11 March 2019

The Quarto Group, Inc.

("Quarto" or the "Company" or the "Group")

Final Results for the Year Ended 31 December 2018

The Quarto Group Inc. (LSE: QRT, “Quarto" or "the Group"), the leading global illustrated book publisher, announces its audited results for the year ended 31 December 2018.

Results ($m)	**2018**	**2017**
Revenue	149.3	152.5
Adjusted Operating Profit*	10.3	7.2
Operating Profit/(Loss)	4.3	(17.9)
Adjusted Profit Before Tax*	5.9	3.9
Loss Before Tax	(0.1)	(21.2)
Exceptional Items	5.2	24.2
Loss for the Year	(0.6)	(18.5)
Adjusted Diluted Earnings per Share from continuing operations	23.0c	17.8c
Basic Loss per Share from continuing operations	(2.7)c	(96.4)c
Net Debt	60.4	64.0

*Adjusted items exclude the amortisation of acquired intangibles and exceptional items.

Headlines

- Adjusted operating profit and adjusted profit before tax ahead of the prior year.
- Children’s publishing revenues up 2% and now representing over one-third of Group revenues.
- 63.2% of revenue generated from backlist titles (2017: 60.3%).
- Net debt reduced by 6% to $60.4m (2017: $64.0m).
- Cost out program successfully implemented.
- Banking facilities extended to 31 August 2020.

Commenting on the results, Chief Executive Officer, C.K. Lau said:

“Adjusted operating profit and adjusted profit before tax were both ahead of the prior year, in a time of continued softness in the marketplace and of considerable transition for the Group. Our resilient and talented staff have stepped up to the challenges we have faced.

The extension of our banking facilities gives us a stable position from which we can continue to improve business performance and to reduce debt to a more acceptable level. The Board are fully focused on achieving stability in the business, returning the Group to full health and defining further growth strategies for 2020 and beyond.

Together with the Board, I remain confident in the business model and future prospects of Quarto. The Group is uniquely positioned in the market and its vision stays unchanged; to become the dominant publisher of illustrated books worldwide."

For further information, please contact:

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C.K. Lau, CEO
Dorothée de Montgolfier, Group Director of Communications

About The Quarto Group

The Quarto Group (LSE: QRT) creates a wide variety of books and intellectual property products, with a mission to inspire life's experiences. Produced in many formats for adults, children and the whole family, our products are visually appealing, information rich and stimulating.

The Group encompasses a diverse portfolio of imprints and businesses that are creatively independent and expert in developing long-lasting content across specific niches of interest.

Quarto sells and distributes its products globally in over 50 countries and 40 languages, through a variety of sales channels, partnerships and routes to market.

Quarto employs c.330 talented people in the US and the UK. The group was founded in London in 1976. It is domiciled in the US and listed on the London Stock Exchange.

For more information, visit quarto.com or follow us on Twitter at @TheQuartoGroup.

Strategic overview

Overall, revenue was down 2% at $149.3m (2017: $152.5m) and adjusted operating profit up 43% at $10.3m (2017: $7.2m), enabled by a strong trading performance in the first half of the year and in the fourth quarter, as well as significant cost reductions.

This is a satisfactory set of results considering that the market has continued to show softness in the book trade both in the US and the UK, and that the Group has had to adjust to various transitions in the management of the Company.

A new Board was formed following the Annual Meeting in May, with clear objectives to deliver: a right-sizing of the Group; a path to sustainable debt reduction; a focus on the Group's core strengths; and a disciplined business model.

After a short tenure from Laurence Orbach, Andy Cumming was appointed Non-Executive Chairman in July and has provided a clear direction to the Group since. His experience has proven invaluable, especially through the renegotiations of our banking facilities.

I would like to thank our Chief Operating Officer, Ken Fund, who has been with Quarto for 20 years and who we welcomed to the Board last year. His commitment, leadership and experience helped the business and all of our people through a particularly challenging year. I would also like to thank Mick Mousley, who agreed to come out of retirement while we look for a permanent Chief Financial Officer.

In the last six months, both the new Board and senior management have been focused on delivering stability to the business, supporting our core operations, and starting to address our balance sheet.

In November, the extension of our banking facilities to 31 August 2020 was a major milestone in returning the Group to full-health. This gives us a stable position from which we can continue to improve business performance and to reduce debt to a more acceptable level, as agreed with our banking syndicate.

We completed a comprehensive cost out program, following a thorough review of key areas of expenditure. Our portfolio has been reviewed and reduced from 40 to 33 imprints; we downsized some of our office facilities; and we effected a significant reduction in corporate overhead.

Although the benefits will not flow through immediately – as we have had to incur exceptional costs to implement the cost out program – we have gone into 2019 satisfied that the Group is now operating at the right size.

US Publishing revenues were down 1% at $81.2m (2017: $81.8m), and UK Publishing revenues were flat at $20.4m (2017: $20.3m). Children's publishing revenues grew 2.3%, led by the success of our Lincoln Children's Books list. Adult publishing revenues were down 4.3% mostly due to a lower performance of co-edition publishing.

The Group is now over one third Children's products, with continued increased contribution from the Children's side. The Adults market remains more challenging, as the consolidation of publishers in the English language co-edition market continues to impact sales negatively. We are looking at new opportunities in custom publishing to grow our customer base.

Our Foreign Rights sales team delivered a solid year, with revenues of $31.3m, despite strong headwinds against them.

