

Quarto announces “another good result”

The Quarto Group, Inc (London: QRT), the London-based international book publisher, reported revenues of £112.7 million for 2008, an increase of 13% over 2007, and adjusted earnings per share of 26.5p, an increase of 9%. Adjusted pre-tax profit, which increased marginally at £7.7 million, represented an eighth successive annual increase.

- Record operating result from International Co-edition Book Publishing segment, with revenues up 11% to £42.7 million, and adjusted operating profit advancing by 23% to £6.4 million. Book Publishing segment revenue increased by 11% to £70.0 million, with adjusted operating profit lower by 3%, at £6.3 million.
- Retail environment deteriorated sharply in last quarter of 2008, particularly in English-speaking markets.
- Net debt, denominated in US dollars, down 11% at \$76.5 million. Borrowing facilities, committed to 2012 and beyond, total \$165 million.
- Unchanged final dividend of 4.0p proposed by board, making an unchanged 7.15p for the year.

Financial Highlights

Year to December 31		2008	2007	Increase
Revenue (£m)		£112.7	£100.1	+13%
Adjusted EBITDA (£m)		22.0	20.0	+10%
Operating profit:	<i>adjusted</i> (£m)	11.4	10.6	+7%
	reported (£m)	5.2	9.6	-46%
Pre-tax profit:	<i>adjusted</i> (£m)	7.7	7.7	-%
	reported (£m)	1.6	6.7	-76%
Diluted earnings per share:	<i>adjusted</i> (p)	26.5p	24.4p	+9%
	reported (p)	(0.6)p	21.1p	-103%
Dividends per share (p)		7.15p	7.15p	unchanged
Net debt (in US\$m)		\$76.5	\$85.9	-11%

Adjusted excludes amortization of non-current intangibles and non-recurring items

Laurence Orbach, Chairman and CEO, commented: “Trading became progressively more difficult during 2008, so I am very pleased to report that your Company achieved another good result. One benefit we have, as an industry, is that we have faced difficult times for several decades. We may not be immune from the gale force winds, but we are, perhaps, more inured than many others to navigating choppy waters. Our business models have been tested over long periods, and have been robust in tough economic times, but there is no guarantee that this time around they will prove themselves again. We can only interrogate them, and trust to our disciplines. I am confident that whatever happens, the professionalism and experience of our staff will help us through 2009.

Our model is very risk-averse and modest, and we expect it to perform robustly in the current economic circumstances.”

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.

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CHAIRMAN'S STATEMENT

Trading became progressively more difficult during 2008, so I am very pleased to be able to report that your company achieved another good result. The favourable trading outcome was the result of hard work on the part of staff, smart and experienced management giving solid direction and attending to detail and, inevitably, a certain amount of luck.

Quarto is a global business, with its own operations in seven countries, and licensees and suppliers worldwide. Our principal operating currency is the US dollar. The UK is a significant market, but the principal effect of sterling's collapse towards the end of the year was to squeeze margins on UK sales, as printing costs incurred outside the UK rose significantly, and moderate their growth. To a somewhat lesser extent, the impact was the same for the Eurozone.

Adjusted results for the year, before amortization of non-current intangibles and exceptional items, show that operating profit increased by 7.5% to £11.4 million (2007: £10.6 million). Revenues, up 12.6% at £112.7 million (2007: £100.1 million), included the first full-year of sales from MBI, and the reduction in revenue from art print publishing, which was disposed of during the year. Interest costs rose by 27% to £3.7 million (2007: £2.9 million), and adjusted pre-tax profit was flat at £7.7 million (2007: £7.7 million). EBITDA, before exceptional items, was £22.0 million (2007: £20.0 million), a decline of 0.5% of revenue. The group has committed borrowing facilities through at least June 2012, of \$165 million. Most of our borrowing is denominated in US dollars, and net debt at year-end was \$76.5 million (2007: \$86.3 million) or, in sterling terms, £52.4 million (2007: £43.4 million). Adjusted diluted earnings per share were 26.5p (2007: 24.4p), an increase of 9%. As previewed during the course of the year, the closure of our art print publishing businesses in Australia and the US, and the expenses arising in connection with the consolidation of our warehouse, accounting, and back office functions in the US, are shown as exceptional costs. The total charge to the income statement was almost £4.3 million, of which 40% was cash (£1.7 million). Net profit, after charging tax and exceptional costs, was £0.34 million (2007: £5.01 million). Your board is recommending an unchanged final dividend per share of 4p, giving a total dividend per share for the year of 7.15p, to be paid on June 19, 2009, to holders of record on May 22, 2009.

Commentary on Results

Quarto's two business segments had very different experiences. The International Co-edition Book Publishing segment's operating performance was very strong indeed, marred only by underperformance at our major print-broking business in Hong Kong, and benefited hugely from its resilient and prudent business model. This model mandates that, before a book project is green lighted, licenses must be contracted that, in essence, ensure the elimination of financial risk. Profit is earned when titles reprint, and are licensed in further markets, and these generate some 65% of revenue. For the year, revenue rose by 11% to £42.7 million, and operating profit by 23% to £6.4 million.

Generally, the gestation period of a book is 9-12 months, so that, for the new titles published in 2008, licensees had been contracted in 2007, when the market for books was buoyant. Since reprints are ordered when licensees are running out of inventory, and a title is selling well, the state of the overall market, while a consideration, is less important in the buying decision than the demand for the individual title. The segment's books are translated into most major languages and the most successful titles may be licensed in as many as 27 different languages. The US is the largest single market, but revenue is produced from all corners of the world.

A sharp rise in commodity prices in the middle of the year, and sustained efforts by printers in southern China to address labor costs and regulatory issues, led to unsustainable price increases, which threatened to derail the market. In the event, the impact was short-lived, as the evidence mounted that the US economy was souring. In the face of evaporating business, printing suppliers steadily rolled back prices. The sharp decline in demand for printing, at the very end of the year, was our piece of luck, ensuring that we did not lose sales of any titles because of capacity constraints. The segment was within a whisker of meeting our target of 15% operating profit on revenue.

Business units in our Book Publishing segment derive their revenue primarily in their domestic geographical markets (in our case, the English-speaking countries). As a result, they were exposed to the full force of the market place that, on the retail level, became tougher almost month by month. In common with many other industries, November was horrible, but this must have been the point when the fear of the future manifested itself most widely. Books commissioned in earlier years were launched into a retail environment that deteriorated very sharply in the second half of the year. Even before then, along with other book publishers in certain niche categories, particularly in North America, we felt the chill winds from the housing crisis, as one of our units publishes home improvement titles. The difficulties intensified as retailers, from home improvement chains such as The Home Depot and Lowes; art, craft, and

hobby retailers Michaels, JoAnn's, and A C Moore; bookstore chains Borders, and Barnes & Noble; and even web retailer, Amazon.com, cut back on inventory, resulting in lower sales by us into these retailers. Register sales demonstrated, generally, that sales of our titles out of the stores grew overall, so the audience was not disappearing. This all confirmed that retailers faced growing competitive and financial pressures.

