THE QUARTO GROUP, INC. ANNUAL REPORT 2011

The Quarto Group, Inc
Report and Financial Statements
December 31, 2011

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CHAIRMAN'S LETTER

Another turbulent year, and another solid result, meeting expectations.

Profit before tax **up 5.2%** at $12.1 million (2010: $11.5 million)

Revenues ahead 5.5% at $186.1 million (2010: $176.4 million)

Earnings per share **grew 7.8%** to 45.6 cents (2010: 42.3 cents)

Digital revenues up 500% at $2.1 million (2010: $0.42 million)

In the **Publishing** segment, backlist sales accounted for **61%** (2010: 61%) of revenues; in the **Co-edition Publishing** segment, **69%** (2010: 71%) of revenues came from backlist sales

Proposed **final dividend up 9.6%**, making the total dividend for the year 7.9p (2010: 7.5p), an increase of 5.3%

Net **debt**, including cost of two acquisitions and buy-in of non-controlling interests, **increased 14%** to $81.4 million (2010: $71.7 million)

Bank revolving credit facility refinanced successfully.

These results are welcome. Book publishing is a mature business facing significant change, and the trading background is generally subdued. Quarto has done a good job: wrestling with the challenges, adapting to changing circumstances, and executing measured responses. The depth of experience of senior management, allied to adventurous creative teams running individual business units, has produced a winning combination, able to confront challenges, and define opportunities. In recognition of the results for 2011, the board is recommending a final dividend of 4.55p per share, up 9.6%.

Given the shifting sands underpinning the book publishing business, do shareholders need to be sceptical about the solidity of the entire industry? This is a reasonable question. Even those uninvolved in book publishing, might find it difficult to ignore the apocalyptic tone of many reports about the industry, and the evidence that it is facing profound challenges that must be addressed.

Quarto operates two distinct, but allied, segments: Book Publishing, and Co-edition Publishing, the latter being the Group's original core business. The imprints under which we produce books in the Book Publishing segment are based in the English-speaking countries and have, as their core markets, the geographies in which they operate, i.e. the UK, the US, and Australasia. Books produced by our Co-edition Publishing segment, by contrast, are intended for audiences worldwide, and are licensed to third-party publishers for publication in their core markets, in the local language. In general, both segments focus on non-fiction titles sold to non-professional, consumer audiences.

The level of investment that goes into creating each of our titles is greater than for most books produced. Quarto recoups this investment by publishing books that are intended to remain in the market for many years before requiring extensive revision. Overall, a very high percentage of each segment's revenue is derived from books first published in prior years: in the Book Publishing segment this is 61% of book publishing revenue; in the Co-edition Publishing segment it is 69% of licensing revenues.

COMMENTARY ON 2011 TRADING

Book Publishing

The Book Publishing segment's revenues benefitted from the acquisitions of Cool Springs Press and Frances Lincoln Publishing, and were up 6% as a result, at $123.6 million (2010: $116.4 million). With the acquisition of Frances Lincoln, we now have greater publishing presence in the UK, which has now risen to almost 10% of the segment's revenue (2010: 6.4%). The larger part of the segment's business is in the US, publishing titles in art instruction, cooking, crafts, gardening, graphic design, home improvement, lifestyles, music, regional interests, sports, and transportation. Generally, trading was subdued, but the home improvement and transportation categories continued to struggle in the face of the tepid economy.

The UK's Aurum imprint produced the segment's best-selling title, a paperback version of *The Secret Life of Bletchley Park* (first published in 2010), with over 150,000 copies in print, and it was followed by Mel Bartholomew's *The All New Square Foot Gardening Book* from CSP, first published several decades ago, and with a further 75,000 copies sold in 2011.

Our book display marketing businesses operate in Australia and New Zealand, and had another successful year, with sales 7% ahead. Both countries' businesses were slightly affected by the collapse of the RED Group, owner of the biggest bookstore chains in Australia and New Zealand, as this led to a lot of dumping of books onto the market. The display marketing businesses continued to improve their operations and are very strongly placed in their respective markets.

For the segment, operating profit increased slightly, to $12.4 million (2010: $11.8 million).

Co-edition Publishing

The Co-edition Publishing segment recorded a 4.2% increase in revenues at $62.5 million (2010: $60.0 million). For the book business, revenues were flat and the distribution was sharply changed from the prior year. Europe accounted for 41% (2010: 39%), the US was down to 27% from 31%, and the UK's portion rose to 15% (2010: 12%). As reprint sales drive the overall revenues of the segment, the US number highlights the hesitation of co-edition licensees in the aftermath of the collapse of the Borders book chain, and their preference for playing safe by ordering reprints of already successful titles. However, as the biggest single decline was in our supplementary education imprint, facing the impact of significant cutbacks in school budgets, at least a part of downturn was expected, as the sputtering signs of growth, early in 2011, slipped away. Operating profit declined by 11% to $5.5 million (2010: $6.2 million).

A mixture of new and reprint titles headed the list of highest-grossing books: *Decorate*, a new title from Jacqui Small was the best-seller, at $644,000, followed by Quintessence's *1001 Movies*, a 2003 title, regularly updated, and *This is Art*, first published in 2010. Then came two new titles, Quintessence's *This is Cinema*, and Q+'s *The Giant Book of Giants*, with Quarto adult's *100 Flowers to Knit and Crochet*, published in 2008, in sixth place, and amply demonstrating the steady revenues derived from the great majority of our co-edition titles.

Acquisitions

As noted our performance in 2011 was helped by two small acquisitions, of Frances Lincoln Publishing in the UK, and Cool Springs Press in the US. Frances Lincoln's children's and horticultural lists are widely admired, and the impending retirement of the owner gave us the opportunity to acquire it in mid-August. Cool Springs, a niche publisher of regional titles, chiefly about local gardening in the different states and regions of the US, neatly complements our home improvement how-to titles from CPi. The major retail outlets for both imprints lie outside traditional bookstores.

We shall be integrating some of Frances Lincoln's back office functions with our other publishing imprints in the UK; Cool Springs unexpectedly lost its founder, who died tragically young, shortly after the acquisition. In the wake of this, we moved swiftly to ramp up its publishing program and reinvigorate its backlist.

Strategy: challenges and opportunities

I return to the legitimate question posed in my second paragraph, i.e. is the book publishing industry, in general, facing steady and inexorable decline in the face of internet retailing, e-books, and tablet devices?

For publishers, the chief challenge remains the decline of bookstore shelf space. Of the hundreds of thousands of new titles published each year, to say nothing of the millions of titles kept in stock, a trivial percentage is noticed by the media in general, or even reviewed in general and specialist publications. True, a form of browsing can be replicated on internet retailers' web sites, but it is more clumsy, cumbersome, and less rewarding.

The challenge facing printed books from e-books downloaded seamlessly from a website, is another complicating factor. The early hope of many publishers, as their enthusiasm grew, was that, at last, books would become mass market items. This enthusiasm was seen before, when the big box retail chains built out. And, indeed, the market for books *has* grown. But, it remains small, with probably fewer than ten percent of people buying more than the occasional best-seller after their schooling years. Such growth as there has been in consumer book publishing in the developed world is almost entirely because of generally higher educational attainment and professional standing.

Contrary to popular mythology, most people in the developing world are not time-deprived. Indeed, there is much greater scope now to fill one's non-working time (and, perhaps even one's working time!) with elective personal activities, ranging from engaging in the chit-chat of social media, exercising, playing sport, indulging in hobbies and pastimes, cooking classes, book clubs, playing videogames, watching television, and so on. The list of activities is endless. Some people need no support for these activities. Others feel that they may need instruction or guidance. For some, this can come from a coach; for others from a video; and yet others will feel comfortable going along at their own pace, with an instructional or inspirational book. In competition with other providers, this is where Quarto's imprints have found their niche, and we see no reason why our product should not thrive in the marketplace.

E-books are probably not growing the *overall* audience much (except for a brief honeymoon with a new device) and, so long as outlets for printed books remain significant, the costly infrastructure of many existing publishers may have to remain largely in place. The evidence is becoming overwhelming that, in popular, narrative areas of fiction and non-fiction (not an area of focus for Quarto), e-books are eating into sales of printed books. This may not challenge the economics of book publishing fundamentally for bestselling titles but, as bookshops diminish, and the exposure of less popular titles declines as a result, the committed book reader will be ill served by the outcome. And, if that were not enough to adjust to, attention is now turning to all the wonderful things that can be done with content on an e-reader such as the iPad, the Kindle Fire, the Nook, and other brands.

While Quarto is feeling the ripple effects of this evolutionary change, the impact to date has been slight. To satisfy the curiosity of analysts and commentators, we have noted above that our digital revenues climbed five-fold in a year. But they still only represent a little over one percent of group revenues. Quarto's book output is substantially non-fiction titles that are useful and, often, necessary for readers pursuing a craft, a hobby, home improvement, self-improvement, and so on. This is not a large part of the current e-book market, and efforts to build both apps and e-books around the kind of content we create have not been well rewarded. This is not surprising, as they have not taken advantage of the benefits that the new tablet computers and e-readers now offer. At the moment, and seeking to take advantage of better and less cumbersome software authoring tools, more efforts are being made to create enhanced e-books. No doubt, some will turn out to be very fine, but it remains unclear whether there is a profitable *commercial* model lurking in all of the experimentation.

In software terms, Quarto has been staying very close to technological progress, however we believe it is not yet good enough and are waiting patiently for an improvement which will compel us to participate more actively. At the moment we cannot even glimpse the outline of a business model for enhancing the kinds of books at which Quarto excels. If others blaze a successful trail, we shall travel it, dragging our mountainous piles of proprietary content.

Printed books and illustrated books have been published for over half a millennium. Quarto did not invent international co-edition book publishing; but it did establish a better and more robust business model, one that has served it well for over 25 years. Quarto did not invent 'enhanced' books, but in the late 1980's, pioneered in creating 'interactive books plus' for consumer audiences, including children's titles, and continues to produce them today at Q+ and Walter Foster. We invested in the first iteration of digital enthusiasm in the 1990's, for CD-ROM's. The public expressed its enthusiasm for these products by ignoring them.

Quarto's strength lies, instead, in its measured and disciplined approach to creating its publishing lists, and to its focus on operational issues.

Does this explain our wait and learn approach to the digital wave sweeping the industry? Yes and no. Traditionally, the medium for books has been print. Print is, of course, a much more versatile medium than simply books. It embraces all the other varieties of publishing, e.g. newspapers, magazines, newsletters, and so on, and has countless other uses, including advertising and marketing. If humankind's ability to write down and record experience was an evolutionary development of epochal scale, the introduction of printing was almost as revolutionary, and the digital revolution will usher in another set of startling advances. But the book, as we still know it, has an implicit structure, what we like to think of as a 'rhythm', that distinguishes it, and that is understood by the reader. Our material is presented, therefore, in a more or less sequential manner, and it remains to be seen whether this organizing approach will transfer to other media. Over the centuries, book publishing has evolved, and it continues to do so.

Why is Quarto waiting for the dust to settle? We shall continue to make available our titles in e-book format, but we cannot ignore the evidence that it has been extremely rare for firms entrenched successfully in one line of production to transfer their prominence into a newer area of production. How many railroad businesses went into making automobiles successfully? How many manufacturers of carbon paper (remember it?) moved into making copying machines? The list can be extended endlessly, easily swamping the exceptions.

Firms successful in one line of business will experiment with moving into an area that poses challenges and offers opportunities but, inevitably, do so from a defensive standpoint, i.e. trying to extend their reach. In our view, that's what is happening now in the book publishing business. The notion that supplying digital versions of narrative titles represents a major economic opportunity for publishers is largely window-dressing and hokum.

By contrast, the success of new entrants into a new field is always that they arrive at the 'new' without the baggage of the 'old and existing', and approach opportunity from the points of view both of what the new technology can do, and of how the user will gain new and wonderful experiences. How many creative visionaries – as distinct from futurologists – really anticipated the ways in which their inventions would create markets and needs?

Videogames may be the most successful industry to take advantage of current interactive technology. Playing a videogame now is more exciting than before, and the game can be revisited time and again. Production standards and costs are very high, in general, but, for the user, the experience will justify the high price. It's exceedingly difficult to see enhanced books coming close to competing with videogames. They may be able to offer the same rich experience, but hardly the adrenalin and excitement, or the sense of winning something. There is, indeed a 'tangible' outcome to playing games, and this must be one of the main motivations for playing them. Finally, of course, one would be unlikely to return to enhanced e-books time and again, and the development cost would require a retail price that could likely only be sustained by repeated use of the title.

While we watch vigilantly what is going on, we have a business to run. We manage it with an eye on the future but acting firmly in the present. We face up to the challenges, explore the opportunities, and will move as we see a good outcome for shareholders.

Corporate activity

Cool Springs Press was acquired in February 2011, at a cost of $3.0m. Frances Lincoln became a part of the group in August 2011. The consideration was $7.3m. We also acquired the 15% of Lifetime Distributors, our book display marketing business that we didn't own, as provided for in the original purchase agreement. This last acquisition allowed us to alter favorably the tax treatment of our Australian group, creating a gain at the after tax level. This has been treated as an exceptional gain.

Finance

Your group remains well financed. We have just completed the refinance of the revolving credit facility that was due to expire in June. With a syndicate of five banks, our new facility of $95 million runs until April 30, 2015. We also have a $50 million private placement, repayment of which commences on December 7, 2012, in three annual payments.

Prospects and Succession

Although we have prepared 2012 budgets, as required, recent experience suggests that market turmoil will continue unabated, and we are unable to predict the level of volatility. Whatever the challenges and the opportunities, experience counts in these circumstances, and shareholders can be comfortable that senior executives and directors of the company have been through turbulent times before, and come out on the right side.

