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THE QUARTO GROUP

ANNUAL REPORT 2019

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Contents

STRATEGIC REPORT

Highlights	2
Quarto at a Glance	3
Chairman's Statement	4
Group Chief Executive Officer's Statement	5
Divisional Review	8
Our Business Model	8
Our People	9
Corporate Responsibility and Sustainability	9
2019 Portfolio Highlights	10
Market Overview	12
Financial Review	13
Risk Management, Principal Risks and Uncertainties	15
Our Key Performance Indicators	18

GOVERNANCE

Board of Directors	20
Nominations Committee Report	22
Audit and Risk Committee Report	23
Remuneration Committee Report	26
Annual Report on Remuneration	34
Directors' Report	39
Statement of Directors' Responsibilities	43
Independent Auditor's Report	44

FINANCIAL STATEMENTS

Consolidated Income Statement	53
Consolidated Statement of Comprehensive Income	54
Consolidated Balance Sheet	55
Consolidated Statement of Changes in Equity	56
Consolidated Cash Flow Statement	57
Notes to the Financial Statements	58
Company Balance Sheet	90
Company Statement of Comprehensive Income	91
Company Statement of Changes in Equity	91
Notes to the Company Accounts	92
Five-Year Summary	96
Officers and Professional Advisors	97

Highlights

FINANCIAL

REVENUE (\$M)	OPERATING PROFIT (\$M) ²	EBITDA (\$M) ²
2019 135.8	2019 8.8	2019 12.5
2018 149.3	2018 4.3	2018 11.1
PROFIT (LOSS) FOR THE YEAR (\$M) ²	ADJUSTED ¹ BASIC EARNINGS PER SHARE (CENTS) ²	BASIC EARNINGS PER SHARE (CENTS) ²
2019 2.9	2019 19.0	2019 14.1
2018 (0.6)	2018 23.2	2018 (2.7)

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

² IFRS16 (Leases) have been adopted on a modified retrospective basis and accordingly the prior year has not been restated. The impact of this is disclosed in note 1 of Notes to the Financial Statements.

OPERATIONAL

- Revenue of \$135.8m down 9% on prior year of \$149.3m
- Operating profit of \$8.8m compared to \$4.3m for prior year
- Children's publishing revenues now represent over 36% of Group revenues, up from one-third.
- 65% of revenue generated from backlist titles (2018: 63%).
- Banking facilities extended in January 2020 to 31 July 2021.
- Open Offer successfully completed in January 2020 raising \$16.5m net of expenses and reducing net bank debt to \$33m.³

³ Net debt excludes lease liabilities relating to right-of-use assets (IFRS16)

Quarto at a Glance

WE CREATE A WIDE VARIETY OF BOOKS AND INTELLECTUAL PROPERTY PRODUCTS
WITH A MISSION TO INSPIRE LIFE'S EXPERIENCES FOR THE WHOLE FAMILY.

c. 330
EMPLOYEES

33
IMPRINTS

c. 10,000
BOOKS IN OUR CATALOGUE

c. \$24M
ANNUAL INTELLECTUAL
PROPERTY INVESTMENT

c. 65%
OF ANNUAL SALES
FROM BACKLIST

44
YEARS
FOUNDED IN 1976

WE SELL OUR PRODUCTS GLOBALLY THROUGH A VARIETY OF SALES CHANNELS,
PARTNERSHIPS AND ROUTES TO MARKET.

50
COUNTRY
MARKETS

7
OFFICES
WORLDWIDE

2
INTERNATIONAL PUBLISHING
PARTNERSHIPS

QUARTO OFFICES

USA

SEATTLE
CALIFORNIA
BOSTON
NEW YORK

UK

LONDON (X2)
BRIGHTON

Chairman's Statement

"A welcome return to profitability and significant progress
towards a stronger financial base."

Andy Cumming
Chairman

2019 has been a year of consolidation in many respects for Quarto following the Board changes and refocus of the business in 2018.

The trading background in 2019 has been challenging but the Board has maintained a clear emphasis on the following areas:

- Right sizing the Group.
- Identifying and pursuing a path of sustainable debt reduction.
- Focusing on the Group's key strengths.
- Maintaining a disciplined business model.

The successful open offer to shareholders which was concluded on 31 January 2020 had been under active consideration by the Board for much of 2019. The proceeds of this transaction, coupled with additional sums from positive cash generation, resulted in a significant reduction in bank debt and the creation of a stronger financial base.

In addition to the reduction in debt, the banking syndicate has extended the term of the ongoing finance provided to the Group out to July 2021, which provides more certainty and time to continue improving business performance.

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

As I have emphasized previously, Quarto is a great business, with great people and great products. I am proud to be chairing a Board which is fully committed to the business and to maintaining the positive momentum which has been achieved.

Dividend

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

Corporate Governance

There was one Board change in 2019 following the Annual Meeting. We have welcomed Michael Mousley as a Non-

Executive Director. Michael was previously the Company's Chief Financial Officer between 1987 and 2015, and came out of retirement in 2018 to assist the refinancing and restructuring plans that helped to stabilize the Group. Further changes to the Board occurred in February 2020 as the Group's turnaround continued, with experienced publisher Polly Powell joining the Board as CEO for the Group's UK operations, and Andrea Giunti Lombardo of publisher Giunti Editore S.p.A. joining the Board as a Non-Executive Director. At the same time, to keep the company within the authorised level of directors, Michael Mousley kindly stepped down from the Board. Michael will, however, be retained as an advisor to the Board.

The long-term impact on the global economy of the Covid-19 pandemic is expected to be significant. I am however, confident that the strong team spirit displayed by our talented staff, coupled with the more sustainable balance sheet, will allow us to react positively and quickly to the challenges ahead.

Andy Cumming
Chairman
22 April 2020

Group Chief Executive Officer's Statement

"We live in a fast-changing world, and Quarto's mission is to be a nimble publisher that delivers quality illustrated content on trending subjects that people want to read."

C.K. Lau

Group Chief Executive Officer

Business Review

In 2019, our revenue declined by 9% to \$135.8m (2018: \$149.3m), operating profit increased by 104% to \$8.8m (2018: \$4.3m) as a result of reduced exceptional costs, and the group has returned to profitability with a profit after tax of \$2.9m (2018: \$0.6m loss).

In the past two years, both the board and senior management have been focused on cash generation in order to return the Group to a stronger financial position. Our comprehensive cost-out program is now bearing fruit as it has saved us significant amount of operating expense. We have right-sized our publishing program in order to reduce investment and to focus on creating strong purposeful book titles. We have continued to suspend payment of dividends to reduce our cash outlays. All these initiatives have helped the Group return to our first profit since 2016.

The Group ended the year with net debt at \$50.5m, down 16.4% vs prior year (2018: \$60.4m). We are encouraged that our financial stability is now further secured with the completion of a one-for-one open offer after the year

end in January 2020. The net proceeds of the open offer were used to pay down debt, and immediately following the open offer, we were able to reduce our net bank debt to a more sustainable level of \$33m.

The guidance of our Senior Leadership Team is critical to our continued efforts in our turnaround plan. Polly Powell, owner of Pavilion Books, has been an advisor to me since October 2019 and from 10 February 2020 she has been appointed as CEO of Quarto's UK operations. Polly, along with Ken Fund, our CEO of Quarto's US operations, will spearhead the development of the quality publishing program at Quarto.

The Little People, Big Dreams children's series started with life stories of female role models such as Coco Chanel, Frida Kahlo and Marie Curie, and in 2019, we added male role models such as David Bowie, Stephen Hawking and Muhammad Ali. The series continues to produce bestselling titles, and we are very excited to have secured the worldwide rights (excluding Spain) for this series which celebrates the diversity of society. Sixteen titles in this series

were published during 2019 and we are introducing twenty more titles in 2020 with David Attenborough and Martin Luther King, Jr. already amongst our bestsellers.

Our new titles in the food and drink, and art/craft categories continued to perform strongly. Beautiful Boards, a book about preparing easy-to-find foods and arranging them in beautiful, artful, and whimsical ways, has sold 40,000 copies within the first 3 months of its publishing. Cross Stitch The Golden Girls, a fun stitching kit introduced in June 2019 that comes with hilarious patterns and quotes from The Golden Girls, has already warmed the hearts of 40,000 fans of this critically acclaimed TV series.

Squishy Human Body, Smart Circuits: Electronics Lab and Ultimate Secret Formula Lab from our SmartLab Toys have been bestselling products for years. Our traditional strength in backlist items like these continue to support us during our business turnaround and contributed 65% to our revenue in 2019 (2018: 63%).

CHIEF EXECUTIVE OFFICER'S STATEMENT (continued)

Quarto takes the issue of sustainability very seriously. I am happy to report that the vast majority of the paper we use is FSC certified, which means that it is sourced from self-sustaining forestry. We will continue to actively pursue the latest planet-friendly initiatives in the book industry.

Key Strategies

BE RELEVANT

As a major publisher of English non-fiction books, we will continue to leverage our powerful transatlantic market position to quickly identify consumer trends and capitalize from that in both the US, UK and the rest of the world. To deliver that content strategy, we are structuring our imprints into 'best in class' hubs, concentrating on the subjects we do best, reducing internal overlapping in our publishing programs, and creating 'more from less'.

NIMBLE AND RESPONSIVE

We are removing layers and streamlining the decision-making processes within Quarto. Our strategic objective is to create a nimble publishing organization that is quick to react to what consumers want in the fast-moving marketplace. A good example is *Greta and the Giants*, a book inspired by Greta Thunberg who is on a mission to raise awareness about the climate crisis. Six months from first concept in June 2019, this title became an international bestseller for us selling 30,000 copies in the UK, 18,000 copies in the US, and licensed in over 25 languages around the world.

STATE-OF-THE-ART INFRASTRUCTURE

It is important to equip our staff with modern IT tools to keep pace with the ever-changing developments in the publishing industry and consumer trends. Traditionally, the book publishing business has been seen as more of an art rather than science, with a lot of publishing decisions made based on 'gut feeling'. But with the emergence of new technologies such as AI and machine learning, we are moving towards the hybrid model of art + science for decision making. We are working with outside consultants to modernize our tools, so that our publishers can identify popular and trending topics quickly; our operations teams can demand-plan more accurately, and Quarto's management can make quicker informed decisions.

GROWING OUR GLOBAL REACH

We will continue to leverage Quarto's traditional strength in global trade publishing and co-edition publishing. Our foreign rights sales capability is second to none among publishing houses of our size and we will further develop our sales coverage in custom publishing and international English language trade book channels. On 3 February 2020, the Giunti family of Italy became a 20% shareholder of Quarto. The partnership with the Giunti family, owner of Giunti Editore and Giunti al Punto bookstore chain, will enable us to increase our global penetration of the English language non-fiction trade book markets in both conventional and emerging countries.

Covid-19

In its initial phase, the Covid-19 outbreak caused delays of two to four weeks on shipments from our Chinese print suppliers. This caused a small increase in production costs as we relocated some of our print productions to other countries such as Singapore and Malaysia. However, in the last two months, the lockdown measures imposed across the globe have led to falling orders and revenues across our businesses. It is not possible to forecast how long this pandemic will continue to adversely impact the Group but we have already taken measures to mitigate our operational risk, reduce our cost base and, most importantly in the short-term, manage our cashflow. We are engaged in discussions with our lenders on relaxing the financial covenants for the current financial year.

Outlook

Since the introduction of US tariffs on Chinese imports, we have been working hard to mitigate the impact on our customers. With the support of our print suppliers, we are able to minimize the brunt of the 7.5% tariff, and latterly we have been able to offer competitive printing outside of China.

Our pricing will continue to be under pressure as retailers both online and in physical brick and mortar locations put pressure on margin. We are looking for ways to counter this industry-wide trend of increasing discount and we have had some initial success in pricing our books at the proper price points for the marketplace, thus in some cases seeing higher retail pricing that matches our quality offering.

With a more sustainable balance sheet, we are a more resilient business that could quickly respond to the evolution of the book retailing environment, the consumer trends and the challenge of the Covid-19 outbreak.

The success of Quarto is all about our people. I would like to thank every employee for their strong performance and dedication in 2019.

C. K. Lau

22 April 2020

Section 172 statement

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

(A) LIKELY CONSEQUENCES OF DECISIONS IN THE LONG TERM

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

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

In 2019 this approach was evident from the renegotiation of banking facilities and the open offer to shareholders which concluded successfully in January 2020. This allowed the Group to reduce its indebtedness and provides funding through to July 2021.

The ongoing rationalisation of the Group's indirect and overhead cost base that started in 2018 is a necessary element of returning the Group to profitability, however, the Board also recognised that the Company's publishing activities needed to innovate, and from 2019 title acquisition and sales activities were refocused.

(B) INTERESTS OF THE COMPANY'S EMPLOYEES

Quarto is a publishing company and having creative and motivated employees is essential. The Board has a rolling programme of employee meetings through the year. These meetings offer employees the opportunity to discuss the Group's strategic direction and management. The Board has asked Andy Cumming, an independent non-executive director, to be the designated employees' liaison as recommended by the Code.

The Company offers competitive market rates of remuneration, encourages community interaction through the Quarto Foundation, established in 2017, and offers workplace welfare opportunities, such as providing weekly yoga sessions.

The Company invests in our people by providing them with tools, technology and training to meet the challenges of our market and the evolving needs of our customers. Quarto also involves employees in areas of strategy where possible. During 2019, the Company conducted a series of strategy sessions involving employees from across the Group inviting them to identify and undertake projects aimed at enhancing Group performance. This resulted in the formation of ten projects ranging from 'metadata' capture, through identifying gaps in our publishing, to leveraging Quarto's extensive publication archive and its global reach.

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

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

The Board recognises the need to offer a flexible service to its customers, be that offering them outside-China printing, or customised publishing, as well as the need to cultivate suppliers of print-on-demand in order to manage the business efficiently and still fulfil customers' orders. By exploring all the technologies available, Quarto maximises its offer to customers.

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

The Company seeks to minimise its impact on the environment. It takes advantage of schemes that promote green energy, such as in the UK where several of its offices now use 100% green energy supplies, and when refitting its

offices, it accommodates energy-saving elements (e.g. LED lighting). Energy used by its IT operations has reduced as the Company has adopted cloud-based services, and new equipment is increasingly energy-efficient.

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

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

Additionally, the Group prints predominantly on paper from sustainable sources.

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

The Board complies with the requirements of the UK's 2018 Code of Governance. In early 2020 the Company strengthened the Board and is confident that it has the right composition to deliver its strategy to the benefit of its employees, customers, and shareholders.

The Board appraises its own performance in accordance with the Code, and recognises the value of fair treatment of its suppliers, honouring its commitments, so that it can achieve a reliable and responsive supply chain that serves the needs of its customers; in 2019 Quarto renegotiated its terms with its printers. To this end, the Board routinely assesses the performance of its supply chain.

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

The Company has a single class of common shares. In 2019, C.K. Lau and 1010 Printing Limited, a company controlled by C.K. Lau, became controlling shareholders. The Company and controlling shareholder parties entered into a relationship agreement to ensure that controlling shareholders do not exert improper influence over the Company, and in accordance with the Listing Rules.

Divisional Review

US Publishing

US Publishing adjusted operating profit was down 10% to \$4.5m (2018: \$5.0m) due to a combination of factors:

- A reduction in the number of new titles published following the cost-out programme put in place in 2018, with total revenue falling by 8% from \$78.1m to \$71.9m. Backlist revenues also dropped slightly reflecting a cautious domestic market.
- Custom publishing continues to grow with revenues up 19% and with slightly improved margins.
- Print margins were stable but amortization on pre-publication costs were relatively flat, creating a decline in overall gross margins.
- Overhead savings amounted to \$3.3m (15%) but not enough to reverse the decline in gross profit.

UK Publishing

UK Publishing adjusted operating profit was down 15% to \$6.5m (2018: \$7.7m) due to the following factors:

- A challenging co-edition market in both English language and foreign language markets. Revenues from co-edition declined by \$7.8m (17%).
- Gross margins remained stable with a modest improvement in print margins offset by the impact of relatively flat pre-publication costs.
- Overhead savings of 5% were achieved.

Group Overhead

Group overhead, or corporate costs, were reduced by \$1.4m due to the cost-out program initiated in the second half of 2018.

Adjusted Operating Profit (\$m)	2019	2018
US Publishing	4.5	5.0
UK Publishing	6.5	7.7
Group overhead	(1.0)	(2.4)
Total adjusted operating profit	10.0	10.3
Amortisation of acquired intangible assets	(0.8)	(0.9)
Exceptional items	(0.4)	(5.1)
Operating profit	8.8	4.3

Our Business Model

We make visually appealing, information-rich books and related products in a multitude of formats, for adults, children and the whole family. Our creative portfolio of imprints develops long-lasting content across many areas of interest.

People

Our people and talent make Quarto who we are. Our 33 imprints are creatively independent, producing what we believe is right for our customer base and the market.

Product

Each imprint has a different vision. We are proud of the wide variety of books we publish and our unique, high quality content.

Platform

Our imprints sit on the Quarto platform of people, sales, marketing and operations that we have built and adhere to the financial model through which we manage our portfolio.

Portfolio

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.

Our People

Quarto employs c. 330 people across 7 locations in the UK and the US, as well as a network of creative contributors and freelancers. We operate in a competitive international marketplace and need to attract, develop and retain creative, talented and resourceful employees.

Our values

Quarto's values shape our business. They make Quarto an attractive place to develop a career, and a responsible organisation.

Our Values

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

We will not discriminate against age, gender, ethnicity, cultural background, sexual orientation or religious beliefs. We operate a robust recruitment policy, including right to work checks and commitment to a policy of equal opportunity and treatment, to foster an inclusive, fair and diverse environment.

Quarto has an employee code of conduct, operates anti-bribery and corruption, equal opportunities, anti-harassment and whistle-blowing policies and observes health and safety requirements, demonstrating our commitment to acting ethically and with integrity in all employee and business relationships. These policies are also

readily available to staff via the Quarto intranet site and in the staff handbooks.

Quarto honours the dignity of all people and respects the laws, customs and values of the communities in which we operate. We are committed to ensuring that there is no modern slavery or human trafficking in our supply chains or in any part of our business.

At the end of 2019, the breakdown of directors, senior managers and employees was

	Male	Female
Directors	4	2
Senior managers	10	10
All employees	86	234

Corporate Responsibility and Sustainability

Corporate responsibility and sustainability

Quarto wants to be a good corporate citizen and considers the impact our activities have on the environment, as well as make a positive contribution to society by making inspirational books and actively supporting our communities.

Supporting communities

Quarto launched the Quarto Foundation in 2017 as a means for our people to support local charities. The Quarto

Foundation continued to support local charities during 2019, holding events across Quarto's offices to raise money that the company then matches.

