NIM.

The Quarto Group

Creatively Independent

Annual Report 2017

CONTENTS

HIGHLIGHTS

FINANCIAL

REVENUE ($M)

2017	152.5
2016	154.6

ADJUSTED[1,3] OPERATING PROFIT ($M)

2017	7.2
2016	17.0

ADJUSTED[1,3] PUBLISHING OPERATING PROFIT ($M)

2017	11.3
2016	21.7

LOSS FOR THE YEAR[3] ($M)

2017	(18.5)
2016	(5.3)

ADJUSTED[1] EARNINGS PER SHARE[2] (CENTS)

2017	18.3
2016	49.8

BASIC (LOSS)/EARNINGS PER SHARE[2] (CENTS)

2017	(96.4)
2016	46.4

1 Adjusted measures are stated before amortisation of acquired intangible assets and exceptional items, and corporate costs.
2 From continuing operations.
3 Included in the 2016 results was a one-time reduction in the amortisation charge arising from a change in the Useful Economic Life (UEL) of capitalised pre-publication costs of $2.1m.

OPERATIONAL

- Stronger trading performance in H2 – revenue up 5.8% vs prior year.
- Children's publishing revenues up 19% (7% excluding becker&mayer acquisition in Q3 2016), now representing third of Group revenues. Up 165% since 2012.
- Foreign Rights business continues to perform strongly – revenue up 6%.
- Frontlist/backlist revenue split comparable year-on-year – 60.3% revenue generated from backlist titles.
- Net debt at $64.0m (2016: $61.9m) down from $75.8m at 30 June 2017.
- Change to financial year-end from 31 December to 31 March to better balance seasonality between fiscal H1 and H2.

QUARTO AT A GLANCE

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

c.400
EMPLOYEES

40
IMPRINTS AND BUSINESSES

10,000
BOOKS IN OUR CATALOGUE

c.$35M
ANNUAL INTELLECTUAL PROPERTY INVESTMENT

c.60%
OF ANNUAL SALES FROM BACKLIST

42
YEARS
FOUNDED IN 1976

EIGHT MAIN CONTENT CATEGORIES

BOOKS ON FOOD AND DRINK

BOOKS ON DESIGN, ART AND CRAFT

BOOKS ON BODY, MIND, SPIRIT, PARENTING AND RELATIONSHIPS

BOOKS ON INTERIORS, ARCHITECTURE,DIY, PETS AND GARDENING

BOOKS ON CARS, TRAINS, BOATS, MOTORCYCLES AND PLANES

BOOKS ON BIOGRAPHY, TRAVEL, HISTORY, SPACE AND MORE

FUN & IMAGINATIVE BOOKS AND KITS FOR CHILDREN OF ALL AGES

STATIONERY, KITS, CALENDARS AND MORE

50	9	3
COUNTRY MARKETS	OFFICES WORLDWIDE	INTERNATIONAL PUBLISHING PARTNERSHIPS

QUARTO OFFICES

USA	UK	CHINA
SEATTLE CALIFORNIA MINNEAPOLIS BOSTON NEW YORK	LONDON (X2) BRIGHTON	HONG KONG

WHAT WE DO

Quarto encompasses a diverse portfolio of imprints and businesses that are expert in developing long-lasting content. We sell our products globally through a variety of sales channels and partnerships, and five main routes to market.

INTELLECTUAL PROPERTY

INFORMATIVE	VISUAL	KINESTHETIC
READ	**SEE**	**DO**

Creation & Development

PORTFOLIO OF BUSINESSES

ADULT FAMILY CHILDREN

'Inspiring Life's Experiences'

CHANNELS TO MARKET
(REPORTING CATEGORY)

US	UK	International (English Language)	Foreign Language	Q Partners

Physical & Digital

CREATIVITY AT OUR VERY CORE

In 1976, the founders of Quarto were the first publishers to make the economics of illustrated books work, by having the books co-published across different markets so that print runs could be big enough to reduce costs per unit. Quarto was born from creativity and innovation and 41 years later that is still in our DNA as we constantly explore new formats, new content ideas and new business ventures.

We have been a global leader in illustrated books ever since. Our size and scale have changed, but at the heart of what we do, our mission has not changed - to make and sell books that entertain, educate and enrich the lives of adults and children around the world. That is what we are passionate about. Many issues that we deal with every day as a business are very important - commercial and financial management, sourcing, print buying, acquisitions and many others - but the creative quality of our content and products will always be our number one priority.

Ideas are our livelihood and the lifeblood of Quarto. We succeed or fail by the ideas we put into our hundreds of books every year. Big ideas inspire everyone; they shine a light on information that most of us are unable to see. Having the best ideas for our imprints and our customers is what will make us successful.

That is why our guiding philosophy has always been - and remains - 'creative independence'. Each one of our 40 imprints and businesses can publish or produce what they want. We believe that the autonomy given to our people ensures that we remain market-focused and relevant to our readers and customers. Each imprint has its own identity, its own lifecycle, and caters for different audiences and markets. We work hard to manage our intellectual property investment accordingly, consistently and carefully - one size does not fit all when it comes to creativity.

In order to be creative, you need to be effective. Our imprints are supported by a strong central platform that includes finance, operations, sales and foreign rights sales, marketing, legal and IT. Process will never trump passion, but it can enable creativity when used effectively. By removing distractions - sharing common infrastructure and support networks, designing efficient back office tools and processes, and other things that can be managed efficiently at a central level - it frees up time and space for our people to be more creative, which is what Quarto is all about.

GROWTH STRATEGY

"We have a clear strategy to grow organically, through innovation and, where applicable, by acquisition."

Marcus E. Leaver
Chief Executive Officer

As a refocused, pure-play Intellectual Property business, our goal is to become the dominant publisher of illustrated books worldwide while expanding the use of our IP in as many formats and products as possible.

We cannot think short-term, as it is not the way creative businesses work. However, as a publicly traded business we need to balance the short-term needs of the market with the longer-term goals we have.

Our strategy remains to grow organically as we continually examine and manage our portfolio; through innovation, be it product, communication, business or process transformation; and where applicable, by acquisition, within a fragmented and artisan business landscape that can offer attractive opportunities.

Organic Growth

At Quarto, organic growth can be achieved mostly in two ways.

First, by bringing more creativity to market and ensuring our portfolio is balanced across markets, geographies and content categories. Each of our imprints is at a different stage of maturity in its creative cycle, from young start-ups to longer-running imprints that might need new creative injection, and to businesses at the top of their game.

We constantly review our portfolio to ensure it remains aligned to the broader market trends, which is why we have increased our exposure to children's books in the last five years - one of the faster growing areas in publishing.

Second, by diversifying and expanding the distribution of our products. We have built excellent relationships with our trade, retail and co-edition customers, both in our domestic markets and around the world.

We constantly strive to open new distribution channels. We sell our products in physical stores and online; in bookstores, gift stores, toys stores and wherever we believe consumers might come across them. That includes, for instance, Lowe's, Tractor Supply, Costco, Urban Outfitters or Holland & Barrett among many others.

Innovation

Quarto was born from innovation and 42 years later that is still in our DNA. Innovation spans four key areas - any of which can generate significant growth contribution to the business as a whole: product, communication, business and process.

- **Product innovation** requires that we think like our end consumers to understand what they want. As we move towards a pure-play Intellectual Property business - beyond just one that makes books - product innovation also involves thinking harder about how to use our IP in as many ways and formats as we could, including digital. 2017 examples of product innovation include:
    - Scratch & Create and Etch Art series - New formats that incorporate a metallic ink coating that consumers can scratch away using a special stylus, to uncover beautiful artworks or to create their own.

- Build+Become - A new brand that will offer an inspiring range of books, digital content and events designed to make people think differently and to reflect the way they increasingly download information in bitesize form, from infographics to podcasts. It will launch in May 2018.

- **Communication innovation** means finding better, more efficient ways to share information within our own business but also communicating externally. For instance, how can we better market our products directly to consumers?
- **Business innovation** is about finding new ways to expand and enhance parts of our business, for example the three international publishing partnerships we have established around the world. Other areas we are looking at include how better to service and manage our key customers, and the category management model we have in place with non-book retail specialists Lowe's and Tractor Supply in the US.
- **Process innovation** spans efficiencies gained from our global operational platform - for instance improved printing processes - but also ensuring we have enough flexibility and operational agility when needed. For instance, we know that changing trends can require us to go to market swiftly with new products or reprints and we need to be equipped to do so.

Acquisition Growth

Acquisitive growth remains a key strategic area for the Group in the medium to long-term. As the market leader with a global and scalable platform in what remains an artisan and fragmented business landscape, the potential opportunity is significant.

When benchmarking and evaluating potential acquisition opportunities, we go through an exhaustive due diligence process and only target those businesses that meet the specific parameters that fit our business model and growth strategy.

Quarto has a long history of acquisitions. Most recent ones have included small world creations in 2014, Ivy Press in 2015, and Harvard Common Press, Burgess Lea Press and becker&mayer in 2016. All are now contributing positively to the Group.

Over the years, we have developed a successful model and track record in integrating acquired businesses quickly and effectively.

Businesses acquired bring additional innovation and expertise to Quarto. Each time we buy a company, the culture of our whole Group changes for the better.

"It is time for all of us within the Group to start thinking differently to ensure we continue to fuel organic growth and embrace innovation in the broadest sense."

Ken Fund
Chief Operating Officer

OUR SIX KEY ACQUISITION PARAMETERS:

1

CATEGORY ENHANCING
Adds new titles to our portfolio and expands one of our categories, e.g. Harvard Common Press.

2

ADDITIONAL EXPERTISE
Brings an area or market we do not previously have expertise in, e.g. small world creations, specialised in children's 0-3 formats.

3

COMPETITOR INGESTION
Synergistic consolidation, e.g. Ivy Press.

4

STEP CHANGERS
Significant additions to the business, e.g. becker&mayer

5

ADJACENCIES
complementary to existing portfolio and sales channels, such as Book Plus and educational products, e.g. SmartLab

6

DISTRIBUTION ENHANCING
A business that owns a specific channel to market.

CHAIRMAN'S STATEMENT

"Quarto is now uniquely positioned in the market with a refocused vision and growth strategy."

Peter Read
Chairman

2017 was a challenging and transitional year for Quarto. The Group exited its last non-core businesses - Books & Gifts Direct (BGD) in Australia/New Zealand and Regent Publishing Services in Hong Kong - whilst integrating a sizeable acquisition and facing a volatile retail environment in its markets.

In the summer, the Board also received an unsolicited approach to acquire the Group. After several weeks of discussions and as it became clearer that the necessary regulatory approvals required by the bidder were unlikely to be granted on the timeline first indicated, the Board decided to terminate discussions in order to avoid further distraction to management and preserve the interests of shareholders.

Overall, full year results for 2017 were substantially below 2016. However, the Group achieved a strong trading performance from its publishing assets in the second half, reflecting the resilience of the core business as well as the effects of tighter cost management.

Despite a challenging year, the Board believes that Quarto continues to demonstrate the market value and global demand for high-quality content and illustrated print books, and is now uniquely positioned in the market with a refocused vision and growth strategy. We remain fully confident of the inherent value of the business and of the Group's prospects.

Dividend

With the competing pressures of paying dividends, reducing debt and investing in the core business, the Board has not recommended the payment of a final dividend for 2017. The dividend policy will be reviewed in consultation with shareholders and other stakeholders.

Strengthening the Balance Sheet

Further to statements previously made, the Board is actively considering all options to reduce the Group's debt and strengthen the balance sheet. We will provide an update in due course.

Change of Financial Year-End

The Board also announces that the financial year-end date of the Group will change from 31 December to 31 March. Accordingly, the next financial year-end date for Quarto will be 31 March 2019. This will better align with the operations of such a seasonal business. This will aid better annual budgeting when the results of the crucial calendar fourth quarter will be fully known and better balance revenue and profit between the first and second half.

Corporate Governance

There were several changes to the Board last year. We welcomed two new Non-Executive Directors – Claire Capeci and Leslie-Ann Reed, who both bring very different skill sets. Claire has significant US retail experience from her tenure as Global President, Retail for J. Walter Thompson Worldwide, based in New York City, while Leslie-Ann's expertise in Finance in the media sector is particularly relevant to Quarto.

Mike Hartley resigned as a Non-Executive Director on 30 September 2017 and, following his departure, the Board appointed Leslie-Ann Reed to become Chairman of the Audit Committee and Jessica Burley to become the Senior Independent Director. On behalf of the Board, I would like to thank Mike for the significant contribution he has made since 2013.

Finally, Andy Cumming, who has over 40 years' experience in banking and risk management, joined the Board on 1 March 2018.

People

Three new executives are joining Chief Executive Officer Marcus E. Leaver's Leadership Team in 2018: Nanette Gibb as Group Director of People, Charles Wilson as Group Director of Legal and Business Affairs and Company Secretary, and Carolyn Bresh as Chief Financial Officer. Carolyn will join the Board as an Executive Director.

Brian Porritt has made a considerable contribution as Interim Chief Financial Officer over the last nine months. He has provided financial leadership and wise counsel and I am sure that Carolyn will build on the foundations he has put in place.

I have nothing but praise and respect for the employees of Quarto at all levels during this time of extensive change. They showed relentless dedication and resilience in 2017 and, on behalf of the Board and all shareholders, I would like to thank all of them, as well as our global partners and suppliers, for their continued hard work and commitment to Quarto.

Peter Read
Chairman
29 March 2018

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

INVESTMENT CASE

Global leader in illustrated publishing and Intellectual Property

Resilient and stable global book market, especially illustrated and children's books. Unrivalled footprint and size. Substantial IP with a back catalogue of 10,000 titles and an annual investment of c.$35m. Clear vision for product diversification in the short to medium term.

Attractive, de-risked business model

Clear focus on enduring IP in the long term. Not dependent on immediate best-sellers with c. 60% of sales p.a. from back catalogue. Solid expertise and performance in foreign language rights. Market, channel and customer diversity. Organic growth supplemented by innovation growth and acquisitive growth.

Balanced creative portfolio

Geographical, genre and creative balance. Mix of young start-ups and longer-running imprints, organic and acquired. Increasing exposure to children's books, one of the faster growing areas in publishing.

Global consolidation platform

International operational platform is both flexible and scalable. Clear medium to long-term acquisition strategy with significant opportunities. Systems and people in place; acquisition capabilities and track record.

CHIEF EXECUTIVE OFFICER'S STATEMENT

"2017 was a transitional and challenging year. We are proud to have shown resilience at a time when many others in our industry struggled."

Marcus E. Leaver
Chief Executive Officer

Strategic overview

2017 was a transitional year. It encompassed difficult and volatile trading conditions, the disposal of our last non-core businesses, the integration of a sizeable acquisition, the restructuring of the finance team and the handling of an unsolicited offer for the Group.

A poor H1 performance, with continued softness from H2 2016, was followed by a stronger performance in H2 2017, with revenue up 5.8% year-on-year. The business showed resilience in a year when many others in the industry struggled.

Overall, adjusted operating profit is down 58% while revenue only declined marginally by 1.4%.

The Group's operating margin was impacted by a combination of factors including high levels of returns, rising cost of goods and royalty expenses as trade sales become a larger part of the product mix, and higher product development costs owing to the integration of becker&mayer.

Industry shifts such as the changing product mix and the lack of any notable growth in the mature Adults publishing market are unlikely to change, and we continue to restructure a number of our Adults imprints to realign our portfolio with broader market trends.

Children's publishing revenues grew 19% year-on-year, both organically and through acquisition with the first full year contribution from becker&mayer. They have increased by 165% since 2012.

Our Foreign Rights sales team achieved another year of revenue growth, up 6% year-on-year. As we continually seek to further expand our scale and reach across the globe, our new Spanish language imprint in North and South America, in partnership with Catapulta Editores, was also a major highlight.

The Group ended the year with net debt of $64.0m (2016: $61.9m) down from $75.8m at 30 June 2017. Net debt is down 21% since 2012 but is still sizeable. It has become clear that the competing pressures of servicing debt, paying dividends, and investing in the core business currently inhibit Quarto's ability

SENIOR LEADERSHIP TEAM

Carolyn Bresh
Chief Financial Officer
(from 9 April 2018)

Ken Fund
Chief Operating Officer

David Breuer
Chief Creative Officer

Karine Marko
Group Director of
Foreign Rights

Nanette Gibb
Group Director
of People

Dorothée de Montgolfier
Group Director of
Communications

Charles Wilson
Group Director of Legal
and Business Affairs

CHIEF EXECUTIVE OFFICER'S STATEMENT CONTINUED

to grow by acquisition. The Group is therefore looking at all options to strengthen the balance sheet and will keep all stakeholders updated with its progress.

Quarto is now firmly looking to the future as a pure play intellectual property business creating a wide variety of books and intellectual property products for global distribution. Produced in many formats for both Adults and Children, they are visually appealing, information rich or kinesthetically stimulating. All of them inspire life's experiences for the whole family.

The Group, now one third Children's products and two thirds Adults' products, has been transformed as the English language co-edition market declines further. The acquisitions made since 2014 have renewed the portfolio and content pipeline, and the shape of the Group today is largely a solid platform from which to grow.

Our model remains effective and agile: talented people making high quality and long-lasting products across a balanced portfolio of creative businesses, with efficient processes, supported by a scalable operating platform that adapts to market conditions.

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

The Group's strategy remains to grow organically as we continually examine and manage our portfolio; through innovation, be it product, communication, business or process transformation; and where applicable, by acquisition, within a fragmented and artisan business landscape that can offer attractive opportunities.

The leadership of our Senior Leadership Team has been critical in a transitional year. I would like to thank Brian Porritt who has been an excellent partner as Interim Chief Financial Officer over the past nine months and helped bring the strategic planning and analysis we need to the Finance function. Carolyn Bresh, currently a Partner at Everymind Ltd, a consultancy that provides senior Finance strategy and support, will join Quarto in April as Chief Financial Officer and build on the foundations that Brian has put in place. Nanette Gibb also joined the team as Group Director of People, and Charles Wilson as Group Director of Legal and Business Affairs. Finally, David Inman, Managing Director of Quarto Partners, left at the end of February. David came back to Quarto in 2013 to manage our UK trade businesses and opened up many new opportunities, particularly in Children's Publishing. All of us across the Group wish him the very best.

Operating Review

As previously announced, following the Group's refocus on our core publishing activities and a new organisational structure, we have changed our segmental reporting. Revenue is reported by the geography in which the product is sold, with five main routes to market - US, UK, International English language, Foreign language and other Partnerships. Adjusted Operating Profit is reported by IP portfolio, where the product is generated - US Publishing, UK Publishing and Q Partners.

Revenue ($m)	2017	2016
United States of America	81.8	83.5
United Kingdom	20.4	20.9
Rest of the World	10.3	11.5
Foreign Rights	34.4	32.5
Q Partners	5.6	6.2
Total Revenue	**152.5**	**154.6**

-1%

REVENUE

-48%

ADJUSTED PUBLISHING OPERATING PROFIT

Routes to Market

In the US, revenue was $81.8m, down 2.0% year-on-year (2016: $83.5m) as a result of several factors including a softer retail environment, especially in H1 - lower initial order quantities, fewer reprints, and higher than usual returns from a few key customers. In addition, there were still significant sales of Adult colouring books in H1 2016 which did not repeat in H1 2017. However, US reported revenues did benefit from the first full-year results of becker&mayer. Without these, the US revenue decline was 9.2%.

UK revenue was $20.4m, down 2.4% year-on-year (2016: $20.9m). Besides the soft retail environment and unusually high level of returns, also observed in the US, the UK has been facing a more structural industry shift characterised by an increase in trade sales, partially offsetting a decline in English Language co-edition sales.

Within the UK and the US, we are seeing a continuing shift away from traditional channels, including trade retail, towards online trade and other non-traditional channels.

Foreign Language sales achieved another record year with revenues of $34.4m, up 6% year-on-year, through a mix of co-edition, license and royalty deals sold to over 550 customers in 50 territories and 40 languages. This performance is particularly commendable given the currency fluctuations in some of the markets in which we conduct business, and demonstrates the solid, enduring relationships the team have built with co-edition partners all over the world. The largest part of the revenue comes from continental Europe, including France, Germany, the Netherlands, the Nordics and Eastern & Central European countries, with growing contributions from Asia and South America, as well as an increased success in Children's Publishing.

In its first full year, our publishing partnerships and distribution business, Q Partners, performed in line with expectations. Revenue was down 11% to $5 6m (2016: $6.2m). We launched a new Spanish language imprint, Quarto Iberoamericana, in November 2017 across North and South America and to date its progress has been encouraging. Our distribution partner has shown an impressive ability to distribute significant quantities of adult titles into the market place. The key title of our launch list, Frida Kahlo at Home, has sold out throughout all territories within four months of publication.

In Brazil, Quarto Editora strengthened its presence with 85 titles published in 2017, including two titles that made it into best-selling lists. Revenue has continued to increase. In the Middle East and North Africa, Kalimat Quarto operates with high margins although volumes remain low.

We secured new distribution agreements in 2017: Zest Books, Porter Press, Connell Publishing, the Viz Annual and Clever Publishing.

We continue to look for new distribution partners from around the world, in particular North America and the UK, but also in international markets.

Intellectual Property Portfolio

The heart of the business is its creative and development capabilities where the intellectual property products of Quarto are produced. Each one of our imprints and businesses within our portfolio is creatively independent and caters for different audiences and markets.

Our most profitable imprints were Quarto Children's Books/QED Publishing (UK, founded in 1990), Lincoln Children's Books (UK, acquired in 2011, relaunched in 2014), Walter Foster Publishing (US, acquired 1996), becker&mayer (US, acquired in 2016) and Ivy Press (UK, acquired in 2015).

CHIEF EXECUTIVE OFFICER'S STATEMENT CONTINUED

Overall, Adults publishing revenues declined 9.2% while Children's publishing revenues grew 19% - by acquisition through becker&mayer's first full year but also organically, with a solid performance throughout the year despite areas of softness, for example in the educational market.

Children's publishing continues to remain an area of strong focus and growth. Revenues now represent one third of the Group's overall revenue and have grown by 165% since 2012 organically, by innovative reorganisation of existing assets and by acquisition.

