

Tuesday March 23, 2010

## THE QUARTO GROUP, INC – PRELIMINARY ANNOUNCEMENT

### “decent results in a demanding year”, dividends unchanged

Quarto (London: QRT), the London-based international book publisher, announces an adjusted pre-tax profit of £6.9m, down only 10% despite revenues 15% lower in constant currency terms and in-line with market expectations.

#### Financial Highlights

Year to December 31		2009	2008	Change
Revenue (£m)		<b>106.6</b>	112.7	-5%
Adjusted EBITDA (£m)		<b>22.8</b>	22.0	+ 4%
Operating profit:	<i>adjusted (£m)</i>	<b>10.2</b>	11.4	-10%
	<i>reported (£m)</i>	<b>7.0</b>	5.2	+33%
Pre-tax profit:	<i>adjusted (£m)</i>	<b>6.9</b>	7.7	-10%
	<i>reported (£m)</i>	<b>3.6</b>	1.6	+133%
Diluted earnings per share:	<i>adjusted (p)</i>	<b>26.0</b>	26.5	-2%
	<i>reported (p)</i>	<b>13.0</b>	(0.6)	∞
Dividends per share (p)		<b>7.15</b>	7.15	unchanged
Net debt (£m)		<b>50.3</b>	52.4	-4%

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

#### Commercial Highlights

- Publishing increased its adjusted operating profit by 7% to £6.7m on flat revenues of £70.1m.
- The consolidation of the US warehouse and back office functions is now almost complete and is on track to deliver the expected financial benefits.
- International Co-Edition Publishing adjusted operating profit was down 22% at £5.0m on revenues 15% lower at £36.5m.
- This deterioration occurred primarily at Regent, the print-broking business in Hong Kong; otherwise, it mainly reflected market upheaval in 2008 Q4.
- There was no corporate activity during the period, though not for want of trying. Now that vendor price expectations have moderated, a more active corporate role in 2010 is anticipated.

Laurence Orbach, Chairman and CEO, commented: "The economies in our major markets seem a little more settled, albeit generally at a lower level of activity, and we hope for gains in 2010. The most we can really say is that, at this stage, things look a little brighter than 12 months ago. The book business is adjusting and evolving both to the economic, and the digital, challenges, and we would be surprised if our performance did not improve during the course of the year."

**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 International 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

Dear Shareholder:

### **The Book is Dead! Long Live the Book!**

This is not another chairman's letter that will dwell on the tough times we went through in 2009. Things were, indeed, challenging. It was a demanding year, but we produced decent results. Instead, after getting over the preliminaries, and giving an outline of our financial results, I propose to turn to discussing the important lessons we absorbed during the year. These will help us to deal better with the unsettling times in which we still remain, and to continue to evaluate the opportunities that the digital revolution presents.

### **Financial Review**

- Operating cash flow before movements in working capital £22.0 million in 2009 (2008: £18.8 million)
- EBITDA\* increased by 4% to £22.8 million (2008: £22.0 million)
- Net debt down by 4% to £50.3 million (2008: £52.4 million)
- Diluted adjusted earnings per share\* of 26.0p (2008: 26.5p), down 2%
- Revenues declined by 5% to £106.6 million (2008: £112.7 million)
- Operating profit\* of £10.2 million (2008: £11.4 million), down 10%
- Profit before tax\* declined 10% to £6.9 million (2008: £7.7 million)
- Restructuring charges of £ 1.6 million (2008: £4.3m), substantially to consolidate US and other back office functions
- Profit for the year £2.8 million (2008: £0.3 million)

For the year ended December 31, 2009, revenues were £106.6 million (2008: £112.7 million), down 5%, but 15% lower in constant currency terms. Operating profit\* at £10.2 million (2008: £11.4 million) declined by 10%, as did interest costs of £3.3 million (2008: £3.7 million) and profit before tax\* at £6.9 million (2008: £7.7 million). EBITDA\* rose 4% to £22.8 million (2008: £22.0 million). Diluted adjusted earnings per share\* were 26.0p (2008: 26.5p), and net debt declined by 4% to £50.3 million (2008: £52.4 million). Profit for the year was £2.8 million, up significantly from 2008 (£0.3 million)

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\* All figures preceded by this asterisk are before amortization of non-current intangibles and exceptional items

In the light of the satisfactory performance, the board is recommending an unchanged final dividend of 4p, giving a total dividend for the year of 7.15p, to be paid on July 5, 2010, to holders of record on June 4, 2010.

On a segmental basis, *International Co-edition Publishing* suffered a substantial decline, with revenues falling 15% to £36.5 million (2008: £42.7 million), and operating profit\* 22% down at £5.0 million (2008: £6.4 million). Much of the deterioration occurred at our publishing services unit in Hong Kong, which quickly felt the impact of the retail slowdown on inventory replenishment and promotions by publishers. *Publishing* posted flat revenues of £70.1 million (2008: £70 million) and operating profit\* ahead by 7% at £6.7 million (2008: £6.3 million). Exceptional costs, which primarily relate to charges associated with the ongoing consolidation of the US warehouse and back office functions and other restructuring costs, amounted to £1.6 million during the year (2008: £4.3 million, primarily relating to the discontinuation of the art print publishing businesses and the consolidation of the US warehouse and back office functions). The consolidation, in the US, is a work in progress that is now almost complete and is on track to deliver the expected financial benefits.

Most of the international co-edition licensing commitments we enter into, for new titles, are normally made in the few months following the Frankfurt Book Fair in October. Between October 2008 and early 2009 nervousness was at a peak, and potential licensees deferred decisions. The rapid decline in economic confidence, and the resulting currency movements, contributed substantially to the performance in the Co-edition segment leading to weaker revenues. The Publishing segment, with its large domestic US revenues, was affected also by the retail downturn, and the improvement in its reported results is explained by sterling's weakness.

### **Corporate Review**

There was no corporate activity during the period. This was not for want of trying. We examined several propositions, but none of them met our criteria. Our strategic direction remains to add to our existing portfolio of publishing companies, predominantly in the US and UK. A major part of our restructuring costs in 2008 were part of the consolidation of back office functions such as sales management, accounting, IT, and warehousing. With much of this now in place, we are ready to consider opportunities to leverage these functions and, now that vendor price expectations have moderated, we anticipate a more active corporate role in 2010.

### **Prospects**

In our major markets of the US and UK, stimulus programs have probably contributed to halting or lessening the downturn, but there have been casualties galore and probably more to come. From Quarto's perspective it is important to try to distinguish the impact of a cyclical downturn from the secular changes occurring

in the course of the digital revolution. There have been two disruptive changes of revolutionary significance in the past thirty years, the digitization of the world and the emergence of China as a major world economic power. It's hard to underestimate the impact these two developments have had on most of our lives.

