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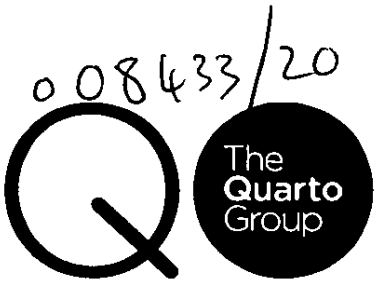

2014 ANNUAL REPORT

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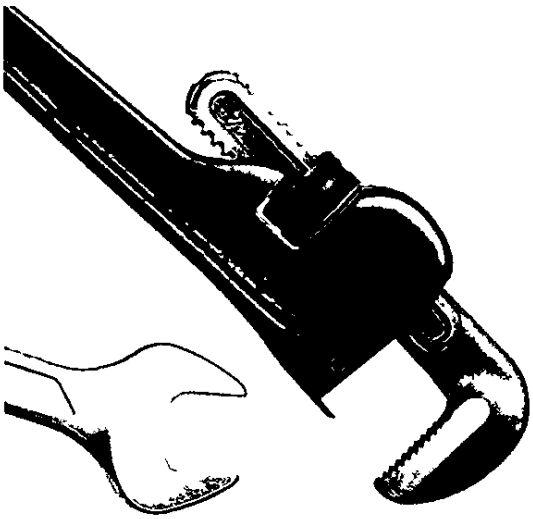
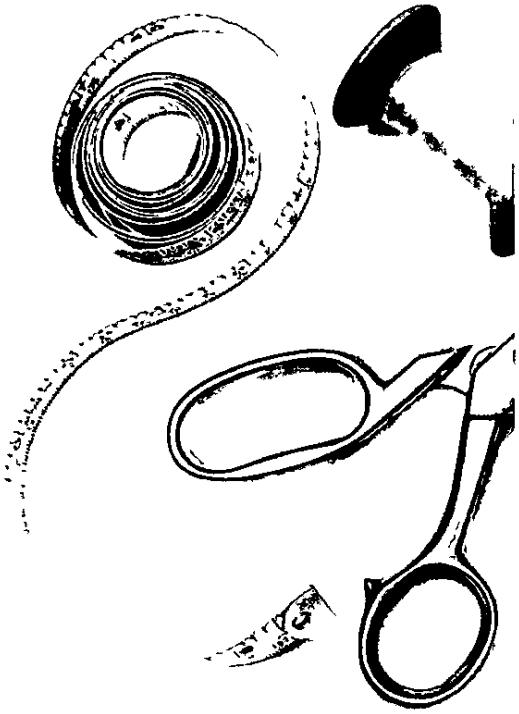
COMPANIES HOUSE



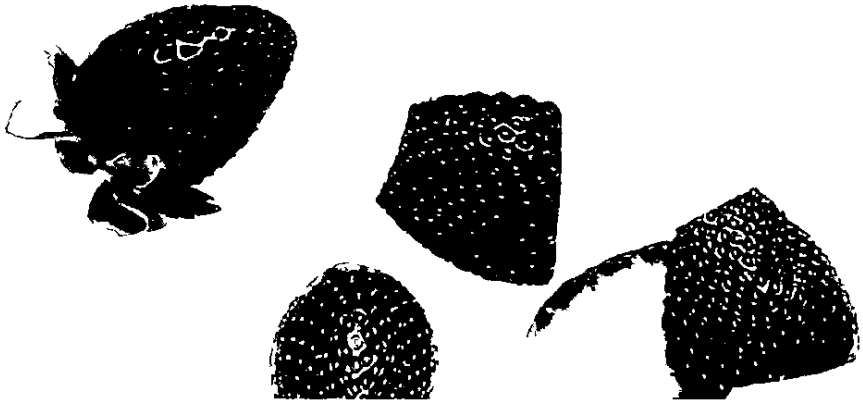


QUARTO KNOWS

Quarto is an authority on a wide range of categories and topics in the publishing world Quarto educates entertains and enriches the lives of our readers – enthusiasts and lovers of hands-on living

Quarto Cooks Quarto Creates Quarto Thinks Quarto Drives Quarto Explores Quarto Gifts Quarto Homes Quarto Kids Quarto Lives Quarto Plays

www QuartoKnows com



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HIGHLIGHTS OF THE YEAR

GROUP REVENUE[1]

$172.6m

+2%

ADJUSTED PROFIT BEFORE TAXATION[4]

$12.1m

(2013 $9 6m)

+26%

PROFIT BEFORE TAXATION

$12.2m

(2013 $5 8m)

+112%

REVENUE[2]

$42.7m

(2013 $40 4m)

+6%

REVENUE

$64.1m

(2013 $64 4m)

-1%

REVENUE

$21.5m

(2013 $20 8m)

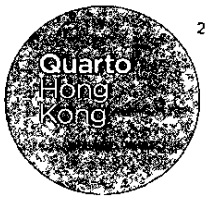
+3%

REVENUE

$31.2m

(2013 $29 5m)

+6%



2

REVENUE

$13.3m

(2013 $14 4m)

-8%

1 Underlying Operations - (vs $169 2m FY 2013)
Underlying Operations - (less $0 3m FY 2013)
2 Reported in FY2013 as Other and now comprising Regent Publishing Services and Quarto Hong Kong
3 As defined on page 36
4 Adjusted profit before taxation is before amortisation of acquired intangibles and exceptional items

OPERATING PROFIT[3]

$6.1m

(2013 $4.5m)

+35%

IMPRINTS

Apple Press
Design Eye
Fine Wine Editions
Global Book Publishing
Igon Editions
Ivy Press
Ivy Kids
Leaping Hare Press
Marshall Editions
QED Publishing
Quid Publishing
Quantum Publishing
Quarto Children's Books
Quarto Publishing
Quintessence
Quintet Publishing
RotoVision
small world creations
words & pictures

OPERATING PROFIT[3]

$6.6m

(2013 $7.2m)

-8%

IMPRINTS

Book Sales
Cool Springs Press
Creative Publishing international
Fair Winds Press
Motorbooks
Quarry Books
QDS (Distribution Services)
Race Point Publishing
Rock Point Calendars
Rock Point Gift & Stationery
Rock Port Publishers
Voyageur Press
Walter Foster Publishing
Walter Foster Publishing Junior
Zenith Press

OPERATING PROFIT[3]

$3.1m

(2013 $2.5m)

+24%

IMPRINTS

Aurum Press
Frances Lincoln
Frances Lincoln Children's Books
Frances Lincoln Gift & Stationery
Jacqui Small
Kinkajou
Wide-Eyed Editions

OPERATING PROFIT[3]

$3.0m

(2013 $2.9m)

+3%

BUSINESSES

Formerly
Lifetime Distributors (Australia)
Premier Books (New Zealand)

OPERATING PROFIT[3]

$1.1m

(2013 $1.2m)

-8%[1]

BUSINESSES

Regent Publishing Services
Quarto Hong Kong

Timothy J M Chadwick Chairman, The Quarto Group

CHAIRMAN'S STATEMENT

Financial highlights for the year include

- Group revenues $172 6m
- Adjusted Group PBT $12 1m
- EPS 27 2p
- Final dividend increased from 7 9p to 8 3p per share

We have made good progress in 2014 continuing the changes made in 2013 and we have delivered further debt reduction and earnings growth This was achieved against some challenging circumstances in certain markets and channels, particularly in the first half of the year However, Quarto remains a robust and cash generative enterprise Our experience and proven business model in creating and selling illustrated books combine to drive the company ahead.

BOARD

We welcomed Christopher Mills to the board as non-executive director in October 2014 Christopher is the principal of Harwood Capital, our largest shareholder He replaced Max Lesser who had served on the board since March 2013

CORPORATE GOVERNANCE

While the business has made further progress in meeting best practice guidelines for a fully listed company and UK plc, the Board feels the cost of moving the domicile from Delaware to the UK outweighs the benefits

We were pleased to have made the transition during the course of the year to trading shares as depository interests in CREST under the ticker QRT

EXCEPTIONAL ITEMS

Following the Board's decision, as stated in the 2013 Annual Report, exceptional items are now those that the Board consider truly exceptional, being significant non-trading and one-off in nature Historically, exceptional items included certain types of operational expenses The prior years have been restated to reflect the revised approach

DIVIDEND

Notwithstanding our continued focus on debt reduction, the Board is pleased to recommend a final dividend of 4 95p per share, making the total dividend for the year of 8 3p, a 5% increase over last year, giving dividend cover, based on Adjusted Earnings per Share of 27 2p (2013 24 2p) of 3 3 times (2013 3 1 times)

PEOPLE

Our people at Quarto show restless creativity and resolute innovation everyday Coupled with our tenacious sales and marketing efforts, the results this year are testament to the success these approaches bring about

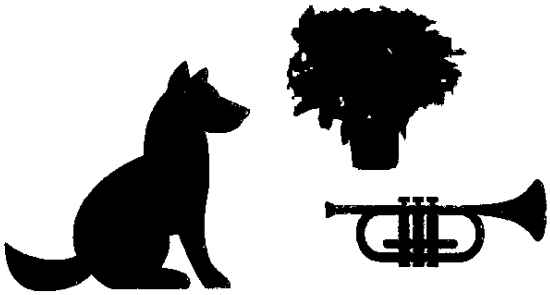
On behalf of the Board, I would like to thank all of our people in all of our businesses around the world for their continued hard work and commitment

Timothy J. M Chadwick
Chairman
March 20, 2015

WHAT WE DO & HOW WE DO IT

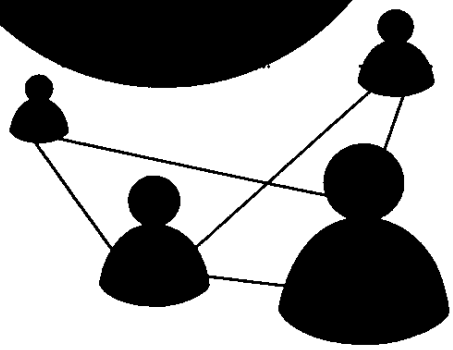
OUR FOUR

STRATEGIC PRIORITIES



Investing in creating product that excites the enduring interest of niche enthusiast groups with category focussed publishing teams who are creatively driven and financially astute.

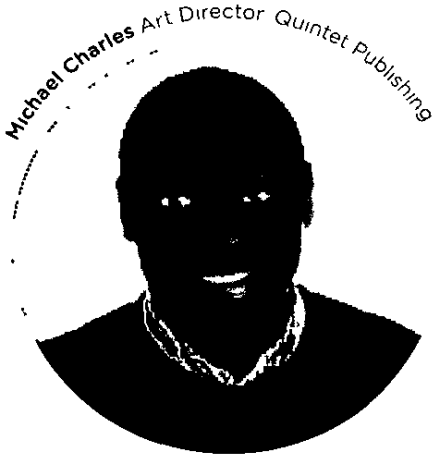
Delivering profitability by developing the talented people in our Group network that retains creative independence but encourages marketing and sales interdependence and collaboration.



Driving growth through enhanced product distribution with focus on existing channels, adaptation and innovation in new channels as well as expansion into new global markets.

To **educate, entertain** and **enrich** the lives of our readers, putting books in their hands, **wherever, however** and **whenever** they choose.

Managing an efficient supply chain and distribution of product in order to reach consumers, utilising best practice and the scale of our international marketing and sales operations to drive cost efficiencies, while allowing our creative teams to flourish.



MICHAEL'S TOP TIP

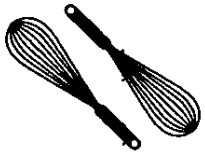
Some dishes shot from an extremely low angle will give an intimate feel, getting in close with the chosen dish

MICHAEL HAS ART DIRECTED MORE THAN 100 TITLES FOR QUINTET

Quarto Cooks

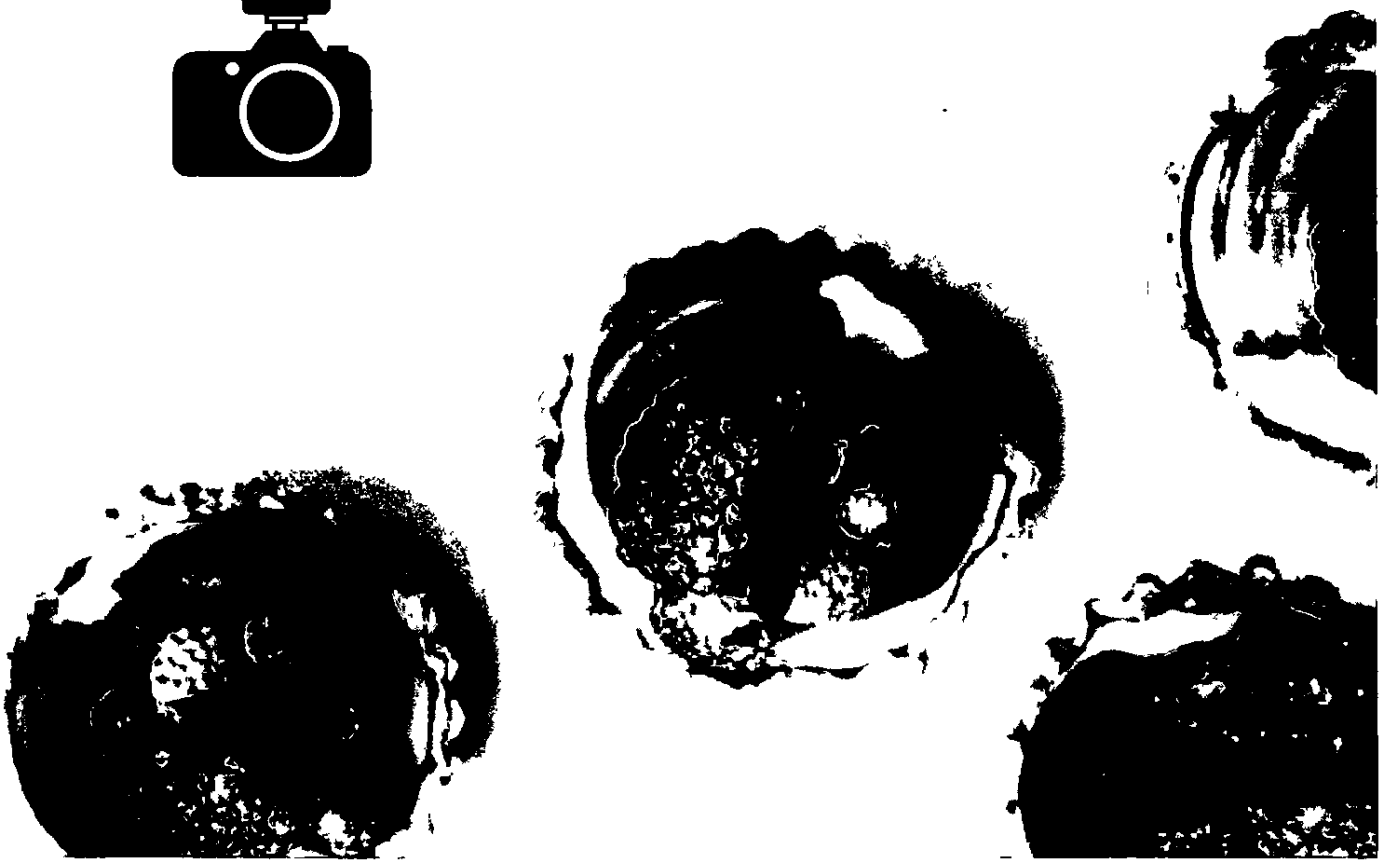
QUARTO KNOWS COOKBOOKS

Quintet cookbooks are in print in more than thirty languages



MICHAEL'S TOP TIP

Do not be scared of imperfection, do not be scared of crumbs, splashes or the odd burnt edge It will give the shot a sense of realism and ultimately will make the recipe look achievable



CHIEF EXECUTIVE OFFICER'S STATEMENT

Summary

In 2014, Quarto started to deliver on its potential following a year of tactical reorganisation The business has been simplified and focussed and is beginning to deliver on its strategic priorities The second half of the year was strong and this has given us momentum into 2015

Revenue from underlying operations was up by 2% Adjusted Group Operating Profit was up 10% and with net interest payments falling by 27%, Adjusted Group Profit Before Tax is up 26% against prior year Our publishing businesses have improved their operating margins to 12 3% from 11 3% in the prior year This has been achieved through better operational leverage and cost control

This solid performance was delivered despite 2014 being a challenging year in many respects for different reasons either by channel, as in the US where a large wholesaler went out of business early in the year, or by market, such as New Zealand, where the merger of our two businesses in the North Island took longer than we would have wished

Our new operational structure put in place in 2013 has allowed us to deal with these issues quickly and effectively, with newly found agility During the year, we achieved a rebrand at minimal cost of our publishing businesses to Quarto, which was welcomed by a number of our customers This has helped to reinforce the Quarto ethos of being a content driven company where the creative independence of each imprint is fundamental while showing that 'new' Quarto has operational, marketing and sales interdependency So while we continue to make investments in the publishing programme that drive future profitability in the portfolio, we have also united, for example, all our sales and marketing efforts in Australia and New Zealand through one distributor, Allen & Unwin Group This initiative follows on from the launch of Quarto Editora in Brazil, our joint venture with Grupo Nobel The next step in this global marketing and

PROFIT BEFORE TAX UP 26%

EARNINGS PER SHARE UP 12%

10% increase in Group OP

sales collaboration will be the launch in Q2 2015 of www QuartoKnows com that will group all our websites, blogs and social media under one digital hub and e-commerce platform, by category of books we publish

We have continued to implement the Strategic Review, first started in early 2013, and as such have sold a property in Switzerland, bought out the minority shareholder in Book Sales and bought the North Island New Zealand franchise of Lifetime which allowed us to merge Lifetime and Premier to form Books & Gifts Direct, a customer focussed proposition Partly owing to the above, and also the new initiatives in the publishing programmes this year, debt has gone down by 7% or $5m that includes the $1 8m from the sale of the Swiss property to $66m The debt reduction is less than we would have liked but the Board is confident that the investments in intellectual property and other initiatives undertaken during 2014 will benefit the Group's net debt position during 2015 and beyond Post-period end, we have successfully re-financed our debt for a four-year term with four of the existing banks in the syndicate at improved terms

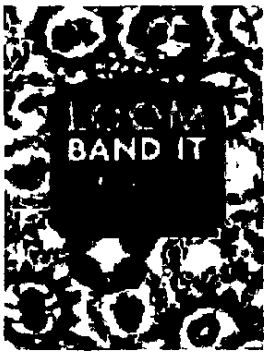
DIVIDEND UP 5%

Our people have been key to the resilience we have shown, changes we have made and performance of the Company We have made strong additions to the team, promoted internally where possible and regretfully said 'goodbye' to some I am grateful to each and every one of them for their commitment as well as our entire ecosystem of partners and network of suppliers

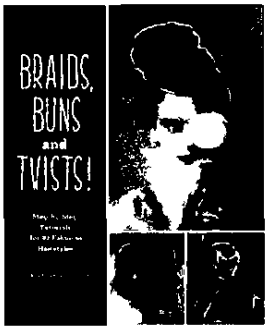
Quarto Knows

Quarto made steady progress in 2014 despite a challenging first half to the year We shall develop further as a business in 2015 by continuing to expand our reach in channel, territory and format We are well-positioned to grow organically, capitalising on our strengths, making long-lasting, information-rich books and selling them in as many languages and channels as possible – our investment in intellectual property will continue We shall also develop the business by acquisition, taking advantage of opportunities that support the long-term growth of our business around the world

DIVISIONAL REVIEW



Published 2014



Published 2013

Published 2006

Quarto International Co-Editions Group

Revenue $42.7m
(2013 $40 4m)

Adjusted Operating Profit $6 1m
(2013 $4 5m)

Backlist sales % of sales 68%
(2013 74%)

Intellectual Property Development Spend $14.6m
(2013 $13 5m)

Sales by territory: US 31%, Europe 34%, UK 18%, ANZ 9%, RoW 8%
(2013 US 36% Europe 36% UK 13% ANZ 7% RoW 8%)

2014 has been a good year for QIC with a healthy growth in revenue of 6%, and adjusted operating profit of 34% Not being a stock holding business, with consequent speed to market being quicker, the significant changes we made in 2013 have quickly gained traction

English language revenues were robust again in 2014 with the UK and ANZ particularly strong The US showed strength in both new title purchases and reprints Europe held steady, particularly in Northern and Western Europe, with softness in Eastern Europe, Latin America and the Far East

In this business, we have a very good team of publishers, with imprints, based either in London or Brighton, who make creative, highly illustrated non-fiction books The medium-term visibility is dependable for this business with some potential upside as we continue to apply our expertise in creative ways to books, expanding our children's book offering, and increasingly, related products, gifts and stationery

Post period acquisition
In February 2015, the Group acquired Lewes Holdings Ltd, the owner of **Ivy Press** and its imprints, the worldwide co-edition business renowned for its high-quality editorial, design and production values With the addition of **Ivy**, the founding business around which the Group was formed is without doubt the market leader

Revenue $64 1m
(2013 $64 4m)

Adjusted Operating Profit $6.6m
(2013 $72m)

Backlist sales % of sales 70%
(2013 74%)

Inventory % of sales 19%
(2013 16%)

As a turn of 1 9x
(2013 2 4x)

Intellectual Property Development Spend $14 8m
(2013 $13 4m)

2014 has been a challenging year for the US-based imprints with the closure of a wholesaler into two specialty accounts, Lowe's and Tractor Supply But the management team has shown resilience to manage that disruption and resulting channel flux, finishing the year with a decent result in the circumstances, down less than 1% in revenue and 8% in adjusted operating profit, largely the $0 5m loss resulting from the closure of a wholesaler referred to above

Now that the operational changes from 2013 have settled down and some of the new publishing programme initiatives have begun to take shape, we go into 2015 with a focussed business plan to execute, free from distractions

The medium term view is positive as we continue to focus on the niche markets into which we publish and distribute, with the direct relationships with Lowe's and Tractor Supply now underpinning that strategy

Published 2013

Published 2012

Published 1981

Published 2013

Published 2012

Published 2014

Quarto Publishing Group UK

Revenue $21.5m
(2013 $20 8m)

Adjusted Operating Profit $3 1m
(2013 $2 5m)

Backlist sales % of sales 54%
(2013 59%)

Inventory % of sales 19%
(2013 20%)

