

Thursday August 27, 2009

## **THE QUARTO GROUP, INC – INTERIM ANNOUNCEMENT**

### **“satisfactory results”**

Quarto (QRT.L), the fully-listed international specialist book publisher based in London, announces its results for the six months to June 30, 2009. The first half of the year is traditionally much the weaker of the two.

### **Financial Highlights**

- For the half year to June 30, 2009, revenue decreased by 5% to £41.8m, adjusted\* EBITDA increased by 14% to £8.4m, adjusted\* operating profit reduced by 6% to £2.1m, and adjusted\* pre-tax profit declined by £0.1m to £0.3m.
- Publishing segment operating profit rose by 5% to £2.4m on revenue down 2% at £29.9m.
- Co-Edition segment operating profit was down £0.2m at £0.5m on revenue 12% lower at £11.8m.
- For the trailing 12 months to June 30, 2009, revenue was up 3% at £110.7m, adjusted\* EBITDA increased by 7% to £23.0m, adjusted\* operating profit was 1% higher at £11.2m, adjusted\* pre-tax profit was 1% lower at £7.5m, and adjusted\* diluted earnings per share increased by 7% to 26.6p.
- The Board has declared an unchanged interim dividend per share of 3.15p, in the light of the robust performance and annualised cash generation.

\* adjusted excludes amortization of non-current intangibles and exceptional items

### **Commercial Highlights**

- In Publishing, the US, which accounts for over 60% of segmental revenue, has been our most difficult and volatile market. Volumes were down and, although most of our retail customers have completed their inventory reduction programmes, to date, there has been no sustained improvement in orders.
- The UK book publishing businesses performed well and their revenue was up 23%.
- In Co-Edition Publishing, there was another strong performance at QED, our educational publishing unit, with revenue up 81%.

Laurence Orbach, Chairman and Chief Executive, commented “Given the retail environment in the United States, our largest market, and in other large markets, the results for the period, and for the trailing 12 months to June 30, 2009, are satisfactory.

Last year’s second half was particularly strong for our Co-Edition segment, which gives good visibility through its long forward order book. I’m happy to report that its prospects look generally encouraging for the balance of the year. The Publishing segment remains soft.

We have reviewed our expectations for the full year’s results. To date, trading has been very subdued in our major publishing US market and currency has moved against us since the budget was prepared. The budget was prepared at an exchange rate of £1.00: US\$1.46. If sterling remains at about its current level in relation to the US dollar, and trading does not improve substantially, the translation of the earnings of our overseas subsidiaries will fall below budgeted expectations; and the co-edition

segment, with the overwhelming part of its business in currency, will be affected in a similar manner. We expect the effect on earnings per share to be smaller than on profits, but not materially adrift of budget, because of the minority shareholdings in certain businesses.

Of course, it's one thing to identify the problems, and define the issues. The challenge, whilst retaining a low risk model, is to make and seize opportunities. I believe that we have as good a track record as most in demonstrating that we can do this. We shall certainly continue to focus on these."

### **Notes for Editors:**

Quarto is an international book publisher and producer with two principal strands of activity: its Publishing segment publishes books, under imprints owned by the Group, in the US, Australia and the UK; and its Co-Edition Publishing segment creates books that are licensed to other publishers for publication under their own imprints in many languages around the world.

For the year ended December 31, 2008, Quarto increased revenues by 13% to £112.7 m and adjusted EBITDA by 10% to £22.0 m. Adjusted pre-tax profit was marginally increased at £7.7 m – an eighth successive annual increase - and adjusted diluted earnings per share increased by 9% to 26.5p. Unchanged total dividends per share of 7.15p were paid.

## CHAIRMAN'S LETTER

Dear Shareholder:

The first half of the year, for Quarto, as for many seasonal businesses, is only rarely indicative of the dynamics of the business (and is one reason why, in all of our reporting, and internal management documents, we provide, and focus on, a trailing twelve month view). This year is no different. Quarto produces and publishes books for consumer audiences. Given the retail environment in the United States, our largest market, and in other large markets, the results for the period, and for the trailing twelve months to June 30, 2009, are satisfactory. The Board has declared an unchanged interim dividend of 3.15p per share, payable on October 27, 2009, to shareholders on the register at October 2, 2009.

We have reviewed our expectations for the full year's results. To date, trading has been very subdued in our major publishing US market and currency has moved against us since the budget was prepared. The budget was prepared at an exchange rate of £1.00: US\$1.46. If sterling remains at about its current level in relation to the US dollar, and trading does not improve substantially, the translation of the earnings of our overseas subsidiaries will fall below budgeted expectations; and the co-edition segment, with the overwhelming part of its business in currency, will be affected in a similar manner. We expect the effect on earnings per share to be smaller than on profits, but not materially adrift of budget, because of the minority shareholdings in certain businesses.