For example, the digital revolution brought us Amazon.com, and the impact on traditional bricks-and-mortar bookselling has been profound; but, we need to look outward a little more to see that the travails of the big book superstores are replicated in many other retailing areas where the impact of online ordering has been much less pronounced than in the book business. The big box store may not have outlived its heyday but it is becoming clear that if price is the only competitive advantage such retailers have to offer they are, potentially, in a death spiral.

Recognizing the difficulties is one thing. Identifying the challenge is another. Evolving an appropriate strategy is the objective. While, on a day-to-day basis, we are very focused on traditional issues, there has been a tug-of-war over strategy as the book industry both recoils from, and wishes to embrace, e-books. Industry pundits and notables opine on the matter but, to date, more heat than light is being created.

My own view has not changed much, and perhaps I am overly influenced by the fact that the great majority of Quarto's book output is of titles that are not primarily narrative in approach, being non-fiction how-to, instructional, and informational in nature. First, I am completely unconvinced that the present technology constitutes the basis for a new medium. At the moment it's a substitution of a new delivery platform, text on a screen, for an old one, printed content on paper. Some years ago audio books were hailed both as a challenge and an opportunity. The former never happened; the opportunity turned out to be, in revenue terms, rather trivial. Over a decade ago the book industry was convulsed by the arrival of CR-ROMs that, for Quarto's typical content, arguably offered a superior experience. The public largely stayed away.

We are neither complacent, nor dismissive, of what is happening in e-books. In fact, we have already licensed some titles that can be viewed on screen. We have achieved some revenues in the consumer market, but not enough to have even a miniscule impact on decisions to invest in particular titles or areas. I have no doubt that the revenues will continue to grow, as will the benefits of more print-on-demand appetite for specialized and out-of-print titles.

The distinction I draw, and have drawn for Quarto's people, is between a delivery platform, and a medium. Print on paper is a delivery platform, and it has spawned numerous media: books, newspapers, magazines, pamphlets, and so on. Each of these media is distinct and, although they may use similar terms for job descriptions, such as "editor", it is the rare person that can be a good book, magazine, and newspaper editor. Not for nothing did Marshall McLuhan observe, astutely, "The medium is the message".

Recently, much public excitement has been created over the question of whether electronic books pose a mortal threat to the book industry. This question has been posed in the past, whenever new media and technology have appeared and, as frequently as it has been asked, it has been premature. In fact, in spite of the slicing of the consumer dollar, the book industry has grown steadily and, if anything, books are being bought and purchased by more people than ever before.

Does that mean that e-books are just a fad, and their appeal will pass? We simply don't know. We have been working on the ways in which we can take advantage of the digitization of our content. As we have reported over the last two years, the primary path we followed was to license some titles for dissemination through libraries. It has been a useful learning step, and a lucrative initiative.

What will be more interesting will be to learn if the present delivery formats, e.g. electronic readers, mobile phones, the new iPad, and so on, will simply want electronic versions of printed titles, or whether the market will foster the emergence of a new medium, using a mixture of print content, video, internet-sourced, and other materials to produce what is now being called an "enhanced" book. When this was last tried, a decade or so ago with CD-ROM's, the public neither liked the clunkiness of the technology, nor wanted to pay the economic cost of producing the content, and the experiment withered.

By contrast, our "enhanced" books, which we call "books plus", have been part of our publishing program for almost two decades and, for selective markets, do well. One important thing to remember about the consumer book industry is that, by and large, it is able to supply a satisfactory product to its target audience at a price the consumer is prepared to pay, and the price covers the full economic cost of making and delivering the product. If it turns out that the electronic enhanced book can sell in sufficient quantities to cover its economic cost, a new medium will be born. If videogames are anything to go by, the cost will likely limit enhanced e-books to titles with mass audience appeal.

On the other hand, the book business, with its huge output of new titles each year, only needs a mass audience for a relatively small part of the title output, so it's hard to predict which way things will go. Our researches have led us to conclude that the present state of enhanced e-books is in an early, transitional stage, and that Quarto should focus on monetizing the value of our content, where possible, and not spend heavily on pioneering a new medium. We don't have the relevant skills and, in our view, going beyond what we have would only be in shareholders' interests if we endorsed the notion that "the book" is dead.

That doesn't mean that there isn't a major secular change hitting the book industry, in common with many others. The Internet retailers, such as Amazon, have blown away the unique selling proposition of the big chain book retailers: their vast ranges of titles. The big box retailers have not discovered competitive advantage in anything much other than price and, in losing a major chunk of their revenue to Internet retailers, need to search for a better business model.

Most publishers, Quarto included, depend very heavily for profitability upon sales of their backlists of titles. At retail bookstores, these titles turn very slowly, but they were part of the great offering that was enticing to book buyers before Internet commerce. As this dependable revenue source has drifted to the Internet, it has tended to focus retailers on the new titles, and poses challenges for publishers, with their reliance on backlist income. Happily, print-on-demand, short-run printing, and digital downloads can take up some of the slack but, perhaps, without the benefit of the impulse purchase that must drive many sales in brick-and-mortar stores. Shopping is, after all, part entertainment; Internet purchasing is of a more transactional nature.

There is an overarching question: is the electronic delivery platform going to be a fertile creative ground for new media to populate? The answer to that is: almost certainly. The next question is: does Quarto's content, and the skills of its staff, translate to this new delivery platform? To this the answer is, almost certainly: unfortunately, no more so than they translate seamlessly to other established media. Again, this is not to dismiss these new opportunities, but to recognize that they require entirely different ways of interacting with an audience. To miss this distinction could be an expensive mistake

So what is Quarto's response to the challenges and opportunities? In the short term, to mine the new, emerging media to the fullest extent possible without compromising either the integrity of our content or its commercial value in our traditional markets and formats; to continue to produce book titles, using as we can, input from digital sources, and references to them, but identifying what is uniquely satisfying about a book, and seeking to burnish this in our publishing.

Books are not dead. They may appear besieged, ever more so as fragile retailers hunker down to re-examine their own business models. There may be fewer new titles published over the next several years, which would be no bad thing, and perhaps the opportunity will be open for new writers to self-publish their work in digital form. This may well deprive book publishing of a little of its vitality, but I am confident that the book business will evolve, as it has for hundreds of years, and will occupy a considerable position as an on-going and valued medium.