Trading was particularly difficult in the United States – the group's largest single market – and without the first-time, full year contribution from MBI, which we acquired in 2007, and the enormous efforts of our staff to adjust to the demanding circumstances, the results would have been very disappointing. Revenue rose by 13%, but operating profit declined by 3%, to £6.3 million. The segment's operating margin, at 9% of sales, remained respectable, but unimpressive. We announced earlier in the year that we would close our art print publishing businesses, and dispose of their assets, and this is shown as an exceptional cost. We also advanced the process of integrating our back office functions in the US. Accounting was centralized at our Minneapolis offices and, by the end of the first half of 2009, all fulfilment operations will be carried out by a third-party warehousing operation, on a contract basis. The one-off costs associated with this are also included in the exceptional costs, and the benefits will be felt from 2009.

The segment's book display marketing businesses in Australia and New Zealand performed robustly, as did the Image Factory, which provides publishing and marketing support services to retailers and manufacturers in the UK.

Prospects

We have prepared our budgets for 2009 with greater rigor than in the recent past. This is not because we believe that we are likely to have emerged with a more accurate forecast, but because the process of creating the budget is being used as a tool to question all our underlying assumptions.

On this occasion, we're not going to be rash enough to make any forecast for the current year. We shall continue to run the group in a responsible manner, avoiding the occasional temptation to seize an immediate advantage at the expense of longer-term gain, and relying upon what has been a central feature of our publishing programs, along with our conservative business models, i.e. commitment to the reader that the books that we produce fulfil their intended purposes.

Unlike most media businesses, book publishing does not have a stream of advertising revenue. Yet, despite not receiving this "subsidy" to the cost of content, books remain relatively inexpensive. Some of us are very disappointed that what was held, within book publishing, to be a truism, namely, that the sector always does well in recessions, is not being demonstrated unequivocally, although the experience is mixed, and books remain relatively inexpensive purchases. Overall, the statistic evidence suggests that sales of books hardly dipped in 2008, and we remain of the view that the emergence of new digital media does not threaten book publishing; rather, it stimulates the process of refining what is special about books, and unique about them as physical products. No doubt, digital media will eclipse some current aspects of book publishing. This is nothing new as, over the centuries, all new print, and much performance, media have pushed book publishers to redefine the uniqueness of their titles.

Our staff derives much job satisfaction from working on our titles, and we have never adopted the kind of remuneration policies that are now discredited, but were frequently urged upon us by outsiders unfamiliar with the ethos of book publishing. We have very seasoned teams of managers. Most of them are old enough to have steered their businesses through both good and bad times. One benefit we have, as an industry, is that we have faced difficult times for several decades. We may not be immune from the gale force winds, but we are, perhaps, more inured than many others to navigating choppy waters. Our business models have been tested over long periods, and have been robust in tough economic times, but there is no guarantee that this time around they will prove themselves again. We can only interrogate them, and trust to our disciplines. I am confident that whatever happens, the professionalism and experience of our staff will help us through 2009.

We shall continue our efforts to grow the business. There are likely to be some juicy acquisition candidates if the economy continues to deteriorate. We shall look at them, and we have substantial borrowing capacity for corporate purposes; however, we are more likely to create new start-ups, not least because we feel that there will be publishing opportunities that will require new approaches and new thinking. Our financing arrangements are in place until at least June 2012, and we remain within our banking covenants.

Your board, with the help of the group's advisers, is discussing whether to change the group's reporting currency from sterling to the US dollar. The US is not only the group's largest individual market; the dollar is also our major trading currency worldwide, and the change in reporting currency would give a more nuanced view of performance.

Additionally, the board, which took what then seemed a prudent step, to hedge our interest rate exposure through 2012, is also reconsidering that decision in order to take advantage of lower interest rates in the market.

I take this opportunity to thank all of our staff, and those who have left us because of the back office reorganization in the US, and our suppliers and customers, for their cooperation during this challenging year. I also thank my fellow directors for their diligence in following the minutiae of the business, and for their helpful contributions.

Finally, special thanks are due to all the heads of our business units, and notably to Piers Spence, Director of the International Co-edition Book Publishing segment, Ken Fund, Director of the Book Publishing segment, and Mick Mousley, Chief Financial Officer.

Laurence F Orbach
Chairman & CEO

London, March 6, 2009

MANAGEMENT'S DISCUSSION OF OPERATIONS AND PERFORMANCE

International Co-edition Book Publishing Segment

International Co-edition Book Publishing differs from Book Publishing in several crucial respects, which leads us to report results segmentally. Distinctions between the two segments also define the different commercial dynamics of each segment.

International Co-edition publishing depends upon the originator creating a book whose pre-press costs must be amortized over several markets; it assumes that it has no domestic market, so that the content remains relevant to all major markets; it does not commence production work on a putative title until licenses have been sold to publishers in a number of markets; and, importantly in the case of Quarto, it requires that the titles cover their costs on the first printing. In order to make useful profit, this leads us to produce titles that are of evergreen, rather than topical, interest, and in long-established interest categories. Our model is very risk-averse, and modest, and we expect it to perform robustly in the current economic circumstances.

Revenues for the segment rose by 11% to £42.7 million (2007: £38.4 million), and adjusted operating profit, at £6.4 million (2007: £5.2 million), increased 23%. Excluding the international print broking businesses, where overall revenues declined sharply in the second half of the year, revenues rose by 23%, and operating profit, up by 39%, was over 17% of sales (2007: 15%). Performance overall was at the high end of expectations and, as noted in the Chairman's Letter, reflected robust ordering, in 2007, of new titles for delivery in 2008, strong reprint activity, and some very successful publishing programs.

In what was a tough year in our major US market, **Quarto Adults** recorded a fall in profits on modestly increased sales. North American consumers may not have stopped buying books, but there were clear signs that our licensees are beginning to fear they might, and are adjusting their inventories accordingly. This took its toll on revenue: our titles are reprinting in the same high proportions, but order volumes are down across the board. There was a better story in the UK, where new title revenue rose by nearly 50% year-on-year, driven mainly by the performance of our craft books through specialist outlets that (so far) seem immune to the woes affecting the general trade. In foreign language markets, 2008 was a good year for titles with a truly international reach. Those selling particularly strongly and quickly across a wide range of territories include *The World's Most Influential Artists* and the fascinating *Smartest Animals on the Planet*. Quarto's *Workouts* and *Course Books*, two series aimed at young people who want to learn new skills or get into new careers, have found particular traction in current conditions. These are precisely the sort of solid, reference-based how-to books – accessible, attractively packaged, and offering conspicuous value for money – that we anticipate will prove Quarto's trump card through the lean times ahead.

QED topped a five-year run of successively better results with a banner performance, in which sales increased by 26% while operating profit grew by 45%. Gains were evenly distributed across all aspects of the business: A very solid publishing program proved its worth early on, with more same-year reprints than ever before. North American hardback library sales gained 62% in volume terms. A new trading relationship in Australia dramatically increased export sales in that territory. Investment in additional foreign language sales resources paid off immediately, with forward orders for 2009 already at twice 2008's closing figure. Individual highlights included the *Great Big Art Activity Book*, which sold 250,000 units, and the four-title science series *My Body*, of which some 280,000 copies were distributed to US schools through Scholastic Book Clubs. The year was crowned by the signing of a sales and distribution agreement with Walker Books, the UK market leader in children's publishing. Not only is this expected to significantly increase our penetration into trade and educational channels; it also represents a tremendous vote of confidence in QED's strategy and creative vision. QED does not expect to be immune from the effects of the global economic downturn, but is still a young company with many areas of its activity relatively undeveloped and ripe for further exploitation. We hope 2009 will be another year of growth for the business.