Parts of our Adults portfolio under-performed expectations in both US and UK markets, but more significantly in the UK. We continue to review a number of our imprints to realign our portfolio with broader market trends and give the Group more flexibility to re-allocate assets towards faster-growing parts of the business. We have consolidated seven of our UK-based Adults imprints into two new entities: White Lion Publishing in London and The Bright Press in Brighton.

The revenue split between frontlist titles (published in 2017) and backlist titles (published before 2017) was comparable year-on-year, with 60.3% of publishing revenues generated from backlist titles vs 58.3% in 2016. This is consistent with Quarto's strategy to generate c. 60% annual recurring revenues from the Group's rich IP catalogue and reflects its expertise in creating long-lasting content.

Adults' titles represented 67% of backlist revenues (2016: 79%) and 67% of frontlist revenues (2016: 73%), while Children's titles represented 33% of backlist revenues (2016: 21%) and 33% of frontlist revenues (2016: 27%). Even though Children's is more naturally frontlist-led, the increased proportion of Children's titles in the backlist can be explained as some of the Group's imprints, only started a couple of years ago, are now becoming established businesses.

Outlook

Quarto is now fully focused as a pure-play intellectual property business with a refocused vision and a clear growth strategy.

The Group's strategy addresses the trends observed in its core publishing market, which in the US and the UK combined is worth an estimated $14.1bn*. Children's books have grown ahead of other categories in recent years, while eBook sales have been flat-lining with limited success outside of Adult fiction. In the retail space, the market share of physical book specialists continues to decrease vs online retailers and physical non-book specialists.

Quarto expects the volatile trading environment to continue in 2018, with ongoing softness in specific channels. Its primary focus this year will be on strengthening the balance sheet and growing margins.

The Group expects a steady recovery with some organic growth in Children's, despite some softness in the foreign language markets, and continuing remedial action in the Adults portfolio, to drive improved cash generation.

As expected, 2018 full year results will be once again dependent on the second half year performance. The Board has decided to change the year end from 31 December to 31 March, which will better align with the operational needs of a seasonal business. It will enable the business to fully focus on the critical fourth quarter sales period and effect a more balanced spread of revenue between the reported fiscal half years.

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

Since the period end, the Group has been trading in line with the Board's expectations.

I want to extend a large thank you to each and every one of our employees worldwide for their hard work and determination as the shape of our business continues to evolve. Their continued passion and ability to confront change have carried the business through a challenging year.

* Per the Report commissioned by and produced for The Quarto Group in November 2017 by *Pragma Consulting* Limited as part of a strategic market and channel review.

DIVISIONAL REVIEW

$4.6M
US
PUBLISHING ADJUSTED OPERATING PROFIT

$7.1M
UK
PUBLISHING ADJUSTED OPERATING PROFIT

US Publishing

US Publishing adjusted operating profit was down 51% to $4.6m (2016: $9.4m).

There were some significant one-time factors to this decline:

1. The 2016 US adjusted operating profit included a gain of $0.8m relating to the change in the Useful Economic Life of capitalised pre-publication investment. A far smaller gain also arose in 2017 as the change phased in.
2. Far higher than expected returns of adults colouring books were taken in 2017 with impacts on net revenue, inventory obsolescence and on distribution costs due to the related processing costs.
3. Distribution costs were also higher in 2017 as a result of running two warehouses for SmartLab for most of the year. These have now been consolidated into one.

Some of the elements of the 2017 margin decline are ongoing challenges which the Group will address in 2018 and the following years. Product development costs have increased following the acquisition of becker&mayer as some of their products, including SmartLab products, require higher initial investments. Price increases for raw materials and printing are being mitigated by operational efficiency gains but this is an ongoing challenge and area of focus. Royalty costs are increasing due to changes in product mix as the proportion of co-edition sales declines relative to trade sales. Sales and Marketing expenses increase as the proportion of sales to online channels grows, although returns rates reduce.

UK Publishing

UK Publishing adjusted operating profit was $7.1m, down 43% (2016: $12.4m), due to a combination of factors noted below.

The 2016 UK adjusted operating profit included a gain of $1.3m relating to the change in the Useful Economic Life of capitalised pre-publication investment. A far smaller gain also arose in 2017 as the change phased in.

2017 saw unusually high levels of returns due to the volatile retail environment. Returns at this level are not expected to recur in 2018.

As mentioned above, we have also observed a significant decline in English Language co-edition sales, which we believe is structural and will continue, although at a lower rate than the sharp drop experienced in 2017.

Finally, increased royalty costs have impacted profitability, due to the increasing mix of sales to the trade. This trend is expected to continue.

Q Partners

Q Partners made a small loss of $0.4m in 2017 (2016: loss $0.1m) due to the investment needed to set up our third partnership – the new Spanish language imprint, Quarto Iberoamericana.

Overall, this business is performing in line with the Group's expectations as we recognise that it will take a few years to generate more substantial volumes.

Adjusted Operating Profit ($m)	2017	2016
US Publishing	**4.6**	9.4
UK Publishing	**7.1**	12.4
Q Partners	**(0.4)**	(0.1)
Group overhead	**(4.1)**	(4.7)
Total adjusted operating profit	**7.2**	17.0

OUR BUSINESS MODEL

Produced in many formats for adults, children and the whole family, our products are visually appealing, information rich and kinesthetically stimulating. Our creative portfolio of imprints and businesses is expert in developing long-lasting content across niches of interest.

Our model remains effective and agile: talented people making high quality and long-lasting products across a balanced portfolio of creative businesses, with efficient processes, supported by a scalable operating platform that adapts to market conditions.

People
Our people and talent make Quarto. Each of our 40 imprints and businesses is creatively independent, producing what they believe is right for their customer base and the market. That is the underpinning ethos of Quarto.

Product
Each of our imprints has a different vision for the products they produce. We are proud of the wide variety of books and related products we publish and our unique, high quality content.

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

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

Platform
All our imprints are sitting on the Quarto platform of operations, people, sales and marketing that we have built and adhering to the financial model through *which we manage our portfolio.*

MARKET OVERVIEW

Quarto has been firmly anchored in international illustrated publishing since its foundation in 1976, which is sometimes difficult to separate from and compare to publicly available data regarding the global publishing book market, in which adult fiction is over-represented.

Recently, Quarto privately commissioned a new piece of research[1] which enables us to share the following overview and trends of the global illustrated book market.

Market size and potential

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

General trends

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

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

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

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

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

BOOK RETAIL MARKET MAP

Authors and experts

Publishers

Wholesalers **Distributors** **Direct**

1	2		3	4	5
Online Book Specialists	**Independent Book Specialists**	**Chain Book Specialists**	**Speciality Non-Book Retailer**	**Generalists Retailer**	**Discount Retailer**

End Consumer

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

2017 PORTFOLIO HIGHLIGHTS

Adults

Creative Lettering and Beyond
Published 2014
$691k revenue
0.5% of revenue

New Views
Published 2017
$367k
0.2% of revenue

Star Wars: Stormtroopers
Published 2017
$627k
0.4% of revenue

Cooking With Nonna
Published 2017
$317k
0.2% of revenue

1001 Movies You Must See Before You Die (2017 Edition)
First Published 2001
$441k
0.3% of revenue

Star Wars On The Front Lines
Published 2017
$301k
0.2% of revenue

Wonder Woman Ambassador of Truth
Published 2017
$389k
0.3% of revenue

Calligraphy Kit
Published 2014
$288k
0.2% of revenue

1001 Photographs You Must See Before You Die
Published 2017
$381k
0.3% of revenue

Keto Meals In 30 Minutes
Published 2017
$267k
0.2% of revenue

Children

Little People, Big Dreams series (9 titles)
First Published 2016
$1.1m
0.7% of revenue

Ultimate Secret Formula Lab
Published 2016
$523k
0.3% of revenue

Build The Human Body, Build The T-Rex and Build A Rocket
First published 2013
$857k
0.6% of revenue

Illumanatomy
Published 2017
$493k
0.3% of revenue

Etch Art series - Secret Art and Hidden Forest
Both published 2017
$738k
0.5% of revenue

Squishy Human Body
Published 2006
$488k
0.3% of revenue

Smart Circuit: Electronics Lab
Published 2016
$650k
0.4% of revenue

All-natural Lip Balm Boutiques
Published 2016
$481k
0.3% of revenue

Imagine
Published 2017
$606k
0.4% of revenue

The Nutcracker
Published 2017
$417k
0.3% of revenue

FINANCIAL REVIEW

Presentation of Results

The presentation of our results for 2017 is for continuing operations which excludes the results of the non-core businesses, Books & Gifts Direct (BGD) Australia, Regent Publishing Services and Books & Gifts Direct (BGD) New Zealand as they were disposed of during the year.

Note 31 to the financial statements explains the alternative performance measures we use to judge the performance of the Group.

Group Results for continuing operations

Revenue for the year was $152.5m showing a decrease of 1.4% on 2016 of $154.6m. The Harvard Common Press and becker&mayer publishing businesses, which we acquired in the US during 2016, accounted for $18.6m of 2017 revenue ($12.7m in 2016). Excluding those businesses, revenue was $133.9.m, a decrease of 5.6% against $141.9m.

The Group's operating loss of $17.9m is a $34.0m reduction on 2016's profit of $16.1m. Included in the operating profit in the year are exceptional items of $24.2m as detailed below. Adjusted operating profit, which is a key measure of how the business is performing, decreased by 58% from $17.0m in 2016 to $7.2m in 2017.

The loss before tax for the Group was $21.2m (2016: profit before tax of $13.0m), after amortisation of acquired intangibles and exceptional items.

The operating segments all had small revenue decreases in 2017 compared to 2016 but came under significant cost pressures:

- US publishing revenues decreased from $74.3m to $74.1m and operating profits decreased from $9.4m to US$4.6m.
- UK publishing revenues decreased from $74.1m to $72.7m and operating profits decreased from $12.4m to US$7.1m.
- Q Partners revenues decreased from $6.3m to $5.6m and the operating loss increased from $0.1m to US$0.4m.

As set out below in other exceptional items we carried out a review and restructure of business operations in the latter part of 2017 and we are already seeing the benefit of the associated cost reductions in 2018.

Disposal of non-core operations

As reported in the 2016 Annual Report we completed the disposal of our 75% interest in Regent Publishing Services Limited, the Hong Kong based publishing services business, on 31 March 2017. The consideration for this disposal was US$7.0m including a payment of US$3.4m (HK$19.5m) for the group's share of the excess cash in the business.

Also reported in the 2016 Annual Report we completed the disposal of the Australian operating company Books & Gifts Direct Pty Limited (BGD Australia) on 31 March 2017. The consideration for the sale of the company was A$1 and Quarto took an assignment of certain debts owed by the master franchisees to BGD Australia of A$1.9m (US$1.4m) which is repayable in monthly instalments over two years, and are interest bearing.
As reported with our interim results, we completed the disposal of the trade and certain assets of the New Zealand operating company, Books & Gifts Direct Pty Limited (BGD New Zealand) on 7 July 2017. The consideration for the sale of the trade and those assets was NZ$0.8m. In addition, Quarto is entitled

to receive a proportion of debtor receipts and profit before interest and tax over the next two years. The repayments will be used to reduce the Group's bank debt as they are received.

More information is given in note 30 in these Financial Statements.

Exceptional items

Goodwill impairment

The annual goodwill impairment test revealed that further to the decrease in profitability in FY17 referred to above the goodwill in the US publishing business was no longer supported by the net present value and consequently we have booked an impairment charge of $17.1m which reduces the carrying value to $12.9m.

A UK imprint was closed as part of the restructuring carried out in the latter part of FY17 and the goodwill relating to its acquisition of $0.3m was written off. No other impairment was required in respect of the UK goodwill which has a carrying value of $6.4m.

As a result of these two changes goodwill has been reduced by $17.4m and it now stands at $19.3m.

More information is given in note 11 to the Financial Statements.

Other exceptional items

A review of business operations was carried out in the latter part of 2017. As a result it was decided to close certain under-performing imprints which means that no new titles will be published in those imprints after the relevant closure dates though existing titles will continue to be sold as backlist. The costs of the restructure have been treated as exceptional items which include both the relevant people costs ($0.5m) and impairments of and provisions against assets ($5.4m) where the predicted future cashflows do not support the carrying value. This charge includes $4.9m in respect of pre-publication assets, $0.1m in respect of inventory and $0.4m in respect of royalty advances.

There were also corporate transaction costs of $0.9m which include $0.6m incurred in relation to the security package put in place in relation to the overall financing facilities, $0.2m incurred in relation to the unsuccessful bid for the group in the year and abortive acquisition costs of $0.1m.

Finance Costs

Finance costs of $3.3m (2016: $3.1m) represent the interest costs on the Group's borrowings together with the amortisation of the debt issuance costs. The increase in net finance costs reflects the higher net debt on average during 2017 compared to 2016 and an increase in interest rates charged.

Tax

The tax credit for the year of $1.5m (2016: $3.8m) arises on the loss before tax. The effective tax rate for the Group is 7.0% (2016: 28.8%). A significant proportion of the Group's taxable profit arises in the US where the federal tax rate was 34%. However following the enactment of the US tax reform legislation commonly known as the Tax Cuts and Jobs Act on 22 December the federal tax rate will be 21% with effect from 1 January 2018 which will reduce the effective tax for the Group from 2018 onwards.

FINANCIAL REVIEW CONTINUED

(Loss)/Earnings Per Share

Our loss per share of 90.6c (2016: loss per share of 28.5c) is due to the lower level of profitability in 2017. Our adjusted basic earnings per share for the Group continuing operations of 18.3c shows an annual decrease of 63.3% on the comparative figure for 2016 of 49.8c and reflects the decrease in the profit before amortisation of acquired intangibles and exceptional items before tax from $13.9m to $3.9m. Note 10 to the financial statements sets out how we calculate the adjusted earnings per share figures.

Return to Shareholders

The Directors are not recommending a final dividend for the year, bringing the total dividend for the year to nil per share (2016: 15.0c per share).

Cash Flow

Cash generated by the operations of the business amounted to $44.6m (2016: $43.7m).

We invested $35.6.m (2016: $37.2m) in pre-publication costs using the cash generated from operations. Our investment in pre-publication costs reflects the acquisitions made in the previous year and our continued investment in new titles we publish each year. This year's new titles become part of our backlist in the following year. We spent $7.0m on deferred consideration re previously acquired new businesses (2016: $3.7m) and $1.3m on capital expenditure (2016: $1.6m). The investment in pre-publication costs for new titles and our investment in acquiring new businesses are key factors in driving future revenue growth.

Acquisitions

No acquisitions were made in 2017.

Net Assets

The Group's net assets of $24.1m at 31 December 2017 show a reduction of $20.0m on 2016 position of $44.1m, mainly reflecting the $18.5m loss for the year (including $17.1m impairment of US goodwill and other exceptional costs of $7.1m), the reclassification to income statement on disposal of business ($3.5m), the divestment of the minority interest in Regent Publishing Services ($3.7m) and the final dividend relating to 2016 of $2.0m paid to shareholders.

Indebtedness and Borrowing Facilities

Our net debt comprising our bank borrowings less cash balances has increased from $61.9m to $64.0m. Although net debt did not fall in 2017, it has reduced by $17.0m in the last five years since 31 December 2012. The continued reduction of our net debt remains a key objective for the Group. Our bank borrowings at 31 December 2017 were $81.9m (2016: $80.7m).

In February 2015, the Group agreed a $95m multi-currency term loan and revolving credit facility, which expires on 30 April 2019. We have repaid $5m of the term facility in each of February 2016, February 2017 and February 2018 (total $15m) and so $80m of the facility remains.

The facility requires us to maintain certain levels of interest cover, leverage and cash flow in the business and the interest payable on the debt is based on a ratchet whereby we pay LIBOR plus a margin depending on our leverage ratio. We also have a £5m working capital overdraft facility, which is renewable annually.

Currency

The Group reports in US Dollars, which is the principal functional currency, but during 2017 it also transacted in Sterling, Euros, Australian Dollars, New Zealand Dollars and Hong Kong Dollars. Our borrowings are drawn in US Dollars, Sterling and Euros to hedge the movement in our net assets in those currencies. The key exchange rates for the year are shown in the table below.

The average rate is calculated by taking the cumulative average of rates over the twelve months in the year.

Exchange Rates

In the year, all of the currencies we transact in, except for the Hong Kong Dollar (for both year end and average rates) and Sterling (for average rate), weakened against the US Dollar. The net impact of these currency movements on our net assets was nil (2016: increase of $0.7m).

Principal Risks and Uncertainties

Details of the principal risks and uncertainties are set out on pages 28 and 29.

Details of the Group's financial risk management objectives and policies are set out in Note 21 to the financial statements.

Going Concern and Viability Statement

In accordance with provision c.2.2 of the 2014 revision of the UK Corporate Governance Code, the Directors have assessed the prospects of the Group over both a one-year and a three-year period. The one-year period has a greater level of certainty and is, therefore, used to set budgets for all our businesses which culminates in the approval of a Group budget by the Board. The three-year period offers less certainty, but is broadly aligned with long term incentives offered to Executive Directors and certain senior management. The market development over the same forecast period has been evaluated for the company by Pragma Consulting. The Group's projections and their underlying assumptions have been reviewed by a firm of independent consultants, against the background of the Pragma findings, in order to give greater assurance.

	Year end rate			Average rate		
Versus US Dollar	2017	2016	% change	2017	2016	% change
Sterling	0.74	0.81	(8.6)%	0.78	0.74	5.4%
Euro	0.84	0.94	(10.6)%	0.88	0.90	(2.2)%
Australian Dollar	1.28	1.38	(7.2)%	1.30	1.35	(3.7)%
New Zealand Dollar	1.41	1.43	(1.4)%	1.41	1.44	(2.1)%
Hong Kong Dollar	7.83	7.73	1.3%	7.79	7.76	0.4%

FINANCIAL REVIEW CONTINUED

Supported by the findings of both the Pragma and the other independent consulting projects, the Directors have considered the underlying robustness of the Group's business model, products and proposition and its recent trading performance, cash flows and key performance indicators. They have also reviewed the cash forecasts prepared for the three years ending 31 December 2020, which comprise a detailed cash forecast for the year ending 31 December 2018, based on the budget for that year, and the growth assumptions for revenue and costs, together with cash forecasts, for the years ending 31 December 2019 and 2020, to satisfy themselves of the appropriateness of the going concern basis used in preparing the financial statements.

The Directors have assessed the Group's viability over a three-year period ending on 31 December 2020 based on a financial model which was prepared as part of the process of considering and approving the 2018 budget. The Directors used the three-year review period for the following reasons:

- The Group's publishing programme planning cycle normally works over a two to three-year period.
- The Group's current loan facilities mature in April 2019. Consistent with previous periods and facilities, the Directors have assumed that there is a reasonable probability that these facilities will be renewed or extended by that time on similar terms.

In carrying out their analysis of viability, the Directors took account of the Group's projected profits and cash flows and its banking covenants and these have been subjected to sensitivity analysis over the three-year period using a range of downside scenarios. The scenarios tested include:

- A reduction in revenue for the second half of 2018.
- A reduction in revenue for full year 2019.
- 10% of receivables collections are delayed by one quarter at the projected period with least headroom.

If these scenarios were to materialise the Group would still satisfy the banking covenants in its facility agreement as recently amended. We also have a range of options that enable us to maintain our financial strength including reduction in pre-publication costs, reduction in capital expenditure and managing debt.

The level of profitability of the Group reduced significantly in 2017. This has inevitably put more pressure on the banking covenants and the ability of the group to service its debts. The Directors are in discussion with the loan facility providers to mitigate the risk and the following steps have either already been implemented or are in progress:

- A standard security package was put in place in December 2017 as indicated in the group's November trading update.
- Spot amendments to individual covenants have been put in place as required.
- Further amendments for each of the three loan covenants, to increase the headroom available during 2018 and early 2019, have been agreed, along with additional oversight and reporting arrangements. Since the disposal of BGD and Regent, and with the growing mix of Children's books in the revenue projections, the seasonality of the business has become more pronounced. Working capital is managed tightly at those points in the cycle where the headroom is most constrained.

Beyond purely financial considerations, the Board and its Audit Committee review the Group's risk register and the evaluation of likelihood and impact of the factors identified. They assess and challenge the mitigations proposed, redeploying investment and resources where necessary. As noted above, the directors have reviewed and relied on the Pragma Consulting evaluation of the marketplace in which Quarto operates. The findings of this review are encouraging despite the well-documented and continuing challenges of the US and UK retail environments.

Quarto's breadth of frontlist titles each year means that it is not exposed to concentration risk in relation to individual authors, or the delivery of individual titles. Its breadth of online and physical retail channels results in a lower level of customer concentration risk than for other publishers. Quarto has a diverse roster of key suppliers and can quickly move production between them should there be any instance of business interruption. These and other risk factors are outlined in the Principal Risks Section of this report. All have been considered by the Directors in reaching our determinations.

As we indicated last year, whilst we have successfully transformed the business in the last few years, the competing pressures of servicing our debt, paying dividends, and investing in the core business were inhibiting our ability to grow. The Board's decision not to pay a dividend in respect of 2017, its ongoing detailed review of creative investment, and its stated intention to look at all options to strengthen the balance sheet, are major initiatives which are expected to support future growth in revenue and margins. The Board will keep all stakeholders updated with developments of our thinking. Based on our assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet all of its liabilities as they fall due up to 31 December 2020.

For these reasons, the Directors continue to adopt the going concern basis in preparing the financial statements. In doing so, it is recognised that such future assessments are subject to a level of uncertainty that increases with time and, therefore, future outcomes cannot be guaranteed or predicted with certainty. Note 1 to the financial statements provides additional information on the Group's banking covenants and sensitivity.

Marcus E. Leaver
Chief Executive Officer
29 March 2018

OUR KEY PERFORMANCE INDICATORS

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

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

2017	8.0
2016	18.1
2015	17.7
2014	17.0
2013	15.9
2012	16.5

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

ADJUSTED[1] OPERATING PROFIT ($M)

2017	7.2
2016	17.0
2015	18.5
2014	15.8
2013	14.3
2012	12.8

Adjusted operating profit decline reflecting a difficult trading year.