Last year's second half was particularly strong for our co-edition books business, which gives good visibility through its long forward order book. I'm happy to report that its prospects look generally encouraging for the balance of the year. The publishing segment remains soft. We continue to see US book publishing sales tracking slightly below the same period in 2008. As a result, while retailers are making their usual seasonal purchases, they are being very careful about overall inventory levels. The detailed commentary on the results is provided by our very able and long-serving CFO, Mick Mousley.

In these worrying times, I want to tell you, our shareholders, why I believe that we have to allow our current strategy, adopted by your board, to evolve with the times. Put simply, the strategy seeks to grow the business organically by launching new initiatives, and by making selective, judicious acquisitions, in areas where we can add benefits.

I want to approach this with two distinct themes. First, to the extent that there are problems we face in our mature markets, they are, on the whole, general to most consumer businesses. Much has been written about this elsewhere, and by people perhaps much more knowledgeable than I am but, as your chairman and chief executive, I am accountable for Quarto's strategy, and you are entitled to know why I have come to certain conclusions. Second, I will address issues specific to the book publishing industry, and more specifically to consumer books, which is Quarto's primary activity, because there's been a great deal of speculation about whether book publishing, indeed, even has a future.

There's a lot of hand wringing going on. Indisputably, we're experiencing a Great Recession, verities that we have taken for granted are being challenged. And publishing, in all its forms, is in the throes of its own digital revolution; but the world is not ending, even the world as we know it.

At the risk of telling you what you already know, book publishing is a very mature industry, and has had a significant presence, for a rather small group of people, for

over half a millennium. Book buying and book reading have always been, and remain, minority activities. Book publishing has had its own, dedicated retail outlet – the bookstore – for several hundred years. Unlike most other media, our end product - a book - has to recover its cost without the subsidy of advertising revenue. In other words, book publishing has long survived by recouping the full economic cost of the product from the purchaser. I make this point only because, were bookstores to vanish – something I don't expect to happen – the extra costs of marketing books would have enormous implications for the medium.

Well before supply side economic theory took hold, commercial opportunity and demand changed the face of the retail landscape. The first chains of retail stores appeared well over a century ago, and ranged from station book and newsstands to grocery stores. Department stores – the grand emporia of commerce – have been around for over 150 years and, indeed, the Great Exhibition of 1851, in London, was a vital step in exhibiting the cornucopia of offerings for consumers.

Expanded consumer consumption succeeded, and it succeeded well, not through coercion (as some might like to complain), but because this excited and incentivized people, gradually raising expectations, and holding out the promise of higher living standards. As commerce grew, so did consumption. New skills of sales and marketing, product design, retail design, and so on, emerged to help sell the increasing variety of products, and provided vast employment prospects. Through good times and bad, these trends persisted. For many observers, this was all a bad thing: resources were being depleted, people were becoming too materialistic. But, to date, people have indicated with their feet and wallets the path they wish to take.

And here we are, poised at the end of a lengthy Age of Excess. Some of us feel guilty about our own, apparently limitless, appetites, wondering whether the end is nigh. It isn't and, in due course, we will resume the pathway to excess, to which all appetites seem to gravitate. Certainly, in most advanced countries, we are suffering dreadful hangovers. There seems to be too much retail space, too many choices in every conceivable consumer category. We live in larger and more pretentious homes, our gorgeous kitchens scarcely sullied by use, and we travel around in automobiles, and use computers, whose powers we scarcely put to the test. Over a century ago, Thorstein Veblen, observing similar behavior, scorned "conspicuous consumption", a term he coined. Are we simply experiencing Gaia's revenge? Of course it is not. Painful as the hangover is, this is part of the business cycle, and particularly hurtful this time around, as the excesses were prolonged and were, in many instances, so abusive and egregious.

Major economies are now feeling their way to a new equilibrium. If there are "green shoots", in the sense of increased business, they are not yet deeply rooted. Some stores doing well are simply catering to more consumers who are trading down. More houses are being sold now, in the United States, but that reflects the huge general drop in prices. There's definitely a problem at retail, and this needs to be examined. Is it simply that bricks-and-mortar retailers cannot meet the challenge from Internet-based retailers?

In my view, that's only a part of the problem. The bigger part is that, for some two decades, the retailing prize went to those who could build out their estates quickly nationwide; think Starbucks, Home Depot, Borders, Tesco and so on, offering their customers unprecedented access to products. Attractive as these new retailing concepts were, and maybe are still, to the consumer and the manufacturer, one by-product has been the rush by suppliers to fill the stores with more and more products. This is a development akin to the opening of a new highway that, while speeding up traffic, invites more traffic to use it. The number of new book titles produced has grown

exponentially, and is not sustainable without the book superstores. Why? Because the only economical way to bring so many products to the public is by putting them in front of the targeted audience. This dilemma faces many producers, because current experience suggests that the big box specialty superstores could become an endangered species.