Our confidence in the future of the book is not simply self-serving but, rather, the outcome of much reflection. The pre-print cost of making most books is modest; the printing expense is not huge; and the retail price of most books, given the numerous formats in which a title may appear, e.g. hardback, paperback, and small format mass-market paperbacks, makes them available at a variety of price points. If the book buying public endorses reading on screen, this adds another format, as do audio books.

## **Current Trading**

The economies in our major markets seem a little more settled, albeit generally at a lower level of activity, and we hope for gains in 2010. The most we can really say is that, at this stage, things look a little brighter than 12 months ago. The book business is adjusting and evolving both to the economic, and the digital, challenges, and we would be surprised if our performance did not improve during the course of the year.

In general, the major English-language markets seem more stable. The Australian market, with its heavy reliance on resource industries supplying, in particular, the Chinese economy, is shining unwaveringly. In continental Europe, markets are subdued, but there is some early evidence that the eastern European and Russian markets, that mostly evaporated last year, are open for business again. The bleak outlooks for Spain and Portugal have been neatly offset by much stronger demands for books in Latin America, and our large foreign-language sales forces certainly give us a competitive edge.

We publish books in the UK and the US and are seeing some early financial benefits from the consolidation of our back office functions. After some anticipated teething problems last year, our consolidated warehousing operation in the US is now operating well, is producing the savings we expected, and has allowed us to bring operational costs in line. Financial reporting has been following the integration of the warehousing and, during 2010, we expect the IT systems to begin producing better management information for business analysts and publishers. At the moment, we have suspended the search for an ERP system, and have decided to build upon the systems we have, on the grounds that this is both a less risky, and less expensive, approach.

In most areas, staffing has been downsized, but we have taken care to preserve the vitality of our individual imprints because this is the source of our future revenue streams. The investment in new titles and projects continues apace, and on a stricter set of criteria that recognizes market challenges. This should give us strong leverage as demand improves.

The indisputable reality is that none of us can discern where this revolution is taking us. It will present, to future generations, untold opportunities and possibilities that we cannot imagine. What might these be, and can we position ourselves for the opportunities *now*? There's no easy answer to this question. This a time when a more aggressive approach might be exciting, but Quarto's culture is more measured. Certainly, as we see opportunities, in the short term, to leverage both our skills and our content, we intend to seize them.

Sincerely,

Laurence F Orbach  
Chairman and CEO  
March 22, 2010

## Management's discussion of operations and performance

### International Co-edition Publishing Segment

International Co-edition 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.

Quarto's International Co-edition Publishing segment is managed by Piers Spence. As the name suggests, it is resolutely international in focus; regardless of where the business is domiciled, the world at large, rather than any one "home" market, is its primary audience. By implication, only the most widely relevant, evergreen, and culturally independent book concepts will fit the bill for this kind of publishing. Concepts are created by in-house teams and worked up, at modest expense, into presentations that are pre-sold to licensing publishers around the world. No title goes into production until a critical mass of licenses has been placed and contracted. Titles print together, in large multi-publisher, multi-language "co-editions", thus amortizing the considerable start-up costs over many markets and many copies, and ensuring that all titles cover their costs on first printing. It will be clear that this publishing model, of which Quarto is the world's leading exponent, is very risk-averse, and we expect it to produce absolute returns whatever the external market circumstances.

International Co-edition Publishing revenues fell 15% to £36.5 million (2008: £42.7 million) and operating profit\* was down by 22% at £5.0 million (2008: £6.4 million). The largest single component of this deterioration occurred at our print-brokering business in Hong Kong; the remainder can be traced to performances that, with one or two notable exceptions, fell short of 2008's excellent results, as our global licensees rebalanced their inventory levels to match the steep decline in sales brought about by the upheaval in the markets in the final quarter of 2008.

For many of our publishing units, the global financial crisis impacted severely on our customers' willingness to commit to new projects for the subsequent year. Nowhere was this more apparent than at **Quarto Adult Books**, whose 2009 output was marked by a reduction in the number of new titles placed, from 35 in 2008 to 28 in 2009. This set the tone for a challenging year, with foreign language markets showing increasing caution as the year progressed. The final outturn showed a year-on-year reduction in revenues of 8%. Reprint sales held up strongly however: revenues rose more than 14% during the year, with gains in all major territories. Quarto's range of titles includes many how-to books in the hobby and leisure categories, and one positive by-product of the financial crisis has been an uplift in sales of craft and hobby titles, as customers go out less and seek low-cost activities they can pursue at home. Quarto's biggest selling title of 2009 was *100 Flowers to Knit & Crochet*: in the space of 12 months, orders were booked for some 180,000 copies in sixteen languages. This is an exceptionally high rate of sale for a single-subject craft title. The specialist nature of many of Quarto's titles has enabled it to sidestep the worst effects of the retail downturn: its most successful licensees tend to use specialist retailers and/or a strong internet presence to support sales, thus counteracting a persistent weakness in the mainstream retail book trade both in the US and Europe. 2010

will see an increase in the number of new titles launched, though trading conditions in many of our major markets remain challenging.

For **Quarto Children's Books**, the burning question was this: could 2008's record result be repeated, or was it a one-off? The unit answered resoundingly by posting a very solid profit for the year. A strong performance in foreign language markets was an important component of this success: an enthusiastic team, vigorously led, and following an intelligent and disciplined strategy, reaped the rewards of its labours. Despite the near-collapse of previously buoyant Central and Eastern European markets, it made the most of every opportunity to pick up new business, while managing to sustain profitability in core territories, where economic conditions toughened as the year went on. The sales team was aided in its efforts by sterling work from colleagues in production, whose buying skills provided the essential background price stability, and whose schedules once again held rock solid, proving that the previous year's 100% on-time delivery record was no mere flash in the pan. Key to it all, of course, is the product, and this went from strength to strength, reflected in the prestigious new licensees brought to the table during the year, including Candlewick, Templar, Kingfisher, and Walker Books, all household names in their respective markets. It would be nice to be able to report that QCB escaped the vicissitudes of the downturn altogether, but alas not: the fear that walked abroad in early 2009 caused many licensees to adopt an ultra-cautious approach to new title commitment, which has left something of a hole in the 2010 program, and this will present a challenge in the short term. Just as the US market is beginning to show small, hesitant signs of recovery, traditional European markets are experiencing their own moment of caution: pressures on inventory mean customers are opting to lose out on economies of scale rather than overprint. Quality, innovation, and value must remain our watchwords; and as customers grow more careful with their money, so we must find ever more compelling reasons to encourage them to part with it.