The Group ended the year with net debt at $60.4m, down 5.6% vs prior year (2017: $64.0m). Net debt is still sizeable and remains an immediate focus for the Board.

I am very passionate about returning the Group to full health and defining further growth strategies for 2020 and beyond. Quarto’s model remains effective: talented people making high quality and long-lasting products across a balanced portfolio, supported by an efficient operating platform that adapts to market conditions.

Our strategy for the Group in the short term is to deliver stability to the business, to continue to grow lists where the opportunity exists while supporting and improving poor performing business units, and to address our balance sheet by reducing our net debt.

Outlook

The newly constituted Board is fully focused on achieving stability in the business after a period of considerable change, returning the Group to full health and defining further growth strategies for 2020 and beyond.

Quarto expects the ongoing soft market conditions to continue in 2019, impacting foreign language markets and the Adults portfolio in particular. The Group expects some organic growth in Children’s and further benefits from the cost out program.

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

On behalf of the Board, I would like to thank all staff for their continued support and loyalty during this recent period of change and uncertainty, as well as our partners and suppliers across the world.

Operating review

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

Revenue is reported by the geography in which the product is sold. Adjusted Operating Profit is reported by IP portfolio, where the product is generated – US Publishing, UK Publishing and Q Partners.

Revenue ($m)	**2018**	**2017**
United States of America	81.2	81.8
United Kingdom	20.4	20.3
Rest of the World	10.8	10.3
Foreign Rights	31.3	34.4
Q Partners	5.6	5.7
Total Revenue	**149.3**	**152.5**

Adjusted Operating Profit ($m)	**2018**	**2017**
US Publishing	5.3	4.6
UK Publishing	7.9	7.1
Q Partners	(0.4)	(0.4)
Group overhead	(2.5)	(4.1)
Total adjusted operating profit	**10.3**	**7.2**

Routes to market

In the US, revenue was $81.2m, down marginally over the prior year (2017: $81.8m), with a strong performance from our Quarry and Fair Winds Press Imprints. A strength of the US program has been our ability to grow the specialty retailer accounts base, whilst the uncertainty of the book trade continues to show lower sales in our publishing categories. E-book and digital revenue, although small, showed improvement. Returns on sales were lower than prior year and back to an expected rate, following unusually high levels in 2017 due to colouring books.

In both the US and the UK, co-edition revenues were soft especially in English Language, as this market continues to decline. Specifically, some of our Star Wars licensed titles did not perform up to expectations which affects new title sales as well as reprints.

UK revenue was $20.4m, level with the prior year (2017: $20.3m), led by a strong performance from our Lincoln Children’s Books, Ivy Press/Ivy Kids, and Wide Eyed Editions imprints. The Little People Big Dreams series continues to be a major success and in 2019 we are expanding the list to include inspirational male role models. The launch of our Build and Become series (White Lion Publishing) has been well received.

International English language sales have performed better than prior year with revenues of $10.8m (2017: $10.3m) with a strong contribution from our Australian, Middle Eastern and Asian markets, and due to new distributors in India and South Africa.

Foreign Language sales achieved a strong year with revenues of $31.3m, although lower than prior year (2017: $34.4m) as a result of market place uncertainty, particularly in South America.

Our publishing partnerships and distribution business, Q Partners, was down 1% year-on-year with revenue of $5.6m (2017: $5.7m). Sales have been slow in Brazil and the launch of Quarto Iberoamericana, our Spanish language partnership, has still to reach critical mass. Overall the business has not yet reached a satisfactory level and we are looking at refining the business model.

Intellectual property portfolio

Our most profitable imprints were Lincoln Children's Books (UK, acquired in 2011, relaunched in 2014), Ivy Press (UK, acquired in 2015) and Wide Eyed Editions (UK, launched in 2013).

Adult publishing revenues declined 4.3%, suffering from a lower performance of English language co-editions against prior year. In this market, the consolidation of publishers continues to impact sales negatively. We are looking at new opportunities in custom publishing to grow our customer base. Internally, we have significantly consolidated parts of our Adults portfolio and are confident that it is better equipped to suit customer and market trends.

Children's publishing revenues grew 2.3% led by the success of our UK-based Lincoln Children's Books imprint. The Group is now over one third Children's products, with continued increased contribution from the Children's side.

The revenue split between frontlist titles (published in 2018) and backlist titles (published before 2018) was comparable year-on-year, with 63.2% of publishing revenues generated from backlist titles vs 60.3% in 2017. This is consistent with Quarto's strategy to generate c. 60% annual recurring revenues from the Group's rich IP catalogue and reflects our expertise in creating long-lasting content.

Adults' titles represented 65% of backlist revenues (2017: 67%) and 66% of frontlist revenues (2017: 67%), while Children's titles represented 35% of backlist revenues (2017: 33%) and 34% of frontlist revenues (2017: 33%). The increased proportion of Children's titles in the backlist can be explained as some of the Group's imprints, only started a couple of years ago, are now becoming established businesses.