I accept that the less well conceived and managed superstores will not survive the current economic downturn, but the future is not all bleak. I remember, as I am sure some shareholders will, that the emergence of the specialty superstores, over two decades ago, threatened the survival of department stores. Before the current downturn, however, department stores had largely reinvented themselves in response to this challenge, and many were thriving. My “green shoots” then, are not that retail sales of books are increasing, but rather the early indications that retailers understand that reintroducing basic retail skills has to be the core strategy, not simply a diet of almost perpetual “sales”. I’ve noticed this, in the United States, at one of the world’s largest retailers, Home Depot, the home improvement chain, and Michaels, the 1,000-store arts and crafts chain.

Capturing real estate may have been the making of careers but, as the old adage goes, “retail is detail”. To prosper, retailers have to offer the consumer distinctive, and better, shopping experiences for their defined audiences. WalMart, the world’s largest retailer, and currently thriving, noted this when tweaking its own strategy a couple of years ago. Starbucks was among the first retailers to announce this forcefully and publicly, and to implement change. Now, in the United States, the enormous home improvement chains have abandoned headlong expansion of their real estate to focus on what they are offering, which is more simply the provision of goods.

This is also the direction in most of the specialty retail chains and, in my view, is a positive and necessary adjustment. For far too long, competitive pressures invited superstore operators to overextend their real estate. There is bound to be some harsh adjustment of inventories to meet consumer demand, rather than simply to fill stores.

The Internet, and the digital revolution have, of course, caused much angst in the book community. The Amazon phenomenon has been absorbed, and is now generally regarded as a boon to publishers. Although some of publishers’ earlier concerns have resurfaced during the slowdown, as Amazon, in the absence of effective competition, appears tempted to throw its weight around. Accompanying this is the digitization of books and, here, publishers look over their shoulders to the experience of the music industry, and fear annihilation. But, the analogy doesn’t hold, even if there is justification in believing that digitized books are going to be a new feature of the book publishing market. They may become a large market, or not. Quarto is active, but not pioneering, in this area. Two things stand out, for me: (i) book retailing is beginning to regain focus on what it’s about; and (ii) the social experience of shopping is not going to disappear.

Sales of e-books are certainly growing, but I remain doubtful that the flurry of activity is heralding the slow demise of the printed book. Rather, if the electronic reader is to develop into a new medium, I suspect that the nature of what people will want to see on these readers will have to evolve to take fuller advantage of their capabilities. In printed form, books are able to amuse, educate, entertain, inspire and instruct, a dizzying array of possibilities and promise. In digital delivery, I believe that readers’ expectations will, sooner or later, have to be catered to differently. I suspect, also, that Amazon’s ambition – as market leader in the sale of e-books – to ape the successful initial formula of iTunes, imposing a one-price policy, will not survive too long, either. A decade or so ago, some thought that CD-Roms might be ushering in a new medium; it turned out to be an interim evolution and, from the users’ point of view, clunky and

unsatisfactory. But a generation that has been brought up with computers will, no doubt, be a welcome audience when publishers devise appropriate new products.

What we are experiencing, in this downturn – and it may be, for a prolonged period of time – is mostly a knee jerk reaction to economic realities. Manufacturers and retailers have reduced marketing spending, most obviously in the advertising area. Consumers have sat on their wallets, and are saving, if they can afford to. Newspapers and magazines have been hit hard by the cutbacks in advertising spending, and their circulations have fallen as web access has given thrifty consumers an alternative. I am convinced that this combination of reduced advertising spend, coupled with lower newspaper and magazine circulations, have succeeded, for the moment, in reducing the acquisitive appetites of many consumers. If this is part of what is happening – and it seems so obvious that it may be, unless you discount, altogether, the effectiveness of advertising - then we are likely to return, in the fullness of time, to a new equilibrium.

When that happens, bookstores will remain crucial to the vitality of book publishing because, like it or not, there is no evidence that there are sufficient, and inexpensive, alternatives for marketing books other than putting them in front of the target audience in dedicated book and specialty outlets. Only very rarely, can publishers afford to spend more than a small amount marketing individual titles, simply because the typical revenue per title is so small. Unless one believes that, in the future, only a few hundred new titles will be published each year, there's a strong likelihood that the bookstore will survive.

On the question of social behaviour, let's also be mindful of the part this plays in the music industry. Bands are making world tours, and reaping huge revenues from social participation. In books, albeit on a much smaller scale, in recent years we've witnessed the growth of reading clubs, and more exposure to authors, whether at bookstore events, such as signings, or readings, or through other media. On the flip side, there's some evidence now emerging that young people have about reached the limit of the time they are prepared to spend on computer-based social networking sites, and that the sites are growing faster now with the older crowd than with the target audience. In revenue terms, that's probably not a positive sign for the social networking industry.

Because Quarto produces, and publishes, mostly non-fiction special-interest titles, we've been particularly squeezed in certain vulnerable categories. Having reviewed them, we're reasonably comfortable that the categories will revive and, to that end, we expect that our greater experience, and success, at executing well and efficiently, will continue to stand Quarto in good stead. We don't expect the home improvement, or the automotive, categories to rebound as soon as the recession is declared to be over but, steadily, they will once again be vibrant markets.