In the course of steering Quarto, I have had ample opportunity to judge the quality of our people by observing them against businesses that we have acquired and others that we've looked at and not acquired. I am confident that we have a strong team, but it can always be improved.

Working intensively, Quarto's independent non-executive directors and I have been working on succession planning, over the last 12 months. The board recognizes that Quarto's corporate culture has its own characteristics and that, as the company has been consistently successful, efforts should be made to preserve what is good.

The business is now of a scale that requires more, better, and younger professional management, and the first step is the appointment of Marcus Leaver to the newly created position of Chief Operating Officer. Marcus Leaver, 41, a British national, became President of Sterling Publishing in January 2008, having joined in 2005 as Chief Operating Officer. Sterling is a wholly owned subsidiary of Barnes & Noble, the leading bricks-and-mortar bookseller in the U.S.A., and a rapidly growing presence in digital publishing. Prior to Sterling, Mr. Leaver served as CEO of the Chrysalis Books Group in London from 2002–2004, as Corporate Development DIrector of Chrysalis Group plc, a London Stock Exchange-listed media company, and in a number of different general management roles from 1998–2002. Mr. Leaver graduated from the University of East Anglia with a degree in Art History and received his MBA from London Business School. Mr. Leaver and the Nominations Committee have asked me to continue as chairman and chief executive for at least 12 months. If, as we expect, the appointment is successful, I would then relinquish my position as chief executive, continuing as chairman, and for only so long as my experience and abilities remain useful to the company.

I am excited and relieved that this long succession planning process is leading to a positive outcome. I believe that shareholders will welcome the appointment unreservedly, and will appreciate the diligence with which the selection process was undertaken.

I am happy to thank our staff for the good result in 2011. The directors and I know that it has been a time of struggle and, for some, of deep disappointment. We are all unhappy that we had to part company with some of our colleagues, and wish them well. Those that remain, and there are a lot of us, continue to redouble our efforts to make and sell good books, and give shareholders and employees a fair distribution of the cake.

Laurence F Orbach
Chairman and Chief Executive Officer

London, April 2, 2012

Management's Discussion of Operations and Performance

Book Publishing segment

Quarto's Book Publishing segment comprises locally based publishing and distribution businesses in the UK, the US, and Australasia. These businesses were acquired, and they operate separately from the original and core co-edition business. The co-edition business is, essentially, not scalable, as most aspects involve book creation, whereas book publishing and distribution businesses have infrastructure to support sales, marketing, physical distribution, and financial reporting and analysis, and these back office functions are scalable.

The obvious distinctions between co-edition publishing and straightforward publishing are simply described:

In co-edition publishing, there is no engagement in the marketing, sale, and distribution of our titles in any geographical market.

Co-edition publishing works because the cost of creating a title is amortized by licensing titles, on an exclusive basis, in a number of different geographies.

Publishing companies commit to owning physical inventories of the titles they publish. Co-edition publishers own no inventory.

Publishing companies focus on their domestic markets and wager that their new titles will attract local and immediate attention. Co-edition publishers cover their costs by licensing titles before they are created, but expect to make their profit in later years from steady sales of reprints.

Co-edition publishing involves acting as the originator or 'author' of the title. Generally, publishing businesses license the titles from an author, rather than 'making' them in-house.

Of the Book Publishing segment's revenue of $123.6 million, 16.4% comes from the UK businesses, 27.9% from Australia and New Zealand, and 55.7% from US businesses. The operating profit was $12.4 million.

Over the years, Quarto has acquired a number of publishing businesses that specialize in non-fiction titles of local interest, to which Quarto can occasionally bring an international dimension.

In the UK, we acquired Frances Lincoln in August. We also welcomed a new Publisher to the Aurum group, David Graham, who presided over an extremely successful year, capped by the success of *The Secret Life of Bletchley Park*. He will be assuming responsibility this year for Quarto's UK publishing group, and integrating many key operations, such as sales, trade marketing, and support services.

Under Quarto's ownership, the **Aurum** group has been a successful, but eclectic, non-fiction publisher, covering history, sports, photography, outdoor activities, public affairs, and so on. We are now narrowing the range, and sharpening the focus.

Frances Lincoln's acquisition brought a renowned list of horticultural titles, a sparkling reputation for its children's list, the rightly admired and evergreen Wainwright backlist, and many important heritage titles. Here again, we shall narrow the range of categories, the better to focus on those that are core strengths.

Frances Lincoln also publishes stationery items, such as the range of Royal Horticultural Society titles, and distributes other titles from The National Trust and the Natural History Museum. The UK-based sales operation will also handle the sale and distribution in the UK and Europe of Quarto's US publishing lists. Overall, then, the size of Quarto's publishing and distribution footprint in the UK will grow substantially.

In the US, the publishing units share many central functions, including print purchasing, sales, book trade marketing, accounting, distribution, warehousing, and handling. Each imprint has control over its list of new and backlist titles, and conducts its own general promotion and marketing.

Most of the imprints focus on specific areas of competence: **Creative Publishing** handles both home improvement how-to, and general crafts; **Cool Springs Press**, a cash-strapped gardening list acquired early in 2011, shares some major customers with CPi; **Walter Foster** is the longest-established publisher of art instruction titles for amateurs, and will be celebrating its 90th anniversary in 2012; it had an extremely successful year in 2011; **Motor Books** is one of the largest publishers of transportation titles; **Zenith** specializes in history and military history; **Voyageur** in music, sports, crafts, and titles on a variety of subjects, from cooking to gardening and other topics with a local focus; **Rockport** in graphic design; **Quarry** in crafts; **Fair Winds** in self-improvement; and **Quiver** in titles for couples seeking to take their erotic lives to the next level. **Book Sales** has been involved in value publishing for over fifty years.

The times were challenging for our US imprints for reasons that have been well aired. Although the businesses have benefitted from the strength of online sales and strong distribution through specialty retailers, such as the home improvement chains, the craft chains, and the like, exposure of titles in bookstores is still a major part of the way in which consumers find out about titles. The collapse of Borders had a negative impact on book trade sales, as these were not completely picked up by other book retailers. So, where units had prior good experience with their titles at Borders, the impact of the closure was profound.

The other destabilizing factor was the preoccupation with the impact of e-books. At this stage, most illustrated book titles don't lend themselves to conversion to a satisfactory e-book experience. We have been selling some titles in digital formats for many years, but it is only in the last two years, and particularly with the appearance of the iPad, the Kindle Fire, and other color e-readers, that curiosity has led to a big increase in sales. Still, US revenues in 2011, for all digital activities, did not amount to even 3% of the total. The numbers are increasing; in some cases, where we have narrative titles, they are cannibalizing print sales of titles, leading to the need to rethink publishing criteria. To date, though, it isn't clear how sustained the demand will be for our type of content in e-reader formats.

In general, with an overall operating profit of 10% of sales, performance was satisfactory, but too much depended on the extremely strong performances from Walter Foster, and from Quarry and Fair Winds. Voyageur did well, particularly with its music and agricultural titles, but Motor Books, Zenith, Creative and others have to make up some lost ground.

Cool Springs, noted above, delivered the best-selling title, *All New Square Foot Gardening*. This is not exactly a one-off, because this perennial title has always sold well, but sales in 2011 were boosted by demand that had arisen because of the cash constraints on CPS's prior owner. Otherwise, the best-selling title was, as usual, *The Complete Photo Guide to Home Wiring*, now in its 21st year and fifth edition.

Under Ken Fund's diligent leadership, Quarto's US business had to make some painful adjustments in 2011. We beefed up the management team with the appointment of a chief operating officer. Accounting and IT systems were improved, but most of the pain was inflicted as we reoriented the business from its focus on the book trade, to realign itself with the realization that its future lay with a much more open approach to where its titles can be put before the public. The sales effort in the US is now organized on a regional basis, with regional sales people generally being responsible for any national accounts that are based in their regions. For the moment, the country has been divided into six broadly based regions, but management is open to adjusting this as further experience is gained. We also need to improve our business analysis, to reflect the new realities of where sales are achieved.

In Australia and New Zealand, the segment's business is concentrated in two book display-marketing companies. **Lifetime** is the largest business of its kind in Australia, as is **Premier Books**, the largest and only national player in New Zealand. Both businesses source titles from numerous publishers, and sell them by placing selected displays in workplaces, and returning a week later to fulfill orders on the spot. The sales propositions are value, selection, and convenience. There are about 175 distributors on the ground in Australia, and some 70 in New Zealand.

The businesses function along the same lines, but are structured radically differently. In Australia, Lifetime Distributors is a franchisor, operating through master franchisees in each state and territory. The master licensees buy inventory exclusively from Lifetime Distributors, and have exclusive franchised distributors to call on businesses in their regions. Aside from being responsible for the sourcing and supplying of the products, Lifetime also supports the master franchisees through maintaining standards throughout the organization, and conducts performance evaluations with master franchisees. Lifetime Distributors does not hold inventory, but extends significant credit to master franchisees.

In New Zealand, although the cycle of put-outs and pick-ups is the same, Premier Books not only sources the products, but holds them in its own inventory, and sells through a network of exclusive agents nationwide. This is a more operationally intensive business and, in recognition of this, Premier has more advanced systems for data capture in real time, giving management a better and swifter awareness of how the inventory is moving.

Lifetime again had an exceptional year. The founder, Mark Bonello, chose to retire from day-to-day executive management but, fortunately, agreed to continue as a non-executive director, and to act as a consultant, in particular on sourcing, and managing relationships with master franchisees.

After a challenging period in 2010, Premier has bedded in a new management team, and substantial progress was made in improving its systems. These achievements were not done at the expense of performance, and the team did well to maintain a good profits record. In 2010 Quarto bought out the remaining shareholdings of the vendors, and in 2011 the remaining two ex-shareholder directors left the board, having provided valuable guidance for a number of years.

Co-edition Publishing segment

Book publishers generally measure their success through acquiring and publishing titles of strong local interest that capture immediate sales and attention. By contrast, the success of **Quarto's Co-edition Publishing** segment is measured by the number of times its books reprint across all territories. The fact that this metric is evident, is a consistent reason why the books produced by the group feature on the lists of so many publishing houses around the world.

The segment's position as the leading pure international co-edition publisher is based on conceiving, producing, and licensing titles of enduring relevance to audiences internationally, and generating revenue over many years.

The group benefits from the increasing importance of the long-tail to internet book retailing but also faces the same industry challenges as its co-edition licensees: the reduction in traditional bookshops; economic recession; inventory problems for publishers; uncertainty over developments in e-book platforms; increases in production costs; and decreases in retail prices, driven by a combination of deep discounting by retailers, and reductions in the perceived value of books, resulting from the free or cheap availability of numerous titles as e-books.

All these, and more, are real challenges. The impact has been less on the group's business, which has proved remarkably robust to date, but rather on the way the group has adapted to the new reality of a rapidly changing industry environment.

In general, the business model that forms the core of the segment's co-edition activity has been extremely effective in driving continuing profitability, and in protecting the segment from the dangers and vicissitudes experienced by so many publishing houses in 2011. The co-edition segment's revenues of $62.5 million, and operating profit of $7.0 million were solid performances. 69% of book revenues came from titles first published in prior years, amply vindicating the emphasis on the disciplined focus on topics of enduring interest.

Quarto, the original and flagship imprint of the group, has an ever improving reputation for creating highly complex, hard working, and always timely craft, instruction, and general illustrated non-fiction titles. It experienced strong demand for its titles from international licensees.

Quarto creates books that have clear audiences, and well-established routes to reach them and this was demonstrated triumphantly in 2011. The imprint continued to publish a number of distinctive titles (*Cut Up This Book!* – a craft book you can actually cut up), comprehensive in scope (*Workshop Guide to Ceramics*, a 320pp 'category leader'), and extremely focused, with concepts that beat rival titles (*200 Fair Isle Patterns* – which became an Amazon market leader on pre-order sales alone).

In the UK, the demand for Quarto's craft titles sold through specialist stores roared ahead, with another record level of reprint orders. Foreign language sales performance remained strong over the year, with growth in some regions offsetting declines in others.

Important milestones were reached. *The Guitar Player's Chord Bible* has over half-a-million copies in print. Catching up, at nearly 400,000 copies worldwide after just three years on sale, is *100 Flowers to Knit and Crochet*, again demonstrating the ongoing value of well conceived and constructed books with lasting utility and usefulness.

In his first full year, **Quintet**'s Publisher, Mark Searle, oversaw greater global reach for its titles. The best-selling *500* series now comprises 30 titles published in more than 30 languages. The books go from strength to strength with new routes to market as well as into new markets, in translation. The imprint's increasingly characterful mix of lifestyle, craft and cooking titles has attracted new licensees in English and foreign language territories.

Mark Fletcher took over as Publisher of **Quintessence**. The imprint had a very solid year, reinforcing its position and reputation as the leading creator of highly complex and comprehensive books in broad fields of visual culture. Revenues were ahead of 2010's and with higher than ever numbers of reprints in all languages.

Six new titles were released: two in the *1001* series, *Battles* and *Comics*, and *The Majesty of The Horse, Guitar Family Trees, Fashion Design Directory* and *This is Cinema. The Majesty of the Horse* proved a genuine thoroughbred, reprinting its US edition on publication. *This is Cinema*, the second title in the *This is...* series (following on from the highly successful *This is Art*) looks set to become the standard text on the subject. The series is now well placed to become a category cornerstone in many languages.