RETURN ON NET OPERATING ASSETS (%)

2017	7.7
2016	14.3
2015	13.4
2014	12.0
2013	11.8
2012	11.0

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

NET DEBT ($M)

2017	64.0
2016	61.9
2015	59.5
2014	66.0
2013	71.0
2012	81.0

Our net debt has reduced by 21% since 2012. The $2.1m increase in net debt comprises free cashflow ($7.7m) offset by interest payments ($2.9m), acquisitions/disposals ($2.4m), 2016 dividend ($2.0m) and non-cash/other items ($2.5m).

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

ADJUSTED[1] DILUTED EARNINGS PER SHARE (CENTS)

2017	17.8
2016	48.7
2015	46.1
2014	39.1
2013	36.1
2012	41.6

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

BACKLIST % OF SALES (%)

2017	60.3
2016	58.3
2015	61.4
2014	66.6
2013	71.3
2012	69.8

Backlist has increased as a percentage of sales as we have invested in new IP.

INVENTORY % OF REVENUE (%)

2017	14.8
2016	15.5
2015	13.8
2014	13.9
2013	11.2
2012	12.6

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

INTELLECTUAL PROPERTY DEVELOPMENT SPEND ($M)

2017	35.6
2016	37.2
2015	34.9
2014	33.5
2013	31.7
2012	30.5

We have increased the IP spend to grow the publishing portfolio organically. Frontlist sales have grown by 107% in the period.

CHILDREN'S PUBLISHING REVENUES ($M)

2017	49.1
2016	41.1
2015	32.4
2014	23.0
2013	19.6
2012	18.5

Children's publishing revenues have increased by 165% since 2012.

RISK MANAGEMENT, PRINCIPAL RISKS AND UNCERTAINTIES

The Quarto Group's risk management framework is designed to identify and assess the likelihood of risks arising, the consequences of them doing so and the actions necessary in order to mitigate their impact.

The Board has carried out its periodic assessment of the principal business risks facing our various businesses and has updated these risks in its risk register, which is regularly reviewed. The Board continues to monitor these principal risks and associated material controls. Details of the Group's financial risk management objectives and policies are set out in Note 21 to the financial statements. The business risk review identified the following key risks that face our businesses.

MARKET AND FINANCIAL RISKS

Risk	Description	Mitigating factor
Economic conditions	The Group operates across many of the major world economies and our revenues and profits depend on the general state of the economy in those territories. A downturn caused by a global recession could reduce consumer discretionary spending, which might result in a reduction in profitability and operating cash flow. The UK's exit from the European Union and the US elections have also caused some uncertainty in the economic environment.	The Group has adequate facilities with up to $80m (and £5m) in available debt facilities. In addition, in such an event, the Directors have the ability to take a number of mitigating actions, including the reduction of discretionary spend on pre-publication costs.
Currency	The Group's businesses operate in a number of different currencies giving rise to a risk of exchange loss due to fluctuating exchange rates.	The Group has a natural hedge that mitigates against currency movements impacting our earnings in that one of our largest costs, which is print costs, are paid in US Dollars. Borrowings have been taken out in different currencies to mitigate risk of currency movements impacting our net assets.
Financial	The Group's relatively high level of debt makes the Group sensitive to interest rates and potential covenant breaches.	The Banks receive financial information from the Company on a regular basis and so are able to evaluate the performance of the Group and the covenants. Where required, the Company discusses with the Banks whether amendments to the facility covenants are needed. Improved financial systems and management reduce the risk of covenant breaches. The Company is also exploring ways to strengthen its balance sheet. The Company also has means available to it to reduce costs, for example pre-publication costs and, as in 2017, cancel the dividend.

OPERATIONAL RISKS

Risk	Description	Mitigating factor
Customer	A significant dependency on a small number of customers, for instance co-edition partners or retailers, could be problematic if one of them tried renegotiating preferential terms or stopped doing business with the Group. The failure of a major customer could impact revenue and profits.	The Group has a long-established strategy of diversifying its customer base, resulting in the fact that no one customer has over 20% of the business. Customer relations are well managed with all Quarto's larger customers to ensure a fair trading relationship. Management monitors debts closely and maintains close relationships with all customers, which may provide prior warning of likely failure.

OPERATIONAL RISKS

Risk	Description	Mitigating factor
Supply chain and raw materials	The Group uses a number of print suppliers, many of which are based in Southern China. There is a risk that an interruption in the availability of printing services in that area or the financial failure of one printer could disrupt the distribution of new books to customers. Any increase in costs such as oil, port charges etc. would also impact shipping costs. Any disruption in supply of paper could lead to an increase in costs and production disruption. There is also a reputational risk of using non-environmental paper.	The Group maintains relationships with printers in other parts of the world and is confident that printing could be carried out by an alternative range of printers if supply from China was interrupted or to mitigate shipping costs. We maintain close relations with our printers, reducing the risk of a lack of knowledge of any printer being in financial trouble. The Group worked with our major printers on a plan to move to sustainable paper and recently instituted a Forest Stewardship Council (FSC) paper or Sustainable Forestry Initiative (SFI) paper policy across all our imprints.
Product safety	Our business is faced with increasing safety and testing requirements on various product components. The risk of a product recall due to children's safety would have a severe reputational impact on the business.	All components receive safety testing from independent third parties. Management carefully selects suppliers for components. The Group has 2 dedicated Sourcing and Quality Managers who handle components sourcing and safety test management.
Loss of intellectual property	A loss of stored IP through failure of storage medium or loss of back-ups would impact our ability to process reprints and revisions and could cause a loss of revenue.	A cloud storage solution has recently been integrated into production workflow for storage, back-up and recovery services for product files in development. Two archive data arrays that will be a replication of each other have been purchased and are being installed across the first half of 2018. There is one in the UK and one in the US with each hosting a complete set of backlist archives.
Laws and regulations	As a creative and IP business, any changes to copyright laws could have an impact on the Group's activities and any infringement could lead to increased costs. Inconsistent internal practices for negotiating contracts or clearing rights could lead to IP claims.	Quarto has recently streamlined and simplified the number of legal entities it operates through, and reviewed the structure of our Legal team, including hiring a new Group Director for Legal and Business Affairs. This will ensure that all practices are aligned and consistent across imprints and geographies within the Group.
Cyber security	Like many organisations, the Group is at risk from cyber-attack. This presents a potentially serious risk of disruption to the production process and could have a significant impact on the profitability of the business and the security of IP assets.	The Group uses firewalls and IT controls to prevent attack as well as maintaining offsite back-up of IP. Computerised files of the Group's books are also maintained by printers. We do not store any personal or credit card data on our transactional website quartoknows.com.
People	As in any creative business, the Group is heavily reliant on its people and operates with the inherent risk of not making the 'right' books, or creativity being uneven year-on-year. Failure to retain existing talent and attract new talent could ultimately lead to a failure to generate new titles, leading to a drop in revenue.	Our portfolio of imprints and large number of products spread this risk. The overall portfolio is extremely well diversified with no single title or series accounting for more than 0.7% of our total revenue in 2017. Quarto's Publishers are experienced and talented, and strive to stay close to publishing trends and markets. The Group also offers competitive market rate remuneration packages and has been working on making Quarto an attractive place to work.

OUR PEOPLE

"I want to make a real and tangible difference by supporting and empowering both the business and our people to be even better at what they already do."

Nanette Gibb
Group Director of People

I joined Quarto as Group Director of People in January 2018. Every day, around 400 people in our 9 offices in the UK, US and Hong Kong create, publish and sell amazing books across the world.

Operating in a crowded and competitive market, Quarto's sustainability and future growth are both dependent on our ability to attract and grow talented, resourceful and creative employees.

My focus

My immediate focus for 2018 is to enhance the many great things that Quarto already does and stands for as an employer of talent.

Everything on our People agenda should:

- Align and support the overall business objectives;
- Perpetuate and promote commercial creativity;
- Provide focus, accountability and purpose;
- Stay true to the Quarto ethos and cultural values;
- Provide the platform for Quarto and our employees to realise their ambitions.

Our ethos and values

Quarto has a strong set of values that shape the way we go about our business and engage with our employees.

With a wide range of individual imprints and people, we want to be known as an employer who genuinely values individuality and diversity.

Our Values

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

Employee Recognition

In 2016 Quarto launched its first ever Company-wide employee awards initiative - the Purple Quagga Awards. Its objective is to provide a platform and voice for recognising employee contribution to the business and spirit of Quarto. There are 10 awards with 8 being nominated directly by employees or line managers. We had 140 nominations. The winners received a personalised trophy and letter from our Chief Executive. The prizes are both for teams and individual, ranging from $1,000 to $5,000. Owing to its success, we are repeating the Awards again this year and are about to announce the winners from the 150 nominations received.

Diversity of people and skills

Quarto continues to make significant progress in appointing female talent into senior positions. Today, both the Board of Directors and senior leadership team are gender-balanced:

- Quarto achieved gender parity on its Board of Directors in 2017 for the first time ever and has since moved to a ratio of 58% female: 42% male in 2018;
- Quarto had 44% women on its Leadership Team in 2017 (vs none in 2012), and has moved to a ratio of 50% in 2018.

We will continue to recruit, develop and promote employees based on their skills and performance.

We will not discriminate against age, gender, ethnicity, cultural background, sexual orientation or religious beliefs. We will not filter job applications through a system that disqualifies candidates based on education, sex or age.

We will continue to diversify our recruitment pipeline, particularly for entry-level and junior positions. In 2017 Quarto worked with Creative Access to provide the opportunity for individuals from Black, Asian and Minority Ethnic (BAME) backgrounds to have greater access to publishing networks and break-down barriers to finding an entry level job in publishing. In the UK, Quarto has a clear policy that all interns are paid the 'national living wage'.

I am excited and feel really privileged to be part of Quarto's next chapter. I want to make a real and tangible difference, by supporting and empowering the business and our people to be even better at what they already do.

Nanette Gibb
Group Director of People
29 March 2018

CORPORATE RESPONSIBILITY AND SUSTAINABILITY

Our mission is to inspire life's experiences through rich content and beautifully illustrated books, which in itself has a high social value. We consider our impact on society and the environment, and work to be a good corporate citizen.

Supporting our communities

Our people individually and collectively contribute to the communities in which we live and work.

In 2017, we launched The Quarto Foundation to support our local communities in areas that are close to our hearts and business - education and knowledge. Every Quarto office chose one local charity to support and was encouraged to raise money through mechanisms such as matched giving, in-kind donations and volunteering time. In total, Quarto offices raised over $12,000 in support of their charities in 2017. We are carrying on with the Quarto Foundation in 2018.

Supporting literacy

In 2017, Quarto signed the Vision for Literacy Business Pledge, a UK national campaign led by the National Literacy Trust through which businesses commit to take action to drive up literacy levels and boost social mobility. The pledge counted 51 signatories in 2017 including Sainsbury's, Costa, Boots Opticians, McDonald's, Amazon UK as well as several publishers such as Penguin Random House, Walker Books, Hachette UK, and Pearson.

Activities of the Quarto Foundation in the UK are aligned with the requirements of the Pledge.

For instance, our headquarter office in London, located near Pentonville Prison, supported Shannon Trust in their mission to improve literacy amongst prisoners. Our Production teams worked with our print suppliers to set up an ongoing print deal to produce Shannon Trust's prisoner reading material series, "Turning Pages", cutting their printing costs by 17%. Quarto has renewed its commitment to the Literacy Pledge in 2018.

$12K+
RAISED THROUGH THE QUARTO FOUNDATION

$10K
DONATED TO GODDARD RIVERSIDE

Other activities

Other highlights for 2017 include:

- Our annual $10,000 donation to the Goddard Riverside Community Center in New York City. The Goddard Riverside Community serves some 17,000 people each year. They have established a decade-long partnership with the publishing industry to fight against homelessness.
- $10,000 donated to Wholesome Wave against future royalties for three Burgess Lea Press titles: Onions, Tree of Life, and Dulce De Leche. Wholesome Wave is a US charity which empowers under-served consumers to make healthier food choices by increasing affordable access to fresh, local food. Burgess Lea Press donates 100% of after-tax publishing profits on every book to organisations that address hunger relief, farmland preservation and culinary education.
- Lincoln Children's Books created the first picture book set to John Lennon's Imagine in partnership with Amnesty International and illustrations by renowned artist Jean Jullien. The book was published on 21 September 2017 – the UN's International Day of Peace – in 16 territories simultaneously, each supported by a partnership with a local Amnesty International branch. Imagine is one of Quarto's bestsellers in 2017, with c. 210,000 copies sold in 15 languages, with Amnesty International receiving a royalty from every copy sold.

Limiting our impact on the environment

The impact of our business on the environment predominantly comes from the activities we subcontract to our suppliers including the printing, production, distribution, recycling and disposal of printed books.

Using sustainable paper

Since late 2016, we have implemented out a Forest Stewardship Council (FSC) paper policy across all our UK and US imprints, including gift and stationery products, adults and children's books published under Quarto imprints, as well as co-edition books printed for our foreign language customers. As a consequence, close to 100% of our newly printed books now use FSC paper.

Where we print domestically in the US, and FSC material is not available, we use Sustainable Forestry Initiative (SFI) paper.

We continue to work with partners and suppliers who are certified by the FSC, ISO 14001 which covers environmental management systems, and the ICTI CARE process covering ethical standards of manufacturing.

Developing more sustainable operations

We manage our carbon emissions by ensuring that we consolidate shipments across the Group and ship as infrequently as possible.

We ship most of our books to two warehouses – one in the UK and one in the US. The majority of our books are printed in southern China and shipments are consolidated. As a rule, we consolidate palletised shipments from the printer and limit movements to only full 40-foot containers. When a container is not full, we will hold shipment until the following week barring exceptional circumstances. We have been applying these guidelines as standard practice for US-bound shipments for the last three years, and we started for UK-bound shipments in mid-2016. Since we started for the UK, our average pallet loading for each container has been 49 pallets out of a maximum capacity of 52 – so we are performing efficiently in this area.

BOARD OF DIRECTORS

Peter Read
Chairman

Peter joined the Board in May 2016.

Peter currently holds a number of a non-executive directorships including, Concha, various Quayle Munro companies, the Professional Cricketers' Association, the Royal Automobile Club, and the Motor Sports Association. He was formerly chairman of KPMG's Telecoms, Media and Technology practice and a partner for over 20 years.

Peter chairs the Nominations Committee and is a member of the Remuneration Committee.

Marcus E. Leaver
Chief Executive Officer

Marcus E. Leaver has been CEO of The Quarto Group since December 2012 having joined the company as COO earlier that year. He has re-focussed the London Stock Exchange-listed Group on its intellectual property businesses, selling non-core activities, and increasing the focus on its children's business both organically and by acquisition.

Prior to Quarto, he worked in the USA from 2005, latterly as President of Sterling Publishing, a subsidiary of Barnes & Noble. Before living and working in the US, from 1998 he worked for Chrysalis Group plc, a London Stock Exchange-listed media company, latterly as Corporate Development Director and then CEO of Chrysalis Books Group, from 2002.

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

Carolyn Bresh
Chief Financial Officer

Carolyn is joining Quarto as Chief Financial Officer on 9 April 2018 and will join the Board as an Executive Director.

Previously, Carolyn was a Partner at Everymind Ltd, a consultancy that provides senior Finance strategy and support to mainly private equity backed businesses - a post she has held since 2007. Prior to that, Carolyn was Deputy CFO and Group Financial Controller at Reuters Group plc, which she joined in 1995, working in the US and UK in Divisional Finance Director roles. Carolyn previously held various senior finance roles at Blenheim Group plc, in the UK and US, between 1992 and 1995, following her ACA qualification at PwC. She is also qualified as a Corporate Treasurer (ACA).

Carolyn graduated from Imperial College, University of London with a degree in Physics and received her MBA from the London Business School.

Leslie-Ann Reed
Non-Executive Director

Leslie-Ann is a chartered accountant with a diverse background and extensive international experience, having served in both executive and non-executive roles in publicly listed media and professional services companies. She is currently Non-Executive Director and Chair of the Audit Committee for Learning Technologies Group plc, the market leading integrated e-learning services and technologies provider. She is also a member of the Supervisory Board & Chair of the Audit Committee of Zeal Networks SE - a company listed on the Frankfurt Stock Exchange that specialises in the area of online lottery.

From 2010, Leslie-Ann was Chief Financial Officer of the global, online B2B auctioneer Go Industry plc. Between 2007 and 2010, she was an adviser to private equity company Marwyn Investment Management and prior to this, she served as CFO of global commodities and economic research media group Metal Bulletin plc. Leslie-Ann is Chairman of the Audit Committee and a member of the Nominations and Remuneration Committees.

Jess Burley
Senior Independent Director

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 The&Partnership 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 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 and Remuneration Committees, and is Senior Independent Director.

Claire Capeci
Non-Executive Director

Claire is Global President, Retail for J. Walter Thompson Worldwide, the WPP-owned advertising agency, and based in New York City. She leads a specialized retail discipline that leverages the company's deep experience in the category and extends and expands it around the world. In addition to her global role, Claire leads the agency's Edgewell Personal Care account and worked with Macy's for 8 years. She has been with the company since 2006, having assumed the roles of Global Business Director and Managing Director for JWT New York before taking on her current position. Prior to joining JWT, Claire was Executive Vice President, Managing Director of Lowe Worldwide.

Claire was named one of the "30 Most Powerful Women in Advertising" by Business Insider and has worked on campaigns for renowned brands including Nokia, Estee Lauder, Macy's, GMC SUV's and Trucks, Heineken and Diet Coke.

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

Andy Cumming
Non-Executive Director

Andy joined the Board on 1 March 2018.

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

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

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

Charles Wilson
Company Secretary

Charles is a solicitor with 20 years experience in private practice and in house roles. He joined Quarto in December 2017. In private practice Charles worked principally at DLA Piper and latterly at Trowers & Hamlins where he was a partner specialising in all corporate and commercial matters for 4 years until 2013. Since then he has worked in a number of senior in house interim roles for Travelex, Ascential plc and Kingfisher plc. His last role was at Ascot Lloyd Financial Services where he was General Counsel and Company Secretary. Charles is an ICSA qualified Company Secretary.

NOMINATIONS COMMITTEE REPORT

With the Board changes that took place in 2017 and post the year end, the Nominations Committee now comprises the Group's non-executive Directors, Peter Read (Committee Chairman), Jess Burley (Senior Independent Director), Claire Capeci, Leslie-Ann Reed and Andy Cumming. The Chief Executive Officer, Marcus E. Leaver, stepped down as a member of the Committee on 23 February 2018. A copy of the Committee's formal terms of reference can be found on the Company's website. (www.quarto.com)

The search for Board candidates is conducted and appointments made, on merit, against objective criteria and with due regard to the benefits of diversity on the Board, including gender. The Committee now comprises two men and three women. External search consultants are engaged, as appropriate, and a formal and transparent process is followed. When dealing with the appointment of a successor to the Chairman, the Senior Independent Director will chair the Committee instead of the Chairman.

All Directors are required to allocate sufficient time to discharge their responsibilities and new Directors receive a tailored induction on joining the Board. This includes presentations on the business, current strategy, shareholder expectations, and familiarisation with the Group's operations worldwide. Guidance is also given on the duties, responsibilities and liabilities of a Director of a listed company and key Board policies and procedures.

The Committee met two times during the year and was active, in approving Claire Capeci and Leslie-Ann Reed's appointment as new independent Non-Executive Directors on 17 May and 3 August 2018 respectively. The Nominations Committee also appointed Brian Porritt as interim Chief Financial Officer, following the resignation of Michael Connole, in May 2017. Michael Hartley resigned as a non-executive Director on 30 September 2017. Clive Potterell resigned as Company Secretary on 31 January 2017 and was replaced by Anne Crompton. Post the year end, following Anne's resignation, Charles Wilson was appointed Company Secretary, and Andy Cumming was appointed as an independent non-executive Director with effect from 1 March 2018.

Following an extensive executive search to identify a suitable permanent replacement undertaken by Campbell Brown, an executive search agency, the Committee appointed Carolyn Bresh as Chief Financial Officer with effect from 9 April 2018. Brian Porritt, the Interim Chief Financial Officer since May 2017, will stay with the business until August 2018 to work closely with Carolyn to effect a comprehensive transition. The Committee and Board thank Brian Porritt for his considerable contribution and for agreeing to stay on.

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

Peter Read
Chairman of the
Nominations Committee
29 March 2018

AUDIT COMMITTEE REPORT

Changes to the Board that took place in 2017 meant the composition of the Audit Committee also changed. Michael Hartley served as Chairman until 30 September 2017 when he resigned from the Board and (also the Committee) and was replaced as Chairman by Leslie-Ann Reed who became a member of the Committee on 3 August 2017. Claire Capeci joined the Committee shortly after her appointment to the Board on 17 May 2017. Jess Burley served on the Committee until she stepped down on 30 September 2017 due to her other commitments. Post the year end, Andy Cumming was appointed as a member of the Audit Committee on 1 March 2018. The Board considers Leslie-Ann Reed, Claire Capeci and Andy Cumming to be independent Non-Executive Directors who together have recent, relevant and a wide range of financial, commercial and sector experience in order to fulfil the Committee's duties.

Responsibilities

The Committee acts in accordance with its terms of reference, and its specific responsibilities include:

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

Committee Meetings

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

By invitation the Company's Chairman of the Board, CEO, 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 five times during 2017 and twice so far in 2018.

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 2017 and 2018 to date the work of the Committee included:

- Re-tendering of the external audit mandate and appointment of Grant Thornton in place of Deloitte.
- Review of the plan and scope of the external audit.
- Review of the external auditor's report on the 2017 year end audit and approval of the preliminary announcement and the annual report.
- Review of the Directors' viability statement.
- Consider the external auditor's comments in relation to internal control and review the need and potential scope of internal audit functions.
- Consider and approve of measures to ensure the Company's compliance with banking covenants.
- Review and approve of the interim report 2017 after discussion with management and the external auditor.
- Review and consider the goodwill impairment review.
- Consider the external recommendations of the external auditor arising out of the 2016 accounts.
- Discussion of significant accounting issues and judgements in the 2016 accounts as had been detailed in last year's annual report.

AUDIT COMMITTEE REPORT CONTINUED

Significant Audit risks, key findings and financial judgements relating to year end accounts 2017

The Committee concentrated on the following in relation to the 2017 accounts.

