exactly that but take into account the rapidly changed and evolving marketplaces for the products we produce It is ever more apparent that as an illustrated book publisher with excellent content and as a distribution business we need to be increasingly intelligent and diligent about getting books into the hands of customers While it is well documented that book stores are closing and value shopping online is competitive and dominated by well-known names, Quarto's products, businesses and sales methods, viewed across a group of varied parts, combine to create the opportunity for a growth in value

The crucial issue for Quarto is not one of platform or of format but of channel How the consumer wants to read our content is up to them Our job is to make this content available to them in an economically viable format with the quality that we have historically been known for on whichever platform they desire Such an approach is not something new, this is fundamentally our job at Quarto as publishers the sales, marketing and distribution of content At Quarto we are exploring aggressively new channels to market within the territories in which we are already present and moving into new territories where we believe the market dynamics are encouraging for illustrated books and content In some of these territories, we shall create the content, create the distribution opportunities and own an important delivery channel The power of going to the customer with product as opposed to hoping to have the customer come to where the product is, has been an illuminating experience for us, learned from our display marketing businesses We are doing everything we can to maximize that experience in the marketing and sales process of our products in the rapidly changing, dynamic and multi-faceted markets we operate in

As a result, in the last few months of 2012, we have examined the federal nature of the Group and have made some refinements mentioned previously These refinements preserve the federal autonomous structure but allow more cross-fertilization between the businesses and co-operation between them, where real expertise resides in order to start capturing as much of the opportunity our structure affords us as possible

The refinements outlined in the business reviews that follow are just the beginning and as a management team we are making it a priority task to identify others that will help Quarto's talented people achieve more together and sell even more books

Marcus E Leaver
Chief Executive Officer

Four distinct but complementary international businesses

QUARTO GROUP OFFICES

- **UK** The Quarto Co-Edition Group
- **UK** The Aurum Publishing Group
- **USA** The Quayside Publishing Group
- **ANZ** The Lifetime/Premier Display Marketing Group

Quarto Books are sold as co-editions to the 46 countries listed below, and published in 35 languages In addition, we export English-language books to more than 50 countries around the world

Argentina	Denmark	Italy	Romania	Turkey
Austria	Estonia	Japan	Russia	Ukraine
Belgium	Finland	Korea	Serbia	UK
Brazil	France	Latvia	Slovakia	USA
Bulgaria	French Canada	Lithuania	Slovenia	
Canada	Georgia	Malaysia	South Africa	
Chile	Germany	Mexico	Spain	
China	Greece	Netherlands	Sweden	
Colombia	Hungary	Norway	Switzerland	
Croatia	Iceland	Poland	Taiwan	
Czech Republic	India	Portugal	Thailand	

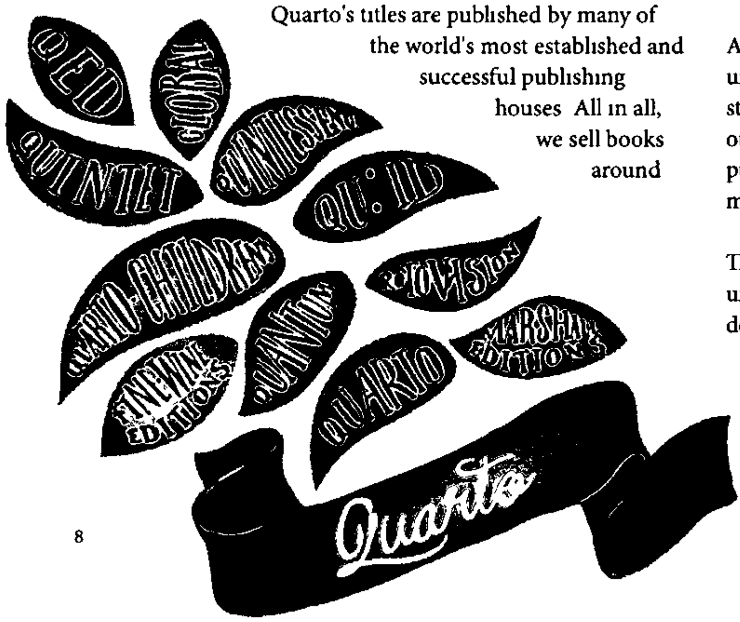
Quarto Co-Edition Group, UK

David Breuer
Director

This business is at the core of the Quarto Group as the founding business around which the Group was formed It comprises eleven businesses that span a range in annual revenue, reflecting different levels of maturity of the individual imprints All of the co-edition business units license the books they create to third-party publishers around the world before they are created No inventory is held and the businesses generate revenue in part from the new titles they create each year but also, predominantly, from the reprints that they supply to licensees of backlist titles first published in prior years – as explained on the following pages

This is a highly disciplined and low-risk model, relying for its success on the integrity of each title, its relevance to the intended audience, and its ability to retain those attributes for many years and in many geographies

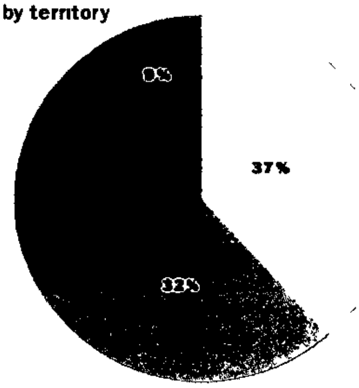
The strength of Quarto International Co-Edition lies, as it has always done, in identifying categories of enduring interest to enthusiasts into which books can be published, creating titles that educate, entertain and enrich the lives of our readers, and taking advantage of the greater size of the global rather than the domestic audience to deliver a more comprehensive and useful book.



Quarto's titles are published by many of the world's most established and successful publishing houses All in all, we sell books around the world in 35 languages in a given year through our dedicated foreign language sales team

The overall result for this division in 2012 was disappointing with revenues down 5% to $41 4m (2011 $43 4m) The European market was particularly difficult given the regional economic malaise, and retail flux and revenues fell by $3m, which amounts to more than the total revenue shortfall The largest falls were seen in Scandinavia and Eastern Europe

Sales by territory

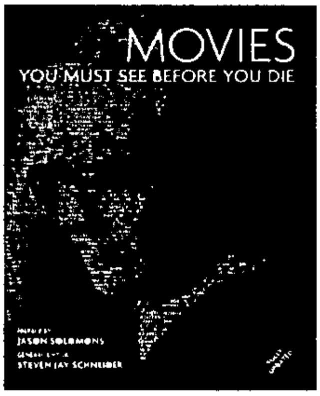


- EBITDA margin was 33 2% (2011 34 5%) of sales
- Operating margin was 12 1% (2011 12 5%) of sales
- Backlist sales account for 68% (2011 70%) of gross sales

As is to be expected in a portfolio business, some underlying businesses performed better than others and steps have been and continue to be taken in order to focus our energies on those imprints where we have clarity of publishing strategy and a future visibility into the main markets in which we do business

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

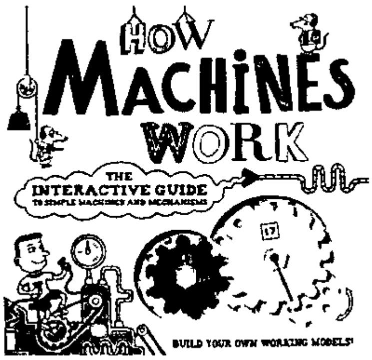
2012 Stand Out Quarto Co-Edition Titles



1 Revenue **$555k**
(First published 2003)

2 Revenue **$476k**
(First published 2003)

3 Revenue **$473k**
(First published 2012)



4 Revenue **$404k**
(First published 2011)

5 Revenue **$394k**
(First published 2010)

No single title represents more than 1% of annual revenues and none of the businesses are strongly dependent on any single franchise or publication.

The Business of Co-Edition Publishing

The essence of a co-edition book is to pre-sell enough copies to make a profit before incurring the substantial cost of putting the title into production A successful book is designed to be sold to many publishers around the world and to be translated into numerous languages This flow chart, depicts the life of a typical co-edition book, *ART The Whole Story* First launched in 2009, it is one of over 200 books produced by the co-edition group each year

START!

1 The idea of a comprehensive Art book - first called "*The Meaning of Art*" is discussed at an editorial acquisition meeting in 2009

2 The next step is to research the market and to find a credible author - in this case, the eminent art historian, Stephen Farthing, to develop the concept with the Quintessence co-edition team

3 Next, the project is brought to life with a jacket design and sample pages which are mounted in a blank dummy book to the same page count and dimensions as the finished book

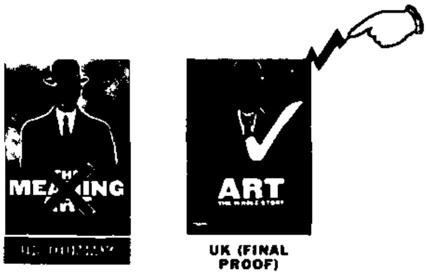
UK & AUSTRALIAN EDITION PUBLISHED BY THAMES & HUDSON

2010

In the first year six foreign language editions were printed plus four reprints

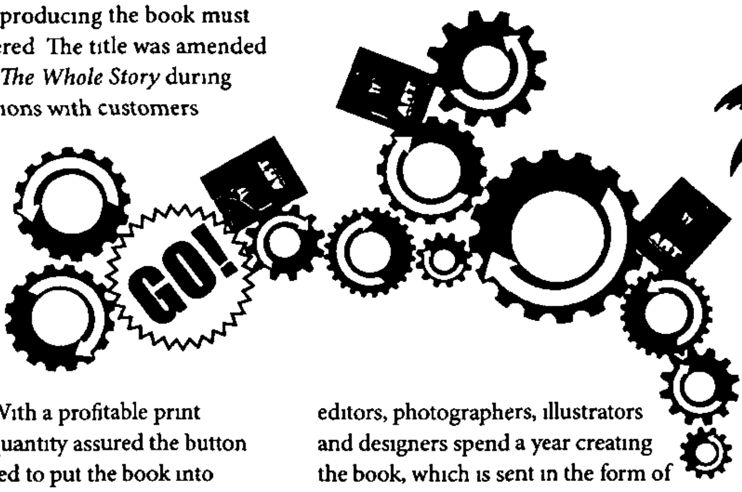
2011

In year two six more foreign language editions were printed plus four reprints



❹ The 'dummy' is shown to major publishers in the English Language markets, and quantities and prices for each of market agreed At this point, the cost of producing the book must be covered The title was amended to *Art The Whole Story* during discussions with customers

❻ The books are printed and shipped to our publishing customers around the world with their imprints on the spine – in this case, Rizzoli in the US and Thames & Hudson in the UK and Australia



❺ With a profitable print quantity assured the button is pressed to put the book into production Authors, writers, editors, photographers, illustrators and designers spend a year creating the book, which is sent in the form of digital files to printers in the Far East

In year three four foreign language editions were printed plus four reprints

Quayside Publishing Group, USA

Ken Fund
President and CEO

Our US business comprises twelve imprints and a distribution business, located in two main offices in Minneapolis and Boston with smaller satellites in Los Angeles and New York

Our publishing strategy is based around illustrated non-fiction imprints that can best be described as serving Communities of Niche Enthusiasts (CoNE), ranging from motor enthusiasts who love our Motorbooks imprint, the world's leading publisher of automotive books and calendars, to professional designers and artisans of all types who are well catered for by Rockport, which creates illustrated source books

Our CoNE network approach underpins our businesses and we focus our publishers and their imprints on finding their communities, rather than relying on communities to find authors This targeted approach to content generation, focused on like-minded communities of interest, has evolved our business into being content-led but market-aware and proactive

Accordingly we have adapted our marketing and sales strategy during the course of 2012 to a nuanced approach, where we market and sell our wealth of content in a more granular way, than the 'publish it and they will come' approach of the 20th century and early 21st century To this end, we have effectively put more 'boots on the ground' by adapting our sales teams to a regional and local focus with our marketing efforts underscoring that approach

This grassroots approach is both a result of events that unfolded to make 2012 a difficult year for Quayside and in anticipation of any future market turbulence Certainly, with only 15% of our overall sales in traditional book stores in the US & Canada, we are well placed to take advantage of any uptick in the economy in the next year or so, should there be one, and the changes we have introduced can only enhance our performance

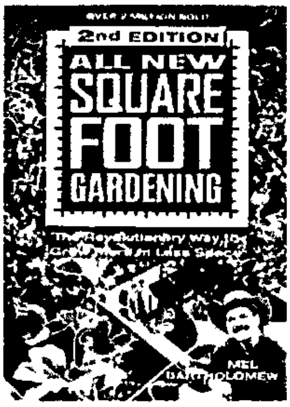
The overall result for this division in 2012 was of a resilient performance in a very difficult environment Management showed tenacity and adaptability during the course of the year

Sales were down 12% ($8 4m) The two most significant factors were the losses, both in the first quarter of 2012, of the category manager role at Tractor Supply Company (1000 stores), which resulted in a loss of some $4m of revenues, and a major customer, Home Depot (1500 stores), ceasing to carry books as a main line front-of-store item, which resulted in a loss of some $1m of revenues

- EBITDA margin was 24 7% (2011 22 8%) of sales
- Operating margin was 10 9% (2011 10 2%) of sales
- Backlist sales in our book publishing units (excluding Distribution businesses) accounted for 77% (2011 70%) of sales

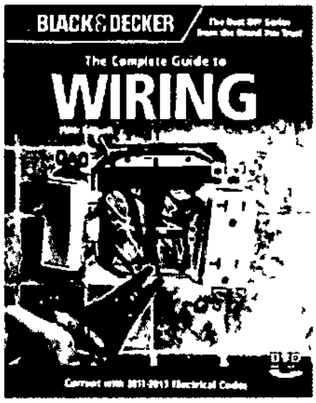
A significant operational achievement for Quayside in 2012 as it adapted to the changing landscape of its domestic market was its ability to reduce its inventory by 22% during the course of the year This took a concerted effort by all areas of the business to come together and change established behaviors and