As a turn of 1.4x
(2013 13x)

Intellectual Property Development Spend $4 2m
(2013 $4 8m)

2014 has been a sound year for our UK-based imprints as new management, appointed September 2013, has presided over its first full year with revenue growth of 3% and adjusted operating profit growth of 24% after much restructure and change in 2013

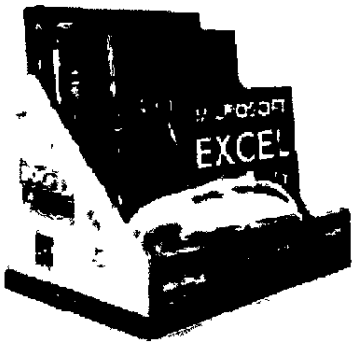
The reliable publishing and operational foundation, established in 2013, was added to in 2014 with significant confirmation of the sales and marketing relationship in North America with its sister company, Quarto US, seeing sales up nearly 50% from prior year from all channels

The medium-term view is encouraging as we maintain our focus on domestic sales channels while enhancing our capability on a global scale

Revenue $31 2m
(2013 $29 5m)

Adjusted Operating Profit $3 0m
(2013 $2 9m)

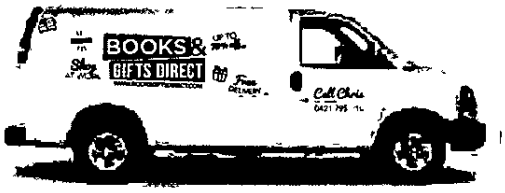
Network Capacity 85%
(2013 81%)



It has been a demanding year for our business in Australia and New Zealand With the benefit of hindsight with new management, an operational merger (of the two owned but competing businesses in North Island New Zealand) and re-branding to achieve against a soft retail economy, the 'bounce back' to historic high-end profit figures will take longer than originally anticipated

However, substantial progress has been made and the recovery has seen growth in adjusted operating profit despite significant restructuring costs Australia has produced a steady result and New Zealand is recovering soundly

We now have one coherent market-leading business in Australia and New Zealand, an experienced management team, enhanced buying power and the implementation of proprietary technology that has been developed over the last two years In New Zealand, we retain the ability to sell the Master Franchises for North Island and South Island as opposed to operating them ourselves We shall determine that strategy during the course of 2015



Revenue $13.3m
(2013 $21 2m)*

Adjusted Operating Profit $1 1m
(2013 $1 4m)*

* FY2013 - Image Factory - $6 8m revenue $0 2m operating profit

We reported our Hong Kong print buying business Regent Publishing Services under Other last year with The Image Factory that we sold during the course of 2013

Regent saw sales down 8%, largely attributed to its two largest customers placing fewer orders, resulting in adjusted operating profit falling by 8% A new sales and marketing strategy focussed on children's, religious, comic, gaming and stationery publishing is the focus into 2015 A closer relationship with Group companies has been established particularly for stationery initiatives

Post-period print buying office and establishment of Quarto Hong Kong

In January 2015, the Group established a new print buying office in Hong Kong, which will work with Regent to drive further savings for Quarto in print buying in China, a critical element of our supply chain Both will report under the heading Quarto Hong Kong (QHK)

KEY INITIATIVES

Revenue $23.0m
(2013 $19 6m)

During the course of 2014 we took our children's publishing programmes from five imprints to eight All have made a contribution to the growth in this category for Quarto in 2014 now amounting to over 13% in terms of Group revenue This growth in Children's publishing revenues of over 17% has been achieved both organically by investment in originated product and by acquisition of a complementary business

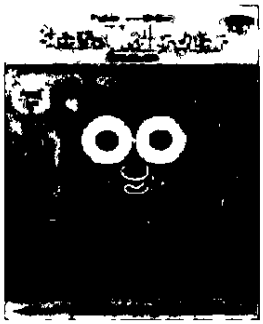
In QIC, we have three imprints under the strong leadership of one Publisher, who has posted a second successive year of growth With the addition of the recently purchased **small world creations** to the division, we have a full offering of children's product from 0-9 in that division

In QUS, we have launched **Walter Foster Jr** effectively under a new, accomplished Publisher and the benefits of a full year of publishing will be seen in 2015

In QUK, we have established a new imprint, **Wide-Eyed Editions** The imprint's aim is to be creators of non-fiction for children and families brought about by a belief that books should encourage curiosity about the world we live in, inspiring readers to set out on their own journey of discovery The imprint made good progress during 2014 and launches in North America in 2015

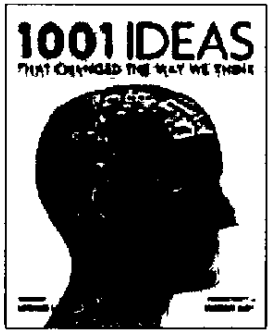
The addition of **Ivy Kids** further develops our standing in non-fiction publishing for children and hands-on parenting

Published 2014

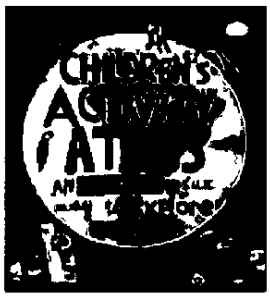

Published 2014

Published 2014

Published 2013



Published 2013



Published 2013

Quarto Foreign Rights

Revenue $26 6m
(2013 $24 2m)

The combination in 2013 of our Foreign Rights division – where we sell foreign language editions of our books – under one leader – worked well in 2014 with overall sales up 10% this year over 2013 The main driver has been Children's publishing with a growth of 24% as the new imprints have come on stream, which added to more modest growth in the existing imprints

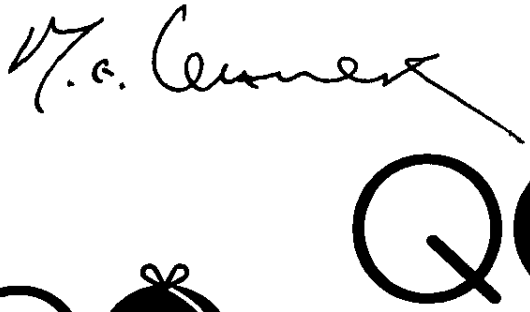
Our Brazilian joint venture with Grupo Nobel, Quarto Editora, has got off to a good start and 2015 will see a full year contribution from that business We continue to source similar relationships in other undersold territories but are proceeding with judicious care to find the right partners

OUTLOOK

We expect continued growth in 2015, though this is likely to manifest itself mostly in the second half The increase in second half weighting experienced in 2014 is a trend which we expect to become more marked in line with global retail trends with the relative strength of the US dollar Foreign exchange rates will tend to impact negatively on our results Nevertheless, for the year as a whole, we should show further progress and deliver growth both organically and from the recent acquisitions

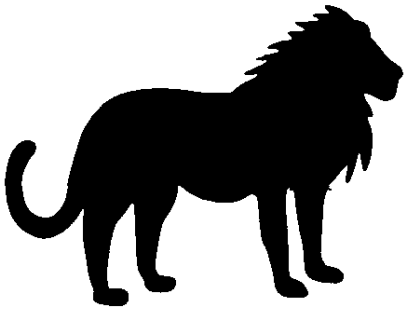
Quarto is a cash generative business operationally and we are committed to bringing down our debt by resolutely examining the strengths and weaknesses of our portfolio

Marcus E Leaver
Chief Executive Officer
March 20, 2015

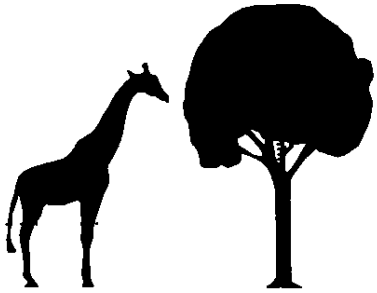


QUARTO KNOWS CHILDREN

KATIE LOVES WILDLIFE
AND IS CURRENTLY WRITING A
2,500 WORD
TEXT FOR THE CHILDREN'S BOOK
COUNTING LIONS
FOR QUARTO UK



Quarto has sold
20,000
copies of
COUNTING LIONS
to a US publisher.



KATIE'S TOP TIP

In writing for children,
we challenge their
imagination and curiousity
(The trick is to also make it fun!)

STRATEGIC REPORT

OUR STRATEGY IS TO GROW OUR REVENUE AND MARGINS BY LEVERAGING OUR SIZE, SCALE AND REACH AS THE LEADING GLOBAL ILLUSTRATED BOOK PUBLISHER AND DISTRIBUTION GROUP TO BUILD A BUSINESS WITH SUSTAINABLE GROWTH IN EARNINGS PER SHARE WHILE REDUCING ITS DEBT BURDEN

REVENUE GROWTH

We focus on revenue growth organically for each of our imprints in our portfolio We also search for earnings accretive lists, imprints or businesses that can add to our portfolio and enhance the marketing and sales efforts of our existing businesses

IMPROVING OPERATING MARGINS

We improve our operating margins on revenue by using the leverage of our illustrated publishing focus to buy print and freight effectively We are relentless also in identifying other areas of supply chain efficiencies

INTELLECTUAL PROPERTY INVESTMENT

We are committed to investing in long-lasting intellectual property In pursuing the very best photography, artwork, design and writing, we aim to safeguard the future revenue streams of the business

DISTRIBUTION DEVELOPMENT

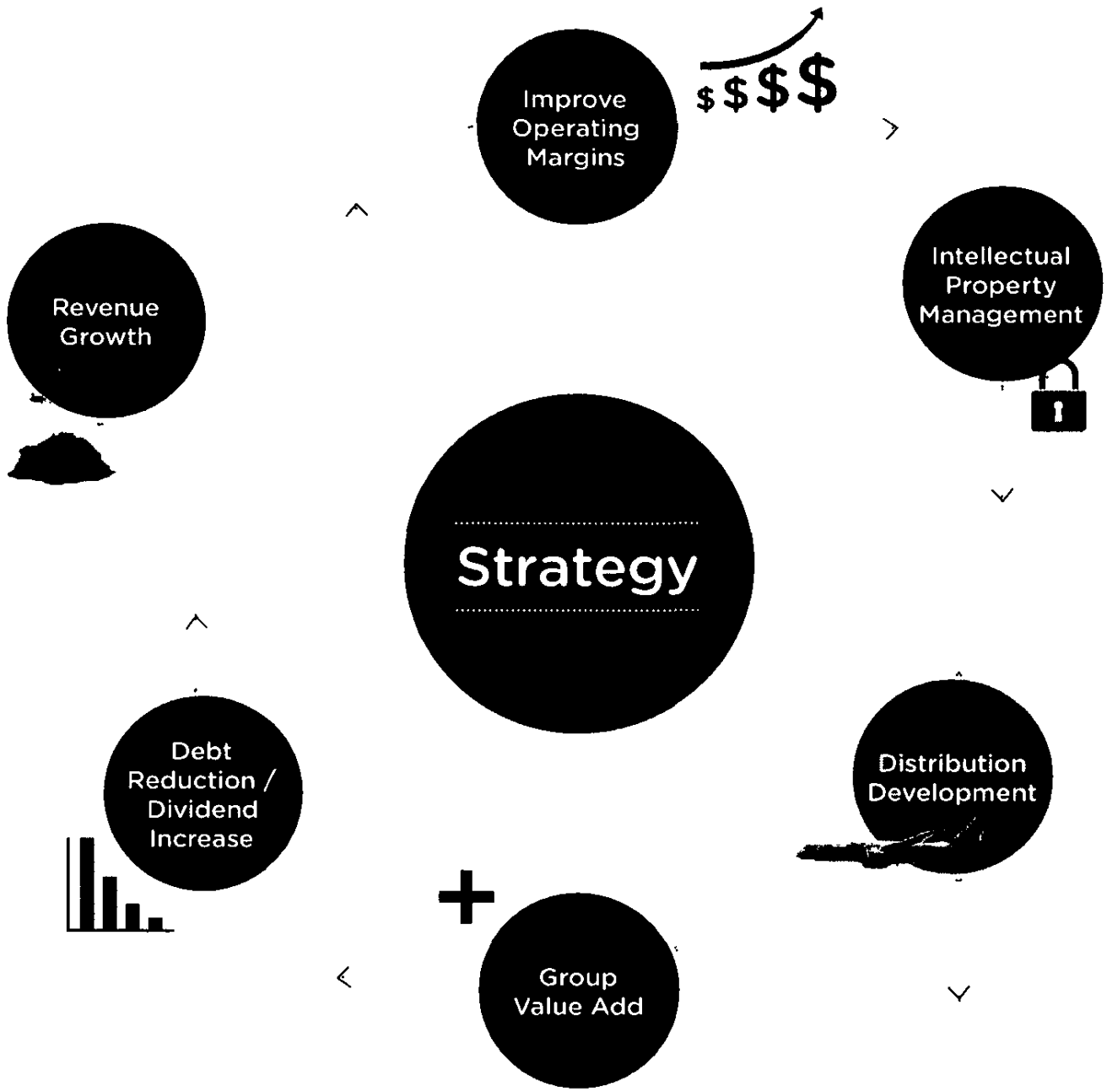
We develop direct physical distribution relationships, global partnerships and the digital marketing and delivery of our content We are committed to selling our books wherever, however and whenever our customers want them in multiple markets, multiple languages and multiple formats

GROUP VALUE ADD

We continue to develop the value added by the Group function in supporting our people achieve our objectives while acknowledging our core belief of creative independence in each publishing imprint

DEBT REDUCTION/DIVIDEND INCREASES

We shall continue to focus on reducing our debt burden and where possible, increase dividends to enhance shareholder value



STRATEGY SUMMARY

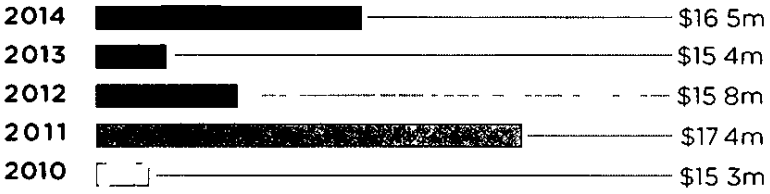
The last two years has seen us overlay the undoubted creative independence and rigour of our publishing with a tenacious marketing and sales force that works interdependently and collaboratively on a global basis With the directional control provided from the Group and support in non-publishing or sales/marketing functions, we are beginning to leverage our scalable business model to good effect

KEY PERFORMANCE INDICATORS (KPIs)

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

Our EBITDA has grown 7% in the year

EBITDA (ADJUSTED OPERATING PROFIT PLUS DEPRECIATION)

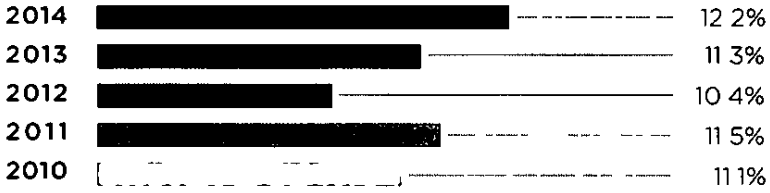


Our Adjusted PBT has grown by 26% in the year

ADJUSTED PBT

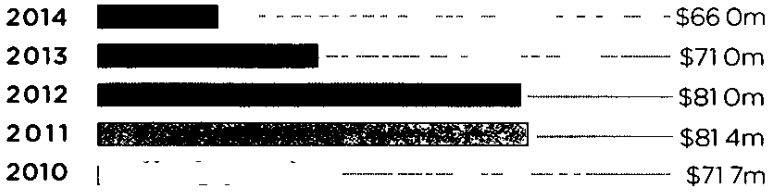
The Board uses this ratio to evaluate the long-term financial health of the company

RETURN ON NET OPERATING ASSETS



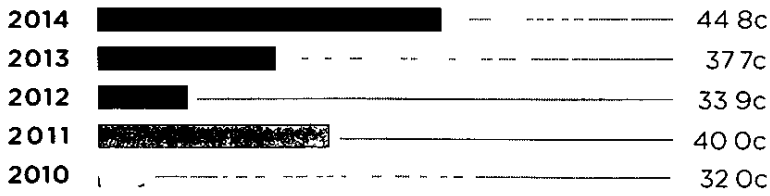
Our net debt has reduced by 7% in the year

NET DEBT



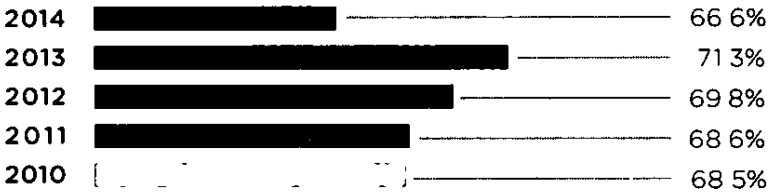
The Board uses this ratio to evaluate the quality of the company's earnings

EPS*



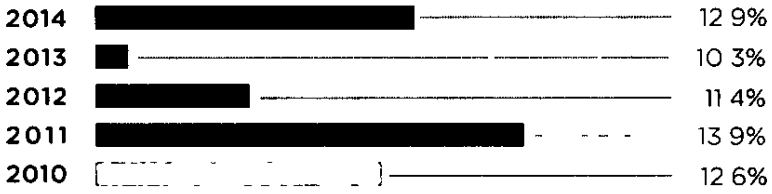
* adjusted diluted earnings per share

BACKLIST % OF SALES



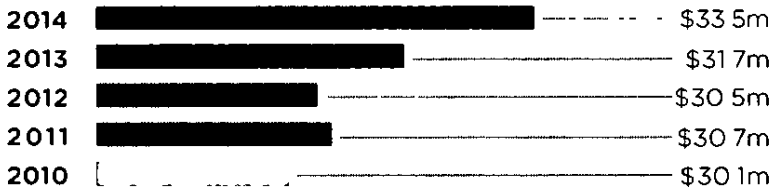
Backlist has reduced as a % of sales as we have invested in new Intellectual Property

INVENTORY % OF REVENUE



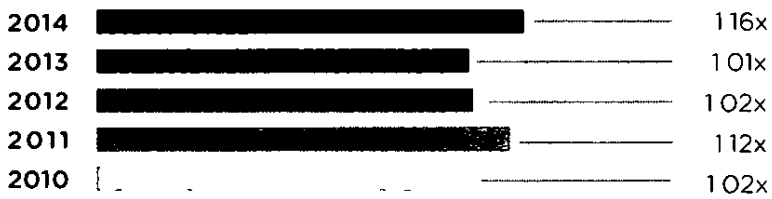
This is a measure of the cash used up in inventory as a proportion of revenue

INTELLECTUAL PROPERTY DEVELOPMENT SPEND



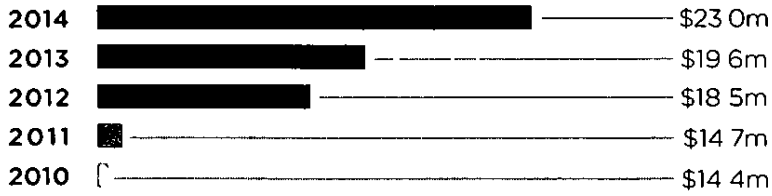
We have increased the IP spend in order to grow the publishing businesses organically

PRODUCT EFFICIENCY



The new title sales for any given year are a leading indicator that show how effective and reliable our backlist sales might be

CHILDREN'S PUBLISHING REVENUES

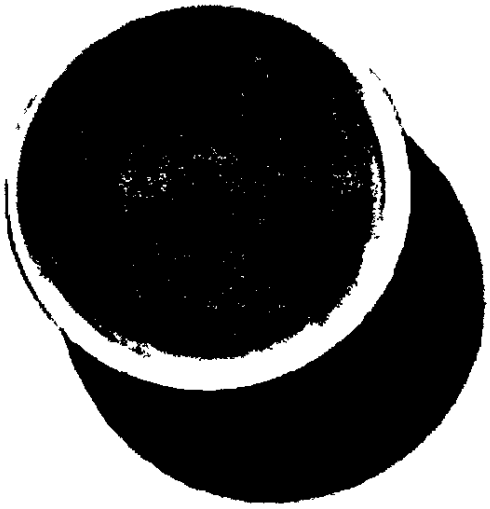


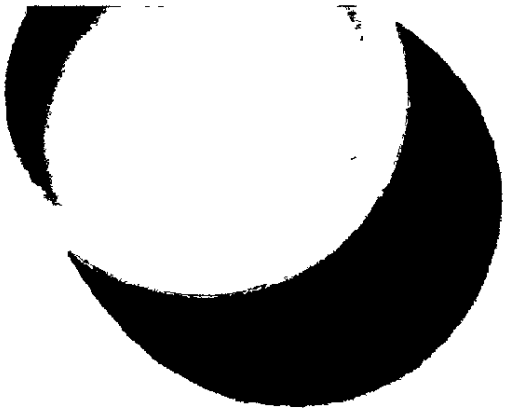
We shall report this key strategic area of our publishing from now on

SHAWN LOVES CREATING HIS OWN ART.
HE HAS BEEN EXHIBITING HIS WORK FOR OVER **25** YEARS

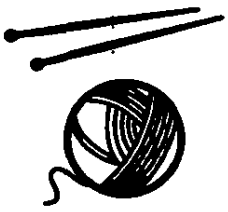
Quarto Creates

QUARTO KNOWS ARTS AND CRAFTS



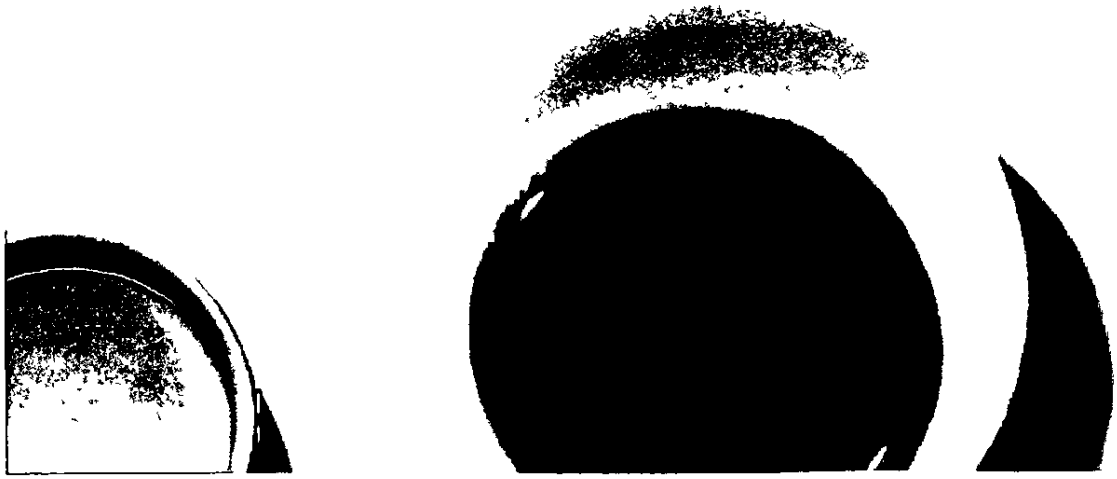


Quarto achieved around
$15,000,000
in revenue in Arts and Crafts books in North America



SHAWN'S TOP TIP

Watch out for some of our great upcoming titles like Sharpie Art Workshop and the new Wide Eyed Editions titles



OUR VALUES

BE ACCOUNTABLE
Take responsibility and do what you say

BE EXCELLENT
Quality matters in everything we do

BE CONSISTENT
Be clear, concise and clear-headed

Our Values

BE PURPOSEFUL
Do what you love and make it happen

BE CURIOUS
Try things, fail well, do it quickly

BE COLLABORATIVE
Use 'we' and bring the best out of each other

OUR PEOPLE

Sally Dwyer
Group Director of People

To support our mission to educate, entertain and enrich the lives of our readers, putting books in their hands, wherever, however and whenever they choose, we need exceptional people!