Marshall Editions continued to publish new titles for both adults and children. In order to maximize back-catalogue revenues, and to ensure greater focus on the respective lists, adult and children's publishing responsibility will be separated in 2012. Marshall will focus its efforts solely on adult reference, creating presentations in an expanded range of subject areas, suited to recent changes in consumer demand. The children's list will work more closely with our supplementary education list, QED.

Quantum has traditionally been the 'value' side of the group's publishing activities, creating new projects through reusing some intellectual property originally commissioned and created for earlier titles. Over the last year this approach has been modified to reflect changes in the marketplace. Quantum now makes books that deliver 'value with values' and, under publisher Sarah Bloxham registered double-digit growth for the year. There were notable successes. For example, *The Self-Sufficiency Manual*, licensed to Bloomsbury in the UK, was reprinted before publication in order to cope with demand.

Quid continues to grow steadily, and remains true to its core value: To create fresh books with a quirky twist. High standards of design and production allowed Quid to trade comfortably in its high-end, gift-book niche. Highlights of the year included *Fifty Plants that Changed the Course of History*, and *Fifty Animals that Changed the Course of History* (published in late 2011). Both titles already have more than twelve co-editions in print.

The boutique imprint **Iqon Editions** had a record year. Three titles were produced: the latest in the successful …*Isms* series, this one covering the history of cinema, and *The Art Lovers Guides* to *New York* and *London*, innovative approaches to showing the glories of these city's museums and galleries for art loving visitors and residents. Numerous foreign-language editions of all these books appeared during the course of the year.

RotoVision completed the transition to being a full co-edition imprint under Publisher April Sankey. New UK and Australian publishers joined North American licensees in buying into RotoVision's new direction: artisan reference books on subjects ranging from general art and design, to fashion, fabrics and needlecrafts, and photography instruction for professionals and ambitious amateurs. The imprint has particularly high hopes for *The World History of Animation*, a definitive work on a subject of growing international interest, which will appear in numerous foreign-language editions in 2012.

Global Publishing, the Sydney based business with a strong reputation for extremely large, comprehensive and high-concept illustrated reference, had a troubled year that followed an equally difficult 2010. The resource-based buoyant Australian economy, driving a very strong currency, has worked against it, as Global derives most of its revenue from overseas publishers. A new publisher was brought in to reshape the business. In this hiatus only two new titles were produced, and operating revenues relied on reprint and foreign sales of the imprint's backlist. These were insufficient to enable the company to trade profitably.

Children's publishing is a demanding and highly competitive business at any time. Both children's co-edition imprints are now in a very good position to profitably demonstrate that lessons have been learned and will be applied in the coming year.

Q+ is the imprint specializing in innovative and imaginative books plus concepts. The imprint has a deserved reputation for skill, expertise, and invention. But, the imprint is particularly vulnerable to the twin squeezes of increasing production costs and decreasing retail prices in the children's book market. In 2011, although Q+'s foreign-language sales held up well, there were fewer new titles published, and fewer reprints than anticipated, and there was a trading loss for the year.

As school and library markets experienced continuing funding pressure, and the impact rippled over to wider markets, **QED**'s revenue and profit were squeezed. Publishing successes included *Storytime*, with over one million copies sold across 30 titles, and *Math Quest*, solving mathematical problems through exciting adventure stories. Within the foreign-language markets, highlights for 2011 came from Brazil in particular, where QED is a key licensor of Brazil's top children's publisher.

The World of Fine Wine quarterly magazine is the gold standard for wine publications. It fared well in 2011, showing sustained growth in subscription and advertising revenue. For the second year in succession, the magazine won the Louis Roederer Award for International Wine Publication of the Year, confirming its position as the most respected wine magazine in the world.

The magazine bucked worldwide trends and increased advertising revenue by 26%. Circulation grew, and loyalty to the magazine from its existing subscriber base proved astonishingly robust. The team, under publisher Sara Morley and editor Neil Beckett, continued to develop book projects and produced the latest two titles in the *Finest Wines* series, on Germany and Burgundy.

Jacqui Small's list had a fantastic year, with sales almost doubled, and operating profit almost tripling. The standout title was *Decorate*, which generated $644,000 in revenue. Other titles did well too, and a record number of invaluable new licensing arrangements were entered into.

Quarto's international print broker, **Regent**, recovered from a dismal 2010, fuelled by higher sales and slightly improved margins. US publishers remain Regent's primary markets. With its focus on specific sectors, and improved systems, Regent's sales increased 14%, and margins edged higher.

Financial Review

KEY PERFORMANCE INDICATORS

The Group's board uses a range of performance measures to monitor and manage the business. Certain of these measures are important in measuring our progress in creating shareholder value and are considered key performance indicators (KPIs). The KPIs measure past performance and also provide information to allow us to manage the business into the future and comprise sales and operating profit, before amortization of non-current intangibles and exceptional items, by business segment, interest cover, adjusted diluted earnings per share, net debt, EBITDA and net debt to adjusted equity. KPIs for 2011, together with comparatives, are set out in the table below:

	2011	2010
	$000	$000
Sales: Co-edition Publishing	62,549	60,001
Publishing	123,577	116,408
	186,126	176,409
Operating profit before amortization of non-current intangibles, exceptional items and group overheads:		
Co-edition Publishing	6,980	7,062
Publishing	12,418	11,803
Operating profit before amortization of non-current intangibles, exceptional items and group overheads	19,398	18,865
Operating profit before amortization of non-current intangibles and exceptional items, after deducting group overheads	16,735	16,377
Interest cover, based on operating profit before amortization of non-current intangibles and exceptional items	3.62x	3.36x
Adjusted diluted earnings per share	45.6c	42.3c
	$000	$000
Net debt	81,421	71,712
EBITDA	37,316	36,256
Adjusted Equity		
Total equity	46,520	42,614
Adjustment to reflect valuation for internally generated backlist of titles	48,800	45,500
Adjusted equity	95,320	88,114
Net debt: Proforma EBITDA	2.09x	1.97x
Net debt: Adjusted equity	85%	81%

A reconciliation from the statutory measures to the adjusted measures appears in Note 33.

GROUP

We have produced a solid trading performance. Revenues rose by 6% to $186.1m (2010: $176.4m) and EBITDA rose by 3% to $37.3m ($2010: $36.3m). Operating profit was up 2% at $16.7m (2010: $16.4m) and profit before tax was up 5% at $12.1m (2010: $11.5m). Diluted earnings per share rose by 8% to 45.6c (2010: 42.3c).

It has been the case for many years that not one of our titles exceeded 1% of Group revenues, and this year is no exception. The following titles were our top five sellers, with their respective revenues, in 2011:

The Secret Life of Bletchley Park:	$881,000
All New Square Foot Gardening:	$723,000
Decorate:	$644,000
1001 Movies You Must See Before You Die:	$601,000
Complete Guide to Wiring:	$532,000

CO-EDITION PUBLISHING SEGMENT

Revenues for this segment were up 4% at $62.5m (2010: $60m). Operating profit was down 1%, at $7.0m (2010: $7.1m). We achieved an operating profit margin of 11.2% (2010: 11.8%). Reprints accounted for 69% of co-edition book publishing revenues, compared to 71% last year, which was a record year. This confirms that we have a very valuable backlist and that our business model is working effectively.

At the individual operating level, there was a strong performance from Jacqui Small and three of its cookery titles won Gourmand awards. Jacqui Small produces titles in the gardening, cookery and interior design categories and its best-selling title was *Decorate*; this title has sold over 76,000 titles in its first year. In contrast, revenues at Global were down substantially, as the business struggled to reorient its publishing programme from that of a large illustrated reference publisher.

This segment also includes Regent, our Hong Kong-based print broker. Its revenue was up 16%, reflecting an increased confidence of its publishing customers.

PUBLISHING SEGMENT

Revenue for this segment was up 6% at $123.6m (2010: $116.4m) and operating profit was up 5% at $12.4m (2010: $11.8m), helped by satisfactory performances from the two acquisitions (Cool Springs Press and Frances Lincoln) made during the year. We achieved an operating profit margin of 10.0% (2010: 10.1%).

Like for like sales in the UK rebounded in the latter part of the year, finishing flat with 2010, after having been down 9% at the half year.

The US, which accounts for 55% of our publishing segment revenue, was subdued, with revenues finishing 1% up on last year. There was a strong performance at Walter Foster, a producer of art instructional books and activity kits for artists of all ages and abilities. Against this, we continue to face difficulties with our transportation and graphic design lists. The US is our largest producer of EBook revenues, which totalled $1.4m in the year (2010: $0.2m).

Backlist sales in our book publishing units accounted for 61% (2010: 61%) of sales.

Our display marketing businesses both produced solid performances.

Finally, revenues at Image Factory, our UK point of sale marketing services business, were down 11%, resulting in a disappointing performance.

CASHFLOW AND INDEBTEDNESS

At the year end, our net debt was $81.4m, an increase of 14% ($9.7m), compared to 2010, when it was $71.7m. The increase was due to spending $12.4m on acquisitions.

We concluded our refinancing on February 14, 2012. We have signed a US$95m multicurrency revolving credit facility, with a tenor through to April 30, 2015. Committed facilities now total $145m, including this facility and a three year $50m private placement facility, repayment of which commences on December 7, 2012.

Net debt to adjusted equity is 85% (2010:81%). Interest cover has improved to 3.62 times (2010: 3.36 times) and net debt to proforma EBITDA is 2.09 times (2010: 1.97 times).

Trends and factors likely to affect our future development, performance and position of the Group are set out in the Chairman's Letter on pages 3 to 6.

SHAREHOLDER RETURN

Adjusted fully diluted earnings per share were up 8% at 45.6c (2010: 42.3c). The market price of the shares of common stock on December 31, 2011 was 140p, up 4% compared to last year (135p) and up 56% compared to 2009 (90p).

In light of our performance, the Board has proposed an increased final dividend of 4.55p (7.05c) per share which, combined with the interim dividend of 3.35p (5.39c), results in total dividends of 7.9p (12.44c), up 5% compared to 2010.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The Group's risk management is co-ordinated at its headquarters, in close co-operation with the board of directors.

Details of the Group's financial risk management objectives and policies are set out in note 34.

The Group, like all businesses, faces a number of risks and uncertainies as it operates its business. Some of these have been commented upon in the Chariman's Letter and some are commented upon below:

- The Group's profitability depends, in part, on the economic conditions across the world. The Group has a global business and, therefore, is affected by global economic conditions that may affect or impact upon the financial health of its customers, which in turn may lead to them not being able to honour their payment obligations to the Group. The Group has built up strong relationships with its customers and is not over reliant on any one of them.
- The success of the Group's titles is also an important factor in increasing the Group's profitability. In particular, we need to continue producing titles that reprint or backlist well. We are not reliant on any one product or group of products and none of our titles accounted for more than 1% of Group revenues in 2011.
- The security and robustness of our systems, in particular our IT systems, are important in all aspects of our business. IT processes are continually updated and security improved, with daily off-site back up of electronic files.

FINANCIAL REPORTING

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

M. J. Mousley
Chief Financial Officer
April 2, 2012

Directors' Report

The Directors present their report and the audited financial statements of The Quarto Group, Inc., for the year ended December 31, 2011.

PRINCIPAL ACTIVITIES

The Group conducts an international business whose principal activity is as a publisher of illustrated non-fiction books in co-edition and under its own imprint, for both adults and children. A detailed review of the development of the business of the Group is given in the Chairman's Letter on pages 3 to 6. A review of the business of the Group is set out in the Financial Review on pages 11 to 13. The principal risks and uncertainties facing the Group are discussed in the Financial Review.

RESULTS AND DIVIDENDS

The profit for the year amounted to $8,071,000 (2010: $6,405,000). The Directors propose a final ordinary dividend of 4.55p / 7.05c (2010: 4.15p / 6.47c) per share, amounting to $1,388,000 (2010: $1,275,000), subject to approval at the Annual Meeting.

DIRECTORS

The Directors of the Company, who served as Directors during the year, were as follows:

- L. F. Orbach
- R. J. Morley
- M. J. Mousley
- P. Campbell (Non-executive)
- P. Waine (Non-executive)
- E. Krawitt (Non-executive)

Previously an academic in New York, Laurence Orbach, Chairman and Chief Executive, had some publishing experience before founding Quarto in 1976. Together with his role as Chairman and Chief Executive, he is also responsible for Group Strategy.

Robert Morley, Creative Director, trained as a designer, and was magazine art director for the Sunday Telegraph between 1967 and 1970. Before co-founding Quarto, he spent some time with Reader's Digest and IPC Part Works, amongst others.

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

Educated at Eton College, Peter Campbell started his business career with the Booker Group, holding a number of marketing positions in their United Rum Merchants subsidiary. From 1972 to 1989 he was with the Ocean Group, initially on the sales and marketing side, and from 1987 to 1989, he was the General Manager, UK Operations, for the MSAS subsidiary, with responsibility for 27 locations and 800 staff. Since 1989 he has been involved in management training and development.

Peter Waine has a wide corporate experience gained as a result of holding executive and non-executive Directorships in a variety of different sectors and with companies both public and private, up to $1 billion turnover. The organisations he has worked for include GEC, Coopers & Lybrand, W.R. Royle, and the CBI. He is the co-founder of Hanson Green, the principal source for non-executive appointments in the UK. He is also a Visiting Professor at both Cass and Warwick Business Schools.

Edward Krawitt is a former Treasurer of EMI and Group Treasurer of HMV, and has previously held the roles of CFO at both Global Strategies Group and the Memec Group and CEO at Rustins Limited. He has an MBA from Dartmouth College and is a Fellow of The Association of Corporate Treasurers.