2012 Stand Out Quayside Titles



1 Revenue **$508k**
(First published 1981)

2 Revenue **$363k**
(First published 2011)



3 Revenue **$357k**
(First published 1992)

4 Revenue **$343k**
(First published 2007)

5 Revenue **$259k**
(First published 2012)

practices Clearly such a reduction has great benefit to cash generation and affected margins by less than 1% Again with more adherence to operational workings and how we can best leverage overall Group resources, we have made some recent further changes that we believe will benefit Quayside in 2013 and beyond,

namely taking on distribution of all of Aurum's adult publishing lists in the US and Canada, teaming up with the Quarto foreign-language team to sell its foreign-language rights, and teaming up with Aurum to sell its books in the UK through Aurum's revitalized Export Sales Department

E-Books by the Numbers

While we feel strongly that our titles work best in print, if our readers choose to read them digitally we want to make that same content available to them in whatever form they choose to consume it Our imprints are renowned for their quality product and we are committed to making available as many of our books on as many of the e-reading platforms that make sense for our product – without sacrificing quality in any way

We are working closely with our E-book vendors to make sure they 'surface' our E-books to our enthusiasts Often E-book vendors don't even list the categories we publish into in their navigation, nor do they highlight, for example, that they have craft books for sale In this multi-faceted and multi-channelled world, we continue to strive to make it as simple as possible for readers to find our E-books as well as our print editions

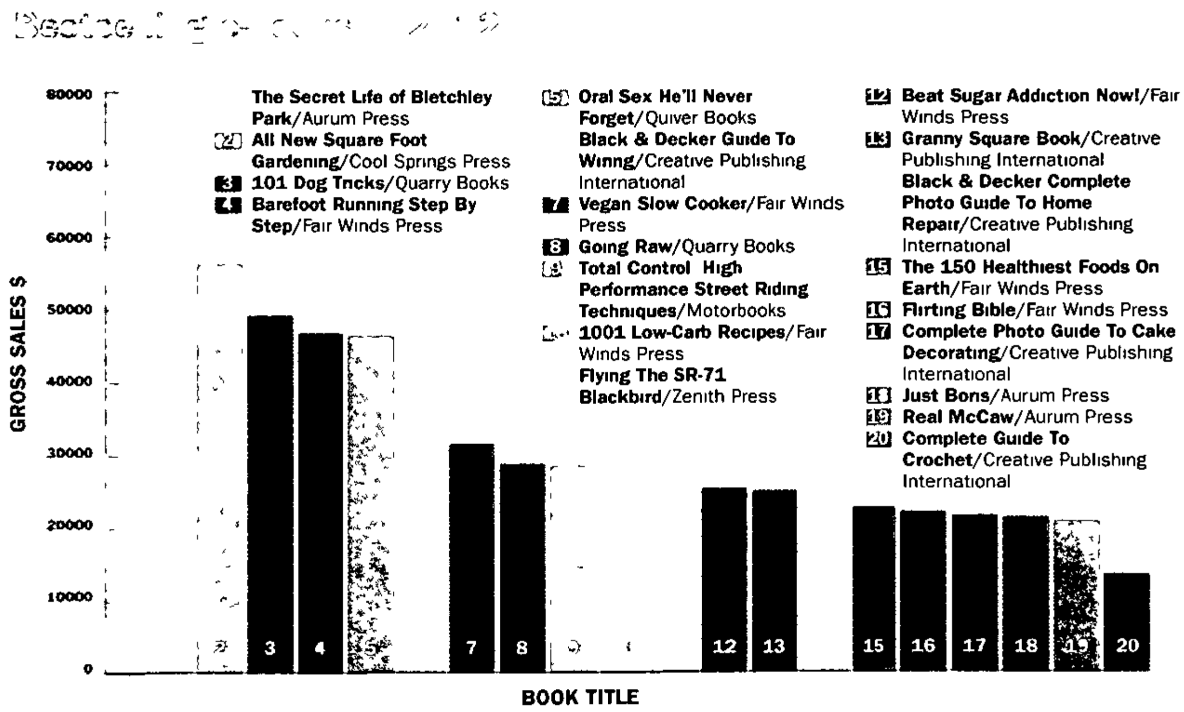
Quayside Publishing Group E-book sales

E-book revenues totalled $2,090k (2011 $1,424k), with Fair Winds being the largest contributor with $581k (2011 $345k) Digital sales totalled $2,441k (2011 $2,029k) Digital revenues amount to 4 1% of segmental revenue, or 5 6%, excluding our distribution businesses The percentage differs quite significantly within our business per genre and per imprint and the data tells many different stories – quite literally, every book has its own digital profile or story We aim therefore for platform ubiquity

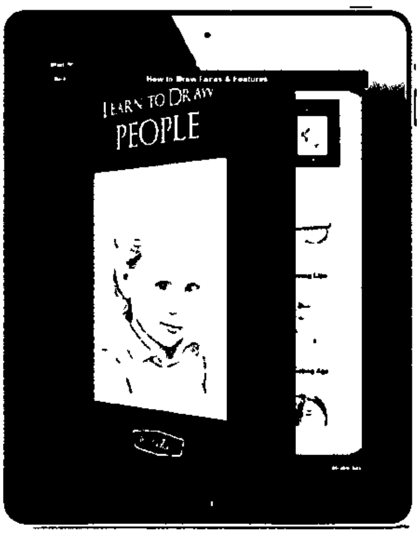
We are actively looking for ways of monetising our content Our Creative Publishing imprint receives substantial income from supplying Home Improvement content to EBSCO's Home Improvement Centre which sells subscriptions to libraries worldwide Revenue from this source in 2012 amounted to $191k

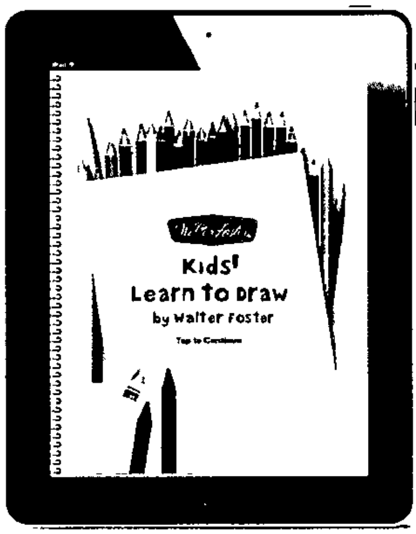
Aurum Publishing Group E-book sales

E-book revenues in this business amounted to $271k (2011 $77k), which is 1 2% of segmental revenues Aurum was the biggest contributor and E-Book revenues here were 5 4% of total revenues With the market at best seeming to be 18 months behind the US we are still focused on experimenting with pricing and learning about elasticity of that within certain subject areas as well as how the promotion of our books in an E-bookstore might best be presented

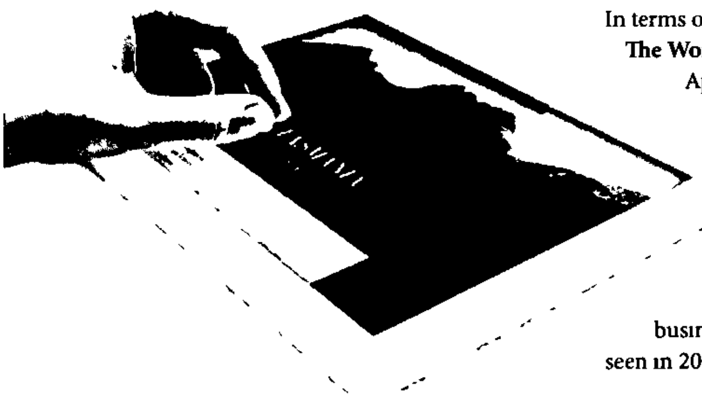


Walter Foster, our market-leading how to draw and paint imprint based in California launched their first App in December 2010 The main goal was to build up awareness of the Walter Foster brand among the digital generation To date the App has achieved 488,000 downloads The number of unique visitors to the Walter Foster website grew from an average of 7,700 per month in 2010 to 31,000 per month today Amazon sales since the App was launched grew 51% in 2011 and 48% in 2012





Eleven Apps have been launched so far· This includes nine adult drawing and painting programmes available at $6.99 each (one illustrated above) plus two licensed children's drawing and painting programmes at $3 99 each and eleven non-licensed programmes at $2 99 each (one illustrated above)



In terms of new horizons we are pleased to have launched **The World of Fine Wine Magazine** iPad app in early April in both English and Chinese This magazine is a fine brand for us to showcase our ability to create excellent content – it won the prestigious Louis Roederer International Wine Writers' Award for Publication of the Year for the third year running in 2012 We now need to leverage this expertise into making it an international business and the beginnings of that strategy will be seen in 2013

Aurum Publishing Group, UK

David Graham
Managing Director

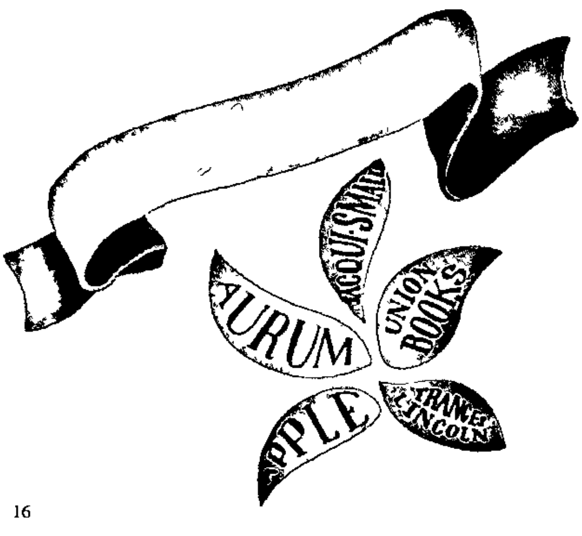
Our UK publishing business comprises five different imprints each with their unique characteristics and focus on publishing to specific interest groups

With a resolutely non-fiction focus, we publish in the following areas history, entertainment, sport, flowers and gardening, art and architecture, food and drink, craft and walking guides, most notably Wainwright.

We also have a stationery business that is somewhat of a hidden gem and we expect this to flourish in 2013 and beyond Lastly, within **Frances Lincoln,** the business we purchased in 2011, is a small but profitable children's publishing business that can be grown over time

The overall result for this division in 2012 was of a resilient performance in a difficult environment, with revenues up 39% to $21 9m (2011 $15 7m), benefiting from a full year of Frances Lincoln, compared to five months, last year Revenues, excluding Frances Lincoln, were down 8%

- EBITDA margin was 23 9% (2011 24 6%) of sales
- Operating margin was 13 5% (2011 13 6%) of sales
- Backlist revenues accounted for 54% (2011 50%) of sales

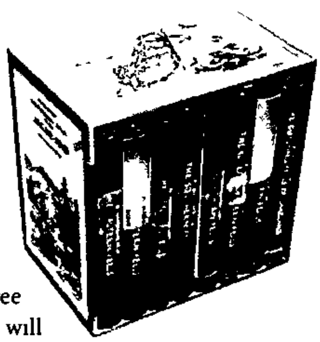


Against a backdrop of continued market turbulence in its domestic market as well as the companies' own efforts to knit together the existing business with the **Frances Lincoln** business, the business delivered a good performance

Frances Lincoln stationery range includes the bestselling annual RHS Diary

With that integration achieved and a move into new premises in the last weeks of 2012 as well as a root-and-branch overhaul of the marketing and sales function both domestically and internationally, the stage is set for a good performance in 2013

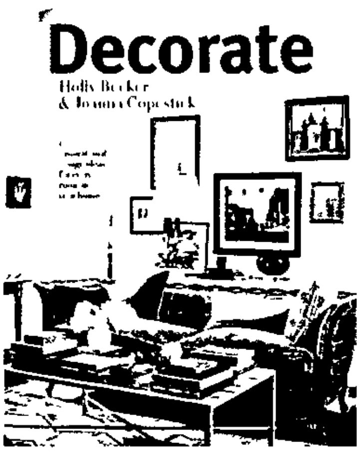
We now have an energized team focused on all channels to market, not just the trade but anywhere a book or gift can be sold, just as we have established that expertise in the US Internationally, as alluded to above, we have focused our Export efforts – books sold in territories in English language – for both Quayside and Aurum under one team based out of London Honing our network of sales people and agents around the world will take time but again shows the Quarto Group's innate belief in having more 'boots on the ground'



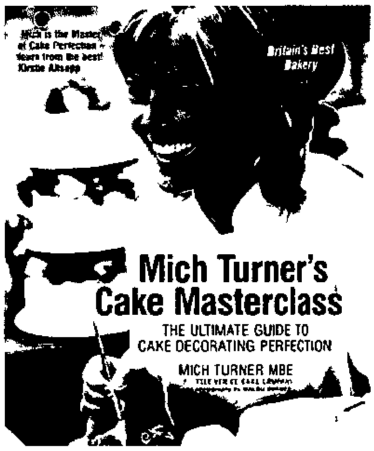
Wainwright's Walking Guide box set.

In 2013, operationally the business will consolidate its warehouse presence from three warehouses into one and this will both present savings and reduce complexity in the business going forward Additionally, with new personnel in finance and operations, some of the supply chain initiatives we have seen success with in the US can be learned from and adapted to the UK market By the end of 2013, we should have a very reliable publishing and operational foundation from which to grow

2012 STAND OUT AURUM GROUP TITLES

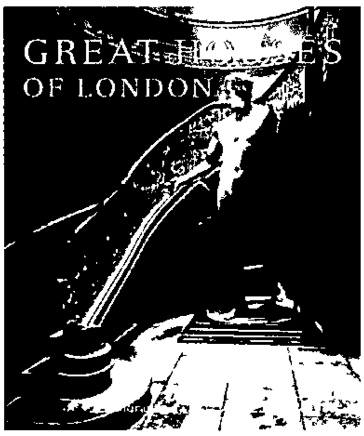


1 Revenue **$601k**
(First published 2011)



2 Revenue **$496k**
(First published 2010)

3 Revenue **$439k**
(First published 2010)



4 Revenue **$184k**
(First published 2012)

5 Revenue **$203k**
(First published 2012)

Lifetime/Premier Display Marketing Group, ANZ

Gareth Thomas
Executive Director

Our businesses in the Southern Hemisphere, **Lifetime** in Australia and **Premier** in New Zealand, present a very welcome alternative route to market compared to the well-documented vagaries and turmoil of the markets all of our businesses publish into These trading businesses balance out our asset-backed portfolio of intellectual property producing businesses Both businesses are direct sales companies, retailing a curated selection of books and gifts for all ages in workplaces throughout a network of sales people Lifetime is a franchise operation that has been in existence for more than 20 years and is the fourth largest retailer of books in Australia, calling on some 38,000 workplaces Premier has a network of distributors and has also been in existence for more than 20 years and is the third largest retailer of books in New Zealand calling on some 10,000 workplaces Books represent about 65% of sales in each business, non-book about 35%

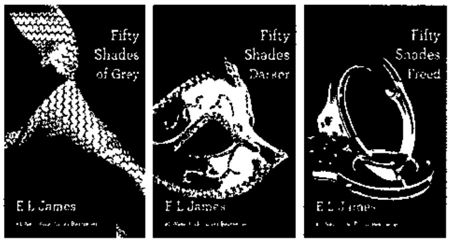
The overall result for this division in 2012 was of a good performance with revenues up 1% and with improved margins, driven by Lifetime Premier struggled with product cycles, following an inventory reduction programme, and increased overheads, which they are now working on cutting back

As publishers look, as Quarto's publishing businesses have always done, to non-bookstore channels to sell their product, Lifetime and Premier's position strengthens in the markets they work in Both businesses are underpinned by a rigorous testing system that allows us to buy on non-returnable terms as well as analyze the data from the handheld terminals that we are rolling out assiduously to all our franchises and distributors There is very visible organic growth in the next few years and as we learn from these businesses and systematize them we can look at the ability to replicate best practice if we decide to set up business in other territories

Lifetime have 160 sales executives calling on 38,000 workplaces across Australia.