The following titles were our top 10 sellers in 2018, with their respective revenue and year of publication:

Title	*Imprint*	*Revenue ($000)*
Squishy Human Body (2006)	SmartLab	$1,216
Beginner's Keto Diet Cookbook (2018)	Fair Winds	$914
All-Natural Lip Balm Boutique (2016)	SmartLab	$725
Smart Circuits: Electronics Lab (2016)	SmartLab	$686
Keto Slow Cooker & One-Pot Meals (2017)	Fair Winds	$613
Quick Keto Meals in 30 Minutes or Less (2017)	Fair Winds	$559
Ultimate Secret Formula Lab (2016)	SmartLab	$486

The Bucket List (2016)	Bright Press	$479
Little People Big Dreams: Coco Chanel (2016)[1]	Frances Lincoln Children's Books	$455
Little People Big Dreams: Frida Kahlo (2016)[1]	Frances Lincoln Children's Books	$415

1 The Little People Big Dreams titles are part of a series that generated $4.3m of revenue in 2018 (2017: $1.8m)

US Publishing

US Publishing adjusted operating profit was up 15% to $5.3m (2017: $4.6m) due to a combination of positive factors:

- Lower returns on sales, which came back to an expected rate after reaching an unusually high point in 2017 due to colouring books.
- A significant reduction in expenses through the cost out program put in place during the year.

Overall, we saw a 1% reduction in margin. Some elements of this decline have been ongoing challenges which we are addressing. Cost of Goods sold were slightly higher in 2018, impacted negatively by an increase in paper costs. Paper costs have now stabilised, which should have a positive impact on margin in 2019.

Product development costs were in line with expectations and the prior year. Investment in new titles has started to be reduced as part of our cost out program and as we use our IP in new and innovative ways.

UK Publishing

UK Publishing adjusted operating profit was up 11% to $7.9m (2017: $7.1m) due to the following factors:

- A strong performance from our Lincoln Children's Books, Ivy Press/Ivy Kids and Wide Eyed Editions imprints.
- Lower royalty costs following a negotiation of more favourable terms. The increasing mix of sales to the trade is a trend that we expect to continue.
- Benefits from our cost out program, with a reduction in investment in new titles being acquired, as well as an overall reduction in administrative, selling and staffing costs.
- Improved margin in our newly formed White Lion Street Adults imprint, due to efficiencies across print, staffing costs and investment in new product.

Q Partners

Q Partners' adjusted operating profit remained flat year-on-year, with a small loss of $0.4m in 2018 (2017: loss $0.4m).

The business has not yet reached a satisfactory level as volumes remain small. We are looking at refining the business model.

Financial review

Group Results

Revenue was $149.3m, a decrease of 2%, compared to 2017 ($152.5m). Operating profit, before amortisation of intangibles and exceptional items, ("adjusted operating profit") was up 43% at $10.3m (2017: $7.2m) and represented 6.9% of revenue (2017: 4.7%). Adjusted diluted earnings per share increased by 29% to 23.0c (2017: 17.8c). It has been the case, for many years, that not one of our titles exceeded 1% of Group revenue, and this year is no exception.

US Publishing

Revenue for this segment was down 2% at $73.0m (2017: $74.1m). Adjusted operating profit was up 13% at $5.3m (2017: $4.6m). We achieved an operating profit margin of 7.2% (2017: 6.3%). Reprints accounted for 65% of revenue, compared to 64% in 2017.

UK Publishing

Revenue for this segment was down 3% at $70.7m (2017: $72.7m). Adjusted operating profit was up 11% at $7.9m (2017: $7.1m). We achieved an operating profit margin of 11.2% (2017: 9.8%). Reprints accounted for 61% of revenue, compared to 54% in 2017.

Q Partners

Revenue for this segment was down 1% at $5.6m (2017: $5.7m). We incurred an adjusted operating loss of $0.4m (2017: loss $0.4m).

Corporate Costs

Corporate costs were reduced by 41% from $4.1m to $2.5m, due to the cost out program, which was initiated in the second half of the year.

Exceptional Items

Exceptional items, in 2018, comprised reorganization costs of $2.9m, arising from the cost out program, $0.8m with respect to the board changes that occurred in May 2018 and $1.5m of refinancing costs. Exceptional items, in 2017, comprised goodwill impairment of $17.4m, impairment of pre-publication costs of $4.9m and other items of $1.9m.

Finance Costs

Finance costs were $4.4m (2017: $3.3m). The increase was attributable to an increase in interest rates, an increase in the interest margin and a charge with respect to the deferred consideration for a prior period acquisition.

Tax

The tax charge for the year was $0.5m (2017: Credit $1.5m). The Group incurred taxable losses in the US which, following tax legislation changes from 1 January 2018, cannot be fully recovered.

Balance Sheet

The Group's net assets decreased to $21.1m from $24.1m, largely because the Group has net Sterling assets. The weakness of Sterling against the US dollar, which is the Group's principal functional currency, has resulted in a translation loss on exchange.

During 2018, the Group transacted in Sterling, Euros, Australian Dollars, New Zealand Dollars and Hong Kong Dollars. Our borrowings are drawn in US Dollars, Sterling and Euros to provide a partial hedge against the movement in our net assets, excluding borrowings, in those currencies.

We signed an agreement with our banking syndicate to extend the maturity of our facilities to 31 August 2020. The revised facilities incorporate an immediate reduction in bank debt and a subsequent amortisation program.

As part of the agreement with the banking syndicate, certain of the Company's larger shareholders and a related company agreed to provide unsecured and subordinated loans to the Group, totalling $13m. These loans are repayable by 31 August 2020 and have been used to reduce bank facilities and to provide additional working capital. This gives us a stable position to continue our focus on improving the performance of our business and reducing debt to a more acceptable level.

Cash Flow and Indebtedness
At the year end, our net debt was $60.4m, a reduction of 6%, compared to 2017, when it was $64.0m. The Group was well within its banking covenants. Free cash flow, during the year, was $8.4m, up 8% compared to 2017, when it was $7.7m.