None of the Directors has a service agreement of more than one year's duration.

Save as disclosed in Note 32, no Director has had a material interest in any contract of significance with the company or its subsidiaries during the year.

DIRECTORS' INTERESTS

The Directors who held office at December 31, 2011 had the following interests in the share capital of the Company.

	Number of US$0.10 shares of common stock	
SHAREHOLDING	December 31, 2011	January 1, 2011
L. F. Orbach*	2,909,185	2,909,185
R. J. Morley	1,402,852	1,402,852
M. J. Mousley	71,700	71,700
P. Campbell (Non-executive)	1,000	1,000
P. Waine (Non-executive)	–	–
E. Krawitt (Non-executive)	–	–

**2,678,413 shares in which L. F. Orbach is interested are owned through his family trusts.*

Details of Directors' options are given in the Directors' Remuneration Report on page 20.

During the year the market price of the shares of common stock ranged between 121.5p and 167.0p. The market price at December 31, 2011 was 140.0p.

Between December 31, 2011 and April 2, 2012 there have been no changes in the interests of the Directors.

EMPLOYEES

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

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

SUBSTANTIAL SHAREHOLDERS

As at April 2, 2012, the latest practicable date prior to the publication of this report, the Directors have been advised of the following shareholders who have an interest of 3% or more in the shares of common stock of the company:

	Number of US$0.10 shares of common stock	Percentage
L. F. Orbach	2,909,185	14.2%
Ennismore Fund Management	2,120,000	10.4%
The Wellcome Trust Limited	1,987,568	9.7%
J. O. Hambro Capital Management	1,935,000	9.5%
Herald Investment Trust	1,737,500	8.5%
R. J. Morley	1,402,852	6.9%
Invesco English & International Trust	1,190,000	5.8%
Liontrust	1,039,832	5.1%
The Quarto Group, Inc.	765,321	3.7%
Lattice Group Pension Scheme	734,882	3.6%

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

The rules for appointment and replacement of the Directors are set out in the Company's By-Laws. Directors can be appointed by the Board. A Director may be removed by the affirmative vote of a majority of the Board of Directors then in office.

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

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

GOING CONCERN BASIS

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Letter on pages 3 to 6. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 11 to 13 and in Note 19 to the financial statements.

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

The Group has significant banking facilities. In particular, the Group has committed facilities of $128m through at least November 2013. The Group has prepared detailed profit and cash flow budgets until March 31, 2013 which show that the Group is budgeted to have headroom within that period. The budgets have been subject to various sensitivity analyses. The Group complied with its bank covenants in 2011 and the budgets show sufficient headroom on the covenants throughout the period covered by the budgets. The covenants will be monitored closely by the board and appropriate action would be taken if any of the covenants became under pressure.

RISK MANAGEMENT STRATEGY

The Group is exposed to a number of principal risks and uncertainties. The Group's financial risk management strategy is set out on page 13 of the Financial Review and in Note 34. Operational risks are set out on page 13 of the Financial Review.

CORPORATE GOVERNANCE

The Directors have reviewed the governance arrangements of The Quarto Group, Inc. in the context of the UK Corporate Governance Code 2010. The UK Corporate Governance Code 2010 is available from the website of the Financial Reporting Council at http://www.frc.org.uk/corporate/ukcgcode.cfm. The principles of the code have been applied as follows:

a) The Board of Directors represents the shareholders' interests in maintaining and growing a successful business including optimising consistent long-term financial returns.

b) The Board comprises three executive Directors and three non-executive Directors. The non-executive Directors, P. Campbell (appointed March 26, 1998), P. Waine (appointed June 4, 1998) and E. Krawitt (appointed February 7, 2011) are considered by the Board to be independent, notwithstanding the fact that P. Campbell receives $24,000 for consulting fees and has 1,000 shares and that P. Campbell and P. Waine have been on the Board for more than thirteen years. The senior non-executive Director is P. Waine.

c) The Board meets five times a year. Each of the Directors, except for L.F. Orbach and P. Campbell who each missed one meeting, attended all of the meetings held during the year. A formal agenda is prepared for each meeting and all board papers and information are circulated to the Board forty-eight hours before the meetings.

d) All of the Directors are subject to re-election by the shareholders at the Annual Meeting.

e) The remuneration of the executive Directors is recommended by the Remuneration Committee, comprising P. Waine, P. Campbell and E. Krawitt. The Remuneration of non-executive Directors is determined by the Board as a whole. A separate report with respect to Directors' remuneration is included on pages 19 to 20. The Committee, which meets twice a year, does not have formal written terms of reference.

f) The Chairman and the Finance Director are responsible for investor relations. They meet with major shareholders during the course of the year to ensure that they develop an understanding of their views, which are communicated to the rest of the Board at Board Meetings. The non-executive Directors meet with major shareholders from time to time. Shareholders are invited to attend the Annual Meeting at least twenty working days in advance of that meeting. The Chairman of the Remuneration Committee, P. Waine, who is also the Senior Independent Director, attends this meeting.

g) The Chairman ensures that new Directors receive a full, formal and tailored induction on joining the Board. As part of this process, the Company arranges for major shareholders to meet a new non-executive Director. There is a formal, rigorous and transparent procedure for the appointment of new directors to the Board. The search for Board candidates is conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender. All directors are able to allocate sufficient time to the Company to discharge their responsibilities. The Board has plans in place for orderly succession for appointments to the Board and to senior management. These plans aim to maintain an appropriate balance of skills and experience within the Company and on the Board and ensure progressive refreshing of the Board.

h) The Audit Committee, comprising P. Campbell, P. Waine and E. Krawitt, is chaired by E. Krawitt and meets with the independent auditor at least twice a year. E. Krawitt provides the Committee with financial experience. The Committee regularly review at Board level the financial back up and facilities available at Head Office, as the Group continues to expand. The Committee has formal written terms of reference. The Committee monitors the level of non-audit fees paid to the auditor to ensure that their objectivity is safeguarded.

The chairmen of the Committee, and to a lesser extent the other members of the Committee, keep in touch on a continuing basis with the key individuals involved in the Company's governance and the external audit lead partner.

i) The non-executive Directors meet to discuss the executive Directors with the Chairman present and also meet with the executive Directors without the Chairman present, in order to evaluate the performances of the Board.

j) The non-executive Directors, led by the Senior Independent Director, are responsible for performance evaluation of the Chairman, taking into account views of executive Directors. The Senior Independent Director is available to shareholders, if they have concerns, where contact through the executive Directors has failed to resolve their concerns.

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

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

m) All of the non-executive Directors, that were members of the Board at the time of the meetings, attended all of the Audit Committee and Remuneration Committee meetings held during the year.

The Group has complied throughout the year with the provisions set out in Section 1 of the 2008 FRC Code, apart from those listed below. Where non-compliance is reported, this is because, in the opinion of the Board, it is not appropriate to change current practice due to the size and constitution of the Board. The provisions of the Combined Code not complied with are as follows:

a) A2.1 – The Chairman of the Company is also the Chief Executive.

b) A1.1 – A formal schedule of matters specifically reserved for the Board is not required, since the Board forms the executive management of the Group.

c) B5.1 – The Company does not have any formal arrangements for Directors, in the furtherance of their duties, to take independent professional advice.

d) D2.2 – The Remuneration Committee consists of three independent non-executive Directors, but it does not have responsibility for the remuneration of senior management below the main Board level. P. Waine is the Chairman of the Committee.

e) Schedule A1 – Performance related bonuses are not normally given.

f) D2.1 – There are no terms of reference for the Remuneration Committee.

g) B2.1 – The Company does not have a Nominations Committee. The Board as a whole is responsible for the appointment of its own members.

h) A1.1 – The Group does not have formal 'whistleblowing' procedures. The Board has in place risk management systems in relation to the Company's financial reporting process and the Group's process for the preparation of the consolidated financial statements. However, the structure is flat and the line of communication is short. In addition, the Executive Board and the finance department carry out several visits per year to individual operating units.

i) C2.1 – The annual review of the effectiveness of risk management is not formal.

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

INTERNAL CONTROLS

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

a) The results of individual operating units are reported monthly and reviewed by the Board at its five board meetings a year.

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

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

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

e) The Board and the finance department make frequent visits to all operating units. These visits include reviews of the internal control and financial reporting systems.

f) All operating units prepare annual budgets and cash flow forecasts which are reviewed by the Board.

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

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

AUDIT COMMITTEE
The work conducted by the Audit Committee during the year included:

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

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

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

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

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

Fees paid to the auditor for audit services, audit related services and other non-audit services are set out in note 5 to the financial statements.

SUPPLIER PAYMENT POLICIES
The Group agrees terms and conditions for its business transactions when orders for goods and services are placed, ensuring that suppliers are aware of the terms of payment including the relevant terms in contracts where appropriate. These arrangements are adhered to when making payments, subject to the terms and conditions being met by the supplier. At December 31, 2011, Group creditor days amounted to 97 days (2010: 97 days). The holding company does not have any trade creditors.

POST BALANCE SHEET EVENT
On February 14, 2012, the Group concluded its refinancing, signing a US$95m multi-currency revolving credit facility, with a tenor through to April 30, 2015.

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

M. J. Mousley
Secretary
April 2, 2012
Company Registration No. FCO 13814

Directors' Remuneration Report

INTRODUCTION

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

UNAUDITED INFORMATION

REMUNERATION POLICY

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

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

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

COMPONENTS OF REMUNERATION

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

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

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

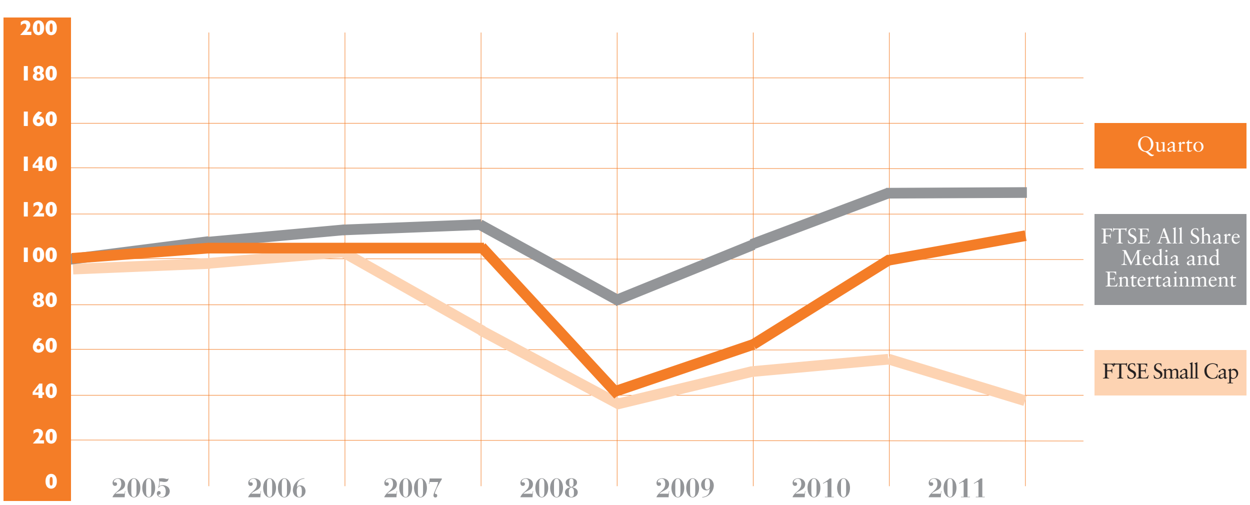
SERVICE AGREEMENTS

All executive Directors have service agreements which provide for 12 months' notice by the Director or the Company. There are no provisions for compensation other than the notice period. As from 2004, the independent non-executive Directors are engaged on annual rolling contracts. Their fees are reviewed by the Board.

All of the Directors stand for re-election annually at the Annual Meeting of the Company.

TOTAL SHAREHOLDER RETURN

The following graph charts the total shareholder return of the Company for the last seven years, based on a start point of 100 at January 1, 2005:



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

AUDITED INFORMATION

DETAILS OF DIRECTORS' REMUNERATION

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

Name of Director	Fees/Basic Salary $000	Bonus $000	Benefits $000	2011 Total $000	2010 Total $000
L. F. Orbach	700	57	54	811	750
R. J. Morley	304	18	10	332	316
M. J. Mousley	395	48	6	449	416
P. Campbell (Non-executive)	74	–	–	74	68
P. Waine (Non-executive)	56	–	–	56	51
E. Krawitt	49	–	–	49	–
L. Collins (Non-executive)	–	–	–	–	23
	1,578	123	70	1,771	1,624

Benefits consist of benefits in kind in respect of health and life insurance. The remuneration of P. Campbell includes $24,000 of consulting fees, on an arm's length basis.

Each of the executive Directors has a defined contribution pension plan. During the year contributions were made as follows:

	2011 $000	2010 $000
L. F. Orbach	185	166
R. J. Morley	46	44
M. J. Mousley	59	57
	290	267

SHARE OPTIONS

Details of share options of those Directors who served during the year are as follows:

	At January 1 2011	Lapsed in year	At December 31 2011	Exercise price*	Earliest date of exercise	Expiry date
M.J. Mousley	7,500	(7,500)	–	£1.63	30.9.2007	29.9.2011

*Market price at date of award

No gains were made by Directors on the exercise of share options in the current year or prior year. Details of the performance criteria of these options are given above under Components of Remuneration. The highest and lowest prices of the Company's shares during the year were 167.0p and 121.5p respectively. The price at the year end was 140.0p.

This report was approved by the Board of Directors on April 2, 2012.