Going Concern, Covenant Compliance and Bank Security

The Committee considered the underlying robustness of the Group's business model, products and proposition, and the financial resources available to it for the future to satisfy itself of the going concern assumption in preparing the financial statements.

Following the failure of the Q4 2016 CFADS covenant test, the Committee had considered and approved measures to ensure the Company's compliance with banking covenants. A combination of a reduction in operating cash flow generated in H1 and deferred consideration payments in respect of becker&mayer and other transactions had increased net debt. In December 2017, amendments to the facility agreement were agreed including the waiver of the CFADS covenant test that would have been undertaken at 31 December 2017 and the reduction of the CFADS ratio.

Management consulted with the lead bank to ensure that they concurred that it was appropriate to exclude certain items as exceptional items when calculating covenant compliance.

The Committee noted these matters, including the significant control observations on this area, and the forecast compliance with the facility's covenants for the foreseeable future. The Committee also noted that security over the principal assets of the Group was granted to the Banks in December 2017.

Assessment of the carrying value of Goodwill

Goodwill arising from acquisitions is stated at cost less any accumulated impairment losses. In accordance with IAS 36, the Group tests the goodwill on an annual basis for impairment. In the tests carried out at 31 December 2017 the net present value of the goodwill in respect of the US Publishing business was calculated as being $12.9m which necessitated a $17.1m impairment charge from its carrying value of $30.0m. A UK imprint was closed in 2017 and associated goodwill of $0.3m was written off. No other goodwill impairment was required and total goodwill now stands at $19.3m. Further detail is set out in note 11 to the financial statements.

Recoverability of pre-publication costs

Amortisation of pre-publication costs is charged to the income statement on a straight line basis over the estimated useful lives of the intangible assets. Pre-publication costs are capitalised in accordance with IAS 38 and the Committee, with the external auditor, discussed the assumptions behind the amortisation profile including the amortisation period of the publications. Further detail is set out in note 15 to the financial statements.

In 2016, management amended their estimate of the useful life of certain assets to better reflect the expected useful life of the assets and no further changes to this were made in 2017.

Exceptional items

The Committee, in consultation with the Auditor, considered the latest regulatory guidelines issued by the FRC in December 2013 and agreed with the Executive Directors to restrict exceptional items to significant items outside the scope of normal business that need to be disclosed by virtue of their size or incidence. This has been applied consistently from 2014.

For the 2017 accounts there have been significant exceptional items. These include the goodwill impairment ($17.4m) as set out above, $5.9m in respect of restructuring costs ($0.5m for people costs and $5.4m of impairments and provision against imprint assets) and $0.9m of corporate costs including costs in respect of the security package put in place in relation to the overall financing facilities ($0.6m), costs incurred in relation to the unsuccessful bid for the group in the year ($0.2m) and abortive acquisition costs ($0.1m). All of these items were included within Exceptional Items due either to their scale and one-off nature or to being non-trading items.

For the 2016 accounts there were significant exceptional items in relation to the two BGD businesses which were disposed of in 2017. These included items relating to impairment of goodwill and intangibles of $6.2m as well as $8.0m relating to the write-down of assets including receivables and inventory. These were included within Exceptional Items due to their scale and one-off nature rather than being non-trading items. These costs are now included as part of the result of disposed operations shown in note 30 to the financial statements.

Revenue recognition and sales returns

The Committee considered the risk that revenue may not be captured in the relevant period. This depended on principally on when shipment had taken place. 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 as management assesses sales returns through quantifying the previous returns experience and post year end returns.

During 2017, the Committee reviewed management's methodology, and discussed the procedures followed to ensure that revenue was booked into the correct period in line with the stated accounting policies and that returns provisions were reasonable. As a result the returns provision for 2017 is considered to be fully provided.

Inventory provisioning

The economics of manufacturing and wholesaling of books in the publishing businesses inherently leads to substantial inventories. Most of these are printed without guaranteed sales so there is a degree of judgement as to the provisions required to hold this inventory at the lower of cost or net realisable value.

The Committee reviewed management's methodology and discussed the testing performed by the Auditor to provide comfort that these estimates were reasonable.

Receivables provisioning

Trade receivables is inherently a critical accounting estimate in relation to the risk of non recoverability of trade receivables. The Committee has discussed and challenged the overall receivables position and considered the reasonableness of the level of provisioning. The Committee noted the much-reduced level of overdue receivables in the publishing businesses.

External Audit

The Committee assesses the effectiveness of its external auditor through on-going 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 accounting risks, the new requirements in relation to the viability statement and other Corporate Governance Code changes, improvement in relation to risk management and internal control and controls in the accounting process.

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

The Auditor showed diligence and openness with the Committee during meetings and through written communication and during intermediate briefing sessions with the Chair of the Audit Committee. The Auditor gave the Committee forthright views on judgement areas whilst recognising that the decisions lay with the Committee. The Committee also received feedback from the interim CFO involved with the audit. The Committee is satisfied with the Auditor's effectiveness in 2017.

Appointment of new Auditor and independence

Following a tender process, Grant Thornton was appointed the Group's auditor in November 2017 and as auditor to the UK and US subsidiaries in place of Deloitte. The last tender process for the Company's audit had been carried out in early 2014. There are no restrictions on the Committee's choice of external auditor.

The Committee considers the appointment of the external auditor each year and considers the performance of the lead audit partner and the audit manager during the audit process.

For the 2017 audit of the Group and the Company's accounts, Grant Thornton *was paid $256,000 (2016: Deloitte was* paid $597,000).

Non-Audit services

The Company's previous auditor, Deloitte, did not review the 2017 interim financial statements and therefore charged no fee in respect of it. Grant Thornton has not been engaged to provide any non-audit services. The Company has a policy in regard to the provision of non-audit services by the auditor.

AUDIT COMMITTEE REPORT CONTINUED

Internal Audit

To date there has not been a separate internal audit function, given the size and scale of the Group's operations. As reported in the Annual Report 2016 the Audit Committee had concerns about the financial management of the Company following the scale of accounting errors identified in the 2016 year-end audit and the need for another restatement of the accounts in that year though the operations accounting within the publishing businesses was generally found to be adequate.

In May 2017 a new interim CFO, Brian Porritt, was appointed. He has implemented strong controls and procedures in the group finance function which have since allowed the Board and Audit Committee to have confidence in the financial management of the Company. The Committee have requested that Carolyn Bresh, the permanent CFO appointed with effect from 9 April 2018, build on the excellent work that Brian has done in this area. Later in 2018, the Committee will consider whether to establish a dedicated internal audit function.

Internal control and risk management systems

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

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

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

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

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

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

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

Leslie-Ann Reed
Chairman of the Audit Committee
29 March 2018

REMUNERATION COMMITTEE REPORT

Annual Statement
Dear shareholder

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2017, which has been prepared by the Committee and approved by the Board.

For the year ended 31 December 2017, there were no substantial changes in Directors' remuneration arrangements other than the merger of the STIP and MTIP which is explained below.

This is the Company's fourth year of reporting in line with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The report is divided into two sections:

The first is Quarto's Remuneration Policy recommended by the Board, which will apply from 17 May 2018 subject to approval at the 2018 Annual Meeting. Following the Smith & Williamson benchmarking exercise undertaken in early 2017, the Committee considered the value of having an annual bonus plan (STIP) and medium term (3 year) bonus plan (MTIP) for both the Executive Directors and the Quarto Leadership Team (QLT). The Committee decided the two structures to be overly complicated and not aligned to building both the short term and longer-term performance of the Company. The total bonus potential for the Executive Directors was found to be at the lower level with a maximum potential of 60% of salary versus the normal of 100% for quoted companies. The MTIP offered a potential of up to 40% of salary per year over three years with a single payment at the end of the three year period. Therefore the STIP and MTIP schemes have been merged and replaced with an Annual Performance Plan which will give the Chief Executive Officer and the Chief Financial Officer a maximum potential annual bonus of up to 100% of salary and 70% respectively. For 2018, the amount of free cash generated compared to that budgeted for, will replace the net debt measure applied in previous years. The QLT's bonus structure has been harmonised with that of the Executive Directors except that the maximum earnings as a percentage of salary are at a lower level (from 40% to 60%). Other than this change, the proposed policy mirrors the last year's policy which was first implemented on 23 May 2014, and has stayed the same since apart from the annual bonus threshold that changed last year.

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

In line with The Large and Medium-sized Companies and Group's (Accounts and Reports) (Amendment) Regulations 2013 the following parts of the Annual Report on Remuneration are audited: the single total figure of remuneration for each Director, including annual bonus outcomes for the financial year ended 31 December 2017; pension entitlements; and, Directors' shareholdings and share interests. All other parts of the Directors' Remuneration Report are unaudited.

I would be happy to receive any comments you may have on this report. I hope you find the report clear and comprehensive and that it helps demonstrate how remuneration is linked to the performance of the Company, and that you are able to support the resolutions on remuneration being presented at this year's Annual Meeting.

Jess Burley
Chairman of the Remuneration Committee
29 March 2018

REMUNERATION COMMITTEE REPORT CONTINUED

Remuneration Committee meeting attendance 2017

Committee membership	Number of meetings held during the year: 8
Jess Burley (Chair from 21 December 2016)	8 of 8
Mike Hartley (Resigned 30 September 2017)	7 out of 7 held before resignation
Peter Read	8 of 8
Claire Capeci (Appointed 17 May 2017)	2 of 3 held after appointment
Leslie-Anne Reed (Appointed 3 August 2017)	2 of 2 held after appointment

During 2016 the Remuneration Committee held eight meetings. During 2017 the Committee has held 8 meetings, and met for 1 presentation by appointed Remuneration Consultants, Smith & Williamson LLP.

Claire Capeci and Leslie-Anne Reed were appointed to the Board and the Committee part way through 2017, on 17 May 2017 and 3 August 2017 respectively and, therefore were only able to attend meetings held after their appointment. Michael Hartley resigned as a Director and a member of the Committee on 30 September 2017.

The Chief Executive Officer, interim Chief Financial Officer and the Group Director of People have also been invited to attend parts of some Committee meetings. No individual is permitted to participate in any matter concerning details of their own remuneration.

Policy

This section sets out Quarto's Remuneration Policy for Directors which is recommended by the Board for approval at the 2018 Annual Meeting. The Group's principal remuneration policy aim is to ensure that the Executive Directors' remuneration is designed to promote long term value creation through transparent alignment with the agreed corporate strategy.

Performance related elements are designed to be transparent, stretching and are rigorously applied.

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

a) the need to align the interests of the executive with those of the shareholders;
b) the performance of the individual executive and of the Group as a whole;
c) the remuneration practice in the markets in which the executive is principally based; and,
d) the remuneration packages offered to executives in companies competing in the same markets and industry as the Group, but *exercising caution, in view of the risk of an upward ratchet of remuneration* levels with no corresponding improvement in corporate and individual performance.

Quarto's Remuneration Policy summary

FIXED PAY

Element of Remuneration	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Base Salary/ Fees	Set at competitive levels in the markets in which Quarto operates, in order to attract and retain executives.	Reviewed annually with changes normally effective from 1 January of each year. Reviews take account of: • scope of the role and the markets in which Quarto operates; • performance and experience of the individual; • pay levels at organisations of a similar size and complexity; and, • pay and conditions elsewhere in the Group.	There is no prescribed maximum to avoid setting unhelpful expectations. Any salary increases are applied in line with the outcome of the review and taking into account wider factors, for example, local market inflation.	Not applicable
Benefits	Designed to be competitive in the market in which the individual is employed.	Benefits include life insurance and private medical insurance. Where appropriate, other benefits may be offered including, but not limited to, participation in all-employee share schemes. Benefits are non-pensionable.	Benefits vary by role 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).	Not applicable.
Pension	To provide cost effective retirement benefits.	Participation in defined contribution plan or cash allowance in lieu.	Up to 15% of base salary.	Not applicable.

REMUNERATION COMMITTEE REPORT CONTINUED

VARIABLE PAY

Element of Remuneration	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Annual performance bonus	Designed to reinforce individual performance and contribution to the achievement of profit growth and strategic objectives	Measures are reviewed 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.	Maximum potential opportunity of up to 100% of base salary for the CEO and 70% for the CFO. For the financial target, the threshold bonus starts at 15% of the total potential (i.e. 7.5% of salary in the case of the CEO) for exceeding the base EBITDA target by 2% and up to 100% of the total potential (i.e. 50% of salary) for exceeding the base EBITDA target by 10%.	50% on financial objectives, 40% on personal objectives with 10% on the amount of free cash generated compared to that budgeted for. 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

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

FIXED PAY

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

REMUNERATION COMMITTEE REPORT CONTINUED

Performance measure selection and approach to target setting

The measures used under the annual bonus plan are selected annually to reflect the Group's key strategic priorities for the year and reinforce financial performance and achievement of annual objectives as well as individual performance. Financial measures are based on the amount of EBITDA and with effect from 2018, the amount of free cash generated compared to that budgeted for will replace the net debt measure that applied in previous years.

The Committee considers that profit before tax adjusted for any exceptional items is the most appropriate measure of long-term performance of the Group. The Company believes that a measure of free cash generation is appropriate for 2018.

Performance targets are set at such a level as to be stretching and achievable, with regard to the particular strategic priorities and economic environment. The annual bonus threshold is based on a 2% growth in profits with Stretch target being 10% growth.

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

Differences in remuneration policy operated for other employees

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

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

Shareholding guidelines

The Committee recognises the importance of aligning the interests of Executives with shareholders through the building up of a significant shareholding in the Group. Save for the initial award made to Marcus E. 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:	Base Salary	Benefits	Pension	Annual Bonus	PSP
Approach	Determined in line with the stated policy, and taking into account their previous salary. Initial salaries may be set below market and consideration given to phasing any increases over two or three years subject to development in the role.	In line with the stated policy.	In line with the stated policy.	In line with stated policy, with the relevant maximum pro-rated to reflect the proportion of the year served.	In line with the stated policy.
Maximum Value	Not applicable.	Not applicable.	Not applicable.	60% to 100% of base salary	100% of base salary (200% in exceptional circumstances)

In determining appropriate remuneration for a new Executive Director, the Committee will take into consideration all relevant factors (including quantum, nature of remuneration and the jurisdiction from which the candidate was recruited) to ensure that arrangements are in the best interests of both the Company and its shareholders. The Committee may consider it appropriate to grant an award under a structure not included in the policy, for example to 'buy out' incentive arrangements forfeited on leaving a previous employer, and will exercise the discretion available under Listing Rule 9.4.2 R where necessary. In doing so, the Committee will consider relevant factors including the expected value of all outstanding equity awards using a Monte Carlo, Black-Scholes, or other relevant equivalent valuation and, where applicable, taking into account toughness of performance conditions attached to these awards and the likelihood of those conditions being met.

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

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

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

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

Director	Effective date of contract	Notice period
Marcus E. Leaver	30 April 2012	12 months
Carolyn Bresh	9 April 2018	6 months

Non-executive Directors are engaged on the basis of a letter of appointment. In line with the UK Corporate Governance Code, all Directors are subject to re-election annually at the Annual Meeting.

The Chair, together with the other non-executive Directors, have a one month notice period, and are subject to re-election each year.

The non-executive Director Letters of Appointment are available to view at the Group's registered office and the effective dates of their Letters of Appointment are as follows:

Director	Date of Appointment	Notice period
Peter Read	24 May 2016 (coincident with the 2016 AGM)	1 month
Jess Burley	22 May 2014	1 month
Claire Capeci	17 May 2017	1 month
Leslie-Ann Reed	3 August 2017	1 month
Andy Cumming	1 March 2018	1 month

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

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

No payments to past Directors or payments for loss of office were made during the year ended 31 December 2017.

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.

REMUNERATION COMMITTEE REPORT CONTINUED

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

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

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

External appointments

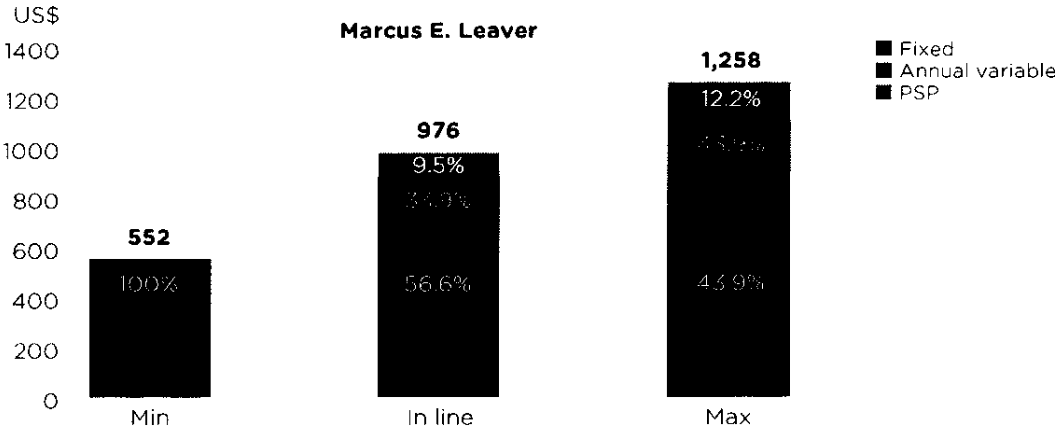
The Executive Directors may accept external appointments with the prior approval of the Board and provided only that such appointments do not prejudice the individual's ability to fulfil their duties at the Group. Whether any related fees are retained by the individual or remitted to the Group will be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

Illustration of the application of the remuneration policy

The chart on page 49 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 remuneration policy presented for shareholder approval at the Annual Meeting on 17 May 2018, applied to the latest known fixed pay of base salaries, pension, other benefits and variable pay of annual bonus and PSP. To better illustrate the annual potential reward opportunities, the remuneration and PSP Awards are pro-rated to an annual equivalent. All remuneration is contracted in sterling.

EXECUTIVE DIRECTORS APPLICATION OF REMUNERATION POLICY



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

Minimum performance	Basic salary, pension or cash in lieu of pension and benefits. No bonus and no vesting of the PSP.
In line with expectation	Basic salary, pension or cash in lieu of pension and benefits. Bonus payout at 60% of the maximum bonus. PSP vesting at 60% of maximum vesting.
Maximum	Basic salary, pension or cash in lieu of pension and benefits. Bonus payout at 100%. Full vesting of the PSP.

Consideration of conditions elsewhere in the Group

When reviewing and setting executive remuneration, the Committee takes into account the pay and employment conditions of all employees of the Group. The Group-wide pay review budget is one of the key factors when reviewing the salaries of the Executive Directors.

The Group has not carried out a formal employee consultation regarding Board remuneration, though it does comply with local regulations and practices regarding employee consultation more broadly.

Consideration of shareholder views

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

Jess Burley
Chair of the Remuneration Committee
29 March 2018

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ANNUAL REPORT ON REMUNERATION

THE REMUNERATION COMMITTEE

The Committee's Terms of Reference are available on the Group's website.

The Committee is responsible for:

- Recommending to the Board the remuneration and terms and conditions of employment of the Chair, Executive Directors and key members of senior management;
- Measuring subsequent performance as a prelude to determining the Executive Directors' and key managers' total remuneration on behalf of the whole Board;
- Determining the structure and quantum of short-term scheme; and,
- Granting awards under the Performance Share Plan.

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

- Approval of the prior year Directors' Remuneration Report;
- Annual review of the Executive Directors' salaries and benefits;
- Review of the Executive Directors' and the senior managers' performance under the prior year's annual bonus scheme, *including a review of their performance against their personal objectives and approval of the bonus awards;*
- 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; and
- Approval of the merger of the annual bonus plan and MTIP.

Advisors

The Committee has paid fees of £31,800 to Smith & Williamson LLP. Smith & Williamson have not provided any other services to the Company. The Committee has not paid any fees to any other advisors during 2017.

Statement of shareholder voting at the 2017 Annual Meeting

The following table shows the results of the advisory vote on the 2016 Annual Remuneration Report at the Annual Meeting on 16 May 2017.

	Total number of votes	% of votes cast
For (including discretionary)	6,801,807	99.70%
Against	20,400	0.30%
Total votes cast	6,822,207	100%
Withheld	53,400	

Single total figure of remuneration (audited)

The table below sets out a single figure for the total remuneration received by each Director for the year ended 31 December 2017 and the prior year. These amounts are shown in the reporting currency, although settled in sterling. The exchange rates used in 2017 and 2016 were 1.30 and 1.35, respectively.

	Base Salary		Benefits[1]		Annual Bonus[2]		Long-term incentives[3]		Total remuneration	
Executive Directors	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Marcus E. Leaver	545	561	6	6	150	34	-	2,651	701	3,252
Michael Connole*	269	373	6	5	-	-	-	-	275	378
Bob Morley	-	17	-	-	-	-	-	-	-	17

	Fees[4]		Benefits		Annual Bonus		Long-term incentives[3]		Total remuneration	
Non-executive Directors	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Peter Read	93	57*	-	-	-	-	-	-	93	57
Mike Hartley	40	60	-	-	-	-	-	-	40	60
Jess Burley	51	48	-	-	-	-	-	-	51	48
Claire Capeci*	28	-	-	-	-	-	-	-	28	-
Leslie-Ann Read*	20	-	-	-	-	-	-	-	20	-
Tim Chadwick	-	54	-	-	-	-	-	-	-	54
Christopher Mills	-	19	-	-	-	-	-	-	-	19
Marie Louise Windeler	-	19	-	-	-	-	-	-	-	19

* For period for which he/she was a Director/Non-executive Director.
1 Benefits comprise private medical insurance contributions.
2 Annual bonus for performance over the relevant financial year. Further details can be found on page 59.
3 On 31 March 2016, Marcus E. Leaver's Performance Share Plan award of 666,666 shares vested and were capable to being exercised at any time after 30 June 2016. On 9 August 2016 the options were exercised and the shares were transferred to Marcus E. Leaver out of treasury stock. The closing mid-market price on that date was £2.64. Upon exercise of the options, he was also entitled to a dividend equivalent payment in respect of dividends paid from 31 December 2012 and 9 August 2016, subject to withholdings tax and National Insurance contributions. The dividend equivalent payment was £203,890. None of Marcus E. Leaver's outstanding options were capable of vesting in 2017 as the performance period had not been completed.
4 Details of non-executive Directors' fees can be found on page 60.