2008 is a year **Marshall Editions** will wish to forget as quickly as possible. A series of unsuccessful appointments left the business short of leadership and creativity; new title generation was below par; and as a result profits stagnated on the back of an ageing backlist that is overdue for renewal and reinvigoration. Matters might have turned out worse had the numbers not been shored up by a thoroughly workmanlike performance from the unit's foreign language sales team, who made the most of what they had to sell. There are few positives to be taken from the year, but the necessary personnel changes have already been made, and Marshall starts 2009 with a clean sheet, so to speak, and everything to play for. It will not be an easy task, but the reserves of goodwill towards the Marshall brand that persist among its licensees will ensure that constructive new initiatives will at least receive a fair hearing; the rest is up to the new team, who have the full support of senior management.

Quarto Children's Books has taken great strides since Sue Grabham arrived as publisher in 2005. A relentless focus on the quality of the books, ingenious approaches to production design, and much greater discipline in applying a uniform strategic approach, have borne fruit in a vibrant publishing program that is making unprecedented inroads into English and (especially) foreign language markets. Key series, including *Discoverology*, *If You Love A...*, and *3-D Pop-Up Explorers* are now available in upwards of fifteen languages and regularly notch up sales of 300,000-500,000 copies per title. The line between success and failure is a fine one, however: the books are inherently complex and vulnerable to price pressure from a narrow base of specialist manufacturers; and exchange risk is an ever-present danger. In recent years this has resulted in a halting, two-steps-forward-and-one-step-back type of progress: despite its manifest advances, the unit has too often seen defeat snatched from the jaws of victory in the last months of the year, through ill-fortune, oversight, slip-up, or some combination of the above. Happily, 2008 was the year in which everything went right for QCB, resulting in its best profit performance for nearly a decade. The fact that it achieved this, against a background of eye-watering print price increases and the bankruptcy of a major supplier, is a testament to sound leadership and excellent teamwork, and bodes well for the future.

Fine Wine Editions had a solid 2008, in which it consolidated the advances made in the prior year, and then some. The award-winning *World of Fine Wine* magazine bagged another gong, carrying off the Gourmand Award for the UK's Best Wine Magazine. The 960-page hardback *1001 Wines You Must Try Before You Die* was launched to critical acclaim, garnering full-page reviews in the *London Observer* and other opinion-forming media. Best of all, the unit made huge strides towards meeting its performance goals: Revenue per subscriber doubled during the year, while subscriber retention was significantly improved through the introduction of continuous credit card and direct debit payment methods, and by promoting 2-year subscriptions. Advertising revenue per issue increased by thirty per cent, and the number of advertisers placing series bookings continues to grow. Maintaining this dizzy gradient may present a challenge in the current climate, but we continue to diversify our sources of revenue, and will launch our first list of co-edition book titles in mid-year. Shareholders are reminded that they may subscribe to *The World of Fine Wine* at half price by emailing the publisher, SaraB@finewinemag.com.

2008 was another interesting year in **Qu:ID's** relatively young life, in which a number of useful lessons were learned: First, all attempts to circumvent the Group's business model are doomed. Second, a corollary of the above, strong reprints and foreign language sales are essential to a healthy revenue mix. Third, pure humour titles are no longer viable in a fully international and multicultural publishing marketplace. They may be fun to publish and can attract good media interest, but they are unsustainable in the long term because, culturally speaking, they don't travel well. Despite these correctives from the school of hard knocks, Qu:ID ended 2008 with sales 32% ahead of the prior year and profits significantly ahead, albeit from an unprepossessing start-point. The result might have been even better had it not been for a series of sharp print price increases in the early part of the year that hit this smallest of Quarto units disproportionately hard. Qu:ID's standout new title, *The Best Dance Moves in the World... Ever!*, published by Chronicle Books in the US, and Simon & Schuster in the UK, became a cult hit among US and UK booksellers and teenagers alike, and may be expected to conquer mainland Europe in 2009. Meanwhile the order book is already 40% ahead of the period last year; the unit is focused on its new list, and is looking forward to the challenges ahead.

Quintessence went from strength to strength in 2008. Sales were 57 % ahead of the prior year and operating profit only failed to keep pace because a disproportionate exposure to the UK market meant that exchange rates impacted on margins in the third and fourth quarters. Despite this, the unit recorded a very satisfactory performance in every sector. June saw the launch of the culinary arm of the *1001 Before You Die* series, with *1001 Foods* and *1001 Wines*. The latter, having already sold into 17 territories, is the fastest selling 1001 to date, and induced our French licensee to produce a strictly limited leather-bound edition for their market. It sold out immediately. In the USA, publication of *501 Great Writers* and *501 Great Artists* was accompanied by a video promotion presented by both General Editors and shown in Barnes & Noble stores nationwide. In the UK, a Christmas retail promotion drove more than 60,000 copies of the *1001 Before You Die* titles through Waterstones registers in one month. And the series continued its conquest of Europe and Asia: during 2008 some 718,000 copies of *1001 Before You Die* titles were delivered to foreign language licensees from Amsterdam to Tokyo. The *1001 Before You Die* brand (visit us at www.1001beforeyoudie.com) is now widely enough established worldwide to have attracted a degree of copycat activity. During the year Quintessence took legal action against two of the most egregious offenders, winning convincingly in both cases. Looking to the future, work is already underway on the first title in a new culture-based series. To be shipped at the end of 2009, and published by Thames & Hudson in the UK and Rizzoli in the US, an impressive line up of co-edition partners is anticipated for this first entirely new venture since the launch of the original *1001 Before You Die* title in 2003.

The collapse of The Works chain in early 2008 merely confirmed the wholesale rout of the UK promotional book market that had begun the previous year. This spelled bad news for **Quantum**, our backlist specialist, which had in

recent years become overly reliant on the UK sector. At the same time, the resignation of its long-serving publisher halfway through the previous year had exposed structural weaknesses in Quantum's US sales pipeline that required urgent corrective action. The brief for the new publisher was clear: assess and redress the situation in North America and in the meantime establish a compensatory revenue source by driving as much product as possible through foreign language markets. The latter part of this strategy was carried out successfully, and significant progress was made in placing new titles in the United States, but in the end the revenue gap left by the imploding UK market was simply too large to be reversed in just a year, and Quantum's results delivered the inevitable disappointment. Despite this, there are hopeful signs, in the order book for 2009, that the unit has put its house in order, and can look forward to a significant improvement in the coming year.

Quintet is now out of recovery, and enjoying a new lease of life under its energetic new publisher. Driven by the continuing success of its bestselling 500 Series, operating profits more than trebled, as it posted its strongest results for four years. Last year, on the back of solid sales in our core territories, we reported on an encouraging debut for the 500 Series in foreign language markets. This early promise was fulfilled as we rolled it out to key overseas licensees, and the rewards of a patient strategy are now manifest: nearly 2 million copies in print in fifteen languages. The Series now extends to 12 titles, with another 4 scheduled for publication in 2009. Despite the 500 line's dominance, however, Quintet is no one-trick pony: other key titles in the year included a sequel to the four-times-reprinted *Loom Knitting Primer*, and a new edition of the classic *Encyclopedia of Sharks*. We are cautiously optimistic that Quintet's growth will continue into 2009 and beyond, despite the challenging market conditions, and the ensuing pressure on quantities and prices.