Environmental impact and sustainability

Most of our impact arises through the materials and services we procure such as printing, production, distribution, recycling and disposal of books. To reduce our impact, we adopt the following practices:

- Use of sustainable paper: most books are printed on Forest Stewardship Council (FSC) paper supplies; or, for domestic US printing, we use Sustainable Forestry Initiative (SFI) paper. We estimate 80% of books are printed on sustainable paper.
- Increasing sustainable operations: we continue to consolidate shipments wherever possible so that the number of journeys made is minimised.
- Ethical production: we continue to work with our suppliers to adopt ethical standards of manufacture using ICTI and SEDEX Care protocols.

2019 Portfolio Highlights

Adults

Harry Potter Crochet

Published 2019
\$603k
0.4% of revenue

Ultimate Guide to Tarot

Published 2015
\$324k
0.3% of revenue

Bucket List Journal

Published 2016
\$601k
0.4% of revenue

Beginner's Keto Diet

Published 2018
\$312k
0.3% of revenue

How To Draw Cute Stuff

First Published 2017
\$400k
0.3% of revenue

Quick Keto Meals in 30 Minutes or Less

Published 2017
\$268k
0.2% of revenue

Beautiful Boards

Published 2019
\$391k
0.3% of revenue

Calligraphy Kit

Published 2014
\$262k
0.2% of revenue

Witchcraft

Published 2016
\$328k
0.3% of revenue

All New Square Foot Gardening

Published 2018
\$258k
0.2% of revenue

1001 Movies

Published 2003
\$327k
0.3% of revenue

Drawing Really Cute Kawaii Animals

Published 2018
\$216k
0.2% of revenue

Children

Squishy Human Body

Published 2006
\$1.718k
1.3% of revenue

ABC For Me: ABC What Can She Be?

Published 2018
\$401k
0.3% of revenue

The Art of Making Pokemon Detective Pikachu

Published 2019
\$1.023k
0.8% of revenue

Greta and The Giants

Published 2019
\$383k
0.3% of revenue

Smart Circuits: Electronics Lab

Published 2016
\$953k
0.7% of revenue

Extreme Secret Formula Lab

Published 2011
\$347k
0.3% of revenue

All-natural Lip Balm Boutique

Published 2016
\$505k
0.4% of revenue

National Parks of The USA

Published 2019
\$346k
0.3% of revenue

Story Orchestra: The Nutcracker

Published 2017
\$478k
0.4% of revenue

Ultimate Secret Formula Lab

Published 2016
\$342k
0.3% of revenue

Story Orchestra: Swan Lake

Published 2019
\$415k
0.3% of revenue

The Cave

Published 2017
\$353k
0.2% of revenue

Market Overview

As an international publisher publishing into 50 markets worldwide, Quarto experiences many market trends, and with an extensive and diverse customer and supplier network around the world, Quarto monitors trends and technologies looking for opportunities for growth and innovation.

Market size and potential

The global publishing market (comprising print books and digital publications) is anticipated to reach approximately \$49 billion by 2024 and projected to grow at a rate of more than 1 per cent per annum during the six-year period from 2018 to 2024.¹ The current publishing market is stable and mature with consumers continuing being loyal to print books. On average, adult non-fiction consumers purchase eight books per year, and children's book consumers purchase nine per year.²

According to a report produced by Pragma Consulting commissioned by the Group (*Pragma Report*, produced for Quarto in November 2017), the Group's addressable market in both the United States and the United Kingdom, being the consumer book market, grew between 2013 and 2016. The consumer book market was forecasted to be worth approximately \$12.4 billion and \$2.24 billion in the United States and the United Kingdom, respectively, by 2020. Furthermore, the publishing industry had also experienced significant economic and demographic changes in the demand for print books with growing interest and sales in countries with large populations such as Brazil and Argentina.

General trends

PHYSICAL AND DIGITAL BOOKS

Whilst digital formats like e-books have grown significantly, a broader and diverse retail landscape of print books, including production of vibrant and innovative books, means that the print book is evolving to find new readers. E-books have experienced limited success outside the adult fiction segment and there is a suggestion that e-book sales are flat-lining having declined by 4.5 per cent, during the first quarter of 2019.³ Nonetheless, as each of the print books and digital format provides the reader with a different experience, they can easily co-exist in the publishing market. E-books cannot match the experience of highly illustrated colour print books, and with book readers being loyal to print books, there remains a strong market for print books.

According to the Association of American Publishers' Annual Report 2019, publishers of books in all formats made approximately \$26 billion in revenue last year in the United States with print books making up approximately \$22.6 billion and e-books \$2.04 billion.⁴ These figures include trade and educational books, as well as fiction. In general, Quarto believes that these figures show the enduring appeal and strength of print books and that the publishing market will continue to show support for print books as e-books do not offer the same experience for readers.

PUBLISHING INDUSTRY SEGMENT DRIVERS

A trend that has emerged during 2019 in the publishing industry is the growth in the young adult non-fiction segment.⁵ Quarto believes young adult non-fiction books is one of the fastest growing industry segments in the United Kingdom and United States both of which are mature geographical markets for the publishing industry. In the United States young adult non-fiction sales have grown at an average annual rate of over 6.7 per cent, during the period between 2014 and 2018.⁶ In addition, revenues generated by the children's non-fiction segment rose by 3 per cent,

in the United Kingdom and 11.9 per cent, in the United States, respectively, in 2018.⁷ Quarto believes that each of these segments are an industry "sweet spot" in which the Group is focusing its operations, and which offer good prospects for growth.

CHINA TREND ANALYSIS

The book publishing industry in China continued to experience steady growth in the first half of 2019, following an increase of 10.8 per cent, in sales compared to in the first half of 2018. This sales growth occurred despite a decline in physical bookstores in China; in particular, China's online bookstore market has grown by 24.1 per cent in the first half of 2019 whilst its physical bookstores have decreased by 11.7 per cent, during the same period.⁸ Quarto believes that the development of online sales channels in China will be an important short-term ambition for publishing companies looking to capitalise on a growing foreign market with an existing and dominant e-commerce infrastructure.

1. Arizton Advisory and Intelligence Book Printing Market - Global Outlook and Forecast 2019-2024 (*Arizton Report*)
2. Pages 9 and 14 of the *Pragma Report*
3. Article by GoodEReader titled 'eBook sales decrease by 4.5% in the first quarter of 2019' dated 17 June 2019
4. CNBC article 'Physical books still outsell e-books - and here's why' dated 19 September 2019
5. NPD/BookScan
6. Article by Publishing Perspectives titled 'AAP Issues its Annual 2018 Stat Shot Look at the US Publishing Industry' dated 23 June 2019
7. Article by The Bookseller titled 'Total UK publishing revenues down 2% in 2018, consumer book market stable' dated 26 June 2019
8. Article by Publishing Perspectives titled 'China's Book Market in the First Half of 2019 Up 10.82 Percent' dated 9 August 2019
9. Article by Porter Anderson of Publishing Perspective titled 'Asian Bookstore Forum 2019 in Xian: Online Retail Rising Fast in China' dated 23 August 2019 (<https://publishingperspectives.com/2019/08/asian-bookstore-forum-2019-the-retail-context-in-china-today/>)

Financial Review

“Operating profit for the Group increased by 104% (\$4.5m) to \$8.8m (2018: \$4.3m) as a result of reduced exceptional costs.”

C.K. Lau
Group Chief Executive Officer

Group Results

Revenue was \$135.8m, a decrease of 9%, compared to 2018 (\$149.3m). However operating profit was up 104% at \$8.8m (2018: \$4.3m) and represented 6.5% (2018: 2.9%) of revenue. Diluted earnings per share increased to 14.0c (2018: loss per share 2.7c). Only one of our titles exceeded 1% of Group revenue, being the top revenue earner for the second year in a row. The following titles were our top ten sellers in 2019, with their respective revenue and year of publication

Squishy Human Body (2006)	\$1,718,000
Art and Making of Pokemon Detective Pikachu (2019)	\$1,023,000
Smart Circuits: Electronics Lab (2016)	\$953,000
Harry Potter Crochet (2019)	\$603,000
The Bucket List (2016)	\$601,000
All-Natural Lip Balm Boutique (2016)	\$505,000
Story Orchestra: The Nutcracker (2017)	\$478,000
Story Orchestra: Swan Lake (2019)	\$415,000
ABC For Me: ABC What Can She Be? (2018)	\$401,000
How To Draw Cute Stuff (2017)	\$400,000

US Publishing

Revenue for this segment was down 8% at \$71.5m (2018: \$78.1m). Operating profit before amortisation of acquired intangibles and exceptional items (“adjusted operating profit”) was down 10% at \$4.5m (2018: \$5.0m). We achieved an adjusted operating profit margin of 6.3% (2018: 6.4%). Reprints accounted for 68% of revenue, compared to 65% in 2018.

UK Publishing

Revenue for this segment was down 10% at \$64.3m (2018: \$71.2m). Adjusted operating profit was down 15% at \$6.5m (2018: \$7.7m). We achieved an adjusted operating profit margin of 10.2% (2018: 10.8%). Reprints accounted for 63% of revenue, compared to 61% in 2018.

Corporate costs

Corporate costs were reduced by 57% from \$2.4m to \$1.0m, due to the cost-out program which was initiated in the second half of last year.

Exceptional Items

Exceptional items, in 2019, comprised refinancing costs of \$387,000, and \$32,000 with respect to aborted corporate transaction costs. Exceptional items, in 2018, comprised reorganisation

costs of \$2.9m, arising from the cost-out program, \$0.8m with respect to the board changes that occurred in May 2018 and \$1.5m of refinancing costs. Further details are disclosed in note 5.

Finance Costs

Finance costs were \$4.9m (2018: \$4.3m). The increase was attributable to higher interest rates arising from the refinancing in October 2018 and the impact of adopting IFRS 16 ‘Leases’ for the first time.

Tax

The tax charge for the year was \$1.0m (2018: \$0.5m).

Prior Year Adjustment

As a part of the year end audit there was a reinterpretation of the directly attributable costs and overheads that should be capitalized under IAS 38, as pre-publication costs, in the past, an element of overheads relating to indirect costs were capitalized which represents an error. The Directors accept responsibility for the error in their interpretation of IAS 38 and the treatment of indirect overhead costs. This interpretation first introduced in 2005 has not been challenged or commented

on, by any of the Company’s auditors in the intervening years. Past Company’s auditors include Grant Thornton (2017 – 2019), Deloitte (2014 – 2016), Grant Thornton (2007 – 2013) and RSM (2006). There was no overall impact on the results of the Group for the year ended 31 December 2018 however there was a reclassification in the financial statements (see note 1).

Balance Sheet

The Group’s net assets increased to \$21.1m from \$18.0m, driven by the trading performance during the year. The most significant change in the balance sheet related to current and non-current liabilities. Current liabilities increased from \$74.1m to \$128.2m and non-current liabilities decreased from \$79.7m to \$15.5m, largely because our borrowing facilities moved from medium term to short term, as we approached the end of the facility term. We have refinanced after the year-end. Additionally, the initial impact of adopting IFRS 16, whilst this has no significant effect on net assets, it increases property, plant and equipment by \$9.7m and liabilities by \$9.9m.

FINANCIAL REVIEW (continued)

Cash Flow and Indebtedness

At the year end, our net debt was \$50.5m, a reduction of 16%, compared to 2018, when it was \$60.4m. The Group was well within its banking covenants, details of which are included in note 18 to the Financial Statements. Free cash flow, during the year, was \$17.4m, up 107% compared to 2018, when it was \$8.4m. In 2019, a primary objective of the Board was to reduce the bank debt to a more acceptable level and this was achieved with strong cash generation as outlined above.

Shareholder Return

The Directors have decided to continue the Group's policy of not paying a dividend for the foreseeable future, whilst the Group continues to focus on delivering a stable financial platform.

Principal Risks and Uncertainties

Details of the Group's principal risks and uncertainties are set out on pages 15 to 17.

Going Concern

In accordance with Provision 31 of the 2018 revision of the UK Corporate Governance Code, the Directors initially, prior to the outbreak of Covid-19, assessed the prospects of the Group over both a one-year and a three-year period. The one-year period at that time had a greater level of certainty and therefore, used to set budgets for all our businesses which culminated in the approval of a Group budget for the Board. The three-year period is aligned with long-term incentives offered to Executive Directors and certain senior management.

The Directors 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 2022, which comprise a detailed cash forecast for the year ending 31 December 2020 based on the budget for that year and standard growth

assumptions for revenue and costs for the years ending 31 December 2021 and 2022, to satisfy themselves of the going concern assumption used in preparing the financial statements and the Group's viability over a three-year period ending on 31 December 2022. The Directors used the three-year review period because the Group's publishing program planning cycle normally works over a two- to three-year period.

In January 2020 the Group raised \$16.5m net of expenses to pay down bank debts and the bank facilities were extended and now have 15 months to run before they will need to be refinanced in July 2021. Consistent with previous facilities, the Directors have assumed that these facilities will be renewed or extended at that time on similar terms. In carrying out their analysis of viability, the Directors took account of the Group's projected profits and cash flows and its banking covenants.

The Directors also took account of the principal risks and uncertainties facing the business referred to above, a sensitivity analysis on the key revenue growth assumption and the effectiveness of available mitigating actions.

The uncertainty as to the future impact on the Group of the recent Covid-19 outbreak has subsequently been considered as part of the Group's adoption of the going concern basis. In the downside scenario analysis performed, the Directors have considered the impact of the Covid-19 outbreak on the Group's trading and cash flow forecasts. In preparing this analysis, the directors assumed that the lockdown effects of the Covid-19 virus will peak around the end of June and trading will normalise over the subsequent few months, albeit attaining substantially lower levels of revenue than budgeted, for at least the rest of the current financial year. This scenario will lead to a material reduction in the Group's revenues and results for 2020.

A range of mitigating actions within the control of management were assumed, including reductions in the investment in pre-publication costs, print volumes, staffing levels and other variable costs. The Directors have also considered the financial support commitment made by the UK Government and they believe the Group is eligible for some elements of this financial support. This has been factored in to the forecasts. The Directors have also assumed, having had productive discussions with its lenders, that certain bank fees due to be paid in August 2020, can be deferred to the end of the current facility.

In this scenario, whilst the Group would remain within its banking facilities, some of the financial covenants would, within the current financial year, be breached, unless a waiver agreement is reached with the majority of lenders. Further adverse changes arising from Covid-19 would increase the challenge of complying with financial covenants and remaining within the banking facilities. The Directors, as stated above, are in discussions with its lenders which, albeit at early stages, are considered as being productive. The financial covenants which are tested every calendar quarter and generally vary by each quarter, are referred to in note 18.

Based on the above indications, after taking into account the impact of Covid-19 on the Group's future trading, the Directors believe that it remains appropriate to continue to adopt the going concern in preparing the financial statements. However, the downside scenario detailed above, including taking mitigating actions, would indicate the existence of a material uncertainty which may cast doubt on the Group's ability to continue as a going concern.

C.K. Lau

Group Chief Executive Officer
22 April 2020

Risk Management, Principal Risks and Uncertainties

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

The Board maintains a Risk Register which is reviewed, updated and approved at each meeting of the Audit and Risk Committee, and presented at each quarterly Board meeting for review. This means that the Register is reviewed, typically, as many as seven times a year. These reviews are broad ranging addressing each part of the Group's business and activities. For each risk identified its impact is rated, and mitigations are identified. In addition, risks to the business are monitored regularly by the Company's Group and divisional CEOs, so that emergent risks can be identified and escalated quickly, and mitigations enacted. The introduction of tariffs by the US Government on Chinese manufactured goods and more recently the spread of the Coronavirus has been the most urgent emerging risks.

Details of the Group's financial risk management objectives and policies are set out in note 22 to the Financial Statements. The business risk review has identified the following risks that face our businesses.

MARKET AND FINANCIAL RISKS

Risk	Description	Mitigating factor
Economic conditions	The Group operates across many of the major world economies and its revenues and profits depend on the general state of the economy in those territories. A downturn caused by a global recession could reduce consumer discretionary spending which might result in a reduction in profitability and operating cash flow. The spread of the Coronavirus is such an example. The UK's planned exit from the European Union and US-Sino relations (culminating in the introduction of tariffs during 2019) contribute to uncertainty in the economic environment.	The Group has adequate facilities with up to \$48m in available debt facilities. In addition, in such an event, the Directors have the ability to take a number of mitigating actions, including the reduction of spend on pre-publication costs, inventory printings and other discretionary items. The Group offers now non-Chinese printing for customers in order to avoid US tariffs on books.
Currency	The Group's businesses operate in a number of currencies giving rise to a risk of exchange loss from fluctuating exchange rates.	The Group has a natural hedge that mitigates against currency movements impacting our earnings in that one of our largest costs, which is print costs, are paid in US Dollars. 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.	During 2019 Quarto negotiated an Amended Facilities Agreement with its banking syndicate subject to successful completion of an open offer to shareholders in January 2020, the open offer proceeded successfully and raised \$16.7m that will be used to pay down bank debt in 2020. The Group now has a bank debt facility secured until 31 July 2021. Quarto continues to benefit from a strong cost-reduction programme introduced in the second half of 2018, and introduced a competitive auction platform during 2019 to procure printing services providing additional cost savings. Meanwhile the Group is pursuing its strategy of organic growth through innovation (as set out on page 6).

RISK MANAGEMENT, PRINCIPAL RISKS AND UNCERTAINTIES (continued)

OPERATIONAL RISKS

Risk	Description	Mitigating factor
Customer	A significant dependency on a small number of customers, for instance co-edition partners or retailers, could be problematic if one of them tried 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 international customer base, including specialty retailers, resulting in the fact that with one exception no customer has over 20% of the business. Customer relations are managed to ensure a fair trading relationship. Management monitors debts closely and maintains close relationships with its customers, which may provide prior warning of likely failure.
Supply chain and raw materials	<p>The Group relies on a group of print suppliers, many of which are based in southern China. There is a risk that an interruption in the availability of printing services in that area or the financial failure of one printer could disrupt the supply of new books to customers. Any increase in costs such as oil, port charges etc. would also impact shipping costs. Any disruption in supply of paper could lead to an increase in costs and production disruption. There is also a reputational risk of using non-environmentally friendly paper.</p> <p>'Brexit', the planned departure of the UK from the EU in 2020, could disrupt product movement into the EU.</p>	<p>The Group maintains relationships with printers in other parts of the world and is confident that printing could be carried out by an alternative range of printers if supply from China was interrupted or to mitigate shipping costs. We maintain close relations with our printers, reducing the risk of a lack of knowledge of any printer being in financial trouble. The Group has worked with its major printers on a plan to adopt sustainable paper and recently instituted a Forest Stewardship Council (FSC) paper or Sustainable Forestry Initiative (SFI) paper policy across all our imprints.</p> <p>Quarto monitors the Brexit-situation closely, taking note of the advice of the UK Government and key suppliers so that it is ready to make appropriate preparations to ensure minimal disruption. Most of Quarto's products shipped directly to EU countries from its printers based principally in China. These shipments are not expected to be affected by Brexit.</p>
Coronavirus	The global spread of the coronavirus (Covid-19) is causing significant business interruption by infecting the Group's workforce, closing retail outlets and therefore impacting orders and revenues, and impairing the Group's supply chain adding cost and delaying fulfilment of orders.	Quarto monitors and follows government advice making the necessary adjustments in order to maintain the well-being of its employees. Quarto promotes hygienic practices in its offices and avoids unnecessary travel. The Group operates modern enterprise IT systems that permit remote working with the minimum of interruption. The Group has the ability to immediately reduce its investment in pre-publication costs and inventory and manage discretionary spending. Working with its suppliers and customers, Quarto works hard to reduce the impact of any interruption in its supply chain.
Product safety	Our business is faced with increasing safety and testing requirements on various product components. The risk of a product recall due to children's safety would have a severe reputational impact on the business.	All components receive safety testing from specialist and accredited independent third parties. Management carefully selects suppliers for components.
Loss of intellectual property	A loss of stored IP through failure of storage medium or loss of back-ups would impact our ability to process reprints and revisions and could cause a loss of revenue.	A cloud storage solution is integrated into production workflow for storage, back-up and recovery services for product files in development. Two archive data arrays that replicate each other were introduced in the first half of 2018 – one in the UK and one in the US with each hosting a complete set of backlist archives.