ANNUAL REPORT ON REMUNERATION CONTINUED

Directors' shareholdings

The share interests of the Directors who held office at 31 December 2017 and of their connected persons in the share capital of the Company are shown below:

	Number of share options of common stock		Number of US$0.10 shares of common stock	
Executive Directors	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Marcus E. Leaver	312,149	241,214	395,000	393,500

	Number of US$0.10 shares of common stock	
Non-executive Directors	31 December 2017	31 December 2016
Peter Read	25,625	10,000
Jess Burley[2]	7,355	3,300
Claire Capeci[3]	10,000	-
Leslie-Ann Reed	-	

1 Peter Read purchased 10,000 shares in the Company in June 2016, and a further 15,625 shares in August 2017.
2 Jess Burley purchased 4,055 shares on 4 April 2017
3 Claire Capeci purchased 2,500 shares on 13 October 2017 and 7,500 shares on 20 October 2017. During the year the market price of the shares of common stock ranged between 120p and 323p. The mid-market price at 31 December 2017 was 142p.

Directors' share options
Shares: Common Stock of $0.10 each

	Date of grant	As at 1 January 2017	Granted	Forfeited	As at 31 December 2017	Face value at date of grant (£'000)	Fair value at date of grant (£'000)	Price at exercise date
Marcus E. Leaver								
	24/09/2015	83,732	-	-	83,732	175	239	n/a
	19/04/2016	73,750	-	-	73,750	181	187	n/a
	4/08/2016	83,732	-	-	83,732	175	239	n/a
	28/04/17	-	70,935	-	70,935	187	190	n/a
		241,214	70,935	-	312,149			
Michael Connole	24/09/2015	60,000	-	(60,000)	-	125	171	n/a
	19/04/2016	48,980	-	(48,980)	-	120	124	n/a
		108,980		(108,980)	-			

All awards under the PSP schemes have a 4 year vesting period.

Executive directors base salaries/fees

During year ended 2017, Marcus E. Leaver, the Chief Executive Officer, received £419,486 in respect of base salary and salary in lieu of pension contributions. He was awarded a salary increase of 3.5% at 1 January 2017.

Michael Connole, the Chief Financial Officer, resigned on 16 May 2017 and was paid salary in line with his service contract (£240,000 per annum).

Pension and other benefits

The Group makes a contribution to the personal pension scheme of Marcus E. Leaver equal to 15% of his base salary which may, at their discretion, be taken as cash in line with the policy. Benefits are in line with the policy.

Annual performance bonus 2017 bonus framework

For the 2017 financial year, the maximum annual bonus opportunity was 100% of salary for Marcus E. Leaver. Michael Connole resigned as Chief Financial Officer on 16 May 2017 and, therefore was not entitled to receive a bonus. (An interim CFO was appointed in May 2017, and he was not entitled to a bonus).

The annual bonus opportunity was split between targeted growth in adjusted profit before tax and other financial and personal goals. 50% of total bonus potential for Marcus E. Leaver is based on growth in EBITDA , 10% on reduction of net debt and the balance is based on achievement of personal objectives.

In 2017, the Threshold Target EBITDA for bonus purposes of $16.7m was not exceeded and, therefore no bonus is payable in respect of this element of the overall annual bonus for Marcus E. Leaver. Personal objectives for Marcus E. Leaver for 2017 were set by the Committee in discussion with the Chairman. Personal objectives included both financial and non-financial criteria with 40% of salary potentially payable for Marcus E. Leaver. The Committee considered that he achieved his personal objectives and, therefore, approved the award detailed below. He did not achieve the financial objective which was based on a reduction in net debt.

Marcus E. Leaver's 2017 bonus award was:

	$'000	% of maximum
Marcus E. Leaver	150	31%

In 2018, 50% of the bonus opportunity will continue to be based on the amount of EBITDA and 40% on personal objectives including both financial and non-financial criteria. The amount of free cash generated (10%) compared to that budgeted for, will replace the net debt measure that applied in previous years. Further information on the Annual Performance Bonus opportunity is set out on page 44.

Long Term Incentives - PSP Awards

Under the Remuneration Policy awards of nominal-cost (or nil-cost) options may be granted annually up 50% (in exceptional circumstances up to 100%) of base salary to the Executive Directors. Adhering to the same principles, members of the senior leadership team and other applicable employees may receive an award (up a maximum of 40% of base salary, but typically much less). In considering whether to make the size of awards, the Remuneration Committee has regard to the principles set out on page 45 of this report. On 28 April 2017, Marcus E. Leaver was granted 70,935 PSP Awards. The value of these awards was £187,268 based on a closing price of £2.64 on the day before. They represented 44.6% of salary.

ANNUAL REPORT ON REMUNERATION CONTINUED

Half of the awards set out above have a performance condition relating to cumulative Adjusted Diluted EPS performance for the four financial years 2017 to 2020 inclusive. The other half of these awards have a performance condition relating to total shareholder returns ('TSR') from a combination of dividends and share price growth (measured as an average over a 20 business day period leading up to grant and vesting as appropriate). The TSR period runs from 28 April 2016 to 28 April 2020.

Targets for EPS are annual compounded growth of 5% for Threshold to 10% for Stretch. Targets for total shareholder returns over the period are annual compounded growth of 7% for Threshold and 15% for Stretch.

The Committee believes the TSR directly measures shareholder returns and thereby aligns the goals of management and shareholders. However, TSR can be affected by a variety of investment factors, which are far removed from those which management can directly affect. The Committee believes that cumulative diluted EPS to be a good measure of managements' long-term impact on the business and which over time translates into shareholder value. Thus a combination of TSR and EPS is believed to be suitable goals for the PSP Awards. Major shareholders have been consulted about adding the TSR condition.

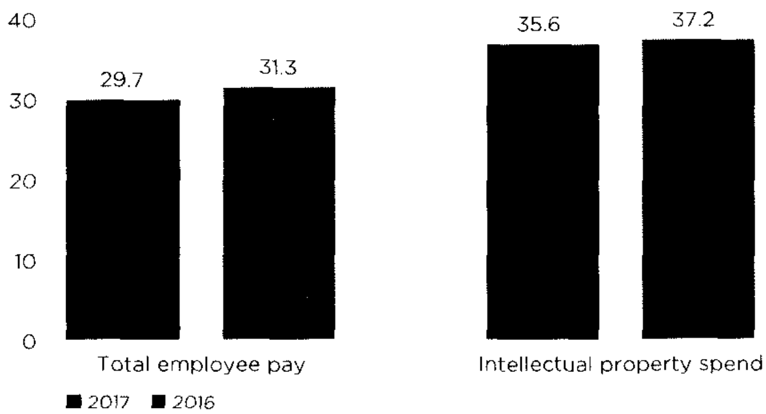
Chair and non-executive director fees

With effect from the date of the Annual Meeting in 2017, 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 Chair receives an annual fee of £72,000.

The non-executive Directors' fees for 2018 are as follows: Peter Read £72,000,Jess Burley £41,500, Claire Capeci £35,000 Leslie-Ann Reed £38,500 and Andy Cumming £35,000.

Relative importance of spend on pay

The graph below shows how total employee pay compares with expenditure on intellectual property for years ended 31 December 2016 and 31 December 2017.



Total employee pay has been impacted by exchange rate movements.

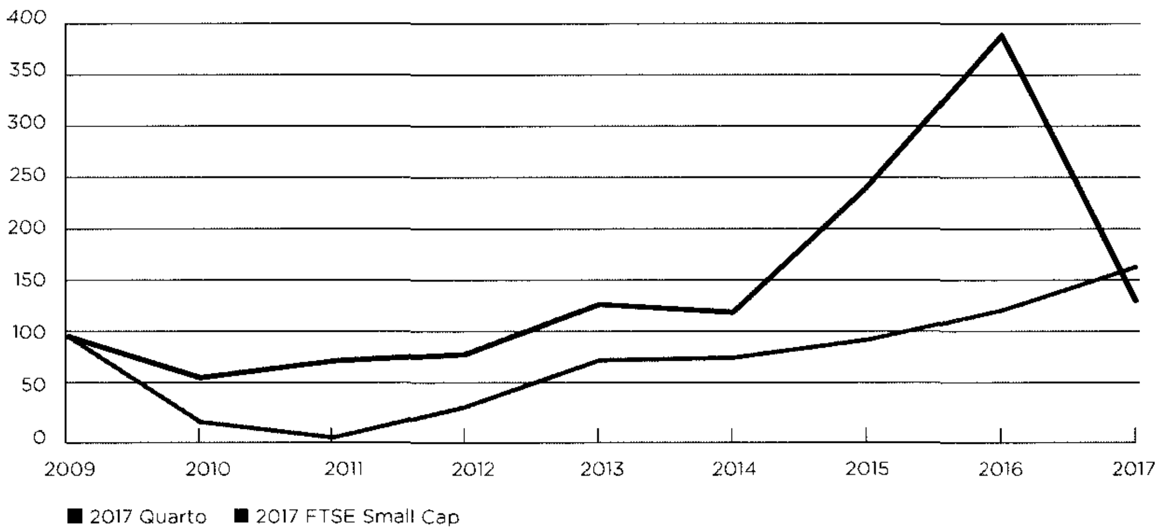
Review of group performance

The chart on page 55 compares the value of £100 invested in Quarto shares, including re-invested dividends, on 31 December 2010 compared to the equivalent investment in the FTSE Small Cap Index, over the last eight financial years. The FTSE Small Cap Index has been chosen as it comprises companies of a broadly similar size to Quarto. The table below shows the single figure for the CEO over the same period.

		2010	2011	2012	2013	2014	2015	2016	2017
CEO single figure of remuneration including bonus ($'000)		750	996	1,020[1]	870	842	929	3,252	701
Annual bonus awarded	$ amount ($'000s)	39[2]	57[2]	121[2]	233	169	305	34	150
	% of maximum opportunity	-	-	-	56.9%	33.5%	95.0%	12.0%	31%
PSP vesting	$ amount ($'000s)	-	-	-	-	-	-	2,651	-
	% of maximum opportunity	-	-	-	-	-	-	100%	-

1 The figure for 2012 is a combination of remuneration of Laurence Orbach, the previous CEO, and Marcus E. Leaver for the respective periods.
2 Discretionary.

Performance graph



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ANNUAL REPORT ON REMUNERATION CONTINUED

Change in CEO remuneration and for employees as a whole

The table below shows the change in CEO annual cash remuneration, defined as salary, taxable benefits and annual bonus, compared to the average employees for 2016 to 2017.

	CEO			Average for other employees
$'000	2017	2016	% change	% change
Salary	545	561	(2.9)%	(2.7)%
Taxable benefits	6	6	nil	20.0%
Annual variable bonus	150	34	341.2%	(69.9)%
Total	701	601	16.6%	(3.8)%

Salary, benefits and bonuses have been impacted by exchange rate movements.

Dilution limits

The Group has at all times complied with the dilution limits set out in the rules of its share plans (principally a limit of 10% in 10 years). In the 10 year period to 31 December 2017, awards made under the Group's share schemes represented 5.9% (2016: 6.8%) of the Group's issued share capital.

Directors' shareholding guidelines and share scheme interests

There has been no requirement for Executive Directors to retain shares as no other shares have vested and they are compliant with the shareholding guidelines.

Jess Burley
Chair of the Remuneration Committee
29 March 2018

DIRECTORS' REPORT

Group
The Directors present their report and the audited financial statements of The Quarto Group, Inc., for the year ended December 31, 2017.

Results
The loss for the year is $18.5m (2016: loss of $5.3m). The Directors do not propose a dividend.

An indication of likely future developments in business of the Group and included in the Strategic Report on page 14.

Directors
Serving Directors during the year were as follows:

P. Read	(Non-executive) Chairman
M. E. Leaver	Chief Executive Officer
M. D. Connole	Resigned 16 May 2017
J. Burley	(Non-executive)
M. G. Hartley	(Non-executive) Resigned 30 September 2017
C. Capeci	(Non-executive) Appointed 17 May 2017
L-A. Reed	(Non-executive) Appointed 3 August 2017

None of the Directors have a service agreement of more than one year's duration. All of the directors are subject to annual re-election. The letters of appointment of the non-executive Directors are made available for inspection at the Company's registered office. Post the year end, Andy Cumming was appointed a non-executive Director with effect from 1 March 2018 and Carolyn Bresh was appointed Chief Financial Officer and an Executive Director with effect from 9 April 2018.

No Director had a contract of significance with the Company or its subsidiaries during the year.

Disclosure of information under Listing Rule 9.8.4
For the purpose of compliance with LR 9.8.4 R, the following information is included by reference within the Directors' Report:

LR 9.8.4 R	Location
Directors' remuneration	Annual Report on Remuneration, pages 50 to 56
Details of Long-term Incentive Plans	Annual Report on Remuneration, pages 50 to 56

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

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

The Board recognises the importance of diversity amongst its employees and is committed to ensuring that employees are selected and promoted on the basis of merit and ability, regardless of age, gender, race, religion, sexual orientation or disability. The gender split across the Group as at 31 December 2017 is illustrated in the table below.

	Males	Females
Board	2	3
Senior Leadership Team	3	4
All employees	114	295

DIRECTORS' REPORT CONTINUED

Substantial shareholders

The Directors have been advised of the following shareholders who have an interest of 3% or more in the shares of the common stock of the Company at 30 December 2017 and 26 March 2018. 26 March 2018 is the latest practicable date prior to the publication of this report.

	As at 30 December 2017		As at 26 March 2018	
	Number of US$0.10 shares of common stock	% holding of the issued capital of the Company	Number of US$0.10 shares of common stock	% holding of the issued capital of the Company
Chuk Kin Lau	4,089,743	20.00	5,234,672	25.60
Dr L F Orbach	3,641,715	17.81	4,101,715	20.06
Herald Investment Management	1,812,045	8.86	1,812,045	8.86
Cavendish Asset Management	1,491,769	7.30	330,000	1.61
Lazard Freres Gestion	993,674	4.86	993,674	4.86
Gresham House Asset Management Limited	898,837	4.40	898,837	4.40
Intrepid Capital Management	848,112	4.15	847,644	4.15
Standard Bank plc	750,929	3.67	886,700	4.34

The rights attaching to the Company's shares of common stock are set out in the Company's By-Laws, which can be found on the Company's website, www.quarto.com. The rules for appointment and replacement of the Directors are set out in the Company's By-Laws. The powers of the Directors are set out in the Company's By-Laws.

The Company may amend its By-Laws by special resolution approved by the affirmative vote of the holders of a majority of the voting power of the shares. The Directors' interests in the shares of the Company are set out on page 52. There are no restrictions on the number of shares that Directors can hold.

Risk management strategy

The Group is exposed to a number of principal risks and uncertainties. The Group's financial risk management strategy is set out in on page 28 of the Financial Review. Operational risks are set out on pages 28 and 29 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 2016 (the 'Code'). The Board considers that the Company has been in compliance with the principles and provisions of the Code throughout the year ended 31 December, 2017 and to the date of this report, except those outlined below:

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

E.2.4. - The Company did not send the Notice of Annual Meeting and related papers to its shareholders at least 20 working days before the meeting. Instead, the Company complied with its By-Laws that provide for the Notice and related papers to be sent to shareholders not less than 21 clear days (irrespective of whether they are working days) before the meeting.

The Board will continue to monitor its corporate governance arrangements, in the light of the Code (and future changes), as the Group develops and grows. The Company intends to review the performance of the Board, its Committees and Directors in 2018 and also send the Notice of Annual Meeting and related papers to its shareholders at least 20 working days before the meeting.

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

Attendance by Directors at Board and Committee meetings in 2017

	Board	Audit Committee	Nominations Committee	Remuneration Committee
Jess Burley[1,6]	16	4	2	8
Claire Capeci[2]	8	4	2	2
Michael Hartley[3]	14	4	2	7
Marcus E. Leaver[6,7]	16	5	2	-
Michael Connole[4]	5	1	-	-
Leslie-Ann Reed[5]	5	3	1	2
Peter Read[6]	15	5	2	8
Total number of meetings	**16**	**5**	**2**	**8**

1 Jess Burley stepped down from the Audit Committee on 30 September 2017.
2 Claire Capeci appointed on 17 May 2017.
3 Michael Hartley resigned on 30 September 2017.
4 Michael Connole resigned on 16 May 2017.
5 Leslie-Ann Reed appointed on 3 August 2017.
6 These Directors are not members of the Audit Committee (as referred to below) and attend by invitation only.
7 Marcus E. Leaver stepped down from the Nominations Committee on 23 February 2018.

The principles of the Code have been applied as follows:

a) The Board of Directors represents the shareholders' interests in maintaining and growing a successful business including optimising consistent long-term financial returns.
b) As at 31 December 2017, the Board comprised one Executive Director and four 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. Jess Burley, the Senior Independent Director is available to shareholders, if they have concerns that are not able to be resolved through normal channels. All four non-executive Directors, Peter Read, Jess Burley, Claire Capeci and Leslie-Ann Reed were considered by the Board to be independent throughout 2017. During the year, Michael Hartley (resigned 30 September May 2017) was considered by the Board to be independent. Post year end, Andy Cumming was appointed a non-executive Director of the Company with effect from 1 March 2018 and he is considered by the Board to be independent. Also post year end Carolyn Bresh was appointed Chief Financial Officer and executive Director with effect from 9 April 2018.
c) There are a number of standing Committees of the Board to which various matters are delegated. They all have formal terms of reference approved by the Board which are available on the Company's website (www.quarto.com).
d) The Board met sixteen times in 2016. Attendance details are set out above. A formal agenda is prepared for each meeting and all board papers and information are circulated to the Board at least a week before the meetings except in the case of meetings that are convened on short notice.
e) All of the Directors are subject to re-election by the shareholders at the Annual Meeting. The Board is satisfied to support the re-election of Peter Read, Jess Burley, Claire Capeci, Leslie-Ann Reed and Andy Cumming as non-executive Directors as they have individually produced excellent performance in their duties and have shown a high level of commitment to their roles.

DIRECTORS' REPORT CONTINUED

f) The remuneration of the executive Directors is recommended by the Remuneration Committee, comprising Jess Burley, who is the Committee Chairman, Peter Read, Claire Capeci, Leslie-Ann Reed and Andy Cumming. A separate report with respect to Directors' remuneration is included on pages 50 to 56. The Committee meets at least three times a year. In the year ended 31 December 2017 the Committee had met eight times.
g) The Audit Committee is comprised of Leslie-Ann Reed, who is Committee Chairman, Claire Capeci and Andy Cumming. The Board is satisfied that the members of the Committee have appropriate financial experience to fulfil their role. Further details of the Committee's work can be found on pages 37 to 40.
h) The Nominations Committee is comprised of Peter Read, who is Committee Chairman, Jess Burley, Claire Capeci, Leslie-Ann Reed and Andy Cumming. Marcus E. Leaver resigned as a member of the Committee on 23 February 2018. Details of the work of the Nominations Committee during the year are set out in its report on page 36.
i) The Chief Executive Officer and Chief Financial Officer are responsible for investor relations. They meet with major shareholders during the course of the year in order to understand their views, that are then communicated to the rest of *the Board at Board meetings. The Non-executive Chairman and Senior Independent Director meet with major shareholders* from time to time. Shareholders are invited to attend the Annual Meeting at least twenty-one days in advance of the meeting. All Directors attend the meeting which is used to communicate with shareholders.
j) The Board has a procedure for Directors to take independent professional advice at the Company's expense, if required.
k) All Directors have access to the advice and services of the Company Secretary.
l) Quarto has arranged appropriate insurance cover in respect of legal action against the Directors.
m) The Company has an established whistle-blowing policy.

Greenhouse gas emissions reporting

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

The Group has chosen to use Operational Control in their approach to reporting utility data, electricity and natural gas from UK and International operations. This includes sites that have been disposed of during the reporting period. Scope 1 (Natural Gas) and Scope 2 (Electricity) are reported on below, but the Group 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

	2017	2016
	Tonnes of CO_2e	
Scope 1	13	13
Scope 2	174	258
Total GHG emissions (CO2e)	187	271
Average number of staff	425	499
Emissions per staff member	0.44	0.54

* *Excluding staff at fully serviced offices.*

Risk management and internal controls

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. As stated previously, the Directors have carried out a robust assessment of the principal businesses and considered the controls in place to eliminate or mitigate the impact of key risks. The Board has in place risk management systems in relation to the Company's financial reporting process and the Group's process for the preparation of the consolidated financial statements. However, such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

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

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

a) The results of individual operating segments are reported and reviewed by the Board at its meetings during the year.
b) The management reports of each operating segment are tailored to suit the business and management needs of local management. Each operating segment has its own key performance indicators and these are regularly reviewed and assessed.
c) In addition to monthly reporting, individual operating units report certain management information more frequently, where it is considered appropriate.
d) All operating units report their bank balances weekly and a report is produced summarising the Group position.
e) The Chief Executive Officer and the Chief Financial Officer make frequent visits to all operating segments. These visits include reviews of the internal control and financial reporting systems. It was decided in 2017 to focus on delivering the improvements to the controls and procedures in the group finance function. Later in 2018, the Audit Committee will consider the need for a dedicated internal audit function.
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 perform on-going monitoring and review of the effectiveness of the Group's system of internal controls, to cover all controls including financial, operational, compliance, and risk management. The Board confirms that there are ongoing processes covering the identification, evaluation and management of the significant risks faced by the Group and covers all material controls. The processes are carried out through Group Board meetings, quarterly subsidiary management meetings, discussion and review by the Executive Board and the finance department during the several visits per year to individual operating units, and discussions with professional advisers where appropriate. We will continue to develop our risk management framework during 2018.

Charles Wilson
Company Secretary
29 March 2018

Company Registration Number: FC0 13814

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

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) and applicable law including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and group for that period. In preparing these financial statements, the directors are required to:

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

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

The directors confirm that:

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

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

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

To the best of our knowledge:

- the group financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Marcus E. Leaver
Chief Executive Officer
29 March 2018

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

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of The Quarto Group, Inc. (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement, the company statement of comprehensive income , the company balance sheet, the company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's loss and the parent company's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 which would have applied were the company incorporated in the United Kingdom; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

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

Who we are reporting to

This report is made solely to the company's members, as a body, in accordance with the terms that have been agreed in our engagement letter dated 20 November 2017. 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.