We love making great books and over 400 people across the world help Quarto succeed in doing this We have over 20 offices in 5 countries and publish our books in many more The Quarto brand is built upon our people and their creative talents It is our people who give Quarto its heart and who shape our culture and create our many wonderful books

People are our greatest asset and as such, we believe that treating them with respect, providing consistent and fair policies and allowing them the freedom to be themselves helps to demonstrate the value we hold them in Quarto is too human to be truly corporate, our businesses are too individual however, we try and create a culture in which all our people flourish

Our culture is a key indicator of how we treat each other and the behaviours we want to be known for With this in mind in 2014 we set about strengthening our culture by formally launching a set of values that focus on what we want to BE

These values shape the way we do business and we select people to work for and with us who share these same values and passions Feedback from our customers on which of our books are selling is a vital part of our business, so is feedback from our employees To continue to build the culture we strive for feedback is an important element of this, and through a mixture of formal and informal channels we continue to seek feedback that highlight things we can work on

DIVERSITY

Our books come in all shapes and sizes and are read by customers from all walks of life We recognise to continue to make books that are valued by our customers we need to attract and retain the best people who are as diverse as our customers

We aim to foster an environment where people are valued for their contribution irrespective of their age, sex, disability, race, religion, marital status, ethnic origin or sexual orientation We support this by having in place key policies that provide a framework for ensuring everyone is treated fairly and with respect across all of our businesses

EQUALITY & FAIRNESS

While we operate across several geographies we strive for our people policies to be globally fair and equal With this in mind we have started a global audit of our people practices which will enable us to see where best practice exists and to support each of our businesses as they strive to reach this

CORPORATE SUSTAINABILITY

We feel Quarto's responsibility is to create and sustain an economically sound and prosperous business, producing quality books that stand the test of time In cooperation with our employees and business partners we strive to create a sustainable future As a company, we continue to make progress with our corporate responsibility and sustainability activities

CORPORATE RESPONSIBILITY

Quarto aims to make positive social contributions through sharing our love of books and reading with the world We donate our books to a wide variety of charities such as Barnardo's and Help for Heroes in the UK and we are significantly involved with the Goddard Riverside Community Center in New York

We hope to build on our efforts and are investigating further support for our people in volunteering with local reading schemes, allowing our employees paid time away from work to volunteer in schools to help improve children's literacy skills and encouraging our local offices to direct their own community development efforts where they can be most effective

ENVIRONMENT SUSTAINABILITY

We are committed to being a responsible partner with our suppliers and we ensure that our books are produced in a manner that respects international and local laws

We recognise the environment is a precious resource and one that is limited To support the environment where possible we

- Minimise the consumption of natural resources and energy
- Improve the environmental performance of our operations including the buildings that we own, leased tenant space, corporate travel and procurement
- Reducing waste by adopting improved operating practices and by recycling materials whenever practical
- Ensuring all waste is disposed of in a safe and responsible manner
- Supporting and monitoring the development of new products and processes that improve performance and decrease environmental impact

We choose to work with partners and suppliers where possible that are certificated by

- The Forest Stewardship Council (FSC) which promotes responsible management of the world's forests
- ISO 14001 covering environmental management systems
- The ICTI CARE process covering ethical standards of manufacturing

PRODUCT SAFETY

Quarto is committed to ensuring our books are produced to the highest possible safety standards Our production teams work with our publishers, our suppliers and partners to ensure our books are safe for our consumers

Quarto Thinks

Quarto Explores

Quarto Lives

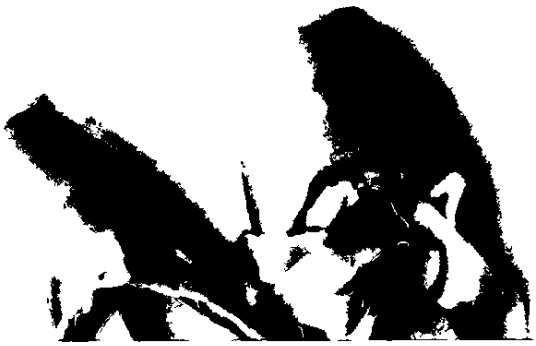
TINA'S TOP TIP

There are always new categories to be explored, never think you know it all

Quarto Plays

QUARTO KNOWS BALLET

Tina's passion is dancing. She goes for ballet classes at least three time a week. At each class, she wears her hair in a bun.



We pride ourselves in finding good, practical and inspiring titles for our market We have also ordered 12 000 of the new title Awesome Hair Days, another Quarto title which we believe will achieve similar results

Braids, Buns and Twists
has sold over
250,000
copies since its release

FINANCIAL REVIEW

Summary	2014	2013 Restated[1]
	$000	$000
Sales		
Quarto International Co-Editions Group	42,676	40,430
Quarto Publishing Group USA	64,058	64,392
Quarto Publishing Group UK	21,477	20,819
Books & Gifts Direct, ANZ	31,170	29,455
Quarto HK (2013 Other)	13,263	21,222
	172,644	176,318
Operating profit before amortisation of acquired intangibles, exceptional items ("adjusted operating profit")		
Quarto International Co-Editions Group	6,063	4,540
Quarto Publishing Group USA	6,636	7,173
Quarto Publishing Group UK	3,099	2,546
Books & Gifts Direct, ANZ	2,967	2,918
Quarto HK (2013 Other)	1,112	1,398
Operating profit before amortisation of acquired intangibles, exceptional items	19,877	18,575
Group overheads	(4,484)	(4,531)
Operating profit before amortisation of acquired intangibles and exceptional items, after deducting group overheads	15,393	14,044
Operating profit	15,456	10,205
Interest payable	3,257	4,443
Interest cover, based on operating profit before amortisation of acquired intangibles and exceptional items	4 73x	3 16x
Adjusted diluted earnings per share	44 8c	37 7c
Net debt	66,040	71,015

[1] As stated in note 1

GROUP

We have produced a good trading performance, against the backdrop of a challenging market place

Revenues increased by 2% on a like for like basis, adjusting the comparatives for the two businesses that were sold during 2013 Adjusted operating profit was up 10% at $15 4m (2013 $14 0m) Adjusted profit before tax was up 26% at $12 1m (2013 $9 6m) Adjusted diluted earnings per share increased by 19% to 44 8c (2013 37 7c) 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 ten sellers in 2014, with their respective revenues and original year of publication

Nutella (2013)	**$992,000**
Loom Band It (2014)	**$628,000**
Art of Zentangle (2013)	**$602,000**
The Hair Style Directory (2013)	**$536,000**
One Zentangle a Day (2012)	**$535,000**
All New Square Foot Gardening (1981)	**$512,000**
Biblica Bible Atlas (2006)	**$480,000**
Honestly Healthy (2012)	**$472,000**
The Beauty of the Cat (2013)	**$446,000**
1001 Movies You Must See Before You Die (2003)	**$437,000**

QUARTO INTERNATIONAL CO-EDITIONS GROUP

Revenue for this segment was up 6% at $42 7m (2013 $40 4m) Adjusted operating profit was up 34%, at $6 1m (2013 $4 5m) We achieved an adjusted operating profit margin of 14 2% (2013 11 2%) Reprints accounted for 68% of co-edition book publishing revenues, compared to 74% last year This confirms that we have a very valuable backlist and that our business model, which is to produce titles with strong backlist potential, is working effectively

QUARTO PUBLISHING GROUP USA

Revenue for this segment was down 1% at $64 1m (2013 $64 4m) and adjusted operating profit was down 5% at $6 6m (2013 $7 2m), largely due to the loss resulting from the closure of a wholesaler that supplied our products into Lowes and Tractor Supply We achieved an adjusted operating profit margin of 10 4% (2013 11 1%) Reprints accounted for 70% (2013 74%) of revenues, again confirming the benefits of our business model

QUARTO PUBLISHING GROUP UK

Revenue for this segment was up 3% at $21 5m (2013 $20 8m) Adjusted operating profit was up 22% at $3 1m (2013 $2 5m), representing a margin of 14 4% (2013 12 2%) Reprints accounted for 54% (2013 59%) of revenues, reflecting the fact that the lists are more frontlist driven

BOOKS & GIFTS DIRECT, ANZ

Revenue for this segment was up 6% at $31 2m, largely due to the acquisition, at the beginning of 2014 Adjusted operating profit was up 2% at $3 0m (2013 $2 9m), representing a margin of 9 5% (2013 9 9%)

QUARTO HK (2013 OTHER)

Revenue for these businesses was down 38% at $13 3m (2013 $21 2m) due to the disposal of the Image Factory business at the end of September, 2013, with its results consolidated for 9 months Adjusted operating profit was down 20% at $1 1m (2013 $1 4m), representing a margin of 8 4% (2013 6 6%)

EXCEPTIONAL ITEMS

Exceptional items comprise the net (profit) loss on sales of businesses and assets of $(644,000) (2013 $3,332,000), and expenses relating to acquisitions (2013 Special meetings) of $78,000 (2013 $73,000)

NET INTEREST PAYABLE

Net interest payable was reduced from $4,443,000 to $3,257,000, largely as a result of the conclusion of an expensive interest rate swap

BALANCE SHEET

The Group's net assets increased from $46 8m to $51 7m, reflecting the good trading performance, noted earlier The most significant change in the balance sheet related to current and non-current liabilities Current liabilities increased from $70 4m to $144 9m and non-current liabilities reduced from $84 1m to $6 9m, largely because our borrowing facilities moved from medium term to short term, as we approached the end of the facility term We have refinanced after the year end and the new facilities will be disclosed under the non-current liabilities in 2015

CASH FLOW AND INDEBTEDNESS

At the year end, our net debt was $66 0m, a reduction of 7% ($5 0m) compared to 2013, when it was $71 0m

We concluded our refinancing on February 6, 2015, signing a US$95m multi-currency revolving credit facility and term loan, with a tenor through to April 30, 2019 The Group was well within its banking covenants, details of which are included in Note 18 to the Accounts

Trends and factors likely to affect our future development, performance and position of the Group are set out in the Chief Executive Officer's Statement on pages 12 to 23

SHAREHOLDER RETURN

Quarto's common stock has generated total shareholder return over the five years ended December 31, 2014 of 124% Over the same period, Quarto's common stock has outperformed the FTSE Small Cap Index, which has generated a return of 81%

Adjusted fully diluted earnings per share were up 19% at 44 8c (2013 37 7c) The mid-market price of the shares of common stock on December 31, 2014 was 150 5p, down 8% compared to last year (163 5p)

In light of our performance, the Board has proposed a final dividend of 4 95p (7 72c) per share which, combined with the interim dividend of 3 35p (5 53c), results in total dividends of 8 3p (13 25c), an increase of 5% over 2013

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

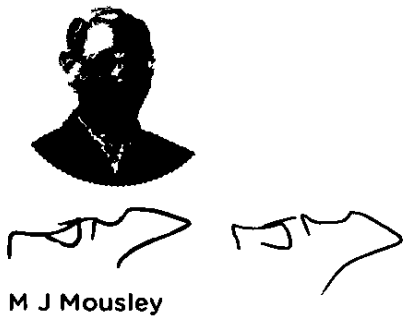
The Group's risk management is co-ordinated at its headquarters, in close co-operation with the Board of Directors Details of the Group's financial risk management objectives and policies are set out in Note 33

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 Officer'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 Group is well funded through a US$95 million syndicated facility, as noted elsewhere in the financial statements This facility is subject to quarterly twelve month covenant tests
- 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 2014
- 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 team and I would, again, like to thank them all for their hard work, unstinting support and loyalty



M J Mousley
Chief Financial Officer
March 20, 2015

DIRECTORS' REPORT

GROUP

The Directors present their report and the audited financial statements of The Quarto Group, Inc , for the year ended December 31, 2014

RESULTS AND DIVIDENDS

The profit for the year amounted to $9,219,000 (2013 $4,068,000) The Directors propose a final ordinary dividend of 4 95p/7 72c (2013 4 55p/7 37c) per share, amounting to $1,521,000 (2013 $1,488,000), subject to approval at the Annual Meeting

DIRECTORS

Serving Directors during the year, were as follows

T. J M Chadwick	(Non-executive) Chairman
R J. Morley	Deputy Chairman
M E Leaver	
M J Mousley	
J. Burley	(Non-executive) (Appointed 22nd May 2014)
M G.Hartley	(Non-executive)
E. Krawitt	(Non-executive) (Resigned 22nd May 2014)
M. Lesser	(Non-executive) (Resigned 15th October 2014)
C.H B. Mills	(Non-executive) (Appointed 15th October 2014)

None of the Director has a service agreement of more than one year's duration, other than Timothy Chadwick who had an initial three year agreement and Robert Morley, the duration of whose appointment is unspecified, subject to the continuance of certain conditions All of the directors are subject to annual re-election The terms and conditions of appointment of non-executive directors are made available for inspection

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

BOARD

Timothy Chadwick started his career in 1974 with Macmillan Publishers and established his first business, Aurum Press, in 1978 In 1988, he sold Aurum Press to The Really Useful Group In 1991, he started ABC (All Books for Children), which he sold to HIT Entertainment plc in 1995 after developing the best-selling series, Angelina Ballerina

In 1995, he floated American Port Services plc on the London Exchange After growing his company into a substantial seaport and airport owner and operator in the USA and Belgium, APS was acquired in 1998 by Associated British Ports plc Tim was elected as Chairman of Simon Ports plc in March 2003 The business grew substantially and was acquired in 2006 by Cobelfret

Tim joined Quarto in 2012 and chairs the Nominations Committee and is a member of the Remuneration Committee

Marcus Leaver has been Chief Executive Officer since December 2012 having joined the board of Quarto as Chief Operating Officer in May 2012 Prior to Quarto, he worked in the USA from 2005, latterly as President of Sterling Publishing, a subsidiary of Barnes & Noble, the leading bricks-and-mortar bookseller in the US Before living and working in the US, he worked in London for Chrysalis Group plc, a London Stock Exchange-listed media company, latterly as CEO of Chrysalis Books Group, from 2002, and prior to that Corporate Development Director and in a number of different general management roles, from 1998

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

Marcus is a member of the Nominations Committee

Mick Mousley worked for 12 years at Deloitte Haskins & Sells (now part of PWC), the last two years of which were as a senior manager in the Mergers and Acquisitions Department Mick joined Quarto in 1987, and was appointed Finance Director in 1989

Jess Burley has over 20 years' experience in media, working previously as the Group Managing Director of Hearst in the UK, responsible for Hearst Digital and The National Magazine Company portfolio Jess joined m/SIX (the WPP joint venture between CHI&Partners and GroupM) as CEO in May 2010 bringing a wealth of knowledge across all media Jess has also held a number of Non Exec roles working currently as a Non Exec for UK Mail Plc and previously with the fashion retailer Jacques Vert Plc and TalkTalk Telecom Plc Jess is also a Trustee of the young person's charity Get Connected She became a Non-executive director of Quarto in 2014

Jess is a member of the Nominations, Audit and Remuneration Committees

Mike Hartley was appointed to the Board in August 2013 as Senior Independent Director and Chair of Remuneration and additionally as Chair of Audit from May 2014 Mike brings considerable board and international experience and a broad knowledge of strategic management He formerly held a series of senior executive positions in both retail and manufacturing serving latterly as Chief Executive Officer of the £800m turnover Viyella division of Coats Viyella plc retiring in 2003 He has held a series of non-executive roles including Chairman of Dawson International plc 2003/09 and Senior Independent Director of ITE Group plc 2003/14 He is currently Chairman of US based Dawson Forte LLP

Christopher Mills is the Managing Partner of Harwood Capital Management LLP, which is the largest shareholder of The Quarto Group, Inc Christopher is also currently a director of Gleeson PLC, Catalyst Media Group plc and Bioquell plc as well as a number of private companies He became a Non-executive director of Quarto in 2014

Christopher is a member of the Nominations, Audit and Remuneration Committees

Robert Morley co-founded The Quarto Group in 1976, setting up the original co-edition imprints and later developing the newly acquired US imprints As a graphic design graduate from art college, he started out his career at Haymarket Publishing Group He also worked as Art Director on the Sunday Telegraph magazine and with Richard Branson at the start of what is now the Virgin Group From there he worked for IPC art directing part-work magazines followed by a period developing new ideas for Readers Digest books before setting up Jackson-Morley, a boutique editorial and design company

DIRECTORS' INTERESTS

The share interests of the Directors who held office at December 31, 2014 and of their connected persons in the share capital of the Company are shown below

	Number of US$0 10 shares of common stock	
Shareholding	**December 31, 2014**	**January 1, 2014***
T Chadwick	-	-
R J Morley	1,402,852	1,402,852
M E Leaver	14,000	10,000
M J Mousley	71,700	71,700
J Burley	3,300	-
M G Hartley	10,000	2,000
C H B Mills	4,100,000**	-

* or date of appointment

** 4 000,000 shares are held in the names of Oryx International Growth Fund and North Atlantic Smaller Companies Investment Trust plc of which Christopher is a Director and 100 000 shares are held by him personally

During the year the market price of the shares of common stock ranged between 140 5p and 175p The mid-market price at December 31 2014 was 150 5p

M E Leaver was granted an award of 666 666 shares under the performance share plan details of which are set out on page 53

Between December 31, 2014 and March 20, 2015 there have been no changes in the interests of the Directors

EMPLOYEES

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

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

The Board recognises the importance of diversity amongst its employees and is committed to ensuring that employees are selected and promoted on the basis of merit and ability, regardless of age, gender, race, religion, sexual orientation or disability The gender split across the Group for the year ended December 31, 2014 is illustrated in the table below

	Males	**Females**
Board	6	1
Senior Leadership Team	5	2
All employees	133	269

* The Group's Senior Leadership Team was established in 2013 and comprises the Group's CEO and CFO together with six senior managers

SUBSTANTIAL SHAREHOLDERS

As at March 20, 2015, 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	
Harwood Capital LLP	4,000,000	19 6%
L F Orbach	2,909,185	14 2%
The Wellcome Trust Limited	1,987,568	9 7%
Liontrust	1,914,832	9 4%
Herald Investment Trust	1,737,500	8 5%
R J Morley	1,402,852	6 9%
Cavendish Asset Management	823,500	4 0%
The Quarto Group, Inc	747,821	3 7%

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 Officer's Statement on pages 12 to 23 The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 36 to 38 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

The Group has significant banking facilities In particular, the Group has committed facilities, comprising a US$95m multi-currency revolving credit facility, with a tenor through to April 30, 2019 The Group has prepared detailed profit and cash flow budgets until June 30, 2016 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 2014 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 38 of the Financial Review and in Note 33 Operational risks are set out on page 38 of the Financial Review

CORPORATE GOVERNANCE

The Company is committed to high standards of corporate governance and supports the principles laid down in the UK Corporate Governance Code issued by the Financial Reporting Council in 2012 (the 'Code') The Board considers that the Company has been in compliance with the principles and provisions of the Code, with the exception of those outlined below, throughout the year ended December 31, 2014 and to the date of this report

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 five non-executive Directors The Chairman is responsible for the leadership of the Board and ensuring its effectiveness The different roles of the Chairman and Chief Executive Officer are acknowledged The senior independent non-executive Director is Michael Hartley who is available to shareholders, if they have concerns which are not able to be resolved through normal channels Two non-executive Directors, Michael Hartley and Jess Burley are considered by the Board to be independent Timothy Chadwick and Christopher Mills (appointed October 15, 2014) are not deemed to be independent because of their relationship with Harwood Capital LLP, a major shareholder Bob Morley, who co-founded the Group and was restored to the Board in August 2013, having previously served as a Director until May 2012, is also not deemed independent

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

c) The Board met nine times in 2014 Attendance details are set out below 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

Attendance by Directors at Board and Committee meetings in 2014

	Board	Audit Committee	Nominations Committee	Remuneration Committee
Jess Burley[1]	6	2	3	2
Timothy Chadwick	9	-	3	4
Michael Hartley	8	4	3	4
Edward Krawitt[2]	3	2	-	2
Marcus Leaver	9	-	3	-
Max Lesser[3]	6	3	-	2
Michael Mousley	9	-	-	-
Christopher Mills[4]	2	1	2	2
Robert Morley	9	-	-	-
Total number of meetings	**9**	**4**	**3**	**4**

1 Jess Burley was appointed to the Board on May 22, 2014
2 Edward Krawitt stepped down from the Board on May 22, 2014
3 Max Lesser stepped down from the Board on October 15 2014
4 Christopher Mills was appointed to the Board on October 15 2014