OPERATIONAL RISKS (continued)

Risk	Description	Mitigating factor
Laws and regulations	As a creative and IP business, any changes to copyright laws could have an impact on the Group's activities and any infringement could lead to increased costs. Inconsistent internal practices for negotiating contracts or clearing rights could lead to IP claims.	During 2018 an information system was introduced Group-wide to harmonise the management of contracts. Quarto reviews its licensing, permission-acquisitions and other contracts routinely receiving advice from relevant professional firms (including the possible impact of Brexit) so that legal instruments remain current and represent best practices so that we ensure that our practices are aligned and consistent across imprints, and Quarto's IP rights are properly protected.
Cyber security	Like many 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 its IP assets.	The Group uses enterprise level firewalls and IT controls to prevent attack as well as maintaining cloud-based copies and offsite back-up of IP. Computerised files of the Group's books are also maintained by printers. We do not store any personal or credit card data on our transactional website www.quartoknows.com . The Group undertakes industry standard system penetration testing.
People	As in any creative business, the Group is heavily reliant on its people and operates with the inherent risk of not making the 'right' books or creativity being uneven year-on-year. Failure to retain talent and attract new talent could ultimately lead to a failure to generate successful new titles, leading to a drop in revenue. The manner in which the UK leaves the EU ('Brexit') in 2019 could affect permission of EU citizens to work in the UK potentially disrupting the resourcing of our UK based rights selling team.	Our portfolio of imprints and large number of products spread this risk. The overall portfolio is well diversified with no single title or series accounting for more than 5% of our total revenue in 2019. Quarto's Publishers are experienced and talented professionals who work alongside sales and marketing teams and strive to stay close to publishing trends and markets. The Group also offers competitive market rate remuneration packages and works hard to make Quarto an attractive place to work. Quarto monitors the Brexit situation closely, taking note of the advice of the UK Government so that it is ready to support any staff affected by Brexit and can maintain its business activities.

Our Key Performance Indicators

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

EBITDA (\$M)²

2019	12.5
2018	11.1
2017	8.5
2016	18.3
2015	17.9
2014	17.0
2013	15.9
2012	16.5

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

ADJUSTED¹ OPERATING PROFIT (\$M)²

2019	10.0
2018	10.3
2017	7.2
2016	17.0
2015	18.5
2014	15.8
2013	14.3
2012	12.8

Adjusted operating profit fractionally lower despite significant reduction in intellectual property investment

RETURN ON NET OPERATING ASSETS (%)⁴

2019	10.3
2018	9.7
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)²

2019	50.5
2018	60.4
2017	64.0
2016	61.9
2015	59.5
2014	66.0
2013	71.0
2012	81.0

Our net debt has reduced by 16% in 2019.

- ¹ Adjusted measure are stated before amortisation of acquired intangible assets and exceptional items
- ² See note 31
- ³ See note 10
- ⁴ Operating profit before amortisation of acquired intangibles & exceptional costs over Group net assets plus unallocated net liabilities from operating segment

**ADJUSTED¹ DILUTED
EARNINGS PER SHARE (CENTS)³**

2019	18.8
2018	23.0
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 (%)

2019	65.4
2018	63.2
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.

INVENTORY % OF REVENUE (%)

2019	14.3
2018	15.0
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)**

2019	23.8
2018	27.6
2017	33.4
2016	37.2
2015	34.9
2014	33.5
2013	31.7
2012	30.5

We reduced the IP spend in 2019, as a result of our cost-out programme in 2018. See note 15 of the financial statements.

**CHILDREN'S PUBLISHING
REVENUES (\$M)**

2019	49.8
2018	50.2
2017	49.1
2016	41.1
2015	32.4
2014	23.0
2013	19.6
2012	18.5

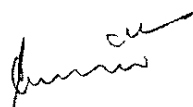
Children's publishing revenues have increased by 17% in the last 4 years.

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

C.K. Lau

Director

22 April 2020



Board of Directors

Andy Cumming

Non-Executive Chairman

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

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

Andy is currently a Non-Executive Director of (i) Lloyds Development Capital, the private equity arm of Lloyds Banking Group, (ii) Bluestone Holdings Limited, a multinational financial services business, (iii) Seadrill Partners LLC, which focuses on the acquisition, ownership and operation of offshore drilling rigs, and (iv) Integrity Capital plc, a company investing in asset backed secured lending.

Chuk Kin Lau

Group Chief Executive Officer

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

CK is a member of the Remuneration and Nominations Committees.

Ken Fund

Chief Operating Officer

Chief Executive Officer Quarto US

Ken became Chief Operating Officer of the Company in July 2016 and joined the Board as an Executive Director on 11 July 2018; he is CEO of Quarto US. Ken joined the Company in 1999 as President and CEO of Rockport Publishers, a former subsidiary of the Company.

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

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

Polly Powell

Chief Executive Officer Quarto UK

Polly was elected to the Board on 10 February 2020 as Executive Director. She is CEO of Quarto UK.

Polly has worked in non-fiction publishing for more than thirty years. She was a member of the management team that acquired the book publishing business from Chrysalis Music Limited in 2004. Polly became the sole owner of the business in 2012 renaming it Pavilion Books.

Polly is a Director of Pavilion Books Holdings Limited. In addition, she is a Non-Executive Director of National Gallery Company Limited.

Jane Moriarty

Non-Executive Director

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

Jane is a Fellow Chartered Accountant who worked with KPMG LLP for over 29 years. During her time with KPMG, she worked with a broad range of businesses helping them to develop strategies to realise opportunities and manage threats in fast moving environments.

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

Mei Lan Lam

Non-Executive Director

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

Andrea Giunti Lombardo

Non-Executive Director

Andrea was elected to the Board on 10 February 2020.

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

Nominations Committee Report

The Nominations Committee comprises the Group's Non-Executive Directors, Andy Cumming (Committee Chairman) and Jane Moriarty (Senior Independent Director). A copy of the Committee's formal terms of reference can be found on the Company's website (www.quarto.com).

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

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

The Committee met once during the year and was active in appointing Michael Mousley as a Non-Executive Director. Following the successful open offer to shareholders in January 2020, the Committee was also active in the appointment of Polly Powell as an Executive Director and Andrea Giunti Lombardo as a Non-Executive Director.

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

Andy Cumming

Chair of the Nominations Committee
22 April 2020

Audit and Risk Committee Report

In line with FRC guidance the Committee has had 2 members throughout the year. Jane Moriarty as Chairman and Andy Cumming, and Michael Mousley was a member of the Committee from 12 August 2019 until 10 February 2020.

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. She also meets with the external Audit Partner from time to time to discuss issues and be apprised of regulatory changes.

By invitation the Company's CEO and CFO and representatives of the Company's auditor also attend Committee meetings although part of some meetings is 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 3 times during 2019 and once so far in 2020.

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 2019 and 2020, to date, the work of the Committee included

- Review of the plan and scope of the external audit
- Review of the external auditor's report on the 2019 year-end audit and approval of the preliminary announcement and the annual report.
- Review of the Directors' viability statement and consideration of the downside scenario modelled, to reflect the impact in 2020 of the Covid-19 outbreak which indicated the existence of a material uncertainty on going concern, referred to in the 2019 year-end audit report.
- Consider the external auditor's comments in relation to internal controls and review the need and potential scope of internal audit functions.
- Consider the Group's extended and amended banking agreements particularly with respect to ensuring the Group's compliance with its banking covenants

- Review and approval of the interim report 2019 after discussion with management and the external auditor.
- Review and consider the goodwill impairment review.
- Review and approve the financial documents prepared to support the open offer in January 2020.

Significant Audit Risks, Key Findings and Financial Judgements Relating to Year End Accounts 2019

The Committee concentrated on the following in relation to the 2019 accounts.

PRIOR YEAR ADJUSTMENT

As a part of the year end audit a reinterpretation of the directly attributable costs and overheads that should be capitalized under IAS 38, as pre-publication costs, in the past, an element of overheads relating to indirect costs were capitalized which represents an error. The Directors accept responsibility for the error in their interpretation of IAS 38 and the treatment of indirect overhead costs. This interpretation first introduced in 2005 has not been challenged or commented on, by any of the Company's auditors in the intervening years. Past Company's auditors include Grant Thornton (2017 - 2019), Deloitte (2014 - 2016), Grant Thornton (2007 - 2013) and RSM (2006). There was no overall impact on the results of the Group for the year ended 31 December 2018 however there was a reclassification of related expenses in the financial statements (note 1).

GOING CONCERN AND COVENANT COMPLIANCE

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

Following the extension and amendment of the Group's banking facilities, the Committee reviewed the Group's forecasts to confirm the Group was able to meet its current and future banking covenants.

AUDIT COMMITTEE REPORT (continued)

The Group's financial performance in 2019, and its forecast future performance, reflects the positive impact of the Group's renewed focus on core products and titles, the cost-out program which began in 2018, and the fund raising and resulting debt position of the open offer to shareholders that occurred in January 2020.

The Committee discussed the impact of Covid-19 on the Group and, in particular, considered the downside scenario that was prepared as part of the going concern review. It also considered and satisfied itself of the existence or a material uncertainty which may cast doubt on the Group's ability to continue as a going concern.

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 2019, the value in use calculation exceeded the carrying value of goodwill.

Further detail is set out in note 11 to the Financial Statements.

RECOVERABILITY OF PRE-PUBLICATION COSTS

Amortization 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 capitalized in accordance with IAS 38 and the Committee, with the external auditor, discussed the assumptions behind the amortization profile including the amortization period of the publications. Further detail is set out in note 15 to the Financial Statements.

REVENUE RECOGNITION AND SALES RETURNS

The Committee considered the risk that revenue may not be captured in the relevant period. Apart from the usual risks relating to the timing of revenue recognition, management is required to provide for returns, which may be made subsequent to the period end. Management assesses sales returns through quantifying the previous returns experience and post year end returns.

During 2019, 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.

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 2019 accounts, there were only minor exceptional costs, mainly relating to the renewal of the banking facilities in January 2020, and these are referred to in note 5 to the Financial Statements.

For the 2018 accounts, there were significant exceptional items. These comprised \$2.9m in respect of restructuring costs (\$1.7m for people and other reorganization costs and \$1.2m of impairments and provision against imprint assets), \$1.5m of refinancing costs and \$0.8m in respect of Board changes. All of these items were included within Exceptional Items due either to their scale and one-off nature or to being non-trading items.

External Audit

The Committee assesses the effectiveness of its external auditor through on-going dialogue and communication with the Auditor. The audit cycle includes formal meetings. The audit planning meeting, which happens prior to the audit, was when the Committee discussed reporting developments, significant accounting risks, improvement in relation to risk management and internal control, and controls in the accounting process.

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

The Auditor showed diligence and openness with the Committee during meetings and through written communication and during intermediate briefing sessions with the Chair of the Audit and Risk Committee. The Auditor gave the Committee forthright views on judgement areas whilst recognising that the decisions lay with the Committee. The Committee is satisfied with the Auditor's effectiveness in 2019.

Appointment of Auditor and Independence

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

For the 2019 audit of the Group and the Company's accounts, Grant Thornton charged \$255,000 (2018: \$244,000).

Non-Audit Services

Grant Thornton was engaged to provide non-audit services in relation to the preparation of the open offer made to shareholders in January 2020. The cost of those services to 31 December 2019 was \$172,000 (2018: \$nil). The Company has a policy in regard to the provision of non-audit services by the auditor which is reviewed annually.

Internal Audit

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

The Audit and Risk Committee decided not to establish a dedicated internal audit function this year, for the reasons stated above. It will review this decision on an annual basis.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

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

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

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

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

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

The Executive Board is responsible for the internal control and risk management framework with regard to the accounting and consolidation processes.

The reporting structure relating to all companies included in the Consolidated Financial Statements requires that significant risks are to be reported immediately to the Executive Board by the individual businesses on identification.

Certain accounting-related processes (in particular payroll) are outsourced.

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

- Identification of significant risk and control areas of relevance to the Group-wide accounting process;

- Controls to monitor the consolidation process and its results at the level of the Executive Board and at the level of the companies included in the Consolidated Financial Statements;

- Preventative control measures in the accounting system of the Group and in the processes that generate significant information used to prepare the Consolidated Financial Statements – areas include the Group management report, segmental analysis and commitment disclosures.

Audit Quality Review

As part of its annual inspection of audit firms the Audit Quality Review team of the UK Financial Reporting Council reviewed the audit conducted by Grant Thornton of the Company accounts for financial year 2018. The Committee discussed the findings of this external report and the actions undertaken by Grant Thornton to address the matters raised. After discussions with Grant Thornton the Committee noted that any identified areas for further improvement by Grant Thornton have been addressed or had appropriate action plans in place during this year's audit.

Jane Moriarty

Chair of the Audit and Risk Committee
22 April 2020

Jane Moriarty

Remuneration Committee Report

Annual Statement

DEAR SHAREHOLDER

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2019, which has been prepared by the Committee and approved by the Board.

For the year ended 31 December 2019, there were no substantial changes in Directors' remuneration arrangements. During the year Ken Ford was granted a retention award as outlined on page 36.

This is the Company's sixth 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 22 May 2020 subject to approval at the 2020 Annual Meeting. The proposed policy mirrors the existing policy implemented on 16 May 2019.

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 Groups (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 2019; 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.

Jane Moriarty

Chair of the Remuneration Committee
22 April 2020

Remuneration Committee meeting attendance 2019

Committee membership	Number of meetings held during the year: 3
Andy Cumming (Appointed 1 March 2018, Chair from 17 May 2018 to 7 March 2019)	3 of 3
Jane Moriarty (Appointed 12 November 2018, Chair from 7 March 2019)	3 of 3
C. K. Lau (Appointed 17 May 2018)	3 of 3
Michael Mousley (Appointed 16 April 2019 until 10 February 2020)	2 of 3 (all meetings after appointment)

Policy

This section sets out Quarto's Remuneration Policy for Directors which is recommended by the Board for approval at the 2020 Annual Meeting. The Group's principal remuneration policy aim is to ensure that the Executive Directors' remuneration is designed to promote long-term value creation through transparent alignment with the agreed corporate strategy.

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

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

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

REMUNERATION COMMITTEE REPORT (continued)

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: <ul style="list-style-type: none"> • scope of the role and the markets in which Quarto operates; • performance and experience of the individual • pay and conditions at organisations of a similar size and complexity; and • pay and conditions elsewhere in the Group 	There is no prescribed maximum to avoid setting unhelpful expectations. Any salary increases are applied in line with the outcome of the review and taking into account wider factors, for example, local market inflation.	Not applicable
Benefits	Designed to be competitive in the market in which the individual is employed.	Benefits include life insurance and private medical insurance. Where appropriate, other benefits may be offered including, but not limited to, participation in all employee share schemes. Benefits are non-pensionable.	Benefits vary by role, individual circumstance and eligibility and are reviewed periodically. Benefits are not anticipated to exceed 5% of salary p.a. over the period for which this policy applies. The Committee retains the discretion to approve a higher % in exceptional circumstances (e.g. relocation) or in circumstances where factors outside of the Group's control have materially changed (e.g. increases in medical premiums).	Not applicable.
Pension	To provide cost-effective retirement benefits.	Participation in defined contribution plan or cash allowance in lieu	Up to 15% of base salary.	Not applicable.

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.	<p>Measures are reviewed at the beginning of the financial year to ensure they remain appropriate and reinforce the business strategy. Performance targets are set annually to ensure they are appropriately stretching and reflect those strategic objectives. At the end of the year the Committee determines the extent to which these were achieved.</p> <p>Awards are payable in cash.</p> <p>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.</p>	<p>Maximum potential opportunity of up to 100% of base salary for the CEO and 50% for the COO.</p> <p>For the financial target, the threshold bonus starts at 10% of the total potential for exceeding the base EBITDA target by 2% and up to 100% of the total potential for exceeding the base EBITDA target by 10%.</p>	<p>60% on financial objectives and 40% on personal objectives.</p> <p>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.</p> <p>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.</p>

REMUNERATION COMMITTEE REPORT (continued)

VARIABLE PAY (continued)

Element of remuneration	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Performance Share Plan (PSP)	Ensures that the Executive's interests are aligned with those of shareholders through reward for providing shareholders with substantial increases in shareholder value and/or for achievement of a measure of sustained growth in earnings over the medium to long term.	<p>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.</p> <p>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.</p> <p>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.</p>	<p>Award opportunities for participants are up to 50% of base salary.</p> <p>Awards of up to 100% of base salary may be provided in exceptional circumstances (e.g. recruitment).</p> <p>20% of maximum vests for Threshold, rising on a straight-line basis to full vesting for Stretch performance.</p>	<p>Awards to Executives are subject to four-year cumulative earnings per share (EPS) and/or total shareholder return (TSR) performance.</p> <p>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.</p>

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.	<p>Annual fee for Chair</p> <p>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.</p> <p>Fees are reviewed annually, taking into account time commitment, responsibilities and fees paid by comparable companies.</p>	There is no prescribed maximum. Non-Executive Director fee increases are applied in line with the outcome of the review and taking into account wider factors, for example, inflation.	Not applicable

Performance measure selection and approach to target setting

The measures used under the annual bonus plan are selected annually to reflect the Group's key strategic priorities for the year and reinforce financial performance and achievement of annual objectives as well as individual performance. Financial measures are based on the amount of EBITDA generated compared to budget. The Committee considers this measure is the most appropriate measure of long-term performance of the Group.