Conclusions relating to principal risks, going concern and viability statement

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

- the disclosures in the annual report set out on pages 28 to 29 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation, set out on page 25 of the annual report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement, set out on page 25 of the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation, set out on pages 23 to 25 of the annual report, as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

INDEPENDENT AUDITOR'S REPORT CONTINUED

Overview of our audit approach

- Overall materiality: $676,000, which represents 0.44% of continuing revenue.
- Key audit matters were identified as assessing the completeness of the sales return provision, assessment of the carrying value of goodwill in relation to Quarto US, assessment of the carrying value of pre-publication costs and application of disposal accounting.
- We have performed a full scope audit of Quarto UK and Quarto US, representing 100% of continuing revenue for the Group, 99% of group assets and 99% of group liabilities. We have performed analytical procedures on the other companies within the group.

Key audit matters

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

Key Audit Matter - Group	How the matter was addressed in the audit - Group
Completeness of sales return provision The Group generates material revenues from published books. Certain customers have a right of return for these books and therefore the revenue is recognised net of a provision for these returns. Management judgement is required when assessing the level of returns which are expected to occur subsequent to the year end for sales made during the year. The key assumption applied is in relation to historical return experience, which is used in order to predict future returns and therefore the provision which is required to be made. We therefore identified the completeness of sales return provision as a significant risk, which was one of the most significant assessed risks of *material misstatement.*	Our audit work included, but was not restricted to: • Testing a sample of returns made during the year to supporting documentation in order to confirm the accuracy of the data used to calculate the provision which support the rates of returns used in calculating the provision; • Recalculated the provision to confirm that it is in accordance with management's policy; and • Comparing actual returns in prior period to the provision made in order to evaluate the accuracy of management's forecast. The group's accounting policy on the sales return provision is shown in note 1 to the financial statements and related disclosures are included in notes 1 and 17. The Audit Committee identified sales return provision as a significant issue in its report on page 39, where the Audit Committee also described the action that it has taken to address this issue. **Key observations** We concur with management's view that the adjustment made for sales returns against revenue is reasonable and has been calculated on an appropriate basis.

Assessment of the carrying value of goodwill in relation to Quarto US

The Group holds $19,286k of goodwill on its balance sheet, the largest balance ($12,882k) relates to Quarto US as shown in Note 11 to the accounts.

In accordance with International Accounting Standard 36: Impairment of Assets ('IAS 36') Goodwill is subject to an annual impairment test.

We consider that the carrying value of the goodwill for this CGU is a key risk due to the sensitivity of the impairment calculations to a reasonably possible change in the key assumptions, including the discount rate, cash flow forecasts and growth rates.

We therefore identified the assessment of the carrying value of goodwill in relation to Quarto US as a significant risk, which was one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- Obtaining managements' impairment review model and testing the mathematical accuracy;
- Assessed the appropriateness of the asset and liability amounts included in the carrying value of each of the cash generating units which were assessed by management as part of the impairment review
- Assessed the discount rate applied, including an assessment by our valuation specialists and benchmarking against competitors;
- Consideration of post year end performance of the Group against budget and comparison of historical budgets to actual performance in order to assess the accuracy of budgets prepared by management.

The group's accounting policy on goodwill is shown in note 1 to the financial statements and related disclosures are included in note 11. The Audit Committee identified the carrying value of goodwill as a significant issue in its report on page 38, where the Audit Committee also described the action that it has taken to address this issue.

Key observations
An impairment charge of $17,100k has been recognised during the year in relation to goodwill held in the US and $314k in relation to goodwill held in the UK. Quarto US goodwill remains sensitive to changes in key assumptions and these continue to be disclosed in the accounts.

Assessment of the carrying value of pre-publication costs

The Group's net book value of capitalised pre-publication costs at 31 December 2017 was $60,278k (2016: $61,133k) as detailed in note 15. This represents costs which are capitalised by the Group in relation to the development of book titles. These costs are amortised over a three year period on a straight line basis to reflect the expected useful economic life of this asset.

There is management judgement in relation to the length of life of this asset and whether it is recoverable.

We therefore identified the assessment of the carrying value of pre-publication costs as a significant risk, which was one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- Analysing historic sales patterns to ensure that they support the estimate made by management of a three year useful economic life;
- Benchmarking of the useful economic life applied to peers;
- Testing of a sample of third party costs and directly attributable internal costs capitalised to confirm that it is appropriate to capitalise them in accordance with IAS 38 'Intangible assets'; and
- Assessing the recoverability of pre-publication costs allocated to each CGU as part of the impairment test performed under IAS 36 to ensure that pre-publication costs are recoverable based on management's value in use calculation for each CGU.

The group's accounting policy on pre-publication costs is shown in note 1 to the financial statements and related disclosures are included in note 15. The Audit Committee identified the carrying value of pre-publication costs as a significant issue in its report on page 38, where the Audit Committee also described the action that it has taken to address this issue.

Key observations
On the basis of work performed, it is considered that pre-publication costs have been recognised on an appropriate basis and are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT CONTINUED

Disposal accounting	
During the year the company disposed of Books and Gifts Direct, based in Australia and New Zealand, and the Regent business based in Hong Kong. The Group made a net gain of $1,163k in relation to the operations which were disposed of during the year. The accounting for disposals requires a number of judgements around the fair value of the disposal balance sheet and the accounting for deferred consideration receivable. We therefore identified disposal accounting as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • *Analytically review the disposal balance sheets to ensure* that balances have been recognised on an appropriate basis; • Agreeing costs recognised in relation to the disposal to supporting documentation; • Obtaining management's assessment of the fair value of deferred consideration and assessing the appropriateness of the assumptions made; and • Evaluated management's calculation of the profit or loss on disposal of each business to confirm that it has been calculated on an appropriate basis. The group's disclosures in relation to disposal accounting are included in note 30 - Discontinued Operations. **Key observations** The accounting for operations disposed of during the year has been recognised on an appropriate basis, based on the audit work undertaken.
Key Audit Matter - Parent	**How the matter was addressed in the audit - Parent**
There are no key audit matters in relation to the parent company.	

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	**Group**	**Parent**
Financial statements as a whole	Materiality was set at $676,000, which is based on our assessment of a number of benchmarks for the Group and represents 0.44% of continuing revenue. This is considered to be the most appropriate benchmark for the Group as it drives performance during the year, and we do not consider it appropriate to use earnings before tax given the loss made during the year.	Materiality was set at $8,000 which is 1% of total assets. This benchmark is considered the most appropriate because the company is a holding company and does not trade.
Performance materiality used to drive the extent of our testing	65% of financial statement materiality.	65% of financial statement materiality.
Specific materiality	We determine a lower level of specific materiality for certain areas which includes directors' remuneration and related party transactions where they are balances which are material by their nature. We have set this at $5,000.	We have determined a lower level of specific materiality of $5,000 for certain areas being directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	$33,800 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	$3,550 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

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

- Evaluation by the group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality. Significance was either determined as a percentage of the group's total assets, revenues and profit before taxation or significance was based on qualitative factors, such as specific use is or concerns over specific components;
- Based on this evaluation it is considered that the only significant components are Quarto UK and Quarto US, due to financial significance;
- We have also performed a full scope audit of the parent company;
- For Quarto US we performed a full scope audit to component materiality, capped at 60% of group materiality, utilising a team from Grant Thornton LLP but directed and supervised by the UK team, including on-site visits by the Group audit team.
- For Quarto UK we performed a full scope audit to a materiality level which was lower than would have applied had we performed procedures for group purposes.
- The full scope audits performed represent 100% of continuing revenue for the year and 99% of total assets.
- The other entities in the group have been subject to analytical review.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report set out on pages 1 to 62, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

- Fair, balanced and understandable - the statement given on page 62 by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting - the section set out on page 37 to 40 does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 58 - the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code

INDEPENDENT AUDITOR'S REPORT CONTINUED

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

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

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

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

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

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 62, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Other matters which we are required to address

We were appointed by the Audit Committee on 20 November 2017. Our total uninterrupted period of engagement is one year, covering the period ending 31 December 2017.

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

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

Mark Henshaw
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
29 March 2018

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017	2016
		$'000	$'000
Continuing operations			
Revenue	2	152,512	154,610
Cost of sales		(109,848)	(103,916)
Gross profit		42,664	50,694
Administrative expenses		(27,922)	(26,835)
Distribution costs		(7,549)	(6,870)
Operating profit before amortisation of acquired intangibles and exceptional items		7,193	16,989
Amortisation of acquired intangibles		(840)	(654)
Exceptional items	5	(24,235)	(191)
Operating (loss)/profit		(17,882)	16,144
Finance income		25	-
Finance costs	8	(3,325)	(3,109)
(Loss)/profit before tax		(21,182)	13,035
Tax		1,480	(3,756)
(Loss)/profit for the year		(19,702)	9,279
Discontinued operations			
Profit/(loss) for the year from discontinued operations	30	1,163	(14,556)
Loss for the year		(18,539)	(5,277)
Attributable to:			
Owners of the parent		(18,513)	(5,697)
Non-controlling interests		(26)	420
		(18,539)	(5,277)
(Loss)/earnings per share (cents)			
From continuing operations			
Basic	10	(96.4)	46.4
Diluted	10	(96.4)	45.4
Adjusted basic	10	18.3	49.8
Adjusted diluted	10	17.8	48.7
From discontinued operations			
Basic	10	5.8	(74.9)
Diluted	10	5.7	(74.9)
From continuing and discontinued operations			
Adjusted basic	10	(90.6)	(28.5)
Adjusted diluted	10	(90.6)	(28.5)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 $'000	2016 $'000
Loss for the year	(18,539)	(5,277)
Items that may be reclassified to profit or loss		
Foreign exchange translation differences	35	706
Reclassification to income statement on disposal of business	3,540	-
Cash flow hedge; gains arising during the year	25	150
Tax relating to items that may be reclassified to profit or loss	471	(1,609)
Total other comprehensive income/(expense)	4,071	(753)
Total comprehensive expense for the year	(14,468)	(6,030)

Total comprehensive expense for the year attributable to:		
Owners of the parent	(14,442)	(6,450)
Non-controlling interests	(26)	420
	(14,468)	(6,030)

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2017

	Notes	2017 $000	2016 $000
Non-current assets			
Goodwill	11	19,286	36,144
Other intangible assets	12	3,516	4,351
Property, plant and equipment	13	2,129	1,857
Intangible assets: Pre-publication costs	15	60,278	61,133
Deferred tax assets	19	3,901	2,022
Total non-current assets		89,110	105,507
Current assets			
Inventories	16	22,637	24,006
Trade and other receivables	17	53,460	54,162
Derivative financial instruments		205	141
Cash and cash equivalents	18	17,946	18,824
Total current assets		94,248	97,133
Total assets		183,358	202,640
Current liabilities			
Bank Overdrafts			
Short term borrowings	18	(5,000)	(5,000)
Derivative financial instruments		-	(94)
Trade and other payables	20	(60,796)	(59,718)
Tax payable		(5,243)	(4,060)
Total current liabilities		*(71,039)*	*(68,872)*
Non-current liabilities			
Medium and long term borrowings	18	(76,907)	(75,748)
Deferred tax liabilities	19	(8,520)	(10,502)
Tax payable		(1,116)	-
Other payables		(1,673)	(3,407)
Total non-current liabilities		(88,216)	(89,657)
Total liabilities		(159,255)	(158,529)
Net assets		24,103	44,111
Equity			
Share capital	23	2,045	2,045
Paid in surplus		33,764	33,764
Retained earnings and other reserves		(11,706)	3,410
Equity attributable to owners of the parent		24,103	39,219
Non-controlling interests		-	4,892
Total equity		24,103	44,111

The financial statements were approved by the Board of Directors and authorised for issue on 29 March 2018. They were *signed on its behalf by:*

Marcus E. Leaver, Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital $000	Paid in surplus $000	Hedging reserve $000	Translation Reserve $000	Treasury shares $000	Retained earnings $000	Equity attributable to owners of the parent $000	Non-controlling interests $000	Total $000
Balance at 1 January 2016	2,045	33,764	(10)	(7,937)	(634)	21,057	48,285	5,159	53,444
(Loss)/profit for the year	-	-	-	-	-	(5,697)	(5,697)	420	(5,277)
Other comprehensive income									
Foreign exchange translation differences	-	-	-	696	-	-	696	10	706
Cash flow hedge: losses arising during the year	-	-	150	-	-	-	150	-	150
Tax relating to items that may be reclassified to profit or loss	-	-	-	(1,609)	-	-	(1,609)	-	(1,609)
Total comprehensive income for the year	-	-	150	(913)	-	(5,697)	(6,460)	430	(6,030)
Sale of shares	-	-	-	-	69	-	69	-	69
Dividends paid to shareholders	-	-	-	-	-	(2,902)	(2,902)	-	(2,902)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(697)	(697)
Vesting of options	-	-	-	-	565	(594)	(29)	-	(29)
Share based payments charge	-	-	-	-	-	256	256	-	256
Balance at 31 December 2016	2,045	33,764	140	(8,850)	-	12,120	39,219	4,892	44,111
Loss for the year	-	-	-	-	-	(18,513)	(18,513)	(26)	(18,539)
Other comprehensive income	-	-	-	-	-	-	-	-	-
Foreign exchange translation differences	-	-		46	-	-	46	(11)	35
Reclassification to income statement on disposal of business	-	-	-	3,540	-	-	3,540	-	3,540
Cash flow hedge: losses arising during the year	-	-	25	-	-	-	25	-	25
Tax relating to items that may be reclassified to profit or loss	-	-	-	471	-	-	471	-	471
Total comprehensive income for the year	-	-	25	4,057	-	(18,513)	(14,431)	(37)	(14,468)
Dividend in-specie paid to non-controlling interests	-	-	-	-	-	-	-	(3,744)	(3,744)
Adjustment arising from change in non-controlling interests						1,111	1,111	(1,111)	-
Dividends paid to shareholders	-	-	-	-	-	(2,018)	(2,018)	-	(2,018)
Share based payments charge						222	222		222
Balance at 31 December 2017	2,045	33,764	165	(4,793)	-	(7,078)	24,103	-	24,103

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 $000	2016 $000
Loss for the year		(18,539)	(5,277)
Adjustments for:			
Net finance costs		3,300	2,945
Depreciation of property, plant and equipment		817	1,080
Software amortisation		315	-
Tax (credit)/expense		(1,480)	3,991
Impairment of goodwill		17,418	-
Impairment of pre-publication costs		4,868	-
Exceptional impairment of BGD assets		-	14,203
Share based payment charge		222	256
Amortisation of acquired intangibles		841	705
Amortisation and amounts written off pre-publication costs		32,212	30,540
Movement in fair value of derivatives		(130)	120
(Gain)/loss on divestment of business		(2,541)	-
Operating cash flows before movements in working capital		37,303	48,563
(Increase)/decrease in inventories		1,281	1,270
(Increase)/decrease in receivables		(784)	1,628
Increase/(decrease) in payables		6,822	(7,715)
Cash generated by operations		44,622	43,746
Income taxes paid		-	(1,436)
Net cash from operating activities		44,622	42,310
Investing activities			
Interest received		25	164
Investment in pre-publication costs		(35,551)	(37,165)
Purchases of property, plant and equipment		(1,063)	(1,562)
Purchase of software		(266)	-
Acquisition of businesses		(7,041)	(3,718)
Disposal of subsidiaries		4,588	-
Net cash used in investing activities		(39,308)	(42,281)
Financing activities			
Dividends paid		(2,018)	(2,902)
Interest payments		(2,935)	(2,725)
Drawdown of revolving credit facility		6,600	5,583
Repayment of term loan and revolving credit facility		(8,271)	(5,000)
Dividends paid to non-controlling interests		-	(697)
Net cash from/(used) in financing activities		(6,624)	(5,741)
Net decrease in cash and cash equivalents		(1,310)	(5,712)
Cash and cash equivalents at beginning of year		18,824	25,059
Foreign currency exchange differences on cash and cash equivalents		432	(523)
Cash and cash equivalents at end of year		17,946	18,824

NOTES TO THE FINANCIAL STATEMENTS

1 General information and significant accounting policies

The Quarto Group, Inc. is a company incorporated in the State of Delaware, United States. The address of the registered office is given on page 117. 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 10.

The accounting policies adopted, are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those financial statements. The results of the discontinued businesses of BGD and Regent have been classified separately in the consolidated income statement for the current and previous years.

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

Statement of compliance

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

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP, including The Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS 102'). These are presented on pages 108 to 115.

Basis of accounting

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

Significant accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

Key estimates at the balance sheet date are:

Note 1, 17	The revenue recognition policy details our judgement in respect of sales returns and the method of estimating the related sales returns allowance
Note 11:	Key assumptions in making the assessment of carrying value of goodwill and acquired intangible assets
Note 15:	Recoverability of pre-publication costs and the assessment of their useful life
Note 17:	Assessment of the impairment of trade receivables
Note 19:	Calculation of corporation tax liabilities and temporary differences in the assessment of deferred tax liabilities

Key judgements at the balance sheet date:

On 22 December 2017, the United States enacted tax reform legislation commonly known as the Tax Cuts and Jobs Act (the "Act"), resulting in significant modifications to existing law. These changes included a reduction in the corporate tax rate from 35% to 21% and a one-time deemed repatriation transition tax on unrepatriated foreign earnings. The Group, in consultation with its US tax advisors, has completed its evaluation of these changes in determining the additional tax liability and has recorded a liability of $1.1m in the year, which will be settled over a period of 8 years. The timing and complexity of the legislation changes, together with emerging best practice in determining this additional liability makes the degree of estimation and judgement in this area more challenging. The current estimate could change materially as the legislative changes are better understood and any change will be accounted for in the next financial year when the tax return for the year ended 31 December 2017 is finalised and submitted.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 General information and significant accounting policies continued

Going concern basis

The Board has assessed the Group's ability to operate as a going concern based on a financial model which was prepared as part of the process of considering and approving the 2018 budget. The Group engaged Pragma Consulting to perform a review of the market over a similar timeframe. The financial model and the underlying assumptions have been reviewed by a firm of independent consultants, against the background of this market review.

Supported by the findings of both the Pragma and the other independent consulting project, the Directors have considered the underlying robustness of the Group's business model, products and proposition and its recent trading performance, cash flows and key performance indicators. They have also reviewed the cash forecasts prepared for the three years ending 31 December 2020, which comprise a detailed cash forecast for the year ending 31 December 2018, based on the budget for that year, and the growth assumptions for revenue and costs, together with cash forecasts, for the years ending 31 December 2019 and 2020, to satisfy themselves of the appropriateness of the going concern basis used in preparing the financial statements.

In carrying out their analysis of viability, the Directors took account of the Group's projected profits and cash flows and its banking covenants and these have been subjected to sensitivity analysis over the three-year period using a range of downside scenarios. The scenarios tested include:

- A reduction in revenue for the second half of 2018.
- A reduction in revenue for full year 2019.
- 10% of receivables collections are delayed by one quarter at the projected period with least headroom.

If these scenarios were to materialise the Group would still satisfy the banking covenants in its facility agreement as recently amended. We also have a range of options that enable us to maintain our financial strength including reduction in pre-publication costs, reduction in capital expenditure and managing debt.

The level of profitability of the Group reduced significantly in 2017. This has inevitably put more pressure on the banking covenants and the ability of the group to service its debts. The Directors are in discussion with the loan facility providers to mitigate the risk and the following steps have either already been implemented or are in progress:

- A standard security package was put in place in December 2017 as indicated in the group's November trading update.
- Spot amendments to individual covenants have been put in place as required.
- Further amendments for each of the loan covenants, to increase the headroom available during 2018 and early 2019, have been agreed, along with additional oversight and reporting arrangements.

As we indicated last year, whilst we have successfully transformed the business in the last few years, the competing pressures of servicing our debt, paying dividends, and investing in the core business were inhibiting our ability to grow. The Board's decision not to pay a dividend in respect of 2017, its ongoing detailed review of creative investment, and its stated intention to look at all options to strengthen the balance sheet, are major initiatives which are expected to support future growth in revenue and margins. The Board will keep all stakeholders updated with developments of our thinking.

Based on our assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet all of its liabilities as they fall due up to 31 December 2020.

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

Basis of consolidation

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

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

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

1 General information and significant accounting policies continued

Business combinations, intangible assets and goodwill

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

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

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

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

Profit or loss from discontinued operations

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

Volume rebates

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

Impairment of property, plant and equipment and intangible assets including goodwill

The carrying amount of the Group's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow valuation.

For goodwill, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 General information and significant accounting policies continued

Leasing

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

Foreign currencies

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

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

Exceptional items

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

Retirement benefit costs

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

Taxation

Tax on the profit or loss for the year comprises both current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years. Tax provisions are based on Management's interpretation of country specific tax law and recognised when it is considered probable that there will be a future outflow of funds to a tax authority. Provisions are made annually based on the specific information available at that time and therefore there is limited risk of change in the estimates in the short term. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or a liability unless the related transaction is a business combination or effects tax or accounting profit. Not all temporary differences give rise to deferred tax assets/liabilities. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to other comprehensive income or equity, in which case the related deferred tax is also charged or credited directly to other comprehensive income or equity, respectively.

Discontinued operations

The income statement for 2016 was restated to exclude BGD and Regent, which were fully disposed of during 2017. These are dealt with in note 30.

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.

1 General information and significant accounting policies continued

Estimated useful lives are as follows:

Freehold property and long leasehold property improvements	50 years
Short leasehold property improvements	Over the period of the lease
Plant, equipment and motor vehicles	4 to 10 years
Fixtures and fittings	5 to 7 years

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

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

Pre-publication costs

Pre-publication costs represent directly attributable costs and attributable overheads incurred in the development of book titles prior to their publication. Attributable overheads are allocated on a title by title basis. These costs are carried forward in current intangible assets where the book title will generate future economic benefits and costs can be measured reliably. These costs are amortised on a straight line basis upon publication of the book title over estimated economic lives of three years or less, being an estimate of the expected useful economic life of a book title. The investment in pre-publication costs has been disclosed as part of the investing activities in the cash flow statement.