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 Michael Hartley who is the Committee Chairman, Timothy Chadwick, Jess Burley and Christopher Mills A separate report with respect to Directors' remuneration is included on pages 50 to 66 The Committee meets at least twice a year

f) The Audit Committee is comprised of Michael Hartley who is Committee Chairman, Jess Burley and Christopher Mills The Board is satisfied that Michael Hartley has appropriate financial experience to fulfil his role Further details of the Committee's work can be found on pages 47 to 49

g) Details of the work of the Nominations Committee during the year are set out in its report on page 67

h) A formal review of the performance of the Board, its Committees and the Directors was carried out before the year end, led by the Chairman and assisted by the Company Secretary A wide ranging appraisal questionnaire was used as part of the process and individual performance was reviewed by the Chairman The Chairman's own performance was subject to a review led by the Senior Independent Director The output from the appraisal confirmed that the Board and its Committees were operating effectively

i) The Chief Executive Officer and Chief Financial Officer are responsible for investor relations They meet with major shareholders during the course of the year to ensure that they develop an understanding of their views, which are communicated to the rest of the Board at Board meetings The non-executive Chairman and Senior Independent Director meet with major shareholders from time to time Shareholders are invited to attend the Annual Meeting at least twenty-one days in advance of the meeting All Directors attend the meeting which is used to communicate with shareholders

j) The Board has approved a procedure for Directors to take independent professional advice at the Company's expense, if required

k) All Directors have access to the advice and services of the Company Secretary

l) Quarto has arranged appropriate insurance cover in respect of legal action against the Directors

m) The Company has an established whistle-blowing policy

The provisions of the Code not complied with are as follows

a) A 3 1 - As noted above, the Chairman of the Board was not independent at the date of appointment

b) B 2 1 - The Nomination Committee is not composed of a majority of independent non-executive Directors The Board is however satisfied that its current composition enables the Committee to benefit from a broad range of views and does not inhibit it from following a formal, rigorous and transparent procedure when appointing new directors

c) C 2 1 - The annual review of the effectiveness of risk management is not formally documented, and remains an item of work in progress

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

The directors consider that the annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy

GREENHOUSE GAS EMISSIONS REPORTING

During the year, the Group worked with Energy Management LLP, an energy procurement and carbon consultancy, to develop GHG reporting protocol based on DEFRA and World Resource Institute guidelines

The Group has chosen to use Operational Control in their approach to reporting utility data, electricity and natural gas from UK and International operations This includes sites that have been disposed of during the reporting period Scope 1 (Natural Gas) and Scope 2 (Electricity) are reported on below, but the Group are not reporting on Scope 3 emissions covering emissions from transport and emissions from fully serviced offices where only a service charge is applied

The Group has identified GHG (Greenhouse Gas) emissions per employee as the most appropriate available KPI (referred to as the intensity ratio) and has chosen 2014 as our Base Year, following the disposal of our silk screen printing business in 2013

GLOBAL GHG EMISSIONS DATA FOR THE YEAR ENDED DECEMBER 31, 2014

	Tonnes of CO_2e
Scope 1	13
Scope 2	319
Total GHG emissions (CO e)	332
Average number of staff*	324
Emissions per staff member	1 02

* Excluding staff at fully serviced offices

RISK MANAGEMENT AND INTERNAL CONTROLS

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

Established procedures are in place to identify and consolidate reporting entities Our control activities include policies and practices covering appropriate authorisation and approval of transactions, the application of financial reporting standards and reviews of significant judgements and financial performance

The main elements of the internal control and financial reporting systems are

a) The results of individual operating segments are reported and reviewed by the Board at its board meetings during the year

b) The management reports of each operating segment are tailored to suit the business and management needs of local management Each operating segment has its own key performance indicators and these are regularly reviewed and assessed

c) In addition to monthly reporting, individual operating units report certain management information more frequently, where it is considered appropriate

d) All operating units report their bank balances twice weekly and a report is produced summarising the Group position

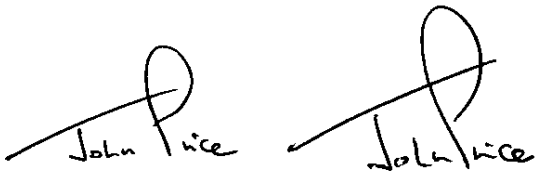
e) The Chief Executive Officer and the finance department make frequent visits to all operating segments These visits include reviews of the internal control and financial reporting systems

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 are ongoing processes covering the identification, evaluation and management of the significant risks faced by the Group The processes are carried out through Group Board meetings, quarterly subsidiary management meetings, discussion and review by the Executive Board and the finance department during the several visits per year to individual operating units, and discussions with professional advisers where appropriate We will continue to develop our risk management framework during 2015

AUDITOR

On December 15, 2014, Grant Thornton UK LLP, resigned as auditor to the Company and Deloitte LLP were appointed in their place A resolution regarding the appointment of Deloitte LLP as auditor to the Company will accordingly be proposed at the Annual Meeting



John Price
Secretary
March 20, 2015
Company Registration Number FC0 13814

AUDIT COMMITTEE REPORT

The current members of the Audit Committee are non-executive Directors Michael Hartley (Chairman), Jessica Burley and Christopher Mills Edward Krawitt was Chairman of the Committee until he left the Board on 22 May 2014 and Max Lesser was a member of the Committee until he left the Board on 15 October 2014 Jessica Burley and Christopher Mills were appointed to the Committee on 22 May 2014 and 15 October 2014 respectively Michael Hartley was appointed Chairman of the Committee on 22 May 2014 The Board considers Jessica Burley and Michael Hartley to be independent Directors The Board considers a majority of members of the Committee to have recent and relevant financial experience and together have a wide range of financial and commercial experience to fulfil the Committee's duties

RESPONSIBILITIES

The Committee acts in accordance with its terms of reference adopted August 14, 2012 amendments to which were adopted on 19 January 2015, as available on the Group's website, and its specific responsibilities include

- To consider and recommend the appointment of the Group's auditor, the audit fee, audit engagement letter and questions of auditor performance, partner rotation, resignation, and dismissal
- To meet with the auditor to discuss all aspects of the audit including audit planning, scope, findings, accounting policies, management judgments and estimates
- To review the Board's representation letter to the auditor
- To review the auditor's management letter and management's response
- To set policy and review the use of our non-audit services and assess the independence of the auditor
- To review financial statements released to the public including interim and annual financial statements
- To review the Group's accounting policies, practices and use of accounting standards especially for decisions requiring major elements of judgement, significant adjustments and going concern basis
- To review the Group's internal controls and risk management including
  - the financial reporting process
  - identifying, managing and monitoring financial, operational, compliance and other risks
  - compliance with regulatory and legal requirements
  - detecting fraud
- To review the need for an internal audit function

COMMITTEE MEETINGS

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

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

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

The Committee met four times during 2014 The Committee, as part of full Board meetings, was also involved in approving announcements made to the London Stock Exchange

ACTIVITIES OF THE COMMITTEE

During 2014 the work of the Committee included

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

- Review the actions being taken to ensure compliance with the UK Bribery Act
- Review and approval of the interim report 2014 after discussion with the external auditor
- Review of the need and potential scope of an internal audit function
- Discussion of significant accounting issues facing the Group including goodwill impairment, the amortisation of intangible assets, going concern, revenue recognition and policy with regard to disclosure of exceptional items
- Appointment of Deloitte as external auditor
- Review of the independence of the external auditor

AUDIT RISKS AND FINANCIAL JUDGEMENTS FOR 2014

The Committee concentrated on the following judgement areas in relation to the 2014 accounts

Goodwill impairment

Goodwill arising from acquisitions is stated at cost less any accumulated impairment losses In accordance with IAS 36 the Group tests the goodwill on an annual basis for impairment The Committee reviewed the methodology and assumptions in the testing process with focus on the discount rate used in the discounted cash flow valuations and the sensitivity to changes in the discount rate and growth rate

Amortisation of intangible assets

Amortisation of intangible assets is charged to profit or loss on a straight line basis over the estimated useful lives of the intangible assets Pre-publication costs which are capitalised in accordance with IAS 38 form much of these intangible assets and the Committee, with the external auditor, discussed the assumptions behind the amortisation including the amortisation period of the publications

Exceptional items

The Committee, in consultation with the Auditor, considered the latest regulatory guidelines issued by the FRC in December 2013 and agreed with the Executive Directors to restrict exceptional items to significant non trading and one-off in nature items Comparatives for prior periods have been restated to reflect this updated presentation policy

Going concern

The Committee considered the underlying robustness of the Group's business model, products and proposition, and the financial resources available to it for the future to satisfy itself of the going concern assumption in preparing the financial statements The Committee noted the recent renewal of its syndicated borrowing facility and its forecast compliance with the facility's covenants for the foreseeable future

Deferred taxation

In the process of the 2014 year-end audit, the Auditor identified that, on consolidation, there was not a corresponding deferred tax liability booked to correspond to the US tax relief taken on goodwill amortisation The Committee recognised that the deferred tax liability would only arise in the event of a disposal of the relevant US assets which is not planned Nevertheless, to fully comply with IAS 12 this deferred tax liability has been booked in 2014 and the relevant adjustments have been made for the prior year (See page 79)

Pre-publication costs

In the process of the 2014 year-end audit, the Auditor identified that certain directly attributable costs in relation to capitalized pre-publication costs had been captured and presented on a net basis as opposed to showing the gross investment and subsequent amortisation separately The effect was to understate both the investment and amortisation This issue had no impact on the Income Statement or the Balance Sheet, only on the Cash Flow Statement, the Operating Segments and related notes to the accounts These entries have been amended and the prior year restated

Revenue recognition

The Committee considered the risk that revenue may not be captured in the relevant period Apart from the usual risks relating to the timing of revenue recognition, management are required to provide for returns which may be made subsequent to the period end This requires a significant degree of judgement The Committee reviewed management's methodology, and consulted with the Auditor to provide comfort that revenue was booked into the correct period in line with the stated accounting policies and that returns provisions were reasonable based on historic returns rates

Provisions relating to inventory and trade receivables

The Committee recognises that the Group has significant value in inventory and trade receivables at year end The valuation of these are subject to a significant management judgement with regard to provisions for slow moving and obsolescent inventory and for the non recoverability of trade debt The Committee asked the Auditor to test the adequacy of provisions

EXTERNAL AUDIT

The Committee assesses the effectiveness of its external auditor through ongoing dialogue and communication with the Auditor The audit cycle included formal meetings The audit planning meeting, which happens prior to the audit, was when the Committee discussed reporting developments, significant risks, goodwill impairment, amortisation of intangible assets, exceptional item reporting and controls in the accounting process

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

The Auditor showed diligence and openness with the Committee during meetings and through written communication The Auditor gave the Committee forthright views on judgement areas whilst recognising that the decisions lay with the Committee The Committee also received feedback from the Executive Directors involved with the audit The Committee is satisfied with the Auditor's effectiveness

APPOINTMENT AND INDEPENDENCE

Grant Thornton had been the Group's auditor since 2007 The Committee considers the appointment of the external auditor each year and considers the performance of the lead audit partner and the audit manager during the audit process

In early 2014, the Committee invited four firms, including Grant Thornton, to tender for the Company's 2014 audit After receiving written proposals and personal presentations the Committee reappointed Grant Thornton with a specific new lead Audit Partner to audit the Group for its 2014 financial year The Committee considered Grant Thornton to be independent However, late in 2014 with the appointment of a new director a conflict of interest arose relating to another company with which both the director and Grant Thornton were involved This led to the resignation of Grant Thornton and the subsequent appointment of Deloitte

There are no restrictions on the Committee's choice of external auditor

For the 2014 audit of the Group and the Company's accounts, Deloitte were paid $224,000

NON-AUDIT SERVICES

Deloitte performed no non-audit services

INTERNAL AUDIT

The Committee reviews the appropriateness of having an internal audit function To date there has not been a separate internal audit function, given the size and scale of the Group's operations However, the Committee plans for 2015 to implement a greater formalisation of the internal review of a set list of required internal control tasks with reports on these items coming to the Committee for review

Mike Hartley
Chairman of the Audit Committee
March 20, 2015

REMUNERATION COMMITTEE REPORT

DEAR SHAREHOLDER

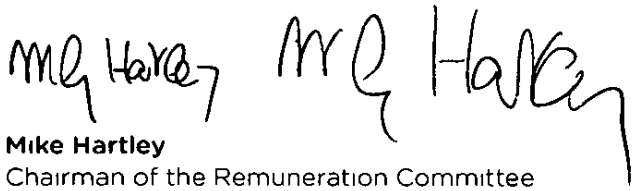
I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2014, which has been prepared by the Remuneration Committee ("the Committee") and approved by the Board

This is the Company's second year of reporting in line with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 The report is divided into two sections

The first is the Policy Report which was approved by shareholders at the AGM on 22 May 2014 and which outlines the Group's Remuneration Policy applying from 23 May 2014

Whilst the Remuneration Policy is unchanged, for clarity we have updated the charts illustrating the application of the remuneration policy to reflect the latest salaries and changes to directors where appropriate

The second section is the Annual Report on Remuneration, which reviews how the policy was implemented Mindful of the increasing length of remuneration reports, we have aimed to be concise without compromising on transparency I hope you find the Remuneration Report clear and easy to understand and we would welcome any feedback or comments



Mike Hartley
Chairman of the Remuneration Committee
March 20, 2015

DIRECTORS' REMUNERATION REPORT

In line with The Large and Medium-sized Companies and Group's (Accounts and Reports) (Amendment) Regulations 2013 the following parts of the Annual Report on Remuneration are audited the single total figure of remuneration for each director, including annual bonus outcomes for the financial year ended December 31, 2014, pension entitlements, payments to past directors and payments for loss of office, and, directors' shareholdings and share interests All other parts of the Directors' Remuneration Report are unaudited

POLICY REPORT

This section provides Quarto's remuneration policy for Directors, which has been applied from May 23, 2014, following approval at the 2014 Annual Meeting The Group's principal remuneration policy aim is to ensure that the compensation offered is appropriate to attract, retain and motivate Executive Directors and staff with the ability and experience to deliver the Group's strategy and grow the value of the business, having regard to the prevailing economic conditions and competition for such people in the markets in which the Group operates

In formulating its policies the Committee had regard to and balanced the following factors

a) the need to align the interests of the executive with those of the shareholders,

b) the performance of the individual executive and of the Group as a whole,

c) the remuneration practice in the markets in which the executive is principally based, and,

d) the remuneration packages offered to executives in companies competing in the same markets and industry as the Group

SUMMARY OF QUARTO'S REMUNERATION POLICY APPLYING FROM MAY 23, 2014

The elements of the remuneration policy for Directors are set out below The changes to the annual and medium-term bonus schemes were implemented for 2014 The Performance Share Plan ("PSP") was implemented following approval at the 2014 Annual Meeting

FIXED PAY – BASE SALARY / FEES

Purpose and link to strategy	Set at competitive levels in the markets in which Quarto operates, in order to attract and retain executives
Operation	Reviewed annually with changes normally effective from 1 January of each year Reviews take account of • scope of the role and the markets in which Quarto operates, • performance and experience of the individual, • pay levels at organisations of a similar size and complexity, and, • pay and conditions elsewhere in the Group
Opportunity	There is no prescribed maximum to avoid setting unhelpful expectations Any salary increases are applied in line with the outcome of the review and taking into account wider factors, for example, local market inflation
Performance metrics	Not applicable

Fixed pay - Benefits

Purpose and link to strategy	Designed to be competitive in the market in which the individual is employed
Operation	Benefits include life insurance and private medical insurance Where appropriate, other benefits may be offered including, but not limited to, participation in all-employee share schemes Benefits are non-pensionable
Opportunity	Benefits vary by role and individual circumstance and eligibility is reviewed periodically Benefits are not anticipated to exceed 5% of salary p a over the period for which this policy applies The Committee retains the discretion to approve a higher cost in exceptional circumstances (e g relocation) or in circumstances where factors outside of the Group's control have materially changed (e g increases in medical premiums)
Performance metrics	Not applicable

Fixed pay - Pension

Purpose and link to strategy	To provide cost effective retirement benefits
Operation	Participation in defined contribution plan or cash allowance in lieu
Opportunity	Up to 15% of base salary
Performance metrics	Not applicable

Variable pay - Annual performance bonus

Purpose and link to strategy	Designed to reinforce individual performance and contribution to the achievement of profit growth and strategic objectives
Operation	Measures are reviewed prior to the start of the financial year to ensure they remain appropriate and reinforce the business strategy, and performance targets are set annually to ensure they are appropriately stretching and reflect those strategic objectives At the end of the year the Committee determines the extent to which these were achieved Awards are payable in cash Payments made under the annual bonus are subject to claw-back for the later of one year following the date of award or the completion of the next audit of the Group's accounts, in the event of a fraud or material misstatement of results being identified in relation to the year in which the bonus is earned
Opportunity	Maximum potential opportunity of up to 60% of base salary Typically, 10% of potential is achieved for achieving Threshold performance of the financial goals and 100% for Stretching performance

Performance metrics	At least half of the annual bonus is based on financial objectives with the balance on personal objectives The Committee will vary the weightings from year-to-year to reflect the changing strategic needs for the business with a default bias towards financial objectives In exceptional circumstances, the Committee has the ability to exercise discretion to override the formulaic bonus outcome within the limits of the Plan where it believes the outcome is not truly reflective of performance and to ensure fairness to both shareholders and participants

Variable pay – Medium-term performance bonus

Purpose and link to strategy	Designed to reinforce the achievement of continuous profit growth over a longer time frame and aid staff retention
Operation	Measures are reviewed prior to the start of each 3 year period to ensure they remain appropriate and to ensure they are appropriately stretching At the end of the 3 year period the Committee determines the extent to which these were achieved Awards are payable in cash Payments made under the medium-term bonus are subject to claw-back for the later of one year following the date of award or the completion of the next audit of the Group's accounts, in the event of a fraud or material misstatement of results being identified in relation to the year in which the bonus is earned
Opportunity	Maximum potential opportunity of up to 120% of base salary for the three year period Typically, 10% of potential is achieved for achieving Threshold performance and 100% for Stretching performance
Performance metrics	The medium-term bonus is based entirely on cumulative increases in earnings and is only paid at the end of the three year period based on the cumulative result In exceptional circumstances, the Committee has the ability to exercise discretion to override the formulaic bonus outcome within the limits of the Plan where it believes the outcome is not truly reflective of performance and to ensure fairness to both shareholders and participants

Variable pay – Performance Share Plan (PSP)

Purpose and link to strategy	Ensures that the Executive's interests are aligned with those of shareholders through reward for providing shareholders with substantial increases in shareholder value by June 30, 2016 and/or for achievement of a measure of sustained growth in earnings over the medium to long term
Operation	Aside from a one-off award to the Chief Executive Officer which vests if the target shareholder return is met by June 30, 2016, awards of nominal-cost (or nil-cost) options may be granted annually as a percentage of base salary Vesting is based on performance measured over four years The performance period normally starts at the beginning of the financial year in which the date of grant falls Dividends accrue on PSP awards and are paid on those shares which vest

Operation continued	Award levels and performance conditions are reviewed before each award cycle to ensure they remain appropriate Payments made under the PSP are subject to claw-back, for the later of one year following date of vesting or completion of the next audit of the Group's accounts, in the event of a fraud or material misstatement of results being identified in relation to the years in which the PSP is earned
Opportunity	With the exception of a one-off award made to the CEO in 2014, award opportunities for participants are up to 50% of base salary Awards of up to 100% of base salary may be provided in exceptional circumstances (e g recruitment) 20% of maximum vests for Threshold, rising on a straight-line basis to full vesting for Stretch performance
Performance metrics	Apart from the initial one-off award to the Chief Executive Officer, which is based on achieving total shareholder returns of £2 50 by June 30, 2016 from a combination of dividends, capital returns and share price, awards to Executives are subject to four year cumulative EPS performance In exceptional circumstances, the Committee has the ability to exercise discretion to override the formulaic PSP outcome within the Plan limits to ensure alignment of pay with the underlying performance of the business during the performance period

Fixed pay – Non-executive Directors' fees

Purpose and link to strategy	To reflect the time commitment in preparing for and attending meetings, the duties and responsibilities of the role and the contribution expected from the non-executive Directors
Operation	Annual fee for Chairman Annual base fee for non-executive Directors Additional fees are paid to the Senior Independent Director and the Chairmen of the Committees to reflect additional responsibilities Fees are reviewed annually, taking into account time commitment, responsibilities and fees paid by comparable companies
Opportunity	There is no prescribed maximum Non-executive Director fee increases are applied in line with the outcome of the review and taking into account wider factors, for example, inflation
Performance metrics	Not applicable

In addition to the above elements of remuneration, any commitment made prior to, but due to be fulfilled after, the approval and implementation of the remuneration policy detailed in this report will be honoured

PERFORMANCE MEASURE SELECTION AND APPROACH TO TARGET SETTING

The measures used under the annual bonus plan are selected annually to reflect the Group's key strategic priorities for the year and reinforce financial performance and achievement of annual objectives as well as individual performance Financial measures include, but may not be limited to, profit after tax

The Committee considers that profit after tax adjusted for any exceptional items is the most appropriate measure of long-term performance of the Group It is well-aligned with shareholder interests, provides clear visibility and the scheme is simple

Performance targets are set at such a level as to be stretching and achievable, with regard to the particular strategic priorities and economic environment The annual bonus Threshold is based on a 3% growth in profits with Stretch target being 10% growth The same basis is used for the medium-term bonus where the targets compound annually

The Committee reviews the performance targets applying to awards made to the proposed PSP scheme annually Awards made to participants will be based on either one or a combination of total shareholder return and cumulative earnings per share over the measured period These will be reported on each year in the Annual Report on Remuneration

DIFFERENCES IN REMUNERATION POLICY OPERATED FOR OTHER EMPLOYEES

Quarto's approach to annual salary reviews is consistent across the Group Senior managers with substantial operational responsibilities are eligible to participate in an annual and medium-term bonus scheme with similar metrics to those used for the Chief Executive Officer Opportunities and specific performance conditions vary by organisational level with business area-specific metrics incorporated where appropriate

Senior managers are eligible to participate in the PSP Performance conditions are consistent for all these participants, while award opportunities may vary by organisational level but are typically limited to 50% of base salary

SHAREHOLDING GUIDELINES

The Committee recognises the importance of aligning the interests of Executives with shareholders through the building up of a significant shareholding in the Group Save for the initial award made to Marcus Leaver in May 2014, Executive Directors are required to retain shares of a value equal to 50% of the after-tax gain made on the vesting of awards under the Plans, until they have built up a minimum shareholding of a value equivalent to at least 100% of annual base salary

REMUNERATION POLICY FOR NEW DIRECTORS

When hiring or appointing a new executive director, including by way of internal promotion, the Committee may make use of all the existing components of remuneration as follows