2009 brought an unprecedented slowdown in backlist sales of illustrated reference books in English language markets. For **Quintessence**, now in its fourth year, and whose backlist accounts for more than 80% of its total revenues, this might have spelled disaster. But the continued appetite of foreign language licensees for the *1001 Series* came to the rescue, and the unit was relieved to finish 2009 with profits battered but intact. *1001 Days That Shaped the World* broke all previous foreign first printing records, shipping 112,000 copies to a total of 12 customers, many of whom have since been back to get their hands on more. The revised edition of *1001 Natural Wonders*, once again in collaboration with UNESCO, and now available in 22 languages, became Quintessence's 2009 bestseller. Nor was critical acclaim lacking: in April, *501 Great Artists* received the prestigious Best of Reference 2009 Award from the New York Public Library. This honour is given only to works of the highest editorial and visual standards. Looking ahead, Quintessence's new series—which will not see light of day until late 2010 when *This is ART* is published by Rizzoli and Thames & Hudson—has already been confirmed in 10 licensed editions. In a first-time development, current licensing partners have agreed to take at least three further series titles, thus ensuring a healthy revenue stream for years to come.

Sydney-based **Global Publishing** delivered three major new works of reference in 2009: *The Shakespeare Encyclopedia: The Complete Guide to the Man and His Works*, *Knights*

*in History and Legend*, and *The Anatomy Color-in Flash Cards*, the latest addition to the successful human anatomy list. All three are set to reprint this year, with *Shakespeare* and *Knights* making their debut in the Japanese and Eastern European markets. Elsewhere, however, there was a significant decline in demand for Global's large-style, illustrated books, resulting in fewer reprints and foreign-language co-editions in the year. At the same time, the strengthening Australian dollar eroded profits, making this stand-alone business relatively more expensive to operate. Managing Director Chryl Campbell took resolute action on both fronts: the cost base was reduced by eliminating a number of positions, and Global's focus was switched to conceptualising smaller-format titles with lower start-up costs and adapted production processes. In December Roz Hopkins was appointed publisher, following a successful six-year stint at Lonely Planet, and her wealth of illustrated book experience, alongside Global's solid reputation for content accuracy, excellent design standards, and absolute reliability, should serve the business well as she works to reinvigorate its forward program and expand its customer base. In the meantime, Global continues to leverage its core assets, with a major update underway of *Anatomica: The Complete Home Medical Reference*—for which over 40,000 units have been presold—and reprints of *Biblica: The Bible Atlas* anticipated in more than ten language markets.

Despite challenging trading conditions, **Quintet** continued to grow above trend in 2009, buoyed by expanding sales of its market-leading 500 Series. With 18 titles published, and another six in the works for 2010, the series is now available in 28 licensed editions, in 22 languages, and within the coming weeks the total number of books in print will surpass the 3 million-copy milestone. As predicted in these pages last year, the effect of this systematic series roll-out on Quintet's bottom line in 2009 was transformative: sales were ahead by 24%, with every channel showing a useful increase, and profits leapt by 30%. Publisher James Tavendale is not resting on his laurels, however, and the unit has already launched several promising new lines, including an unexpectedly popular series on, of all things, tattoo design, while elsewhere on the cutting edge of popular culture, titles such as *From Zero to Rock Hero* have garnered excellent reviews.

A weak performance in 2008 came back to haunt **Marshall Editions** in 2009: only 7 new projects had been placed for delivery in the year, and as a result new title revenue fell, and the foreign language sales team was left short of new product to sell. Nor were backlist sales immune from the general malaise: in recent years, Marshall had developed a profitable trade in repurposed backlist with Borders, but the latter's financial gyrations throughout 2009 brought this to a standstill. There were a couple of bright spots, in the children's and reference fields respectively: *100 Most Disgusting Things on the Planet* followed in the footsteps of its predecessor *100 Most Dangerous . . .* and cleaned up in English language and foreign markets. We trust that 2010's *100 Most Awesome . . .* will perform in a similar manner. And there were hopeful signs that the market for Marshall's stock-in-trade of natural history reference was coming back after some years of absence, as several major new titles were placed with prestigious US licensees that are new to both Marshall and to the Group. But the challenge for Marshall Editions should not be understated: the business desperately needs a solid year or two of profitable new title generation in order to rebuild a backlist that is now looking very shot indeed. The unit needs to show that it can be a reliable and consistent contributor to Group profits, and must do so in short order if it is to have a settled future.

Last year's report predicted a more profitable 2009 after a rocky 2008 for **Quantum**, the value publishing imprint in the Quarto Group, and so it has turned out, as a 35% uplift in sales led to a four-fold increase in operating profit. This was achieved through a judicious combination of the tried and tested and the altogether new: the *Cartographica* line of historical atlases continued to sell well in its traditional markets, and there was the usual quotient of direct-to-retailer sales that forms a significant part of this publishing segment. In addition, a number of new titles were placed with prestigious trade publishers in the USA, and the higher margins obtained here bolstered the overall result, while adding to the store of future backlist opportunities. An excellent effort in foreign language sales also played its part in the much improved result. It is too early to say what part the well-rehearsed troubles afflicting the US Borders chain will play in Quantum's fortunes in 2010: the unit has reduced its exposure, but this carries with it the risk of lost sales opportunities. The team is already hard at work identifying alternative outlets for its titles, should the need arise.

Following the steady progress and record operating profit of the previous year, 2009 was a frustrating one for **RotoVision**, in what often seemed a case of two steps forward, one step back. Continued headway was made in the transition to a 100% co-edition approach in North America, and from mid-year all new business was conducted in line with this model. English language reprints surpassed budget by 28%. In foreign language the picture was mixed: sales in some mature markets were soft, but it was the nascent markets such as Russia and Poland that bore the real brunt of the global downturn. On the other hand, our prediction that Brazil was going to be a key growth opportunity proved correct and it ended the year in our top three performing territories. Brand new business was acquired in Lithuania and Serbia, which helped to offset the drop in sales to more established markets. The net result was that foreign sales were flat. Export markets were not completely unscathed, but there were pockets of substantial growth, notably in South Africa and Iran. But the real damage was done by the turmoil in the UK market: early signs of a major slow-down in UK book sales were ignored until it was too late and, although print levels were re-assessed in mid-year, RotoVision's bottom line was severely impacted by stock write-offs at year-end. Although it is bracing itself for another tough year, RotoVision has a strong frontlist offering for 2010, including Disney-director authored *World History of Animation* and the eagerly awaited follow-up to *The Packaging & Design Templates Sourcebook* (sales now over 70,000 and counting), due to publish in mid-year. In addition, we expect the new sales and marketing structure implemented in the last quarter of 2009 to bring a significant uplift in sales from mid-2010 onward.