Inventories

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

Financial instruments

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

Financial assets

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

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

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses is recognised in profit or loss or directly in equity. See Note 21 for a summary of the Group's financial assets by category.

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

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 amortised 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 General information and significant accounting policies continued

Financial liabilities

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

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

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

Financial liabilities and equity instruments

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

Finance costs

Finance costs comprise interest payable on borrowings calculated using the effective interest method together with the amortisation of debt issuance costs.

Finance income

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

Cash and cash equivalents

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

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 and 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 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 equity.

1 General information and significant accounting policies continued

Share-based payments

The Group issues equity settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant. The fair value, determined at the grant date, of equity settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

The fair value of employee share option grants is calculated using a Monte Carlo model, taking into account the terms and conditions upon which the options were granted. The value of the charge is adjusted to reflect expected and actual levels of options vesting.

Borrowing costs

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

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

Financial risk management

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

New standards and interpretations not applied

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

IAS/IFRS Standard		Effective for years starting on or after
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Leases	1 January 2019
IFRIC 22	Foreign currency transactions and advance considerations	Not yet endorsed
IFRIC 23	Uncertainty over Income Tax Treatments	Not yet endorsed
IAS 7	Amendments to IAS 7 Statement of Cash Flows	1 January 2017
IAS 12	Amendments to Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
IFRS 2	Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	1 January 2018

IFRS 9 and IFRS 16 have not yet been considered for 2017 reporting. The impact of IFRS 15 is considered below..

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

Management has started to assess the impact of the new Standard, and has identified that the accounting treatment of customer contracts will not be affected.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2 Revenue

	2017 $'000	2016 $'000
Sales of goods	152,512	154,610

No single customer comprises in excess of 20% of group revenue.

3 Operating segments

During 2017, the Group concluded an operational review of the business. Following this review, the core publishing businesses were reorganised into three divisions: US Publishing, UK Publishing and Q Partners. This is now the basis on which operating results are reviewed and resources allocated by the Chief Executive Officer.

2017	US Publishing $000	UK Publishing $000	Q Partners $000	Total Group $000
Continuing operations				
Revenue	74,134	72,737	5,641	152,512
Operating profit/(loss) before amortisation of acquired intangibles and exceptional items	4,641	7,099	(431)	11,309
Amortisation of acquired intangibles	(596)	(244)	-	(840)
Segment result	4,045	6,855	(431)	10,469
Exceptional pre-publication asset impairment	(1,041)	(3,827)	-	(4,868)
Exceptional impairment of goodwill (note 5)	(17,100)	(314)	-	(17,414)
Exceptional items other (note 5)	(82)	(842)	(46)	(970)
	(14,178)	1,872	(477)	(12,783)
Unallocated corporate expenses				(4,116)
Corporate exceptional items				(983)
Operating (loss)/profit	(14,178)	1,872	(477)	(17,882)
Finance income				25
Finance costs				(3,325)
Loss before tax				(21,182)
Tax				1,480
Loss after tax from continuing operations				(19,702)
Profit after tax from discontinued operations				1,163
Loss after tax				(18,539)
Capital expenditure	539	524	-	1,063
Depreciation	267	550	-	817
Investment in pre-publication costs	18,958	16,593	-	35,551
Amortisation of pre-publication costs	15,267	16,945	-	32,212

3 Operating segments continued

2016	US Publishing $000	UK Publishing $000	Q Partners $000	Total Group $000
Continuing Operations:				
Revenue	74,263	74,071	6,276	154,610
Operating profit/(loss) before amortisation of acquired intangibles and exceptional items	9,403	12,402	(67)	21,738
Amortisation of acquired intangibles	(356)	(298)	-	(654)
Segment result	9,047	12,104	(67)	21,084
Exceptional items	(191)	-	-	(191)
	8,856	12,104	(67)	20,893
Unallocated corporate expenses				(4,749)
Operating profit/(loss)	8,856	12,104	(67)	16,144
Finance costs				(3,109)
Profit before tax				13,035
Tax				(3,756)
Profit after tax from continuing operations				*9,279*
Discontinued operations				
Loss after tax from discontinued operations				(14,556)
Loss after tax				(5,277)

Capital expenditure	739	682	-	1,421
Depreciation	320	565	-	885
Investment in pre-publication costs	17,363	19,802	-	37,165
Amortisation of pre-publication costs	13,017	17,523	-	30,540

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3 Operating segments continued
Balance sheet

	2017 $'000	2016 $'000
Continuing operations:		
Quarto Publishing Group USA	93,085	110,010
Quarto Publishing Group UK	67,984	63,332
Unallocated (Deferred tax and cash)	21,848	20,987
Discontinued operations		
Books & Gifts Direct, ANZ	441	1,720
Regent Publishing Services	-	6,591
Total assets	183,358	202,640
Continuing operations:		
Quarto Publishing Group USA	31,518	29,569
Quarto Publishing Group UK	36,390	24,519
Unallocated (Deferred tax and debt)	91,331	95,405
Discontinued operations:		
Books & Gifts Direct, ANZ	16	5,141
Regent Publishing Services	-	3,895
Total liabilities	159,255	158,529

Geographical areas
The Group operates in the following main geographic areas:

	Revenue		Non-current assets	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
United States of America	86,444	92,492	53,649	68,586
United Kingdom	20,256	21,244	35,443	36,921
Europe	29,098	27,003	-	-
Rest of the World	16,714	13,871	18	-
	152,512	154,610	89,110	105,507

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

4 Operating profit

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

	2017 $'000	2016 $'000
Depreciation of property, plant and equipment	817	1,080
Net foreign currency exchange differences	72	241
Amortisation of acquired intangibles	841	705
Amortisation of pre-publication costs	32,212	30,540
Staff costs (Note 6)	29,715	34,274
Auditor's remuneration (see below)	256	604
Cost of inventory recognised as an expense	39,801	41,474
Share based payment charges	222	256
Loss on derivative financial instruments recognised at fair value through profit and loss	-	120
Exceptional items (Note 5)	24,235	191

Auditor's remuneration

Fees payable to the Company's auditor for the audit of the Company's annual accounts	30	30
Fees payable to the Company's auditor and its associates for the audit of subsidiary companies	226	567
Fees payable to the Company's auditor for other assurance services	-	7
	256	604

5 Exceptional items

	2017 $000	2016 $000
Goodwill impairment (note 11)	17,414	-
Reorganisation costs		
- Impairment of pre-publication intangible assets (note 15)	4,868	-
- Staff costs	544	-
- Royalty advance provisions	409	-
- Inventory provisions	75	-
Costs of implementing facility security package	597	-
Aborted corporate transaction costs	241	-
Aborted business acquisition costs	87	-
Business acquisition costs	-	191
Total	24,235	191

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

2016

These charges were in respect of business acquisition costs including due diligence expenses and other professional fees. Exceptional costs of $14 2m in respect of discontinued operations have been presented within the results from discontinued operations (Note 30).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6 Staff costs

	2017 Number	2016 Number
Average monthly number of employees (excluding Executive Directors)	440	439
	$'000	$'000
Wages and salaries	26,638	27,910
Social security costs	2,456	2,276
Other pension costs	621	999
	29,715	31,185

Directors' remuneration is disclosed in the Remuneration Committee Report on page 47.

The remuneration of 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.

	2017	2016
Short term employee benefits	2,426	2,735
Long term employee benefits	–	2,650
Post-employment benefits	70	256
	2,496	5,641

7 Finance income

	2017 $'000	2016 $'000
Interest income	25	–

8 Finance costs

	2017 $'000	2016 $'000
Interest expense on borrowings	2,941	2,728
Amortisation of debt issuance costs	384	381
	3,325	3,109

9 Taxation

	2017 $'000	2016 $'000
Corporation tax		
Current tax	1,552	2,344
Prior periods	804	-
Total current tax	2,356	2,344
Deferred tax (Note 19)		
Origination and reversal of temporary differences	(3,836)	1,412
Total tax (credit)/expense	(1,480)	3,756

Corporation tax on UK profits is calculated at 19%, based on the UK standard rate of corporation tax, (2016: 20%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The table below explains the difference between the expected expense at the UK statutory rate of 19% and the Group's total tax expense for the year.

	2017 $'000	2016 $'000
(Loss)/profit before tax	(21,182)	13,035
Tax at the UK corporation tax rate of 19% (2016: 20%)	(4,025)	2,607
Effect of different tax rates of subsidiaries operating in other jurisdictions	-	1,095
Adjustment to prior years	804	-
Tax effect of changes in legislation	1,116	-
Tax effect of items that are not deductible in determining taxable profit	625	138
Other	-	(84)
Tax (credit)/expense	(1,480)	3,756
Effective tax rate	7.0%	28.8%

On 22 December 2017, the United States enacted tax reform legislation commonly known as the Tax Cuts and Jobs Act resulting in significant modifications to existing law. These changes included a reduction in the corporate tax rate from 35% to 21% and a one-time deemed repatriation transition tax on unrepatriated foreign earnings. The Group, in consultation with its US tax advisors, has completed its evaluation of these changes in determining the additional tax liability and has recorded a liability of $1.1m in the year, which will be settled over a period of 8 years. The timing and complexity of the legislation changes, together with emerging best practice in determining this additional liability makes the degree of estimation and judgement in this area more challenging. The current estimate could change materially as the legislative changes are better understood and any change will be accounted for in the next financial year when the tax return for the year ended 31 December 2017 is finalised and submitted.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10 Earnings per share

	2017 $'000 Group	2016 $'000 Group
From continuing operations		
(Loss)/profit for the year	(19,702)	9,279
Amortisation of acquired intangibles (net of tax)	591	473
Exceptional items (net of tax)	22,852	191
Earnings for the purposes of adjusted earnings per share	3,741	9,943
From continuing and discontinued operations		
Loss attributable to owners of the parent	(18,513)	(5,697)
Amortisation of acquired intangibles (net of tax)	591	473
Exceptional items (net of tax)	22,852	191
Profit/(loss) from discontinued operations	1,189	(14,976)
Earnings for the purpose of adjusted earnings per share	3,741	9,943

Number of shares	Number	Number
Weighted average number of ordinary shares	20,444,450	19,984,824
Effect of potentially dilutive share options	575,631	452,031
Diluted weighted average number of ordinary shares	21,020,081	20,436,855
(Loss)/earnings per share (cents) - continuing operations		
Basic	(96.4)	46.4
Diluted	(96.4)	45.4
Adjusted earnings per share (cents)		
Basic	18.3	49.8
Diluted	17.8	48.7
Earnings/(loss) per share (cents) - discontinued operations		
Basic	5.8	(74.9)
Diluted	5.7	(74.9)
Loss per share (cents) : from continuing and discontinued operations		
Basic	(90.6)	(28.5)
Diluted	(90.6)	(28.5)

11 Goodwill

	2017 $000	2016 $000
Cost		
At 1 January	42,425	40,448
Exchange differences	582	(1,128)
Recognised on acquisitions (Note 29)	-	3,105
At 31 December	43,007	42,425
Accumulated impairment losses		
At 1 January	(6,281)	(336)
Impairment	(17,414)	(6,000)
Exchange differences	(26)	55
At 31 December	(23,721)	(6,281)
Carrying value		
At 31 December	19,286	36,144

Impairment tests for cash generating units containing goodwill

The following units have significant carrying amounts of goodwill:

	2017 $000	2016 $000
Quarto Publishing Group USA (QUS)	12,882	29,982
Quarto Publishing Group UK (QUK)	6,404	6,162
	19,286	36,144

The recoverable amount of each cash generating unit ('CGU') is determined using the value in use basis. In determining value in use, management prepares a detailed bottom up budget for the initial twelve month period, with reviews conducted at each business unit. A further two years are forecast using relevant growth rates and other assumptions. Cash flows beyond the three year period are extrapolated into perpetuity, by applying the growth rates applicable to each CGU. The cashflows are then discounted using a country specific WACC. The growth rates used are consistent with the growth expectations for the sector in which the company operates.

The discount rate has been calculated using Weighted Average Cost of Capital analysis.

Goodwill, specific to the US Publishing Group, was impaired by $17.1m at 31 December 2017 reducing its carrying value to $12.9m. The impairment principally arose due to the decrease in profitability experienced in 2017.

One imprint in the UK was closed in the year and the previous carrying value of its goodwill of $0.3m was impaired to nil.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12 Other intangible assets

	Non-contractual relationships $000	Backlists $000	Software $000	Total $000
Cost				
At 1 January 2016	-	19,635	-	19,635
Transfer	1,033	(1,033)	-	-
Exchange differences	28	(458)	-	(430)
Recognised on acquisition of businesses (Note 29)	-	2,980	-	2,980
Disposals	(1,061)	-	-	(1,061)
Transfer from property, plant and equipment	-	-	2,312	2,312
At 1 January 2017	-	21,124	2,312	23,436
Exchange differences	-	218	-	218
Additions	-	-	313	313
Disposals	-	-	(1,046)	(1,046)
At 31 December 2017	-	21,342	1,579	22,921
Amortisation and impairment				
At 1 January 2016	-	18,125	-	18,125
Transfer	782	(782)	-	-
Exchange differences	22	(296)	-	(274)
Charge for the year	51	654	-	705
Disposals	(855)	-	-	(855)
Transfer from property, plant and equipment	-	-	1,384	1,384
At 1 January 2017	-	17,701	1,384	19,085
Exchange differences	-	163	-	163
Charge for the year	-	841	315	1,156
Disposals	-	-	(999)	(999)
At 31 December 2017	-	18,705	700	19,405
Carrying amount				
At 31 December 2017	-	2,637	879	3,516
At 31 December 2016	-	3,423	928	4,351

13 Property, Plant and Equipment

Cost	Leasehold Property Improvements $000	Plant, Equipment & Motor Vehicles $000	Fixture & Fittings $000	Total $000
At 1 January 2016	1,062	5,542	1,120	7,724
Exchange difference	(105)	(266)	(86)	(457)
Acquisition of subsidiaries	-	175	85	260
Additions	425	1,115	22	1,562
Impairment charge for the year	(54)	(2,134)	(56)	(2,244)
Disposals	(78)	(1,070)	(89)	(1,237)
Transfer to other intangible assets	-	(2,312)	-	(2,312)
At 1 January 2017	1,250	1,050	996	3,296
Exchange difference	101	98	38	237
Additions	433	406	317	1,156
Disposals	(327)	(248)	(52)	(627)
Disposal of businesses	(149)	(190)	(182)	(521)
At 31 December 2017	1,308	1,116	1,117	3,541
Depreciation				
At 1 January 2016	666	3,160	530	4,356
Exchange differences	(76)	(158)	(48)	(282)
Charge for the year	188	682	210	1,080
Impairment Charge for the year	(48)	(1,020)	(32)	(1,100)
Disposals	(77)	(1,070)	(84)	(1,231)
Transfer to other Intangible assets	-	(1,384)	-	(1,384)
At 1 January 2017	653	210	576	1,439
Exchange differences	53	50	29	132
Charge for the year	152	444	221	817
Disposals	(307)	(223)	(4)	(534)
Disposal of businesses	(117)	(186)	(139)	(442)
At 31 December 2017	434	295	683	1,412
Net book value				
At 31 December 2017	874	821	434	2,129
At 31 December 2016	597	840	420	1,857

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14 Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in Note 5 to the Company's balance sheet. All of these subsidiaries are included in the consolidated results.

15 Intangible Assets - Pre-publication costs

	2017 $000	2016 $000
Cost		
At 1 January	181,791	151,733
Exchange differences	4,609	(7,671)
Acquired with subsidiaries	-	564
Additions	35,551	37,165
Reclassification to other balance sheet lines	(2,113)	-
Disposals	(26,346)	-
At 31 December	193,492	181,791
Amortisation		
At 1 January	120,658	92,290
Exchange differences	1,822	(2,172)
Charge for the year	32,212	30,540
Impairment charge	4,868	-
Disposals	(26,346)	-
At 31 December	133,214	120,658
Net Book Value		
At 31 December	60,278	61,133

The assessment of the useful life of pre-publication costs and amortisation involves a significant amount of judgement based on historical trends and management estimates of future potential sales, in accordance with the accounting policy stated in Note 1. The reclassifications in the year relate to final review of the becker&mayer acquired balances and apart from this reclassification, no further adjustments were required. The impairment charge for the year is included in exceptional items and further information is included in Note 5.

16 Inventories

	2017 $000	2016 $000
Finished goods	22,309	23,655
Work in progress	-	153
Raw materials	328	198
	22,637	24,006

All of the Group's inventories have been reviewed for indicators of impairment. Certain inventories were found to be impaired and a provision of $2,045,362 (2016: $4,360,000) has been recorded accordingly.

17 Trade and other receivables

	2017 $000	2016 $000
Trade receivables	43,127	42,259
Other receivables and prepayments	10,333	11,903
	53,460	54,162

The average credit period on sales of goods is 71 days (2016: 70 days).

The Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables, including certain trade receivables not yet due, were not considered to be recoverable and a provision of $801,000 (2016: $670,000) has been recorded accordingly. The trade receivables considered irrecoverable relate to customers which are experiencing trading difficulties. In addition, some of the recoverable trade receivables are past due as at the reporting date. The extent of financial assets past due but not impaired is as follows:

	2017 $000	2016 $000
Less than one month	2,475	3,869
More than one month but less than two months	860	765
More than two months but less than three months	699	270
More than three months but less than six months	245	92
More than six months	341	82
	4,620	5,078

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

Movement in allowance for doubtful debts:

	2017 $000	2016 $000
Balance at beginning of year	670	908
Amounts written off in the year	(476)	(682)
Amounts recovered during the year	17	11
Exchange differences	25	(66)
Increase in allowance recognised in profit or loss	565	499
Balance at end of the year	801	670

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 of $6.4m (2016: $4.7m). The reserve is calculated based on a time lag between sales and returns and historical return patterns.

18 Cash, borrowings and net debt
Cash

	2017 $000	2016 $000
Bank balances	17,946	12,824
Short term deposits	–	6,000
Cash and cash equivalents	17,946	18,824

The carrying amount of these assets approximates to their fair value.
The effective interest rates on bank balances and short term deposits was 0.2% (2016: 0.2%).

18 Cash, borrowings and net debt continued

Bank loans

	2017 $000	2016 $000	2015 $000
Bank loans	81,907	80,748	84,562
On demand or within one year	5,000	5,000	5,000
In the second year	76,907	5,000	5,000
In the third to fifth years inclusive	–	70,748	74,562
	81,907	80,748	84,562
Less: Amount due for settlement within 12 months (shown under current liabilities)	(5,000)	(5,000)	(5,000)
Amount due for settlement after 12 months	76,907	75,748	79,562

	Total $'000	Fixed rate borrowings $'000	Variable rate borrowings $'000	Weighted average interest rate for fixed rate borrowings %	Average time over which interest rate is fixed Months
US dollar borrowings	55,500	25,000	30,500	3.6	15.5
Other currency borrowings	26,407	–	26,407	–	–
As at 31 December 2017	81,907	25,000	56,907	3.6	15.5
US dollar borrowings	56,500	30,000	26,500	3.6	19.5
Other currency borrowings	24,248	–	24,248	–	–
As at 31 December 2016	80,748	30,000	50,748	3.6	19.5

At 31 December 2017, undrawn borrowing facilities totalled $3,100,000 (2016: $8,320,000). The variable rate borrowings carry interest based on LIBOR plus a margin, depending on the leverage ratio and are secured on the assets of the Group.

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

At 31 December 2017 the Group had a US$85m (2016: US$90m) multi-currency syndicated bank facility which is due to expire on 30 April 2019. During the year, a standard security package covering these facilities was put in place over the assets of the Group. EBITDA used for bank covenant purposes was $27.0m in 2017 ($35.3m in 2016). Details of the calculation are shown in note 31).

These facilities are subject to three financial covenants relating to interest cover, leverage and cash flow cover.
At 31 December 2017, the interest cover covenant was suspended and the remaining covenants were met at 31 December 2017.

Net debt

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

	1 January 2016 $'000	Cashflows $'000	Non-cash items $'000	Foreign exchange $'000	31 December 2016 $'000
Borrowings	(84,562)	583	(381)	3,612	(80,748)
Cash and cash equivalents	25,059	(5,712)	–	(523)	18,824
Net debt	(59,503)	(5,129)	(381)	3,089	(61,924)

19 Deferred tax

	2017 $000	2016 $000
Deferred tax liabilities		
Excess of capital allowances over depreciation - UK	32	48
Pre-publication costs and other temporary differences - UK	5,060	5,369
	5,092	5,417
Pre-publication costs and other temporary differences	3,428	4,909
Other overseas temporary differences	-	176
	8,520	10,502
Deferred tax assets		
Tax losses - UK	509	-
Goodwill, intangible assets and other temporary differences - US	3,392	2,022
	3,901	
Net deferred taxation liability	4,619	8,480

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

	2017 $000	2016 $000
Net provision at 1 January	8,480	7,466
Credit direct to equity	471	(689)
Exchange difference through other comprehensive income	(496)	56
Charge/(credit) to profit and loss	(3,836)	1,647
Net provision at 31 December	4,619	8,480

Note 9 sets out details of the recent US tax reforms, which included a reduction in the corporate tax rate from 35% to 21%. The US related deferred tax assets and liabilities have been remeasured at the reduced rate resulting in a $0.7m reduction in the deferred tax asset and a $0.6m reduction in the deferred tax liability.

20 Trade and other payables

	2017 $000	2016 $000
Trade payables	46,514	43,423
Other payables	14,282	16,295
Total	60,796	59,718

Other payables includes the discounted deferred and contingent consideration liabilities of $1.6m in respect of prior year acquisitions (2016: $7.0m). $7.0m was paid in the year.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 Financial instruments

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

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

Foreign currency sensitivity

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

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

	2017		2016	
	$000 Sterling	$000 Other	$000 Sterling	$000 Other
Financial assets:	6,512	3,167	6,691	7,103
Financial liabilities	(1,868)	(394)	(2,880)	(6,599)
Short-term exposure	4,644	2,773	3,811	504
Financial liabilities:				
Long-term exposure	(22,823)	(3,584)	(21,082)	(3,168)
At 31 December	(18,179)	(811)	(17,271)	(2,664)

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

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

The sensitivity analysis is based on the Group's foreign currency financial instruments held at each balance sheet date.