Component	Approach	Maximum value
Base salary	Determined in line with the stated policy, and taking into account their previous salary Initial salaries may be set below market and consideration given to phasing any increases over two or three years subject to development in the role	Not applicable
Benefits	In line with the stated policy	Not applicable
Pension	In line with the stated policy	Not applicable
Annual bonus	In line with stated policy, with the relevant maximum pro-rated to reflect the proportion of the year served	60% of base salary
Medium-term bonus	In line with stated policy, with the relevant maximum pro-rated to reflect the proportion of the year served	120% of base salary over 3 years
PSP	In line with the stated policy	100% of base salary (200% in exceptional circumstances)

In determining appropriate remuneration for a new executive, the Committee will take into consideration all relevant factors (including quantum, nature of remuneration and the jurisdiction from which the candidate was recruited) to ensure that arrangements are in the best interests of both The Quarto Group and its shareholders The Committee may consider it appropriate to grant an award under a structure not included in the policy, for example to 'buy out' incentive arrangements forfeited on leaving a previous employer, and will exercise the discretion available under Listing Rule 9 4 2 R where necessary In doing so, the Committee will consider relevant factors including the expected value of all outstanding equity awards using a Black-Scholes, or equivalent valuation and, where applicable, taking into account toughness of performance conditions attached to these awards and the likelihood of those conditions being met

In cases of appointing a new Executive Director by way of internal promotion, the Group will honour any contractual commitments made prior to their promotion to Executive Director

In cases of appointing a new non-executive Director, the approach will be consistent with the policy

SERVICE CONTRACTS AND EXIT PAYMENTS POLICY

Non-executive Directors are engaged on the basis of a letter of appointment In line with the UK Corporate Governance Code, all Directors are subject to re-election annually at the Annual Meeting The Chairman has an initial three year contract, subject to re-election each year and the non-executive Directors have a one month notice period The non-executive Director Letters of Appointment are available to view at the Group's registered office and the effective dates of their Letters of Appointment are as follows

Director	Date of Appointment	Appointment Letter	Notice period
Tim Chadwick	November 7, 2012	February 20, 2013	Initial period of 3 years commencing 18 December 2012, subject to annual re-election
Jessica Burley	May 22, 2014	January 17, 2014	1 month
Michael Hartley	August 6, 2013	August 22, 2013	1 month
Christopher Mills	October 15, 2014	October 22, 2014	1 month

Executive Director service contracts have no fixed term and, save for Bob Morley, have a notice period of not more than 12 months from either the Executive or the Group Save for Bob Morley, these notice periods meet best practice guidelines and give protection, mutually, to the Group and the Executive Executive Director service contracts are available to view at the Group's registered office The dates of the Executive Director service contracts and the relevant notice period are as follows

Director	Effective date of contract	Notice period
Marcus Leaver	April 30, 2012	12 months
Mick Mousley	April 4, 1989	12 months
Bob Morley	August 6, 2013	None*

Bob Morley s contract provides ongoing employment without limit, whilst he meets certain conditions, including, but not limited to, him not selling or otherwise disposing of his shares in the Company in a manner that qualifies for Entrepreneur's Relief This contract precedes his re-appointment to the Board

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

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

In addition to the contractual provisions regarding payment on termination set out above, the Group's incentive plans and share schemes contain provisions for termination of employment

Component	Bad leaver	Good leaver	Change-of-control
Annual bonus	No annual bonus payable	Eligible for an award to the extent that performance conditions have been satisfied and pro-rated for the proportion of the financial year served, with Committee discretion to treat otherwise	Eligible for an award to the extent that performance conditions have been satisfied up to the change of control and pro-rated for the proportion of the financial year served, with Committee discretion to treat otherwise
Medium-term bonus	No annual bonus payable	Eligible for an award to the extent that performance conditions have been satisfied and pro-rated for the proportion of the three financial years served, with Committee discretion to treat otherwise	Eligible for an award to the extent that performance conditions have been satisfied up to the change of control and pro-rated for the proportion of the three financial years served, with Committee discretion to treat otherwise
PSP	Outstanding awards are forfeited	Outstanding awards will normally continue and be tested for performance over the full period, and pro-rated for time based on the proportion of the period served, with Committee discretion to treat otherwise	Outstanding awards will normally vest and be tested for performance over the period to change-of-control, and pro-rated for time based on the proportion of the period served, with Committee discretion to treat otherwise

Any commitment made prior to, but due to be fulfilled after the policy comes into force, will be honoured

An individual would normally be considered a good leaver if they leave for reasons of death, injury, ill-health, disability, redundancy, part of the business in which the individual is employed or engaged ceasing to be a member of the Group, circumstances that are considered by the Committee to be retirement, or any other reason as the Committee decides Bad leaver provisions apply under other circumstances

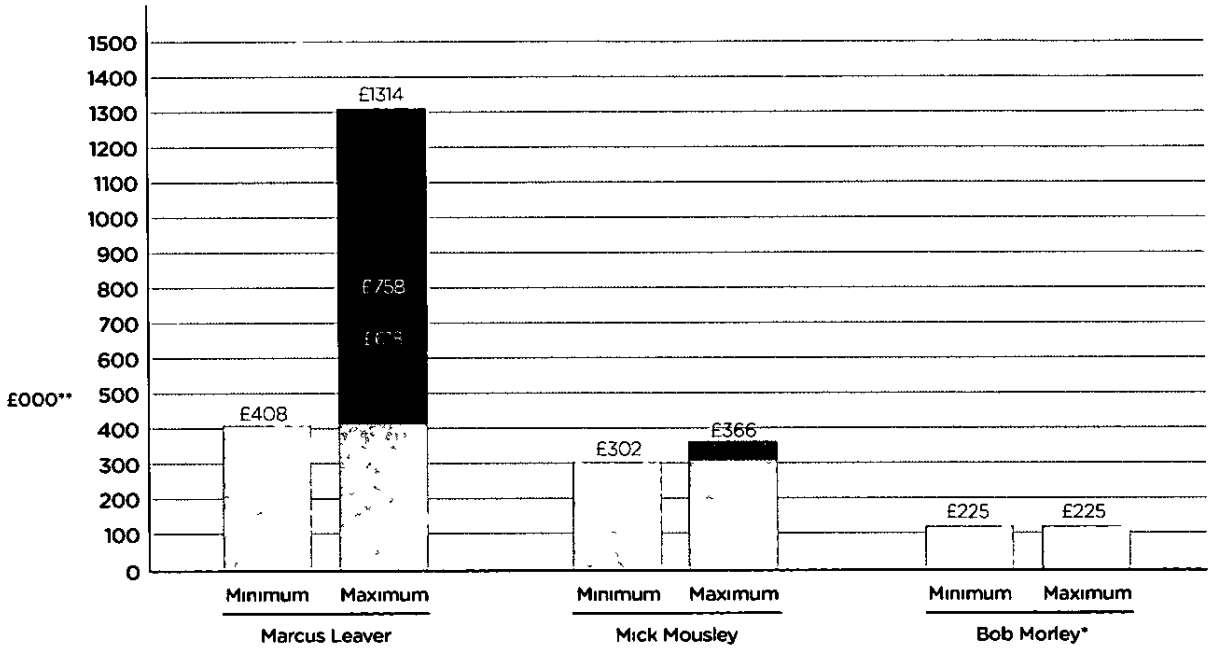
EXTERNAL APPOINTMENTS

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

ILLUSTRATION OF THE APPLICATION OF THE REMUNERATION POLICY

The chart on page 59 shows the remuneration that the Executive Directors could be expected to obtain based on varying performance scenarios Illustrations are intended to provide further information to shareholders regarding the relationship between pay and performance

Potential reward opportunities illustrated are based on the policies applying from May 23, 2014, applied to the latest known fixed pay of base salaries, pension, other benefits and variable pay of annual bonus, medium term bonus and PSP



Fixed remuneration | Annual variable remuneration | Medium-term variable remuneration | PSP

* Does not include commissions which may become due (refer to Annual Report on Remuneration)

** Remuneration is contracted in sterling

Assumptions underlying each element of pay are provided in the below table

Component		'Minimum'	'Maximum'
Fixed	Base salary	Latest known salary	
	Pension	Contribution rate applied to latest known salary	
	Other benefits	Benefits as provided in the single figure table on page 61	
Annual bonus		No bonus payable	Maximum bonus
Medium-term bonus*		No bonus payable	Maximum bonus
PSP Vesting*		None Vesting	Full vesting

* The maximum medium term bonus and the PSP vesting has been prorated over three years

CONSIDERATION OF CONDITIONS ELSEWHERE IN THE GROUP

When reviewing and setting executive remuneration, the Committee takes into account the pay and employment conditions of all employees of the Group The Group-wide pay review budget is one of the key factors when reviewing the salaries of the Executive Directors Although the Group has not carried out a formal employee consultation regarding Board remuneration, it does comply with local regulations and practices regarding employee consultation more broadly

CONSIDERATION OF SHAREHOLDER VIEWS

It is the Committee's policy to consult with major shareholders or their chosen shareholder representative body prior to any changes to its Executive Director remuneration structure

Mike Hartley
Chairman of the Remuneration Committee
March 20, 2015

ANNUAL REPORT ON REMUNERATION

THE REMUNERATION COMMITTEE ("THE COMMITTEE")

The current members of the Committee are the Group's non-executive Directors, Michael Hartley (Chairman), Jessica Burley, Tim Chadwick, and Christopher Mills Edward Krawitt and Max Lesser were members of the Committee until they left the Board on May 22, 2014 and October 15, 2014 respectively Jessica Burley and Christopher Mills were appointed on May 22, 2014 and October 15, 2014 respectively

The Committee met four times during the year Further details of attendance of non-executive Directors at Remuneration Committee meetings can be found in the Corporate Governance Report on page 43

No individual was present when their own remuneration was being discussed The Remuneration Committee's Terms of Reference are available on the Group's website

The Committee is responsible for

- Recommending to the Board the remuneration and terms and conditions of employment of the Chairman (who absents himself from discussions regarding his own remuneration), Executive Directors and key members of senior management,
- Measuring subsequent performance as a prelude to determining the Executive Directors' and key managers' total remuneration on behalf of the whole Board,
- Determining the structure and quantum of short-term and medium-term bonus schemes, and,
- Granting awards under the PSP Share Award Scheme

The main issues discussed and/or approved during the financial year under review

- Approval of the prior year Directors' Remuneration Report,
- Approval of all documentation relating to the PSP scheme and the PSP Award Circular to Shareholders,
- Annual review of the Executive Directors' salaries and benefits,
- Review of the Executive Directors' and the senior managers' performance under the prior year's annual bonus scheme, including a review of their performance against their personal objectives and approval of the bonus awards,
- Review of the design and targets for the forthcoming annual bonus scheme, including personal objectives,
- Approval of awards made in the year under the Performance Share Plan
- Approval of terms for new senior management appointments

ADVISERS

The Committee has not paid fees to any advisers during the financial year

STATEMENT OF SHAREHOLDER VOTING AT THE 2014 ANNUAL MEETING

The following table shows the results of the vote on the Remuneration Policy Report at the Annual Meeting on May 22, 2014

	Total number of votes	% of votes cast
For (including discretionary)	10,214,863	77 9%
Against	2,896,602	22 1%
Total votes cast*	13,111,465	100%

* Representing 64 1% of the total voting shares

The following table shows the results of the advisory vote on the 2013 Annual Remuneration Report at the Annual Meeting on May 22, 2014

	Total number of votes	% of votes cast
For (including discretionary)	10,218,180	77 9%
Against	2,893,285	22 1%
Total votes cast*	13,111,465	100%

* Representing 64 1% of the total voting shares

SINGLE TOTAL FIGURE OF REMUNERATION (AUDITED)

The table below sets out a single figure for the total remuneration received by each Director for the year ended December 31, 2014 and the prior year These amounts are shown in the reporting currency, although set in sterling The exchange rates used in 2014 and 2013 were 1 65 and 1 56, respectively

	Base Salary		Benefits[1]		Pension		Annual Bonus[2]		Long-term incentives[3]		Total remuneration	
Executive Directors	**2014 $000**	2013 $000	**2014 $000**	2013 $000	**2014 $000**	2013 $000	**2014 $000**	2013 $000	**2014 $000**	2013 $000	**2014 $000**	2013 $000
Marcus Leaver	577	546	9	9	87	82	169	233	-	-	842	870
Mick Mousley	422	398	13	11	63	60	60	83	-	-	558	552
Robert Morley*	349	134	22	8	-	-	-	-	-	-	371	142

* For period for which he was a Director, in both years

	Fees[4]		Benefits		Pension		Annual Bonus		Long-term incentives[3]		Total remuneration	
Non-executive Directors	**2014 $000**	2013 $000	**2014 $000**	2013 $000	**2014 $000**	2013 $000	**2014 $000**	2013 $000	**2014 $000**	2013 $000	**2014 $000**	2013 $000
Tim Chadwick	165	156	-	-	-	-	-	-	-	-	165	156
Peter Campbell	-	31	-	-	-	-	-	-	-	-	-	31
Mike Hartley	71	22	-	-	-	-	-	-	-	-	71	22
Edward Krawitt	23	55	-	-	-	-	-	-	-	-	23	55
Max Lesser	41	38	-	-	-	-	-	-	-	-	41	38
Peter Waine	-	23	-	-	-	-	-	-	-	-	-	23
Jess Burley	35	-	-	-	-	-	-	-	-	-	35	-
Christopher Mills	12	-	-	-	-	-	-	-	-	-	12	-

1 Benefits comprise private medical insurance contributions
2 Annual bonus for performance over the relevant financial year Further details of performance criteria achievement and resulting awards can be found on page 62
3 Further details of Long-term incentives can be found on page 63
4 Further details of non-executive Director fees can be found on page 64

There has been no withholding clawback or deferral of remuneration during the period

EXECUTIVE DIRECTOR BASE SALARIES/FEES

During the year, Marcus Leaver, the Chief Executive Officer, received £350,000 in salary His salary has not been increased for 2015

During the year, Mick Mousley, the Chief Financial Officer, received £255,000 in salary His salary has not been increased for 2015

During the year, Bob Morley, the Deputy Chairman, received £211,692 in salary and in first part payment of notice in lieu of the termination of his former contract From January 1, 2015 his salary has been set at £86,000 to reflect his reduced executive responsibilities and time commitments In addition, on June 30, 2015, he shall be paid a lump sum of £82,692, in relation to the second part payment of notice in lieu of the termination of his former contract He is also entitled to a commission of 37 5% of gross profit generated on projects that he creates for the Children's Design Eye imprint, from 2014

Executive Director salary increases for 2015 were less than the typical increase across the UK employee population The next salary review date will be January 1, 2016

PENSION AND OTHER BENEFITS

The Group makes a contribution equal to 15% of Marcus Leaver's and Mick Mousley's base salary to their personal pension schemes Benefits are in line with the policy

ANNUAL PERFORMANCE BONUS

2014 bonus framework

For the 2014 financial year, the maximum annual bonus opportunity was 60% of salary for Marcus Leaver of which 45% related to a group profit after tax and 15% to personal objective targets For Mick Mousley the annual bonus opportunity was 25% of salary, of which group profit after tax targets were 10% and personal objective targets 15%

The group profit after tax target (pre-restatement of deferred tax liability as in note 1, page 79) had a Threshold of $9,704,000 and a Stretch of $10,363,000 but the target was subject to adjustment retrospectively in the event of any exceptional items Whilst the target in absolute terms was not achieved, the Committee took into account various operational exceptional items, which occurred during the year and adversely affected results, and made an award of a discretionary bonus of £50,000 (which equates to 14 3% of salary) to Marcus Leaver and £8,100 (3 2% of salary) to Mick Mousley

Personal objectives for Marcus Leaver and Mick Mousley were set by the Committee in discussion with the Chairman and CEO respectively The Committee reviewed and judged the level of achievement against the objectives at the end of the performance period

Marcus Leaver's personal objectives for 2014 were related to development of a corporate plan to create a step change in shareholder value and related operational KPIs, digital strategy, global distribution, and the development of clear investor communications Payout under this element of the bonus was assessed at 15% of the potential award of 15% on personal objectives

Mick Mousley's personal objectives for 2014 related to negotiation of new debt facilities, implementation of an inclusive budget and forecasting process, production of a tax and treasury strategy, create and adopt a process to optimize the targeting of pre-production spend and debt reduction Payout under this element of the bonus was assessed at 11% of the potential award of 15% on personal objectives

After taking account of their financial and personal targets, Marcus Leaver and Mick Mousley earned £102,500 and £36,150 respectively, which equated to 48 8% and 56 7% of their respective potential bonus opportunities

2015 annual bonus framework

For the financial year commencing January 1, 2015, the Executive Bonus Plan will operate in line with the approved remuneration policy, save for the measure being adjusted profit before tax (derivation of which is shown in note 32 on page 106) rather than profit after tax, adjusted as appropriate for exceptional items

There can be a short term mismatch between the accounting tax charge and the cash paid in tax As the latter is the greatest focus for shareholder value, and there are circumstances where focus on reducing cash tax paid can result in higher tax charges in year, we consider profit before tax to be a more appropriate measure for the annual bonus scheme

Bonuses for Marcus Leaver are based three quarters on the financial measure one quarter on personal objectives with a maximum opportunity of 60% of salary For Mick Mousley the split is half on the financial measure and half on personal objectives with a maximum opportunity of 20% of salary

The Committee intends to disclose personal objectives retrospectively in next year's Annual Report on Remuneration, subject to these no longer being considered by the Board to be commercially sensitive

MEDIUM-TERM PERFORMANCE BONUS

2014-2016 medium-term bonus framework

This is the second year of the medium term bonus scheme which is designed to motivate management to focus on continual profit improvement The Committee recognises that profit development is not within an annual financial cycle Rather, the publications (which are a substantial part of the Group's businesses) are substantially created in the year before the sales are achieved Thus within any one financial year, there is a limit to the influence of management on profits These in-year influences are the marketing of the publications and cost control Emphasis on a single year can motivate cost cutting of creative publishing resources to the detriment of the following year's results Thus the Committee has developed a mix of annual and medium term performance goals To most align these goals with shareholders, the targets are based on improving profits from the prior year/s as the Committee believes that ultimate shareholder value is most driven by a continual improvement in profits from which cash is generated for dividend growth

The profit targets are based on a base year of 2013 The Base is the achieved profits after tax for 2013 adjusted upwards to account for a one-off gain in 2014 on interest charges from an interest rate swap and for the after tax effect of exceptional items, in 2013 The results will be adjusted to account for any exceptional costs (or gains) recorded in the period The target is based on compound increases over three years over the Base with Threshold for a 9 3% increase and Stretch for a 33 1% increase Payments are made at the end of the period based on the 2016 results

Marcus Leaver has a maximum opportunity of 120% of salary, with 10% of maximum potential for Threshold and 100% for Stretch After the accounting adjustments made in the presentation of the 2014 accounts, the targets will be adjusted accordingly

LONG-TERM INCENTIVES

PSP Awards

Subsequent to the approval by shareholders of the PSP Plan an initial award was made to CEO, Marcus Leaver with a grant of 666,666 shares (3 3% of share capital) which would vest on June 30, 2016 subject to a stretching performance condition of achieving an average share price of £2 50 over any consecutive 90 day period occurring before vesting date, adjusted for an agreed challenging minimum level of dividends and other cash distributions paid to shareholders from December 31, 2012

There have been no other awards made under the PSP Plan during 2014

OTHER LONG TERM INCENTIVES

On appointment to Chairman, Timothy Chadwick was awarded a potential bonus of £750,000 if, during the three year period commencing December 18, 2012, shareholders are able to sell their shares at a price of £2 50 or more, in the context of a general offer to acquire all the shares of the Company by a third party or by way of sale of shares in the market provided that the shares are traded on the market at a bid price of £2 50 or more for a continuous period of at least 6 months and during that period the

shares are trading with sufficient liquidity to enable up to 15% of the shares to be sold in the market on a regular monthly basis at a bid price of at least £2 50 per share without the bid price falling as a consequence

The Committee recognizes that there is a timing mismatch between this incentive and the similar PSP incentive for Marcus Leaver and believes it is in shareholders' best interest to align the timing by extending the period for Timothy Chadwick's award to end on 30 June 2016 Granting this extra period at this juncture makes the achievement of the award slightly less challenging and with this in mind the Committee have reduced the potential award to £500,000 As this award is outside the Remuneration Policy and is to be a one-off exception, a special resolution will be put to shareholders and the award will only be made if it is approved on a majority vote