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

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

Differences in remuneration policy operated for other employees

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

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

Shareholding guidelines

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

Remuneration policy for new Directors

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

Component:	Base Salary	Benefits	Pension	Annual Bonus	PSP
Approach	Determined in line with the stated policy, and taking into account their previous salary. Initial salaries may be set below market and consideration given to phasing any increases over two or three years subject to development in the role.	In line with the stated policy.	In line with the stated policy.	In line with stated policy, with the relevant maximum pro-rated to reflect the proportion of the year served.	In line with the stated policy.
Maximum Value	Not applicable.	Not applicable.	Not applicable.	50% to 100% of base salary	50% of base salary (100% in exceptional circumstances)

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

REMUNERATION COMMITTEE REPORT (continued)

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

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

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

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

Director	Effective date of contract	Notice period
C. K. Lau	17 May 2018	3 months
Ken Fund	11 July 2018	6 months

Michael Mousley ceased to be an Executive Director on 30 April 2019 and became a Non-Executive Director from 1 May 2019 until 10 February 2020.

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
Andy Cumming	1 March 2018	1 month
Mei Lan Lam	17 May 2018	1 month
Jane Moriarty	12 November 2018	1 month
Michael Mousley ¹	1 May 2019	1 month

¹ Resigned on 10 February 2020.

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 objectives 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.

During the year ended 31 December 2019, \$28,194 was paid into Marcus Leaver's pension fund in respect of pension underpayments during the period May 2016 to September 2018; no payments were made to other past Directors.

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

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

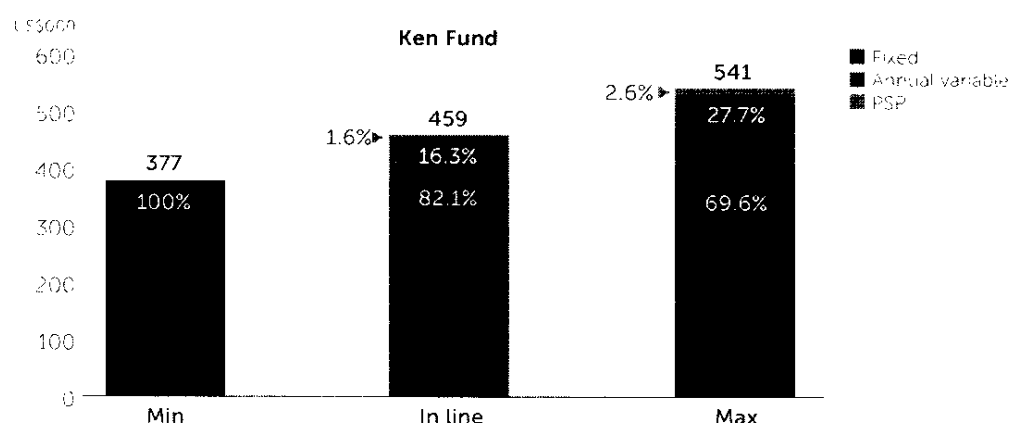
The Executive Directors may accept external appointments with the prior approval of the Board and provided only that such appointments do not prejudice the individual's ability to fulfil their duties at the Group. Whether any related fees are retained by the individual or remitted to the Group will be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

Illustration of the application of the remuneration policy

The chart below shows the remuneration that the Executive Directors could be expected to obtain based on varying performance scenarios. C. K. Lau and Michael Mousley are not included in the illustrations because neither of them is on bonus plans. 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 16 May 2019, applied to the latest known fixed pay of base salaries, pension, other benefits and variable pay of annual bonus and PSP. To better illustrate the annual potential reward opportunities, the remuneration and PSP Awards are pro-rated to an annual equivalent.

EXECUTIVE DIRECTORS APPLICATION OF REMUNERATION POLICY



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

Minimum	Basic salary, pension or cash in lieu of pension and benefits. No bonus and no vesting of the PSP.
On target	Basic salary, pension or cash in lieu of pension and benefits. Bonus pay out at 50% of the maximum bonus. PSP vesting at 50% of maximum vesting.
Maximum	Basic salary, pension or cash in lieu of pension and benefits. Bonus pay out at 100%. Full vesting of the PSP.

Consideration of conditions elsewhere in the Group

When reviewing and setting executive remuneration, the Committee takes into account the pay and employment conditions of all employees of the Group.

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

Consideration of shareholder views

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

Jane Moriarty

Chair of the Remuneration Committee
22 April 2020

Jane Moriarty

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 schemes; and,
- Granting awards under the Performance Share Plan.

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

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

Statement of shareholder voting at the 2019 Annual Meeting

The following table shows the results of the advisory vote on the 2018 Annual Remuneration Report at the Annual Meeting on 16 May 2019.

	Total number of votes	% of votes cast
For (including discretionary)	10,102,204	99.98%
Against	2,500	0.02%
Total votes cast	10,104,704	100%
Withheld	342,700	

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 2019 and the prior year. These amounts are shown in the reporting currency, although Michael Mousley's payments were settled in Sterling. The exchange rates used in 2019 and 2018 were 1.2758 and 1.3375, respectively.

	Base Salary		Benefits ¹		Annual Bonus ²		Long-term incentives		Pension		Total remuneration	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Executive Directors												
C. K. Lau*	—	—	—	—	—	—	—	—	—	—	—	—
Michael Mousley*	145	265	—	—	38	—	—	—	—	—	183	265
Ken Fund*	346	164	13	10	20	—	—	—	18	17	397	191

Governance

	Fees ¹		Benefits		Annual Bonus		Long-term incentives		Pension		Total remuneration	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Non-Executive Directors												
Andy Cumming*	92	77	—	—	—	—	—	—	—	—	92	77
Mei Lan Lam*	—	—	—	—	—	—	—	—	—	—	—	—
Jane Moriarty*	64	9	—	—	—	—	—	—	—	—	64	9
Michael Mousley* ⁴	65	—	—	—	—	—	—	—	—	—	65	—

* 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 in note 6

³ Details of Non-Executive Directors' fees can be found on page 30

⁴ The fees for Michael Mousley include \$23,000 of consulting fees on an arm's length basis

Directors' shareholdings

The share interests of the Directors who held office during the year ended 31 December 2019 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	
	31 December 2019 ¹	31 December 2018 ²	31 December 2019 ¹	31 December 2018 ²
Executive Directors				
C. K. Lau	—	—	6,874,672 ³	5,754,672
Michael Mousley	—	—	45,700	45,700
Ken Fund	75,188	75,188	24,000	24,000

During the year the market price of the shares of common stock ranged between 48p and 76p. The mid-market price on 31 December 2019 was 69p.

	Number of US\$0.10 shares of common stock	
	31 December 2019 ¹	31 December 2018 ²
Non-Executive Directors		
Andy Cumming	—	—
Mei Lan Lam	—	—
Jane Moriarty	—	—

¹ Or date of resignation

² Or date of appointment

³ Shares held by C. K. Lau (1,679,743) plus shares held by 1010 Punting Limited (5,194,929) a company over which C. K. Lau exercises control

No director receives, or has an entitlement to receive, shares in the Company as part of his or her remuneration. A 50% appreciation in the Company's share price would have no impact on a director's remuneration. As noted below Ken Fund has been granted share options under the Company's PSP Scheme (see note 29)

ANNUAL REPORT ON REMUNERATION (continued)

Directors' share options

Shares: Common Stock of \$0.10 each

	Date of grant	As at 1 January 2019*	Granted	Forfeited	As at 31 December 2019	Face value at date of grant (£'000)	Fair value at date of grant (£'000)	Price at exercise date
Ken Fund	19/04/2016	49,692	—	—	49,692	122	126	n/a
	28/04/2017	25,496	—	—	25,496	67	68	n/a
		75,188	—	—	75,188			

* Or date of appointment

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

Executive directors' base salaries/fees

During the year 2019, C. K. Lau, appointed on 17 May 2018, received \$nil, in accordance with his service contract.

During the year 2019, Michael Mousley, resigned on 30 April 2019, received £114,000, in accordance with his service contract.

During the year 2019, Ken Fund, received \$346,500, in accordance with his service contract.

Pension and other benefits

The Group makes an annual contribution to the personal pension plan of Ken Fund of \$18,000.

Long-Term Incentives – PSP Awards

Under the Remuneration Policy, awards of nominal-cost (or nil-cost) options may be granted annually up to 50% (in exceptional circumstances up to 100%) of base salary to the Executive Directors. Adhering to the same principles, other applicable employees may receive an award (up a maximum of 40% of base salary, but typically much less). In considering the size of awards, the Remuneration Committee has regard to the principles set out on page 31 of this report.

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

Retention Award

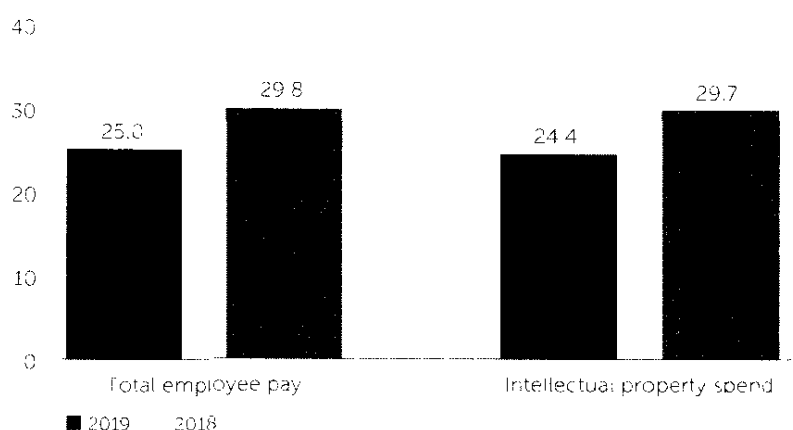
Ken Fund has been granted a retention award that offers a total payment of \$500,000 composed of two elements: (i) a payment of \$350,000 so long as he remains employed by the Company until at least 30 September 2021, and (ii) a performance-related payment of up to \$150,000 assessed on profit-achievement by the Group for financial years 2020 and 2021.

Chair and Non-Executive director fees

The Non-Executive Directors' annual fees for 2019 were as follows: Andy Cumming £72,000, Jane Moriarty £50,000, and Michael Mousley £50,000 (date of appointment, 1 May 2019).

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 2018 and 31 December 2019.



Review of group performance

The chart on page 38 compares the value of £100 invested in Quarto shares, including re-invested dividends, on 31 December 2010 compared to the equivalent investment in the FTSE Small Cap Index, over the last ten financial years. The FTSE Small Cap Index has been chosen as it comprises companies of a broadly similar size to Quarto. The table below shows the single figure for the CEO over the same period.

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
CEO single figure of remuneration including bonus (\$'000)		750	996	1,020 ¹	870	842	929	3,252	701	230	—
Annual bonus awarded	\$ amount (\$'000s)	393	573	121	233	169	305	34	150	—	—
	% of maximum opportunity	—	—	—	56.90%	33.50%	95.00%	12.0%	31%	—	—
PSP vesting	\$ amount (\$'000s)	—	—	—	—	—	—	2,651	—	—	—
	% of maximum opportunity	—	—	—	—	—	—	100%	—	—	—

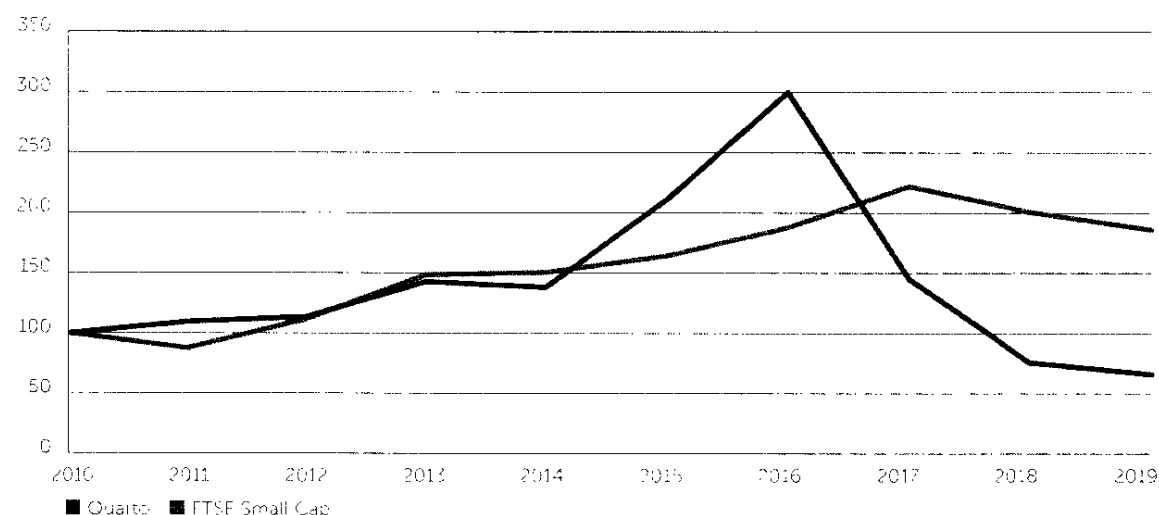
1. The figure for 2012 is a combination of remuneration of Laurence Orbach, the previous CEO, and Marcus Leaver for the respective periods.

2. The figure for 2018 is a combination of remuneration of Marcus Leaver, the previous CEO, and C. K. Lau for the respective periods.

3. Discretionary.

ANNUAL REPORT ON REMUNERATION (continued)

Performance graph



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 2017 to 2018.

\$'000	CEO		Average for other employees	
	2019	2018	% change	% change
Salary	—	224	(100)%	4%
Taxable benefits	—	6	(100)%	5%
Annual variable bonus	—	—	—%	38%
Total	—	230	(100)%	4%

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

Dilution limits

The Group has at all times complied with the dilution limits set out in the rules of its share plans (principally a limit of 10% in 10 years). In the 10 year period to 31 December 2019, awards made under the Group's share schemes represented 4.4% (2018 4.5%) of the Group's issued share capital.

Directors' shareholding guidelines and share scheme interests

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

Jane Moriarty

Chair of the Remuneration Committee

22 April 2020

Jane Moriarty

Directors' Report

Group

The Directors present their report and the audited financial statements of The Quarto Group, Inc., for the year ended 31 December 2019.

Results

The profit for the year is \$2.9m (2018: loss of \$0.6m). The Directors do not propose a dividend.

An indication of likely future developments in the business of the Group is included in the Strategic Report on page 6.

Directors

Serving Directors during the year were as follows

A. J. Cumming	(Non-Executive Chairman) Appointed 1 March 2018
C. K. Lau	(Chief Executive Officer) Appointed 17 May 2018; Non-Executive Director from 1 May 2019
M. J. Mousley ¹	(Interim Chief Financial Officer) Appointed 17 May 2018; Non-Executive Director from 1 May 2019
M. L. Lam	(Non-Executive) Appointed 17 May 2018
K. I. Fund	(Chief Operating Officer) Appointed 11 July 2018
J. Moriarty	(Non-Executive) Appointed 12 November 2018

¹ Resigned 10 February 2020

None of the Directors have a service agreement of more than one year's duration. All of the directors are subject to annual re-election. The letters of appointment of the Non-Executive Directors are made available for inspection at the Company's registered office.

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

On 10 February 2020, Polly Powell was appointed as Executive Director (Chief Executive Officer, Quarto UK) and Andrea Giunti Lombardo was appointed as a Non-Executive Director. Andrea Giunti Lombardo is not considered to be independent.

Disclosure of information under Listing Rule 9.8.4

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

LR 9.8.4 R requirement	Location
Directors' remuneration	Annual Report on Remuneration, pages 34 to 38
Details of Long-term Incentive Plans	Annual Report on Remuneration, pages 34 to 38
Related Party Transactions	The Company purchases printing services from 1010 Printing Limited, a company over which C.K. Lau exercises control. These purchases are made on a job-by-job basis at arm's length. Financial Statement note 30, page 88, summarizes purchases of printing services from 1010 Printing Limited.

With reference to LR 9.8.4 R (14)(a), the Company entered into a written and legally binding relationship agreement with 1010 Printing Limited, Lion Rock Group Limited and C.K. Lau. The Company confirms in relation to the requirements of LR 9.8.4 (14) (c) that: (i) it has complied with the undertakings of the relationship agreement, (ii) as far as the Company is aware, the controlling shareholder parties have complied with the relationship agreement, and (iii) so far as the Company is aware, the procurement obligations of LR 9.2.2B R (2)(a) have been complied with within the period under review.

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.

DIRECTORS' REPORT (continued)

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 2019 is illustrated in the table below.

	Males	Females
Board	4	2
Senior managers	10	10
All employees	86	234

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 31 December 2019 and 18 April 2020. 18 April 2020 is the latest practicable date prior to the publication of this report.

	As at 31 December 2019		As at 18 April 2020	
	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 ¹	% holding of the issued capital of the Company
1010 Printing ²	5,194,929	25.4	12,915,083	31.6
L.F. Orbach	4,103,615	20.1	4,103,615	10.0
Herald Investment Management Ltd	1,812,045	8.9	2,212,045	5.4
C.K. Lau	1,679,743	8.2	3,359,486	8.2
Giunti ³	995,000	4.9	8,177,820	20.0
Lazard Freres Gestion SAS	993,674	4.9	993,674	2.4
Haitong International Securities	625,000	3.1	1,875,000	4.6

1. Following an open offer which concluded on 31 January 2020 the allotted share capital of the Company increased from 20,444,550 shares of common stock to 40,889,100. These figures represent the resulting enlarged shareholding.

2. 1010 Printing is ultimately controlled by C.K. Lau.

3. Sergio Giunti and Andrea Giunti Lombardo (shareholders of the Company) along with Montecristo 2019 S.r.l., a private limited company incorporated under the laws of Italy, an entity, ultimately controlled by Sergio Giunti and Andrea Giunti Lombardo.

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

The Company may amend its By-Laws by special resolution approved by the affirmative vote of the holders of a majority of the voting power of the shares. The Directors' interests in the shares of the Company are set out on pages 35 and 36. There are no restrictions on the number of shares that Directors can hold.

Post balance sheet events

On 16 January 2020, the Group announced an Open Offer of 20,444,550 new Common Shares at 68 pence per share. On the same day, the Group concluded its refinancing, signing an extension to its existing bank facilities to 31 July 2021. The multi-currency facility comprises a \$25m term loan, a \$8m revolving credit facility and a \$2m overdraft facility. The effective date of the new facility was dependent on the raising of the funds from the Open Offer which was successfully completed on 4 February 2020.

The outbreak of Covid-19 is considered to be a non-adjusting post balance sheet event. At this stage of the outbreak, it is not possible to make an estimate of the financial effect that Covid-19 will have on the Group.

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 15 of the Risk Management Review. Operational risks are set out on pages 16 and 17 of the Risk Management 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 2018 (the 'Code'), available from the FRC website at www.frc.org.uk. The Board considers that the Company has been in compliance with the principles and provisions of the Code throughout the year ended 31 December 2019 and to the date of this report.

The Board will continue to monitor its corporate governance arrangements, in the light of the Code (and future changes), as the Group develops and grows.