Shareholder Return
The Directors have decided to continue the Group's policy of not paying a dividend for the time being, until debt can be brought down to a more acceptable level.

Cost out Program
We initiated a cost out program in the second half of the year. This was designed to achieve the following: a right-sizing of the Group, a path to sustainable debt reduction and a focus on our core strengths. The process involved a thorough review of key areas of expenditure, including but not limited to, prepublication expenditure, occupancy costs, payroll and discretionary expenditure. The benefit of the cost out program has not flowed through immediately, as we have incurred one-time exceptional costs to implement the plan. We expect this plan to lead to improved cash flows in 2019 and 2020.

Going Concern
In accordance with provision c.2.2 of the 2014 revision of the UK Corporate Governance Code, the Directors have assessed the prospects of the Group over both a one-year and a three-year period. The one-year period has a greater level of certainty and is, therefore, used to set budgets for all our businesses which culminates in the approval of a Group budget for the Board. The three-year period offers less certainty, but it is aligned with long term incentives offered to Executive Directors and certain senior management.

The Directors have considered the underlying robustness of the Group's business model, products and proposition and its recent trading performance, cash flows and key performance indicators. They have also reviewed the cash forecasts prepared for the three years ending 31 December 2021, which comprise a detailed cash forecast for the year ending 31 December 2019 based on the budget for that year and standard growth assumptions for revenue and costs for the years ending 31 December 2020 and 2021, to satisfy themselves of the going concern assumption used in preparing the financial statements.

The Directors have assessed the Group's viability over a three-year period ending on 31 December 2021 based on a financial model which was prepared as part of the process of considering and approving the 2019 budget.

The Directors used the three-year review period for the following reason:

- The Group's publishing program planning cycle normally works over a two to three-year period.

The Group's current banking facilities have 18 months to run before they will need to be refinanced in August 2020. Consistent with previous facilities, the Directors have assumed that these facilities will be renewed or extended at that time on similar terms.

In carrying out their analysis of viability, the Directors took account of the Group's projected profits and cash flows and its banking covenants. They also took account of the principal risks and uncertainties facing the business, a sensitivity analysis on the key revenue growth assumption and the effectiveness of available mitigating actions. Based on their assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due up to 31 December 2021.

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

C.K. Lau
Chief Executive Officer

THE QUARTO GROUP, INC.
Condensed Consolidated Income Statement
For the year ended 31 December 2018

	Note	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Continuing operations			
Revenue	2	149,292	152,512
Cost of sales		(107,195)	(109,848)
Gross profit		42,097	42,664
Distribution costs		(7,919)	(7,549)
Administrative expenses		(23,873)	(27,922)
Operating profit before amortisation of acquired intangibles and exceptional items		**10,305**	**7,193**
Amortisation of acquired intangibles		(850)	(840)
Exceptional items	3	(5,152)	(24,235)
Operating profit/(loss)	2	**4,303**	**(17,882)**
Finance income		21	25
Finance costs	4	(4,381)	(3,325)
Loss before tax		**(57)**	**(21,182)**
Tax	5	(495)	1,480
Loss for the year		**(552)**	**(19,702)**
Discontinued operations			
Profit for the year from discontinued operations	8	-	1,163
Loss for the year		**(552)**	**(18,539)**
Attributable to:			
Owners of the parent		**(552)**	(18,513)
Non-controlling interests		**-**	(26)
		(552)	**(18,539)**
Earnings/(loss) per share (cents)			
From continuing operations			
Basic	6	(2.7)	(96.4)
Diluted	6	(2.7)	(96.4)
Adjusted basic	6	23.2	18.3
Adjusted diluted	6	23.0	17.8
From discontinued operations			
Basic	6	-	5.8
Diluted	6	-	5.7

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

THE QUARTO GROUP, INC.
Condensed Consolidated Statement of Comprehensive Income
For the year ended 31 December 2018

	Note	Year ended 31 December 2018	Year ended 31 December 2017
		$'000	$'000
Loss for the year		(552)	(18,539)
Items that may be reclassified to profit or loss			
Foreign exchange translation differences		(1,950)	35
Reclassification to income statement on disposal of business		-	3,540
Cash flow hedge: (losses)/gains arising during the year		(60)	25
Tax relating to items that may be reclassified to profit or loss		(246)	471
Total other comprehensive (expense)/income		(2,256)	4,071
Total comprehensive expense for the year net of tax		(2,808)	(14,468)
Attributable to:			
Owners of the parent		(2,808)	(14,442)
Non-controlling interests		-	(26)
		(2,808)	(14,468)

THE QUARTO GROUP, INC.
Condensed Consolidated Balance Sheet
At 31 December 2018

	Note	31 December 2018	31 December 2017
		$'000	$'000
Non-current assets			
Goodwill	9	18,954	19,286
Other intangible assets		2,368	3,516
Property, plant and equipment		1,552	2,129
Intangible assets: Pre-publication costs	10	56,741	60,278
Deferred tax assets		3,901	3,901
Total non-current assets		83,516	89,110
Current assets			
Inventories		22,324	22,637
Trade and other receivables		54,476	53,460
Derivative financial instruments		105	205
Cash and cash equivalents		15,384	17,946
Total current assets		92,289	94,248
Total assets		175,805	183,358
Current liabilities			
Short term borrowings		(5,000)	(5,000)
Trade and other payables		(64,917)	(60,796)
Tax payable		(4,167)	(5,243)
Total current liabilities		(74,084)	(71,039)
Non-current liabilities			
Medium and long-term borrowings		(70,752)	(76,907)
Deferred tax liabilities		(8,753)	(8,520)
Tax payable		(544)	(1,116)
Other payables		(554)	(1,673)
Total non-current liabilities		(80,603)	(88,216)
Total liabilities		**(154,687)**	**(159,255)**
Net assets		**21,118**	**24,103**
Equity			
Share capital		2,045	2,045
Paid in surplus		33,764	33,764
Retained earnings and other reserves		(14,691)	(11,706)
Equity attributable to owners of the parent		**21,118**	**24,103**
Non-controlling interests		-	-
Total equity		**21,118**	**24,103**