Global Publishing released more new titles in 2008 than ever before: four brand-new books were produced and two major updates completed, for prestigious licensing partners around the world, including National Geographic (*Edible: The Illustrated Guide to the World's Food Plants*); Thames & Hudson (*China: The World's Oldest Living Civilization Revealed* and *The Middle East: The Cradle of Civilization Revealed*); and The Royal Society of Medicine Press (*The Anatomy Flash Cards*). All met Global's usual high standards for editorial, image selection, and print quality, and all were delivered on time. In the backlist, *Biblica* continued to sell strongly, with the French, Dutch, Russian, German, Norwegian, Hungarian, Polish, and English (US, Australia, and New Zealand) editions all reprinting, and a Japanese edition publishing for the first time. So far in 2009, we have reprints confirmed for the Dutch and German markets, and a new Portuguese language sale to Brazil. Despite this, Global was not immune to the general malaise: sales of older backlist titles fell off considerably, and there are worrying signs that the market for Global's signature very-large-format reference books is declining at a rapid rate. At the same time, the very high initial investment these books require is making them more difficult to get off the ground in the first place. Our key challenge for 2009, then, is the transition to producing a larger number of smaller books, which requires new ways of thinking, new skill sets, and new customers, at the same time maintaining a level of backlist sales that will pay the bills, while the new-style publishing program becomes established.

2008 was a year of very satisfactory progress for **RotoVision**, in which a combination of increased revenues and reduced expenses saw it post a record operating profit exceeding 15% of sales. Tough trading conditions at year-end meant the ambitious UK target was missed by a whisker, but despite this the business grew by a useful amount. Export markets proved strong, with sales 18% ahead of the prior year. The mid-year acquisition, by Random House, of our US distribution partner for photography books came as a blow, as suddenly 5 titles at various stages of production found themselves in limbo. As it turned out, this development merely accelerated RotoVision's medium-term goal of moving the list to a full co-edition business model in the US, and the titles duly found homes with new licensees. The foreign language team put in another fine performance, as new relationships resulted in growth in established markets such as France and Japan, and in dynamic, emerging markets such as Brazil. Reprints were consistent, with standout titles *The Packaging and Design Templates Sourcebook* and *The World's Top Photographers: Landscapes* going into their 3rd and 4th reprints respectively. Off the back of such a strong performance in 2008, and amid daily reports of gloom and doom, it would be a brave individual who wasn't somewhat daunted by the prospects for the coming year, but the order book is building steadily. We may publish fewer new titles in 2009, but our focus is on quality rather than quantity, which is what we feel the market situation requires.

Our Hong Kong-based print broker, **Regent**, was buffeted by the volatile state of book printing in southern China, which led to erratic pricing from our suppliers. The root causes of this were two-fold: First, a steady increase in commodity prices, principally paper, and, second, major changes to labor practices in the region, mandated by the central government, which pushed up the cost of labor and reduced the flexibility of employment conditions. Unsurprisingly, perhaps, buoyed by capacity constraints and strong demand in 2007, suppliers responded by increasing prices sharply until, late in the second quarter, these nearly killed the goose. From that point on, Regent's sales went into reverse. Regent's largest market is the United States book publishing sector. By the second half of the

year it was clear to all that demand was slowing and, faced with price increases that made many projects of marginal interest, orders slowed to a trickle. Revenues fell sharply, and only swift action enabled Regent to post what was, in the circumstances, a decent result.

Our Singapore-based print broker, **Provision**, relies almost entirely on regional suppliers in Singapore and Malaysia, most of whom did not face quite the same pressures as were evident in southern China. It specializes in shorter print-run work, which tends to be less price sensitive. Although a small operation by comparison with Regent, Provision turned in an outstanding performance, with revenues almost doubling, and operating profit soaring ahead.

Book Publishing Segment

Unlike the International Co-edition Book Publishing segment, the Book Publishing segment is made up of businesses based in the US, UK, and Australia that derive most of their revenues from their respective home markets; indeed, demand in the home market is usually the principal reason to publish. There are other differences: titles are often licensed from third parties – authors, agents, and the like – rather than being created in-house; books are printed and held in inventory at our risk, and sold to bookstores on a fully returnable basis; and, finally, the back office functions – of accounting, sales, and fulfilment – are at least as labour-intensive as the creation of the publishing programs.

Although Book Publishing's share of the revenue cake is higher than Co-edition Publishing's, its costs are commensurately higher, too. When a title does very well, the financial returns can be much greater than for co-edition publishing, but this is not risk-free. Quarto's book publishing businesses aim to limit risk by focusing on producing titles for highly targeted audiences of consumers with special interests. In many of our publishing categories, the book publishing segment overlaps with the co-edition lists.

Revenues for the segment rose by 13% to £70.0 million (2007: £61.7 million), largely thanks to a first-time full-year contribution from MBI. However, as only about 16% of revenues were billed in sterling, the impact of currency movements was substantial. Adjusted operating profit, at £6.3 million (2007: £6.4 million) was marginally down, and represented 9% of revenues (2007: 10%). Overall, UK operating profit held up well, at £874,000 (2007: £797,000). For our overseas businesses, operating performance must be assessed by reference to local currency.

In the US, the contribution from MBI masked the scale of the decline. Operating profit for management purposes moved 11% higher, but only 2.4% to £3.9 million (2007: £3.8 million), when adjusted to IAS. The operating profit of our Australian and New Zealand display marketing businesses declined significantly, in sterling terms, and adjusted to IAS, to £1.5 million (2007: £1.8 million). The Australasian businesses source most of their titles overseas, and are very sensitive to currency movements. This accounts for some of the profit decline.

The Quayside Publishing Group, which rubric from 2009 embraces our book publishing operations in the US, had an eventful 2008. No aspect of our business was left untouched by the economic environment in the US, not just within individual publishing units, but on an industry-wide scale. The wider economic decline created unique challenges, as well as some unique opportunities, and we used the occasion to undertake a thorough review of the functionality and efficiency of our core operations. The outcome of this review was a decision to proceed with several key projects, including the consolidation of Quarto's North American warehouses, together with accounting, HR, and other back-office functions; the restructuring of the domestic and international sales teams, along with a streamlining of management reporting; and the review and renegotiation of all third-party and vendor relationships. All of these initiatives are proceeding satisfactorily.

With its primary focus on the US domestic market, Quayside has to deal with the continuing challenges posed by the financial health of its bricks-and-mortar retail customers. While Amazon.com continues to provide excellent service to its many fans, it is not easy to see how the online shopping experience, however sophisticated, will replace the marketing opportunity represented by putting physical books in front of browsing customers in a retail store. This problem is one all publishers face, and is accentuated by the continuing decline in newspaper revenues, and the widespread elimination of regular book reviews, and news coverage of book-related activities. Whether, in addition to the cyclical impact of recession, we are experiencing a major structural change in book retailing that will partially reverse what we have become accustomed to over the last 25 years is the question no one seems prepared to answer, but we remain alert to the issues.