CHAIRMAN AND NON-EXECUTIVE DIRECTOR FEES

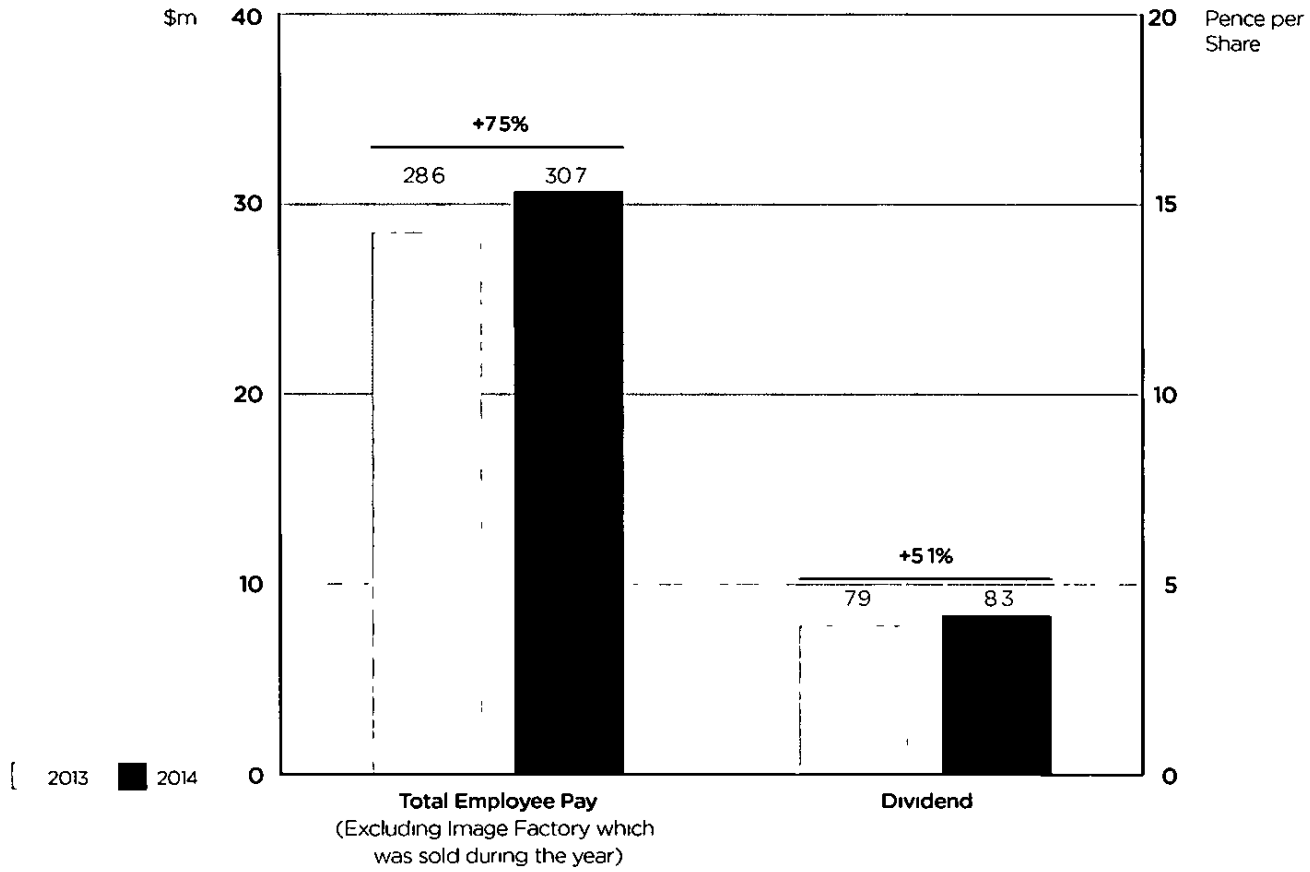
With effect from the date of the Annual Meeting in 2014, the non-executive Directors received an annual base fee of £35,000, with an additional annual fee for Audit and Remuneration Committee Chairs of £3,500 and the Senior Independent Director of £3,000

The non-executive Directors' fees for 2015 will remain unchanged and are therefore as follows Jessica Burley £35,000, Michael Hartley £45,000 and Christopher Mills £35,000

The Chairman's fee remains at £100,000

RELATIVE IMPORTANCE OF SPEND ON PAY

The graph below shows Quarto's distributions to shareholders and total employee pay expenditure for the financial years ended December 31, 2013 and December 31, 2014, and the percentage change



REVIEW OF GROUP PERFORMANCE

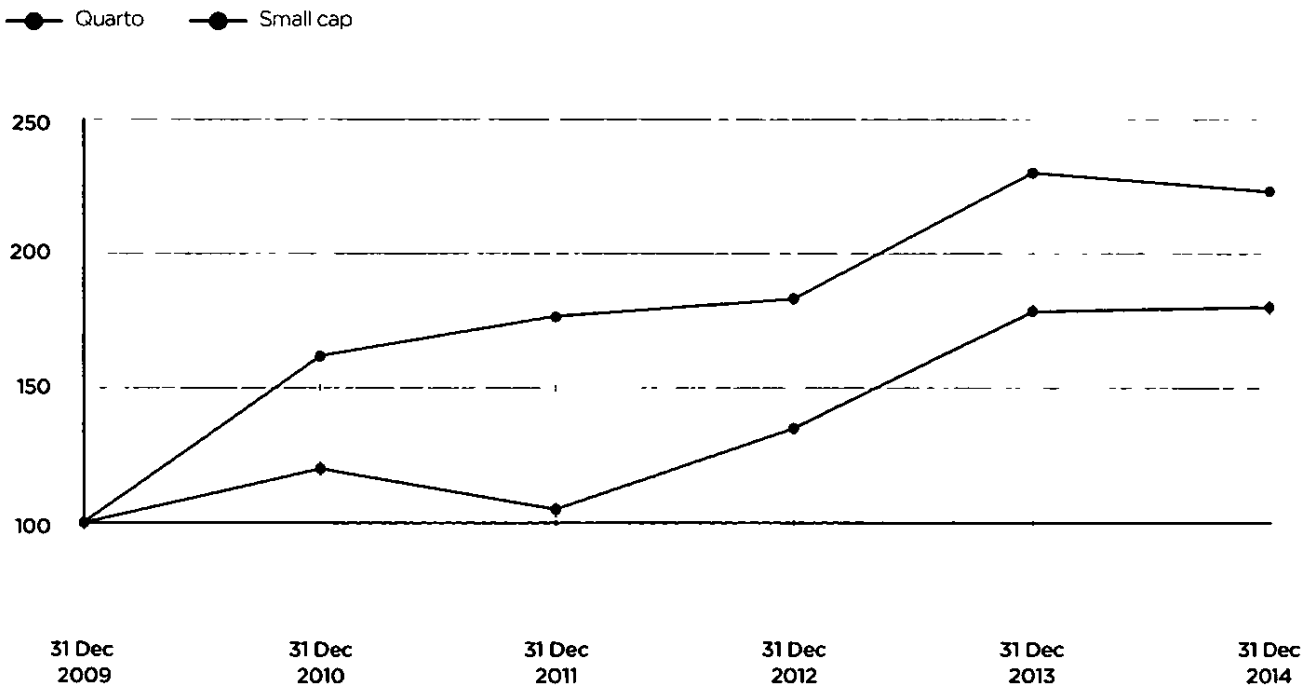
The chart below compares the value of £100 invested in Quarto shares, including re-invested dividends, on December 31, 2008 compared to the equivalent investment in the FTSE Small Cap Index, over the last five financial years The FTSE Small Cap Index has been chosen as it comprises companies of a broadly similar size to Quarto The table below shows the single figure for the CEO over the same period

FYE December		2010	2011	2012	2013	2014
CEO single figure of remuneration including bonus ($000)		916	996	1,020**	870	842
Annual bonus awarded	$ amount ($000s)	39*	57*	121*	233	169
	% of maximum opportunity	-	-	-	56 9%	33 5%
LTI vesting	$ amount ($000s)	-	-	-	-	-
	% of maximum opportunity	-	-	-	-	-

* Discretionary

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

PERFORMANCE GRAPH



CHANGE IN CEO REMUNERATION AND FOR EMPLOYEES AS A WHOLE OVER FY 2014

The table below shows the change in CEO annual cash, defined as salary, taxable benefits and annual bonus, compared to the average employees for 2013 to 2014

	CEO			Average for other employees
$ 000	**2013**	**2014**	**% change**	**% change**
Salary	546	577[1]	5 7%	3 4% [2]
Taxable benefits	9	9[1]	-	(9 3)%[2]
Annual variable	233	169	(27 5)%	(0 9)%
Total	788	755	(4 2)%	2 6%

[1] There was no change to the CEO's starting salary The increase in the above table is due to exchange rate movements

[2] The salary of the other employees has been impacted by exchange rate movements

PAYMENTS TO PAST DIRECTORS AND PAYMENTS FOR LOSS OF OFFICE

There have been payments of $680,000, during 2014, to Laurence Orbach in settlement of outstanding remuneration from 2013

DILUTION LIMITS

The Group has at all times complied with the dilution limits set out in the rules of its share plans (principally a limit of 10% in 10 years) The Group will also operate within a dilution limit of 5% in any rolling 10 year period for discretionary schemes In the 10 year period to December 31, 2014, awards made under the Group's share schemes represented 3 3% (2013 0 4%) of the Group's issued share capital

DIRECTORS' SHAREHOLDING GUIDELINES AND SHARE SCHEME INTERESTS

To date there has been no requirement for Executive Directors to retain shares as there has been no vesting of share based incentives

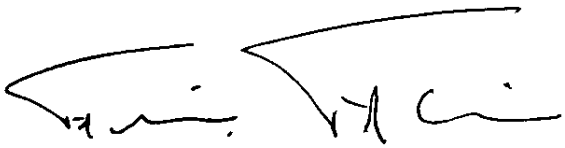
Mike Hartley
Chairman of the Remuneration Committee
March 20, 2015

NOMINATIONS COMMITTEE REPORT

The current members of the Nominations Committee are the Group's non-executive Directors, Tim Chadwick (Committee Chairman), Michael Hartley, Jess Burley and Christopher Mills, and the Chief Executive Officer, Marcus Leaver The Board approved formal terms of reference for the Committee during 2014, a copy of which can be found on the Company's website (www quarto com)

The search for Board candidates is conducted and appointments made, on merit, against objective criteria and with due regard to the benefits of diversity on the Board, including gender External search consultants are engaged, as appropriate, and a formal and transparent process is followed When dealing with the appointment of a successor to the Chairman, the senior independent non-executive Director will chair the Committee instead of the Chairman All Directors are required to allocate sufficient time to discharge their responsibilities and new Directors receive a tailored induction on joining the Board This includes presentations on the business, current strategy, shareholder expectations, and familiarisation with the Group's operations worldwide Guidance is also given on the duties, responsibilities and liabilities of a Director of a listed company and key Board policies and procedures

The Committee met three times during the year and was active in the appointment of Quarto's new non-executive director, Jess Burley, whose appointment to the Board became effective on 22 May 2014 Jess was introduced by Norman Broadbent, who were engaged to conduct a search for prospective candidates on behalf of the Company, and who have no other connection with the Company In addition, the Committee dealt with the appointment of Christopher Mills, who replaced Max Lesser, the previous Harwood Capital nominee Director on the Board, on 15 October 2014



Tim Chadwick,
Chairman of the Nominations Committee
March 20, 2015

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

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

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

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 are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Remuneration report comply with the Companies Act 2006 and Article 4 of the IAS Regulation They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors confirm that

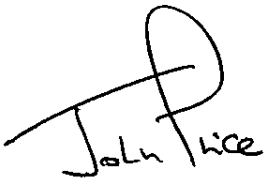
- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

The directors are responsible for preparing the annual report in accordance with applicable law and regulations Having taken advice from the Audit Committee, the directors consider the annual report and the financial statements, taken as a whole, provides the information necessary to assess the Company's performance, business model and strategy and is fair, balanced and understandable

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

To the best of our knowledge

- the Group financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole, and
- the annual report, which incorporates 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
- the Chairman's Statement, Chief Executive Officer's Statement, 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



John Price,
Secretary
March 20, 2015

INDEPENDENT AUDITOR'S REPORT

OPINION ON FINANCIAL STATEMENTS OF THE QUARTO GROUP INC

In our opinion

- The financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2014 and of the group profit for the year then ended,
- The group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union,
- The parent company financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- The financial statements have been prepared in accordance with the provisions of the Companies Act 2006 which would have applied were the company incorporated in the United Kingdom

The financial statements comprise the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity and the consolidated cash flow statement, and the related notes 1 to 34, the parent company balance sheet and the related notes to the parent company balance sheet 1 to 10 The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

GOING CONCERN

As required by the Listing Rules we have reviewed the directors' statement contained within the Directors' report on page 42 that the Group is a going concern We confirm that

- We have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate, and
- We have not identified any material uncertainties that may cast doubt on the Group's ability to continue as a going concern

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

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

Risk	How the scope of our audit responded to the risk
The assessment of the carrying value of goodwill ($41.1m) in the consolidated balance sheet The assessment of the carrying value of goodwill, as described in Note 10, involves judgement in relation to forecasting future cash flows and is sensitive to growth rates and the discount rate applied to the future cash flows	We tested management's assumptions used in their impairment model for goodwill, specifically including the cash flow projections, discount rates and growth rates applied Our procedures included • Considering the identification of appropriate cash generating units, • Assessing cash flow forecast projections with reference to historical trading performance and cash flow forecasting accuracy, • Comparing the discount rate applied against a broad comparator group as well as involving our internal valuation specialists to review underlying calculations and assess the key components of the discount rate calculation, • Considering the reasonableness of, and recalculating, the sensitivity assessment applied by management, and • Performing further independent sensitivity analysis on the impairment model
The assessment of the carrying value of pre-publication costs ($57.5m) in the consolidated balance sheet The assessment of the carrying value of pre-publication costs, as described in Note 14, involves judgement in respect of the life of an imprint and its recoverability	The audit procedures we performed in respect of this risk included • Analysing, on a sample basis, the historic level of sales following the date of publication, • Evaluating a sample of sales in the current year against their respective pre-publication carrying value, • Reviewing, on a sample basis, the level of sales for titles that had been fully written down, and • Comparing the amortisation period applied to industry peers

Risk	How the scope of our audit responded to the risk
Going concern At the year end the group had debt facilities due for renewal of $95 0m in April 2015 It also had net liabilities in the company balance sheet of $7 5m It was important, therefore, for management to refinance its existing facilities, an exercise that was completed in February 2015	The audit procedures we performed in respect of this risk included • Obtaining copies of the new banking facility and reviewing revised covenant terms and levels of headroom, • Challenging management's forecasts of the future profitability and cash generation of the Group and future covenant compliance, • Performing sensitivity on all key assumptions and ensuring renewed facilities are properly disclosed in the financial statements, • Reviewing forecast compliance with loan covenants for the next 15 months through to June 2016, • Reviewing the disclosures to ensure these meet the latest financial reporting requirements
Revenue recognition – sales returns The Group primarily generates revenue from publishing new titles and sales of back catalogues Management judgement is required when assessing the level of sales returns to be provided for Key assumptions principally surround historic return levels	To test the risk of material misstatement in respect of revenue recognition, our procedures included • Testing a sample of underlying data used to develop the provision for completeness and accuracy and challenging the appropriateness of the rate by reference to current and post year end sales return levels, • Using analytical techniques to assess monthly movements by reference to historical trends, and • Gaining an understanding of each type of shipping arrangement and then selecting a sample of sales to ensure the terms of shipping and the timing of associated revenue recognition criteria have been met

The description of the above risks should be read in conjunction with the significant issues considered by the Audit Committee discussed on pages 48 and 49

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures Our opinion on the financial statements in not modified with respect to any risks described above, and we do not express an opinion on these individual matters

OUR APPLICATION OF MATERIALITY

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

We determined materiality for the group to be $585,000, which is 5% of adjusted profit before tax plus amortisation, and below 1% of equity The adjusted profit before tax measure plus amortization excludes one-off items and is consistent with the measures used by the Group for internal and external reporting requirements This measure has been used to facilitate a better understanding of the trading performance of the Group

We agreed with the Audit Committee we would report to the Committee all audit differences in excess of $11,700 (in 2013 the previous auditor reported audit differences in excess of $28,600) as well as differences below that threshold that, on our view, warranted reporting on qualitative grounds We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level Based on that assessment, we focused our Group audit scope primarily on the UK and US co-editions and publishing segments, operations in Australia, New Zealand and Hong Kong, and the Group corporate head office function These locations were subject to full audit procedures and represent the principal business units and account for 92% of the Group's net assets, 97% of the Group's revenue and 82% of the Group' s profit before tax They were also selected to provide and appropriate basis for undertaking audit work to address the risks of material misstatement identified above Our audit work at locations subject to full audit procedures was executed at levels of materiality applicable to each individual location which was lower that the Group materiality

We carried out analytical procedures for operations in Switzerland and for the US holding company on an entity-only basis, neither of which was subject to audit, to confirm our conclusion that there were no significant risks of material misstatement of the financial information of these entities

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances

The Group audit team is following a programme of planned visits designed so that the Senior Statutory Auditor and/or a senior member of the Group audit team visit each of the locations where the group audit scope is focused For 2014 the Senior Statutory Auditor visited the United States, being the single most significant component outside of the United Kingdom and representing 37% of the Group's revenue In years when we do not visit a significant component we have included the component audit team, including the audit partner, in our team briefing, discuss the risk assessment, and review documentation of the findings from their work

OPINION ON OTHER MATTERS WHICH WE HAVE AGREED TO REPORT ON

In our opinion

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters

Directors' remuneration

Under our engagement letter we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made

or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns We have nothing to report arising from these matters

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating the Company's compliance with ten provisions of the UK Corporate Governance Code We have nothing to report arising from our review

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is

- Materially inconsistent with the information in the audited financial statements, or
- Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit, or
- Otherwise misleading

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed We confirm that we have not identified any such inconsistencies or misleading statements

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors We also comply with International Standard on Quality Control 1 (UK and Ireland) Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied Our quality controls and systems include our dedicated professional standards review team and independent partner reviews

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

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Deloitte LLP Deloitte LLP
Chartered Accountants and Statutory Auditor
London, March 20, 2015

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME YEAR ENDED DECEMBER 31, 2014

	Notes	2014 $000	2013 Restated* $000
Continuing operations			
Revenue	2	172,644	176,318
Cost of sales		(117,437)	(121,507)
Gross profit		55,207	54,811
Other operating income		22	261
Distribution costs		(6,747)	(6,306)
Administrative expenses		(33,089)	(34,722)
Operating profit before amortisation of acquired intangibles and exceptional items		15,393	14,044
Amortisation of acquired intangibles		(503)	(434)
Exceptional items	4	566	(3,405)
Operating profit		15,456	10,205
Finance income	6	151	353
Finance costs	7	(3,408)	(4,796)
Profit before tax		12,199	5,762
Tax	8	(2,980)	(1,694)
Profit for the year		9,219	4,068
Other comprehensive income which may be reclassified to profit or loss			
Foreign exchange translation differences		(1,949)	(2,002)
Reclassification of translation reserve on disposal		-	202
Cash flow hedge losses arising during the year		(46)	(120)
Cash flow hedge reclassification adjustment for gain included in profit		363	1,256
		(1,632)	(664)
Total comprehensive income for the year		7,587	3,404
Profit for the year attributable to			
Owners of the parent		8,909	3,656
Non-controlling interests		310	412
		9,219	4,068
Total comprehensive income for the year attributable to			
Owners of the parent		7,283	2,969
Non-controlling interests		304	435
		7,587	3,404
Earnings per share			
Basic	9	45 2c	18 6c
Diluted	9	45 2c	18 6c

* Restated to reflect the reclassification of certain exceptional items and to reflect a deferred tax liability on the difference between the carrying amount of the goodwill and the tax base of goodwill in accordance with IAS 12 as set out in note 1

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2014

	Notes	2014 $000	2013 Restated* $000	2012 Restated* $000
Non-current assets				
Goodwill	10	41,069	41,367	41,501
Other intangible assets	11	956	991	1,422
Property, plant and equipment	12	2,731	3,752	10,041
Intangible assets Pre-publication costs	14	57,534	56,221	53,539
Deferred tax assets	20	126	33	34
Total non-current assets		102,416	102,364	106,537
Current assets				
Inventories	15	23,347	19,181	22,843
Trade and other receivables	16	54,616	56,043	57,504
Cash and cash equivalents	17	23,110	23,879	26,718
Total current assets		101,073	99,103	107,065
Total assets		**203,489**	**201,467**	**213,602**
Current liabilities				
Short term borrowing	22	(89,150)	(16,603)	(16,822)
Derivative financial instruments	19	(67)	(427)	(49)
Trade and other payables	23	(53,272)	(52,784)	(49,251)
Tax payable		(2,430)	(671)	(880)
Total current liabilities		(144,919)	(70,485)	(67,002)
Non-current liabilities				
Medium and long term borrowings	18	-	(78,291)	(90,874)
Deferred tax liabilities	20	(6,338)	(5,844)	(5,915)
Derivative financial instruments	19	-	-	(1,453)
Other payables		(537)	-	(49)
Total non-current liabilities		(6,875)	(84,135)	(98,291)
Total liabilities		**(151,794)**	**(154,620)**	**(165,293)**
Net assets		**51,695**	**46,847**	**48,309**
Equity				
Share capital	24	2,045	2,045	2,045
Paid in surplus		33,764	33,764	33,759
Retained profit and other reserves		10,945	6,229	5,558
Equity attributable to owners of the parent		46,754	42,038	41,362
Non-controlling interests		4,941	4,809	6,947
Total equity		**51,695**	**46,847**	**48,309**

* Restated as set out in note 1

The financial statements were approved by the Board of Directors and authorised for issue on March 20, 2015
They were signed on its behalf by M J Mousley, Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY YEAR ENDED DECEMBER 31, 2014

	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 the parent $000	Non controlling interests $000	Total $000
Balance at January 1, 2013 as previously reported	**2,045**	**33,759**	**(1,453)**	**(1,858)**	**(643)**	**12,333**	**44,183**	**6,947**	**51,130**
Prior year adjustment	-	-	-	-	-	(2 821)	(2 821)	-	(2 821)
Balance at January 1, 2013	**2,045**	**33,759**	**(1,453)**	**(1,858)**	**(643)**	**9,512**	**41,362**	**6,947**	**48,309**
Profit for the year	-	-	-	-	-	3 656	3 656	412	4 068
Other comprehensive income									
Foreign exchange translation differences	-	-	-	(2,025)	-	-	(2,025)	23	(2,002)
Reclassification of translation reserve on disposal	-	-	-	202	-	-	202	-	202
Cash flow hedge losses arising during the year	-	-	(120)	-	-	-	(120)	-	(120)
Cash flow hedge Reclassification adjustment for gain included in profit	-	-	1 256	-	-	-	1 256	-	1 256
Total comprehensive income for the year	-	-	1136	(1 823)	-	3 656	2 969	435	3 404
Transactions with owners									
Share options exercised by employees	-	5	-	-	9	-	14	-	14
Dividends to shareholders (Note 25)	-	-	-	-	-	(2,427)	(2 427)	-	(2,427)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(168)	(168)
Purchase of non-controlling interests	-	-	-	-	-	120	120	(2 405)	(2 285)
Balance at December 31, 2013 and January 1, 2014	**2,045**	**33,764**	**(317)**	**(3,681)**	**(634)**	**10,861**	**42,038**	**4,809**	**46,847**
Profit for the year	-	-	-	-	-	8 909	8,909	310	9,219
Other comprehensive income									
Foreign exchange translation differences	-	-	-	(1 943)	-	-	(1 943)	(6)	(1,949)
Cash flow hedge losses arising during the year	-	-	(46)	-	-	-	(46)	-	(46)
Cash flow hedge Reclassification adjustment for gain included in profit	-	-	363	-	-	-	363	-	363
Total comprehensive income for the year	-	-	317	(1 943)	-	8 909	7 283	304	7,587
Transactions with owners									
Dividends to shareholders (Note 25)	-	-	-	-	-	(2 567)	(2 567)	-	(2 567)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(172)	(172)
Balance at December 31, 2014	**2,045**	**33,764**	**-**	**(5,624)**	**(634)**	**17,203**	**46,754**	**4,941**	**51,695**

CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED DECEMBER 31, 2014

	2014 $000	2013 Restated $000
Profit for the year	9,219	4,068
Adjustments for		
Net finance costs	3,257	4,443
Depreciation of property, plant and equipment	1,106	1,374
Tax expense	2,980	1,694
Amortisation of acquired intangible assets	503	434
Amortisation of and amount written off pre-publication costs	30,933	30,099
Movement in fair value of derivatives	(43)	61
Loss on disposal of subsidiaries and businesses	–	1,801
(Gain)/loss on disposal of property, plant and equipment	(642)	1,367
Operating cash flows before movements in working capital	47,313	45,341
(Increase)/decrease in inventories	(4,529)	2,329
Decrease/(increase) in receivables	5	(1,858)
Increase in payables	2,551	2,102
Cash generated by operations	45,340	47,914
Income taxes paid	(759)	(2,087)
Net cash from operating activities	**44,581**	**45,827**
Investing activities		
Interest received	151	353
Proceeds on disposal of subsidiaries and businesses	–	1,057
Proceeds on disposal of property, plant and equipment	1,848	4,861
Investment in pre-publication costs	(33,525)	(31,668)
Purchases of property, plant and equipment	(1,341)	(1,998)
Acquisition of subsidiaries	(2,008)	–
Net cash used in investing activities	**(34,875)**	**(27,395)**
Financing activities		
Dividends paid	(2,567)	(2,427)
Interest payments	(3,461)	(4,886)
Proceeds on issue of share capital	–	14
External debt repaid	(3,555)	(13,184)
Dividends paid to non-controlling interest	(172)	(168)
Net cash used in financing activities	**(9,755)**	**(20,651)**
Net decrease in cash and cash equivalents	(49)	(2,219)
Cash and cash equivalents at beginning of year	23,879	26,718
Foreign currency exchange differences on cash and cash equivalents	(720)	(620)
Cash and cash equivalents at end of year (Note 17)	**23,110**	**23,879**

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

The accounting policies adopted, are consistent with those of the annual financial statements for the year ended December 31, 2013, 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 presentational currency of the Group is US dollars

Certain directly attributable costs in relation to capitalised pre-publication costs had historically been presented on a net basis as opposed to showing the gross investment and subsequent amortisation separately Additions and amortisation for the year ended December 31, 2013 have been restated to reflect this change in presentation and have increased by $12,200,000 to $31,668,000 and $30,099,000 and for the year ended December 31, 2012 have increased by $12,300,000 to $30,528,000 and $30,749,000 respectively In addition, a reclassification in the income statement from administration expenses to cost of sales was required to reflect a gross presentation This resulted in gross profit being reduced by $9,700,000 to $54,811,000 and administrative overheads being reduced by the same amount to $34,722,000 We have reclassified pre-publication costs in the Balance Sheet from current to non-current in the period reflecting our longer term view of the life of the assets

RESTATEMENT OF PRIOR YEAR

The following tables show the restated prior year comparative figures for the financial year ended December 31, 2013 This restatement reflects the reclassification of certain exceptional items and a deferred tax liability on the difference between the carrying amount of the goodwill and the tax base of goodwill in accordance with IAS 12 The Group has also reclassified pre-publication costs from current assets to non-current assets to align the Group's expectation that these assets will be recovered over a longer duration

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2013

	Reported	**Exceptional Items**	**Deferred Tax**	**Restated**
	$000	$000	$000	$000
Operating profit before amortisation of acquired intangibles and exceptional items	15,957	(1,913)	-	14,044
Amortisation of acquired intangibles	(434)	-	-	(434)
Exceptional Items	(5,318)	1,913	-	(3,405)
Operating Profit	10,205	-	-	10,205
Interest	(4,443)	-	-	(4,443)
Profit before tax	5,762	-	-	5,762
Tax	(1,416)	-	(278)	(1,694)
Profit after tax	**4,346**	**-**	**(278)**	**4,068**

BALANCE SHEET AT DECEMBER 31 2013 AND 2012

The impact of the restatement on the line items affected in the balance sheet are set out below

	2013 Reported $000	2013 Deferred Tax $000	2013 Restated $000	2012 Reported $000	2012 Deferred Tax $000	2012 Restated $000
Deferred tax asset	2,226	(2,193)	33	2,534	(2,500)	34
Deferred tax liability	(4,938)	(906)	(5,844)	(5,594)	(321)	(5,915)
Net deferred tax liability	**(2,712)**	**(3,099)**	**(5,811)**	**(3,060)**	**(2,821)**	**(5,881)**

The restated items have impacted equity by $(3,099 000) at December 31, 2013 and the impact on retained earnings as at January 1, 2013 was $(2 821,000)

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 112 to 116

No new accounting 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 Presentation of pre-publication costs and the assessment of their useful life

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

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 Officer's Statement on pages 12 to 23 The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 36 to 38 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 comprising a US$95m multi-currency revolving credit and term loan facility, with a tenor through to April 30, 2019 The Group has prepared detailed profit and cash flow budgets until June 30, 2016 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 2014 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

BASIS OF CONSOLIDATION

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

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

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

BUSINESS COMBINATIONS, INTANGIBLE ASSETS AND GOODWILL

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

Goodwill arising on acquisitions is stated at cost less any accumulated impairment losses Goodwill is allocated to cash-generating units and is tested annually for impairment 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 amortisation and impairment losses

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

COMMERCIAL INCOME

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

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS INCLUDING GOODWILL

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

REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, net of sales taxes, rebates and discounts, and after eliminating sales within the Group For each of the Group's operating segments, revenues are recognised on the despatch of goods and when the significant risks and rewards of ownership have been passed to the buyer The following specific criteria also apply

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

LEASING

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

FOREIGN CURRENCIES

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

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 significant non-trading 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 directly attributable 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 prepublication 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 forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income If the cash flow of a firm commitment or forecast transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in initial recognition of that asset or liability Amounts previously recognised in other comprehensive income are recognised in the profits or loss in the same period in which the hedged item affects net profit or loss Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise

The Group's derivatives are split between level 1 and level 2 financial instruments under IFRS 7 The foreign currency exchange rate derivatives are level 1 and they are valued based on a quoted price in an active market The interest rate swaps are level 2 financial instruments and they are valued using techniques based significantly on observable market data such as yield curves as at the balance sheet date

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

TREASURY SHARES

Treasury shares represent holdings of the Company's own equity instruments No gain or loss is recognised in profit or loss on the purchase, issue or cancellation of these equity instruments Consideration paid or received is recognised directly in 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 12

NEW STANDARDS AND INTERPRETATIONS NOT APPLIED

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

IAS/IFRS STANDARDS

		Effective for accounting periods starting on or after
Amendments to IAS 1 (Dec 15)	Disclosure initiative	1 January 2016
Amendments to IAS 16 and IAS 38 (May 2014)	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IFRS 11 (May 2014)	Accounting for Acquisitions of Interests In Joint Operations	1 January 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2017
IFRS 9	Financial Instruments	1 January 2018

The Directors do not consider that the adoption of these standards will have a material impact on the Group's accounts in the period of initial application

2 REVENUE

An analysis of the Group's revenue is as follows

	2014 $000	2013 $000
Sales of goods	172,644	176,318
Revenue	172,644	176,318
Other operating income	22	261
Finance income	151	353
Total income	**172,817**	**176,932**

3 OPERATING SEGMENTS

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

Year ended December 31, 2014

	Quarto Publishing Group USA $000	Quarto Publishing Group UK $000	Quarto International Co-Editions Group $000	Books & Gifts Direct, ANZ $000	Quarto HK $000	Total $000
External revenue	**64,058**	**21,477**	**42,676**	**31,170**	**13,263**	**172,644**
Operating profit before amortisation of acquired intangibles and exceptional items	6,636	3,099	6,063	2,967	1,112	19,877
Amortisation of acquired intangibles	(346)	(93)	(3)	(61)	-	(503)
Segment result	**6,290**	**3,006**	**6,060**	**2,906**	**1,112**	**19,374**
Unallocated corporate expenses						(4,484)**
Acquisition costs						(78)
Gain on sale of property						644
Investment income						151
Finance costs						(3,408)
Profit before tax						12,199
Tax						(2,980)
Profit after tax						9,219
Capital expenditure	233	43	282	770	13	1,341
Depreciation	276	205	333	269	23	1,106
Investment in pre-publication costs	14,787	4,165	14,573	-	-	33,525
Amortisation of pre-publication costs	11,961	3,821	15,151	-	-	30,933

3 OPERATING SEGMENTS *(CONTINUED)*

Year ended December 31, 2013 (Restated)

	Quarto Publishing Group USA $000	Quarto Publishing Group UK $000	Quarto International Co-Editions Group $000	Books & Gifts Direct, ANZ $000	Quarto HK $000	Total $000
External revenue	**64,392**	**20,819**	**40,430**	**29,455**	**21,222**	**176,318**
Operating profit before amortisation of acquired intangibles and exceptional items	7,173	2,546	4,540	2,918	1,398	18,575
Amortisation of acquired intangibles	(346)	(88)	-	-	-	(434)
Segment result	**6,827**	**2,458**	**4,540**	**2,918**	**1,398**	**18,141**
Unallocated corporate expenses						(4,531) **
Costs arising from Special Meetings						(73)
Loss on disposal of assets and businesses						(3,332)
Investment income						353
Finance costs						(4,796)
Profit before tax						5,762
Tax						(1,694)
Profit after tax						4,068
Capital expenditure	165	240	1,446	100	47	1,998
Depreciation	323	197	307	237	310	1,374
Investment in pre-publication costs	13,363	4,829	13,476	-	-	31,668
Amortisation of and amount written off pre-publication costs	12,868	3,660	13,774	-	-	30,302

There are no other significant non-cash expenses

* Restated as set out in note 1

** Unallocated corporate expenses principally comprise salary professional fees and other expenses which cannot be directly allocated to one of the segments

3 OPERATING SEGMENTS *(CONTINUED)*

Balance sheet

Total assets	**2014** $000	**2013 Restated** $000
Quarto Publishing Group USA	84,607	83,979
Quarto Publishing Group UK	20,414	22,684
Quarto International Co-Editions Group	46,486	46,624
Books & Gifts Direct, ANZ	21,614	17,050
Quarto HK	7,132	7,218
Unallocated (Deferred tax and cash)	23,236	23,912
Total assets	**203,489**	**201,467**
Total liabilities		
Quarto Publishing Group USA	16,488	15,060
Quarto Publishing Group UK	5,869	6,640
Quarto International Co-Editions Group	19,701	20,609
Books & Gifts Direct, ANZ	8,313	6,617
Quarto HK	3,438	3,858
Unallocated (Borrowings, derivatives, deferred tax and tax payable)	97,985	101,836
Total liabilities	**151,794**	**154,620**

Geographical areas

The Group operates in the following main geographic areas

	Revenues 2014 $000	**Revenues 2013** $000	**Non-current assets 2014** $000	**Restated Non-current assets 2013** $000
United States of America	79,537	83,936	53,559	50,684
Australasia and Far East	37,627	34,658	8,590	9,075
United Kingdom	24,665	29,465	38,005	38,671
Europe	22,703	20,353	2,136	3,901
Rest of the World	8,112	7,906	-	-
	172,644	**176,318**	**102,290**	**102,331**

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, property, plant and equipment and pre-publication costs

4 OPERATING PROFIT

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

	2014	2013 Restated
	$000	$000
Loss/(profit) on sale of property, plant and equipment	(642)	1,367
Depreciation of property, plant and equipment	1,106	1,374
Net foreign currency exchange differences	(243)	(208)
Amortisation of acquired intangibles	503	434
Amortisation of and amount written off pre-publication costs	30,933	30,302
Staff costs (Note 5)	30,725	30,762
Auditor's remuneration (see below)	224	384
Cost of inventory recognised as an expense	37,541	35,104
Exceptional items	(566)	3,405

Exceptional items comprise the net (profit) loss on sales of businesses and assets of $(644,000) (2013 $3,332,000), and expenses relating to acquisitions (2013 Special Meetings) of $78,000 (2013 $73,000)

Auditor's remuneration

Fees payable to the Company's auditor for the audit of the Company's annual accounts	59	54
Fees payable to the Company's auditor and its associates for other services The audit of the Company's subsidiaries pursuant to legislation	165	328
Fees payable to the Company's auditor for other assurance services	–	2
	224	**384**

5 STAFF COSTS

	2014 Number	2013 Number
The average monthly number of employees (including Executive Directors) was	**402**	**436**

Their aggregate remuneration comprised

	$000	$000
Wages and salaries	27,431	27,724
Social security costs	2,226	2,184
Other pension costs	1,068	854
	30,725	**30,762**

Directors' remuneration is disclosed in the Remuneration Committee Report on page 23

6 FINANCE INCOME

	2014 $000	2013 $000
Interest income on financial assets carried at amortized cost	**151**	**353**

7 FINANCE COSTS

	2014 $000	2013 $000
Interest expense for borrowings at amortized cost	3,408	4,794
Interest expense for finance lease arrangements	-	2
Total finance costs	**3,408**	**4,796**

8 TAX

	2014 $000	2013 Restated $000
Current tax on profit for the year	**2,413**	**1,892**
Total current tax	2,413	1,892
Deferred tax (Note 20)		
Current year origination and reversal of temporary differences	567	(198)
	2,980	**1,694**

Corporation tax on UK profits is calculated at 21 50%, based on the UK standard rate of corporation tax, (2013 23 25%) of the estimated assessable profit for the year Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions The table below explains the difference between the expected expense at the UK statutory rate of 21 5% and the Group's total tax expense for the year

	2014 $000	2014 %	2013 $000	2013 %
Profit before tax	**12,199**		**5,762**	
Tax at the UK corporation tax rate of 21 5% (2013 23 25%)	2,623		1,340	
Effect of different tax rates of subsidiaries operating in other jurisdictions	426		(131)	
Adjustment to prior years	(480)		-	
Other, including tax effect of expenses that are not deductible in determining taxable profit	411		485	
Tax expense and effective tax rate for the year	**2,980**	**24.4%**	**1,694**	**29.4%**

9 EARNINGS PER SHARE

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

Earnings	**2014** $000	**Restated 2013** $000
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the parent	**8,909**	**3,656**
Number of shares	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	19,696,729	19,694,658
Effect of potential dilutive ordinary shares		
Share options	–	942
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**19,696,729**	**19,695,600**

Earnings per share	**2014** Cents	**Restated 2013** Cents
Basic	**45.2**	**18.6**
Diluted	**45 2**	**18.6**
Adjusted earnings	$000	$000
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the parent	8,909	3,656
Amortisation of acquired intangibles (net of tax)	350	297
Exceptional items (net of tax)	(427)	3,472
Earnings for the purposes of adjusted earnings per share	**8,832**	**7,425**

Adjusted earnings per share	**2014** Cents	**Restated 2013** Cents
Basic	**44.8**	**37 7**
Diluted	**44.8**	**37 7**

10 GOODWILL

	2014 $000	2013 $000	2012 $000
Cost			
At January 1	41,744	41,869	41,250
Exchange differences	(971)	(125)	619
Recognised on acquisitions (Note 34)	650	-	-
At December 31	41,423	41,744	41,869
Accumulated impairment losses			
At January 1	(377)	(368)	(352)
Exchange differences	23	(9)	(16)
At December 31	(354)	(377)	(368)
Carrying amount			
At December 31	**41,069**	**41,367**	**41,501**

Impairment tests for cash generating units containing goodwill

The following units have significant carrying amounts of goodwill

	2014 $000	2013 $000	2012 $000
Quarto Publishing Group USA (QUS)	26,878	26,878	26,878
Quarto Publishing Group UK (QUK)	2,293	2,440	2,381
Quarto International Co-Editions Group (QIC)	5,171	4,987	4,931
Books & Gifts Direct, ANZ (BGD)	6,727	7,062	7,311
	41,069	**41,367**	**41,501**

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

Discount rate 11 8% pre-tax for QUS, 11 6% for QUK and QIC and 12 3% for BGD which reflects current assessments of the time value of money The discount rate has been calculated using Weighted Average Cost of Capital analysis adjusted to derive the pre-tax discount rate

Cash flow growth rates based on a forecast growth rate of 3%, into perpetuity, to reflect the long term expected growth 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, specific to the US, 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 $000	Backlists $000	Total $000
Cost			
At January 1, 2013	1,121	18,082	19,203
Exchange differences	6	39	45
At December 31, 2013 and January 1, 2014	1,127	18,121	19,248
Exchange differences	(47)	(131)	(178)
Recognised on acquisitions (Note 34)	-	503	503
At December 31, 2014	1,080	18,493	19,573
Amortisation and impairment			
At January 1, 2013	1,121	16,660	17,781
Exchange differences	6	36	42
Charge for the year	-	434	434
At December 31, 2013 and January 1, 2014	1,127	17,130	18,257
Exchange differences	(47)	(96)	(143)
Charge for the year	-	503	503
At December 31, 2014	1,080	17,537	18,617
Carrying amount			
At December 31, 2014	**-**	**956**	**956**
At December 31, 2013	**-**	**991**	**991**
At December 31, 2012	**-**	**1,422**	**1,422**

12 PROPERTY, PLANT AND EQUIPMENT

	Freehold Property $000	Leasehold Property Improvements $000	Planet Equipment & Motor Vehicles $000	Fixtures & Fittings $000	Total $000
Cost					
At January 1, 2013	7,790	1,305	8,243	1,741	19,079
Exchange difference	(206)	59	(255)	7	(395)
Additions	860	402	257	479	1,998
Disposals	(7,073)	(513)	(1,234)	(28)	(8,848)
Disposal of subsidiaries	-	-	(2,550)	(710)	(3,260)
At December 31, 2013 and January 1, 2014	1,371	1,253	4,461	1,489	8,574
Subsidiaries acquired	-	-	272	30	302
Exchange difference	(9)	(38)	(234)	(17)	(298)
Additions	12	6	1,184	139	1,341
Disposals	(1,374)	(364)	(990)	(630)	(3,358)
At December 31, 2014	-	857	4,693	1,011	6,561
Depreciation					
At January 1, 2013	1,049	876	6,019	1,094	9,038
Exchange differences	(29)	(5)	(179)	(18)	(231)
Charge for the year	83	256	823	212	1,374
Disposals	(934)	(471)	(1,192)	(23)	(2,620)
Disposal of subsidiaries	-	-	(2,109)	(630)	(2,739)
At December 31, 2013 and January 1, 2014	169	656	3,362	635	4,822
Subsidiaries acquired	-	-	166	27	193
Exchange differences	(1)	(22)	(109)	(7)	(139)
Charge for the year	-	228	455	423	1,106
Disposals	(168)	(364)	(990)	(630)	(2,152)
At December 31, 2014	-	498	2,884	448	3,830
Net book value					
At December 31, 2014	**-**	**359**	**1,809**	**563**	**2,731**
At December 31, 2013	1,202	597	1,099	854	3,752
At December 31, 2012	6,741	429	2,224	647	10,041

The net book value of plant, equipment and motor vehicles included $nil (2013 $7,000) in respect of assets held under hire purchase contracts The depreciation charged on these assets during the year was $3,000 (2013 $3,000)

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

	2014 $000	Restated 2013 $000	Restated 2012 $000
Cost			
At January 1	102,701	88,510	76,267
Exchange differences	(2,774)	858	1,808
Transfer from inventories	660	691	–
Acquired on acquisition of subsidiaries	102	–	–
Additions	33,525	31,668	30,528
Disposals	(17,137)	(19,026)	(20,093)
At December 31	117,077	102,701	88,510
Amortisation			
At January 1	46,480	34,971	23,830
Exchange differences	(733)	233	485
Charge for the year	30,933	30,099	30,749
Amount written off	–	203	–
Disposals	(17,137)	(19,026)	(20,093)
At December 31	59,543	46,480	34,971
Carrying amount	**57,534**	**56,221**	**53,539**

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

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

	2014 $000	2013 $000	2012 $000
Finished goods	22,231	18,117	20,676
Work in progress	904	946	1,944
Raw materials	212	118	223
	23,347	**19,181**	**22,843**

All of the Group's inventories have been reviewed for indicators of impairment Certain inventories were found to be impaired and a provision of $1,696,000 (2013 $2,117,000) has been recorded accordingly

16 TRADE AND OTHER RECEIVABLES

	2014 $000	2013 $000	2012 $000
Trade receivables	43,101	46,305	47,175
Other receivables and prepayments	11,515	9,738	10,329
Amounts falling due within one year	**54,616**	**56,043**	**57,504**

The average credit period on sales of goods is 73 days (2013 80 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 $1,509,000 (2013 $1,185,000) has been recorded accordingly The impaired trade receivables are customers 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

	2014 $000	2013 $000	2012 $000
Less than one month	3,018	3,310	3,801
More than one month but less than two months	783	1,365	1,281
More than two months but less than three months	342	385	294
More than three months but less than six months	823	300	374
More than six months	444	172	173
	5,410	**5,532**	**5,923**

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

	2014 $000	2013 $000	2012 $000
Balance at beginning of year	1,185	957	1,617
Amounts written off in the year	(434)	(607)	(1,068)
Amounts recovered during the year	337	268	10
Exchange difference	(16)	2	(6)
Increase in allowance recognised in profit or loss	437	565	404
Balance at end of the year	**1,509**	**1,185**	**957**

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

	2014 $000	2013 $000	2012 $000
Bank balances	13,375	15,145	18,035
Short term deposits	9,735	8,734	8,683
Cash and cash equivalents	**23,110**	**23,879**	**26,718**

The carrying amount of these assets approximates their fair value

The effective interest rates on bank balances and short term deposits was 0 6% (2013 0 7%)

18 MEDIUM AND LONG TERM LOANS

	2014 $000	2013 $000	2012 $000
Bank loans	-	78,287	90,867
Obligations under finance leases (see Note 21)	-	4	7
	-	**78,291**	**90,874**
The borrowings (excluding obligations under finance leases) are repayable as follows			
On demand or within one year	89,150	16,600	16,819
In the second year	-	78,287	16,600
In the third to fifth years inclusive	-	-	74,267
	89,150	94,887	107,686
Less Amount due for settlement within 12 months (shown under current liabilities)	(89,150)	(16,600)	(16,819)
Amount due for settlement after 12 months	-	78,287	90,867