P. Waine, Chairman of Remuneration Committee

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

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

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

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

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

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

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

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

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

In so far as each of the directors is aware:

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

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

To the best of my knowledge:

- the financial statements, prepared in accordance with the applicable set of of accounting standards, 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 management report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

M.J. Mousley
Secretary
April 2, 2012

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

We have audited the financial statements of The Quarto Group, Inc for the year ended December 31 2011, which comprise the Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, the Parent Company Balance Sheet, the related Notes 1 to 34 to the Accounts, and related Notes 1 to 9 to the Company Balance Sheet. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

- audit the information in the Directors' Remuneration Report that is described as having been audited, which has been prepared as if The Quarto Group, Inc were a UK incorporated company and required to comply with the Companies Act 2006; and
- review whether the Corporate Governance Statement reflects compliance with the nine provisions of the UK Corporate Governance Code 2010 as if The Quarto Group, Inc were required to comply with paragraph 9.8.6R of the FSA Listing Rules, and we report if it does not.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 21, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility, in accordance with our engagement letter, is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at December 31, 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

OPINION ON OTHER MATTERS PRESCRIBED BY THE TERMS OF OUR ENGAGEMENT

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION PRESCRIBED BY THE TERMS OF OUR ENGAGEMENT

We have nothing to report in respect of the following:

Under the terms of our engagement we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate governance Code specified for our review.

Grant Thornton UK LLP
Registered Auditors
London
April 2, 2012

Consolidated Statement of Comprehensive Income Year Ended December 31, 2011

	Notes	2011 $000	2010 $000
CONTINUING OPERATIONS			
Revenue	3	186,126	176,409
Cost of sales		(120,591)	(116,563)
GROSS PROFIT		65,535	59,846
Other operating income		119	183
Distribution costs		(7,612)	(6,403)
Administrative expenses before amortization of non-current intangibles and non-recurring items		(41,307)	(37,249)
Amortization of non-current intangibles		(1,312)	(1,246)
Exceptional items		(1,367)	(2,491)
Total administrative expenses		(43,986)	(40,985)
OPERATING PROFIT BEFORE AMORTIZATION OF NON-CURRENT INTANGIBLES AND NON-RECURRING ITEMS		16,735	16,377
OPERATING PROFIT	5	14,056	12,640
Finance income	7	419	477
Finance costs	8	(5,048)	(5,349)
PROFIT BEFORE TAX		9,427	7,768
Tax	9	(1,356)	(1,363)
PROFIT FOR THE YEAR		8,071	6,405
OTHER COMPREHENSIVE INCOME			
Foreign exchange translation differences		(446)	1,353
Cash flow hedge: change in fair value		1,048	53
		602	1,406
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		8,673	7,811
PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the parent		7,648	5,749
Non-controlling interests		423	656
		8,071	6,405
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the parent		8,231	6,931
Non-controlling interests		442	880
		8,673	7,811
EARNINGS PER SHARE			
Basic	10	38.9c	29.2c
Diluted	10	38.8c	29.2c

Consolidated Balance Sheet at December 31, 2011

	Notes	2011 $000	2010 $000	2009 $000
NON-CURRENT ASSETS				
Goodwill	11	39,865	37,197	36,425
Other intangible assets	12	1,840	989	2,235
Property, plant and equipment	13	9,785	10,106	10,791
Trade and other receivables	17	1,228	–	–
Deferred tax assets	21	1,765	1,942	991
Total non-current assets		54,483	50,234	50,442
CURRENT ASSETS				
Intangible assets: Pre-publication costs	15	52,711	51,605	51,425
Inventories	16	27,759	23,861	25,446
Trade and other receivables	17	57,072	50,786	54,251
Cash and cash equivalents	18	34,303	43,783	38,788
Total current assets		171,845	170,035	169,910
TOTAL ASSETS		226,328	220,269	220,352
CURRENT LIABILITIES				
Short term borrowing	23	(82,348)	(265)	(403)
Derivative financial instruments	20	(133)	(190)	(232)
Trade and other payables	24	(54,395)	(50,445)	(52,240)
Tax payable		(857)	(1,674)	(481)
Total current liabilities		(137,733)	(52,574)	(53,356)
NON CURRENT LIABILITIES				
Medium and long term borrowings	19	(33,376)	(115,230)	(119,423)
Deferred tax liabilities	21	(5,782)	(5,895)	(6,400)
Derivative financial instruments	20	(2,863)	(3,911)	(3,964)
Other payables		(54)	(45)	(27)
Total non-current liabilities		(42,075)	(125,081)	(129,814)
TOTAL LIABILITIES		(179,808)	(177,655)	(183,170)
NET ASSETS		46,520	42,614	37,182
EQUITY				
Share capital	25	2,045	2,045	2,045
Paid in surplus		33,756	33,756	33,756
Retained profit (deficit) and other reserves		4,032	(1,461)	(6,151)
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		39,833	34,340	29,650
NON-CONTROLLING INTERESTS		6,687	8,274	7,532
TOTAL EQUITY		46,520	42,614	37,182

The financial statements were approved by the Board of Directors and authorised for issue on April 2, 2012.
They were signed on its behalf by:

M. J. Mousley
Director

Consolidated Statement of Changes in Equity Year Ended December 31, 2011

	Share capital (note 25)	Paid in surplus	Hedging reserve (note 26)	Translation reserve (note 26)	Treasury shares (note 26)	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000
Balance at January 1, 2010	2,045	33,756	(3,964)	(2,822)	(648)	1,283	29,650	7,532	37,182
Profit for the year	–	–	–	–	–	5,749	5,749	656	6,405
Foreign exchange translation differences	–	–	–	1,129	–	–	1,129	224	1,353
Cash flow hedge: change in fair value	–	–	53	–	–	–	53	–	53
Total comprehensive income for the year	–	–	53	1,129	–	5,749	6,931	880	7,811
Dividends to shareholders (note 26)	–	–	–	–	–	(2,241)	(2,241)	–	(2,241)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(45)	(45)
Purchase of non-controlling interests	–	–	–	–	–	–	–	(93)	(93)
Balance at December 31, 2010 and January 1, 2011.	2,045	33,756	(3,911)	(1,693)	(648)	4,791	34,340	8,274	42,614
Profit for the year	–	–	–	–	–	7,648	7,648	423	8,071
Foreign exchange translation differences	–	–	–	(465)	–	–	(465)	19	(446)
Cash flow hedge: change in fair value	–	–	1,048	–	–	–	1,048	–	1,048
Total comprehensive income for the year	–	–	1,048	(465)	–	7,648	8,231	442	8,673
Dividends to shareholders (note 26)	–	–	–	–	–	(2,376)	(2,376)	–	(2,376)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(98)	(98)
Purchase of non-controlling interests	–	–	–	–	–	(362)	(362)	(1,931)	(2,293)
Balance at December 31, 2011	2,045	33,756	(2,863)	(2,158)	(648)	9,701	39,833	6,687	46,520

Consolidated Cash Flow Statement Year Ended December 31, 2011

	2011 $000	2010 $000
PROFIT FOR THE YEAR	8,071	6,405
Adjustments for:		
Net finance costs	4,629	4,872
Depreciation of property, plant and equipment	1,534	1,373
Tax expense	1,356	1,363
Amortization of non-current intangible assets	1,312	1,246
Amortization of pre-publication costs	19,047	18,506
Movement in fair value of derivatives	(57)	(42)
Gain on disposal of property, plant and equipment	(380)	(8)
Operating cash flows before movements in working capital	35,512	33,715
(Increase) / decrease in inventories	(415)	1,798
(Increase) / decrease in receivables	(1,835)	4,500
Decrease in payables	(609)	(3,291)
Cash generated by operations	32,653	36,722
Income taxes paid	(2,921)	(1,465)
NET CASH FROM OPERATING ACTIVITIES	29,732	35,257
INVESTING ACTIVITIES		
Interest received	419	477
Proceeds on disposal of property, plant and equipment	198	49
Investment in pre-publication costs	(18,681)	(18,135)
Purchases of property, plant and equipment	(1,694)	(1,004)
Acquisition of subsidiaries	(12,394)	(634)
NET CASH USED IN INVESTING ACTIVITIES	(32,152)	(19,247)
FINANCING ACTIVITIES		
Dividends paid	(2,376)	(2,241)
Interest payments	(5,080)	(5,399)
New bank loans (bank loans repaid)	604	(4,193)
Dividends paid to non-controlling interest	(98)	(45)
NET CASH USED IN FINANCING ACTIVITIES	(6,950)	(11,878)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,370)	4,132
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	43,783	38,788
Foreign currency exchange differences on cash and cash equivalents	(110)	863
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 18)	34,303	43,783

Notes to the Accounts Year Ended December 31, 2011

1. General information and significant accounting policies

General information
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 2. The nature of the group's operations and its principal activities are set out in Note 4 and in the Directors' Report on page 14.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended December 31, 2010, as described in those financial statements, with the exception of a change in the presentational currency of the Group.

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.

Following an exercise to assess the impact of the principal trading currencies of the Group, these results have been presented for the first time in US Dollars. This is a change from prior years and the Group's previously published financial statements, which were presented in Pounds Sterling.

Assets and liabilities were translated into US dollars using the closing rate at the 2010 balance sheet date. Income, expenses and cashflows recognised in the period were translated at an average US dollar exchange rate for the period. Resulting exchange differences were reflected as currency translation adjustments and included in the translation reserve. Equity and share capital items were translated using historic rates and were not retranslated at each subsequent balance sheet date.

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

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 52 to 55.

The group has adopted IAS 24 Related Party Disclosures (Revised 2009) and IFRC 19 Extinguishing Financial Liabilities with Equity Instruments for the first time in the year. Other than the change in the accounting policy for the Group's choice of presentationed currency, no new standards have had a material impact on these financial statements.

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

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

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

Note 11: Key assumptions in making the assessment of carrying value of goodwill
Note 15: Assessment of the useful life of pre-publication costs
Note 17: Assessment of the impairment of trade receivables and the estimated allowance for sales returns
Note 21: Calculation of temporary differences in the assessment of deferred tax liabilities

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

Notes to the Accounts Year Ended December 31, 2011

Basis of consolidation

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

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

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

Business combinations, intangible assets and goodwill

All business combinations are accounted for by applying the acquisition method. Goodwill represents the excess of the consideration transferred over the fair value of the net assets and any contingent liabilities acquired. In respect of acquisitions prior to January 1, 2004, goodwill is included on the basis of its deemed cost which represents the amount recorded previously under UK GAAP. Acquisition costs are expensed as incurred.

Goodwill arising on acquisitions is stated at cost less any accumulated impairment losses. From January 1, 2004, goodwill is allocated to cash-generating units and is no longer amortized but is tested annually for impairment. Prior to January 1, 1998, goodwill was written off to reserves in the year of acquisition.

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

Amortization of intangible assets is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The amortization period for non-contractual relationships is 2.5 years and for backlists is between 4 and 10 years.

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

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

Revenue recognition

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

Leasing

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

Foreign currencies

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

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into US Dollars at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into US Dollars at average annual exchange rates. Foreign exchange differences arising on retranslation are recognised directly in a separate translation reserve within other comprehensive income.

Notes to the Accounts Year Ended December 31, 2011

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

Retirement benefit costs
The Group's pension costs relate to individual pension plans and are charged to the income statement as they fall due.

Taxation
Tax on the profit or loss for the year comprises both current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or a liability unless the related transaction is a business combination or effects tax or accounting profit. Not all temporary differences give rise to deferred tax assets / liabilities. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity, in which case the related deferred tax is also charged or credited directly to other comprehensive income.

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 the income statement as an expense as they are incurred.

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

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

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

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

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

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

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

Notes to the Accounts Year Ended December 31, 2011

Financial assets
Financial assets other than hedging instruments are divided into the following categories:
- loans and receivables
- financial assets at fair value through profit or loss

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses is recognised in profit or loss or directly in equity. See Note 34 for a summary of the Group's financial assets by category.

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

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

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

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

Financial liabilities
The Group's financial liabilities include borrowings, trade and other payables (including finance lease liabilities). After initial recognition at fair value, all financial liabilities, with the exception of derivative financial instruments, are measured at amortized cost using the effective interest rate method. A summary of the Group's financial liabilities by category is given in Note 34.

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

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

Finance costs
Finance costs comprise interest payable on borrowings calculated using the effective interest methods.

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

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

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

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

Notes to the Accounts Year Ended December 31, 2011

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

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

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

Treasury Shares

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

Share-based payments

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

The fair value of employee share option grants is calculated using a binomial model, taking into account the terms and conditions upon which the options were granted. The value of the charge is adjusted to reflect expected and actual levels of options vesting. No significant balances arise, therefore the disclosure requirements of IFRS 2 have not been shown, due to the immateriality of the amounts involved.

Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred. The Group does not incur any borrowing costs which are directly attributable to the acquisition, construction or production of qualifying assets

Financial risk management

The principal risk factors faced by the Group are disclosed in Note 34 and on page 13.

IFRSs and interpretations issued not yet effective

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

IFRS 9 – Financial Instruments *(effective 1 January 2015)*
IFRS 10 – Consolidated Financial Statements *(effective 1 January 2013)*
IFRS 11 – Joint Arrangements *(effective 1 January 2013)*
IFRS 12 – Disclosure of Interests in Other Entities *(effective 1 January 2013)*
IFRS 13 – Fair Value Measurement *(effective 1 January 2013)*
IAS 19 – Employee Benefits (revised June 2011) *(effective 1 January 2013)*
IAS 27 (Revised) – Separate Financial Statements *(effective 1 January 2013)*
IAS 28 (Revised) – Investments in Associates and Joint Ventures *(effective 1 January 2013)*
Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12 Income Taxes *(effective 1 January 2012)*
Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 *(effective 1 July 2012)*
Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 *(effective 1 January 2013)*
Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 *(effective 1 January 2014)*
Mandatory Effective Date and Transition Disclosures – Amendments to IFRS 9 and IFRS 7 *(effective 1 January 2015)*

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

Notes to the Accounts Year Ended December 31, 2011

2. Post balance sheet event

On February 14, 2012, the Group concluded its refinancing, signing a US$95m multi-currency revolving credit facility, with a tenor through to April 30, 2015.