Distribution of books into special interest stores, such as arts and craft chains, is quite different from the book trade, and bears some explanation. Titles are generally displayed in a plan-o-gram rack, where they remain in place for a notional six months, at which point they are reviewed, and either continued, or replaced by more recently published

books. Distributors source the books, manage the category, and keep the racks supplied, providing a level of servicing that goes beyond what is provided by book trade wholesalers. The approach is common to many of the categories of goods purchased by specialist retailers, and it can, and does, lead to some very erratic ordering by the distributors. In the course of regular reviews of space, inventory turn, and store layouts, space allocation may be altered, the re-setting of plan-o-grams postponed, and the introduction of new titles delayed, for reasons that, however sound, are the cause of endless agitation for distributors and publishers, who are expected to have adequate inventory on hand, at all times, to meet all eventualities.

Our craft & hobby titles suffered as Michaels, who with around 1,000 stores are by far the largest player in the category, tested several new store formats. Michaels was bought, several years ago, by private equity for a high multiple, and these experimental formats are clearly driven by pressure to improve sales, profits, and cash flow. However successful the tests turned out, the immediate impact on our sales was to depress them. This accounts, in large part, for the decline in 2008. Our salespeople tried to compensate by getting as many titles as they could into the other specialist chains. Most reports indicate that the craft channel was fairly strong, and we saw some improvement in sales at JoAnn's, and at other smaller chains, such as AC Moore, Hobby Lobby, and Hancock Fabrics. But among national book retailers the craft category was one of those that saw the biggest decline: independent stores and secondary distributors were putting their dollars toward higher-margin product with faster turnover. Again, where accounts may in the past have taken 4 or 6 copies of a title, they were now cutting back to 1 or 2, and a few titles got skipped altogether. We pay even more attention now to trend analysis reports from the retailers and trade associations.

Destocking and returns from some of our major distributors into the retail craft trade meant that 2008 was a year of retrenchment for our **Quarry** and **Creative Lifestyles** craft programs. Overall, revenue on these lists was down significantly, obscuring the fact that we achieved higher sales through the register to consumers at many of our craft and book trade accounts. Craft is now a crowded category, however, with more titles produced by more publishers than ever before, and as a consequence we saw smaller frontlist orders, more skips, smaller reorder quantities, and reluctance to support mid-list titles that buyers felt were not strongly enough tied to any distinct promotional opportunity. All publishers in the craft category echoed our experience. As a result we have cut back on the number of craft and lifestyle titles we will launch in 2009, and will invest more time and resources in promoting a smaller list, through on-line initiatives and book- and author-related publicity.

Quarry's illustrated reference book sales slowed in 2008 for the same reasons as we saw a drop in craft book sales, but co-edition and international sales showed significant improvement over 2007. We struggled a bit with domestic book retailers due to their inventory reduction initiatives, but some titles sold really well in 2008, suggesting that consumers were still prepared to spend money on books when retailers took it upon themselves to make them available. *101 Dog Tricks* was the best selling title overall week-to-week in 2008. Bookscan, the industry-wide point-of-sales report, showed it averaging 300-400 copies a week on a regular basis throughout the year, and peaking at more than 1,300 copies through the register in the week before Christmas.

Rockport publishes design books aimed at professional audiences. Gross sales in 2008 were impacted by inventory reductions at all key domestic accounts, but register sales remained steady. Foreign language co-editions, on the other hand, had one of their best-ever years, with double-digit increases all round reflecting our concentration on building a strong backlist with a focus on core works of reference. Overall, revenues declined by 1%, but operating profit improved by 2%, reflecting the successful effort to improve profitability at the Fair Winds imprint. The top sellers – including *Universal Principles*, *Design Matters*, *Anatomy of Design*, *Making and Breaking the Grid*, and *Design Elements* – have become part of our licensees' essential backlist, reprinting regularly. Domestically, freelance designers are scrambling for work. At first glance, this might not appear to bode well for sales of our books, but if it is also accompanied by a return of professionals to universities and schools as a result of the thinning job market, as some are predicting, then this may very well have a positive effect on book sales in the educational, and course adoption, channels. The 2009 list is in any case one of our strongest for some years, and we anticipate that its quality will help to overcome any nervousness in the market. At the same time we recognize that we may struggle to maintain the same very high level of foreign language edition sales in 2009 as the recession takes hold in Europe.

The **Fair Winds** and **Quiver** lists were able to counter the market conditions in 2008 with a strategy that will continue in 2009, imposing some key cost-saving measures, including a squeeze on supplier rates, and a marginal reduction in page extent on each new title. Our focus is to publish books that consistently offer more information than the competition, with content that is convincing to the consumer on every page, and step-by-step instruction that solves real issues. This approach has enabled us to raise our average retail price while maintaining moderate sell-in quantities, and solid sell-through in the North American book trade. The amount of content has on occasion hurt our international sales, where the high costs of translation can scare off potential licensees. Despite this obstacle, we

almost doubled our foreign sales in 2008. Core Fair Winds books continued to perform well, with strong register sales throughout the year on the Jonny Bowden titles, both in the book trade, and at Costco and the other warehouse clubs. *150 Healthiest Foods on Earth* passed the 100,000-copy mark. The healthy cookbook list has some other standout titles, including *Vegan Baking* with over 25,000 copies shipped, and the *Kid Friendly ADHD and Autism Cookbook* with over 15,000 copies in print. The Robert Jones titles, and the Dana Carpenter backlist, were also among the strong performers. *The Position Sex Bible*, Quiver's best-selling title, notched up over 75,000 sales in the year, and several backlist items garnered multiple co-edition sales. Overall, then, we are in a publishing holding pattern, acquiring titles at the solid core of the lists. Longer-term we shall add more ambitious projects, retailing at higher prices, as well as branching out into new categories, but this is suspended until the economy rights itself.

CPi was the first of our imprints to feel the chill as the housing market froze. Most sales of its how-to, home improvement titles are made through the DIY chains – Lowes, The Home Depot, and Menards in particular – and these were the very stores that customers began deserting in droves as the full extent of the house price collapse became clear. Sales were down by 25% on 2007's numbers, and these were themselves steeply lower than 2006's, faithfully tracking the decline in home prices over the period. Were it not for a very useful stream of licensing revenue from content repurposed for library use, the program might have dipped into the red. We cannot count on the same benefit in 2009, and are fully prepared to scale back further on our publishing if conditions do not improve later in the year. Despite this we remain committed to the category. Some competitors are taking drastic steps, but we have faith that our competitive advantage – the pin-sharp photography in specially constructed workshops and studio sets that shows, in precise detail, just what the do-it-yourself householder needs to know – will win us market share when the economy begins to strengthen. There is much debate on when that might be – Black & Decker, under whose brand name CPi publishes, expects the home improvement sector to remain in recession through 2010 – but most observers agree that the DIY and remodeling titles will be among the first to recover when the turn comes.