THE QUARTO GROUP, INC.
Condensed Consolidated Statement of Changes in Equity
For the year ended 31 December 2018

	Share capital	Paid in surplus	Hedging reserve	Translation reserve	Retained earnings	**Equity attributable to owners of the parent**	Non-controlling interests	**Total**
	$000	$000	$000	$000	$000	**$000**	$000	**$000**
Balance at 1 January 2017	**2,045**	**33,764**	**140**	**(8,850)**	**12,120**	**39,219**	**4,892**	**44,111**
Loss for the year	-	-	-	-	(18,513)	**(18,513)**	(26)	**(18,539)**
Foreign exchange translation differences	-	-		46	-	**46**	(11)	**35**
Reclassification to income statement on disposal of business	-	-	-	3,540	-	**3,540**	-	**3,540**
Cash flow hedge: gains arising during the year	-	-	25	-	-	**25**	-	**25**
Tax relating to items that may be reclassified to profit or loss	-	-	-	471	-	**471**	-	**471**
Total comprehensive income/(expense) for the year	**-**	**-**	**25**	**4,057**	**(18,513)**	**(14,431)**	**(37)**	**(14,468)**
Dividends to shareholders	-	-	-		(2,018)	**(2,018)**	-	**(2,018)**
Dividend in-specie paid to non-controlling interests	-	-	-	-	-	-	(3,744)	**(3,744)**
Adjustment arising from change in non-controlling interests					1,111	**1,111**	(1,111)	-
Share based payments charge	-	-	-	-	222	**222**	-	**222**
Balance at 31 December 2017	**2,045**	**33,764**	**165**	**(4,793)**	**(7,078)**	**24,103**	**-**	**24,103**
Loss for the year	-	-	-	-	(552)	**(552)**	**-**	**(552)**
Foreign exchange translation differences	-	-	**-**	(1,950)	-	**(1,950)**	**-**	**(1,950)**
Cash flow hedge: losses arising during the year	-	-	(60)	-	-	**(60)**	-	**(60)**
Tax relating to items that may be reclassified to profit or loss	-	-	-	(246)	-	**(246)**	-	**(246)**
Total comprehensive expense for the year	**-**	**-**	**(60)**	**(2,196)**	**(552)**	**(2,808)**	**-**	**(2,808)**
Share based payments credit	-	-	-	-	(177)	**(177)**	-	**(177)**
Balance at 31 December 2018	**2,045**	**33,764**	**105**	**(6,989)**	**(7,807)**	**21,118**	**-**	**21,118**

THE QUARTO GROUP, INC.
Condensed Consolidated Cash Flow Statement
For the year ended 31 December 2018

	Year ended 31 December 2018	Year ended 31 December 2017
	$'000	$'000
Loss for the year	**(552)**	**(18,539)**
Adjustments for:		
Net finance costs	4,360	3,300
Depreciation of property, plant and equipment	693	817
Software amortisation	298	315
Tax expense/(credit)	495	(1,480)
Impairment of goodwill	-	17,418
Impairment of pre-publication costs	501	4,868
Share based payments	(177)	222
Amortisation and amounts written off acquired intangibles	910	841
Amortisation and amounts written off pre-publication costs	31,426	32,212
Movement in fair value of derivatives	-	(130)
Gain on divestment of business	-	(2,541)
Operating cash flows before movements in working capital	**37,954**	**37,303**
Decrease in inventories	21	1,281
(Increase) in receivables	(2,280)	(784)
Increase in payables	4,639	6,822
Cash generated by operations	**40,334**	**44,622**
Income taxes paid	(1,962)	-
Net cash from operating activities	**38,372**	**44,622**
Investing activities		
Interest received	21	25
Investment in pre-publication costs	(29,744)	(35,551)
Purchases of property, plant and equipment	(169)	(1,063)
Purchase of software	(77)	(266)
Acquisition of businesses	(1,887)	(7,041)
Disposal of subsidiaries	-	4,588
Net cash used in investing activities	**(31,856)**	**(39,308)**
Financing activities		
Dividends paid	-	(2,018)
Interest payments	(2,980)	(2,935)
Drawdown of revolving credit facility	18,457	6,600
Repayment of term loan and revolving credit facility	(24,238)	(8,271)
Net cash used in financing activities	**(8,761)**	**(6,624)**
Net decrease in cash and cash equivalents	**(2,245)**	**(1,310)**
Cash and cash equivalents at beginning of year	**17,946**	**18,824**
Foreign currency exchange differences on cash and cash equivalents	(317)	432
Cash and cash equivalents at end of year	**15,384**	**17,946**

THE QUARTO GROUP, INC.
Notes to the condensed financial statements

1. Basis of preparation

The financial information set out in this statement does not constitute the Group's Annual Report for the year ended 31 December 2018 prepared in accordance with the Companies Act 2006 as applicable to overseas companies. The auditors have reported on the Group's statutory accounts for the year ended 31 December 2018 which are unqualified. The financial information set out in this statement has been extracted from those statutory financial statements. The financial information contained within this preliminary announcement was approved by the Board on 8 March 2019. The statutory financial statements for the year ended 31 December 2017, including an unmodified auditor's report, have been delivered to the Registrar of Companies. The financial statements for the year ended 31 December 2018 will be delivered to the Registrar of Companies following the Company's annual meeting.