3. Revenue

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

	2011 $000	2010 $000
Sales of goods	186,126	176,409
Revenue	186,126	176,409
Other operating income	119	183
Finance income	419	477
Total income	186,664	177,069

Notes to the Accounts Year Ended December 31, 2011

4. Operating segments

For management purposes, the Group is organised into two types of product: Co-edition Publishing and Publishing. These products are the basis on which the Group reports its operating segment information.

The information about these segments is presented below.

	Co-edition publishing 2011 $000	Co-edition Publishing 2010 $000	Publishing 2011 $000	Publishing 2010 $000	Total 2011 $000	Total 2010 $000
REVENUE						
Total sales	65,664	63,323	123,587	116,417	189,251	179,740
Inter-segment revenue	(3,115)	(3,322)	(10)	(9)	(3,125)	(3,331)
External sales	62,549	60,001	123,577	116,408	186,126	176,409
Segment result before amortization of non-current intangibles and exceptional items	6,980	7,062	12,418	11,803	19,398	18,865
Amortization of non-current intangibles	–	(3)	(1,312)	(1,243)	(1,312)	(1,246)
Restructuring costs	(586)	(532)	(781)	(1,959)	(1,367)	(2,491)
Segment result	6,394	6,527	10,325	8,601	16,719	15,128
Unallocated corporate expenses					(2,663)	(2,488)
Operating profit					14,056	12,640
Investment income					419	477
Finance costs					(5,048)	(5,349)
Profit before tax					9,427	7,768
Tax					(1,356)	(1,363)
Profit after tax					8,071	6,405

Inter-segment revenues are on an arm's-length basis.

	Co-edition publishing 2011 $000	Co-edition Publishing 2010 $000	Publishing 2011 $000	Publishing 2010 $000	Total 2011 $000	Total 2010 $000
Capital additions	548	126	1,146	878	1,694	1,004
Depreciation	388	349	1,146	1,024	1,534	1,373
Amortization of non-current intangibles	–	3	1,312	1,243	1,312	1,246
Investment in pre-publication costs	8,902	9,474	9,779	8,661	18,681	18,135
Amortization of pre-publication costs	9,731	9,590	9,316	8,916	19,047	18,506

There are no other significant non-cash expenses.

	Co-edition publishing 2011 $000	Co-edition Publishing 2010 $000	Publishing 2011 $000	Publishing 2010 $000	Total 2011 $000	Total 2010 $000
BALANCE SHEET						
ASSETS						
Segment assets	69,445	55,475	120,815	119,069	190,260	174,544
Unallocated corporate assets					36,068	45,725
Consolidated total assets					226,328	220,269
LIABILITIES						
Segment liabilities	26,111	25,935	28,338	24,745	54,449	50,680
Unallocated corporate liabilities					125,359	126,975
Consolidated total liabilities					179,808	177,655

Notes to the Accounts Year Ended December 31, 2011

4. Operating segments (continued)

GEOGRAPHICAL AREAS

The Group operates in the following main geographic areas:

	Revenues 2011 $000	Revenues 2010 $000	Non-current assets 2011 $000	Non-current assets 2010 $000
United States of America	82,767	81,984	28,719	26,515
Australasia and Far East	39,698	38,549	8,226	7,990
United Kingdom	31,125	25,604	13,367	12,624
Europe	22,361	21,334	1,178	1,163
Rest of the World	10,175	8,938	–	–
	186,126	176,409	51,490	48,292

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

5. Operating Profit

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

	2011 $000	2010 $000
Profit on sale of property, plant and equipment	(380)	(8)
Depreciation of property, plant and equipment	1,534	1,373
Net foreign currency exchange differences	34	(122)
Amortization of non-current intangibles	1,312	1,246
Amortization of pre-publication costs	19,047	18,506
Staff costs (see Note 6)	31,105	28,382
Auditor's remuneration (see below)	406	352
Cost of inventory recognised as an expense	43,861	42,106
Exceptional items	1,367	2,491

Exceptional items comprise restructuring and acquisition costs of $1,367,000 (2010: $1,693,000) and a bad debt provision of $nil (2010: $798,000).

AUDITOR'S REMUNERATION

Fees payable to the Company's auditor for the audit of the Company's annual accounts	54	56
Fees payable to the Company's auditor and its associates for other services		
The audit of the Company's subsidiaries pursuant to legislation	352	296
	406	352

6. Staff costs

	2011 Number	2010 Number
The average monthly number of employees (including executive directors) was:	475	452
Their aggregate remuneration comprised:		
Wages and salaries	27,647	25,316
Social security costs	2,234	2,054
Other pension costs	1,224	1,012
	31,105	28,382

Directors' remuneration is disclosed in Note 31.

Notes to the Accounts Year Ended December 31, 2011

7. Finance income

	2011 $000	2010 $000
Interest income on financial assets carried at amortized cost	419	477

8. Finance costs

	2011 $000	2010 $000
Interest expense for borrowings at amortized cost	5,040	5,329
Interest expense for finance lease arrangements	8	20
Total finance costs	5,048	5,349

9. Tax

	2011 $000	2010 $000
Current tax on profit for the year	1,837	2,925
Adjustment to prior years	–	(233)
Total current tax	1,837	2,692
Deferred tax (Note 21)		
Current year origination and reversal of temporary differences	(481)	(1,329)
	1,356	1,363

Corporation tax on UK profits is calculated at 26.5%, based on the UK standard rate of corporation tax, (2010: 28.0%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2011 $000	2011 %	2010 $000	2010 %
Profit before tax	9,427		7,768	
Tax at the UK corporation tax rate of 26.5% (2010: 28.0%)	2,498		2,175	
Tax losses utilised	–		(102)	
Exceptional tax losses utilised	(670)		–	
Effect of different tax rates of subsidiaries operating in other jurisdictions	(151)		(163)	
Adjustment to prior years	–		(233)	
Other, including tax effect of expenses that are not deductible in determining taxable profit	(321)		(314)	
Tax expense and effective tax rate for the year	1,356	14.4%	1,363	17.5%

Exceptional tax losses utilised relate to a restructuring of the Australian tax group.

Notes to the Accounts Year Ended December 31, 2011

10. Earnings per share

From continuing operations

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

Earnings

	2011 $000	2010 $000
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the parent	7,648	5,749

Number of shares

	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	19,679,229	19,679,229
Effect of dilutive potential ordinary shares:		
Share options	7,489	3,560
Weighted average number of ordinary shares for the purposes of diluted earnings per share	19,686,718	19,682,789

Earnings per share

	2011 cents	2010 cents
Basic	38.9	29.2
Diluted	38.8	29.2

Adjusted earnings

	2011	2010
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the parent	7,648	5,749
Amortization of non-current intangibles (net of tax)	1,034	826
Restructuring costs (net of tax and non-controlling interest)	971	1,745
Exceptional tax losses	(670)	–
Earnings for the purposes of adjusted earnings per share	8,983	8,320

Adjusted earnings per share

	2011 cents	2010 cents
Basic	45.6	42.3
Diluted	45.6	42.3

Notes to the Accounts Year Ended December 31, 2011

11. Goodwill

	2011 $000	2010 $000	2009 $000
COST			
At January 1	37,551	36,790	34,466
Exchange differences	(81)	504	1,836
Recognised on acquisitions	2,747	257	488
At December 31	40,217	37,551	36,790
ACCUMULATED IMPAIRMENT LOSSES			
At January 1	(354)	(365)	(331)
Exchange differences	2	11	(34)
At December 31	(352)	(354)	(365)
CARRYING AMOUNT			
At December 31	39,865	37,197	36,425

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

	2011 $000	2010 $000	2009 $000
Quayside Group	26,437	24,164	24,164
Premier	4,941	4,950	4,479
Quarto Publishing	4,309	4,337	4,476
Others	4,178	3,746	3,306
	39,865	37,197	36,425

The recoverable amount of each cash generating unit ('CGU') is based on value in use basis. The key assumptions used in the value in use calculations were:

Discount rate: 7.0%, which reflects current assessments of the time value of money. The discount rate has been calculated using Weighted Average Cost of Capital analysis, with the same discount rate applied to each CGU reflecting the similar risk profiles of the Group's businesses.

Cash flow projections: have been adjusted for risks specific to the CGUs for next year based on the most recent financial budgets.

Cash flow growth rates: based on a growth rate of 2% to reflect risk.

Changes in selling prices and direct costs: based on past experience and expectations of future changes in the market.

12. Other intangible assets

	Non-contractual relationships $000	Backlists $000	Total $000
COST			
At January 1, 2010	1,024	15,891	16,915
Exchange differences	55	(41)	14
At December 31, 2010 and January 1, 2011	1,079	15,850	16,929
Exchange differences	(1)	(26)	(27)
Recognised on acquisitions	–	2,186	2,186
At December 31, 2011	1,078	18,010	19,088

Notes to the Accounts Year Ended December 31, 2011

12. Other intangible assets (continued)

	Non-contractual relationships $000	Backlists $000	Total $000
AMORTIZATION AND IMPAIRMENT			
At January 1, 2010	1,005	13,675	14,680
Exchange differences	56	(42)	14
Charge for the year	18	1,228	1,246
At December 31, 2010 and January 1, 2011	1,079	14,861	15,940
Exchange differences	(1)	(3)	(4)
Charge for the year	–	1,312	1,312
At December 31, 2011	1,078	16,170	17,248
CARRYING AMOUNT			
At December 31, 2011	–	1,840	1,840
At December 31, 2010	–	989	989
At January 1, 2010	19	2,216	2,235

13. Property, plant and equipment

	Freehold Property $000	Leasehold Property Improvements $000	Plant Equipment and Motor Vehicles $000	Fixtures and Fittings $000	Total $000
COST					
At January 1, 2010	8,234	798	8,919	1,842	19,793
Exchange difference	(240)	(11)	(107)	(24)	(382)
Additions	–	25	923	56	1,004
Disposals	–	(26)	(840)	(236)	(1,102)
At December 31, 2010 and January 1, 2011	7,994	786	8,895	1,638	19,313
Exchange difference	(30)	(9)	(39)	(6)	(84)
Subsidiaries acquired	–	113	448	151	712
Additions	13	34	1,587	60	1,694
Disposals	(523)	–	(2,120)	(189)	(2,832)
At December 31, 2011	7,454	924	8,771	1,654	18,803
DEPRECIATION					
At January 1, 2010	810	583	6,540	1,069	9,002
Exchange differences	(23)	(12)	(59)	(14)	(108)
Charge for the year	91	110	980	192	1,373
Disposals	–	(26)	(812)	(222)	(1,060)
At December 31, 2010 and January 1, 2011	878	655	6,649	1,025	9,207
Exchange differences	(7)	(6)	(2)	(1)	(16)
Subsidiaries acquired	–	106	417	100	623
Charge for the year	111	48	1,267	108	1,534
Disposals	(63)	–	(2,079)	(188)	(2,330)
At December 31, 2011	919	803	6,252	1,044	9,018

Notes to the Accounts Year Ended December 31, 2011

13. Property, plant and equipment (continued)

	Freehold Property $000	Leasehold Property Improvements $000	Plant Equipment and Motor Vehicles $000	Fixtures and Fittings $000	Total $000
NET BOOK VALUE					
At December 31, 2011	6,535	121	2,519	610	9,785
At December 31, 2010	7,116	131	2,246	613	10,106
At December 31, 2009	7,424	215	2,379	773	10,791

The net book value of plant, equipment and motor vehicles included $13,000 (2010: $251,000) in respect of assets held under hire purchase contracts. The depreciation charged on these assets during the year was $1,000 (2010: $124,000).

The total cost of freehold property comprises $4,474,000 in respect of buildings and $2,980,000 in respect of land. A freehold property, with a net book value of $3,001,000, is secured against a mortgage.

The Directors have chosen to hold the cost of freehold properties at previous valuations on transition to International Financial Reporting Standards. The cost of freehold property held at previous valuations comprises buildings of $2,469,000 and land of $2,048,000.

14. Subsidiaries

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

15. Intangible assets – pre-publication costs

	2011 $000	2010 $000	2009 $000
COST			
At January 1	74,829	77,467	66,512
Exchange differences	(308)	(654)	4,118
Acquired on acquisition of subsidiaries	1,707	989	–
Additions	18,681	18,135	19,443
Disposals	(18,368)	(21,108)	(12,606)
At December 31	76,541	74,829	77,467
AMORTIZATION			
At January 1	23,224	26,042	19,468
Exchange differences	(73)	(216)	1,032
Charge for the year	19,047	18,506	18,148
Disposals	(18,368)	(21,108)	(12,606)
At December 31	23,830	23,224	26,042
CARRYING AMOUNTS	52,711	51,605	51,425

The assessment of the useful life of pre-publication costs and amortization involves a significant amount of judgement based on historical trends and management estimates of future potential sales, in accordance with the accounting policy stated in Note 1. An overstatement of useful lives could result in excess amounts being carried forward in intangible assets that otherwise would have been written off to the income statement in an earlier period. Reviews are performed regularly to assess the recoverability of the carrying amount.