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

Section 172 statement

The Company's section 172 statement can be found in the Strategic Report on page 7.

Attendance by Directors at Board and Committee meetings in 2019

	Board	Audit and Risk Committee	Nominations Committee	Remuneration Committee
Andy Cumming	9	3	1	3
C. K. Lau	10	—	1	3
Michael Mousley ^{1, 3}	10	1	—	2
Mei Lan Lam ²	9	—	—	—
Ken Fund ²	10	—	—	—
Jane Moriarty	9	3	1	3
Total number of meetings	10	3	1	3

1. Member of the Audit and Risk Committee from 12 August 2019, prior to this date attended Audit and Risk Committee by invitation only.

2. Not members of the Remuneration Committee.

3. Member of the Remuneration Committee from 16 April 2019 to 10 February 2020.

The principles of the Code have been applied as follows:

- The Board of Directors represents the shareholders' interests in maintaining and growing a successful business including optimizing consistent long-term financial returns.
- As at 31 December 2019, the Board comprised two Executive Directors 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. Jane Moriarty, the Senior Independent Director, is available to shareholders, if they have concerns that are not able to be resolved through normal channels. Two Non-Executive Directors, Andy Cumming and Jane Moriarty were considered by the Board to be independent throughout 2019.
- 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).
- The Board met 10 times in 2019. 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 2 days before the meetings except in the case of meetings that are convened on short notice.
- All of the Directors are subject to re-election by the shareholders at the Annual Meeting. The Board is satisfied to support the re-election of Andy Cumming, Jane Moriarty and Mei Lan Lam 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.
- The remuneration of the Executive Directors is recommended by the Remuneration Committee, comprising Jane Moriarty, who is the Committee Chairman, Andy Cumming, Michael Mousley (from 16 April 2019 and 10 February 2020), and C. K. Lau. A separate report with respect to Directors' remuneration is included on pages 34 to 35. The Committee meets at least twice a year. In the year ended 31 December 2019 the Committee had met 3 times.
- The Audit and Risk Committee comprises Jane Moriarty, who is Committee Chairman, Andy Cumming, and from 12 August 2019, Michael Mousley. 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 23 to 25.
- The Nominations Committee comprises Andy Cumming, who is Committee Chairman, Jane Moriarty and C. K. Lau. Details of the work of the Nominations Committee during the year are set out in its report on page 22.
- 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 will meet with major shareholders from time to time. Shareholders are invited to attend the Annual Meeting at least 20 days in advance of the meeting. All Directors attend the meeting which is used to communicate with shareholders.
- The Board has a procedure for Directors to take independent professional advice at the Company's expense, if required.
- All Directors have access to the advice and services of the Company Secretary.
- Quarto has arranged appropriate insurance cover in respect of legal action against the Directors.
- The Company has an established whistle-blowing policy.

DIRECTORS' REPORT (continued)

Greenhouse gas emissions reporting

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

The Group has chosen to use Operational Control in their approach to reporting utility data, electricity and natural gas from UK and international operations. This includes sites that have been disposed of during the reporting period. Scope 1 (Natural Gas) and Scope 2 (Electricity) are reported on below, but the Group is not reporting on 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

	Tonnes of CO2e	
	2019	2018
Scope 1	12	15
Scope 2	132	129
Total GHG emissions (CO2e)	144	142
Average number of staff	334	372
Emissions per staff member	0.43	0.38

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:


- The results of individual operating segments are reported and reviewed by the Board at its meetings during the year.
- 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.
- In addition to monthly reporting, individual operating units report certain management information more frequently, where it is considered appropriate.
- All operating units report their bank balances weekly and a report is produced summarizing the Group position.
- All operating units prepare annual budgets and cash flow forecasts which are reviewed by the Board.

The UK Corporate Governance Code introduced a requirement that the Directors perform on-going monitoring and review of the effectiveness of the Group's system of internal controls to cover all controls including financial, operational, compliance, and risk management. The Board confirms that there are ongoing processes covering the identification, evaluation and management of the significant risks faced by the Group which cover all material controls. The processes are carried out through Group Board meetings, quarterly subsidiary management meetings, discussion and review by the Executive Board and the finance department during the several visits per year to individual operating units, and discussions with professional advisers where appropriate. We will continue to develop our risk management framework during 2020.

Michael Clarke

Company Secretary
22 April 2020

Company Registration Number: FCO 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 and Risk Committee, the directors consider the annual report and the financial statements, taken as a whole, provides the information necessary to assess the Company's performance, business model and strategy and is fair, balanced and understandable.

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

To the best of our knowledge:

- the Group financial statements, prepared in accordance with 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.

C. K. Lau
Group Chief Executive Officer
22 April 2020

Independent Auditor's Report to the Members of The Quarto Group, Inc.

Opinion

OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the financial statements of The Quarto Group, Inc. (the 'parent company'), and its subsidiaries (the 'group') for the year ended 31 December 2019, 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 balance sheet, the company statement of comprehensive income, the company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and 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 2019 and of the group's profit 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 parent 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.

THE IMPACT OF UNCERTAINTIES ARISING FROM THE UK EXITING THE EUROPEAN UNION ON OUR AUDIT

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and parent company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and parent company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a group and parent company associated with a course of action such as Brexit.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 1 of the financial statements, which indicates that the directors have prepared a downside scenario analysis which models the potential impact of the recent Covid-19 outbreak on the group's trading and cash flow forecasts and financial covenants. As stated in note 1, the downside scenario analysis indicates that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Audit work performed

In evaluating whether a material uncertainty exists, our procedures evaluated management's assessment of the impact of Covid-19 on the group's working capital and covenant conditions by undertaking, inter alia, the following work:

- We have reviewed the forecasts and the assumptions used by management and have considered whether these are consistent with our understanding of the business derived from other detailed work undertaken;
- We assessed the quality of management's forecasting by comparing projections to actual post year-end results;
- We agreed the underlying cash flow projections to management-approved forecasts, assessed how these forecasts are compiled, and considered the adequacy of management's scenario planning by applying appropriate sensitivities to the underlying assumptions;
- Considered the effect of the assumptions regarding the lost revenue, availability of workforce and the resulting effect on working capital during the estimated period of Covid-19 impact;
- Reviewed the terms of the covenant agreement and assessed under what circumstances that there was a risk that a covenant may be breached as a result of the Covid-19 adjustments to the projections; and
- Assessed the impact of the mitigating factors available to management in respect of the ability to restrict cash impact, including the level of available credit facilities.

OVERVIEW OF OUR AUDIT APPROACH



- Overall materiality: \$700,000, which represents approximately 0.5% of the group's 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 and assessment of the valuation of pre-publication intangible assets; and
- We have performed a full scope audit of the financial statements of the parent company and of the financial information of Quarto Publishing plc ('Quarto UK') and Quarto Publishing Group USA Inc. ('Quarto US'). We have performed analytical procedures on the financial information of other companies within the group.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters, which include the matter described in the 'Material uncertainty related to going concern' section, 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. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matter – Group

COMPLETENESS OF THE SALES RETURNS 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. At 31 December 2019, this provision totals \$6,349,000. Management judgement is required when assessing the level of returns which are expected to occur subsequent to the year end for sales made during the year.

The key assumption applied is in relation to historical return experience, which is used in order to predict future returns and therefore the provision which is required to be made.

We therefore identified the completeness of the sales returns provision as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

- Considering the appropriateness of the accounting policy for the provision for sales returns by checking whether it is in accordance with the financial reporting framework, including IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and IFRS 15 'Revenue from Contracts with Customers'.
- 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 rates of returns used in management's calculation of the provision.
- Recalculating the provision to confirm that it is appropriate and in accordance with management's policy.
- Comparing actual returns in the period to the provision made in the prior period in order to evaluate the accuracy of management's forecasting, and
- Inquiring of sales and operations staff as to their knowledge of any exceptional returns in the period or the potential for these in the returns period.

The group's accounting policy on the sales returns provision is shown in note 1 to the group financial statements and related disclosures are included in notes 1 and 21. The Audit Committee identified revenue recognition and sales returns as a significant issue in its report on page 24, where the Audit Committee also described the action that it has taken to address this issue.

KEY OBSERVATIONS

Based on our audit work, we concur with management's view that the provision made for sales returns is in accordance with the financial reporting framework, including IAS 37 and IFRS 15.

Our audit work did not identify any material errors in the completeness of the sales returns provision recognised at 31 December 2019.

Key Audit Matter – Group

ASSESSMENT OF THE CARRYING VALUE OF GOODWILL IN RELATION TO QUARTO US

The Group holds \$19,192,000 of goodwill on its balance sheet, including a balance of \$12,882,000 relating to Quarto US as disclosed in Note 11 to the group financial statements.

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 cash generating unit (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.

How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

- Considering the appropriateness of the accounting policy by checking whether it is in accordance with the financial reporting framework, including IAS 36 'Impairment of Assets'.
- Obtaining management's impairment review model and testing its mathematical accuracy.
- Assessing 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.
- Assessing the discount rate applied, including an assessment by our valuation specialists and benchmarking the rate against that used by competitors.
- Performing sensitivity analysis around the value in use calculation performed by management and
- Considering the post year end performance of the group against budget and comparing 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 group financial statements and related disclosures are included in note 11. The Audit Committee identified assessment of the carrying value of goodwill as a significant issue in its report on page 24, where the Audit Committee also described the action that it has taken to address this issue.

KEY OBSERVATIONS

Our audit work did not identify any material errors in the carrying value of goodwill in relation to Quarto US and we concur with management's view that no impairment charge is necessary. The impairment calculation remains sensitive to changes in key assumptions and these continue to be disclosed in the accounts.

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matter – Group	How the matter was addressed in the audit – Group
<p>ASSESSMENT OF THE VALUATION OF PRE-PUBLICATION INTANGIBLE ASSETS</p> <p>The Group holds capitalised pre-publication costs with a net book value of \$52,213,000 as intangible assets on its consolidated balance sheet. This represents costs which are capitalised by the Group in relation to the development of book titles, including directly attributable overhead costs. There is management judgement involved in determining which costs are directly attributable to the development of books and should therefore be capitalised.</p> <p>These costs are amortised over a three-year period on a straight-line basis to reflect the expected useful economic life of these intangible assets. There is management judgement in relation to the length of life of these intangible assets and whether the balance is recoverable.</p> <p>We therefore identified the assessment of the valuation of pre-publication intangible assets as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> • Considering the appropriateness of the accounting policy by checking whether it is in accordance with the financial reporting framework, including IAS 38 'Intangible Assets'. • Testing a sample of costs capitalised in the year to supporting documentation in order to confirm they are directly attributable to the development of book titles. • Challenging judgements made by management in determining which costs are directly attributable to the development of book titles. • 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, and • Analysing historic sales patterns to ensure that they support the estimate made by management of a three-year useful economic life. <p>The group's accounting policy on pre-publication costs is shown in note 1 to the group financial statements and related disclosures are included in note 15. The Audit Committee identified recoverability of pre-publication costs as a significant issue in its report on page 24, where the Audit Committee also described the action that it has taken to address this issue.</p> <p>KEY OBSERVATIONS</p> <p>Our audit work for the current year identified that certain overhead costs have been capitalised in pre-publication intangible assets in the current and prior year which do not meet the recognition criteria set out in IAS 38. Accordingly, as set out in note 1, management have made a prior period adjustment to restate the prior period financial statements and have made an adjustment in the current year to correct this misstatement.</p> <p>Following the adjustments noted above, based on our audit work, we concur with management's view that pre-publication assets are carried at an appropriate valuation and are amortised over an appropriate useful economic life.</p>

We did not identify any key audit matters relating to the audit of the financial statements of 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 company
Financial statements as a whole	<p>\$700,000, which is approximately 0.5% of the group's revenue. This benchmark is considered the most appropriate because revenue is a key driver of the business and is monitored by management and the directors. We do not consider it appropriate to use earnings before tax as the benchmark as there have been significant fluctuations in the group's earnings before tax in recent years.</p> <p>Materiality for the current year is lower than the level that we determined for the year ended 31 December 2018 to reflect the decrease in the group's revenue in the current year.</p>	<p>\$8,000, which is 0.6% of the parent company's total assets. This benchmark is considered the most appropriate because the parent company is a holding company and has no revenue.</p> <p>Materiality for the current year is at the same level that we determined for the year ended 31 December 2018 to reflect that there has been no significant change in the parent company's total assets.</p>
Performance materiality used to drive the extent of our testing	65% of financial statement materiality.	65% of financial statement materiality.
Specific materiality	We determined a lower level of specific materiality for certain areas including directors' remuneration and related party transactions.	We determined a lower level of specific materiality for certain areas including directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	\$50,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	\$400 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

INDEPENDENT AUDITOR'S REPORT (continued)

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 determined as a percentage of the group's total assets, revenues and profit before taxation.
- Based on this evaluation we considered that the only significant components are Quarto UK and Quarto US due to their financial significance to the group.
- We performed a full scope audit of the financial statements of the parent company.
- For Quarto US, we performed a full scope audit of its financial information using component materiality, being 65% of group materiality.
- For Quarto UK, we performed a full scope audit of its financial information using materiality that we determined for the statutory audit, which was lower than we would have applied had we performed audit procedures only for group purposes.
- The full scope audits performed represent 100% of the group's continuing revenue for the year, 100% of the group's total assets, and 99.8% of the group's total liabilities.
- The financial information of the other components in the group has been subjected to analytical procedures.

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

The objectives of our audit are to identify and assess the risks of material misstatement of the financial statements due to fraud or error, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud or error, and to respond appropriately to those risks. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (UK).

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- We obtained an understanding of the legal and regulatory frameworks applicable to the parent company and the group and the industry in which they operate. We determined that the following laws and regulations were most significant: IFRSs as adopted by the European Union, Listing Rules, and the UK Corporate Governance Code.
- We obtained an understanding of how the parent company and the group is complying with those legal and regulatory frameworks by making inquiries of management, those responsible for legal and compliance procedures and the company secretary. We corroborated our inquiries through our review of board minutes and papers provided to the Audit Committee.
- We assessed the susceptibility of the parent company's and group's financial statements to material misstatement, including how fraud might occur. Audit procedures performed included:
 - identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
 - understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
 - challenging assumptions and judgments made by management in its significant accounting estimates; and
 - identifying and testing journal entries posted in the year which were deemed to be unusual.
- We did not identify any key audit matters relating to irregularities, including fraud.

OTHER INFORMATION

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the 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 43 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 pages 23 to 25 describing the work of the audit committee 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 pages 40 and 41 – 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.

OUR OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006, WERE IT TO APPLY TO THE PARENT COMPANY, ARE UNMODIFIED

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

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

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

MATTER ON WHICH WE ARE REQUIRED TO REPORT UNDER THE COMPANIES ACT 2006, WERE IT TO APPLY TO THE PARENT COMPANY

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION, WERE THE COMPANIES ACT 2006 TO APPLY TO THE PARENT COMPANY

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the statement of directors' responsibilities set out on page 43, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS

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

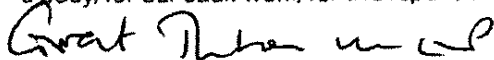
The period of total uninterrupted engagement is 3 years, covering the years ended 31 December 2017 to 31 December 2019.

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

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

USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with the terms that have been agreed in our engagement letter dated 9 January 2019. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



David White

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

London

22 April 2020

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 \$'000	Restated (Note 1) 2018 \$'000
Continuing operations			
Revenue	2	135,807	149,292
Cost of sales		(97,782)	(105,113)
Gross profit		38,025	44,179
Administrative expenses		(19,641)	(25,710)
Impairment of financial assets	17	(853)	(245)
Distribution costs		(7,527)	(7,919)
Operating profit before amortisation of acquired intangibles and exceptional items	4	10,004	10,305
Amortisation of acquired intangibles		(811)	(850)
Exceptional items	5	(419)	(5,152)
Operating profit		8,774	4,303
Finance income	7	9	21
Finance costs	8	(4,939)	(4,381)
Profit/(loss) before tax		3,844	(57)
Tax	9	(962)	(495)
Profit/(loss) for the year		2,882	(552)
Attributable to:			
Owners of the parent		2,882	(552)
		2,882	(552)
Earnings/(loss) per share (cents)			
From continuing operations			
Basic	10	14.1	(2.7)
Diluted	10	14.0	(2.7)
Adjusted basic	10	19.0	23.2
Adjusted diluted	10	18.8	23.0

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 \$'000	Restated (Note 1) 2018 \$'000
Profit/(loss) for the year	2,882	(552)
Items that may be reclassified to profit or loss		
Foreign exchange translation differences	433	(1,950)
Cash flow hedge, (losses) arising during the year	(105)	(60)
Tax relating to items that may be reclassified to profit or loss	(162)	(246)
Total other comprehensive income/(expense)	136	(2,256)
Total comprehensive income/(expense) for the year	3,018	(2,808)
Total comprehensive income/(expense) for the year attributable to:		
Owners of the parent	3,018	(2,808)
	3,018	(2,808)

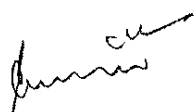
Consolidated Balance Sheet

AS AT 31 DECEMBER 2019

	Notes	2019 \$'000	Restated (Note 1) 2018 \$'000	Restated (Note 1) 2017 \$'000
Non-current assets				
Goodwill	11	19,192	18,954	19,286
Other intangible assets	12	1,282	2,368	3,516
Property, plant and equipment	13	10,883	1,552	2,129
Intangible assets - Pre-publication costs	15	48,697	52,706	56,243
Deferred tax assets	19	3,331	3,901	3,901
Total non-current assets		83,385	79,481	85,075
Current assets				
Inventories	16	19,378	22,324	22,637
Trade and other receivables	17	46,397	54,476	53,460
Derivative financial instruments		—	105	205
Cash and cash equivalents	18	15,621	15,384	17,946
Total current assets		81,396	92,289	94,248
Total assets		164,781	171,770	179,323
Current liabilities				
Short term borrowings	18	(66,077)	(5,000)	(5,000)
Trade and other payables	21	(57,381)	(64,917)	(60,796)
Lease liabilities	20	(1,937)	—	—
Tax payable		(2,831)	(4,167)	(5,243)
Total current liabilities		(128,226)	(74,084)	(71,039)
Non-current liabilities				
Medium and long-term borrowings	19	—	(70,752)	(76,907)
Deferred tax liabilities	19	(7,139)	(7,848)	(7,615)
Tax payable		(433)	(544)	(1,116)
Lease liabilities	20	(7,929)	—	—
Other payables	21	—	(554)	(1,673)
Total non-current liabilities		(15,501)	(79,698)	(87,311)
Total liabilities		(143,727)	(153,782)	(158,350)
Net assets		21,054	17,988	20,973
Equity				
Share capital	25	2,045	2,045	2,045
Paid in surplus		33,764	33,764	33,764
Retained earnings and other reserves		(14,755)	(17,821)	(14,836)
Total equity		21,054	17,988	20,973