One, not unexpected, fallout from the recession, is that non-book firms, even from other publishing media, and private equity owners, are seeing the limits of what they can do to improve the financial efficiencies of their book publishing purchases. Book publishing remains a large-scale cottage industry, requiring talented human resources much more than clever financial engineering. The recent debt-for-equity swaps at Reader's Digest, and Houghton Mifflin Harcourt, are evidence of the strain. I believe that more can be expected and that Quarto, and other industry players, will help to redraw the landscape.

Of course, it's one thing to identify the problems, and define the issues. The challenge is to make and seize opportunities. I believe that we have as good a track record as most in demonstrating that we can do this. We shall certainly continue to focus on these.

Sincerely,

Laurence F Orbach  
Chairman and Chief Executive

London, August 27, 2009

## FINANCIAL REVIEW

### Business Performance

	Reported Results		
	2009 £000	2008 £000	Growth %
<b>Six months to June 30</b>			
Revenue	<b>41,766</b>	43,836	(5)
Adjusted EBITDA	<b>8,405</b>	7,379	14
Adjusted operating profit	<b>2,109</b>	2,254	(6)
Adjusted profit before taxation	<b>330</b>	452	(27)
Adjusted diluted earnings per share	<b>0.7p</b>	0.6p	17
Dividend per share	<b>3.15p</b>	3.15p	-
<b>Trailing twelve months to June 30</b>			
Revenue	<b>110,673</b>	105,876	5
Adjusted EBITDA	<b>22,994</b>	21,471	7
Adjusted operating profit	<b>11,205</b>	11,114	1
Adjusted profit before taxation	<b>7,542</b>	7,582	(1)
Adjusted diluted earnings per share	<b>26.6p</b>	24.8p	7
Dividends per share	<b>7.15p</b>	7.15p	-
<b>Statutory results to June 30</b>			
Operating profit (loss)	<b>403</b>	(1,272)	
Loss before tax	<b>(1,376)</b>	(3,074)	
Basic loss per share	<b>(5.1)p</b>	(13.4)p	

Adjusted results are stated before amortization of non-current intangibles and exceptional items. A reconciliation to the statutory results appears in note 9. The commentary below focuses on the adjusted performance.

### Group

Overall, we are satisfied with the trading performance during what is, traditionally, our seasonally quieter half of the year. EBITDA rose by 14% to £8.4m (2008:£7.4m) on revenue which was down 5% at £41.8m (2008:£43.8m). Operating profit was down 6% at £2.1m (2008:£2.3m) and profit before tax was down £122,000 at £330,000 (2008:£452,000). Diluted earnings per share rose by 17% to 0.7p (2008:0.6p) due to a lower charge for minority interests.

EBITDA for the trailing twelve months to June 30, 2009 rose by 7% to £23.0m (2008:£21.5m) on revenues that were up 3% at £110.7m (2008:£107.4m). Operating profit at £11.2m (2008:£11.1m) and adjusted profit before tax at £7.5m (2008:£7.6m) were essentially flat due to a higher charge for the amortization of pre-publication costs.

The majority of our debt is denominated in US dollars. At June 30, 2009, our net debt was \$98.2m (£59.9m), lower by \$2.9m than June 30, 2008 when it was \$101.1m (£50.8m). The Group is well funded, with the total borrowing facilities at June 30, 2009, of \$173m (£105m). Committed facilities total \$165m (£101m) and comprise a \$115m (£70m) syndicated facility which extends to June 12, 2012, and a \$50m (£31m) private placement facility, repayment of which commences on December 7, 2012.

### **Co-edition Publishing segment**

Revenues for the segment were down 12% at £11.8m (2008:£13.4m) and operating profit was down £217,000 at £493,000 (2008:£710,000). Last year's revenue was boosted by a heavier than usual new title programme and the slippage of some deliveries, that were scheduled to occur at the end of 2007, into the first half of 2008. Excluding QED, our new title output in the first half of the current year was 31 (out of our total new title programme for the year of 137) compared to 47 titles (out of a total programme of 139 titles) last year.

At the individual operating unit level, there was another strong performance at QED, our educational publishing unit, which was launched in 2003. Revenue was up 81% and we expect a strong performance from this unit for the year as a whole. In contrast, revenue at Quintessence, the publisher of our best selling *1001....series*, was down 73%, due to timing of new title releases and fewer English language reprints.

This segment includes Regent, our Hong Kong-based print broker. Its reported revenue was down 26%, reflecting the continued caution of its publishing customers, the great majority of which are in the US. The US is a core market for our coedition businesses and Regent is not alone in feeling the effect of the generally cautious mindset of the publishers operating in this market

### **Publishing segment**

Revenue for this segment was down 2% at £29.9m (2008:£30.4m) and operating profit rose by 5% to £2.4m (2008:£2.3m). Our UK book publishing businesses performed well and their revenue was up 23%. The UK has been our most robust market and total revenue into this market, including those of our US book publishing businesses, was up 18%.