The Group financial statements are presented in US Dollars and all values are shown in thousands of dollars ($000) rounded to the nearest thousand dollars, except where otherwise stated. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The accounting policies used have been applied consistently and are described in full in the statutory financial statements for the year ended 31 December 2018. Two new accounting standards, IFRS 9 and IFRS 15, have been adopted during the period. The accounting policies on revenue and financial instruments have been updated, as a consequence of these accounting standards. IFRS 15 has been applied using a modified retrospective ("cumulative catch-up") approach under which changes having a material effect on the consolidated statement of financial position as at 1 January 2018 are presented together as a single adjustment to the opening balance of retained earnings. Accordingly, the Group is not required to present a third statement of financial position as at that date. IFRS 15 requires that the Group's reserve for sales returns is reclassified. The reserve was previously netted off in trade receivables and from 1 January 2018 this is now shown as a liability within trade and other payables. The effect on transition was to increase trade and other receivables as at 1 January 2018 by $6,401,000, with a corresponding increase in trade and other payables. As of 31 December 2018, trade receivables and other payables would have been $5,391,000 lower under previous accounting standards. There was no adjustment to the opening balance of retained earnings.

Going Concern

The Board has assessed the Group's ability to operate as a going concern on a financial model which was prepared as part of the process of considering and approving the 2019 budget.

The Directors have considered the underlying robustness of the Group's business model, products and proposition and its recent trading performance, cash flows and key performance indicators. They have also reviewed the cash forecasts prepared for the three years ending 31 December 2021, which comprise a detailed cash forecast for the year ending 31 December 2019, based on the budget for that year, and the growth assumptions for revenue and costs, together with cash forecasts, for the years ending 31 December 2020 and 2021, to satisfy themselves of the appropriateness of the going concern basis used in preparing the financial statements.

In carrying out their analysis of viability, the Directors took account of the Group's projected profits and cash flows and its banking covenants and these have been subjected to sensitivity analysis over the three-year period.

Based on our assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet all of its liabilities as they fall due up to 31 December 2021.

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

2. Operating segments

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

2018	US Publishing $000	UK Publishing $000	Q Partners $000	Total $000
Revenue – continuing operations	**72,971**	**70,734**	**5,587**	**149,292**
Operating profit/(loss) before amortisation of acquired intangibles and exceptional items	**5,240**	**7,913**	**(418)**	**12,735**
Amortisation of acquired intangibles	(596)	(254)	-	(850)
Segment result	**4,644**	**7,659**	**(418)**	**11,885**
Exceptional pre-publication asset impairment and write-off (note 3)	(1,164)	-	-	(1,164)
Exceptional items other (note 3)	(811)	(402)	-	(1,213)
	2,669	**7,257**	**(418)**	**9,508**
Unallocated corporate expenses				(2,430)
Corporate exceptional items (note 3)				(2,775)
Operating profit				**4,303**
Finance income				21
Finance costs				(4,381)
Loss before tax				**(57)**
Tax				(495)
Loss after tax from continuing operations				**(552)**
Profit after tax from discontinued operations				-
Loss after tax				**(552)**

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

2. Operating segments (continued)

Segmental balance sheet

	2018 $000	2017 $000
Continuing operations:		
Quarto Publishing Group USA	**85,995**	93,085
Quarto Publishing Group UK	**70,525**	67,984
Unallocated (Deferred tax and cash)	**19,285**	21,848
Discontinued operations:		
Books & Gifts Direct, ANZ	**-**	441
Total Assets	**175,805**	183,358
Continuing operations:		
Quarto Publishing Group USA	**30,518**	31,518
Quarto Publishing Group UK	**34,953**	36,390
Unallocated (Deferred tax and debt)	**89,216**	91,331
Discontinued operations:		
Books & Gifts Direct, ANZ	**-**	16
Total Liabilities	**154,687**	159,255

Geographical revenue

The Group operates in the following geographical areas:

	2018 $'000	2017 $'000
United States of America	**86,092**	86,444
United Kingdom	**20,384**	20,256
Europe	**25,314**	29,098
Rest of the World	**17,502**	16,714
Total	**149,292**	152,512

3. Exceptional items

	2018 $000	2017 $000
Goodwill impairment (note 9)	**-**	17,414
Reorganisation costs		
- Impairment of pre-publication intangible assets (note 10)	**501**	4,868
- Impairment of backlists	**60**	-
- Write-off of pre-publication costs	**603**	-
- Staff severance costs	**1,039**	544
- Royalty advance provisions	**-**	409
- Inventory provisions	**-**	75
- Other reorganisation costs	**672**	-
- Board changes	**831**	-
Refinancing costs	**1,446**	597
Abortive corporate transaction costs	**-**	241
Aborted acquisition transaction costs	**-**	87
Total	**5,152**	**24,235**

4. Finance costs

	2018 **$000**	2017 $000
Interest expense on borrowings	**3,710**	2,941
Amortisation of debt issuance costs	**301**	384
Other interest	**370**	-
Total	**4,381**	3,325

5. Taxation

	2018 **$000**	2017 $000
Corporation tax		
Current year	**73**	1,552
Prior periods	**176**	804
Total current tax	**249**	2,356
Deferred tax		
Origination and reversal of temporary differences	**246**	(3,836)
Total tax expense/(credit)	**495**	(1,480)

Corporation tax on UK profits is calculated at 19% (2017: 19%), based on the UK standard rate of corporation tax of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rate prevailing in the respective jurisdictions. The table below explains the difference between the expected expense at the UK statutory rate of 19% and the total tax expense for the year.