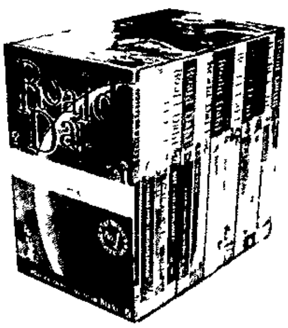
We have invested in new handheld terminals to our network of sales people which allows us to respond to customer feedback and sales data immediately.

2012 STAND OUT LIFETIME/PREMIER TITLES

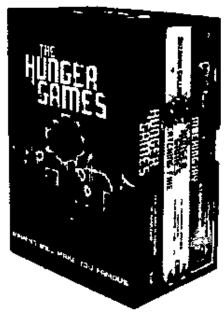


2 Revenue **$554k**

3 Revenue **$250k**



1 Revenue **$602k**



4 Revenue **$246k**

(Figures shown here represent Lifetime sales only)

Other Businesses

REGENT

Regent, our Hong Kong-based print broker, is a reliable generator of profits and did not disappoint in 2012 Focused on small- and medium-sized publishers, primarily in the US, this business continually adapts and regenerates to suit the market While we like the business for its profits and the reliability of its management team we do not believe that the business is scalable

Image Factory is one of the UK's leading manufacturers and distributors of point of sale for the retail sector and leading brands With a traumatic year for this business in 2012 following the loss of its Managing Director, the untimely death of Geoff Banks still shocks and his absence leaves a void New management did well to restore the business to profit, and more progress in that regard is expected in 2013.

imagefactory

Group Initiatives 2013

We are now reporting each core business separately and from now on will comment on each business on this basis This format has been welcomed by the Executive Committee that is newly constituted for 2013 of the following people

- Michael Mousley, *Chief Financial Officer*
- Bob Morley, *Co-Founder*
- Michael Clarke, *Director of Group Operations*
- Joe Craven, *Director of Group Development*
- David Breuer, *Director of Quarto International Co-Editions*
- Ken Fund, *President & CEO, Quayside Publishing Group*
- David Graham, *Managing Director, Aurum Publishing Group*
- Gareth Thomas, *Executive Director, Lifetime/Premier Display Marketing Group*

The Group function has been re-dedicated to provide support regarding IT, HR and internal communications, property, procurement, supply chain and inventory planning, digital development and best practice, strategic analysis and planning as well as treasury and tax planning There has been no addition to headcount By meeting regularly, at book fairs and dedicated meetings, this team will drive the federal but no longer silo-ed culture we need to foster Other than running the businesses and producing the budgeted results the main focuses for this team this year are

- **Strategic Review** – we shall continue, with urgency, to refine the Quarto structure and shape of the business, undertaking reviews of the entire portfolio, including potential disposals, internal merging of assets where applicable and small strategic acquisitions, but the latter only if they are immediately accretive
- **Debt reduction** – with a net debt as at 31st December 2012 of $81 0 million, management has an aggressive target to reduce net debt by the end of 2013 through selective asset disposals and continued tight cash management
- **Children's** - Children's books represent only 10% of the entirety of Quarto's business and with measured but focused investment there is opportunity to grow this part of the business in publishing for the 0-9 age groups We shall report back during the course of 2013
- **Digital Development** – continual adherence to new technology and development of the Company's assets will be a theme for 2013 Our basic thesis of needing to enhance the discoverability of our content, both digitally and physically, is one that we shall develop during the course of the year as we explore, cost-effectively, the atomization of our content and how to generate revenue from it.
- **Non-Book** - we have a burgeoning expertise with calendars in the US, stationery in the UK and large amounts of sales of both in Australia and New Zealand. We are undertaking an examination of the potential for growing these businesses in 2013, 2014 and beyond both separately and in cooperation between these businesses to exploit existing intellectual property
- **Geographical** - while the Group has made good inroads into emerging markets both in English language and foreign language, a more aggressive approach will be taken in 2013 and exploratory trips made to South America and China specifically to find partners in those territories
- **Distribution** – with a very focused direct-to-consumer strategy encompassing more 'boots on the ground' in all of our businesses be it foreign-language sales, US-regional sales, English-language export sales or direct sales in Australia and New Zealand, there is much best practice we are learning In a world where bookstores and retail are under pressure, and e-retailers have their own discoverability issues, we are exploring how we might best systematize that best practice to enhance our distribution

Current trading

Current trading is in line with expectations All the businesses are currently focused on laying the groundwork for the second half of the year when the majority of the sales and profit are generated

Outlook

This year, 2013, will be a year of resolute focus on the operational underpinnings of Quarto that will allow us to grow the business in 2014 and beyond Cash generation and debt reduction will be key We will continue Quarto's relentless quest to make quality products that entertain, educate and enrich the lives of our readers but now with a renewed focus on marketing and selling both via existing channels and through newly discovered ones This year will see fine tuning to already solid foundations, allowing focus on revenue and profit growth in years to come

Financial Review

The Group's Board uses a range of performance measures to monitor and manage the business Certain of these measures are important in measuring our progress in creating shareholder value and are considered key performance indicators (KPIs) The KPIs measure past performance and also provide information to allow us to manage the business into the future and comprise sales and operating profit, before amortization of non-current intangibles and exceptional items, by business segment, interest cover, adjusted diluted earnings per share, net debt, EBITDA and net debt to adjusted equity KPIs for 2012, together with comparatives, are set out in the table below

Key Performance Indicators	**2012**	**2011**
	$000	$000
Sales Quarto International Co-editions	41,351	43,380
Quayside Publishing Group	59,377	67,742
Aurum Publishing Group	21,920	15,741
Lifetime/Premier Display Marketing	34,621	34,430
Other	23,604	24,833
	180,873	186,126
Operating profit before amortization of non-current intangibles, exceptional items and group overheads		
Quarto International Co-editions	5,017	5,415
Quayside Publishing Group	6,482	6,883
Aurum Publishing Group	2,957	2,136
Lifetime/Premier Display Marketing	4,474	4,265
Other	1,390	1,246
Operating profit before amortization of non-current intangibles, exceptional items and group overheads	20,320	19,945
Operating profit before amortization of non-current intangibles and exceptional items, after deducting group overheads	16,581	16,735
Interest cover, based on operating profit before amortization of non-current intangibles and exceptional items	3 21x	3 62x
Adjusted diluted earnings per share	43 6c	45 6c
Net debt	80,978	81,421
EBITDA	36,509	37,316
Adjusted Equity		
Total equity	51,130	46,520
Adjustment to reflect valuation for internally generated backlist of titles	43,900	48,800
Adjusted equity	95,030	95,320
Net debt Proforma EBITDA	2 22x	2 09x
Net debt. Adjusted equity	85%	85%

A reconciliation from the statutory measures to the adjusted measures appears in Note 32

Group

We have produced a resilient trading performance Revenues fell by 3% to $180 9m (2011 $186 1m) and EBITDA fell by 2% to $36 5m ($2011 $37 3m) Operating profit was down 1% at $16 6m (2011 $16 7m) and profit before tax was down 6% at $11 4m (2011 $12 1m) Diluted earnings per share fell by 4% to 43 6c (2011 45 6c)

It has been the case for many years that not one of our titles exceeded 1% of Group revenues, and this year is no exception The following titles were our top five sellers, with their respective revenues, in 2012

Decorate	$601,000
1001 Movies You Must See Before You Die	$555,000
All New Square Foot Gardening	$508,000
Cake Masterclass	$496,000
Flora	$476,000

Quarto Co-Editions Group

Revenue for this segment was down 5% at $41 4m (2011 $43 4m) Operating profit was down 7%, at $5 0m (2011 $5 4m) We achieved an operating profit margin of 12 1% (2011 12 5%) Reprints accounted for 68% of co-edition book publishing revenues, compared to 70% last year This confirms that we have a very valuable backlist and that our business model is working effectively

Quayside Publishing Group

Revenue for this segment was down 12% at $59 4m (2011 $67 7m) and operating profit was down 6% at $6 5m (2011 $6 9m) We achieved an operating profit margin of 10 9% (2011 10 2%) The revenue shortfall was, in large part, due to the loss of the category manager role at Tractor Supply Company (accounting for some $4 0m) and a major customer, Home Depot, ceasing to carry books as a main line front-of-store item (accounting for some $1 0m) Reprints accounted for 77% (2011 70%) of revenues, again confirming the benefits of our business model

Aurum Publishing Group

Revenue for this segment was up 39% at $21 9m (2011 $15 7m) benefiting from a full year contribution from the acquisition that we made in 2011, Frances Lincoln Operating profit was up 38% at $3 0m (2011 $2 1m), representing a margin of 13 5 % (2011 13 6%) Reprints accounted for 54% (2011 50%) of revenues, reflecting the fact that the lists are more frontlist driven

Lifetime/Premier Display Marketing

Revenue for this segment was up 1% at $34 6m (2011 $34 4m) Operating profit was up 5% at $4 5m (2011 $4 3m), representing a margin of 12 9% (2011 12 4%)

Other businesses

Revenue for this segment was down 5% at $23 6m (2011 $24 8m) Operating profit was up 12% at $1 4m (2011 $1 2m), representing a margin of 5 9% (2011 5 0%)

Exceptional items

Exceptional items comprise operational restructuring costs of $1,397,000, excess returns and associated costs on termination of a key customer relationship of $589,000 and corporate restructuring costs of $1,866,000 The corporate restructuring costs arose mainly as a result of the Special Meeting of shareholders, as discussed in the Chairman's statement

Net interest payable

Our previous revolving credit facility was entered into in 2007 in a much more favourable/benign banking environment than we are operating in now The refinancing that took place at the beginning of 2012 has resulted in us paying a higher margin on our borrowings, leading to an increase in net interest payable from $4,629,000 to $5,158,000 We expect this cost to reduce in 2013 because of the conclusion of one of our expensive interest rate swaps in December 2012

Cash flow and indebtedness

At the year end, our net debt was $81 0m, a decrease of 1% ($0 4m), compared to 2011, when it was $81 4m

We concluded our refinancing on February 14, 2012 We signed a US$95m multicurrency revolving credit facility, with a tenor through to April 30, 2015 Committed facilities now total $128m, including this facility and a two-year $33m private placement facility, repayment of which commences on December 7, 2013

Net debt to adjusted equity is 85% (2011 85%) Interest cover was 3 21 times (2011 3 62 times) and net debt to proforma EBITDA is 2 22 times (2011 2 09 times)

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

Shareholder return
Adjusted fully diluted earnings per share were down 4% at 43 6c (2011 45 6c) The market price of the shares of common stock on December 31, 2012 was 137p, down 2% compared to last year (140p) and up 1% compared to 2010 (135p)

In light of our performance, the Board has proposed a maintained final dividend of 4 55p (7 37c) per share which, combined with the interim dividend of 3 35p (5 33c), results in total dividends of 7 9p (12 70c), the same as 2011

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

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

- The Group's profitability depends, in part, on the economic conditions across the world The Group has a global business and, therefore, is affected by global economic conditions that may affect or impact upon the financial health of its customers, which in turn may lead to their not being able to honour their payment obligations to the Group The Group has built up strong relationships with its customers and is not over reliant on any one of them
- The success of the Group's titles is also an important factor in increasing the Group's profitability In particular, we need to continue producing titles that reprint or backlist well We are not reliant on any one product or group of products and none of our titles accounted for more than 1% of Group revenues in 2012
- The security and robustness of our systems, in particular our IT systems, are important in all aspects of our business IT processes are continually updated and security improved, with daily off-site back up of electronic files

Financial reporting
We have very tight reporting deadlines so that we can focus on running the business This requires considerable commitment and hard work from my staff and I would like to thank them all for their hard work, unstinting support and loyalty We have had an extremely busy year and at times I have asked a lot from my staff, but they continue to produce the goods

M. J. Mousley
Chief Financial Officer
April 25, 2013

Directors' Report

The Directors present their report and the audited financial statements of The Quarto Group, Inc., for the year ended December 31, 2012

Principal activities
The Group conducts an international business whose principal activity is as a publisher of illustrated non-fiction books in co-edition and under its own imprint, for both adults and children A detailed review of the development of the business of the Group is given in the Chief Executive's Statement and the Operational Reviews on pages 6 to 20 A review of the business of the Group is set out in the Financial Review on pages 21 to 23 The principal risks and uncertainties facing the Group are discussed in the Financial Review

Results and dividends
The profit for the year amounted to $5,527,000 (2011 $8,071,000) The Directors propose a final ordinary dividend of 4 55p/7 37c (2011 4 55p/7 05c) per share, amounting to $1,451,000 (2011 $1,388,000), subject to approval at the Annual Meeting