2009 was both the best and worst year in **QED**'s relatively short history. The unit posted an outstanding set of results: pre-tax profits doubled, helped by a vastly improved performance in foreign language markets, where sales advanced threefold as a direct result of significant investment in training and management of the unit's foreign sales team. This stellar achievement was overshadowed, however, by the tragic loss in November of QED's founder and publisher, Steve Evans, to cancer, at the ludicrously young age of 49. Steve returned to Quarto in 2003 to found QED. His energetic engagement and hands-on leadership soon turned the imprint into a significant force within supplemental education publishing. He leaves a vibrant list that continues to grow

and expand worldwide far beyond its educational roots. Looking to the future, the Group is lucky to have, in Zeta Davies, a colleague who had worked closely with Steve since QED's earliest days, and who latterly served as his deputy. Zeta has ably stepped into the breach left by Steve's untimely death, and has made a very creditable start to safeguarding and building upon his publishing legacy.

The team at **Fine Wine Editions** had a productive 2009, which saw the launch of the first two titles in their new regional guide series. *The Finest Wines of Tuscany* by Nicolas Belfrage MW, and *The Finest Wines of Champagne* by Michael Edwards, were published to wide critical acclaim, on the back of which the next four titles in the series were snapped up by the original licensees, for publication in 2010 and 2011. The first foreign language editions of the launch titles are due to appear later in the year, thus completing the virtuous cycle of print-reprint that constitutes the Quarto model. Elsewhere, the flagship *World of Fine Wine Magazine*, honored mid-year by Gourmand's award as The Best Wine Magazine in the World, stood up robustly to the global financial crisis, whose effect on its important advertising revenue stream was a particular concern. In the event, the vessel rocked, but did not capsize: our experienced team resisted the temptation to discount, worked hard to attract new clients, and redoubled efforts to secure repeat advertising. A very successful mid-year marketing foray into the USA saw subscriptions growth accelerate toward year-end; average revenue per subscriber remained steady and subscriber attention was vigorously addressed, with the all-important subscription renewal rate firming by two points over the year to the upper end of industry norms.

**Iqon Editions**, Quarto's boutique cultural reference list, delivered the latest title in its bestselling *Isms* series, this time on *Fashion*. The series has now sold more than half a million copies in 20-plus languages. A further title will deliver at the end of 2010, to be followed in 2011 by a keenly anticipated new series concept.

**Qu:id** remains relatively small but—these days fully compliant with the Quarto publishing model—is now rather more perfectly formed. In what was far from an easy year in most markets it posted a 20% increase in sales and a 30% increase in revenue per new title, and looks poised for continued growth in 2010. Publishing highlights from 2009 included the beautifully produced *Field Guide to Fields*, licensed by National Geographic Society in North America and by HarperCollins in the UK, and *The Bedside Book of Algebra*, which offers a unique and colourful approach to a subject that may not, at first glance, appear to be all that exciting. Early signs for both titles are very encouraging. Perhaps reflecting the simple pleasures that are favoured in a downturn, Qu:id's most successful title of 2009 was *Playing Cards*, a new approach to games, tricks, and feats. With sales in its first year heading toward 100,000 copies, and seven European language editions in production, the creative team looks to have come up trumps with this one. Not all investments bore fruit, however: a modest gamble on a smart new website and catalogue download facility does not appear to have produced any tangible commercial benefit. As a result, supplies of Quid's diminutive printed catalogue—something of a collector's item among publishing cognoscenti—will resume later this year. It's oddly reassuring to note that, while there appears to be an unlimited appetite for all things digital, nothing quite beats the appeal of good old-fashioned print on paper.

**Regent Publishing Services**, our Hong Kong-based print broker, and the unit whose fortunes are perhaps most directly and immediately correlated with the ups and downs of the global book business, had a disappointing 2009. Try as it might—and no shortage of effort or imagination was expended—it was unable to dodge the twin bullets of slashed promotion expenditure and decimated inventory, and accordingly ended the year with sales down by a third and profit cut to ribbons. Many valuable lessons were learned, and heads are up for the coming year. **Provision**, the much smaller, Singapore-based publishing services operation, held its own pretty well through the storm, and even managed to increase its operating profit on sales that were slightly down on the prior year.

### **Book Publishing Segment**

Unlike the International Co-edition Publishing Segment, the Book Publishing Segment is composed of businesses based in the USA, the UK, Australia and New Zealand whose primary publishing rationale is demand from their respective domestic markets. Their titles are usually licensed from third-parties—authors, agents, and the like—rather than conceived in-house and owned outright. Books are created, printed and held in inventory at our risk, and sold to bookstores mostly on a fully-returnable basis. And the back-office functions of these businesses—of accounting, sales and fulfilment— are complex and labour-intensive.

Because they sell direct to retailers (and in some cases, direct to consumers) it follows that Book Publishing businesses take a greater slice of the revenue cake than International Co-edition businesses, but their costs are commensurately higher. When a book succeeds, the financial returns can be much greater than for co-edition publishing, but this is counterbalanced by a higher inherent risk of titles that simply don't work in the market.

Book publishing revenues were flat at £70.1 million (2008: £70 million) and operating profit\* was ahead by 7% at £6.7 million (2008: £6.3 million). These figures disguise some significant variations in the performances of the various units, and the results, deriving largely from the US and Australasian domestic markets, are flattered by the weakness of sterling.

The Quayside Publishing Group, managed by Ken Fund, encompasses all our book publishing activities in the US. It did not emerge unscathed from the ravages brought about by 2009's market turmoil. In addition to the challenges faced by our peers elsewhere in the publishing industry, we had some extra problems to contend with, largely as a result of the nature of our publishing lists: categories aimed at creative professionals, the home buyer or home improver, and the transport enthusiast took a heavy hit as sales of books in these areas collapsed. So our focus throughout the year was on keeping the business stable and profitable by cutting costs where necessary and making sure that whatever investment we made was to the benefit of the company as a whole.

In 2009 we completed the strategically important consolidation of the Quarto North American warehousing, accounting, HR, and other back office functions, begun the year

before. We expect this to deliver ongoing benefits to the Group for years to come. We reviewed the structure of our domestic and international sales teams, always a work-in-progress, and introduced some strengthening measures. Management reporting was streamlined. Costs in all areas of the business were examined from top to bottom. We reviewed and, where appropriate, renegotiated all third-party and vendor relationships. These initiatives are designed to counter future uncertainty and strengthen our foundations.

In 2010 we will adapt to meeting the changes in our trading environment. Our publishers continue to improve their understanding of the evolving marketplace and aim to develop programs consistent with the new market. We will cut costs where we can but, having already taken significant action in this regard, we will concentrate on fine-tuning programs, channels, and accounts that are not profitable and that need to be fixed, or eliminated.