The financial statements were approved by the Board of Directors and authorised for issue on 22 April 2020. They were signed on its behalf by

C K Lau, Director



Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital \$000	Paid in surplus \$000	Hedging reserve \$000	Translation Reserve \$000	Retained earnings \$000	Equity attributable to owners of the parent \$000
Balance at 1 January 2018 as previously stated	2,045	33,764	165	(4,793)	(7,078)	24,103
Prior year adjustment (Note 1)	—	—	—	—	(3,130)	(3,130)
Balance at 1 January 2018	2,045	33,764	165	(4,793)	(10,208)	20,973
Loss for the year	—	—	—	—	(552)	(552)
Other comprehensive income						
Foreign exchange translation differences	—	—	—	(1,950)	—	(1,950)
Cash flow hedge losses arising during the year	—	—	(60)	—	—	(60)
Tax relating to items that may be reclassified to profit or loss	—	—	—	(246)	—	(246)
Total comprehensive income for the year	—	—	(60)	(2,196)	(552)	(2,808)
Share based payments credit	—	—	—	—	(177)	(177)
Balance at 31 December 2018	2,045	33,764	105	(6,989)	(10,937)	17,988
Profit for the year	—	—	—	—	2,882	2,882
Other comprehensive income						
Foreign exchange translation differences	—	—	—	403	—	403
Cash flow hedge losses arising during the year	—	—	(105)	—	—	(105)
Tax relating to items that may be reclassified to profit or loss	—	—	—	(162)	—	(162)
Total comprehensive income for the year	—	—	(105)	241	2,882	3,018
Share based payments charge	—	—	—	—	48	48
Balance at 31 December 2019	2,045	33,764	—	(6,748)	(8,007)	21,054

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 \$000	Restated (Note 1) 2018 \$000
Profit/(loss) for the year	2,882	(552)
Adjustments for:		
Net finance costs	4,930	4,360
Depreciation of property, plant and equipment	2,127	693
Software amortisation	276	298
Tax expense	962	495
Impairment of pre-publication costs	—	501
Share based payments	48	(177)
Amortisation and amounts written off acquired intangibles	811	910
Amortisation of pre-publication costs	28,694	29,267
Operating cash flows before movements in working capital	40,730	35,795
Decrease in inventories	3,157	21
Decrease/(increase) in receivables	8,961	(2,280)
(Decrease)/increase in payables	(8,896)	4,639
Cash generated by operations	43,952	38,175
Income taxes paid	(2,650)	(1,962)
Net cash from operating activities	41,302	36,213
Investing activities		
Interest received	9	21
Investment in pre-publication costs	(23,786)	(27,585)
Purchases of property, plant and equipment	(136)	(169)
Purchase of software	—	(77)
Acquisition of businesses	(1,250)	(1,887)
Net cash used in investing activities	(25,165)	(29,697)
Financing activities		
Interest payments	(3,709)	(2,980)
Lease payments	(1,882)	—
Drawdown of revolving credit facility	1,963	18,457
Repayment of term loan and revolving credit facility	(12,417)	(24,238)
Net cash used in financing activities	(16,045)	(8,761)
Net increase/ (decrease) in cash and cash equivalents	92	(2,245)
Cash and cash equivalents at beginning of year	15,384	17,946
Foreign currency exchange differences on cash and cash equivalents	145	(317)
Cash and cash equivalents at end of year	15,621	15,384

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

Notes to the Financial Statements

1 General information and significant accounting policies

The Quarto Group, Inc. is a company incorporated in the State of Delaware, United States. The address of the registered office is given on page 97. The nature of the Group's operations and its principal activities are set out in Note 3 and in the Chief Executive Officer's Statement on page 5.

The accounting policies adopted, are consistent with those of the annual financial statements for the year ended 31 December 2018, as described in those financial statements. Two new accounting standards, IFRS 16 - Leases and IFRIC 23 - Uncertainty over Income Tax Treatments, have been adopted during the period. There was no impact of IFRIC 23 on the financial statements whilst the impact of IFRS 16 has been disclosed below.

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.

RESTATEMENT OF PRIOR YEAR RESULTS

The following tables show the restated prior year comparative figures for the financial year ended 31 December 2018. This restatement reflects a reinterpretation of the directly attributable costs and overheads that should be capitalised under IAS 38, as pre-publication costs. In the past, an element of overheads relating to indirect costs were capitalised which represents an error. The Directors accept responsibility for the error in their interpretation of IAS38 and the treatment of indirect overhead costs. This interpretation first introduced in 2005 has not been challenged or commented on, by any of the Company's auditors in the intervening years. Past Company's auditors include Grant Thornton (2017 - 2019), Deloitte (2014 - 2016), Grant Thornton (2007 - 2013) and RSM (2006). There was no overall impact on the results of the Group for the year ended 31 December 2018. The impact on the financial statements is set out below:

	As reported 2018 \$000	Adjustment 2018 \$000	Restated 2018 \$000			
Income statement						
Cost of sales	(107,195)	2,082	(105,113)			
Administration expenses	(23,528)	(2,082)	(25,610)			
Cash flow statement						
Amortisation and amounts written off pre-publication costs	31,426	(2,159)	29,267			
Investment in pre-publication costs	(29,744)	2,159	(27,585)			
	As reported 2018 \$000	Adjustment 2018 \$000	Restated 2018 \$000	As reported 2017 \$000	Adjustment 2017 \$000	Restated 2017 \$000
Balance sheet						
Intangible assets: pre-publication costs	56,741	(4,035)	52,706	60,278	(4,035)	56,243
Deferred tax liabilities	(8,753)	905	(7,848)	(8,520)	905	(7,615)
Net assets	21,118	(3,130)	17,988	24,103	(3,130)	20,973
Total equity	21,118	(3,130)	17,988	24,103	(3,130)	20,973

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 90 to 96.

BASIS OF ACCOUNTING

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

1 General information and significant accounting policies (continued)

NEW ACCOUNTING STANDARDS

The Group has adopted the new accounting standard IFRS 16 'Leases' during the year. The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 or IFRIC 4.

The Group has elected not to include initial direct costs in the measurement of the right-to-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-to-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 4.29%.

The following is a reconciliation of total operating lease commitments at 31 December 2018, as disclosed in the financial statements to 31 December 2018, to the lease liabilities recognised at 1 January 2019.

	\$'000
Total operating lease commitments disclosed at 31 December 2018	12,008
Recognized exemptions at 1 January 2019	
Leases with remaining lease term of less than 12 months	(266)
Other liabilities now recognised within lease liabilities	837
	12,579
Discounted using incremental borrowing rate	(1,970)
Total lease liabilities recognised under IFRS 16 at 1 January 2019	10,609
Of which are:	
Current lease liabilities	1,885
Non-current lease liabilities	8,724

The adoption of IFRS 16 has impacted the following items:

Impact on Balance Sheet

	1 January 2019 \$'000	31 December 2019 \$'000
Right-of-use assets		
Property, plant and equipment	10,609	9,683
Lease liabilities		
Trade and other payables within one year	(1,885)	(1,937)
Trade and other payables over one year	(8,724)	(7,929)
	(10,609)	(9,866)

The adoption of IFRS 16 on 1 January 2019 had a nil impact on the net assets of the Group due to applying the modified retrospective approach where assets equal liabilities. At 31 December 2019, lease liabilities of \$9,866,000 are \$183,000 higher than right-of-use assets due to the depreciation charge in the period being in excess of lease repayments, net of interest charges.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 General information and significant accounting policies (continued)

A reconciliation of the value of right-to-use assets and lease liabilities from 1 January 2019 to 31 December 2019 is presented below.

	Right-of-use assets \$'000	Lease liabilities \$'000
Right-of-use assets and lease liabilities at 1 January 2019	10,609	(10,609)
Depreciation	(1,609)	—
Lease payments	—	1,882
Lease interest	—	(454)
Remeasurement	526	(526)
Exchange differences	157	(159)
Right-of-use assets and lease liabilities at 31 December 2019	9,683	(9,866)

Impact on Income Statement

	2019 \$'000
Reduction in occupancy expenses	1,882
(Increase) in depreciation of property, plant and equipment	(1,609)
(Increase) in exchange differences	(2)
(Increase) in interest expense	(454)
Net (decrease) in profit before tax	(183)

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

Standards and amendments that are not yet effective and have not been adopted early by the Group include:

- IFRS 17 Insurance Contracts
- Definition of a business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Conceptual Framework for Financial Reporting

At the date of authorisation of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Group.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Group's financial statements.

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, 21: 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.
- Note 15: Recoverability of pre-publication costs and the assessment of their useful life.

1 General information and significant accounting policies (continued)

Key judgements at the balance sheet date are

The appropriateness of the going concern basis: when preparing the financial statements, management is required to make an assessment of the entity's ability to continue as a going concern and prepare the financial statements on this basis unless it either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. As set out in going concern, there are a number of events or conditions that indicate a material uncertainty exists. In relation to going concern, after reviewing the most recent projections and the sensitivity analysis and having carefully considered the material uncertainty, and the mitigating actions available, the directors have formed the judgement that it is appropriate to prepare the financial statements on the going concern basis.

At 31 December 2019 there was no explicit evidence of human to human transmission of Covid-19. The subsequent spread of Covid-19 does not provide further evidence of conditions that existed at the year end and is, therefore, considered to be a non-adjusting post balance sheet event in accordance with IAS 10. Accordingly, the development of Covid-19 has not been reflected in the directors' assessment of the measurement of assets and liabilities such as impairment of tangible and intangible assets, expected credit losses, the net realisable value of inventory and the recoverability of deferred tax assets.

GOING CONCERN BASIS

The Board initially assessed the Group's ability to operate as a going concern for the next 12 months from the date of signing the financial statements, based on a financial model which was prepared as part of the process of considering and approving the 2020 budget.

The Directors 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 2022, together with certain assumptions for revenue and costs, to satisfy themselves of the appropriateness of the going concern basis used in preparing the financial statements.

Regarding financing, the Group has raised equity of \$18.5m (£13.9m), approximately \$16.5m net of expenses, since the end of the year, and renewed its facilities on the remaining debt which now expire on 31 July 2021, which is outside of the going concern period. Notwithstanding, given this recent renewal, the directors believe that the debt providers will continue to support the Group thereafter.

The Directors also took account of the principal risks and uncertainties facing the business referred to above, a sensitivity analysis on the key revenue growth assumption and the effectiveness of available mitigating actions.

The uncertainty as to the future impact on the Group of the recent Covid-19 outbreak has subsequently been considered as part of the Group's adoption of the going concern basis. In the downside scenario analysis performed, the Directors have considered the impact of the Covid-19 outbreak on the Group's trading and cash flow forecasts. In preparing this analysis, the directors assumed that the lockdown effects of the Covid-19 virus will peak around the end of June and trading will normalise over the subsequent few months, albeit attaining substantially lower levels of revenue than budgeted, for at least the rest of the current financial year. This scenario will lead to a material reduction in the Group's revenues and results for 2020.

A range of mitigating actions within the control of management were assumed, including reductions in the investment in pre-publication costs, print volumes, staffing levels and other variable costs. The Directors have also considered the financial support commitment made by the UK Government and they believe the Group is eligible for some elements of this financial support. This has been factored in to the forecasts. The Directors have also assumed, having had productive discussions with its lenders, that certain bank fees due to be paid in August 2020, can be deferred to the end of the current financial year.

In this scenario, whilst the Group would remain within its banking facilities, some of the financial covenants would, within the current financial year, be breached, unless a waiver agreement is reached with the majority of lenders. Further adverse changes arising from Covid-19 would increase the challenge of complying with financial covenants and remaining within the banking facilities. The Directors, as stated above, are in discussions with its lenders which, albeit at early stages, are considered as being productive. The financial covenants, which are tested every calendar quarter, and generally vary by each quarter, are referred to in Note 18.

Based on the above indications, after taking into account the impact of Covid-19 on the Group's future trading, the Directors believe that it remains appropriate to continue to adopt the going concern in preparing the financial statements. However, the downside scenario detailed above, including successfully taking mitigating actions, would indicate the existence of a material uncertainty which may cast doubt on the Group's ability to continue as a going concern.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 General information and significant accounting policies (continued)

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

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

BUSINESS COMBINATIONS, INTANGIBLE ASSETS AND GOODWILL

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

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

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.

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 arises largely from the sale of physical products. Each contract is for an agreed price and revenue is recognised at a point in time when the Group satisfies performance obligations by transferring the products to its customers; this is determined with reference to delivery terms. Invoices for products transferred are due on the terms specified in the contract.

Revenue from the sale of publishing rights is recognised when the Group has discharged its performance obligations under the contractual arrangements.

On certain contracts, the customer has a right to return the products. The Group makes an allowance for this, based on a review of the historical return patterns associated with the customer, as well as current market trends. The estimated returns period is a key input of the returns allowance and is calculated by reference to historic returns data. The estimated returns period for the current and prior year is 6 months. This allowance is included within other payables. The Group also recognises an asset in relation to stock which is expected to be returned within inventory.

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.

1 General information and significant accounting policies (continued)

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.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at deemed cost less accumulated depreciation and any provision for impairments in value.

The Group recognises in the carrying amount of property, plant and equipment the subsequent costs of replacing part of such items when there are future economic benefits. All other costs are recognised in profit or loss as an expense as they are incurred.

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

Estimated useful lives are as follows:

Right-of-use assets	Over the period of the lease
Short leasehold property improvements	Over the period of the lease
Plant, equipment and motor vehicles	4 to 10 years
Fixtures and fittings	5 to 7 years

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.

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

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

LEASED ASSETS

As described on page 60, the Group has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 General information and significant accounting policies (continued)

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

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

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

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in trade and other payables.

INTANGIBLE ASSETS - PRE-PUBLICATION COSTS

Pre-publication costs represent directly attributable costs and attributable overheads incurred in the development of book titles prior to their publication. Attributable overheads are allocated on a title by title basis. These costs are recognised as non-current intangible assets in accordance with IAS38, 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 life of three years or less, being an estimate of the expected useful economic life of a book title. The estimated economic life is based on the annual sales profile of the Group. 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 those designated and effective as hedging instruments are divided into the following categories:

- amortised costs
- fair value through profit or loss
- fair value through other comprehensive income

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 22 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 (ie item 'finance costs' or 'finance income', respectively, with the exception of trade and other receivables which are recorded in revenue and administrative expenses).

After initial recognition, Financial Assets are measured at amortised cost using the effective interest method. Discounting is ignored, where the effect is immaterial. The Group's cash and cash equivalents, trade and most other receivables, fall into this category of financial instrument. Assets in this category are measured, initially, at fair value with gains or losses recognized in profit or loss.

In considering impairment of financial assets, the group uses a wide range of information when assessing credit risk and measuring credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of future cash flows of the instrument.

1 General information and significant accounting policies (continued)

The Group adopts a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. The Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

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

FINANCIAL LIABILITIES

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

After initial recognition at fair value, all financial liabilities, with the exception of derivative financial instruments, are measured at amortised cost using the effective interest rate method. A summary of the Group's financial liabilities by category is given in Note 22.

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 interest rate 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.

Derivative financial instruments are accounted for at fair value through profit and loss, except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet all of the following requirements:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

All derivative financial instruments used for hedge accounting are recognized initially at fair value and reported subsequently at fair value in the statement of financial position.

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognized in other comprehensive income and included within cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognized immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognized as a result of the hedged transaction, the gains and losses previously recognized in other comprehensive income are included in the initial measurement of the hedged item.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 General information and significant accounting policies (continued)

If a forecast transaction is no longer expected to occur, any related gain or loss recognized in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

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.

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.

No borrowing costs have been capitalized in the current or prior years in relation to qualifying assets. Qualifying assets are considered to be those assets that take in excess of one year to be ready for use.

FINANCIAL RISK MANAGEMENT

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

2 Revenue

	2019 \$'000	2018 \$'000
Sales of products	131,857	144,880
Sales of publishing rights	3,950	4,412
Total revenue	135,807	149,292

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

During the year, sales to one customer exceeded 10% of Group revenue (2018: one customer). The value of these sales was \$29,404,000 (2018: \$26,654,000).

3 Operating segments

The core publishing businesses comprises two divisions: US Publishing and UK Publishing. This is the basis on which operating results are reviewed and resources allocated by the Chief Executive Officer. The Group reorganised the number of its divisions from three to two at the start of the current year. The previous year's figures have been restated accordingly.

THE QUBARTO GROUP, INC. ANNUAL REPORT 2019
Financial Statements

3 Operating segments (continued)

2019	US Publishing \$000	UK Publishing \$000	Total Group \$000
Continuing operations			
Revenue	71,488	64,319	135,807
Operating profit before amortisation of acquired intangibles and exceptional items	4,511	6,540	11,051
Amortisation of acquired intangibles	(570)	(241)	(811)
Segment result	3,941	6,299	10,240
Unallocated corporate expenses			(1,047)
Corporate exceptional items			(419)
Operating profit			8,774
Finance income			9
Finance costs			(4,939)
Profit before tax			3,844
Tax			(962)
Profit after tax			2,882
Capital expenditure	17	121	138
Depreciation and software amortization	1,294	1,109	2,403
Investment in pre-publication costs	10,930	12,856	23,786
Amortisation of pre-publication costs	14,289	14,405	28,694
2018 (restated)			
	US Publishing \$000	UK Publishing \$000	Total Group \$000
Continuing Operations:			
Revenue	78,108	71,184	149,292
Operating profit before amortisation of acquired intangibles and exceptional items	5,027	7,708	12,735
Amortisation of acquired intangibles	(596)	(254)	(850)
Segment result	4,431	7,454	11,885
Exceptional: pre-publication asset impairment and write-off (note 5)	(1,164)	–	(1,164)
Exceptional: items other (note 5)	(811)	(402)	(1,213)
	2,456	7,052	9,508
Unallocated corporate expenses			(2,430)
Corporate exceptional items			(2,775)
Operating profit			4,303
Finance income			21
Finance costs			(4,381)
Loss before tax			(57)
Tax			(495)
Loss after tax			(552)
Capital expenditure	135	111	246
Depreciation and software amortisation	575	416	991
Investment in pre-publication costs	12,974	14,611	27,585
Amortisation of pre-publication costs	13,968	15,299	29,267

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 Operating segments (continued)

BALANCE SHEET

	2019 \$'000	Restated (Note 1) 2018 \$'000
Continuing operations		
Quarto Publishing Group USA	81,154	81,960
Quarto Publishing Group UK	64,675	70,525
Unallocated (Deferred tax and cash)	18,952	19,285
Total assets	164,781	171,770
Continuing operations		
Quarto Publishing Group USA	29,613	30,518
Quarto Publishing Group UK	37,634	34,953
Unallocated (Deferred tax, corporation tax and debt)	76,480	88,311
Total liabilities	143,727	153,782

GEOGRAPHICAL AREAS

The Group operates in the following main geographic areas

	Revenue		Non-current assets	
	2019 \$'000	2018 \$'000	2019 \$'000	Restated (Note 1) 2018 \$'000
United States of America	80,131	86,092	47,887	47,453
United Kingdom	19,193	20,384	35,498	32,028
Europe	21,392	25,314	—	—
Rest of the World	15,091	17,502	—	—
	135,807	149,292	83,385	79,481

4 Operating profit

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

	2019 \$'000	Restated (Note 1) 2018 \$'000
Depreciation of property, plant and equipment	2,127	693
Depreciation of software	276	298
Net foreign currency exchange differences	(181)	(129)
Amortisation of acquired intangibles	811	850
Amortisation of pre-publication costs	28,694	29,267
Staff costs (Note 6)	24,985	29,789
Doubtful debt allowance	853	245
Cost of inventory recognised as an expense	32,647	36,080
Exceptional items (Note 5)	419	5,152

4 Operating profit (continued)

AUDITOR'S REMUNERATION

Fees payable to the Company's auditor for the audit of the Company's annual accounts	90	93
Fees payable to the Company's auditor and its associates for the audit of subsidiary companies	165	151
Fees payable to the Company's auditor for other assurance services relating to Open Offer	172	—
	427	244

5 Exceptional items

	2019 \$'000	2018 \$'000
Reorganisation costs		
• Impairment of pre-publication intangible assets (note 15)	—	501
• Impairment of back lists (note 12)	—	60
• Write-off of pre-publication costs	—	603
• Staff severance costs	—	1,039
• Other reorganisation costs	—	672
• Board changes	—	831
Refinancing costs	387	1,446
Aborted corporate transaction costs	32	—
Total	419	5,152

In 2019, the Group incurred \$387,000 of refinancing costs in connection with the renewal of the facility agreement, signed on 16 January 2020 and \$32,000 of costs incurred on aborted corporate transaction costs. This year's charges, net of taxation, amount to \$339,000.