Directors
Serving Directors during the year, were as follows:
M. E. Leaver (Appointed 30th April 2012)
T. J. M. Chadwick (Appointed 7th November 2012) (Non-executive)
L. F Orbach (Removed 7th November 2012)
R. J. Morley (Stepped down 30th May 2012)
M. J Mousley
P. Campbell (Non-executive)
P. Waine (Non-executive)
E. Krawitt (Non-executive)

Timothy Chadwick's previous experience includes 6 years at Macmillan Publishers, 10 years as Founder and Executive Chairman of Aurum Press Ltd and 6 years as Founder and Executive Chairman of All Books for Children (ABC) Ltd.
In the last 5 years Timothy has held the following Directorships in publicly quoted companies: Simon Group plc – Executive Chairman, First Artists Group plc – Director, ACM Shipping plc – Director and Madara Bulgarian Property Fund – Executive Chairman
Marcus Leaver was President of Sterling Publishing, Barnes & Noble's wholly owned publishing subsidiary, from January 2008, having joined in 2005 as Chief Operating Officer. Prior to Sterling, Mr Leaver served as CEO of the Chrysalis Books Group, in London, from 2002-2004, and Corporate Development Director of Chrysalis Group plc, and in a number of different general management roles, from 1998-2002. Mr Leaver graduated from the University of East Anglia with a degree in Art History, and received his MBA from London Business School.
Mick Mousley, Group Finance Director, B Sc, A.C.A, worked for 12 years at Deloitte Haskins & Sells (now part of Pricewaterhouse-Coopers), the last two years of which were as a senior manager in the Mergers and Acquisitions Department. He joined Quarto in 1987, and was appointed Finance Director in 1989
Peter Campbell started his business career with the Booker Group, holding a number of marketing positions in their United Rum Merchants subsidiary From 1972 to 1989 he was with the Ocean Group, initially on the sales and marketing side, and from 1987 to 1989, he was the General Manager, UK Operations, for the MSAS subsidiary, with responsibility for 27 locations and 800 staff. Since 1989 he has been involved in management training and development.
Peter Waine has a wide corporate experience gained as a result of holding executive and non-executive Directorships in a variety of different sectors and with companies both public and private, up to $1 billion turnover The organisations he has worked for include GEC, Coopers & Lybrand, W.R. Royle, and the CBI He is the co-founder of Hanson Green, the principal source for non-executive appointments in the UK. He is also a Visiting Professor at both Cass and Warwick Business Schools.
Edward Krawitt is a former Treasurer of EMI and Group Treasurer of HMV, and has previously held the roles of CFO at both Global Strategies Group and the Memec Group and CEO at Rustins Limited. He has an MBA from Dartmouth College and is a Fellow of The Association of Corporate Treasurers
Max Lesser was appointed as a non-executive Director on March 12, 2013 He is a founding partner of Worsley Associates LLP, an investment advisory business and he is currently a non-executive director of Journey Group plc Prior to this he was an investment manager at Guinness Peat Group plc for 11 years Previous roles have included periods as an equity analyst at JB Were & Son (New Zealand) Ltd and BZW New Zealand Ltd.

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

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

Directors' interests

The Directors who held office at December 31, 2012 had the following interests in the share capital of the Company

	Number of US$0 10 shares of common stock	
Shareholding	**December 31, 2012**	**January 1, 2012**
M E Leaver	-	-
M J Mousley	71,700	71,700
T Chadwick (Non-executive)	-	-
P Campbell (Non-executive)	1,000	1,000
P Waine (Non-executive)	-	-
E Krawitt (Non-executive)	20,000	-

During the year the market price of the shares of common stock ranged between 117 5p and 159 5p The market price at December 31, 2012 was 137 0p

Between December 31, 2012 and April 2, 2013 there have been no changes in the interests of the Directors, other than the purchase of 10,000 shares by M E Leaver on March 12, 2013

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

Substantial shareholders

As at April 2, 2013, the latest practicable date prior to the publication of this report, the Directors have been advised of the following shareholders who have an interest of 3% or more in the shares of common stock of the company

	Number of US$0 10 shares of common stock	Percentage
Harwood Capital LLP	4,000,025	19 6%
L F Orbach	2,909,185	14 2%
The Wellcome Trust Limited	1,987,568	9 7%
Herald Investment Trust	1,737,500	8 5%
R J Morley	1,402,852	6 9%
McKenzie Financial Corporation	1,080,000	5 3%
Liontrust	1,039,832	5 1%
The Quarto Group, Inc	747,821	3 7%
Lattice Group Pension Scheme	734,882	3 6%

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

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

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

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

Going concern basis

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Statement and the Operational Reviews on pages 6 to 20 The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 21 to 23 and in Note 18 to the financial statements

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

The Group has significant banking facilities In particular, the Group has committed facilities of $111 6m through at least November 2014 The Group has prepared detailed profit and cash flow budgets until June 30, 2014 which show that the Group is budgeted to have headroom within that period. The budgets have been subject to various sensitivity analyses The Group complied with its bank covenants in 2012 and the budgets show sufficient headroom on the covenants throughout the period covered by the budgets The covenants will be monitored closely by the board and appropriate action would be taken if any of the covenants became under pressure

Risk management strategy

The Group is exposed to a number of principal risks and uncertainties The Group's financial risk management strategy is set out on page 23 of the Financial Review and in Note 33 Operational risks are set out on page 23 of the Financial Review

Corporate Governance

The Directors have reviewed the governance arrangements of The Quarto Group, Inc in the context of the UK Corporate Governance Code 2010 The UK Corporate Governance Code 2010 is available from the website of the Financial Reporting Council at http //www frc org uk/our-work/publications/corporate-governance/the-uk-governa nce-code aspx The principles of the code have been applied as follows

a) The Board of Directors represents the shareholders' interests in maintaining and growing a successful business including optimising consistent long-term financial returns
b) The Board comprises two executive Directors and four non-executive Directors Three non-executive Directors, P Campbell (appointed March 26, 1998), P Waine (appointed June 4, 1998) and E Krawitt (appointed February 7, 2011) are considered by the Board to be independent, notwithstanding the fact that P Campbell receives $24,000 for consulting fees and has 1,000 shares and that P Campbell and P Waine have been on the Board for more than fourteen years The senior independent non-executive Director is P Waine T Chadwick (appointed November 7, 2012) was not independent, at the date of appointment

c) The Board met seven times in 2012 Each of the Directors, except P Waine who missed one meeting, attended all of the relevant meetings held during the year A formal agenda is prepared for each meeting and all board papers and information are circulated to the Board at least forty-eight

hours before the meetings.
d) All of the Directors are subject to re-election by the shareholders at the Annual Meeting.
e) The remuneration of the executive Directors is recommended by the Remuneration Committee, comprising P Waine, P Campbell and E. Krawitt. A separate report with respect to Directors' remuneration is included on pages 30 to 31 The Committee, which meets twice a year, does not have formal written terms of reference
f) The Chairman and the Chief Executive Officer are responsible for investor relations They meet with major shareholders during the course of the year to ensure that they develop an understanding of their views, which are communicated to the rest of the Board at Board Meetings The non-executive Directors meet with major shareholders from time to time Shareholders are invited to attend the Annual Meeting at least twenty-one days in advance of that meeting The Chairman of the Remuneration Committee, P Waine, who is also the Senior Independent Director, attends this meeting
g) The Chairman ensures that new Directors receive a full, formal and tailored induction on joining the Board. As part of this process, the Company arranges for major shareholders to meet a new non-executive Director There is a formal, rigorous and transparent procedure for the appointment of new directors to the Board. The search for Board candidates is conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender All directors are able to allocate sufficient time to the Company to discharge their responsibilities The Board has plans in place for orderly succession for appointments to the Board and to senior management. These plans aim to maintain an appropriate balance of skills and experience within the Company and on the Board and ensure progressive refreshing of the Board.
h) The Audit Committee, comprising P Campbell, P Waine and E. Krawitt, is chaired by E Krawitt and meets with the independent auditor at least twice a year E. Krawitt provides the Committee with financial experience The Committee regularly review at Board level the financial back up and facilities available at Head Office, as the Group continues to expand. The Committee has formal written terms of reference The Committee monitors the level of non-audit fees paid to the auditor to ensure that their objectivity is safeguarded. The chairman of the Committee, and to a lesser extent the other members of the Committee, keep in touch on a continuing basis with the key individuals involved in the Company's governance and the external audit lead partner
i) The non-executive Directors meet to discuss the executive Directors with the Chairman present and also meet with the executive Directors without the Chairman present, in order to evaluate the performances of the Board.
j) The non-executive Directors, led by the Senior Independent Director, are responsible for performance evaluation of the Chairman, taking into account views of executive Directors The Senior Independent Director is available to shareholders, if they have concerns, where contact through the executive Directors has failed to resolve their concerns
k) Quarto has arranged appropriate insurance cover in respect of legal action against the Directors.
l) All Directors have access to the advice and services of the Company Secretary
m) All of the non-executive Directors, that were members of the Board at the time of the meetings, attended all of the Audit Committee and Remuneration Committee meetings held during the year
n) The Chairman is responsible for the leadership of the Board and ensuring its effectiveness on all aspects of its role
o) The Board uses the Annual Meeting to communicate with investors All shareholders receive the proposed resolutions for this meeting, with at least 21 days notice

The Group has complied throughout the year with the provisions set out in the UK Corporate Governance Code 2010, apart from those listed below Where non-compliance is reported, this is because, in the opinion of the Board, it is not appropriate to change current practice due to the size and constitution of the Board. The provisions of the UK Corporate Governance Code not complied with are as follows

a) A1 1 – A formal schedule of matters specifically reserved for the Board is not required, since the Board forms the executive management of the Group
b) A3 1 – The Chairman of the board was not independent at the date of appointment.
c) B2 1 – The Company has a Nominations Committee, but there are no formal terms of reference, because the Chairman of the Committee runs a non-executive recruitment business

d) B5 1 – The Company does not have any formal arrangements for Directors, in the furtherance of their duties, to take independent professional advice The Board receives accurate, timely and clear information in the form

of regular board packs in advance of each board meeting
e) C2 1 – The annual review of the effectiveness of risk management is not formally documented, but it is discussed at board meetings and Audit Committee meetings
f) C3 4 – The Group does not have formally communicated 'whistleblowing' procedures 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, the structure is flat and the line of communication is short In addition, the Executive Board and the finance department carry out several visits per year to individual operating units
g) D1 1 – Performance related bonuses are not normally given Bonus payments are given on a discretionary basis as described in the Directors' Remuneration Report
h) D2 1 – There are no terms of reference for the Remuneration Committee, but it is well experienced in its role
i) D2 2 –The Remuneration Committee consists of three independent non-executive Directors, but it does not have responsibility for the remuneration of senior management below the main Board level P Waine is the Chairman of the Committee The Remuneration Committee is confident that the executive board members have the best interest of the Company in mind in setting the remuneration of senior management

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

Internal controls

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

a) The results of individual operating units are reported monthly and reviewed by the Board at its board meetings during the year
b) The management reports of each operating unit are tailored to suit the business and management needs of local management Each operating unit has its own performance indicators and these are regularly reviewed and assessed
c) In addition to the monthly reporting, individual operating units report certain management information more frequently where it is considered appropriate
d) All operating units report their bank balances twice weekly and a report is produced summarising the Group position
e) The Board and the finance department make frequent visits to all operating units These visits include reviews of the internal control and financial reporting systems
f) All operating units prepare annual budgets and cash flow forecasts which are reviewed by the Board

The UK Corporate Governance Code introduced a requirement that the Directors review the effectiveness of the Group's system of internal controls, to cover all controls including financial, operational, compliance, and risk management The Board confirms that there is an ongoing process for, and an annual review covering, the identification, evaluation and management of the significant risks faced by the Group, that has been in place for the year under review and up to the date of approval of the annual report and accounts and that this process is regularly reviewed by the Board and accords with the guidance The process is carried out through, inter alia

a) Group Board meetings
b) Quarterly subsidiary management meetings
c) Presentations by subsidiary Chief Executive Officers to the Board
d) Discussion and review by the Executive Board and the finance department during the several visits per year to individual operating units
e) Discussions with professional advisers where appropriate

Audit Committee
The work conducted by the Audit Committee during the year included.