The US, which accounts for over 60% of our publishing segment revenue, has been our most difficult and volatile market. Volumes are down and, although most of our retail customers have completed their inventory reduction programmes, to date, there has been no sustained improvement in orders. The US remains pivotal to our performance for the full year. The warehouse and back office consolidation is now complete. As expected, there have been some teething problems, but these are being ironed out and we are seeing the cost savings being delivered, as we expected.

Our display marketing businesses have had a slower start to the year. Encouraged by us, Lifetime's Master Franchisees, in Australia, have been right-sizing their inventory levels and, although normal ordering levels have resumed, we expect to see a small drop in revenue this year. Premier, based in New Zealand, has suffered from a shortage of distributors. This has now been rectified and we expect an improvement in the second half of the year.

Finally, revenue of Image Factory, our award winning UK point of sale marketing services business, was down 19% as a result of two of our most significant retail customers reducing their promotional spending.

### **Dividend**

The Board has declared an unchanged interim dividend of 3.15p per share in the light of our robust performance and annualised cash generation.

Michael J Mousley  
Chief Financial Officer  
London, August 27, 2009

**THE QUARTO GROUP, INC**  
**CONDENSED CONSOLIDATED INCOME STATEMENT**  
for the six months to June 30, 2009

	Six months ended June 30, 2009 £'000	Six months ended June 30, 2008 £'000	Year ended December 31, 2008 £'000
Revenue	<u>41,766</u>	<u>43,836</u>	<u>112,743</u>
Operating profit before amortization of intangibles and non-recurring items	2,109	2,254	11,350
Amortization of non-current intangible assets	(1,125)	(869)	(1,830)
Exceptional items	<u>(581)</u>	<u>(2,657)</u>	<u>(4,274)</u>
<b>Operating profit (loss)</b>	<b>403</b>	<b>(1,272)</b>	<b>5,246</b>
Finance costs	(1,980)	(1,974)	(4,107)
Financial income	<u>201</u>	<u>172</u>	<u>421</u>
<b>(Loss) profit before taxation</b>	<b>(1,376)</b>	<b>(3,074)</b>	<b>1,560</b>
Taxation	<u>485</u>	<u>651</u>	<u>(1,216)</u>
<b>(Loss) profit for period</b>	<b>(891)</b>	<b>(2,423)</b>	<b>344</b>
<b>(Loss) profit for the period attributable to:</b>			
Minority interests	108	219	461
Equity holders of the parent company	<u>(999)</u>	<u>(2,642)</u>	<u>(117)</u>
	<u>(891)</u>	<u>(2,423)</u>	<u>344</u>
Loss per share	(5.1)p	(13.4)p	(0.6)p
Diluted loss per share	(5.1)p	(13.4)p	(0.6)p

***The following information is presented as additional information and does not form part of the Income Statement :***

Adjusted earnings per share	0.7p	0.6p	26.9p
Adjusted diluted earnings per share	0.7p	0.6p	26.5p

**THE QUARTO GROUP, INC**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
for the six months to June 30, 2009

	Six months to June 30, 2009 £'000	Six months to June 30, 2008 £'000	Year to December 31, 2008 £'000
<b>(Loss) profit for the period</b>	<b>(891)</b>	<b>(2,423)</b>	<b>344</b>
<b>Other comprehensive income</b>			
Foreign exchange translation differences	<b>(1,248)</b>	328	3,562
Cash flow hedge: change in fair value	<b>1,356</b>	(129)	<b>(2,801)</b>
Net income (expense) recognised directly in equity	<b>108</b>	199	761
Total comprehensive income and expense for the period	<b>(783)</b>	<b>(2,224)</b>	<b>1,105</b>
<b>Attributable to:</b>			
Equity holders of parent	<b>(413)</b>	(2,491)	(590)
Minority interests	<b>(370)</b>	267	1,695
	<b>(783)</b>	<b>(2,224)</b>	<b>1,105</b>