During 2018, the Group incurred the following exceptional costs: (a) staff severance and reorganisation costs relating to a cost-out programme that was implemented in order to right-size the Group and to provide a path to sustainable debt reduction (of the costs incurred, \$634,000 would ordinarily have been included within cost of sales and \$1,077,000 would ordinarily have been included within administrative costs), (b) costs relating to board changes, following the Annual Meeting, which would ordinarily have been included within administrative costs, (c) refinancing costs, which would ordinarily have been included within administrative costs and (d) impairment and write-off of pre-publication costs as a consequence of the cost-out programme, which would ordinarily have been included within cost of sales.

6 Staff costs

	2019 Number	2018 Number
Average monthly number of employees (excluding Executive Directors)	334	374
	\$'000	\$'000
Wages and salaries	21,854	26,343
Share-based payments	48	(177)
Social security costs	2,229	2,617
Other pension costs	854	1,006
	24,985	29,789

Directors' remuneration is disclosed in the Remuneration Committee Report on page 34.

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 Staff costs (continued)

The remuneration of the Executive Directors (2018: Executive Directors), who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	2019	2018
Short term employee benefits	788*	1,442
Post-employment benefits	18	18
	806	1,460

* Includes \$58,000 discretionary bonus payments paid in 2019 but relating to performance in 2018

7 Finance income

	2019 \$'000	2018 \$'000
Interest income	9	21

8 Finance costs

	2019 \$'000	2018 \$'000
Interest expense on borrowings	3,360	3,710
Amortisation of debt issuance costs and bank fees	936	301
Interest expense on lease liabilities arising from the adoption of IFRS 16	454	—
Other interest	189	370
	4,939	4,381

9 Taxation

	2019 \$'000	2018 \$'000
Corporation tax		
Current tax	1,557	73
Prior periods	(123)	176
Total current tax	1,434	249
Deferred tax (Note 19)		
Origination and reversal of temporary differences	(472)	246
Total tax expense	962	495

Corporation tax on UK profits is calculated at 19%, based on the UK standard rate of corporation tax, (2018: 19%) 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.

	2019 \$'000	2018 \$'000
Profit/(loss) before tax	3,844	(57)
Tax at the UK corporation tax rate of 19% (2018: 19%)	730	(11)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(79)	(102)
Adjustment to prior years	97	(85)
Tax effect of items that are not deductible in determining taxable profit	174	606
Other	40	86
Tax expense	962	495
Effective tax rate	25.0%	(868.4)%

10 Earnings per share

	2019 \$'000 Group	2018 \$'000 Group
From continuing operations		
Profit/(loss) for the year	2,882	(552)
Amortisation of acquired intangibles (net of tax)	654	701
Exceptional items (net of tax)	339	4,603
Earnings for the purposes of adjusted earnings per share	3,875	4,752

Number of shares	Number	Number
Weighted average number of ordinary shares	20,444,550	20,444,550
Average number of potentially dilutive share options	171,597	256,655
Diluted weighted average number of ordinary shares	20,616,147	20,701,205
Earnings/(loss) per share (cents) – continuing operations		
Basic	14.1	(2.7)
Diluted	14.0	(2.7)
Adjusted earnings per share (cents)		
Basic	19.0	23.2
Diluted	18.8	23.0

11 Goodwill

	2019 \$000	2018 \$000	2017 \$000
Cost			
At 1 January	42,675	43,007	42,425
Exchange differences	238	(332)	582
At 31 December	42,913	42,675	43,007
Accumulated impairment losses			
At 1 January	(23,721)	(23,721)	(6,281)
Exchange differences	—	—	(26)
Impairment	—	—	(17,414)
At 31 December	(23,721)	(23,721)	(23,721)
Carrying value			
At 31 December	19,192	18,954	19,286

IMPAIRMENT TESTS FOR CASH GENERATING UNITS CONTAINING GOODWILL

The following units have significant carrying amounts of goodwill:

	2019 \$000	2018 \$000	2017 \$000
Quarto Publishing Group USA (QUS)	12,882	12,882	12,882
Quarto Publishing Group UK (QUK)	6,310	6,072	6,404
	19,192	18,954	19,286

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 Goodwill (continued)

The recoverable amount of each cash generating unit (CGU) is determined using the value in use basis. In determining value in use, management prepares a detailed bottom up budget for the initial twelve-month period, with reviews conducted at each business unit. A further two years are forecast using relevant growth rates and other assumptions. Cash flows beyond the three year period are extrapolated into perpetuity, by applying a 2% growth rate from the addressable market. The cashflows are then discounted using a country specific discount rate. The growth rates used are consistent with the growth expectations for the sector in which the company operates and the discount rate has been calculated using pre-tax Weighted Average Cost of Capital analysis. These are as follows:

	Terminal Growth Rates			Discount Rates		
	2019	2018	2017	2019	2018	2017
United States of America	2%	2%	2%	10.81%	10.90%	11.72%
United Kingdom	2%	2%	2%	10.54%	10.58%	11.16%

If a reasonably possible change occurred in either forecast revenues, terminal growth rate or discount rate there would be no impairment. The sensitivities applied were 2.5% reduction in revenues and a 1% increase in discount rate.

12 Other intangible assets

	Backlists \$000	Software \$000	Total \$000
Cost			
At 1 January 2018	21,342	1,579	22,921
Exchange differences	(138)	-	(138)
Additions	-	77	77
Disposals	-	(26)	(26)
At 1 January 2019	21,204	1,630	22,834
Exchange differences	(30)	-	(30)
At 31 December 2019	21,174	1,630	22,804
Amortisation and impairment			
At 1 January 2018	18,705	700	19,405
Exchange differences	(121)	-	(121)
Charge for the year	850	298	1,148
Amount written off for the year	60	-	60
Disposals	-	(26)	(26)
At 1 January 2019	19,494	972	20,466
Exchange differences	(31)	-	(31)
Charge for the year	811	276	1,087
At 31 December 2019	20,274	1,248	21,522
Carrying amount			
At 31 December 2019	900	382	1,282
At 31 December 2018	1,710	658	2,368
At 31 December 2017	2,637	879	3,516

Financial Statements

13 Property, plant and equipment

Cost	Short-term Leasehold Improvements \$000	Right-of-use Leasehold Property \$000	Plant, Equipment & Motor Vehicles \$000	Fixture & Fittings \$000	Total \$000
At 1 January 2018	1,308	—	1,116	1,117	3,541
Exchange difference	57	—	(58)	(23)	(138)
Additions	—	—	167	2	169
Disposals	(9)	—	(282)	(11)	(302)
At 1 January 2019	1,242	—	943	1,085	3,270
Adjustment on transition to IFRS 16	—	10,538	71	—	10,609
Exchange difference	26	156	27	1	210
Additions	—	—	138	—	138
Remeasurement	—	508	18	—	526
Disposals	(258)	—	—	—	(258)
At 31 December 2019	1,010	11,202	1,197	1,086	14,495
Depreciation					
At 1 January 2018	434	—	295	683	1,412
Exchange differences	(30)	—	(35)	(20)	(85)
Charge for the year	113	—	413	167	693
Disposals	(9)	—	(282)	(11)	(302)
At 1 January 2019	508	—	381	819	1,718
Exchange differences	8	—	17	—	25
Charge for the year - right of use asset	—	1,545	64	—	1,609
Charge for the year - other property, plant and equipment	104	—	510	104	518
Disposals	(258)	—	—	—	(258)
At 31 December 2019	362	1,545	782	923	3,612
Net book value					
At 31 December 2019	648	9,657	415	163	10,883
At 31 December 2018	734	—	552	266	1,552
At 31 December 2017	874	—	821	434	2,129

All property, plant and equipment has been pledged as security for the Group's bank borrowings (note 18).

Included in the net carrying amount of property, plant and equipment are right-of-use assets of \$9,683,000 of which \$9,657,000 is attributable to leasehold property improvements and \$26,000 to plant, equipment and motor vehicles. Depreciation charge on these assets are disclosed separately in the above table.

14 Subsidiaries

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 Intangible assets – pre-publication costs

	2019 \$000	Restated (Note 1) 2018 \$000	Restated (Note 1) 2017 \$000
Cost			
At 1 January	137,640	188,531	179,021
Exchange differences	2,040	(3,354)	4,609
Additions	23,786	27,585	33,360
Reclassification to other balance sheet line	—	—	(2,113)
Disposals	(28,931)	(75,122)	(26,346)
At 31 December	134,535	137,640	188,531
Amortisation			
At 1 January	84,934	132,288	120,658
Exchange differences	1,141	(2,000)	1,822
Charge for the year	28,694	29,267	31,286
Impairment charge	—	501	4,868
Disposals	(28,931)	(75,122)	(26,346)
At 31 December	85,838	84,934	132,288
Net Book Value			
At 31 December	48,697	52,706	56,243

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 impairment charge and the amount written-off for the year, for 2018 is included in exceptional items and further information is included in Note 5. Pre-publication costs form part of the carrying value of the CGU for each segment and are considered for impairment of goodwill in note 11.

16 Inventories

	2019 \$000	2018 \$000	2017 \$000
Finished goods	19,270	22,098	22,309
Raw materials	108	726	328
	19,378	22,324	22,637

All of the Group's inventories have been reviewed for indicators of impairment. Certain inventories were found to be impaired and a provision of \$2,318,000 (2018: \$2,079,000) has been recorded accordingly.

All inventories have been pledged as security for the Group's bank borrowings (note 16).

17 Trade and other receivables

	2019 \$000	2018 \$000	2017 \$000
Trade receivables	38,753	45,430	43,127
Other receivables and prepayments	7,644	9,046	10,333
	46,397	54,476	53,460

The average credit period on sales of goods is 73 days (2018: 71 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 \$1,168,000 (2018: \$826,000) 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:

	2019 \$000	2018 \$000	2017 \$000
Less than one month	1,750	1,022	2,475
More than one month but less than two months	930	687	860
More than two months but less than three months	81	182	699
More than three months but less than six months	242	171	245
More than six months	167	49	341
	3,170	2,111	4,620

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

	2019 \$000	2018 \$000	2017 \$000
Balance at beginning of year	826	801	670
Amounts written off in the year	(677)	(215)	(476)
Amounts recovered during the year	148	12	17
Exchange differences	18	(17)	25
Increase in allowance recognised in profit or loss	853	245	565
Balance at end of the year	1,168	826	801

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

Note 22 includes disclosures relating to credit risk exposures and analysis relating to the allowance for expected credit losses.

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 Cash, borrowings and net debt

CASH

	2019 \$000	2018 \$000	2017 \$000
Bank balances	15,621	11,134	17,946
Short term deposits	—	4,250	—
Cash and cash equivalents	15,621	15,384	17,946

The carrying amount of these assets approximates to their fair value.

The effective interest rate on bank balances and short-term deposits was 0% (2018: 0.4%).

BORROWINGS

	2019 \$000	2018 \$000	2017 \$000
Bank and other loans	66,077	75,752	81,907
On demand or within one year	66,077	5,000	5,000
In the second year	—	70,752	76,907
	66,077	75,752	81,907
Less: Amount due for settlement within 12 months (shown under current liabilities)	(66,077)	(5,000)	(5,000)
Amount due for settlement after 12 months	—	70,752	76,907

	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	45,000	13,000	32,000	3.5	19.0
Other currency borrowings	21,077	—	21,077	—	—
As at 31 December 2019	66,077	13,000	53,077	3.5	19.0
US dollar borrowings	55,450	23,000	32,450	4.0	14.6
Other currency borrowings	20,302	—	20,302	—	—
As at 31 December 2018	75,752	23,000	52,752	4.0	14.6
US dollar borrowings	55,500	20,000	35,500	3.8	13.5
Other currency borrowings	26,407	—	26,407	—	—
As at 31 December 2017	81,907	20,000	61,907	3.8	13.5

18 Cash, borrowings and net debt (continued)

OTHER LOANS

	2019 \$'000	2018 \$'000	2017 \$'000
Other loans	13,000	13,000	—
On demand or within one year	13,000	—	—
In the second year	—	13,000	—
	13,000	13,000	—
Less: Amount due for settlement within 12 months (shown under current liabilities)	(13,000)	—	—
Amount due for settlement after 12 months	—	13,000	—

Other loans, of which \$11,500,000 (2018: \$13,000,000) are with related parties, as disclosed in note 30, are unsecured, are repayable, together with the accrued interest on 31 August 2020 and carry an interest rate of 3.5%. A loan for \$1,500,000 (2018: \$1,500,000) is from Recruit & Company Limited which was a related party at 31 December 2018 but is no longer classified as such. C. K. Lau no longer exercises control.

Post the year end date the facilities detailed above were extended to 31 July 2021.

	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	13,000	13,000	—	3.5	19.0
As at 31 December 2019	13,000	13,000	—	3.5	19.0
As at 31 December 2018	13,000	13,000	—	3.5	20.0
As at 31 December 2017	—	—	—	—	—

BANK LOANS

	2019 \$'000	2018 \$'000	2017 \$'000
Bank loans	53,077	62,752	81,907
On demand or within one year	53,077	5,000	5,000
In the second year	—	57,752	76,907
	53,077	62,752	81,907
Less: Amount due for settlement within 12 months (shown under current liabilities)	(53,077)	(5,000)	(5,000)
Amount due for settlement after 12 months	—	57,752	76,907

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 Cash, borrowings and net debt (continued)

	Total \$'000	Fixed rate borrowings \$'000	Variable rate borrowings \$'000	Weighted average interest rate for fixed rate borrowings %	Average time over which interest rate is fixed Months
US dollar borrowings	32,000	—	32,000	—	—
Other currency borrowings	21,077	—	21,077	—	—
As at 31 December 2019	53,077	—	53,077	—	—
US dollar borrowings	42,450	10,000	32,450	5.8	7.5
Other currency borrowings	20,302	—	20,302	—	—
As at 31 December 2018	62,752	10,000	52,752	5.8	7.5
US dollar borrowings	55,500	20,000	35,500	3.8	13.5
Other currency borrowings	26,407	—	26,407	—	—
As at 31 December 2017	81,907	20,000	61,907	3.8	

At 31 December 2019, undrawn borrowing facilities totalled \$11.0m (2018: \$9.4m). The variable rate borrowings carry interest based on LIBOR plus a margin, depending on the leverage ratio. 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 2019 the Group had a US\$64.0m (2018: US\$72.5m) multi-currency syndicated bank facility which was due to expire on 31 August 2020. A new facility agreement was signed on 16 January 2020 with borrowing facilities of US\$35m, subsequent to the net proceeds of the Open Offer being received by the banks prior to 20 February 2020. Banking EBITDA used for bank covenant purposes was \$10,376,000 in 2019 (2018: \$11,707,000).

These facilities are subject to three principal covenants which vary over the course of the financial year. At December 31, 2019, the covenants were:

- Total consolidated net banking indebtedness shall not exceed 4.07 times EBITDA (as defined in the committed facility agreement). At December 31, 2019 net indebtedness was 3.54 times EBITDA.
- EBITDA shall exceed 2.79 times net finance charges (as defined in the committed facility agreement). For the year ended December 31, 2019, net finance charges were 3.47 times covered under this covenant.
- Cash flow (as defined in the committed facility agreement) shall exceed 1.1 times Debt Service. For the year ended December 31, 2019, Debt Service was 3.10 times covered under this covenant.

NET DEBT

	1 January 2019 \$'000	Cashflows \$'000	Non-cash items \$'000	Foreign exchange \$'000	31 December 2019 \$'000
Borrowings	(75,752)	10,454	(188)	(591)	(66,077)
Cash and cash equivalents	15,384	92	—	145	15,621
Net debt	(60,368)	10,546	(188)	(446)	(50,456)

	1 January 2018 \$'000	Cashflows \$'000	Non-cash items \$'000	Foreign exchange \$'000	31 December 2018 \$'000
Borrowings	(81,907)	5,781	(301)	675	(75,752)
Cash and cash equivalents	17,946	(2,245)	—	(317)	15,384
Net debt	(63,961)	3,536	(301)	358	(60,368)

18 Cash, borrowings and net debt (continued)

	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)

19 Deferred tax

	2019 \$000	Restated (Note 1) 2018 \$000	Restated (Note 1) 2017 \$000
Deferred tax liabilities			
Excess of capital allowances over depreciation – UK	1	8	32
Pre-publication costs and other temporary differences – UK	4,519	4,688	5,060
	4,520	4,696	5,092
Pre-publication costs and other temporary differences – US	2,619	3,152	2,523
Other overseas temporary differences	—	—	—
	7,139	7,848	7,615
Deferred tax assets			
Tax losses and other timing differences – UK	—	99	509
Goodwill, intangible assets and other temporary differences – US	3,331	3,802	3,392
	3,331	3,901	3,901
Net deferred taxation liability	3,808	3,947	3,714

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

	2019 \$000	Restated (Note 1) 2018 \$000
Net provision at 1 January as previously stated	3,947	4,619
Prior year adjustment (note 1)	—	(905)
	3,947	3,714
Credit direct to equity	162	246
Exchange difference through other comprehensive income	171	(259)
(Credit)/charge to profit and loss	(472)	246
Net provision at 31 December	3,808	3,947

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 Lease liabilities

	2019 \$000	2018 \$000	2017 \$000
Current	1,937	—	—
Non-current	7,929	—	—
Total	9,866	—	—

The Group has leases for its offices and some IT equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Group revenues) are excluded from the initial measurement of the lease liability and asset. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (note 15).