- review and approval of the interim report after discussion with the external auditor
- review and approval of the preliminary announcement and the annual report after agreement with the external auditor
- review of the scope of the external audit, and discussion of risks facing the group with the external auditor prior to commencement of the external audit
- review of the group's internal financial controls, and a review of the group's internal control and risk management systems, including those in relation to the financial reporting process
- development and implementation of the policy on non-audit services
- review and amendment of the terms of reference of the committee for submission to the board

The Audit Committee reviews arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters The Audit Committee's objective is to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action

The Committee does not consider that an internal audit function is required for the company due to the size and nature of the business This recommendation is reviewed annually

The Audit Committee has primary responsibility for making a recommendation on the appointment, re-appointment and removal of the external auditor The performance of the external auditor is reviewed at the conclusion of each annual audit with the Board, with the Audit Committee's recommendation on the appointment of the auditor made prior to the Annual Meeting

The Audit Committee reviews the nature and extent of non-audit services supplied by the external auditor to the group, seeking to balance objectivity and value for money In determining the policy, the audit committee has taken into account the possible threats to auditor objectivity and independence and APB Ethical Standards for Auditors regarding the provision of non-audit services by the external audit firm The audit committee will take into account the overall level of fees to be charged by the auditor in the financial year, the perceived impact on independence and the skills and experience of the people proposed for the assignment

Fees paid to the auditor for audit services, audit related services and other non-audit services are set out in note 4 to the financial statements

Supplier payment policies
The Group agrees terms and conditions for its business transactions when orders for goods and services are placed, ensuring that suppliers are aware of the terms of payment including the relevant terms in contracts where appropriate These arrangements are adhered to when making payments, subject to the terms and conditions being met by the supplier At December 31, 2012, Group creditor days amounted to 90 days (2011 97 days) The holding company does not have any trade creditors

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

M J Mousley
Secretary
April 25, 2013
Company Registration No FCO 13814

Directors' Remuneration Report

Introduction
The Remuneration Committee is responsible for making recommendations on behalf of the Board on the remuneration policy with regard to the Company's executive Directors It consists of the non-executive Directors The Remuneration Committee is constituted within the relevant provisions of Section D of the UK Corporate Governance Code in framing its remuneration policy This report sets out the committee's policy and disclosures on Directors' remuneration

UNAUDITED INFORMATION

Remuneration policy
Remuneration levels are set by reference to individual performance, experience and market conditions with a view to providing a package which is appropriate for the responsibilities involved

An individual director's performance is reviewed and assessed constantly throughout the year and specifically at two formal meetings of the Remuneration Committee each year This process includes consideration of the financial results of the Group

The stated policy is expected to remain in place for the forthcoming year

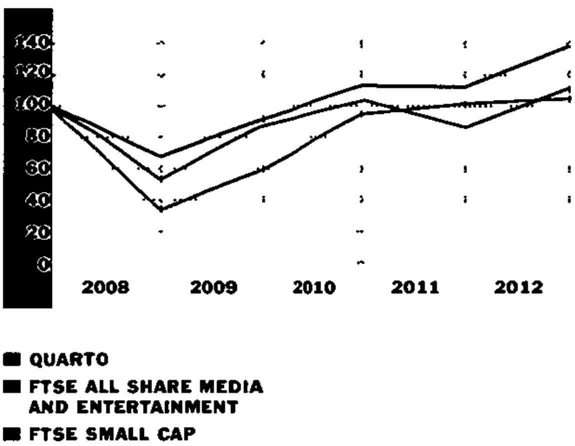
Components of remuneration
Basic salaries are determined according to the competitive market for executive directors, taking into account their experience, contribution and performance This determination is carried out internally

Bonuses and share options are awarded on a discretionary basis in recognition of individual performances during the year The performance related elements of executive directors' remuneration are designed to promote the long term success of the company

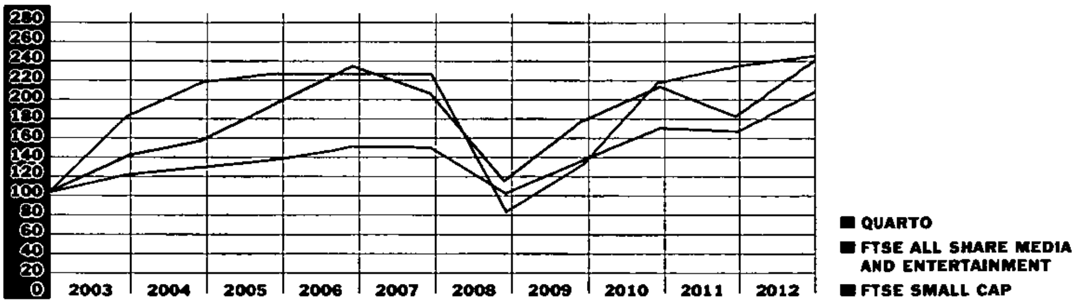
Options granted under the Company's Executive Share Option Schemes are at market value at the date of grant and exercisable between a minimum period of three years and a maximum period of seven years or ten years Options are exercisable if there has been an increase in the Group's earnings per share of at least 2% per annum above the growth in the retail prices index over a period of three years

Service agreements
Both of the executive Directors have service agreements which provide for 12 months' notice by the Director or the Company There are no provisions for compensation other than the notice period Excluding Timothy Chadwick, the non-executive Directors are engaged on annual rolling contracts Their fees are reviewed by the Board All of the Directors stand for re-election annually at the Annual Meeting of the Company Timothy Chadwick's agreement, which was signed on February 20, 2013, provides for fees of £100,000 pa and a bonus of £750,000 if, during the initial three year term, shareholders of the Company are able to sell their shares at a price of £2 50 per share or more, subject to certain conditions

Total shareholder return
The following graph charts the total shareholder return of the Company for the last five years, based on a start point of 100 at January 1, 2008



Graph showing total shareholder return of the company for the last ten years, based on a start point of 100, at January 1, 2003



The FTSE All Share Media and Entertainment index and the FTSE Small Cap index are selected for comparison The Company's peer group, in terms of its size and business, is considered to rest in these two indices

AUDITED INFORMATION

Details Of Directors' Remuneration

The auditor is required to report on the information contained in this section of the remuneration report
The remuneration in respect of each Director who served as a Director during the year was as follows

Name of Director	Fees/BasicSalary	Bonus	Benefits	**2012 Total** [illegible]	2011 Total [illegible]
M E Leaver (Appointed 30th April 2012)	329	165	4	498	-
L F Orbach (Removed 7th November 2012)	590	79	57	726	811
R J Morley (Stepped down 30th May 2012)	129	-	6	135	332
M J Mousley	390	40	9	439	449
T Chadwick (Appointed 7th November 2012)	23	-	-	23	-
P Campbell (Non-executive)	73	-	-	73	74
P Waine (Non-executive)	60	-	-	60	56
E Krawitt (Non-executive)	52	-	-	52	49
	1,646	284	76	2,006	1,771

In addition to the total remuneration charged above, there was a charge to profit or loss of $937,000 for compensation for loss of office for L F Orbach Benefits consist of benefits in kind in respect of health and life insurance The remuneration of P Campbell includes $24,000 of consulting fees, on an arm's length basis At December 31, 2012, no director held any share options

Both of the executive Directors have a defined contribution pension plan During the year contributions were made as follows

Name of Director	**2012**	2011
M E Leaver	49	-
L F Orbach	149	185
R J Morley	14	46
M J Mousley	58	59
	270	290

This report was approved by the Board of Directors on ~~April~~ 25, 2013

P Waine, Chairman of Remuneration Committee

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

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

The Company is an 'overseas' company within the meaning of the Companies Act 2006 The directors have elected to prepare the group financial statements in accordance with IFRSs as adopted by the EU, and the parent company financial statements in accordance with applicable law and UK GAAP

The directors have accepted responsibility for preparing group financial statements as required by IFRSs as adopted by the EU which present fairly the financial position and the performance of the group, the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation

The directors have accepted responsibility for preparing parent company financial statements which give a true and fair view of the state of affairs and profit or loss of the parent company

In preparing each of the group and parent company financial statements, the directors have accepted responsibility to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent,
- for the group financial statements, state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the group financial statements,
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business

The directors have accepted responsibility for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the relevant requirements of UK company law They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law, the Company is responsible for preparing a Directors' Report. The directors have also accepted responsibility for preparing a Directors' Remuneration Report and Corporate Governance Statement that comply with applicable law and regulations as if the full requirements were to apply

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 steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

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

To the best of my knowledge

- the Group financial statements, prepared in accordance with the IFRS, and the parent company financials, prepared in accordance with UK GAAP, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole, and
- the Chairman's Statement, Chief Executive's Statement, Operational Reviews, Financial Review and Directors' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

M J Mousley, *Secretary*
April 25, 2013

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

We have audited the financial statements of The Quarto Group, Inc for the year ended December 31, 2012, which comprise the Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, the Parent Company Balance Sheet, the related Notes 1 to 33 to the Accounts, and related Notes 1 to 9 to the Company Balance Sheet. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

- audit the information in the Directors' Remuneration Report that is described as having been audited, which has been prepared as if The Quarto Group, Inc were a UK incorporated company and required to comply with the Companies Act 2006, and
- review whether the Corporate Governance Statement reflects compliance with the nine provisions of the UK Corporate Governance Code 2010 as if The Quarto Group, Inc were required to comply with paragraph 9 8 6R of the FSA Listing Rules, and we report if it does not.

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

Respective responsibilities of directors and auditor
As explained more fully in the Statement of Directors' Responsibilities set out on page 32, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility, in accordance with our engagement letter, is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements
In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at December 31, 2012 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union, and
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice

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

Matters on which we are required to report by exception prescribed by the terms of our engagement
We have nothing to report in respect of the following Under the terms of our engagement we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review

Grant Thornton UK LLP
Statutory Auditors
London
April 25, 2013

Consolidated Statement of Comprehensive Income
Year Ended December 31, 2012

	Notes	2012 $000	2011 [illegible]
Continuing operations			
Revenue	2	180,873	186,126
Cost of sales		(115,332)	(120,591)
Gross profit		65,541	65,535
Other operating income		250	119
Distribution costs		(6,629)	(7,612)
Administrative expenses before amortization of non-current intangibles and exceptional items		(42,581)	(41,307)
Amortization of non-current intangibles		(436)	(1,312)
Exceptional items		(3,852)	(1,367)
Total administrative expenses		(46,869)	(43,986)
Operating profit before amortization of non-current intangibles and exceptional items		16,581	16,735
Operating profit	4	12,293	14,056
Finance income	6	485	419
Finance costs	7	(5,643)	(5,048)
Profit before tax		7,135	9,427
Tax	8	(1,608)	(1,356)
Profit for the year		5,527	8,071
Other comprehensive income			
Foreign exchange translation differences		306	(446)
Cash flow hedge change in fair value		(348)	(720)
Transfer from profit and loss on cash flow hedges		1,758	1,768
		1,716	602
Total comprehensive income for the year		7,243	8,673
Profit for the year attributable to			
Owners of the parent		5,104	7,648
Non-controlling interests		423	423
		5,527	8,071
Total comprehensive income for the year attributable to·			
Owners of the parent		6,814	8,231
Non-controlling interests		429	442
		7,243	8,673
Earnings per share			
Basic	9	25 9c	38 9c
Diluted	9	25 9c	38 8c

Consolidated Balance Sheet at December 31, 2012

	Notes	2012 $000	Restated 2011 $000	2010 $000
Non-current assets				
Goodwill	10	41,501	40,898	37,197
Other intangible assets	11	1,422	1,840	989
Property, plant and equipment	12	10,041	9,785	10,106
Trade and other receivables	16	-	1,228	-
Deferred tax assets	20	2,534	1,765	1,942
Total non-current assets		55,498	55,516	50,234
Current assets				
Intangible assets Pre-publication costs	14	53,539	52,437	51,605
Inventories	15	22,843	27,165	23,861
Trade and other receivables	16	57,504	57,072	50,786
Cash and cash equivalents	17	26,718	34,303	43,783
Total current assets		160,604	170,977	170,035
Total assets		216,102	226,493	220,269
Current liabilities				
Short term borrowing	22	(16,822)	(82,348)	(265)
Derivative financial instruments	19	(49)	(133)	(190)
Trade and other payables	23	(49,251)	(54,560)	(50,445)
Tax payable		(880)	(857)	(1,674)
Total current liabilities		(67,002)	(137,898)	(52,574)
Non-current liabilities				
Medium and long term borrowings	18	(90,874)	(33,376)	(115,230)
Deferred tax liabilities	20	(5,594)	(5,782)	(5,895)
Derivative financial instruments	19	(1,453)	(2,863)	(3,911)
Other payables		(49)	(54)	(45)
Total non-current liabilities		(97,970)	(42,075)	(125,081)
Total liabilities		(164,972)	(179,973)	(177,655)
Net assets		51,130	46,520	42,614
Equity				
Share capital	24	2,045	2,045	2,045
Paid in surplus		33,759	33,756	33,756
Retained profit (deficit) and other reserves		8,379	4,032	(1,461)
Equity attributable to owners of the parent		44,183	39,833	34,340
Non-controlling interests		6,947	6,687	8,274
Total equity		51,130	46,520	42,614

The financial statements were approved by the Board of Directors and authorised for issue on April 25, 2013 They were signed on its behalf by M J Mousley, Director

Consolidated Statement of Changes in Equity
Year Ended December 31, 2012

	Share capital (note 24) $000	Paid in surplus $000	Hedging reserve (note 25) $000	Translation reserve (note 25) $000	Treasury shares (note 25) $000	Retained earnings $000	Equity attributable to owners of the parent $000	Non controlling interests $000	Total $000
Balance at January 1, 2011	2,045	33,756	(3,911)	(1,693)	(648)	4,791	34,340	8,274	42,614
Profit for the year	-	-	-	-	-	7,648	7,648	423	8,071
Foreign exchange translation differences	-	-	-	(465)	-	-	(465)	19	(446)
Cash flow hedge change in fair value	-	-	(720)	-	-	-	(720)	-	(720)
Transfer to profit and loss on cash flow hedges	-	-	1,768	-	-	-	1,768	-	1,768
Total comprehensive income for the year	-	-	1,048	(465)	-	7,648	8,231	442	8,673
Dividends to shareholders (note 25)	-	-	-	-	-	(2,376)	(2,376)	-	(2,376)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(98)	(98)
Purchase of non-controlling interests	-	-	-	-	-	(362)	(362)	(1,931)	(2,293)
Balance at December 31, 2011 and January 1, 2012	2,045	33,756	(2,863)	(2,158)	(648)	9,701	39,833	6,687	46,520
Profit for the year	-	-	-	-	-	5,104	5,104	423	5,527
Foreign exchange translation differences	-	-	-	300	-	-	300	6	306
Cash flow hedge change in fair value	-	-	(348)	-	-	-	(348)	-	(348)
Transfer to profit and loss on cash flow hedges	-	-	1,758	-	-	-	1,758	-	1,758
Total comprehensive income for the year	-	-	1,410	300	-	5,104	6,814	429	7,243
Share options exercised by employees	-	3	-	-	5	-	8	-	8
Dividends to shareholders (note 25)	-	-	-	-	-	(2,472)	(2,472)	-	(2,472)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(169)	(169)
Balance at December 31, 2012	2,045	33,759	(1,453)	(1,858)	(643)	12,333	44,183	6,947	51,130

Consolidated Cash Flow Statement
Year Ended December 31, 2012

	2012	2011
	$000	$000
Profit for the year	5,527	8,071
Adjustments for		
Net finance costs	5,158	4,629
Depreciation of property, plant and equipment	1,479	1,534
Tax expense	1,608	1,356
Amortization of non-current intangible assets	436	1,312
Amortization of pre-publication costs	18,449	19,047
Movement in fair value of derivatives	(84)	(57)
Gain on disposal of property, plant and equipment	(126)	(380)
Operating cash flows before movements in working capital	32,447	35,512
Decrease/(increase) in inventories	4,762	(415)
Decrease/(increase) in receivables	1,915	(1,835)
Decrease in payables	(7,935)	(609)
Cash generated by operations	31,189	32,653
Income taxes paid	(2,614)	(2,921)
Net cash from operating activities	28,575	29,732
Investing activities		
Interest received	442	419
Proceeds on disposal of property, plant and equipment	151	198
Investment in pre-publication costs	(18,228)	(18,681)
Purchases of property, plant and equipment	(1,361)	(1,694)
Acquisition of subsidiaries	-	(12,394)
Net cash used in investing activities	(18,996)	(32,152)
Financing activities		
Dividends paid	(2,472)	(2,376)
Interest payments	(5,799)	(5,080)
Proceeds on issue of share capital	8	-
Bank loans repaid	(9,163)	-
New bank loans	-	604
Dividends paid to non-controlling interest	(169)	(98)
Net cash used in financing activities	(17,595)	(6,950)
Decrease in cash and cash equivalents	(8,016)	(9,370)
Cash and cash equivalents at beginning of year	34,303	43,783
Foreign currency exchange differences on cash and cash equivalents	431	(110)
Cash and cash equivalents at end of year (Note 17)	26,718	34,303