Notes to the Accounts Year Ended December 31, 2011

16. Inventories

	2011 $000	2010 $000	2009 $000
Finished goods	25,930	22,177	23,997
Work in progress	1,607	1,441	1,141
Raw materials	222	243	308
	27,759	23,861	25,446

All of the Group's inventories have been reviewed for indicators of impairment. Certain inventories were found to be impaired and a provision of $3,743,000 (2010: $2,086,000) has been recorded accordingly.

17. Trade and other receivables

	2011 $000	2010 $000	2009 $000
Trade receivables	46,046	44,600	45,950
Other receivables and prepayments	11,026	6,186	8,301
Amounts falling due within one year	57,072	50,786	54,251
Amounts falling due after more than one year	1,228	–	–

The average credit period on sales of goods is 72 days (2010: 77 days).

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables, including certain trade receivables not yet due, were found to be impaired and a provision of $1,617,000 (2010: $2,020,000) has been recorded accordingly. The impaired trade receivables are companies which are experiencing trading difficulties.

In addition, some of the unimpaired trade receivables are past due as at the reporting date. The extent of financial assets past due but not impaired is as follows:

	2011 $000	2010 $000	2009 $000
Less than one month	5,061	4,728	4,822
More than one month but less than two months	1,041	1,197	1,903
More than two months but less than three months	249	683	343
More than three months but less than six months	101	240	565
More than six months	146	245	378
	6,598	7,093	8,011

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:

	2011 $000	2010 $000	2009 $000
Balance at beginning of year	2,020	1,330	1,612
Amounts written off in the year	(1,080)	(223)	(887)
Amounts recovered during the year	261	90	31
Exchange difference	22	(8)	(47)
Increase in allowance recognised in profit or loss	394	831	621
Balance at end of the year	1,617	2,020	1,330

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

Trade receivables are disclosed after deducting a reserve for sales returns. The reserve is calculated based on a time lag between sales and returns and historical return patterns.

Notes to the Accounts Year Ended December 31, 2011

18. Cash and cash equivalents

	2011 $000	2010 $000	2009 $000
Bank balances	25,311	31,635	23,945
Short term deposits	8,992	12,148	14,843
Cash and cash equivalents for cash flow statement	34,303	43,783	38,788

The carrying amount of these assets approximates their fair value.

The effective interest rates on bank balances and short term deposits was 1.1% (2010: 1.1%).

19. Medium and long term loans

	2011 $000	2010 $000	2009 $000
Bank loans	33,367	115,230	119,365
Obligations under finance leases (see Note 22)	9	–	58
	33,376	115,230	119,423

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

	2011	2010	2009
On demand or within one year	82,345	208	216
In the second year	16,841	81,885	216
In the third to fifth years inclusive	16,526	33,345	119,149
	115,712	115,438	119,581
Less: Amount due for settlement within 12 months (shown under current liabilities)	(82,345)	(208)	(216)
Amount due for settlement after 12 months	33,367	115,230	119,365

	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	81,500	49,000	32,500	6.9%	21
Other currency borrowings	34,212	–	34,212	–	–
As at December 31, 2011	115,712	49,000	66,712	6.9%	21
US dollar borrowings	90,000	64,000	26,000	6.6%	26
Other currency borrowings	25,438	–	25,438	–	–
As at December 31, 2010	115,438	64,000	51,438	6.6%	26
US dollar borrowings	93,285	64,000	29,285	6.6%	38
Other currency borrowings	26,296	–	26,296	–	–
As at December 31, 2009	119,581	64,000	55,581	6.6%	38

Notes to the Accounts Year Ended December 31, 2011

19. Medium and long term loans (continued)

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

At December 31, 2011, undrawn borrowing facilities totalled $49,368,000 (2010: $53,706,000).

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

The above borrowings carry interest at commercial rates ranging from 1.2% to 7.1%. Bank loans include $423,000 (2010: $635,000) which is secured on a freehold property, with a carrying value of $3,001,000 (2010: $3,062,000). All other bank loans are unsecured.

At December 31, 2011, the Group had a US$115m (2010: US$115m) syndicated bank facility which was due to expire on June 12, 2012. In addition, the group has a three year floating rate note of US$50m (2010: US$50m). These facilities are subject to three principal covenants, namely:

(a) Total consolidated net indebtedness shall not exceed 3 times EBITDA. For the year ended December 31, 2011, net indebtedness was 2.09 times (2010: 1.97 times) proforma EBITDA.
(b) The consolidated operating profit before exceptional items and goodwill amortization shall exceed three times net interest payable. For the year ended December 31, 2011, net interest payable was 3.62 times (2010: 3.36 times) covered under this covenant.
(c) The consolidated operating profit before goodwill amortization shall exceed 1.5 times net interest payable. For the year ended December 31, 2011, net interest payable was 3.32 times (2010: 2.85 times) covered under this covenant.

20. Other financial assets/liabilities

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

	2011 $000	2010 $000	2009 $000
Current financial liabilities			
Derivative financial liabilities – exchange rate swap	133	190	232
Non-current financial liabilities			
Derivative financial instruments – interest rate swaps	2,863	3,911	3,964

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

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

	Average interest rate			Principal			Fair value		
	2011 %	2010 %	2009 %	2011 $000	2010 $000	2009 $000	2011 $000	2010 $000	2009 $000
Within one year:	7.0%	5.6%	–	16,000	15,000	–	(521)	(44)	–
Within one to two years:	6.7%	7.0%	5.6%	25,000	16,000	15,000	(1,549)	(1,601)	(652)
Within two to five years:	7.1%	6.8%	6.9%	8,000	33,000	49,000	(793)	(2,266)	(3,312)
				49,000	64,000	64,000	(2,863)	(3,911)	(3,964)

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

Notes to the Accounts Year Ended December 31, 2011

21. Deferred tax

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

	2011 $000	Amount Provided 2010 $000	2009 $000
Deferred taxation provided in the financial statements is as follows:			
Excess of capital allowances over depreciation – UK	44	117	156
Provision on property revaluation – UK	383	385	414
Other temporary differences – UK	4,780	4,611	5,052
	5,207	5,113	5,622
Other overseas temporary differences	575	782	778
	5,782	5,895	6,400
Deferred taxation assets			
Other temporary differences – Other overseas	(23)	(25)	–
Other temporary differences – US	(1,742)	(1,917)	(991)
	(1,765)	(1,942)	(991)
Net deferred taxation liability	4,017	3,953	5,409

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

	2011 $000	Amount Provided 2010 $000	2009 $000
Net provision at January 1	3,953	5,409	4,037
Acquisitions	580	–	–
Exchange difference through reserves	(35)	(128)	664
(Credit) Charge to income and expenditure account	(481)	(1,328)	708
Net provision at December 31	4,017	3,953	5,409

At the balance sheet date, the group has unused tax losses of $1,020,000 (2010: $2,075,000) available for offset against future profits. A deferred tax asset has not been recognised in respect of such losses, due to the unpredictability of future profit streams.

Included in unrecognised tax losses are losses of $1,020,000 (2010: $1,691,000) that will expire in the following years:

	2011 $000	2010 $000	2009 $000
Year ending December 31			
2010	–	–	1,101
2011	–	94	85
2012	531	649	585
2013	265	530	478
2014	–	265	238
2016	224	–	–
2017	–	153	139
	1,020	1,691	2,626

Notes to the Accounts Year Ended December 31, 2011

22. Obligations under finance leases

	Minimum lease payments		
	2011 $000	2010 $000	2009 $000
Amounts payable under finance leases:			
Within one year	5	63	208
In the second to fifth years inclusive	11	–	64
	16	63	272
Less: future finance charges	(4)	(6)	(27)
	12	57	245
Less: Amount due for settlement within 12 months (Note 23)	(3)	(57)	(187)
Amount due for settlement after 12 months	9	–	58

It is the Group's policy to lease certain of its plant, equipment and motor vehicles under finance leases. For the year ended December 31, 2011, the average effective borrowing rate was 14.0% (2010: 7.5%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in sterling.

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

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

23. Short term borrowings

	2011 $000	2010 $000	2009 $000
Current loan instalments	82,345	208	216
Borrowings (Note 19)	82,345	208	216
Finance lease obligations (Note 22)	3	57	187
	82,348	265	403

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

24. Trade and other payables

	2011 $000	2010 $000	2009 $000
Trade payables	44,931	41,354	43,682
Other payables	9,464	9,091	8,558
	54,395	50,445	52,240

The average credit period for trade purchases is 97 days (2010: 97 days). The Directors consider that the carrying amount of trade payables approximates to their fair value.

25. Share capital

Authorised:
28,000,000 (2010: 28,000,000) shares of common stock of par value US$0.10 each ('shares of common stock') with an aggregate nominal value of US$2,800,000 (2010: US$2,800,000).

Notes to the Accounts Year Ended December 31, 2011

25. Share capital (continued)

	2011 $000	2010 $000	2009 $000
Equity share capital			
Allotted, called up and fully paid:			
Shares of common stock of par value US$0.10 each			
20,444,550 (2010: 20,444,550)	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 January 1, 2004.

Treasury stock

Treasury stock represents the Group's purchase of its own shares. The Group owns 765,321 (2010: 765,321) shares, representing 3.7% (2010: 3.7%) of its shares of common stock.

Dividends

	2011 $000	2010 $000
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the year ended December 31, 2011 of 3.35p / 5.39c (2010: 3.35p / 5.19c) per share	1,061	1,021
Final dividend for the year ended December 31, 2010 of 4.15p / 6.68c (2009: 4.0p / 6.2c) per share	1,315	1,220
	2,376	2,241
Proposed final dividend for the year ended December 31, 2011 of 4.55p / 7.05c (2010: 4.15p / 6.47c) per share	1,388	1,275
	1,388	1,275

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

A recent tax law change in the US will require the Quarto Group, Inc., as a US incorporated company, to collect US dividend withholding taxes on dividend distributions made to its non-US shareholders after 1 January 2012. The US dividend withholding tax is generally 30% of any dividends paid to Quarto's non-US shareholders, but this amount can potentially be reduced pursuant to an applicable income tax treaty between the US and the country of residence of the non-US shareholder. For example, under the US/UK income tax treaty, the US dividend withholding tax rate can range from nil (applicable to certain UK resident pension trusts and tax exempt entities) to 15% (applicable to UK resident individual shareholders and certain UK corporate shareholders). For US shareholders, no US dividend withholding tax is generally applicable. It should be noted that certain documentation requirements must be met by all shareholders prior to the payment of any dividends to certify their status as a US or non-US shareholder, and, if a non-US shareholder to claim any applicable benefits under the US/UK or other applicable income tax treaty. Each shareholder should consult their own tax adviser to determine whether and to what extent they may be entitled to claim a reduced amount of US dividend withholding taxes under a US income tax treaty.

27. 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 Accounts Year Ended December 31, 2011

27. Notes to the cash flow statement (continued)

Acquisition of subsidiaries

The Group acquired 80% of Cool Springs Press LLC ('CSP') on February 22, 2011, and Frances Lincoln Limited ('FLL') on August 17, 2011. These transactions have been accounted for by the acquisition method of accounting. These businesses were acquired because of their strategic fit within the Group.

	Provisional fair values		
	CSP	FLL	Total
	$000	$000	$000
Net assets acquired:			
Intangibles	1,730	456	2,186
Property, plant and equipment	20	69	89
Intangible assets – pre-publication costs	52	1,655	1,707
Inventories	648	2,987	3,635
Trade and other receivables	174	5,178	5,352
Cash and cash equivalents	23	240	263
Borrowings	(2,426)	–	(2,426)
Trade and other payables	(1,339)	(3,537)	(4,876)
Tax payable	–	(246)	(246)
Deferred tax	(430)	(150)	(580)
	(1,548)	6,652	5,104
Goodwill	2,148	599	2,747
Total cash consideration	600	7,251	7,851
Net cash outflow arising on acquisitions			
Consideration	600	7,251	7,851
Net debt (cash) acquired	2,403	(240)	2,163
	3,003	7,011	10,014

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

As of the acquisition dates, the Group's best estimate of the contracted cash flow not expected to be collected amounted to $297,000. Under the terms of the CSP acquisition agreement, no amount was recognised for non-controlling interest at the acquisition date. The Group continues to evaluate the harmonisation of its accounting policies and hence fair values remain provisional at the Balance Sheet date.

The contribution from CSP and FLL since acquisition, to Group profit attributable to equity holders of the Parent was $33,000. If the acquisitions of CSP and FLL had been completed on the first day of the financial year, Group revenues for the period would have been $192,753,000 and Group profit attributable to the equity holders of the Parent would have been $7,795,000.

Cashflow on other acquisitions during the year amounted to $2,380,000.

28. Contingent liabilities

The Quarto Group, Inc. has issued guarantees in respect of bank loans of $115,712,000 (2010: $115,438,000).

The Group has also issued guarantees in respect of hire purchase creditors of $nil (2010: $56,000). There are other contingent liabilities, arising in the ordinary course of business, in respect of litigation, which the Directors believe will not have a significant effect on the financial position of the Group.

Notes to the Accounts Year Ended December 31, 2011

29. Operating lease arrangements and other financial commitments

	2011 $000	2010 $000	2009 $000
Minimum lease payments under operating leases recognised in income for the year	2,518	2,178	2,071

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

	2011 $000	2010 $000	2009 $000
Within one year	2,424	566	372
In the second to fifth years inclusive	2,217	5,624	5,926
	4,641	6,190	6,298

Operating lease payments represent rentals payable by the group, primarily for its office properties.