Although no early adopters, we have made a number of exploratory forays into the digital marketplace, and are happy to find ourselves comfortably in the middle of the pack. Over the next six months we will be working with Blio, Overdrive, Ebsco, Kindle and Apple to leverage our content via digital delivery of one kind or another.

**Rockport Publishers**, whose books are aimed at a largely professional audience, saw its sales decline in 2009. Sales in North America were flat, and a combination of lower orders from our licensees and the relative weakness of the European currencies meant that foreign language sales went backwards after a very strong 2008. Spain, usually one of largest overseas markets for Rockport books, bought only a few reprints in small quantities, and the tremendous growth experienced in Central and Eastern European markets over the past three years was halted in its tracks. Despite this, our disciplined approach allowed us to maintain shelf space and market share, weathering a storm through which some of our competitors have fared less well. With a lull in the market for reference for the working designer we have been able to shift some of our resources to building a program that feeds the academic market. Fashion design reference, a sub-category of the list that we began two or three years ago, has seen noteworthy growth and we will continue to pursue this into and beyond 2010.

Losses in sales of professional titles were compensated for by increased revenues from books aimed at the enthusiast market from **CPiLS** and **Quarry**, where we saw growth in all categories, led by the continued strong performance of *101 Dog Tricks*. Craft, always at the core of this list, climbed back from a less than stellar 2008, and through a combination of a more selective new title program of hardworking, technique-oriented books, and a focus on consumer marketing, we grew sales in both bookstore and craft retail channels, achieving a higher sell-in and better point-of-sale revenues. Both backlist and frontlist have performed above expectations, and our focus on special markets has helped to increase opportunities outside the book trade, resulting in sales to PetSmart and Petco, among others, together with some placements in Anthropologie.

**Fair Winds** and **Quiver** have seen two consecutive years of growth, with gross revenues increasing 30% since 2007 to over \$7 million for 2009, and profits nicely ahead of plan. The imprints ended the year 14% ahead of budget: double-digit increases were recorded

at Ingram, Books-a-Million, Amazon and B&T, but the biggest gains came from sales through Costco and BJ's, thanks to a splendid performance from the Jonny Bowden nutrition titles, led by the *150 Healthiest Foods on Earth*. Return rates decreased slightly in 2009, to 15%. In general, the books are competing well in crowded categories. Seven titles made the Bookscan Category Bestseller List, including three from Jonny—*150 Healthiest Foods on Earth*; *The Most Effective Natural Cures on Earth*; and *The Healthiest Meals on Earth*—as well as three history titles, and Quiver's illustrated *Position Sex Bible*. The biggest challenge in 2009 was lower than expected foreign co-edition sales, particularly for the Quiver list. A handful of issues contributed to the problem, including delayed books, fewer offerings, and a temporary block on ordering from a major account. 2010 holds out new hope in the co-edition channel, however, with a good wallet of orders already booked, amounting to four times the revenue confirmed this time last year.

Sales remain sluggish at **CPI Home Improvement**, as the building trades struggle to recover from deep recession. While new housing starts and existing home sales have begun a slow rebound—and the extension of home purchase tax credit until May 1<sup>st</sup> has done something to help bolster the recovery—home remodeling and improvement activity remain very depressed, due to the large number of homeowners whose mortgages are still “underwater.” As with the building trades, so with home improvement books, sales of which were off a full 20% over 2008 figures. We expect that 2010 will bring only a slight improvement, although some signs of returning health have been observed at the Home Depot and Lowe's chains, both of which reported higher than expected earnings in recent weeks. Against this background, we did what we could to garner sales: a program of value-priced books derived from previously published titles was received enthusiastically, even in the book trade, where they were not expected to be embraced. Further value-priced titles are being considered for late 2010. Other initiatives aimed at sustaining and improving market share include increasing paper weight, and offering value-added components, such as DVDs, moves that have led to critical notice, though consumer acceptance is not yet proven. Video product is, however, proving to have some subsidiary revenue potential in the library database channel. It should be remembered that this is a mature book category, which, although unlikely to see significant growth in the near future, remains a profitable part of the overall mix.

**Motorbooks** had a rough start to 2009, as both Barnes & Noble and Borders cut back significantly on the amount of shelf space devoted to the transportation category. Our automotive and motorcycle specialty accounts had a difficult year too, with sales down on 2008, as both Honda and Harley-Davidson saw 50% declines in the sales of new bikes in the North American market. Though we ended the year down in both frontlist and backlist, certain key accounts rebounded in the second half of the year, especially over the holiday season, with some actually outperforming 2008. Fifty-seven Motorbooks titles were published in 2009, 10% fewer than in 2008, and retail price points were also capped, with the most expensive gift titles topping at \$40 as opposed to \$55 the prior year. We have increased our collaboration with industry partners—we currently work with NASCAR, Cycle World Magazine, Harley-Davidson, Ford, Race Tech, and Hot Rod Magazine—which often leads to corporate sales and unique promotion opportunities. Foreign language sales have been an area of growth and our 2010 list contains a number of titles with good international appeal.

**Voyageur Press** has some reasons for optimism after a difficult year, in which sales fell in all areas of the list. Its Music category has been profitable from the outset, with every title published to date making a positive contribution and some—2009's *Queen*, for example, which sold through its initial 21,000-copy print run in five months at a retail price of \$40—performing exceptionally well. We plan to increase our music output, from 6 titles annually up to 8-10 titles a year. Sales of Crafts and Country Lifestyle titles have been solid, from books such as *Norwegian Handknits*, selling 8,193 copies at \$30, to *How to Raise Goats* with 8,865 copies sold. At the same time, sales of our Railroad and Tractor books—both previously strong subject areas—have fallen off. Our largest concern remains backlist, sales of which were down 19% on the year. It appears that Barnes & Noble and Borders are rapidly becoming vendors of frontlist exclusively, and though sales through Amazon are up, they are not ahead by enough to offset this major industry shift. As a result, we are having to recalibrate our concept of what is a reasonable return on our publishing investment, while at the same time initiating an aggressive program of reissuing, re-purposing, and re-packaging wholly owned and contracted material.