Notes to the Accounts

1 General information and significant accounting policies

The Quarto Group, Inc is a company incorporated in the State of Delaware, United States The address of the registered office is given on page 4 The nature of the group's operations and its principal activities are set out in Note 3 and in the Directors' Report on page 24

The accounting policies adopted are consistent with those of the annual financial statements for the year ended December 31, 2011, as described in those financial statements

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency The functional currency of The Quarto Group, Inc is Pounds Sterling

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

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS') The Company has elected to prepare its parent company financial statements in accordance with UK GAAP, these are presented on pages 68 to 71

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

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

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

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

Note 10 Key assumptions in making the assessment of carrying value of goodwill
Note 14 Assessment of the useful life of pre-publication costs
Note 16 Assessment of the impairment of trade receivables and the estimated allowance for sales returns
Note 20 Calculation of temporary differences in the assessment of deferred tax liabilities

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

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

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

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

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

Goodwill arising on acquisitions is stated at cost less any accumulated impairment losses Goodwill is allocated to cash-generating units and is no longer amortized but is tested annually for impairment Prior to January 1, 1998, goodwill was written off to reserves in the year of acquisition

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

Amortization of intangible assets is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets The amortization period for non-contractual relationships is 2 5 years and for backlists is between 4 and 10 years

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

Revenue recognition
Revenue represents invoiced value of sales less anticipated returns excluding customer sales taxes and intra-group sales The estimated allowance for sales returns is based on a review of the historical return patterns associated with the various sales outlets, as well as current market trends in the businesses in which the Group operates Revenues are recognised on despatch of goods and when the significant risks and rewards of ownership have been passed to the buyer

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

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

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

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

Retirement benefit costs
The Group's pension costs relate to individual pension plans and are charged to profit or loss as they fall due

Taxation
Tax on the profit or loss for the year comprises both current and deferred tax Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or a liability unless the related transaction is a business combination or effects tax or accounting profit.

Not all temporary differences give rise to deferred tax assets/liabilities A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to other comprehensive income or equity, in which case the related deferred tax is also charged or credited directly to other comprehensive income or equity, respectively

Property, plant and equipment
Property, plant and equipment are stated at deemed cost less accumulated depreciation and any provision for impairments in value The Group recognises in the carrying amount of property, plant and equipment the subsequent costs of replacing part of such items when there are future economic benefits All other costs are recognised in profit or loss as an expense as they are incurred.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cash and cash equivalents
For the purposes of the statement of cash flows, cash and cash equivalents comprises cash balances, call deposits and bank overdrafts that form an integral part of the Group's cash management processes

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

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

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

Fair value measurements are based on quoted prices in active markets for the same instrument

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

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

Share-based payments
The Group issues equity settled share-based payments to certain employees Equity settled share-based payments are measured at fair value at the date of grant The fair value, determined at the grant date, of equity settled 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 binomial model, taking into account the terms and conditions upon which the options were granted The value of the charge is adjusted to reflect expected and actual levels of options vesting No significant balances arise, therefore the disclosure requirements of IFRS 2 have not been shown, due to the immaterial number of options in issue and amounts involved

Borrowing costs
All borrowing costs are recognised in the income statement in the period in which they are incurred The Group does

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

Financial risk management

The principal risk factors faced by the Group are disclosed in Note 33 and on page 23

IFRSs and interpretations issued not yet effective

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

Presentation of Items of Other Comprehensive Income - Amendments to IAS1 (effective 1 July 2012)
IFRS 10 – Consolidated Financial Statements (effective 1 January 2014*)
IFRS 11 – Joint Arrangements (effective 1 January 2014*)
IFRS 12 – Disclosure of Interests in Other Entities (effective 1 January 2014*)
IFRS 13 – Fair Value Measurement (effective 1 January 2013)
IAS 19 – Employee Benefits (revised June 2011) (effective 1 January 2013)
IAS 27 (Revised) – Separate Financial Statements (effective 1 January 2014*)
IAS 28 (Revised) – Investments in Associates and Joint Ventures (effective 1 January 2014*)
Deferred Tax Recovery of Underlying Assets – Amendments to IAS 12 Income Taxes (effective 1 January 2013**)
Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (effective 1 January 2013)
Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (effective 1 January 2014)

*IASB effective date 1 January 2013
**IASB effective date 1 January 2012

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

IFRS 9 – Financial Instruments (effective 1 January 2015)
Mandatory Effective Date and Transition Disclosures – Amendments to IFRS 9 and IFRS 7 (effective 1 January 2015)
Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12 (effective 1 January 2013)
Annual improvements 2009-2011 cycle (effective 1 January 2013)

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

2 Revenue

An analysis of the Group's revenue is as follows

	2012	2011
Sales of goods	180,873	186,126
Revenue	180,873	186,126
Other operating income	250	119
Finance income	485	419
Total income	181,608	186,664

3 Operating segments

During 2012, the Group reorganised its structure into five divisions Quayside Publishing Group, Aurum Publishing Group, Quarto Co-edition Group, Lifetime/Premier Display Marketing Group and Other These changes were made to refine the Group's reporting structure These divisions are the basis on which the Group reports its operating segment information to the Chief Operating Decision Maker and the results for the year ended December 31, 2011 have been restated accordingly

The analysis by segment is presented below
Year ended December 31, 2012

	Quayside Publishing Group	Aurum Publishing Group	Quarto Co-edition Group	Lifetime/ Premier Display Marketing	Other	Total
	$000	$000	$000	$000	$000	$000
External revenue	59,377	21,920	41,351	34,621	23,604	180,873
Operating profit before amortization of non-current intangibles and exceptional items	6,482	2,957	5,017	4,474	1,390	20,320
Amortization of non-current intangibles	(391)	(45)	-	-	-	(436)
Exceptional costs						
Restructuring costs	(384)	(508)	(211)	-	(294)	(1,397)
Excess returns on termination of key customer relationship	(584)	–	–	–	–	(589)
Segment result	5,118	2,404	4,806	4,474	1,096	17,898
Unallocated corporate expenses						(3,739)
Corporate restructuring costs						(1,866)
Investment income						485
Finance costs						(5,643)
Profit before tax						7,135
Tax						(1,608)
Profit after tax						5,527
Capital expenditure	156	520	294	146	245	1,361
Depreciation	356	81	319	197	526	1,479
Investment in pre-publication costs	7,301	2,447	8,480	-	-	18,228
Amortization of pre-publication costs	7,852	2,202	8,395	-	-	18,449

3 Operating segments *(continued)*

Year ended December 31, 2011 - restated

	Quayside Publishing Group	Aurum Publishing Group	Quarto Co-edition Group	Lifetime/ Premier Display Marketing	Other	Total
	$000	$000	$000	$000	$000	$000
External revenue	67,742	15,741	43,380	34,430	24,833	186,126
Operating profit before amortization of non-current intangibles and exceptional items	6,883	2,136	5,415	4,265	1,246	19,945
Amortization of non-current intangibles	(1,275)	(37)	-	-	-	(1,312)
Restructuring costs	(400)	(287)	(333)	(254)	(93)	(1,367)
Segment result	5,208	1,812	5,082	4,011	1,153	17,266
Unallocated corporate expenses						(3,210)
Investment income						419
Finance costs						(5,048)
Profit before tax						9,427
Tax						(1,356)
Profit after tax						8,071
Capital expenditure	456	81	414	346	397	1,694
Depreciation	388	53	335	118	640	1,534
Investment in pre-publication costs	8,825	1,499	8,357	-	-	18,681
Amortization of pre-publication costs	8,168	1,676	9,203	-	-	19,047

There are no other significant non-cash expenses

3 Operating segments *(continued)*

Balance sheet

Total assets	2012 $000	2011 $000
Quayside Publishing Group	81,811	88,731
Aurum Publishing Group	20,791	19,600
Quarto Co-edition Group	56,096	53,365
Lifetime/Premier Display Marketing	17,835	17,924
Other	10,317	10,805
Unallocated (Deferred tax and cash)	29,252	36,068
Total assets	216,102	226,493

Total liabilities		
Quayside Publishing Group	12,020	15,572
Aurum Publishing Group	5,391	6,671
Quarto Co-edition Group	19,883	17,272
Lifetime/Premier Display Marketing	6,993	8,820
Other	5,013	6,279
Unallocated (Borrowings, derivatives, deferred tax and tax payable)	115,672	125,359
Total liabilities	164,972	179,973

Geographical areas

The Group operates in the following main geographic areas

	Revenues 2012 $000	Revenues 2011 $000	Non-current assets 2012 $000	Non-current assets 2011 $000
United States of America	77,070	82,767	28,624	29,160
Australasia and Far East	40,516	39,698	8,452	8,226
United Kingdom	34,073	31,125	14,639	13,959
Europe	19,503	22,361	1,249	1,178
Rest of the World	9,711	10,175	-	-
	180,873	186,126	52,964	52,523

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

4 Operating profit

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

	2012	2011
	$000	$000
Profit on sale of property, plant and equipment	(126)	(380)
Depreciation of property, plant and equipment	1,479	1,534
Net foreign currency exchange differences	(180)	34
Amortization of non-current intangibles	436	1,312
Amortization of pre-publication costs	18,449	19,047
Staff costs (see Note 5)	30,316	31,105
Auditor's remuneration (see below)	407	412
Cost of inventory recognised as an expense	41,715	43,861
Exceptional items	3,852	1,367

Exceptional items comprise operational restructuring costs of $1,397,000 (2011 $1,367,000), excess returns on termination of a key customer relationship of $589,000 and corporate restructuring costs of $1,866,000, as identified in Note 3

Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	54	54
Fees payable to the Company's auditor and its associates for other services		
The audit of the Company's subsidiaries pursuant to legislation	353	358
	407	412

5 Staff costs

	2012 Number	2011 Number
The average monthly number of employees (including executive directors) was	461	475

Their aggregate remuneration comprised

	$000	$000
Wages and salaries	27,687	27,647
Social security costs	2,326	2,234
Other pension costs	1,127	1,224
	31,140	31,105

Directors' remuneration is disclosed in Note 30

6 Finance income

	2012	2011
	$000	$000
Interest income on financial assets carried at amortized cost	485	419

7 Finance costs

	2012	2011
	$000	$000
Interest expense for borrowings at amortized cost	5,641	5,040
Interest expense for finance lease arrangements	2	8
Total finance costs	5,643	5,048

8 Tax

	2012	2011
	$000	$000
Current tax on profit for the year	2,555	1,837
Total current tax	2,555	1,837
Deferred tax (Note 20)		
Current year origination and reversal of temporary differences	(947)	(481)
	1,608	1,356

Corporation tax on UK profits is calculated at 24 5%, based on the UK standard rate of corporation tax, (2011 26 5%) of the estimated assessable profit for the year Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions

The charge for the year can be reconciled to the profit per the income statement as follows

	2012	2012	2011	2011
	$000	%	$000	%
Profit before tax	7,135		9,427	
Tax at the UK corporation tax rate of 24 5% (2011 26 5%)	1,748		2,498	
Exceptional tax losses utilised	-		(670)	
Effect of different tax rates of subsidiaries operating in other jurisdictions	(165)		(151)	
Other, including tax effect of expenses that are not deductible in determining taxable profit	25		(321)	
Tax expense and effective tax rate for the year	1,608	22 5%	1,356	14 4%

9 Earnings per share

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

Earnings

	2012	2011
	[illegible]	[illegible]
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the parent	5,104	7,648
Number of shares	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	19,685,212	19,679,229
Effect of dilutive potential ordinary shares		
Share options	4,521	7,489
Weighted average number of ordinary shares for the purposes of diluted earnings per share	19,689,733	19,686,718

Earnings per share

	2012	2011
	cents	cents
Basic	25.9	38.9
Diluted	25 9	38.8

Adjusted earnings	[illegible]	[illegible]
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the parent	5,104	7,648
Amortization of non-current intangibles (net of tax)	296	1,034
Restructuring costs (net of tax and non-controlling interest)	3,194	971
Exceptional tax losses	–	(670)
Earnings for the purposes of adjusted earnings per share	8,594	8,983

Adjusted earnings per share

	2012	2011
	[illegible]	[illegible]
Basic	43 7	45.6
Diluted	43 6	45.6

10 Goodwill

	2012	Restated 2011	2010
	$000	$000	$000
Cost			
At January 1	41,250	37,551	36,790
Exchange differences	619	(104)	504
Recognised on acquisitions	-	3,803	257
At December 31	41,869	41,250	37,551
Accumulated impairment losses			
At January 1	(352)	(354)	(365)
Exchange differences	(16)	2	11
At December 31	(368)	(352)	(354)
Carrying amount			
At December 31	41,501	40,898	37,197

The comparative information for the year ended December 31, 2011 has been restated for acquisition accounting adjustments that have been finalised in relation to the acquisitions made in 2011 The comparative information has been restated in accordance with IFRS3 Business Combinations The impact of the restatement is to increase goodwill and trade and other payables by $1,033,000 and $165,000 respectively and to reduce intangible assets pre-publication costs and inventories by $274,000 and $594,000 respectively

Impairment tests for cash generating units containing goodwill
The following units have significant carrying amounts of goodwill

	2012	2011	2010
	$000	$000	$000
Quayside Publishing Group	26,878	26,878	24,164
Aurum Publishing Group	2,381	2,279	1,114
Quarto Co-edition Group	4,504	4,309	4,337
Lifetime/Premier Display Marketing Group	5,218	4,941	4,950
Others	2,520	2,491	2,632
	41,501	40,898	37,197