There were no capital commitments at the year end for which no provision had been made (2010: $Nil).

30. Share options

At December 31, 2011, the following share options over shares of common stock were outstanding under the Company's Executive Share Option Schemes.

Number of shares	Date exercisable	Option price per share
3,000	February 15, 2005 – February 14, 2012	$0.67
14,500	February 14, 2006 – February 13, 2013	$0.83
14,500	September 30, 2007 – September 29, 2014	$1.63

31. Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 19 to 20.

	2011 $000	2010 $000
Short term employee benefits	1,771	1,624
Other long term benefits	290	267
	2,061	1,891

32. Directors' transactions

During the year R. J. Morley maintained a current account with the Group. The debit balance on this account was less than $5,000 throughout the year. The balance at the year end was $1,000 (2010: $1,000). During the year L. F. Orbach loaned money to the Group and has received $12,000 interest (2010: $nil). The balance outstanding at the beginning of the year was $448,000 and the balance at the end of the year, which was also the highest amount outstanding, was $471,000.

P. Campbell, a non-executive director, earned consulting fees of $24,000 (2010: $23,000) during the year. These fees were on an arm's length basis.

Notes to the Accounts Year Ended December 31, 2011

33. Reconciliation of figures included in the Chairman's Letter

	2011 $000	2010 $000
Profit before tax, before amortization of non-current intangibles and non-recurring items	12,106	11,505
Amortization of non-current intangibles	(1,312)	(1,246)
Non-recurring items	(1,367)	(2,491)
Profit before tax	9,427	7,768
EBITDA		
Profit before tax, before amortization of non-current intangibles and non-recurring items	12,106	11,505
Net interest	4,629	4,872
Depreciation	1,534	1,373
Amortization of pre-publication costs	19,047	18,506
EBITDA, before non-recurring items	37,316	36,256
Net debt		
Medium and long term borrowings	33,376	115,230
Short term borrowings	82,348	265
Cash and cash equivalents	(34,303)	(43,783)
	81,421	71,712

34. Risk management objectives and policies

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk, credit risk, liquidity risk and certain other price risks, which result from both its operating and investing activities. The Group's risk management is co-ordinated 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:

	2011 $000		2010 $000	
	Sterling	Other	Sterling	Other
Financial assets	414	8,105	1,185	10,373
Financial liabilities	(2,275)	(5,162)	(2,712)	(7,014)
Short-term exposure	(1,861)	2,943	(1,527)	3,359
Financial liabilities	–	(8,557)	–	(9,139)
Long-term exposure	–	(8,557)	–	(9,139)
Net exposure	(1,861)	(5,614)	(1,527)	(5,780)

Notes to the Accounts Year Ended December 31, 2011

34. Risk management objectives and policies (continued)

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

It assumes a +/– 5% change of the Sterling/US-Dollar exchange rate. This percentage has been determined based on the average market volatility in exchange rates in the year ended December 31, 2011. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each balance sheet date.

If Sterling had strengthened against the US Dollar by 5% (2010: 5%) then this would have had the following impact:

	2011 $000	2010 $000
Profit after tax for the year	(72)	(58)
Equity	1,346	1,278

If Sterling had weakened against the US Dollar by 5% (2010: 5%) then this would have had the following impact:

	2011 $000	2010 $000
Profit after tax for the year	65	52
Equity	(1,353)	(1,284)

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

Interest Rate Sensitivity

The Group's policy is to minimise interest rate cash flow risk exposures on long-term financing, through interest rate swaps. A large part of longer-term borrowings are, therefore, usually at fixed rates. At December 31, 2011, the Group is exposed to changes in market interest rates through its bank borrowings, which are subject to variable interest rates – see Note 19 for further information.

The following table illustrates the sensitivity of the profit after tax for the year and equity to a reasonably possible change in interest rates of +/–0.25%, with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments held at each balance sheet date. All other variables are held constant.

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

	2011 $000	2010 $000
Profit after tax for the year	(67)	(42)
Equity	91	160

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

	2011 $000	2010 $000
Profit after tax for the year	67	42
Equity	(91)	(160)

Notes to the Accounts Year Ended December 31, 2011

34. Risk management objectives and policies (continued)

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:

	2011 $000	2010 $000
Cash and cash equivalents	34,303	43,783
Trade and other receivables: Current	57,072	50,786
: Non-current	1,228	–
	92,603	94,569

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

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

The Group's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

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

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

Liquidity Risk Analysis

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

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

As at December 31, 2011, the Group's liabilities have contractual maturities which are summarised below:

December 31,2011	Current		Non-current	
	within 6 months $000	6 to 12 months $000	1 to 5 years $000	over 5 years $000
Bank loans	66,177	17,814	38,459	–
Finance lease obligations	3	2	11	–
Trade payables	44,931	–	–	–
Other short term financial liabilities	9,464	–	–	–
Derivatives	133	–	–	–
	120,708	17,816	38,470	–

Notes to the Accounts Year Ended December 31, 2011

34. Risk management objectives and policies (continued)

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

December 31,2010	Current		Non-current	
	within 6 months $000	6 to 12 months $000	1 to 5 years $000	over 5 years $000
Bank loans	105	106	127,379	–
Finance lease obligations	58	5	–	–
Trade payables	41,354	–	–	–
Other short term financial liabilities	9,091	–	–	–
Derivatives	190	–	–	–
	50,798	111	127,379	–

Summary of Financial Assets and Liabilities by Category

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

	2011 $000	2010 $000
Non-current assets		
– Trade and other receivables	1,228	–
Current assets		
Loans and receivables:		
– Trade and other receivables	57,072	50,786
– Cash and cash equivalents	34,303	43,783
	91,375	94,569
Non-current liabilities		
Derivative financial instruments designated as hedging instruments:		
– Interest rate swap	2,863	3,911
Financial liabilities measured at amortized cost:		
– Borrowings	33,376	115,230
– Other payables	54	45
	36,293	119,186
Current liabilities		
Derivative financial instruments carried at fair value through profit and loss:		
– Exchange rate swap	133	190
Financial liabilities measured at amortized cost:		
– Borrowings	82,348	265
– Trade payables and other short term financial liabilities	54,395	50,445
	136,876	50,900

Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through an optimal balance of debt and equity. The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 19, 22 and 23, cash and cash equivalents and equity attributable to equity holders of the parent, comprising share capital and reserves as disclosed in the consolidated statement of changes in equity on page 25.

The Board reviews the capital structure, including the level of indebtedness and interest cover, as required. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Details of the level of indebtedness, in the form of net debt to EBITDA, and interest cover are given in note 19, including a comparison with the covenants under the Group's financing facilities.

Company Balance Sheet Year Ended December 31, 2011

	Notes	2011 $000	2010 $000
FIXED ASSETS			
Investments	3	12,042	12,120
		12,042	12,120
Creditors: Amounts falling due within one year	5	12,478	(10,256)
NET CURRENT LIABILITIES		12,478	(10,256)
NET (LIABILITIES) ASSETS		(436)	1,864
CAPITAL AND RESERVES			
Called up share capital	6	2,045	2,045
Treasury stock	6	(648)	(648)
Reserves – Paid in surplus	7	33,756	33,756
– Profit and loss	7	(35,589)	(33,289)
SHAREHOLDERS' (DEFICIT) FUNDS	8	(436)	1,864

The financial statements were approved by the Board of Directors and authorised for issue on April 2, 2012.
They were signed on its behalf by:

M. J. Mousley
Director

Notes to Company Balance Sheet Year Ended December 31, 2011

1. Significant accounting policies

The separate financial statements of the company are presented and have been prepared in accordance with UK GAAP format. These financial statements present information for the company, not about its group, which is presented on pages 23 to 51.

Basis of preparation

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

Accounting policies

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

The accounting policies adopted are consistent with those of the annual financial statements for the year ended December 31, 2010, as described in those financial statements, with the exception of a change in the presentational currency of the Group.

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.

Following an exercise to assess the impact of the principal trading currencies of the Group, these results have been presented for the first time in US Dollars. This is a change from prior years and the Group's previously published financial statements, which were presented in Pounds Sterling.

Assets and liabilities were translated into US dollars using the closing rate at the 2010 balance sheet date. Income, expenses and cashflows recognised in the period were translated at an average US dollar exchange rate for the period. Resulting exchange differences were reflected as currency translation adjustments and included in the translation reserve. Equity and share capital items were translated using historic rates and were not retranslated at each subsequent balance sheet date.

Investments

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

Creditors

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

Share-based payments

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

Financial Guarantee Contracts

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

2. Profit attributable to the company

The profit for the financial year dealt with in the financial statements of the parent company was $nil (2010: $267,000). No separate profit and loss account is presented in respect of the parent company.

3. Investments

	$000
At January 1, 2011	12,120
Exchange differences	(78)
At December 31, 2011	12,042

Notes to Company Balance Sheet Year Ended December 31, 2011

4. Subsidiaries

NAME	PLACE AND DATE OF INCORPORATION	ISSUED AND FULLY PAID SHARE CAPITAL	PERCENTAGE HELD	BUSINESS
Quarto Publishing plc	England 1 April, 1976	100,000 shares of £1 each	100*	Co-edition Publishing
Quarto, Inc.	Delaware, USA 16 October, 1986	60 shares of no par value	100*	Co-edition Publishing
Western Screen and Sign Limited	England 24 November, 1961	1,500 shares of £1 each	100*	Publishing
Regent Publishing Services Limited	Hong Kong 23 October, 1985	1,000 shares of HK$10 each	75	Co-edition Publishing
Apple Press Limited	England 5 June, 1984	100 shares of £1 each	100	Publishing
Premier Books Limited	New Zealand 27 September, 1996	400,000 shares of NZ$1 each	100*	Publishing
RotoVision S.A.	Switzerland 18 July, 1977	1,500 shares of SFr500 each	100*	Co-edition Publishing
Rockport Publishers, Inc.	Massachusetts, USA 4 December, 1985	4,000 shares of no par value	100	Publishing
Book Sales Inc.	Delaware, USA 13 December, 1972	85 shares of no par value	85	Publishing
Walter Foster Publishing, Inc.	Delaware, USA 10 February, 1988	19,625 shares of US$0.01 each	100	Publishing
Global Book Publishing Pty. Limited	Australia 4 November, 1999	1,000 shares of A$1 each	100*	Co-edition Publishing
Creative Publishing International, Inc.	Delaware, USA 28 June, 2004	100 shares of US$0.01 each	100	Publishing
Aurum Press Limited	England 31 May, 1977	382,502 shares of £1 each	100	Publishing
Lifetime Distributors 'The Book People' Pty. Limited	Australia 3 December, 1990	100,004 shares of A$1 each	100	Publishing
MBI Publishing Company LLC	Delaware, USA 6 January, 2000	100 units	100	Publishing
Jacqui Small LLP	England 6 November, 1998	100 units	100	Co-Edition Publishing
Frances Lincoln Limited	England 15 December, 1980	565,000 shares of 10p each	100	Publishing
Cool Springs Press LLC	Tennessee, USA 3 October, 2006	100 shares of no par value	80	Publishing

* *Directly held by The Quarto Group, Inc.*

Notes to Company Balance Sheet Year Ended December 31, 2011

5. Creditors: Amounts falling due within one year

	2011 $000	2010 $000
Amounts owed to subsidiary undertakings	12,478	10,256

6. Called up share capital and treasury stock

Details of called up share capital and treasury stock are set out in Notes 25 to 26 of the consolidated financial statements.

7. Retained deficit and other reserves

	Paid in surplus $000	Profit and loss account $000
At beginning of year	33,756	(33,289)
Result for the year	–	–
Exchange differences	–	76
Dividends	–	(2,376)
At end of year	33,756	(35,589)

8. Reconciliation of movement in shareholders' funds

	2011 $000	2010 $000
Profit for the financial year	–	267
Dividends	(2,376)	(2,241)
Retained (loss) for the financial year	(2,376)	(1,974)
Shareholders' funds at January 1	1,864	3,975
Exchange differences	76	(137)
Shareholders' funds at December 31	(436)	1,864

9. Contingent liabilities

Contingent liabilities are disclosed in Note 28 to the Group accounts.

Five Year Summary

	2011 $000	2010 $000	2009 $000	2008 $000	2007 $000
Results					
Revenue	186,126	176,409	167,411	209,702	200,214
EBITDA	37,316	36,256	35,794	40,860	40,028
Operating profit before amortization of non-current intangibles and exceptional items	16,735	16,377	16,000	21,111	21,120
Operating profit	14,056	12,640	10,943	9,758	19,236
Profit before tax before amortization of non-current intangibles and exceptional items	12,106	11,505	10,769	14,255	15,302
Profit before tax	9,427	7,768	5,712	2,902	13,418
Profit attributable to owners	8,071	6,405	4,030	(218)	8,486
Assets employed					
Non-current assets	54,483	50,234	50,442	51,623	62,966
Current assets	171,845	170,035	169,910	171,473	178,620
Current liabilities	(137,733)	(52,574)	(53,356)	(63,641)	(73,497)
Non-current liabilities	(42,075)	(125,081)	(129,814)	(128,629)	(124,578)
Net assets	46,520	42,614	37,182	30,826	43,511
Financed by					
Equity	39,833	34,340	29,650	23,227	35,631
Minority interests	6,687	8,274	7,532	7,599	7,880
	46,520	42,614	37,182	30,826	43,511
Key statistics					
Earnings per share	38.9c	29.2c	20.4c	–1.1c	43.2c
Diluted earnings per share	38.8c	29.2c	20.4c	–1.1c	42.3c
Adjusted diluted earnings per share	45.6c	42.3c	40.8c	49.2c	48.8c