**THE QUARTO GROUP, INC**  
**CONSOLIDATED BALANCE SHEET**  
at June 30, 2009

	June 30, 2009 £'000	June 30, 2008 £'000	<i>December 31, 2008 £'000</i>
<b>Non-current assets</b>			
Goodwill	21,828	18,247	23,380
Other intangible assets	1,868	3,254	3,242
Property, plant and equipment	7,055	7,412	7,564
Deferred tax asset	893	980	1,172
Total non-current assets	<u>31,644</u>	<u>29,893</u>	<u>35,358</u>
<b>Current assets</b>			
Intangible assets: Pre-publication costs	32,854	27,202	32,222
Inventories	17,405	15,820	17,821
Derivative financial instruments	-	-	741
Trade and other receivables	24,338	24,270	38,484
Cash and cash equivalents	15,328	11,488	28,180
Total current assets	<u>89,925</u>	<u>78,780</u>	<u>117,448</u>
<b>Total assets</b>	<u>121,569</u>	<u>108,673</u>	<u>152,806</u>
<b>Current liabilities</b>			
Short-term borrowings	(2,513)	(3,812)	(333)
Trade and other payables	(20,946)	(22,728)	(42,492)
Tax payable	(469)	(485)	(765)
	<u>(23,928)</u>	<u>(27,025)</u>	<u>(43,590)</u>
<b>Non current liabilities</b>			
Medium and long-term borrowings	(72,704)	(58,487)	(80,234)
Deferred tax liabilities	(3,208)	(3,479)	(3,937)
Derivative financial instruments	(2,555)	(1,239)	(3,911)
Other payables	(35)	(29)	(20)
<b>Total non-current liabilities</b>	<u>(78,502)</u>	<u>(63,234)</u>	<u>(88,102)</u>
<b>Total liabilities</b>	<u>(102,430)</u>	<u>(90,259)</u>	<u>(131,692)</u>
<b>Net assets</b>	<u>19,139</u>	<u>18,414</u>	<u>21,114</u>
<b>Equity</b>			
Share capital	1,162	1,162	1,162
Paid in surplus	21,768	21,768	21,768
Retained deficit and other reserves	(8,221)	(8,303)	(7,021)
<b>Total equity attributable to equity holders of the parent</b>	<u>14,709</u>	<u>14,627</u>	<u>15,909</u>
<b>Minority interests</b>	<u>4,430</u>	<u>3,787</u>	<u>5,205</u>
<b>Total equity</b>	<u>19,139</u>	<u>18,414</u>	<u>21,114</u>

**THE QUARTO GROUP, INC**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**for the six months to June 30, 2009**

	Share capital £000	Paid in surplus £000	Hedging reserve £000	Translation reserve £000	Treasury shares £000	Retained deficit £000	Equity attributable to equity holders of the parent £000	Minority interest £000	Total £000
<b>At January 1, 2008</b>	<b>1,162</b>	<b>21,768</b>	<b>(1,110)</b>	<b>(829)</b>	<b>(389)</b>	<b>(2,697)</b>	<b>17,905</b>	<b>3,960</b>	<b>21,865</b>
Total recognised income and expense	-	-	(129)	280	-	(2,642)	(2,491)	267	(2,224)
Dividends to shareholders	-	-	-	-	-	(787)	(787)	-	(787)
Dividends paid to minority interest	-	-	-	-	-	-	-	(239)	(239)
Purchase of minority interest	-	-	-	-	-	-	-	(201)	(201)
<b>At June 30, 2008</b>	<b>1,162</b>	<b>21,768</b>	<b>(1,239)</b>	<b>(549)</b>	<b>(389)</b>	<b>(6,126)</b>	<b>14,627</b>	<b>3,787</b>	<b>18,414</b>
Total recognised income and expense	-	-	(2,672)	2,048	-	2,525	1,901	1,428	3,329
Share options exercised by employees	-	-	-	-	1	-	1	-	1
Dividends to shareholders	-	-	-	-	-	(620)	(620)	-	(620)
Dividends paid to minority interest	-	-	-	-	-	-	-	(9)	(9)
Purchase of minority interest	-	-	-	-	-	-	-	(1)	(1)
<b>At December 31, 2008</b>	<b>1,162</b>	<b>21,768</b>	<b>(3,911)</b>	<b>1,499</b>	<b>(388)</b>	<b>(4,221)</b>	<b>15,909</b>	<b>5,205</b>	<b>21,114</b>
Total recognised income and expense	-	-	1,356	(770)	-	(999)	(413)	(370)	(783)
Dividends to shareholders	-	-	-	-	-	(787)	(787)	-	(787)
Dividends paid to minority interest	-	-	-	-	-	-	-	(189)	(189)
Purchase of minority interest	-	-	-	-	-	-	-	(216)	(216)
<b>At June 30, 2009</b>	<b>1,162</b>	<b>21,768</b>	<b>(2,555)</b>	<b>729</b>	<b>(388)</b>	<b>(6,007)</b>	<b>14,709</b>	<b>4,430</b>	<b>19,139</b>