	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	$000	$000
US dollar borrowings	60,000	-	60,000	-	-
Other currency borrowings	29,150	-	29,150	-	-
As at December 31, 2014	89,150	-	89,150	-	-
US dollar borrowings	62,635	44,000	18,635	3 8%	11
Other currency borrowings	32,252	-	32,252	-	-
As at December 31, 2013	94,887	44,000	50,887	3 8%	11
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

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

At December 31, 2014, undrawn borrowing facilities totalled $5,480,000 (2013 $16,138,000)

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 3 3%

At December 31, 2014, the Group had a US$95m (2013 US$95m) syndicated bank facility which is due to expire on April 30, 2015 The Group signed a new syndicated bank facility on February 6, 2015, which matures on April 30, 2019

18 MEDIUM AND LONG TERM LOANS *(CONTINUED)*

These facilities are subject to three principal covenants, namely

(a) Total consolidated net indebtedness shall not exceed 3 times EBITDA (as defined in the committed facility agreements) At December 31, 2014, net indebtedness was 1 90 times (2013 2 02 times) EBITDA

(b) The consolidated operating profit before exceptional items and goodwill amortisation shall exceed three times net interest payable For the year ended December 31, 2014, net interest payable was 4 73 times (2013 3 59 times) covered under this covenant

(c) Cash flow shall exceed 1 2 times Debt Service For the year ended December 31, 2014, Debt Service was 2 97 times (2013 3 50 times) covered under this covenant

19 OTHER FINANCIAL ASSETS/LIABILITIES

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

	2014	**2013**	**2012**
	$000	$000	$000
Current financial liabilities			
Derivative financial liabilities – exchange rate swap	67	110	49
Derivative financial instruments – interest rate swaps	–	317	–
	67	427	49

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates The Group uses exchange rate swaps to hedge exchange rate exposures and interest rate swap contracts to hedge the interest rate exposures The Group does not use derivative financial instruments for speculative purposes All interest rate swaps have been designated as hedging instruments in cash flow hedges in accordance with IAS 39 The Group's interest rate swaps have been 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

	2014	**2013**	**2012**	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**
	%	%	%	$000	$000	$000	$000	$000	$000
Within one year	–	3 8%	6 7%	–	44 000	25 000	–	(317)	(848)
Within one to two years	–	–	5 1%	–	–	24 000	–	–	(605)
Within two to five years	–	–	– %	–	–	–	–	–	–
Derivative					**44,000**	**49,000**	**–**	**(317)**	**(1,453)**

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

			Amount Provided
	2014 $000	**Restated 2013** $000	**Restated 2012** $000
Deferred taxation provided in the financial statements is as follows			
Excess of capital allowances over depreciation – UK	25	13	-
Other temporary differences – UK	4,493	4,756	5,178
	4,518	4,769	5,178
Other temporary differences – US	1,545	906	321
Other overseas temporary differences	275	169	416
	6,338	5,844	5,915
Deferred taxation assets			
Other temporary differences – Other overseas	(126)	(33)	(34)
	(126)	(33)	(34)
Net deferred taxation liability	**6,212**	**5,811**	**5,881**

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

			Amount Provided
	2014 $000	**2013** $000	**2012** $000
Net provision at January 1	5,811	5,881	6,838
Disposals/acquisitions	145	48	-
Exchange difference through other comprehensive income	(311)	80	(10)
Charge/(credit) to profit or loss	567	(198)	(947)
Net provision at December 31	**6,212**	**5,811**	**5,881**

At the balance sheet date, the group has unused tax losses of $8,947,000, which are recognised in deferred tax above (2013 $12,610,000) available for offset against future profits Included in unrecognised tax losses are losses of $nil (2013 $802,000) that will expire in the following years

	2014	**2013**
Year ending December 31	$000	$000
2016	-	237
2018	-	124
2019	-	441
	-	**802**

At the balance sheet date, the aggregative amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax has not been recognised was $22,308,000 (2013 $23,572,000)

21 OBLIGATIONS UNDER FINANCE LEASES

	2014 $000	2013 $000	2012 $000
Amounts payable under finance leases			
Within one year	-	4	5
In the second to fifth year inclusive	-	4	7
	-	8	12
Less future finance charges	-	(1)	(2)
	-	7	10
Less Amount due for settlement within 12 months (Note 22)	-	(3)	(3)
Amount due for settlement after 12 months	**-**	**4**	**7**

22 SHORT TERM BORROWINGS

	2014 $000	2013 $000	2012 $000
Current loan instalments	89,150	16,600	16,819
Borrowings (Note 18)	89,150	16,600	16,819
Finance lease obligations (Note 21)	-	3	3
	89,150	**16,603**	**16,822**

The carrying amount of these liabilities approximates to their fair value

23 TRADE AND OTHER PAYABLES

	2014 $000	2013 $000	2012 $000
Trade payables	44,048	41,025	39,763
Other payables	9,224	11,759	9,488
	53,272	**52,784**	**49,251**

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

24 SHARE CAPITAL

Authorised
28,000,000 (2013 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 (2013 US$2,800,000)

	2014 $000	2013 $000	2012 $000
Equity share capital			
Allotted, called up and fully paid			
Shares of common stock of par value US$0 10 each 20,444,550 (2013 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 747,821 (2013 747,821) shares, representing 3 7% (2013 3 7%) of its shares of common stock

DIVIDENDS	2014 $000	2013 $000
Amounts recognised as distributions to equity holders in the period		
Interim dividend for the year ended December 31, 2014 of 3 35p/5 53c (2013 3 35p/5 23c) per share	1,089	1,029
Final dividend for the year ended December 31, 2013 of 4 55p/7 51c (2012 4 55p/710c) per share	1,478	1,398
	2,567	**2,427**
Proposed final dividend for the year ended December 31, 2014 of 4 95p/7 72c (2013 4 55p/7 55c) per share	1,521	1,488
	1,521	**1,488**

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 POST BALANCE SHEET EVENTS

On February 6, 2015, the Group concluded its refinancing, signing a US $95 million multi currency facility comprising a US$ 45 million revolving credit facility and US$50m term loan with annual amortisation of US$5 million, on the anniversary of signing, with a tenor through to April 30, 2019

On March 4, 2015, the Group completed the acquisition of Lewes Holdings Limited for a consideration of up to £1 3m plus the assumption of £0 2m of net debt The initial accounting for the business combination has not been finalised, hence an estimate of the financial effect of the transaction cannot yet be made

28 OPERATING LEASE ARRANGEMENTS AND OTHER FINANCIAL COMMITMENTS

	2014 $000	2013 $000	2012 $000
Minimum lease payments under operating leases recognised in income for the year	2,253	2,632	2,683

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

	2014 $000	2013 $000	2012 $000
Minimum lease payments under operating leases	2,055	2,098	2,517
In the second to fifth years inclusive	5,288	3,994	4,458
After more than five years	2,006	1,462	343
	9,349	**7,554**	**7,318**

Operating lease payments represent rentals payable by the Group, primarily for its office properties There were capital commitments amounting to $24,000 at the year end for which no provision had been made (2013 $184,000)

29 SHARE OPTIONS

Details of the award under the Company's Performance Share Plan are set out in the Directors' report on page 41

30 REMUNERATION OF KEY MANAGEMENT PERSONNEL

The remuneration of the directors and the executive committee, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on page 61

	2014 $000	2013 $000
Short term employee benefits	3,559	3,197
Compensation for loss of office	-	170
Post-employment benefits	261	217
	3,820	**3,584**

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

32 RECONCILIATION OF FIGURES INCLUDED IN THE OTHER PARTS OF THE FINANCIAL STATEMENTS

	2014 $000	Restated 2013 $000
Adjusted profit before tax (before amortisation of acquired intangibles and non-recurring items)	12,136	9,601
Amortisation of acquired intangibles	(503)	(434)
Exceptional items	566	(3,405)
Profit before tax	**12,199**	**5,762**
EBITDA (as defined in the committed facility agreement)		
Adjusted profit before tax (before amortisation of acquired intangibles and exceptional items)	12,136	9,601
Net interest	3,257	4,443
Depreciation	1,106	1,374
Amortisation of pre-publication costs	18,333	17,899
EBITDA, before exceptional items	**34,832**	**33,317**
Net debt		
Medium and long term borrowings	-	78,291
Short term borrowings	89,150	16,603
Cash and cash equivalents	(23,110)	(23,879)
	66,040	**71,015**

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 opposite

33 RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

FOREIGN CURRENCY SENSITIVITY

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

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

	2014 $000		**2013** $000	
	Sterling	**Other**	**Sterling**	**Other**
Financial assets	186	3,725	671	2,345
Financial liabilities	–	(8,000)	(75)	(4,571)
Short-term exposure	186	(4,275)	596	(2,226)
Financial liabilities	–	–	–	(6,512)
Long-term exposure	–	–	–	(6,512)
At December 31	**186**	**(4,275)**	**596**	**(8,738)**

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, 2014 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% (2013 5%) then this would have had the following impact

	2014 $000	**2013** $000
Profit after tax for the year	8	24
Equity	(297)	(466)

If Sterling had weakened against the US Dollar by 5% (2013 5%) then this would have had the following impact

	2014 $000	**2013** $000
Profit after tax for the year	(7)	(22)
Equity	298	468

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

33 RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

INTEREST RATE SENSITIVITY

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

At December 31, 2014, the Group is exposed to changes in market interest rates through its bank borrowings, which are subject to variable interest rates - see Note 18 for further information

The following table illustrates the sensitivity of the profit after tax for the year and equity to a reasonably possible change in interest rates of +/-0 25%, with effect from the beginning of the year These changes are considered to be reasonably possible based on observation of current market conditions The calculations are based on the Group's financial instruments held at each balance sheet date All other variables are held constant

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

	2014	**2013**
	$000	$000
Profit after tax for the year	(67)	(65)
Equity	(67)	(21)

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

	2014	**2013**
	$000	$000
Profit after tax for the year	67	65
Equity	67	21

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

	2014	**2013**
	$000	$000
Cash and cash equivalents	23,110	23,879
Trade and other receivables Current	54,616	56,043
	77,726	79,922

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, 2014, the Group's liabilities have contractual maturities which are summarised below

December 31, 2014	**Current** within 6 months $000	6 to 12 months $000	**Non-Current** 1 to 5 years $000	Over 5 years $000
Bank loans	90,251	-	-	-
Trade payables	44,048	-	-	-
Other short term financial liabilities	9,224	-	-	-
At December 31	**143,523**	**-**	**-**	**-**

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

December 31, 2013	**Current** within 6 months $000	6 to 12 months $000	**Non-Current** 1 to 5 years $000	Over 5 years $000
Bank loans	-	17,249	82,475	-
Finance lease obligations	2	2	4	-
Trade payables	41,025	-	-	-
Other short term financial liabilities	11,759	-	-	-
At December 31	**52,786**	**17,251**	**82,479**	**-**

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 liabilities and derivative financial instruments and hedge accounting for explanations about how the category of instruments affects their subsequent measurement

	2014 $000	2013 $000
Current assets		
Loans and receivables		
- Trade and other receivables	48,627	51,714
- Cash and cash equivalents	23,110	23,879
	71,737	**75,593**
Non-current liabilities		
Derivative financial instruments designated as hedging instruments		
- Interest rate swap	-	317
Financial liabilities measured at amortized cost		
- Borrowings	-	78,291
	-	**78,608**
Current liabilities		
Derivative financial instruments carried at fair value through profit and loss		
- Exchange rate swap	67	110
Financial liabilities measured at amortized cost		
- Borrowings	89,150	16,603
- Trade payables and other short term financial liabilities	53,272	52,784
	142,489	**69,497**

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 47

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

34 ACQUISITIONS

The Group acquired the business and certain assets and liabilities of Rose (NZ) Limited ("Rose") on 17 January 2014 and Small World Creations Limited ("SWC") on 7 October 2014 These transactions have been accounted for by the acquisition method of accounting These businesses were acquired because of their strategic fit within the Group

	Provisional fair values
	$000
Net assets acquired	
Intangibles	503
Property, plant and equipment	109
Intangible assets – pre-publication costs	102
Inventories	996
Trade and other receivables	710
Cash and cash equivalents	150
Trade and other payables	(1,406)
Tax recoverable	18
Deferred tax	(145)
	1,037
Goodwill	650
Total consideration (including deferred and contingent consideration)	1,687
Net cash outflow arising on acquisitions	
Cash consideration	1,015
Less Cash acquired	(150)
	865

The goodwill arising on the acquisitions is largely attributable to the anticipated incremental sales and cost synergies with being part of The Quarto Group

As of the acquisition dates, the Group's best estimate of the contracted cash flow not expected to be collected amounted to $710,000 The Group continues to evaluate the harmonisation of its accounting policies and hence fair values remain provisional at the Balance Sheet date

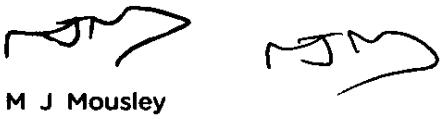
If the acquisitions of Rose (accounted for in the Books & Gifts Direct, ANZ, segment) and SWC (accounted for in the Quarto International Co-Editions Group segment) had been completed on the first day of the financial year, Group revenues for the period would have been $174,411,000 and Group profit attributable to the equity holders of the Parent would have been $9,146,000

Cash flow during the year on other acquisitions amounted to $1,143,000

COMPANY BALANCE SHEET AT DECEMBER 31, 2014

	Notes	2014 $000	2013 $000
Fixed assets			
Investments	3	12,060	12,833
		12,060	12,833
Creditors Amounts falling due within one year	5	(19,565)	(18,236)
Net current liabilities		(19,565)	(18,236)
Net liabilities		(7,505)	(5,403)
Capital and reserves			
Called up share capital	6	2,045	2,045
Treasury stock	6	(634)	(634)
Reserves – Profit and loss	7	33,764	33,764
– Paid in surplus	7	(42,680)	(40,578)
Shareholders' deficit	8	(7,505)	(5,403)

The financial statements were approved by the Board of Directors and authorised for issue on March 20, 2015
They were signed on its behalf by



M J Mousley
Director
March 20, 2015

NOTES TO COMPANY BALANCE SHEET AT DECEMBER 31, 2014

1 SIGNIFICANT ACCOUNTING POLICIES

The separate financial statements of the company are presented and have been prepared in accordance with UK GAAP format and company law These financial statements present information for the company, not about its group, which is presented on pages 45 to 79

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, 2013, 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 (2013 $212,000) No separate profit and loss account is presented in respect of the parent company

3 INVESTMENTS

	$000
At 1 January 2014	12,833
Exchange differences	(773)
At 31 December 2014	**12,060**

4 SUBSIDIARIES

Name	Place and date of incorporation	Issued and fully paid share capital	Percentage held	Segment
Lifetime Distributors The Book People' Pty Limited	Australia 3 December 1990	100,004 shares of A$1 each	100	Books & Gifts Direct ANZ
Premier Books Limited	New Zealand 27 September 1996	400,000 shares of NZ$1 each	100*	Books & Gifts Direct, ANZ
Quarto Publishing plc	England 1 April 1976	100 000 shares of £1 each	100*	Quarto International Co-Editions Group
Quarto, Inc	Delaware USA 16 October 1986	86 shares of no par value	100*	Quarto International Co-Editions Group
RotoVision S A	Switzerland 18 July 1977	1 500 shares of SFr500 each	100*	Quarto International Co-Editions Group
Global Book Publishing Pty Limited	Australia 4 November 1999	1 000 shares of A$1 each	100*	Quarto International Co-Editions Group
Apple Press Limited	England 5 June 1984	100 shares of £1 each	100	Quarto International Co-Editions Group
Small World Creations Limited	England 20 September 1997	1 536 share of £1 each	100	Quarto International Co-Editions Group
Aurum Press Limited	England 31 May 1977	382 502 shares of £1 each	100	Quarto Publishing Group UK
Jacqui Small LLP	England 6 November, 1998	100 units	100	Quarto Publishing Group UK
Frances Lincoln Limited	England 15 December, 1980	565,000 shares of 10p each	100	Quarto Publishing Group UK
Quarto Publishing Group USA Inc	Delaware USA 28 June, 2004	380 shares of US$0 01 each	100	Quarto Publishing Group USA
Regent Publishing Services Limited	Hong Kong 23 October 1985	1 000 shares of HK$10 each	75	Quarto HK

* Directly held by The Quarto Group Inc

5 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014 $000	2013 $000
Amounts owed to subsidiary undertakings	19,565	18,236

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 $000	Profit & loss account $000
At beginning of year	33,764	(40,578)
Result for the year	-	-
Exchange differences	-	465
Dividends	-	(2,567)
At end of year	**33,764**	**(42,680)**

8 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' DEFICIT

	2014 $000	2013 $000
Profit for the financial year	-	212
Dividends	(2,567)	(2,427)
Deficit for the financial year	(2,567)	(2,215)
Shareholders' deficit at January 1	(5,403)	(2,966)
Exercise of share options	-	14
Exchange differences	465	(236)
Shareholders' deficit at December 31	**(7,505)**	**(5,403)**

9 CONTINGENT LIABILITIES

The Quarto Group, Inc has issued guarantees in respect of bank loans of subsidiaries of $89,150,000 (2013 $94,887,000)

10 RELATED PARTY DISCLOSURE

The company has taken advantage of the exemption in Financial Reporting Standard No 8 "Related party disclosures" and has not disclosed transactions with group undertakings

FIVE YEAR SUMMARY

	2014 $000	2013* $000	2012* $000	2011* $000	2010* $000
Results					
Revenue	172,644	176,318	180,873	186,126	176,409
Operating profit before amortisation of acquired intangibles and exceptional items	15,393	14,044	14,317	15,523	13,886
Operating profit	15,456	10,205	12,293	14,056	12,640
Profit before tax before amortisation of acquired intangibles and exceptional items	12,136	9,601	9,159	10,956	9,014
Profit before tax	12,199	5,762	7,135	9,427	7,768
Profit after tax	9,219	4,068	5,249	7,793	6,127
Assets employed					
Non-current assets	102,416	102,364	106,537	105,452	99,922
Current assets	101,073	99,103	107,065	118,266	118,430
Current liabilities	(144,919)	(70,485)	(67,002)	(137,898)	(52,574)
Non-current liabilities	(6,875)	(84,135)	(98,291)	(41,843)	(125,429)
Net assets	51,695	46,847	48,309	43,977	40,349
Financed by					
Equity	46,754	42,038	41,362	37,290	32,075
Minority interests	4,941	4,809	6,947	6,687	8,274
	51,695	46,847	48,309	43,977	40,349
Key statistics					
Earnings per share	45 2c	18 6c	24 5c	37 5c	27 8c
Diluted earnings per share	45 2c	18 6c	24 5c	37 4c	27 8c
Adjusted diluted earnings per share	44 8c	37 7c	33 9c	40 0c	32 0c

* Restated as described in note 1

OFFICERS & PROFESSIONAL ADVISERS

DIRECTORS

Timothy Chadwick (Non-executive Chairman)
Robert Morley (Deputy Chairman)
Marcus Leaver (CEO)
Michael Mousley, ACA (CFO)
Jess Burley (Non-executive)
Michael Hartley (Non-executive)
Christopher Mills (Non-executive)

SECRETARY

John Price, FCIS

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Kent BR3 4TU

PRINCIPAL BANKERS

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OH 45263 USA

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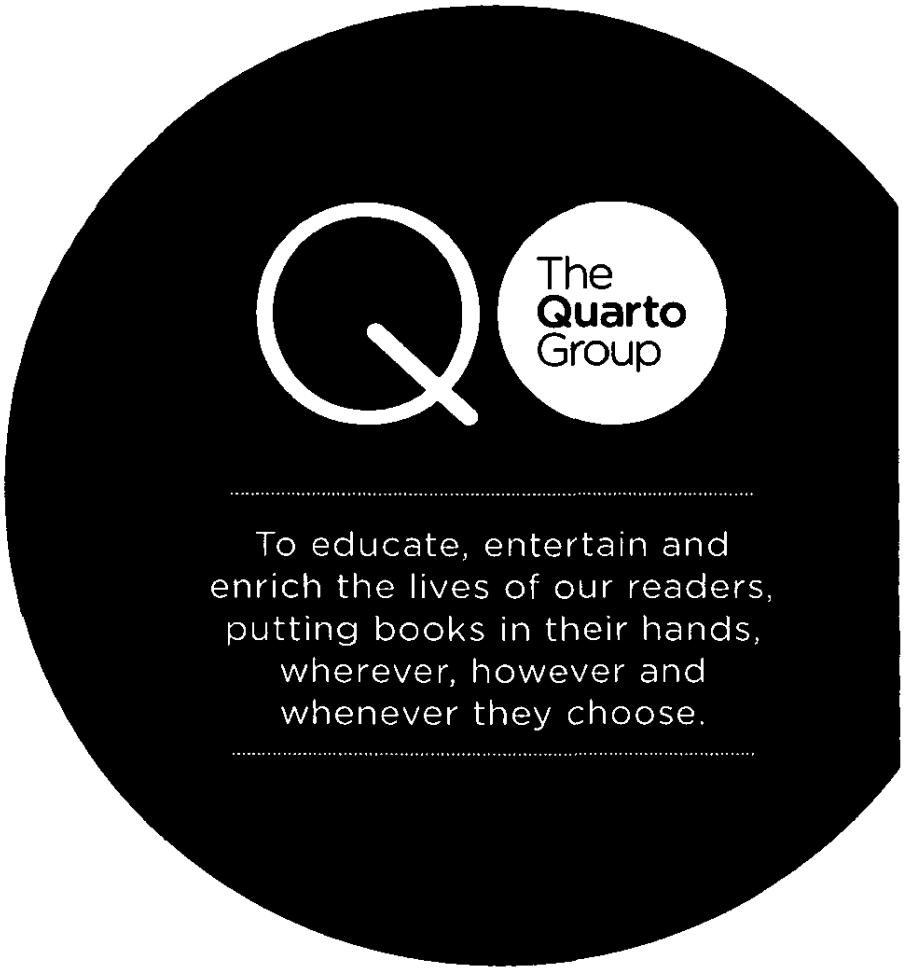
London EC4M 7RE

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

COMPANY REGISTRATION NUMBER

FC0 13814



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