**MVP Books** posted encouraging results in its debut year. The eleven-title program, seven of which were released in the third or fourth quarters, generated an average of nearly \$60,000 per title in net sales. While MVP titles accounted for well under 10 percent of the MBI book program, the imprint accounted for five of MBI's top 20 sellers for the year. Much of the success was down to regionally focused illustrated histories, but there were also strong sales for one-off titles, which broaden the imprint's offerings and suggest new publishing directions. The three Complete Illustrated History titles on pro football teams are being reprinted to extend their sales lives through another round of football and holiday seasons in 2010. Concentrating on teams with large and loyal fan bases, as well as those with interesting histories, we found that each book succeeded by selling through a variety of channels. While the New York Giants and Pittsburgh Steelers titles prospered with relatively little marketing activity, with Denver Broncos we were able to develop online marketing partnerships with the team, which led to noticeable increases in online sales (through both [mvpbooks.com](http://mvpbooks.com) and [Amazon.com](http://Amazon.com)). The non-regional, un-illustrated *Ultimate Super Bowl Book* was another hit, leading the imprint in unit sales, despite its later (November) publication date. In this case, a package that presented itself as the ultimate reference to a popular subject appealed to a wide range of readers on a national level.

2009 saw **Zenith Press** begin to correct the problems with product mix and on-time delivery that had compromised its performance in 2007 and 2008. By year-end, book trade customers had recognized the changes, and as a result skipped fewer books and placed better initial orders. Careful analysis of formats and subject matter lead to a rebalancing of the product mix, focusing on proven successes, eliminating poor performing products, and shrewdly experimenting with new subcategories, such as politics, biography, current events, science, and space and technology. Thus will Zenith, once known exclusively for its scholarly military history list, expand in 2010 to include subjects of broad popular appeal, while maintaining significant activity in core military history and memoir. This will stand us in good stead should, as some observers expect, the chains begin to reduce shelf allocation for the military category, much as they did

with automotive last year. We will focus more strategically on author promotion for titles with significant potential, and take up on-line advertising opportunities at web sites dedicated to enthusiasts.

**Walter Foster** proceeded to execute its plan, and had a number of modest successes along the way. It successfully placed the Collector Series rack, containing a selection of titles at a higher than usual retail price point, in the Michaels chain of stores, and this in turn will aid acceptance of the rack into other retail accounts. The Custom Packaging business, in what was a very difficult year for the trade, maintained its sales level with 2008. Significant savings were made in outsourcing the warehousing operation, with a 35% reduction in per-unit shipping costs just one of the headline figures. And the unit created and published its first title outside of the art instruction category aimed squarely at the book trade, rather than specialty accounts, to some acclaim, thus pointing the way to a profitable future diversification of its publishing activities.

**Book Sales**, Quarto's value publishing unit located in New York City, is, by the nature of its business, located very close to the front line and, accordingly, bears the brunt of any retail downturn. It struggled valiantly throughout 2009 to hold its own in a hostile trading environment. Sales were marginally ahead of the prior year's, but profit recovered, thanks to the operational savings brought about by the consolidation of Quarto's North American back office.

Australia's resource-fuelled economy, meantime, had a boom year (one that shows precious few signs of petering out) and **Lifetime Distributors**, our Australian display marketing business, took full advantage, recording another excellent year of sales and profits. The previous year's investment in fine-tuning its sourcing, testing, and distribution activities paid dividends, and the final piece of the jigsaw was put in place with the appointment of a new chief operating officer towards the end of the year.

Just 1,000 miles to the East, across the Tasman Sea, the New Zealand economy took more of a buffeting from the chill winds of recession. **Premier**, the only display marketer of books with country-wide distribution, worked hard to mitigate the damage, and ended the year with sales fractionally ahead of the previous year and operating profit modestly behind. An injection of new management has since been administered, which we expect will bring the patient back to rude, good health in short order.

In the UK, the smallest of our publishing markets, our London-based imprints fared mostly well in what was adjudged to be a very tough environment. The exception was **JR Books**, which, by definition, tends to be a hit-and-miss operation. Despite a number of high-profile, well publicized, widely reviewed, and vigorously sold titles, the unit had more misses than hits in 2009 and recorded another loss, on modestly increased sales. Otherwise, **Aurum Press** posted healthy growth on the back of a vibrant new title offering that included the chart-topping *Am I alone in thinking..?*, a collection of unpublished letters to the Daily Telegraph that sold more than 70,000 copies, and the critically acclaimed *A Fortunate Life: The Autobiography of Paddy Ashdown*, whose author did a month of personal appearances, including a number of prime-time television and radio spots. Overheads were held at 2008 levels and gross margin increased due to an

improvement in print-buying, all of which caused operating profit to leap by 30% in what was a very satisfactory result.

**Jacqui Small** had a solid year of real growth in the UK and Export channels. Sales were up by 21%, thanks to a broadening of publishing interests into more general trade subjects—*Jemma Kidd's Make Up Masterclass* and *World's Best Beers* are two prime examples—alongside its core specialisms. Co-edition sales were satisfactory and increased by 4% in a difficult market. And **Apple Press**, our illustrated food and lifestyle list, had a brilliant year: sales were comfortably up, and profits a full 33% ahead of the 2008 result. This was due in part to the quality of new titles released in the year, many of them sourced from within the Quarto Group. The popularity of Quintet's *500 Series* continues to expand, while *Kitchen Knife Skills*, from Quarto, achieved superb sales on the back of the author's growing celebrity as a finalist on television's *MasterChef: The Professionals*. Apple's move into publishing books on beauty and grooming was also deemed a success: titles such as *Eye Candy* and *Makeup* each sold more than 10,000 copies and have become solid backlist items. A number of new accounts were opened outside the normal bookshop channels, most successfully with Urban Outfitters and Past Times, both of which contributed substantially to revenue.

**CONSOLIDATED INCOME STATEMENT**  
**year ended December 31, 2009**

	<b>Note</b>	<b>2009</b> <b>£000</b>	2008 £000
<b>Continuing operations</b>			
Revenue	1	<b>106,631</b>	112,743
Cost of sales		<b>(67,939)</b>	(71,887)
		<b>38,692</b>	40,856
<b>Gross profit</b>			
Other operating income		<b>227</b>	182
Distribution costs		<b>(3,962)</b>	(4,438)
Administrative expenses before amortization of intangibles and non-recurring items		<b>(24,766)</b>	(25,250)
Amortization of intangibles		<b>(1,596)</b>	(1,830)
Exceptional items			
Restructuring costs	2	<b>(1,625)</b>	(4,274)
Total administrative expenses		<b>(27,987)</b>	(31,354)
<b>Profit from operations before amortization of non-current intangibles and non-recurring items</b>		<b>10,191</b>	11,350
<b>Operating profit</b>			
	1	<b>6,970</b>	5,246
Finance income		<b>279</b>	421
Finance costs		<b>(3,611)</b>	(4,107)
<b>Profit before tax</b>		<b>3,638</b>	1,560
Tax		<b>(881)</b>	(1,216)
<b>Profit for the year</b>		<b>2,757</b>	344
Attributable to:			
Equity holders of the parent		<b>2,567</b>	(117)
Minority interest		<b>190</b>	461
		<b>2,757</b>	344
<b>Earnings per share</b>			
Basic	3	<b>13.0p</b>	(0.6)p
Diluted	3	<b>13.0p</b>	(0.6)p
<b>Adjusted earnings per share</b>			
Basic	3	<b>26.0p</b>	26.9p
Diluted	3	<b>26.0p</b>	26.5p