	2018 **$000**	2017 $000
Loss before tax	**(57)**	(21,182)
Tax at the UK corporation tax rate of 19% (2017: 19%)	**(11)**	(4,025)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(101)**	-
Adjustment to prior years	**(85)**	804
Tax effect of changes in legislation	**-**	1,116
Tax effect of items that are not deductible in determining taxable profit	**606**	625
Other	**86**	-
Tax expense/(credit)	**495**	(1,480)
Effective tax rate for the year	**(868.4)%**	7.0%

THE QUARTO GROUP, INC.
Notes to the condensed financial statements

6. Earnings per share

	2018	2017
	$'000	$'000
From continuing operations		
Loss for the year	**(552)**	(19,702)
Amortisation of acquired intangibles (net of tax)	**701**	591
Exceptional items (net of tax)	**4,603**	22,852
Earnings for the purposes of adjusted earnings per share	**4,752**	3,741
From continuing and discontinued operations		
Loss attributable to owners of the parent	**(552)**	(18,513)
Amortisation of acquired intangibles (net of tax)	**701**	591
Exceptional items (net of tax)	**4,603**	22,852
Profit from discontinued operations	**-**	(1,189)
Earnings for the purposes of adjusted earnings per share	**4,752**	3,741
Number of shares	**Number**	Number
Weighted average number of ordinary shares	**20,444,450**	20,444,450
Effect of potentially dilutive share options	**256,655**	575,631
Diluted weighted average number of ordinary shares	**20,701,105**	21,020,081
Continuing operations		
Loss per share (cents)		
Basic	**(2.7)**	(96.4)
Diluted	**(2.7)**	(96.4)
Adjusted earnings per share (cents)		
Basic	**23.2**	18.3
Diluted	**23.0**	17.8
Discontinued operations		
Earnings per share (cents)	**-**	5.8
Basic	**-**	5.7
Diluted		
Loss per share (cents): from continuing and discontinued operations		
Basic	**(2.7)**	(90.6)
Diluted	**(2.7)**	(90.6)

7. Dividends

	2018	2017
	$000	$000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2017 of nil (2016: 9.87c/7.95p) per share	**-**	2,018
	-	2,018
Proposed final dividend for the year ended 31 December 2018 of nil (2017: nil) per share	**-**	-

The Quarto Group, Inc., as a US incorporated company, is required to collect US dividend withholding taxes on dividend distributions made to its non-US shareholders. The US dividend withholding tax is generally 30% of any dividends paid to Quarto's non-US shareholders, but this amount can potentially be reduced pursuant to an applicable income tax treaty between the US and the country of residence of the non-US shareholder.

For example, under the US/UK income tax treaty, the US dividend withholding tax rate can range from nil (applicable to certain UK resident pension trusts and tax exempt entities) to 15% (applicable to UK resident individual shareholders and certain UK corporate shareholders). For US shareholders, no US dividend withholding tax is generally applicable. It should be noted that certain documentation requirements must be met by all shareholders prior to the payment of any dividends to certify their status as a US or non-US shareholder, and, if a non-US shareholder to claim any applicable benefits under the US/ UK or other applicable income tax treaty. Each shareholder should consult their own tax adviser to determine whether and to what extent they may be entitled to claim a reduced amount of US dividend withholding taxes under a US income tax treaty.

8. Discontinued operations

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

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

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

These disposals were completed in line with the Group's strategy of disposing of non-core businesses. Proceeds from the disposals were used to manage the Group's net debt position as received. The results of the discontinued operations and the profit or loss on disposal were included in the consolidated income statement, under discontinued operations.

9. Goodwill

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

The cash generating units containing goodwill are as follows:

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

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

	Terminal Growth Rates		Discount Rates	
	2018	2017	2018	2017
United States of America	2%	2%	10.90%	11.72%
United Kingdom	2%	2%	10.38%	11.16%

Neither a 1% decrease in the terminal growth rate or a 1% increase in the discount rate would have led to an impairment.

Goodwill, specific to the US Publishing Group, was impaired by $17.1m at 31 December 2017 reducing its carrying value to $12.9m. The impairment principally arose due to the decrease in profitability experienced in 2017. One imprint in the UK was closed in 2017 and the previous carrying value of its goodwill of $0.3m was impaired to nil.

10. Intangible assets: Pre-publication costs

	2018	2017
	$'000	$'000
Cost		
At 1 January	193,492	181,791
Exchange differences	(3,353)	4,609
Additions	29,744	35,551
Reclassification	-	(2,113)
Disposals	(75,122)	(26,346)
At 31 December	**144,761**	193,492
Amortisation		
At 1 January	133,214	120,658
Exchange differences	(1,999)	1,822
Charge for the year	30,823	32,212
Amount written-off for the year	603	-
Impairment charge	501	4,868
Disposals	(75,122)	(26,346)
At 31 December	**88,020**	133,214
Carrying value:		
At 31 December	**56,741**	60,278

11. Alternative performance measures

The Group uses alternative performance measures to explain and judge its performance.