2008 was a challenging year for **Motorbooks**. Escalating gasoline prices, the rise of the Hybrid, and a new mood of Puritanism conspired to take some of the fun out of motoring. The retail chains, particularly Barnes & Noble and Borders, responded by cutting the shelf space they devote to the transportation category: Bookscan confirms it suffered one of the largest category drops in sales over the prior year. Tough market conditions made it easier to see what was really working and what wasn't. Perhaps unsurprisingly, the high-priced (\$50+) gift books that had previously been a mainstay of the Motorbooks list seemed suddenly to be frightening off many trade buyers. One exception was *The Harley-Davidson Archive Collection*, which sold very well despite its \$60 ticket. Conservative buying aside, it became clear that slotting and cannibalization issues were impacting on our list to a much greater extent than in the past. We have responded by reducing the 2009 new titles program by 10%, addressing subject redundancy, and moving some titles planned for 2009 to 2010 or later. We're putting more emphasis on subjects and packages that have a strong track record and taking fewer chances with narrow or unproven themes; throttling back, so to speak, until we have a clearer view of the road ahead.

Strong sales of individual frontlist titles on **Voyageur Press's** fall 2008 list couldn't halt the overall decline in revenue, as backlist failed to perform to expectations. The successes, led by *Whole Lotta Led Zeppelin*, which sold outstandingly well, were due to strong marketing and author activity, well-planned in-store promotions, and placement. The failures were accentuated by a declining economy, and by the measures taken by retailers to trim inventory levels. Much improved management information introduced since Quarto acquired Voyageur has permitted a level of analysis denied to the previous owners, and this has cast a revealing light on certain aspects of performance that fall well below management's expectations. For a list that purports to publish titles intended to backlist, far too many do not. We have determined to allocate capital more carefully in the future, focusing on return on investment to a greater extent than was previously the case. It is also clear that insufficient attention has been paid to maintaining Voyageur's historically strong engagement with special sales, gift markets, and regional selling. All of these, while hugely intensive compared with regular sales to the book trade, are essential to help our books reach their intended audiences, and are in any case more rewarding as, generally, discounts are lower and returns are smaller.

Voyageur has a growing list of titles on sporting teams and individual sports. We are spinning these off into a new imprint, **MVP Books**, to be headed by Josh Leventhal, who has been shepherding the list. The program will emphasize regionally focused, heavily illustrated sports histories, in combination with a handful of narrative titles, and nationally focused reference works. We expect to add health & fitness and, in due course, other topics that will help to broaden the coverage of a variety of sports, thus leaving us less vulnerable to fluctuating trends within one specific sport or activity. The first titles under the new imprint will appear in 2009.

Towards the end of 2008 a new publisher was appointed to run the **Zenith** line of military publishing. Narrative titles, including military service memoirs, biographies, campaign histories, and books on military science and strategy, currently form the heart of this list. Although WWII remains the most popular subject for serious students of

military history, the narrative line will be expanded to include more Vietnam War narratives and, crucially, narratives on various aspects of the two Iraq wars. These are likely to become of growing interest as veterans from these campaigns retire from active service, and begin seeking understanding and perspective on their experiences. The list has, in recent years, been dominated by books aimed a fairly narrow clientele of military enthusiasts. This, while an important part of our constituency, was never intended to subsume it, and efforts have been made, with some success, to reach a wider, more mainstream audience. Recent publications, such as *Nuclear Express* (which prompted a front page news story in the *New York Times*), *The Building*, and *A Bloody Business*, suggest that carefully chosen current affairs titles of popular interest might offer a profitable avenue for growth.

Following the acquisition of MBI in 2007, the Board decided that the group would benefit from consolidating the back office operations of our US publishing entities. **Walter Foster**, America's longest established publisher of art instruction titles for the amateur audience, started the process immediately when it agreed, as an interim measure, to amalgamate its domestic sales operation with Quayside. This led, in 2008, to the consolidation of most book shipments from one location, and the exercise became something of a test bed for the integration effort. Because **Walter Foster** no longer needed the building it was occupying, we undertook a root and branch review of its activities. The outcome was to maintain **Walter Foster's** focus on art instruction books, sold primarily through arts and crafts stores, and to shift the kit-producing section of the business from publishing its own kits into serving the needs of other publishers under licensing arrangements. The impact of this disruption compounded the marketplace challenges, and **Walter Foster's** 2008 financial performance was unsatisfactory, with operating profit at only a shade of 3% of revenue; but the transition was completed successfully by the end of the year. We expect an improved performance in 2009.

Book Sales, our promotional publishing unit, also had an unsatisfactory year. Its strong dependence on the book trade meant that business was erratic, as retailers attempted to adjust to the deteriorating economic environment. Sales fell by 18%, and the business was barely profitable. In the second half of the year, arrangements to transfer its back office operations were underway. Because of the scale of **Book Sales'** operations, the process of transfer was broken into parts; the operation has now been completed, and the New Jersey warehouse has been closed. **Book Sales'** business and editorial office remains in New York.

On the other side of the world, our display marketing businesses, **Lifetime Distributors** in Australia, and **Premier Books**, in New Zealand, performed well. Although **Lifetime's** operating profit was down on the prior year, this is largely explained by the income received in 2007 from the sale of the New South Wales franchise, the largest in the country, which **Lifetime Distributors** had been running, rather ineptly, for many years. The focus in 2008 was on fine-tuning the sourcing, testing, and distribution activities of **Lifetime**, and great emphasis was laid on improving communications between **Lifetime Distributors** and its Master Franchisees. The investment in greater professionalism was costly, but worth it: with the possible exception of increased fuel prices, the impact of the global economic crisis was slow to reach Australia, and **Lifetime's** sales grew in 2008. We expect that the improvements made in our operations will allow a further expansion of the business in 2009. **Lifetime** remains the only national display marketer of books in Australia, although it does face vigorous local competition in a number of regions. **Lifetime** does not hold substantial inventories but, as it buys what it can sell to its Master Franchisees, it is vulnerable to currency movements that affect the cost of imported products. The significant fall in the Australian dollar poses a challenge, but the slowdown in economic activity is expected to mitigate the impact, by leading to lower supplier prices in US dollars.

New Zealand was the first country to fall into recession. It has a small population, and a small economy. After being cocooned in a protective bubble for many decades, the economy was thrown wide open towards the end of the last century. New buildings, immigration from Asia, and growing confidence in its prospects led to an enormous increase in economic activity. Hot capital flowed in, chiefly from the 'Mrs Yamamotos' of Japan, seeking to profit from higher interest rates, and the strengthening of the kiwi dollar. In the latter half of 2008, as this Yen carry trade began to unravel, residents faced up to the size of the real economy and recession set in. The impact on **Premier** was difficult to measure. On analysis, and reflection, we believe that **Premier's** uneven, but on the whole satisfactory, performance in 2008 – operating profit was 11% of revenue – is primarily due to its inadequate infrastructure. As New Zealand's only national display marketer of books, it grew rapidly, and without effective competition to keep it on its toes. It was only as its distributors blanketed the country that potentially crippling operational deficiencies became evident. In response we have created a new operations role; this, together with much better management information, will improve **Premier's** performance, particularly as competition grows, and the cost issues of foreign-sourced products create more demanding challenges.