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

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

Right-of-use asset	No of right-of-use assets leased	Range of remaining term	Average remaining lease term	No of lease with extension options	No of lease with options to purchase	No of lease with variable payments linked to an index	No of lease with termination options
Office building	7	2-9 years	6 years	5	—	4	1
IT equipment	2	1 year	1 year	—	—	—	—

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 31 December 2019 were as follows:

	Minimum lease payments due US\$000						Total
	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	
31 December 2019							
Lease payments	2,253	2,085	1,886	1,504	1,343	2,291	11,362
Finance charges	(390)	(329)	(267)	(204)	(149)	(157)	(1,496)
Net present values	1,863	1,756	1,619	1,300	1,194	2,134	9,866
31 December 2018							
Lease payments	2,263	2,102	1,938	1,746	1,683	2,847	12,579
Finance charges	(454)	(335)	(334)	(271)	(208)	(308)	(1,970)
Net present values	1,809	1,767	1,604	1,475	1,475	2,539	10,609

The Group has elected not to recognise a lease liability for short-term lease or for leases of low-value assets. Payments made under such leases are expenses on a straight-line basis and amounted to \$26,000 in the year.

21 Trade and other payables

CURRENT LIABILITIES

	2019 \$000	2018 \$000	2017 \$000
Trade payables	36,218	45,850	46,514
Other payables	21,163	19,067	14,282
Total	57,381	64,917	60,796

Under IFRS 15, the reserve for sales returns is included in other payables, amounting to \$6,749,000 (2018: \$5,391,000). The reserve is calculated based on a time lag between sales and returns and historical return patterns. Management monitor actual returns against the reserve on a regular basis.

Other payables include the discounted deferred and contingent consideration liabilities of \$nil in respect of prior year acquisitions (2018: \$1.2m). \$1.2m was paid in the year (2018: \$1.9m).

NON-CURRENT LIABILITIES

At 31 December 2019, Other Payables comprise \$nil in respect of the discounted deferred and contingent liabilities of prior year acquisitions (2018: \$0.6m).

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

22 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:

	2019		2018	
	\$000 Sterling	\$000 Other	\$000 Sterling	\$000 Other
Financial assets	10,321	2,121	8,232	1,948
Financial liabilities	(19,030)	(4,344)	(1,603)	(1,045)
Short-term exposure	(8,709)	(2,223)	6,629	903
Financial liabilities				
Long-term exposure	-	-	(16,841)	(3,459)
At 31 December	(8,709)	(2,223)	(10,212)	(2,556)

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

It assumes a +/- 7.5% 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 7.5% (2018: 7.5%) then this would have had the following impact:

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 Financial instruments (continued)

	2019 \$'000	2018 \$'000
Profit/(loss) after tax for the year	244	92
Equity	4,228	3,914

If Sterling had weakened against the US Dollar by 7.5% (2018: 7.5%) then this would have had the following impact:

	2019 \$'000	2018 \$'000
Profit/(loss) after tax for the year	(244)	(92)
Equity	(4,228)	(3,914)

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

INTEREST RATE SENSITIVITY

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

At 31 December 2019, 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:

	2019 \$'000	2018 \$'000
Profit/(loss) for the year	(100)	(118)
Equity	(100)	(118)

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

	2019 \$'000	2018 \$'000
Profit/(loss) for the year	100	118
Equity	100	118

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:

	2019 \$'000	2018 \$'000
Cash and cash equivalents	15,621	15,384
Trade receivables	38,753	45,430
Derivative financial instruments	105	105
	54,374	60,919

22 Financial instruments (continued)

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 ongoing credit risk is managed through regular review of ageing analysis together with credit limits per customer.

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

The Group's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. Credit losses written off during the year which are subject to enforcement activity are minimal.

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

LIQUIDITY RISK ANALYSIS

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

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

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

31 December 2019	Current		Non-Current	
	Within 6 months \$'000	6 to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000
Bank and other loans	1,365	66,671	—	—
Trade payables	31,218	5,000	—	—
Other short-term financial liabilities	21,163	—	—	—
	53,746	71,671	—	—
31 December 2018	Current		Non-Current	
	Within 6 months \$'000	6 to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000
Bank and other loans	7,130	2,165	74,686	—
Trade payables	45,850	—	—	—
Other short-term financial liabilities	17,836	1,250	—	—
Other long-term payables	—	—	569	—
	70,816	3,415	75,255	—

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 the subsequent measurement.

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 Financial instruments (continued)

	2019 \$000	2018 \$000
Current assets		
Derivative financial instruments designated as hedging instruments		
• Interest rate swap	—	105
Financial assets at amortised cost		
• Trade receivables	38,753	45,430
• Cash and cash equivalents	15,621	15,384
	54,374	60,919
Non-current liabilities		
Financial liabilities measured at amortised cost		
Borrowings	—	70,752
Other payables	—	554
	—	71,306
Current liabilities		
Financial liabilities measured at amortised cost		
• Borrowings	66,077	5,000
• Trade payables	36,218	45,850
• Other payables	21,163	19,067
	123,458	69,917

CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through an optimal balance of debt and equity. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 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. The Group has complied with its covenant obligations during the year.

23 Other financial assets/liabilities

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

	2019 \$000	2018 \$000
Current financial assets		
Derivative financial instruments – interest rate swaps	—	105
Total	—	105

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.

23 Other financial assets/liabilities (continued)

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

	Interest rate		Principal amounts		Committed interest payments	
	2019 %	2018 %	2019 \$000	2018 \$000	2019 \$000	2018 \$000
Within one year	—	5.8	—	10,000	—	(370)
Within one to two years	—	—	—	—	—	—
Derivative	—	—	—	10,000	—	(370)

24 Post balance sheet events

On 16 January 2020, the Group announced an Open Offer of 20,444,550 new Common Shares at 68 pence per share. On the same day, the Group concluded its refinancing, signing an extension to its existing bank facilities to 31 July 2021. The multi-currency facility comprises a \$25m term loan, a \$8m revolving credit facility and a \$2m overdraft facility. The effective date of the new facility was dependent on the raising of the funds from the Open Offer which was successfully completed on 4 February 2020.

The outbreak of Covid-19 is considered to be a non-adjusting post balance sheet event. At this stage of the outbreak, it is not possible to make an estimate of the financial effect that Covid-19 will have on the Group.

25 Share capital

	2019 \$000	2018 \$000	2017 \$000
Authorised			
28 million shares of common stock of par value of US\$0.10 each	2,800	2,800	2,800
Allotted, called up and fully paid			
20,444,550 (2018: 20,444,550) shares of common stock of par value of US\$0.10 each	2,045	2,045	2,045

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

26 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.

27 Dividends

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

28 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)

29 Share based payments

PERFORMANCE SHARE PLAN ('PSP')

The Company operates a PSP scheme that awards free shares

2015 AWARD

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

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

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

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

	2019 Number	2018 Number
Outstanding at beginning of the year	—	167,464
Forfeited during the year	—	(167,464)
Outstanding at the end of the year	—	—

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:

	2019 Number	2018 Number
Outstanding at beginning of the year	152,192	287,136
Forfeited during the year	(8,408)	(134,944)
Outstanding at the end of the year	143,784	152,192

29 Share based payments (continued)

The key inputs used to value the options are

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

2017 AWARD

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

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

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

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

	2019 Number	2018 Number
Outstanding at beginning of the year	104,463	178,131
Forfeited during the year	(19,468)	(73,668)
Outstanding at the end of the year	84,995	104,463

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

30 Related party transactions

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

PRINTING PURCHASES:

Lion Rock Group Limited	2019 \$'000	2018 \$'000
Accounts payable at start of year (2018: 17 May 2018)	6,083	4,806
Purchases	11,562	1,872
Payments	(3,953)	(595)
Accounts payable at end of year	13,692	6,083

LOANS AND ACCRUED INTEREST:

	At 31 December 2019 \$000	At 31 December 2018 \$000
Loans (advanced on 1st and 2nd November 2018)	11,500	13,000
Accrued interest on loans at end of year	470	76

The loans are from 1010 Printing Limited (\$7.0m) and C. K. Lau (\$4.5m). The loans are unsecured, are repayable, together with the accrued interest, on 31 July 2021, and carry interest at 3.5%. In the prior year, a further loan of \$1.5m from Recruit & Company was designated as a related party loan but this ceased to be a related party during 2019.

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

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

	2019 \$000	Restated (Note 1) 2018 \$000
Adjusted operating profit		
Operating profit (continuing operations)	8,774	4,303
Add back: Amortisation of acquired intangibles	811	850
Other exceptional items (Note 5)	419	5,152
Adjusted operating profit	10,004	10,305
EBITDA		
Operating profit before amortisation of acquired intangibles and exceptional items	10,004	10,305
Less: Net finance costs	(4,930)	(4,360)
Impact of IFRS 16	(271)	—
Adjusted profit before tax (before amortisation of acquired intangibles and exceptional items)	4,803	5,945
Net finance costs	4,930	4,360
Depreciation of property, plant and equipment and software (excluding right-of-use assets)	794	991
Share based payments	48	(177)
EBITDA on consistent measure	10,575	11,119
Impact of IFRS 16	271	—
Depreciation of right-of-use assets	1,609	—
EBITDA	12,455	11,119
Adjusted profit before tax before amortisation of acquired intangibles and exceptional items		
Adjusted operating profit before amortisation of acquired intangibles and exceptional items	10,004	10,305
Less: net finance costs	(4,930)	(4,360)
Adjusted profit before tax before amortisation of acquired intangibles and exceptional items	5,074	5,945
Free cashflow		
Net cash from operating activities	41,302	36,213
Investment in pre-publication costs	(23,786)	(27,585)
Purchases of property, plant and equipment	(138)	(169)
Purchases of software	—	(77)
Free cashflow	17,378	8,382
Net debt		
Short-term borrowings	66,077	5,000
Medium- and long-term borrowings	—	70,752
Cash and cash equivalents	(15,621)	(15,384)
Net debt	50,456	60,368

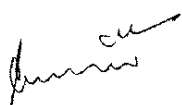
Company Balance Sheet

AS AT 31 DECEMBER 2019

	Notes	2019 \$000	2018 \$000
Fixed assets			
Investments	4	1,266	1,209
		1,266	1,209
Current liabilities			
Creditors: Amounts falling due within one year	5	(15,866)	(15,167)
		(15,866)	(15,167)
Creditors: Amounts falling due after more than one year		(441)	(544)
Net liabilities		(15,041)	(14,502)
Equity			
Called up share capital	7	2,045	2,045
Paid in surplus		33,764	33,764
Retained earnings		(50,850)	(50,311)
Total equity		(15,041)	(14,502)

The financial statements were approved by the Board of Directors and authorised for issue on 22 April 2020.
They were signed on its behalf by

C K Lau
Director
22 April 2020



Company Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 \$'000	2018 \$'000
Administrative expenses		—	—
Foreign exchange (loss)/gain		(587)	822
(Loss)/profit before tax		(587)	822
Tax	3	—	472
(Loss)/profit for the year		(587)	1,294

Company Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital \$'000	Paid in surplus \$'000	Retained earnings \$'000	Equity attributable to owners \$'000
Balance at 1 January 2018	2,045	33,764	(51,426)	(15,619)
Profit for the year	—	—	1,294	1,294
Transactions with owners				
Share based payments charges	—	—	(177)	(177)
Balance at 1 January 2019	2,045	33,764	(50,311)	(14,502)
Loss for the year	—	—	(587)	(587)
Transactions with owners				
Share based payments/charges	—	—	48	48
Balance at 31 December 2019	2,045	33,764	(50,850)	(15,041)

Notes to the Company Accounts

AT 31 DECEMBER 2019

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 at fair value and in accordance with FRS 102. The financial statements have been prepared using the going concern basis, as discussed in the Group going concern disclosure.

The Company has adopted the following disclosure exemptions:

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

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

2 Accounting policies

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

INVESTMENTS

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

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 Company operates a number of equity-settled, share-based compensation plans that are awarded to employees of the Company's subsidiary undertakings. The fair value of the employee services received under such schemes is recognised as an expense in the subsidiary undertakings' financial statements, which benefit from the employee services. The Company has recognised the fair value of the share-based payments as an increase to equity with a corresponding adjustment to investments. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value, determined at the grant date, of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The fair value of employee share option grants is calculated using a Monte Carlo model, taking into account the terms and conditions upon which the options were granted. The value of the charge is adjusted to reflect expected and actual levels of options vesting. Further detail is set out in note 28 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.

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.

THE QUARTO GROUP, INC. ANNUAL REPORT 2019
Financial Statements

3 Tax

	2019 \$'000	2018 \$'000
Current tax (Credit)/charge	—	(472)

Corporation tax is calculated at 21%, based on the US standard rate of corporate tax (2018: 21%) of the estimated assessable profit for the year. The table below explains the difference between the expected expense at the US statutory rate of 21% and the Company's total tax expense for the year.

	2019 \$'000	2018 \$'000
Profit/(loss) before tax	(587)	822
Tax at the US corporation tax rate of 21% (2018: 21%)	(123)	173
Adjustment to prior years	—	(472)
Tax effect of items that are not deductible in determining taxable profit	123	(173)
Tax (Credit)/charge	—	(472)

4 Investments

	2019 \$'000	2018 \$'000
At 1 January	1,209	1,436
Capital contribution (note 2)	57	(227)
At 31 December	1,266	1,209

5 Subsidiaries

A) TRADING COMPANIES

Name	Place	Incorporation		Registered address key	Issued and fully paid up share capital	% held	Segment
		Date					
Quarto Australia Pty Limited	Australia	14 September 1981	D		110 shares of \$A1 each	100	UK Publishing
Books & Gifts Direct Limited	New Zealand	27 September 1996	C		400,000 shares of NZ\$1 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 Delaware, USA Inc.	Delaware, USA	28 June 2004	B		580 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 SF1500 each	100*	UK Publishing

*Directly held by The Quarto Group, Inc.

NOTES TO THE COMPANY ACCOUNTS (continued)

5 Subsidiaries (continued)

B) DORMANT COMPANIES

Name	Incorporation		Registered address key	Issued share capital	% held
	Place	Date			
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	582,502 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
FYE Quarto Inc	Delaware, USA	19 December 2002	B	1000 shares of no par value	100
Fine Wine Editions Limited	United Kingdom	23 June 1949	A	9020 shares of £1 each	100
Frances Lincoln Limited	United Kingdom	15 December 1980	A	565,000 shares of 10p each	100
Frances Lincoln Publishers Limited	United Kingdom	11 March 1987	A	100 shares of £1 each	100
Global Book Publishing Pty Limited	United Kingdom	7 July 1986	A	1000 shares of £1 each	100
Global Book Publishing Pty Limited	Australia	4 November 1999	D	1,000 shares of A\$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 Smail 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	5000 shares of no par value	100
Quarto Media Inc	Delaware, USA	10 December 2010	B	1000 shares of \$1 each	100

5 Subsidiaries (continued)

Name	Incorporation		Registered address key	Issued share capital	% held
	Place	Date			
Quarto Multi-Media Limited	United Kingdom	24 December 1984	A	1000 shares of £1 each	100
Guilt 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
Quinter 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 9BPP, United Kingdom
- B 100 Cummings Center, Suite 265D, Beverly, MA 01915, 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

	2019 \$000	2018 \$000
Amounts owed to subsidiary undertakings	15,814	15,167
Tax payable	52	—
	15,866	15,167

7 Called up share capital

Details of called up share capital are set out in note 25 of the consolidated Financial Statements.

8 Contingent liabilities

The Quarto Group, Inc. has issued guarantees in respect of bank loans of subsidiaries of \$53,077,000 (2018: \$62,752,000). Refer to note 18 of the group consolidated Financial Statements.

9 Related parties

The Company borrowed an amount of \$647,000 from its wholly owned subsidiary, Quarto Publishing plc, during the year (2018: \$0.1m borrowed in the year). The balance on the loan at 31 December 2019 was \$15.8m (2018: \$15.7m). These balances are non-interest bearing and repayable on demand.

Five Year Summary

	2019 ¹ \$'000	Restated (Note 1) 2018 \$'000	Restated (Note 1) 2017 \$'000	2016 ¹ \$'000	2015 ^{1,2} \$'000
Results					
Revenue	135,807	149,292	152,512	154,610	182,165
Operating profit before amortisation of acquired intangibles and exceptional items	10,004	10,305	7,193	16,989	16,475
Operating profit/(loss)	8,774	4,303	(17,882)	16,144	15,306
Profit before tax, amortisation of acquired intangible assets and exceptional items	5,074	5,945	3,893	13,880	13,377
Profit/(loss) before tax	3,844	(57)	(21,182)	13,035	12,208
Profit/(loss) after tax	2,882	(552)	(18,539)	(5,277)	8,523
Assets employed					
Non-current assets	83,385	79,481	85,075	105,507	104,433
Current assets	81,396	92,289	94,248	97,135	107,413
Current liabilities	(128,226)	(74,084)	(71,039)	(68,872)	(71,275)
Non-current liabilities	(15,501)	(79,698)	(87,311)	(89,657)	(87,127)
Net assets	21,054	17,988	20,973	44,111	53,444
Financed by					
Equity	21,054	17,988	20,973	39,219	48,285
Non-controlling interests	—	—	—	4,892	5,159
	21,054	17,988	20,973	44,111	53,444
Earnings per share (cents)					
Basic	14.1	(2.7)	(96.4)	46.4	41.3
Diluted	13.9	(2.7)	(96.4)	45.4	41.2
Adjusted basic	19.0	23.2	18.3	49.8	46.2
Adjusted diluted	18.7	23.0	17.8	48.7	46.1

1 The results of 2016 and 2015 have not been restated to reflect the change in accounting for the absorption of overheads to pre-publication costs as set out in note 1

2 The results of 2015 have not been adjusted to reflect the effect of discontinued operations

3 IFRS16 ('Leases') have been adopted on a modified retrospective basis and accordingly the prior year has not been restated. The impact of this is disclosed in note 1 of Notes to the Financial Statements

Officers & Professional Advisers

Directors

C K Lau, Group Chief Executive Officer, President
Kenneth Fund, Chief Operating Officer,
Chief Executive Officer US
Polly Powell, Chief Executive Officer UK
Andy Cumming*, Chairman
Jane Moriarty*, Vice Chair
Mei Lam*
Andrea Giunti Lombardo*

* Non-executive

Secretary

Michael Clarke

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London EC4M 7RE

The Royal Bank of Scotland plc

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London EC2M 4RB

Company Registration Number

FC0 13814