**THE QUARTO GROUP, INC**  
**CONDENSED CASH FLOW STATEMENT**  
**for the six months to June 30, 2009**

	Six months to June 30, 2009 £'000	Six months to June 30, 2008 £'000	Year to December 31, 2008 £'000
<b>(Loss) profit for the period</b>	(891)	(2,423)	344
Tax (credit) expense	(485)	(651)	1,216
Net finance costs	1,779	1,802	3,686
Depreciation	554	550	1,089
Amounts written off goodwill and non-current intangibles	-	309	309
Amortization of non-current intangible assets	1,125	869	1,830
Amortization of pre-publication costs	5,742	4,575	9,607
Movement in fair value of derivatives	741	-	(741)
Loss (profit) on sale of fixed assets	-	49	(9)
Changes in working capital	(7,533)	(1,464)	6,432
Corporation tax	(575)	(630)	(1,093)
<b>Net cash from operating activities</b>	<b>457</b>	<b>2,986</b>	<b>22,670</b>
Purchase of tangible fixed assets (net)	(150)	(566)	(855)
Investment in pre-publication costs	(7,926)	(6,565)	(13,071)
Purchase of subsidiaries	(515)	(293)	(293)
Interest received	201	172	421
<b>Net cash used in investing activities</b>	<b>(8,390)</b>	<b>(7,252)</b>	<b>(13,798)</b>
Dividends paid	(787)	(787)	(1,407)
Interest paid	(2,395)	(2,174)	(4,043)
Issue of shares	-	-	1
Dividends paid to minority shareholders	(189)	(239)	(248)
Net (loans repaid) new loans	(54)	26	4,000
<b>Net cash flows from financing activities</b>	<b>(3,425)</b>	<b>(3,174)</b>	<b>(1,697)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(11,358)</b>	<b>(7,440)</b>	<b>7,175</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>28,180</b>	<b>16,109</b>	<b>16,109</b>
<b>Foreign currency exchange differences on cash and cash equivalents</b>	<b>(1,494)</b>	<b>226</b>	<b>4,896</b>
<b>Cash and cash equivalents at end of period</b>	<b>15,328</b>	<b>8,895</b>	<b>28,180</b>

**THE QUARTO GROUP, INC**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**for the six months to June 30, 2009**

**1. Introduction**

These interim consolidated financial statements are for the half year to June 30, 2009. They were approved by the Board on August 27, 2009 and are unaudited, as is the case with the comparative figures to June 30, 2008. These interim financial results do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year to December 31, 2008, prepared in accordance with International Financial Reporting Standards as adopted by the EU, which carried an unqualified Auditors' Report, have been filed with the Registrar of Companies and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

**2. Basis of preparation**

These interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, "Interim Financial Reporting", as adopted by the European Union.

The adoption of IAS 1 (revised) has required the reconciliation of movements in equity, previously disclosed in note 21 in the financial statements for the year ended December 31, 2008, to be presented as a primary statement entitled 'Condensed Consolidated Statement of Changes in Equity'. In addition, the Consolidated Statement of Recognised Income and Expense has been replaced with the Consolidated Statement of Comprehensive Income.

**3. Accounting policies**

The accounting policies adopted are consistent with those of the annual financial statements for the year ended December 31, 2008, as described in those financial statements, with the exception of the following new standards, which have become mandatory for the first time for the year ending December 31, 2009:

IFRS 8 "Operating Segments", Amendment to IAS 23 "Borrowing costs" and Amendment to IFRS 2 "Share based payments" are effective for annual periods beginning on or after January 1, 2009.

#### 4. Segmental analysis

	Co-edition Publishing			Publishing			Total		
	Six months ended June 30, 2009 £000	Six months ended June 30, 2008 £000	Year ended December 31, 2008 £000	Six months ended June 30, 2009 £000	Six months ended June 30, 2008 £000	Year ended December 31, 2008 £000	Six months ended June 30, 2009 £000	Six months ended June 30, 2008 £000	Year ended December 31, 2008 £000
<b>Revenue</b>									
Total revenue	12,537	14,348	44,861	29,928	30,423	70,033	42,465	44,771	114,894
Inter-segment revenue	(693)	(933)	(2,148)	(6)	(2)	(3)	(699)	(935)	(2,151)
External revenue	11,844	13,415	42,713	29,922	30,421	70,030	41,766	43,836	112,743
<b>Segment result</b>									
Before amortization of non-current intangibles and exceptional items	493	710	6,397	2,409	2,294	6,259	2,902	3,004	12,656
Amortization of non-current intangibles	(6)	(6)	(12)	(1,119)	(863)	(1,818)	(1,125)	(869)	(1,830)
Exceptional items	(128)	-	-	(453)	(2,657)	(4,274)	(581)	(2,657)	(4,274)
Segment result	359	704	6,385	837	(1,226)	167	1,196	(522)	6,552
Unallocated corporate expenses							(793)	(750)	(1,306)
Profit from operations							403	(1,272)	5,246
Financial income							201	172	421
Finance costs							(1,980)	(1,974)	(4,107)
Profit before tax							(1,376)	(3,074)	1,560
Tax							485	651	(1,216)
Profit after tax							(891)	(2,423)	344

#### 5. Exceptional items

Exceptional items primarily relate to charges associated with the consolidation of the US warehouse and back office functions and other restructuring costs (June 30, 2008: primarily charges associated with the discontinuance of the art print publishing businesses and December 31, 2008: primarily charges associated with the discontinuance of the art print publishing businesses and the consolidation of the US warehouse and back office functions).

#### 6. Taxation

Taxation for the six months to June 30, 2009 is based on the estimated effective tax rate for the year. The rate that has been used is 23% (June 30, 2008: 27% and December 31, 2008: 25%).