The UK is the smallest of our publishing markets, where our book imprints, although they operate as separate units, are all under one roof in North London. **Aurum**, which includes, operationally, the **Jacqui Small** and **Apple** lists, had

sales that were flat overall. Except at Jacqui Small, which specializes in high-end interiors and lifestyle, UK sales moved ahead: significant gains were made at Waterstone's, and at Amazon, but trading with Borders was unsatisfactory. Export sales from the UK were down but, for Aurum and Jacqui Small, co-edition sales were well ahead, and this helped to maintain profitability, as did a significant reduction in returns from booksellers. The striking characteristic about the lists' performance was the lack of standout titles. This is encouraging, suggesting that the rather eclectic publishing programs have been tailored to avoid extravagant expectations. We still feel that this publishing group is too small to matter to most booksellers and, given the opportunity, ought to expand aggressively.

The first stage in this expansion was setting up **JR Books** in 2007, under the direction of publishing veteran Jeremy Robson. 2008 was JR Books' first full year of operations and, as expected, it recorded a small loss. JR's list inclines to a combination of high-profile celebrity titles, by the likes of Michael Winner and Maureen Lipman, narrative histories, including Michael Korda's forthcoming title on the Battle of Britain, current affairs, humour, and sport books. It's a mix that Jeremy has produced successfully elsewhere, and is being well received by the book trade in the UK.

Finally, the **Image Factory**, which provides publishing and marketing support services to retailers and manufacturers, had another successful year although, inevitably, its profitability in the important Christmas season was increasingly affected by widespread nervousness about the retail sector. Waitrose awarded the Image Factory its Supplier of the Year Award, recognizing the efforts the company undertakes to ensure that promotional and marketing campaigns are executed properly. Image Factory's steady investment in digital printing capacity was well rewarded. The point-of-sale market is always in a state of change but, over the years, has become a growing part of marketing, and Image Factory is well positioned to grow further just as soon as the domestic economy shows signs of stabilizing.

CONSOLIDATED INCOME STATEMENT
year ended December 31, 2008

	Note	2008 £000	2007 £000
Continuing operations			
Revenue	1	112,743	100,107
Cost of sales		(71,887)	(62,842)
		<hr/>	<hr/>
Gross profit		40,856	37,265
Other operating income		182	321
Distribution costs		(4,438)	(3,778)
Administrative expenses before amortization of intangibles and non-recurring items		(25,250)	(23,248)
Amortization of intangibles		(1,830)	(1,312)
Exceptional items			
Restructuring costs	2	(4,274)	-
Excess recovery of aborted acquisition costs		-	370
		<hr/>	<hr/>
Total administrative expenses		(31,354)	(24,190)
		<hr/>	<hr/>
Profit from operations before amortization of non-current intangibles and non-recurring items		11,350	10,560
		<hr/>	<hr/>
Operating profit	1	5,246	9,618
Finance income		421	412
Finance costs		(4,107)	(3,321)
		<hr/>	<hr/>
Profit before tax		1,560	6,709
Tax		(1,216)	(1,697)
		<hr/>	<hr/>
Profit for the year		344	5,012
		<hr/> <hr/>	<hr/> <hr/>
Attributable to:			
Equity holders of the parent		(117)	4,243
Minority interest		461	769
		<hr/>	<hr/>
		344	5,012
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share			
Basic	3	(0.6)p	21.6p
		<hr/>	<hr/>
Diluted	3	(0.6)p	21.1p
		<hr/>	<hr/>
Adjusted earnings per share			
Basic	3	26.9p	25.0p
		<hr/>	<hr/>
Diluted	3	26.5p	24.4p
		<hr/>	<hr/>

CONSOLIDATED BALANCE SHEET
at year ended December 31, 2008

	2008	2007
	£000	£000
Non-current assets		
Goodwill	23,380	18,922
Other intangible assets	3,242	4,194
Property, plant and equipment	7,564	7,445
Deferred tax assets	1,172	1,080
	<hr/>	<hr/>
Total non-current assets	35,358	31,641
Current assets		
Intangible assets: Pre-publication costs	32,222	24,946
Inventories	17,821	15,425
Derivative financial instruments	741	-
Trade and other receivables	38,484	31,811
Cash and cash equivalents	28,180	17,577
	<hr/>	<hr/>
Total current assets	117,448	89,759
Total assets	152,806	121,400
	<hr/> <hr/>	<hr/> <hr/>
Current liabilities		
Short term borrowings	(333)	(2,760)
Trade and other payables	(42,492)	(32,626)
Tax payable	(765)	(1,547)
	<hr/>	<hr/>
Total current liabilities	(43,590)	(36,933)
Non-current liabilities		
Medium and long term borrowings	(80,234)	(58,190)
Deferred tax liabilities	(3,937)	(3,273)
Derivative financial instruments	(3,911)	(1,110)
Other payables	(20)	(29)
	<hr/>	<hr/>
Total non-current liabilities	(88,102)	(62,602)
Total liabilities	(131,692)	(99,535)
	<hr/> <hr/>	<hr/> <hr/>
Net assets	21,114	21,865
	<hr/> <hr/>	<hr/> <hr/>
Equity		
Share capital	1,162	1,162
Paid in surplus	21,768	21,768
Retained deficit and other reserves	(7,021)	(5,025)
	<hr/>	<hr/>
Equity attributable to equity holders of the parent	15,909	17,905
Minority interest	5,205	3,960
	<hr/>	<hr/>
Total equity	21,114	21,865
	<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED CASH FLOW STATEMENT
year ended December 31, 2008

	2008	2007
	£000	£000
Profit for the year	344	5,012
Adjustments for:		
Net finance costs	3,686	2,909
Depreciation of property, plant and equipment	1,089	1,038
Tax expense	1,216	1,697
Amortization of non-current intangible assets	1,830	1,312
Impairment of goodwill and non-current intangible assets	309	-
Amortization and loss on disposal of pre-publication costs	9,607	8,416
Movement in fair value of derivatives	(741)	-
Equity settled share – based payment expense	-	5
(Gain) loss on disposal of property, plant and equipment	(9)	22
Operating cash flows before movements in working capital	17,331	20,411
Decrease in inventories	1,367	1,527
Increase in receivables	(1,106)	(1,674)
Increase in payables	6,171	1,384
Cash generated by operations	23,763	21,648
Income taxes paid	(1,093)	(798)
Net cash from operating activities	22,670	20,850
Investing activities		
Interest received	421	412
Proceeds on disposal of property, plant and equipment	183	119
Investment in pre-publication costs	(13,071)	(10,481)
Purchases of property, plant and equipment	(1,038)	(688)
Acquisition of subsidiaries	(293)	(17,941)
Net cash used in investing activities	(13,798)	(28,579)
Financing activities		
Dividends paid	(1,407)	(1,355)
Interest payments	(4,043)	(3,005)
Proceeds on issue of share capital	1	56
New bank loans raised	4,000	32,189
Repayment of bank loans	-	(15,916)
Dividends paid to minority interest	(248)	(226)
Net cash (used in) from financing activities	(1,697)	11,743
Net increase in cash and cash equivalents	7,175	4,014
Cash and cash equivalents at beginning of year	16,109	12,110
Foreign currency exchange differences on cash and cash equivalents	4,896	(15)
Cash and cash equivalents at end of year	28,180	16,109