If Sterling had strengthened against the US Dollar by 5% (2016: 5%) then this would have had the following impact:

	2017 $000	2016 $000
(Loss)/profit after tax for the year	840	(661)
Equity	2,474	151

If Sterling had weakened against the US Dollar by 5% (2016: 5%) then this would have had the following impact:

	2017 $000	2016 $000
(Loss)/profit after tax for the year	(840)	661
Equity	(2,474)	(151)

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.

21 Financial instruments 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 31 December 2017, 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:

	2017 $000	2016 $000
Profit after tax for the year	(155)	(78)
Equity	(155)	(78)

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

	2017 $'000	2016 $'000
Profit after tax for the year	155	78
Equity	155	78

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:

	2017 $'000	2016 $'000
Cash and cash equivalents	17,946	18,824
Trade receivables	43,127	42,259
Other receivables	-	3,249
Derivative financial instruments	205	141
	61,278	64,473

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 Financial instruments continued
Liquidity risk analysis

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

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

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

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

31 December 2016	Current		Non-Current	
	Within 6 months $'000	6 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000
Bank loans	6,294	1,316	80,148	-
Trade payables	43,423	-	-	-
Other short term financial liabilities	16,295	-	-	-
Derivative financial instruments	94	-	-	-
Other payables	-	-	3,407	-
	66,106	1,316	83,555	-

21 Financial instruments 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.

	2017 $000	2016 $000
Current assets		
Derivative financial instruments designated as hedging instruments:		
- Interest rate swap	205	141
Loans and receivables:		
- Trade receivables	43,127	42,259
- Other receivables	-	3,249
- Cash and cash equivalents	17,946	18,824
	61,278	64,473
Non-current liabilities		
Financial liabilities measured at amortised cost:		
- Borrowings	76,907	75,748
Other payables	1,673	3,407
	78,580	79,155
Current liabilities		
Derivative financial instruments carried at fair value through profit and loss:		
- Forward exchange contract	-	94
Financial liabilities measured at amortised cost:		
- Borrowings	5,000	5,000
- Trade payables	46,514	43,423
- Other payables	14,282	16,295
	65,796	64,812

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 Note 18, cash and cash equivalents and equity attributable to equity holders of the parent, comprising share capital and reserves as disclosed in the consolidated statement of changes in equity.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

22 Other Financial Assets/Liabilities

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

	2017 $000	2016 $000
Current financial assets		
Derivative financial instruments - interest rate swaps	205	141
Total	205	141
Current financial liabilities		
Derivative financial assets - forward exchange contract	-	(94)
Total	-	(94)

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

The Group's interest rate swaps have been designated to match the corresponding loan terms to maximise the effectiveness of the hedging instrument . There was no ineffectiveness during the year and all movements were recorded in other comprehensive income, with amounts reclassified to finance costs within profit or loss. Exchange rate swaps are not treated as hedging instruments for hedge accounting purposes.

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

			Principal amounts		Committed interest payments	
	2017	2016	2017	2016	2017	2016
	%	%	$000	$000	$000	$000
Within one year	3.3	2.8	10,000	10,000	(210)	(175)
Within one to two years	2.9	3.1	10,000	10,000	(484)	(505)
Within two to five years	-	2.7	-	10,000	-	(714)
Derivative			20,000	30,000	(694)	(1,394)

23 Share Capital

	2017 $000	2016 $000
Authorised		
28 million shares of common stock of par value of US$0.10 each	2,800,000	2,800,000
Allotted, called up and fully paid:		
20,444,550 *(2016: 20,444,550) shares of common stock of par value of US$0.10 each*	2,045	2,045

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

24 Retained earnings and other reserves

Hedging reserve

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

Translation reserve

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

Treasury stock

Treasury stock represents the Group's purchase of its own shares. During 2016, 666,666 of the treasury stock was used to fulfil the obligations under the 2014 PSP plan and the remainder was sold.

25 Dividends

	2017 $'000	2016 $'000
Amounts recognised as distributions to equity holders in the period: Interim dividend for the year ended 31 December 2017 of nil (2016: 5.13c/3.35p) per share	-	1,049
Final dividend for the year ended 31 December 2016 of 9.87c/7.95p (2015: 8.17c/4.95p) per share	2,018	1,853
	2,018	2,902
Proposed final dividend for the year ended 31 December 2017 of nil (2016: 9.87c/7.95p) per share	-	2,018

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 Share based payments

Performance Share Plan ('PSP')

The Company operates a PSP scheme that awards free shares.

2014 award

The awards under this scheme were granted on 22 May 2014 and vest on 30 June 2016. Vesting is conditional on the average share price being equal to or greater than £2.50 over any consecutive period of 90 days during the performance period, adjusted for dividends and other cash distributions paid, where the minimum value of such dividends and other cash distributions paid is no less than £2.25p per share. Participants are entitled to receive dividend equivalents over the vesting period of the awards, which are payable on vesting.

For the year ended 31 December 2014 the awards under this scheme were valued at $nil as the performance criteria were not expected to be met.

During the year ended 31 December 2015 the performance criteria was amended such that vesting is only conditional on the average share price being equal to or greater than £2.50 over any consecutive period of 90 days during the performance period. Following this change, the fair value of the award was reassessed at $226,000.

	2017 Number	2016 Number
Outstanding at beginning of the year	-	666,666
Exercised during the year	-	(666,666)
Outstanding at the end of the year	-	-

2015 award

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

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

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

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

	2017 Number	2016 Number
Outstanding at beginning of the year	227,464	143,732
Granted during the year	-	83,732
Forfeited during the year	(60,000)	-
Outstanding at the end of the year	167,464	227,464

27 Share based payments continued

The key inputs used to value the options are:

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

2016 award

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

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

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

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

	2017 Number	2016 Number
Outstanding at beginning of the year	366,728	-
Granted during the year	–	366,728
Forfeited during the year	(79,592)	-
Outstanding at the end of the year	287,136	366,728

The key inputs used to value the options are:

	EPS Portion	TSR Portion
Share price at date of grant	£2.45	£2.45
Expected life (years)	4	4
Fair value per award	£2.10	£0.44
Weighted average remaining contractual life (years)	2.3	3.3
Dividend yield (%)	3.88	3.88
Expected volatility of share price (%)	n/a	19.1
	Dividend discount	Monte-Carlo

27 Share based payments continued

2017 award

The awards under this scheme were granted on 28 April 2017. The vesting period is 4 years from the date of grant. The award vests in the following proportion:

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

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

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

	2017 Number
Outstanding at beginning of the year	-
Granted during the year	189,063
Forfeited during the year	(10,932)
Outstanding at the end of the year	178,131

The key inputs used to value the options are:

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

28 Operating lease commitments

	2017 $'000	2016 $'000
Lease payments under operating leases recognised in income for the year	1,489	2,264

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:

	2017 $'000	2016 $'000
Minimum lease payments under operating leases within one year	1,885	1,679
In the second to fifth years inclusive	6,264	4,805
After more than five years	4,038	4,427
	12,187	10,911

Operating lease payments represent rentals payable by the Group, primarily for its office properties. There were no capital commitments outstanding at the year end (2016: $nil).

29 Acquisitions

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

	becker&mayer	Harvard Common Press
	Fair values $'000	Fair values $'000
Intangible assets - pre-publication costs	564	-
Other intangible assets - backlists	2,415	436
Property, plant and equipment	259	-
Inventories	2,461	297
Trade and other receivables	6,340	79
Trade and other payables	(3,225)	(551)
Net assets acquired	8,814	261
Goodwill	2,332	773
Total consideration paid (including deferred consideration)	11,146	1,034
Satisfied by:		
Cash	2,300	230
Deferred consideration	7,319	804
Contingent consideration arrangements	1,527	-
Total	11,146	1,034
Net cash outflow arising on acquisition		
Cash consideration	2,300	502

The goodwill arising on the acquisition is largely attributable to the anticipated incremental sales and cost synergies achievable as part of The Quarto Group and is expected to be deductible for tax purposes.

30 Discontinued operations

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

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

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

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

Regent	2017 $000	2016 $000
Revenue	2,632	14,466
Expenses	(2,803)	(12,724)
(Loss)/profit before tax	(171)	1,742
Tax	3	(235)
(Loss)/profit after tax	(168)	1,507
Profit on disposal	3,236	-
Net profit attributable to discontinued operations	3,068	1,507

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

BGD Australia	2017 $000	2016 $000
Revenue	1,199	12,745
Expenses	(1,970)	(25,728)
Loss before tax	(771)	(12,983)
Tax	-	-
Loss after tax	(771)	(12,983)
Loss on disposal	(325)	-
Net loss attributable to discontinued operations	(1,096)	(12,983)

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

30 Discontinued operations continued

BGD New Zealand	2017 $000	2016 $000
Revenue	3,070	6,613
Expenses	(3,667)	(9,693)
Loss before tax	(597)	(3,080)
Tax	-	-
Loss after tax	(597)	(3,080)
Loss on disposal	(212)	-
Net loss attributable to discontinued operations	(809)	(3,080)

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

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

	2017 $000	2016 $000
Adjusted Operating Profit		
Operating (loss)/profit (continuing operations)	(17,882)	16,144
Add back: - Amortisation of acquired intangibles	840	654
- Other exceptional items (Note 5)	24,235	191
Adjusted operating profit	7,193	16,989

EBITDA		
Operating profit before amortisation of acquired intangibles and exceptional items	7,193	16,989
Net finance costs	(3,300)	(3,109)
Adjusted profit before tax (before amortisation of acquired intangibles and exceptional items)	3,893	13,880
Net interest	3,300	3,109
Depreciation	817	1,080
EBITDA, before exceptional items	8,010	18,069
Amortisation of pre-publication costs	19,037	17,244
EBITDA (as defined in the committed facility agreement)	27,047	35,313

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 Reconciliation of figures included in other parts of the financial statements continued

	2017 $000	2016 $000
Adjusted profit before tax before amortisation of acquired intangibles and exceptional items		
Adjusted operating profit before amortisation of acquired intangibles and exceptional items	7,193	16,989
Less: net finance costs	(3,300)	(3,109)
Adjusted profit tax before amortisation of acquired intangibles and exceptional items	3,893	13,880
Free cashflow		
Net cash from operating activities	44,622	42,310
Investment in pre-publication costs	(35,551)	(37,165)
Purchases of property, plant and equipment	(1,063)	(1,562)
Purchases of software	(266)	-
Free cashflow	7,742	3,583
Net debt		
Short term borrowings	5,000	5,000
Medium and long term borrowings	76,907	75,748
Cash and cash equivalents	(17,946)	(18,824)
Net debt	63,961	61,924

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2017

	Notes	2017 $000	Restated Note 1 2016 $000	Restated Note 1 2015 $000
Fixed Assets				
Investments	4	772	4,080	8,444
		772	**4,080**	**8,444**
Current liabilities				
Creditors: Amounts falling due within one year	6	(15,939)	(12,584)	(11,614)
		(15,939)	**(12,584)**	**(11,614)**
Creditors: Amounts falling due after more than one year		(1,116)	-	-
Net liabilities		**(16,283)**	**(8,504)**	**(3,170)**
Equity				
Called up share capital	7	2,045	2,045	2,045
Treasury stock		-	-	(634)
Reserves - Paid in surplus		33,764	33,764	33,764
- Profit and loss		(52,092)	(44,313)	(38,345)
Total equity		**(16,283)**	**(8,504)**	**(3,170)**

The financial statements were approved by the Board of Directors and authorised for issue on 29 March 2018.
They were signed on its behalf by

Marcus E. Leaver
Director
29 March 2018

COMPANY STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 $'000	2016 $'000
Administrative expenses		(320)	(64)
Impairment of investments		(3,308)	(4,364)
Foreign exchange (loss)/gain		(1,239)	2,265
Loss before tax		**(4,867)**	**(2,163)**
Tax	3	(1,116)	-
Loss for the year		**(5,983)**	**(2,163)**

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital $'000	Paid in surplus $'000	Treasury stock $'000	Retained earnings $'000	Equity attributable to owners $'000
Balance at 1 January 2016 (as previously stated)	2,045	33,764	(634)	(47,723)	(12,548)
Prior year adjustment (Note 1)	–	–	–	9,378	9,378
Balance at 1 January 2016 (restated)	2,045	33,764	(634)	(38,345)	(3,170)
Loss for the year	–	–	–	(2,163)	(2,163)
Transactions with owners					
Dividends to shareholders	–	–	–	(2,902)	(2,902)
Share based payments charges	–	–	–	256	256
Shares released/sold from Treasury	–	–	634	(1,159)	(525)
Balance at 31 December 2016	2,045	33,764	–	(44,313)	(8,504)
Loss for the year	–	–	–	(5,983)	(5,983)
Transactions with owners					
Dividends to shareholders	–	–	–	(2,018)	(2,018)
Share based payments/charges	–	–	–	222	222
Balance at 31 December 2017	2,045	33,764	–	(52,092)	(16,283)

NOTES TO THE COMPANY ACCOUNTS

AT 31 DECEMBER 2017

1 Basis of preparation

The separate financial statements of the Company are presented and have been prepared in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. These financial statements present information for the Company, not about the Group.

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules modified to include certain items as fair value and in accordance with FRS 102. The financial statements have *been prepared using the going concern basis, as discussed in the Group going concern disclosure.*

The Company has adopted the following disclosure exemptions:

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

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

Restatement of prior year

During the preparation of the Group financial statements a historical error was uncovered in the financial statements of the Company .

This error related to certain intercompany creditor balances in the Company's financial statements being retained, when the corresponding intercompany debtor balances were written off. The intercompany elimination had been made on consolidation rather than through the Company's financial statements.

This error has no impact on the Group's income statement and balance sheet. The Company reserves and net assets were understated by $9.4m. This has been corrected by increasing the retained earnings at 1 January 2016 and decreasing the intercompany creditors as at 1 January 2016 by $9.4m.

2 Accounting policies

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

Investments

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

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 Group issues equity settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant. The fair value, determined at the grant date, of equity settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The fair value of employee share option grants is calculated using a Monte Carlo model, taking into account the terms and conditions upon which the options were granted. The value of the charge is adjusted to reflect expected and *actual levels of options vesting. Further detail is set out in Note 27 to the group consolidated financial statements.*

Cash and cash equivalents

There were no cash transactions during the year and accordingly no cash flow statement has been presented.

Foreign currencies

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

Financial guarantee contracts

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

3 Tax

The tax charge for the year relates to the changes in US tax law enacted in December 2017. See Note 1 to the group consolidated financial statements.

4 Investments

	2017 $000	2016 $000	2015 $000
At 1 January	4,080	8,444	4,080
Amounts written off during year	(3,308)	(4,364)	–
At 31 December	772	4,080	4,080

During the review operations undertaken during the year, certain imprints were discontinued. The impairment relates to the investment value of that company.

5 Subsidiaries

a) Trading companies

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

b) Non-trading company

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

* Directly held by The Quarto Group, Inc.

NOTES TO THE COMPANY ACCOUNTS AT 31 DECEMBER 2017 CONTINUED

5 Subsidiaries continued
c) Dormant companies

	Incorporation		Registered		
Name	Place	Date	address key	Issued share capital	% held
AP Screen Printers Limited	United Kingdom	30 September 1980	A	1000 shares of £1 each	100
Apple Press Limited	United Kingdom	5 June 1984	A	100 shares of £1 each	100
Aurum Press Limited	United Kingdom	31 May 1977	A	382,502 shares of £1 each	100
Cartographica Press Limited	United Kingdom	27 July 1981	A	1000 shares of £1 each	100
Design Eye Holdings Limited	United Kingdom	22 June 1992	A	200 shares of £1 each	100
Design Eye Limited	United Kingdom	18 March 1988	A	100 shares of £1 each	100
Design Eye Publishing Limited	*United Kingdom*	*17 June 1992*	*A*	*2 shares of £1 each*	*100*
EYE Quarto Inc	Delaware, USA	19 December 2002	B	1000 shares of no par value	100
Fine Wine Editions Limited	United Kingdom	23 June 1949	A	9020 shares of £1 each	100
Frances Lincoln Limited	United Kingdom	15 December 1980	A	565,000 shares of 10p each	100
Frances Lincoln Publishers Limited	United Kingdom	11 March 1987	A	100 shares of £1 each	100
Global Book Publishing Pty Limited	United Kingdom	7 July 1986	A	1000 shares of £1 each	100
Great American Trading Company Limited (THE)	United Kingdom	24 February 1982	A	100 shares of £1 each	100
IQON Editions Limited	United Kingdom	5 December 1972	A	300 shares of £1 each	100
iqu-digital.com Limited	United Kingdom	30 November 1978	A	100 shares of £1 each	100
Ivy Press (The)	United Kingdom	9 July 1996	A	1042 shares of 10p each	100
Jacqui Small LLP	United Kingdom	6 November 1998	A	100 units	100
JR Books Limited	United Kingdom	9 September 1986	A	43 004 shares of £1 each	100
Lewes Holdings Limited	United Kingdom	21 July 2005	A	20,840 shares of £0.01 each	100
Marshall Editions Limited	*United Kingdom*	*7 February 2002*	*A*	*1 shares of £1 each*	*100*
Marshall Publishing Limited	United Kingdom	7 February 2002	A	1 shares of £1 each	100
QEB Publishing Inc	Delaware, USA	27 April 2004	B	1500 shares of no par value	100
QED Publishing Limited	United Kingdom	12 November 1974	A	400 shares of £1 each	100
QU:ID Publishing Limited	United Kingdom	30 September 1980	A	100 shares of £1 each	100
Quantum Books Limited	United Kingdom	7 February 1983	A	100 shares of £1 each	100
Quarto Children's Books Limited	*United Kingdom*	*6 January 1976*	*A*	*2 shares of £1 each*	*100*
Quarto Magazines Limited	United Kingdom	20 May 1986	A	1000 shares of £1 each	100
Quarto Marketing Inc	Delaware, USA	26 April 1995	B	3000 shares of no par value	100
Quarto Media Inc	Delaware, USA	10 December 2010	B	1000 shares of $1 each	100
Quarto Multi-Media Limited	United Kingdom	14 December 1984	A	1000 shares of £1 each	100
Quill Publishing Limited	United Kingdom	14 May 1979	A	1000 shares of £1 each	100
Quintessence Editions Limited	*United Kingdom*	*7 February 2002*	*A*	*1 shares of £1 each*	*100*
Quintet Publishing Limited	United Kingdom	14 May 1979	A	100 shares of £1 each	100
Small World Creations Limited	United Kingdom	20 September 1997	A	1,536 share of £1 each	100

d) List of registered offices

A The Old Brewery, 6 Blundell Street, London, N7 9BH, United Kingdom
B 400 First Avenue North, Minneapolis, MN 55401, USA
C 135b Morrin Road, Saint Johns, Auckland, 1072, New Zealand
D c/o ZM Partners, Suite 10 Ground Floor, 123 Clarence Street, Sydney, NSW 2000, Australia
E Room 2306, Technology Plaza, 651 King's Road, North Point, Hong Kong
F Passage Perdonet 1, 1005 Lausanne, Switzerland

6 Creditors: Amounts falling due within one year

	2017 $000	Restated (Note 1) 2016 $000	2015 $000
Amounts owed to subsidiary undertakings	15,939	12,584	11,614

7 Called up share capital and treasury stock

Details of called up share capital and treasury stock are set out in Notes 23 to 24 of the consolidated financial statements.

8 Contingent liabilities

The Quarto Group, Inc. has issued guarantees in respect of bank loans of subsidiaries of $81,907,000 (2016: $80,748,000). Refer to Note 18 of the group consolidated financial statements.

9 Related parties

The company borrowed an amount of $2.0m from its wholly owned subsidiary, Quarto Publishing plc, during the year (2016: $3.2m borrowed in the year). The balance on the loan at 31 December 2017 was $15.9m (2016: $15.5m). These balances are non-interest bearing and repayable on demand.

FIVE YEAR SUMMARY

	2017 $'000	2016 $'000	2015# $'000	2014# $'000	2013# $'000
Results					
Revenue	152,512	154,610	182,165	171,339	175,481
Operating profit before amortisation of acquired intangibles and exceptional items	7,193	16,989	16,475	14,927	14,565
Operating (loss)/profit	(17,882)	16,144	15,306	14,990	10,726
Profit before tax, amortisation of acquired *intangible assets and exceptional items*	3,893	13,880	13,377	10,950	9,294
(Loss)/Profit before tax	(21,182)	13,035	12,208	11,013	5,455
(Loss)/Profit after tax	(18,539)	(5,277)	8,523	8,091	3,761
Assets employed					
Non-current assets	89,110	105,507	104,433	102,416	102,364
Current assets	94,248	97,133	107,413	98,709	97,907
Current liabilities	(71,039)	(68,872)	(71,275)	(144,918)	(70,485)
Non-current liabilities	(88,216)	(89,657)	(87,127)	(6,464)	(83,776)
Net assets	24,103	44,111	53,444	49,743	46,010
Financed by					
Equity	24,103	39,219	48,285	44,802	41,201
Non-controlling interests	–	4,892	5,159	4,941	4,809
	24,103	44,111	53,444	49,743	46,010
Earnings per share (cents)					
Basic	(96.4)	46.4	41.3	39.5	17.0
Diluted	(96.4)	45.4	41.2	39.5	17.0
Adjusted basic	18.3	49.8	46.2	39.1	36.1
Adjusted diluted	17.8	48.7	46.1	39.1	36.1

The 2014 closing balance sheet restatement was all corrected through the 2014 results as it was impractical to determine the impact on these earlier individual financial years and it is not expected to result in a material change to these years. The results of 2013 to 2015 have not been adjusted to reflect the effect of discontinued operations

OFFICERS & PROFESSIONAL ADVISERS

Directors
Marcus E. Leaver, Chief Executive Officer
Carolyn Bresh, Chief Financial Officer, appointed 9 April 2018
Peter Read*, Chairman
Jess Burley*
Leslie-Ann Reed*
Claire Capeci*
Andy Cumming*, appointed 1 March 2018

* Non-executive

Secretary
Anne Crompton, resigned 7 January 2018
Charles Wilson, appointed 23 February 2018

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30 Finsbury Square
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