Adjusted operating profit excluding amortisation of acquired intangibles and exceptional items. The Directors consider this to be a useful measure of the Group operating performance as it shows the performance of the underlying business.

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

Free cashflow is the cash generated by operations less pre-publication investment and purchases of property, plant and equipment and software.

Backlist % refers to book titles that were published in previous calendar years and is a key measure of the performance of our intellectual property assets.

Intellectual property development spend refers to the amounts spent annually on the creation and publication of book titles against which we monitor subsequent sales (see note 10).

Inventory % of sales is the book value of inventory divided by total revenue for the year. Inventory turn is cost of sales divided by book value of inventory and measures the number of times inventory is sold through the business in a year.

11. Alternative performance measures (continued)

	2018 $000	2017 $000
Adjusted Operating Profit		
Operating profit/(loss) (continuing operations)	**4,303**	(17,882)
Add back:		
Amortisation of acquired intangibles	**850**	840
Exceptional items (note 3)	**5,152**	24,235
Adjusted operating profit	**10,305**	7,193
EBITDA		
Operating profit before amortisation of acquired intangibles and exceptional items	**10,305**	7,193
Net finance costs	**(4,360)**	(3,300)
Adjusted profit before tax (before amortisation of acquired intangible and exceptional items)	**5,945**	3,893
Net finance costs	**4,360**	3,300
Depreciation	**991**	1,132
Share based payments	**(177)**	222
EBITDA	**11,119**	8,547
Adjusted profit before tax before amortisation of acquired intangibles and exceptional items		
Adjusted operating profit before amortisation of acquired intangibles and exceptional items	**10,305**	7,193
Less: net finance costs	**(4,360)**	(3,300)
Adjusted profit before tax before amortisation of acquired intangibles and exceptional items	**5,945**	3,893
Free cashflow		
Net cash from operating activities	**38,372**	44,622
Investment in pre-publication costs	**(29,744)**	(35,551)
Purchases of property, plant and equipment	**(169)**	(1,063)
Purchases of software	**(77)**	(266)
Free cashflow	**8,382**	7,742
Net Debt		
Short term borrowings	**5,000**	5,000
Medium and long-term borrowings	**70,752**	76,907
Cash and cash equivalents	**(15,384)**	(17,946)
Net debt	**60,368**	63,961

12. Principal risks and uncertainties facing the Group

a**.** Economic conditions. The Group operates across many of the major world economies and its revenues and profits depend on the general state of the economy in those territories. A downturn caused by a global recession could reduce consumer discretionary spending, which might result in a reduction in profitability and operating cash flow. The UK's planned exit from the European Union and US-Sino relations contribute to uncertainty in the economic environment. The Group has adequate facilities with up to $74.5m in available debt facilities. In addition, in such an event, the Directors have the ability to take a number of mitigating actions, including the reduction of discretionary spend on pre-publication costs.

b. Currency risk. The Group's businesses operate in a number of currencies giving rise to a risk of exchange loss from fluctuating exchange rates. The Group has a natural hedge that mitigates against currency movements impacting our earnings in that one of our largest costs, which is print costs, are paid in US Dollars. Borrowings have been taken out in different currencies to mitigate risk of currency movements impacting our net assets.

c. Loss of intellectual property. A loss of stored IP through failure of storage medium or loss of back-ups would impact our ability to process reprints and revisions and could cause a loss of revenue. A cloud storage solution is integrated into production workflow for storage, back-up and recovery services for product files in development. Two archive data arrays that will be a replication of each other was introduced in the first half of 2018 - one in the UK and one in the US with each hosting a complete set of backlist archives.

d. Financial risk. The Group's relatively high level of debt makes the Group sensitive to interest rates and potential covenant breaches. Quarto shares financial information with its banks routinely and during 2018 negotiated a re-financing to extend the maturity of its bank facilities to 31 August 2020 which incorporated an immediate reduction in bank debt and a subsequent amortisation programme. This agreement was supported with unsecured and subordinated loans of US$13m from several large shareholders allowing bank facilities to be reduced and to provide additional working capital. Further mitigations to manage risk arose from a programme introduced in the second half of 2018 to reduce operating costs across the Group whilst we continue to build the balance sheet with a strong publishing programme.

e. Supply chain risk. The Group relies on a group of print suppliers, many of which are based in Southern China. There is a risk that an interruption in the availability of printing services in that area or the financial failure of one printer could disrupt the supply of new books to customers. Any increase in costs such as oil, port charges etc. would also impact shipping costs. Any disruption in supply of paper could lead to an increase in costs and production disruption. There is also a reputational risk of using non-environmentally friendly paper. The Group maintain relationships with printers in other parts of the world and is confident that printing could be carried out by an alternative range of printers if supply from China was interrupted or to mitigate shipping costs. We maintain close relations with our printers, reducing the risk of a lack of knowledge of any printer being in financial trouble.

f. Cyber security risk. Like many organisations, the Group is at risk from cyber-attack. This presents a potentially serious risk disruption to the production process and could have a significant impact on the probability of the business and the security of its IP assets. The Group uses enterprise level firewalls and IT controls to prevent attack as well as maintaining Cloud-based copies and offsite back-up of IP. Computerised files of the Group's books are also maintained by printers.