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

Discount rate 7 4%, which reflects current assessments of the time value of money The discount rate has been calculated using Weighted Average Cost of Capital analysis, with the same discount rate applied to each CGU reflecting the similar risk profiles of the Group's businesses
Cash flow growth rates based on a growth rate of 2%, into perpetuity, to reflect the long term risks in each of the key markets
Changes in selling prices and direct costs based on past experience and expectations of future changes in the market

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

11 Other intangible assets

	Non-contractual relationships	Backlists	Total
	$000	$000	$000
Cost			
At January 1, 2011	1,079	15,850	16,929
Exchange differences	(1)	(26)	(27)
Recognised on acquisitions	–	2,186	2,186
At December 31, 2011 and January 1, 2012	1,078	18,010	19,088
Exchange differences	43	72	115
At December 31, 2012	1,121	18,082	19,203
Amortization and impairment			
At January 1, 2011	1,079	14,861	15,940
Exchange differences	(1)	(3)	(4)
Charge for the year	–	1,312	1,312
At December 31, 2011 and January 1, 2012	1,078	16,170	17,248
Exchange differences	43	54	97
Charge for the year	–	436	436
At December 31, 2012	1,121	16,660	17,781
Carrying amount			
At December 31, 2012	–	**1,422**	**1,422**
At December 31, 2011	–	**1,840**	**1,840**
At January 1, 2011	–	**989**	**989**

12 Property, plant and equipment

	Freehold Property	Leasehold Property Improvements	Plant Equipment and Motor Vehicles	Fixtures and Fittings	Total
	$'000	$'000	$'000	$'000	$'000
Cost					
At January 1, 2011	7,994	786	8,895	1,638	19,313
Exchange difference	(30)	(9)	(39)	(6)	(84)
Recognised on aquisitions	–	113	448	151	712
Additions	13	34	1,587	60	1,694
Disposals	(523)	–	(2,120)	(189)	(2,832)
At December 31, 2011 and January 1, 2012	7,454	924	8,771	1,654	18,803
Exchange difference	336	35	301	39	711
Additions	–	349	882	130	1,361
Disposals	–	(3)	(1,711)	(82)	(1,796)
At December 31, 2012	7,790	1,305	8,243	1,741	19,079
Depreciation					
At January 1, 2011	878	655	6,649	1,025	9,207
Exchange differences	(7)	(6)	(2)	(1)	(16)
Recognised on aquisitions	–	106	417	100	623
Charge for the year	111	48	1,267	108	1,534
Disposals	(63)	–	(2,079)	(188)	(2,330)
At December 31, 2011 and January 1, 2012	919	803	6,252	1,044	9,018
Exchange differences	42	27	214	29	312
Charge for the year	88	49	1,245	97	1,479
Disposals	–	(3)	(1,692)	(76)	(1,771)
At December 31, 2012	1,049	876	6,019	1,094	9,038
Net book value					
At December 31, 2012	**6,741**	**429**	**2,224**	**647**	**10,041**
At December 31, 2011	**6,535**	**121**	**2,519**	**610**	**9,785**
At December 31, 2010	**7,116**	**131**	**2,246**	**613**	**10,106**

The net book value of plant, equipment and motor vehicles included $10,000 (2011 $13,000) in respect of assets held under hire purchase contracts The depreciation charged on these assets during the year was $3,000 (2011 $1,000)

The total cost of freehold property comprises $4,505,000 in respect of buildings and $3,285,000 in respect of land A freehold property, with a net book value of $3,096,000, is secured against a mortgage

The Directors have chosen to hold the cost of freehold properties at previous valuations on transition to International Financial Reporting Standards The cost of freehold property held at previous valuations comprises buildings of $2,401,000 and land of $1,904,000

13 Subsidiaries

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

14 Intangible assets – pre-publication costs

	2012	2011	2010
	$000	$000	$000
Cost			
At January 1	76,267	74,829	77,467
Exchange differences	1,808	(308)	(654)
Acquired on acquisition of subsidiaries	-	1,433	989
Additions	18,228	18,681	18,135
Disposals	(20,093)	(18,368)	(21,108)
At December 31	76,210	76,267	74,829
Amortization			
At January 1	23,830	23,224	26,042
Exchange differences	485	(73)	(216)
Charge for the year	18,449	19,047	18,506
Disposals	(20,093)	(18,368)	(21,108)
At December 31	22,671	23,830	23,224
Carrying amounts	53,539	52,437	51,605

The assessment of the useful life of pre-publication costs and amortization involves a significant amount of judgement based on historical trends and management estimates of future potential sales, in accordance with the accounting policy stated in Note 1

An overstatement of useful lives could result in excess amounts being carried forward in intangible assets that otherwise would have been written off to the income statement in an earlier period Reviews are performed regularly to assess the recoverability of the carrying amount

15 Inventories

	2012	2011	2010
	$000	$000	$000
Finished goods	20,676	25,336	22,177
Work in progress	1,944	1,607	1,441
Raw materials	223	222	243
	22,843	27,165	23,861

All of the Group's inventories have been reviewed for indicators of impairment Certain inventories were found to be impaired and a provision of $3,135,000 (2011 $3,743,000) has been recorded accordingly

16 Trade and other receivables

	2012	2011	2010
	$000	$000	$000
Trade receivables	47,175	46,046	44,600
Other receivables and prepayments	10,329	11,026	6,186
Amounts falling due within one year	57,504	57,072	50,786
Amounts falling due after more than one year	-	1,228	-

The average credit period on sales of goods is 76 days (2011 72 days)

All of the Group's trade and other receivables have been reviewed for indicators of impairment Certain trade receivables, including certain trade receivables not yet due, were found to be impaired and a provision of $957,000 (2011 $1,617,000) has been recorded accordingly The impaired trade receivables are companies which are experiencing trading difficulties In addition, some of the unimpaired trade receivables are past due as at the reporting date The extent of financial assets past due but not impaired is as follows

	2012	2011	2010
	$000	$000	$000
Less than one month	3,801	5,061	4,728
More than one month but less than two months	1,281	1,041	1,197
More than two months but less than three months	294	249	683
More than three months but less than six months	374	101	240
More than six months	173	146	245
	5,923	6,598	7,093

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

16 Trade and other receivables *(continued)*

Movement in allowance for doubtful debts

	2012	2011	2010
	\$000	\$000	\$000
Balance at beginning of year	1,617	2,020	1,330
Amounts written off in the year	(1,068)	(1,080)	(223)
Amounts recovered during the year	10	261	90
Exchange difference	(6)	22	(8)
Increase in allowance recognised in profit or loss	404	394	831
Balance at end of the year	957	1,617	2,020

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

17 Cash and cash equivalents

	2012	2011	2010
	\$000	\$000	\$000
Bank balances	18,035	25,311	31,635
Short term deposits	8,683	8,992	12,148
Cash and cash equivalents for cash flow statement	**26,718**	**34,303**	**43,783**

The carrying amount of these assets approximates their fair value

The effective interest rates on bank balances and short term deposits was 1 4% (2011 1 1%)

18 Medium and long term loans

	2012	2011	2010
	$'000	$'000	$'000
Bank loans	90,867	33,367	115,230
Obligations under finance leases (see Note 21)	7	9	–
	90,874	33,376	115,230

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

	2012	2011	2010
On demand or within one year	16,819	82,345	208
In the second year	16,600	16,841	81,885
In the third to fifth years inclusive	74,267	16,526	33,345
	107,686	115,712	115,438
Less Amount due for settlement within 12 months			
(shown under current liabilities)	(16,819)	(82,345)	(208)
Amount due for settlement after 12 months	90,867	33,367	115,230

	Total	Fixed rate borrowings	Variable rate borrowings	Weighted average interest rate for fixed rate borrowings %	Average time over which interest rate is fixed Months
	$'000	$'000	$'000		
US dollar borrowings	71,686	49,000	22,686	5 6%	17
Other currency borrowings	36,000	–	36,000	–	–
As at December 31, 2012	107,686	49,000	58,686	5 6%	17
US dollar borrowings	81,500	49,000	32,500	6 9%	21
Other currency borrowings	34,212	–	34,212	–	–
As at December 31, 2011	115,712	49,000	66,712	6 9%	21
US dollar borrowings	90,000	64,000	26,000	6 6%	26
Other currency borrowings	25,438	–	25,438	–	–
As at December 31, 2010	115,438	64,000	51,438	6 6%	26

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

At December 31, 2012, undrawn borrowing facilities totalled $19,198,000 (2011 $49,368,000)

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

The above borrowings carry interest at commercial rates ranging from 2 8% to 7 1% Bank loans include $225,000 (2011 $423,000) which is secured on a freehold property, with a carrying value of $3,096,000 (2011 $3,001,000) All other bank loans are unsecured

At December 31, 2012, the Group had a US$95m (2011 US$115m) syndicated bank facility which is due to expire on April 30, 2015 In addition, the group has a two year floating rate note of US$33 3m (2011 US$50m)

18 Medium and long term loans *(continued)*

These facilities are subject to four principal covenants, namely

(a) Total consolidated net indebtedness shall not exceed 3 times EBITDA For the year ended December 31, 2012, net indebtedness was 2 22 times (2011 2 09 times) proforma EBITDA
(b) The consolidated operating profit before exceptional items and goodwill amortization shall exceed three times net interest payable For the year ended December 31, 2012, net interest payable was 3 21 times (2011 3 62 times) covered under this covenant
(c) The consolidated operating profit before goodwill amortization shall exceed 1 5 times net interest payable For the year ended December 31, 2012, net interest payable was 2 47 times (2011 3 32 times) covered under this covenant
(d) Cash flow shall exceed 1 times Debt Service For the year ended December 31, 2012, Debt Service was 1 27 times covered under this covenant, which was introduced by the $95m syndicated bank facility signed on February 14, 2012

19 Other financial assets/liabilities

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

	2012	2011	2010
	$000	$000	$000
Current financial liabilities			
Derivative financial liabilities – exchange rate swap	**49**	**133**	**190**
Non-current financial liabilities			
Derivative financial instruments – interest rate swaps	**1,453**	**2,863**	**3,911**

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates The Group uses exchange rate swaps to hedge exchange rate exposures The Group uses interest rate swap contracts to hedge the interest rate exposure on US Dollar variable rate borrowings of $49,000,000 The Group does not use derivative financial instruments for speculative purposes All interest rate swaps have been designated as hedging instruments in cash flow hedges in accordance with IAS 39 The Group's interest rate swaps have been designed to match the corresponding loan terms to maximise the effectiveness of the hedging instrument. There was no ineffectiveness during the year and all movements were recorded in other comprehensive income, with amounts reclassified to finance costs within profit or loss Exchange rate swaps are not treated as hedging instruments for hedge accounting purposes.

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

	Average interest rate			Principal			Fair value		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
				$000	$000	$000	$000	$000	$000
Within one year	6 7%	7 0%	5 6%	25,000	16,000	15,000	(848)	(521)	(44)
Within one to two years	5 1%	6 7%	7 0%	24,000	25,000	16,000	(605)	(1,549)	(1,601)
Within two to five years	-%	7 1%	6 8%	-	8,000	33,000	-	(793)	(2,266)
				49,000	49,000	64,000	(1,453)	(2,863)	(3,911)

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

20 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the group and movements thereon during the current and prior reporting period

	Amount Provided		
	2012	2011	2010
	$000	$000	$000
Deferred taxation provided in the financial statements is as follows			
Excess of capital allowances over depreciation - UK	-	44	117
Provision on property revaluation - UK	400	383	385
Other temporary differences - UK	4,778	4,780	4,611
	5,178	5,207	5,113
Other overseas temporary differences	416	575	782
	5,594	**5,782**	**5,895**
Deferred taxation assets			
Other temporary differences - Other overseas	(34)	(23)	(25)
Other temporary differences - US	(2,500)	(1,742)	(1,917)
	(2,534)	**(1,765)**	**(1,942)**
Net deferred taxation liability	3,060	4,017	3,953

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

	Amount Provided		
	2012	2011	2010
	$000	$000	$000
Net provision at January 1	4,017	3,953	5,409
Acquisitions	-	580	-
Exchange difference through other comprehensive income	(10)	(35)	(128)
Credit to profit or loss	(947)	(481)	(1,328)
Net provision at December 31	3,060	4,017	3,953

At the balance sheet date, the group has unused tax losses of $616,000 (2011 $1,020,000) available for offset against future profits A deferred tax asset has not been recognised in respect of such losses, due to the unpredictability of future profit streams

Included in unrecognised tax losses are losses of $616,000 (2011 $1,020,000) that will expire in the following years

	2012	2011	2010
Year ending December 31	[illegible]	[illegible]	[illegible]
2011	-	-	94
2012	-	531	649
2013	269	265	530
2014	-	-	265
2016	228	224	-
2017	-	-	153
2018	119	-	-
	616	1,020	1,691

21 Obligations under finance leases

Minimum lease payments

	2012	2011	2010
	[illegible]	[illegible]	[illegible]
Amounts payable under finance leases			
Within one year	5	5	63
In the second to fifth years inclusive	7	11	–
	12	16	63
Less future finance charges	(2)	(4)	(6)
	10	12	57
Less Amount due for settlement within 12 months (Note 22)	(3)	(3)	(57)
Amount due for settlement after 12 months	7	9	-

It is the Group's policy to lease certain of its plant, equipment and motor vehicles under finance leases For the year ended December 31, 2012, the average effective borrowing rate was 14 0% (2011 14 0%) Interest rates are fixed at the contract date All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments All lease obligations are denominated in US dollars

The fair value of the Group's lease obligations approximates to their carrying amount

The Group's obligations under finance leases are secured by the lessors' charges over the leased assets

22 Short term borrowings

	2012	2011	2010
	[illegible]	[illegible]	[illegible]
Current loan instalments	16,819	82,345	208
Borrowings (Note 18)	16,819	82,345	208
Finance lease obligations (Note 21)	3	3	57
	16,822	82,348	265

The carrying amount of these liabilities approximates to their fair value

23 Trade and other payables

	2012	2011	2010
	[illegible]	[illegible]	[illegible]
Trade payables	39,763	44,931	41,354
Other payables	9,488	9,629	9,091
	49,251	54,560	50,445

The average credit period for trade purchases is 90 days (2011 97 days) The Directors consider that the carrying amount of trade payables approximates to their fair value

24 Share capital

Authorised
28,000,000 (2011 28,000,000) shares of common stock of par value US$0 10 each ('shares of common stock') with an aggregate nominal value of US$2,800,000 (2011 US$2,800,000)

	2012	2011	2010
	$000	$000	$000
Equity share capital			
Allotted, called up and fully paid			
Shares of common stock of par value US$0 10 each			
20,444,550 (2011 20,444,550)	**2,045**	**2,045**	**2,045**

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

25 Retained earnings and other reserves

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

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

Treasury stock
Treasury stock represents the Group's purchase of its own shares The Group owns 758,321 (2011 765,321) shares, representing 3 7% (2011 3 7%) of its shares of common stock.