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

year ended December 31, 2008

	2008 £000	2007 £000
Exchange differences on translation of foreign operations	3,562	111
Change in the fair value of cash flow hedges	(2,801)	(1,110)
Net expense recognised directly in equity	761	(999)
Profit for the year	344	5,012
Total recognised income and expense for the year	1,105	4,013
Attributable to:		
Equity holders of the parent	(590)	3,249
Minority interest	1,695	764
	1,105	4,013

NOTES

1. Segmented analysis

Business segments

	Co-edition Publishing 2008 £000	Co-edition Publishing 2007 £000	Publishing 2008 £000	Publishing 2007 £000	Total 2008 £000	Total 2007 £000
Revenue						
Total sales	44,861	40,287	70,033	61,732	114,894	102,019
Inter-segment revenue	(2,148)	(1,907)	(3)	(5)	(2,151)	(1,912)
External sales	42,713	38,380	70,030	61,727	112,743	100,107
Segment result before amortization of intangibles and exceptional items	6,397	5,215	6,259	6,435	12,656	11,650
Amortization of intangibles	(12)	(12)	(1,818)	(1,300)	(1,830)	(1,312)
Restructuring costs	-	-	(4,274)	-	(4,274)	-
Segment result	6,385	5,203	167	5,135	6,552	10,338
Excess recovery of aborted acquisition costs					-	370
Unallocated corporate expenses					(1,306)	(1,090)
Profit from operations					5,246	9,618
Investment income					421	412
Finance costs					(4,107)	(3,321)
Profit before tax					1,560	6,709
Tax					(1,216)	(1,697)
Profit after tax					344	5,012

Geographical Segments

	Revenue 2008 £000	Revenue 2007 £000
United Kingdom	17,109	16,385
United States of America	54,717	48,750
Australia and the Far East	20,904	19,605
Europe	15,793	11,266
Rest of the World	4,220	4,101
	112,743	100,107

NOTES (continued)

2. Exceptional items

Exceptional items in 2008 primarily relate to charges associated with the discontinuance of the art print publishing businesses and the consolidation of the US warehouse and back office functions.

3. Earnings per share

	2008	2007
	£000	£000
Earnings for the purposes of basic earnings per share, being net profit attributable to equity holders of the parent	(117)	4,243
Effect of dilutive potential ordinary shares:		
Interest on loan notes (net of tax)	-	26
	<u> </u>	<u> </u>
Earnings for the purposes of diluted earnings per share	(117)	4,269
	<u> </u>	<u> </u>
	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	19,678,237	19,643,747
Effect of dilutive potential ordinary shares:		
Share options	-	55,643
Dilutive loan note	-	537,144
	<u> </u>	<u> </u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	19,678,237	20,236,534
	<u> </u>	<u> </u>
	2008	2007
	pence	pence
	<u> </u>	<u> </u>
Basic	(0.6)	21.6
	<u> </u>	<u> </u>
Diluted	(0.6)	21.1
	<u> </u>	<u> </u>

The dilutive effect of share options (24,896 shares) and the loan note (317,871 shares) have not been included in the above calculations because they are not dilutive in the current year. The dilutive effect of these items has, however, been included in the calculation below because the items are dilutive on adjusted earnings. The total shares for the calculation become 20,021,004 shares.

Adjusted Earnings

Earnings for the purposes of basic earnings per share, being net profit attributable to equity holders of the parent	(117)	4,243
Amortization of intangibles (net of tax and minority interest)	1,210	905
Restructuring costs (net of tax and minority interest)	4,197	-
Excess recovery of aborted acquisition costs (net of tax)	-	(242)
	<u> </u>	<u> </u>
Earnings for the purposes of adjusted earnings per share	5,290	4,906
Effect of dilutive potential ordinary shares:		
Interest on loan notes (net of tax)	16	26
	<u> </u>	<u> </u>
Earnings for the purposes of diluted earnings per share	5,306	4,932
	<u> </u>	<u> </u>
	2008	2007
	pence	pence
	<u> </u>	<u> </u>
Basic	26.9	25.0
	<u> </u>	<u> </u>
Diluted	26.5	24.4
	<u> </u>	<u> </u>

NOTES (continued)

4. Dividends

	2008	2007
	£000	£000
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the year ended December 31, 2008 of 3.15p (2007: 3.15p) per share	620	619
Final dividend for the year ended December 31, 2007 of 4.0p (2006: 3.75p) per share	787	736
	<u>1,407</u>	<u>1,355</u>
Proposed final dividend for the year ended December 31, 2008 of 4.0p (2007: 4.0p) per share	787	787
	<u>787</u>	<u>787</u>

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

	2008	2007
	£000	£000
Adjusted pre-tax profit	7,664	7,651
Amortization of intangibles	(1,830)	(1,312)
Exceptional items	(4,274)	370
	<u>1,560</u>	<u>6,709</u>
EBITDA		
Profit before tax, before amortization of intangibles and exceptional items	7,664	7,651
Net interest	3,686	2,909
Depreciation	1,089	1,038
Amortization of pre-publication costs	9,529	8,416
	<u>21,968</u>	<u>20,014</u>
Net debt		
Medium and long term borrowings	80,234	58,190
Short term borrowings	333	2,760
Cash and cash equivalents	(28,180)	(17,577)
	<u>52,387</u>	<u>43,373</u>

NOTES (continued)

6. Committed facilities and banking covenants

The Group has a US\$115m (2007: US\$115m) syndicated bank facility which expires on June 12, 2012. In addition, the Group has a six year floating rate note of US\$50m (2007: US\$50m). These facilities are subject to three principal covenants, namely:

(a) Total consolidated net indebtedness shall not exceed 3 times (proforma) EBITDA. For the year ended December 31, 2008, net indebtedness was 2.38 times (2007: 2.03 times) EBITDA. Most of the borrowings are in US dollars, which were converted at the year end exchange rate of 1.46, whereas the US dollar earnings that are included in EBITDA were converted at an average exchange rate of 1.86.

(b) The consolidated operating profit before exceptional items and goodwill amortization shall exceed three times net interest payable. For the year ended December 31, 2008, net interest payable was 3.08 times (2007: 3.63 times) covered under this covenant.

(c) The consolidated operating profit before goodwill amortization shall exceed 1.5 times net interest payable. For the year ended December 31, 2008, net interest payable was 1.92 times (2007: 3.76 times) covered under this covenant.

7. The financial information set out in the announcement does not constitute the company's statutory accounts for the year ended December 31, 2008 or 2007, prepared in accordance with the Companies Act 1985 as applicable to overseas companies. The financial information for the year ended December 31, 2007 is derived from the statutory accounts for that year, which have been delivered to the Registrar of Companies. The auditors reported on those accounts and their report was unqualified. The statutory accounts for the year ended December 31, 2008 have been finalised on the basis of the financial information presented by the Directors in this preliminary announcement and will be delivered to the Registrar of Companies following the Annual Meeting.

The financial information contained within this Preliminary Announcement was approved by the Board on March 6, 2009.

8. The accounting policies adopted for use in the preparation of the 2008 Preliminary Results and of the 2008 Annual Financial Statements were consistent with those used in the preparation of the 2007 Annual Financial Statements.
9. The Annual Report will be sent out to shareholders in due course. Additional copies can be obtained from the Finance Director, The Quarto Group, Inc., 226 City Road, London EC1V 2TT. Tel: 020 7700 9000 (email: mickm@quarto.com).