## 7. Earnings per share

The calculation of earnings per share is based on 19,679,229 shares (the weighted average number of issued shares, excluding those held as treasury stock) (June 30, 2008: 19,677,229 shares; December 31, 2008: 19,678,237) and losses of £999,000 (June 30, 2008: £2,642,000; December 31, 2008: £117,000). The calculation of adjusted earnings per share is based on earnings of £140,000 (June 30, 2008: £111,000; December 31, 2008: £5,290,000), calculated as follows:

	<b>June 30, 2009 £'000</b>	<b>June 30, 2008 £'000</b>	<b>December 31, 2008 £'000</b>
(Loss) earnings after minority interests	(999)	(2,642)	(117)
Amortization of non-current intangible assets *	739	591	1,210
Restructuring costs*	400	2,162	4,197
	<u>140</u>	<u>111</u>	<u>5,290</u>
Adjusted earnings per share	<u>0.7p</u>	<u>0.6p</u>	<u>26.9p</u>

\* net of tax

There is no dilution in earnings per share or adjusted earnings per share for the six months to June 30, 2009 and June 30, 2008. Diluted earnings per share for the year to December 31, 2008 is based on losses of £117,000 and 19,678,237 shares. Diluted adjusted earnings per share for the year to December 31, 2008 is calculated below based on earnings of £5,306,000 and 20,021,004 shares.

	<b>December 31, 2008 £'000</b>
Adjusted earnings as above	5,290
Interest on convertible note, net of tax	16
	<u>5,306</u>
Adjusted diluted earnings per share	<u>26.5p</u>

## 8. Dividend

The interim dividend of 3.15p per share is payable on October 27, 2009, to shareholders on the register on October 2, 2009, with an ex-dividend date of September 30, 2009.

## 9. Reconciliation of figures included in the Announcement

	June 30, 2009	June 30, 2008	<i>December 31,</i> <i>2008</i>
	£'000	£'000	£'000
Adjusted operating profit	2,109	2,254	11,350
Amortization of non-current intangible assets	(1,125)	(869)	(1,830)
Non-recurring items	(581)	(2,657)	(4,274)
Operating profit (loss)	<u>403</u>	<u>(1,272)</u>	<u>5,246</u>
Adjusted EBITDA			
Adjusted operating profit	2,109	2,254	11,350
Depreciation	554	550	1,089
Amortization of pre-publication costs	5,742	4,575	9,607
Adjusted EBITDA	<u>8,405</u>	<u>7,379</u>	<u>22,046</u>
Adjusted profit before taxation	330	452	7,664
Amortization of non-current intangible assets	(1,125)	(869)	(1,830)
Non-recurring items	(581)	(2,657)	(4,274)
(Loss) profit before taxation	<u>(1,376)</u>	<u>(3,074)</u>	<u>1,560</u>

## 10. Net debt

	June 30, 2009	June 30, 2008	<i>December</i> <i>31,</i> <i>2008</i>
	£'000	£'000	£'000
Cash and cash equivalents	15,328	11,488	28,180
Short term borrowings	(2,513)	(3,812)	(333)
Medium and long term borrowings	(72,704)	(58,487)	(80,234)
Net debt	<u>(59,889)</u>	<u>(50,811)</u>	<u>(52,387)</u>

The majority of the borrowings are in US\$. At June 30, 2009, net debt was US\$98.2m, compared to US\$101.1m at June 30, 2008. Total borrowing facilities at June 30, 2009, were \$173m (£105m). Committed facilities total \$165m (£101m) and comprise a \$115m (£70m) syndicated facility which extends to June 12, 2012, and a \$50m (£31m) private placement facility, repayment of which commences on December 7, 2012.

## 11. Risks and uncertainties

The principal risks and uncertainties affecting the business activities of the Group remain those detailed in the Annual Report for 31 December 2008, a copy of which is available on the Group website at [www.quarto.com](http://www.quarto.com). The Board considers that these remain a current reflection of the risk and uncertainties facing the business for the second half of the financial year.

## **12. Directors' Responsibility Statement in respect of the Condensed Interim Financial Statements**

The directors confirm that this condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union, and that the interim management report includes a fair review of the information required by Disclosure and Transparency Rules of the Financial Services Authority, paragraphs DTR 4.2.7 and DTR 4.2.8.

The directors of The Quarto Group, Inc. are listed in The Quarto Group, Inc. Annual Report for 31 December, 2008. A list of current directors is maintained on the Quarto website: [www.quarto.com](http://www.quarto.com).

**THE QUARTO GROUP, INC**  
**MANAGEMENT'S PRO FORMA ABBREVIATED INCOME STATEMENT**  
**for the twelve months to June 30, 2009**

	12 months to June 30, 2009 £'000	12 months to June 30, 2008 £'000
<b>Revenue</b>	<b>110,673</b>	107,378
Gross profit	<b>38,390</b>	38,291
Overheads	<b>(27,185)</b>	(27,177)
<b>Adjusted operating profit</b>	<b>11,205</b>	11,114
Interest	<b>(3,663)</b>	(3,532)
<b>Profit before tax</b>	<b>7,542</b>	7,582
<b>Adjusted EBITDA</b>	<b>22,994</b>	21,471

Note:

The above figures do not include amortization of non-current intangible assets or exceptional items.