Dividends

	2012	2011
	[illegible]	[illegible]
Amounts recognised as distributions to equity holders in the period		
Interim dividend for the year ended December 31, 2012 of 3 35p/5 33c (2011 3 35p/5 39c) per share	1,049	1,061
Final dividend for the year ended December 31, 2011 of 4 55p/7 23c (2010 4 15p/6 68c) per share	1,423	1,315
	2,472	2,376
Proposed final dividend for the year ended December 31, 2012 of 4 55p/7 37c (2011 4 55p/7 05c) per share	1,451	1,388
	1,451	1,388

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

25 Retained earnings and other reserves *(continued)*

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

26 Notes to the cash flow statement

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

27 Contingent liabilities

The Quarto Group, Inc has issued guarantees in respect of bank loans of subsidiaries of $107,686,000 (2011 $115,712,000)

There are other contingent liabilities, arising in the ordinary course of business, in respect of litigation, which the Directors believe will not have a significant effect on the financial position of the Group

28 Operating lease arrangements and other financial commitments

	2012	2011	2010
Minimum lease payments under operating leases recognised in income for the year	2,683	2,518	2,178

At the balance sheet date, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows

	2012	2011	2010
Within one year	2,517	2,424	566
In the second to fifth years inclusive	4,458	2,217	5,624
After more than five years	343	–	–
	7,318	4,641	6,190

Operating lease payments represent rentals payable by the group, primarily for its office properties
There were no capital commitments at the year end for which no provision had been made (2011 $nil)

29 Share options

At December 31, 2012, the following share options over shares of common stock were outstanding under the Company's Executive Share Option Schemes

Number of shares	Date exercisable	Option price per share
10,500*	February 14, 2006 – February 13, 2013	$0 83
14,500	September 30, 2007 – September 29, 2014	$1 63

* Exercised on February 13, 2013

30 Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 30 to 31

	2012	2011
	$000	$000
Short term employee benefits	2,006	1,771
Compensation for loss of office	937	-
Other long term benefits	270	290
	3,213	2,061

31 Directors' transactions

During the year R J Morley maintained a current account with the Group. The debit balance on this account was less than $5,000 throughout the year During the year L F Orbach loaned money to the Group and has received $nil interest (2011 $12,000) The balance outstanding at the beginning of the year of $471,000 was fully repaid during the year In 2012, T Chadwick received fees of $31,000 for services to be provided to the Group Following the Remuneration Committee's agreement regarding his annual fees, T Chadwick was voted fees of $23,000, in respect of 2012, leaving a balance of $8,000 at December 31, 2012 This balance has been repaid

P Campbell, a non-executive director, earned consulting fees of $24,000 (2011 $24,000) during the year These fees were on an arm's length basis

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

	2012	2011
	$000	$000
Profit before tax, before amortization of non-current intangibles and non-recurring items	11,423	12,106
Amortization of non-current intangibles	(436)	(1,312)
Non-recurring items	(3,852)	(1,367)
Profit before tax	7,135	9,427
EBITDA		
Profit before tax, before amortization of non-current intangibles and non-recurring items	11,423	12,106
Net interest	5,158	4,629
Depreciation	1,479	1,534
Amortization of pre-publication costs	18,449	19,047
EBITDA, before non-recurring items	36,509	37,316
Net debt		
Medium and long term borrowings	90,874	33,376
Short term borrowings	16,822	82,348
Cash and cash equivalents	(26,718)	(34,303)
	80,978	81,421

33 Risk management objectives and policies

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

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

Foreign currency sensitivity

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

33 Risk management objectives and policies *(continued)*

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

	2012		2011	
	$000		$000	
	Sterling	Other	Sterling	Other
Financial assets	1,435	8,467	414	8,105
Financial liabilities	(238)	(5,578)	(2,275)	(5,162)
Short-term exposure	1,197	2,889	(1,861)	2,943
Financial liabilities	-	(7,417)	-	(8,557)
Long-term exposure	-	(7,417)	-	(8,557
Net exposure	1,197	(4,528)	(1,861)	(5,614)

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

It assumes a +/- 5% change of the Sterling/US-Dollar exchange rate This percentage has been determined based on the average market volatility in exchange rates in the year ended December 31, 2012 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% (2011 5%) then this would have had the following impact

	2012	2011
	$000	$000
Profit after tax for the year	48	(72)
Equity	430	313

If Sterling had weakened against the US Dollar by 5% (2011 5%) then this would have had the following impact

	2012	2011
	$000	$000
Profit after tax for the year	(43)	65
Equity	(425)	(320)

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

Interest rate sensitivity

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

At December 31, 2012, the Group is exposed to changes in market interest rates through its bank borrowings, which are subject to variable interest rates - see Note 19 for further information

33 Risk management objectives and policies *(continued)*

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 had the following impact

	2012 $'000	2011 $'000
Profit after tax for the year	(70)	(67)
Equity	27	91

A 0 25% decrease in interest rates would have had the following impact

	2012 $'000	2011 $'000
Profit after tax for the year	70	67
Equity	(27)	(91)

Credit risk analysis

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

		2012 $'000	2011 $'000
Cash and cash equivalents		26,718	34,303
Trade and other receivables	Current	57,504	57,072
	Non-current	–	1,228
		84,222	92,603

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

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

33 Risk management objectives and policies *(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

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

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

Liquidity risk analysis

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

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

As at December 31, 2012, the Group's liabilities have contractual maturities which are summarised below

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

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

December 31,2011	Current		Non-current	
	within 6 months	6 to 12 months	1 to 5 years	over 5 years
	[illegible]	[illegible]	[illegible]	[illegible]
Bank loans	66,177	17,814	38,459	-
Finance lease obligations	3	2	11	-
Trade payables	44,931	-	-	-
Other short term financial liabilities	9,629	-	-	-
	120,740	17,816	38,470	-

33 Risk management objectives and policies *(continued)*

Summary of financial assets and liabilities by category

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

	2012 $000	2011 $000
Non-current assets		
- Trade and other receivables	-	1,228
Current assets		
Loans and receivables		
- Trade and other receivables	54,772	53,837
- Cash and cash equivalents	26,718	34,303
	81,490	88,140
Non-current liabilities		
Derivative financial instruments designated as hedging instruments		
- Interest rate swap	1,453	2,863
Financial liabilities measured at amortized cost		
- Borrowings	90,874	33,376
- Other payables	49	54
	92,376	36,293
Current liabilities		
Derivative financial instruments carried at fair value through profit and loss		
- Exchange rate swap	49	133
Financial liabilities measured at amortized cost		
- Borrowings	16,822	82,348
- Trade payables and other short term financial liabilities	49,251	54,560
	66,122	137,041

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through an optimal balance of debt and equity The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 18, 21 and 22, cash and cash equivalents and equity attributable to equity holders of the parent, comprising share capital and reserves as disclosed in the consolidated statement of changes in equity on page 36

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

Company Balance Sheet at December 31, 2012

	Notes	2012 $000	2011 $000
Fixed assets			
Investments	3	12,586	12,042
		12,586	12,042
Creditors Amounts falling due within one year	5	(15,552)	(12,478)
Net current liabilities		(15,552)	(12,478)
Net liabilities		(2,966)	(436)
Capital and reserves			
Called up share capital	6	2,045	2,045
Treasury stock	6	(643)	(648)
Reserves – Paid in surplus	7	33,759	33,756
– Profit and loss	7	(38,127)	(35,589)
Shareholders' deficit	8	(2,966)	(436)

The financial statements were approved by the Board of Directors and authorised for issue on April 25, 2013
They were signed on its behalf by

M J Mousley
Director

Notes to Company Balance Sheet at December 31, 2012

1 Significant accounting policies

The separate financial statements of the company are presented and have been prepared in accordance with UK GAAP format These financial statements present information for the company, not about its group, which is presented on pages 34 to 68

Basis of preparation
The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules The company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the group (or investees of the group qualifying as related parties)

Accounting policies
The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below

The accounting policies adopted are consistent with those of the annual financial statements for the year ended December 31, 2011, as described in those financial statements

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

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

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

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

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

2 Profit attributable to the company

The profit for the financial year dealt with in the financial statements of the parent company was $nil (2011 $nil) No separate profit and loss account is presented in respect of the parent company

3 Investments

At January 1, 2012	12,042
Exchange differences	544
At December 31, 2012	**12,586**

4 Subsidiaries

Name	Place and date of incorporation	Issued and fully paid share capital	Percentage held	Business
Quarto Publishing plc	England 1 April, 1976	100,000 shares of £1 each	100*	International Co-editions
Quarto, Inc	Delaware, USA 16 October, 1986	60 shares of no par value	100*	International Co-editions
Western Screen and Sign Limited (trading as Image Factory)	England 24 November, 1961	1,500 shares of £1 each	100*	Other
Regent Publishing Services Limited	Hong Kong 23 October, 1985	1,000 shares of HK$10 each	75	Other
Apple Press Limited	England 5 June, 1984	100 shares of £1 each	100	Aurum Publishing Group
Premier Books Limited	New Zealand 27 September, 1996	400,000 shares of NZ$1 each	100*	ANZ Display Marketing
RotoVision S A	Switzerland 18 July, 1977	1,500 shares of SFr500 each	100*	International Co-editions
Rockport Publishers, Inc.	Massachusetts, USA 4 December, 1985	4,000 shares of no par value	100	Quayside Publishing Group
Book Sales Inc	Delaware, USA 13 December, 1972	85 shares of no par value	85	Quayside Publishing Group
Walter Foster Publishing, Inc	Delaware, USA 10 February, 1988	19,625 shares of US$0 01 each	100	Quayside Publishing Group
Global Book Publishing Pty Limited	Australia 4 November, 1999	1,000 shares of A$1 each	100*	International Co-editions
Creative Publishing International, Inc	Delaware, USA 28 June, 2004	100 shares of US$0 01 each	100	Quayside Publishing Group
Aurum Press Limited	England 31 May, 1977	382,502 shares of £1 each	100	Aurum Publishing Group
Lifetime Distributors 'The Book People' Pty Limited	Australia 3 December, 1990	100,004 shares of A$1 each	100	ANZ Display Marketing
MBI Publishing Company LLC	Delaware, USA 6 January, 2000	100 units	100	Quayside Publishing Group
Jacqui Small LLP	England 6 November, 1998	100 units	100	Aurum Publishing Group
Frances Lincoln Limited	England 15 December, 1980	565,000 shares of 10p each	100	Aurum Publishing Group
Cool Springs Press LLC	Tennessee, USA 3 October, 2006	100 shares of no par value	100	Quayside Publishing Group

* *Directly held by The Quarto Group, Inc*

5 Creditors: Amounts falling due within one year

	2012	2011
	$000	$000
Amounts owed to subsidiary undertakings	15,552	12,478

6 Called up share capital and treasury stock

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

7 Retained deficit and other reserves

	Paid in surplus	Profit and loss account
	$000	$000
At beginning of year	33,756	(35,589)
Result for the year	–	–
Exercise of share options	3	–
Exchange differences	-	(66)
Dividends	–	(2,472)
At end of year	33,759	(38,127)

8 Reconciliation of movement in shareholders' funds

	2012	2011
	$000	$000
Profit for the financial year	–	–
Dividends	(2,472)	(2,376)
Retained (loss) for the financial year	(2,472)	(2,376)
Shareholders' funds at January 1	(436)	1,864
Exercise of share options	8	–
Exchange differences	(66)	76
Shareholders' funds at December 31	(2,966)	(436)

9 Contingent liabilities

Contingent liabilities are disclosed in Note 27 to the Group accounts

Five Year Summary

Unaudited information

	2012 $000	2011 $000	2010 $000	2009 $000	2008 $000
Results					
Revenue	180,873	186,126	176,409	167,411	209,702
EBITDA	36,509	37,316	36,256	35,794	40,860
Operating profit before amortization of non-current intangibles and exceptional items	16,581	16,735	16,377	16,000	21,111
Operating profit	12,293	14,056	12,640	10,943	9,758
Profit before tax before amortization of non-current intangibles and exceptional items	11,423	12,106	11,505	10,769	14,255
Profit before tax	7,135	9,427	7,768	5,712	2,902
Profit attributable to owners	5,527	8,071	6,405	4,030	(218)
Assets employed					
Non-current assets	55,498	55,516	50,234	50,442	51,623
Current assets	160,604	170,977	170,035	169,910	171,473
Current liabilities	(67,002)	(137,898)	(52,574)	(53,356)	(63,641)
Non-current liabilities	(97,970)	(42,075)	(125,081)	(129,814)	(128,629)
Net assets	51,130	46,520	42,614	37,182	30,826
Financed by					
Equity	44,183	39,833	34,340	29,650	23,227
Minority interests	6,947	6,687	8,274	7,532	7,599
	51,130	46,520	42,614	37,182	30,826
Key statistics					
Earnings per share	25 9c	38 9c	29 2c	20 4c	-1 1c
Diluted earnings per share	25 9c	38 8c	29 2c	20 4c	-1 1c
Adjusted diluted earnings per share	43 6c	45 6c	42 3c	40 8c	49 2c

"These 2012 results display the fundamental resilience of the Quarto businesses even in challenging times. I believe that good foundations are in place here for a business capable of rewarding shareholders and employees alike. In order to do so, it is my intention to build an agile, product-led marketing and sales organization for a dynamic and fragmented marketplace."

CEO, MARCUS LEAVER

THEQUARTOGROUP