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**year ended December 31, 2009**

	<b>2009</b>	2008
	<b>£000</b>	£000
<b>Profit for the year</b>	<b>2,757</b>	344
<b>Other comprehensive income</b>		
Foreign exchange translation differences	<b>(413)</b>	3,562
Cash flow hedge: change in fair value	<b>1,449</b>	(2,801)
Net income recognised directly in equity	<b>1,036</b>	761
<b>Total comprehensive income for the year</b>	<b>3,793</b>	1,105
Attributable to:		
Equity holders of the parent	<b>3,914</b>	(590)
Minority interests	<b>(121)</b>	1,695
	<b>3,793</b>	1,105

**CONSOLIDATED BALANCE SHEET**  
**at year ended December 31, 2009**

	<b>2009</b>	2008	2007
	<b>£000</b>	£000	£000
<b>Non-current assets</b>			
Goodwill	<b>22,624</b>	23,380	18,922
Other intangible assets	<b>1,388</b>	3,242	4,194
Property, plant and equipment	<b>6,703</b>	7,564	7,445
Deferred tax assets	<b>615</b>	1,172	1,080
Total non-current assets	<b>31,330</b>	35,358	31,641
<b>Current assets</b>			
Intangible assets: Pre-publication costs	<b>31,941</b>	32,222	24,946
Inventories	<b>15,805</b>	17,821	15,425
Derivative financial instruments	-	741	-
Trade and other receivables	<b>33,696</b>	38,484	31,811
Cash and cash equivalents	<b>24,092</b>	28,180	17,577
Total current assets	<b>105,534</b>	117,448	89,759
<b>Total assets</b>	<b>136,864</b>	152,806	121,400
<b>Current liabilities</b>			
Short term borrowings	<b>(250)</b>	(333)	(2,760)
Derivative financial instruments	<b>(144)</b>	-	-
Trade and other payables	<b>(32,447)</b>	(42,492)	(32,626)
Tax payable	<b>(299)</b>	(765)	(1,547)
Total current liabilities	<b>(33,140)</b>	(43,590)	(36,933)
<b>Non-current liabilities</b>			
Medium and long term borrowings	<b>(74,176)</b>	(80,234)	(58,190)
Deferred tax liabilities	<b>(3,975)</b>	(3,937)	(3,273)
Derivative financial instruments	<b>(2,462)</b>	(3,911)	(1,110)
Other payables	<b>(17)</b>	(20)	(29)
Total non-current liabilities	<b>(80,630)</b>	(88,102)	(62,602)
<b>Total liabilities</b>	<b>(113,770)</b>	(131,692)	(99,535)
<b>Net assets</b>	<b>23,094</b>	21,114	21,865
<b>Equity</b>	<b>1,162</b>	1,162	1,162
Share capital	<b>21,768</b>	21,768	21,768
Paid in surplus	<b>(4,514)</b>	(7,021)	(5,025)
Retained deficit and other reserves	<b>18,416</b>	15,909	17,905
<b>Equity attributable to equity holders of the parent</b>	<b>4,678</b>	5,205	3,960
<b>Minority interest</b>	<b>23,094</b>	21,114	21,865
<b>Total equity</b>	<b>23,094</b>	21,114	21,865

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**year ended December 31, 2009**

	Share capital £000	Paid in surplus £000	Hedging reserve £000	Translation reserves £000	Treasury shares £000	Retained deficit £000	Equity attributable to equity holders of the parent £000	Minority interest £000	Total £000
<b>Balance at January 1, 2008</b>	1,162	21,768	(1,110)	(829)	(389)	(2,697)	17,905	3,960	21,865
Profit for the year	-	-	-	-	-	(117)	(117)	461	344
Foreign exchange translation differences	-	-	-	2,328	-	-	2,328	1,234	3,562
Cash flow hedge: change in fair value	-	-	(2,801)	-	-	-	(2,801)	-	(2,801)
<b>Total comprehensive income for the year</b>	-	-	(2,801)	2,328	-	(117)	(590)	1,695	1,105
Share options exercised by employees	-	-	-	-	1	-	1	-	1
Dividends to shareholders	-	-	-	-	-	(1,407)	(1,407)	-	(1,407)
Dividends paid to minority interest	-	-	-	-	-	-	-	(248)	(248)
Purchase of minority interest	-	-	-	-	-	-	-	(202)	(202)
<b>Balance at December 31, 2008 and January 1, 2009</b>	1,162	21,768	(3,911)	1,499	(388)	(4,221)	15,909	5,205	21,114
Profit for the year	-	-	-	-	-	2,567	2,567	190	2,757
Foreign exchange translation differences	-	-	-	(102)	-	-	(102)	(311)	(413)
Cash flow hedge: change in fair value	-	-	1,449	-	-	-	1,449	-	1,449
<b>Total comprehensive income for the year</b>	-	-	1,449	(102)	-	2,567	3,914	(121)	3,793
Dividends to shareholders	-	-	-	-	-	(1,407)	(1,407)	-	(1,407)
Dividends paid to minority interest	-	-	-	-	-	-	-	(185)	(185)
Purchase of minority interest	-	-	-	-	-	-	-	(221)	(221)
<b>Balance at December 31, 2009</b>	1,162	21,768	(2,462)	1,397	(388)	(3,061)	18,416	4,678	23,094

**CONSOLIDATED CASH FLOW STATEMENT**  
**year ended December 31, 2009**

	<b>2009</b>	2008
	<b>£000</b>	£000
<b>Profit for the year</b>	<b>2,757</b>	344
Adjustments for:		
Net finance costs	<b>3,332</b>	3,686
Depreciation of property, plant and equipment	<b>1,049</b>	1,089
Tax expense	<b>881</b>	1,216
Amortization of non-current intangible assets	<b>1,596</b>	1,830
Impairment of goodwill and non-current intangible assets	-	309
Amortization and loss on disposal of pre-publication costs	<b>11,559</b>	9,607
Movement in fair value of derivatives	<b>885</b>	(741)
Gain on disposal of property, plant and equipment	<b>(34)</b>	(9)
Operating cash flows before movements in working capital	<b>22,025</b>	17,331
Decrease in inventories	<b>1,045</b>	1,367
Decrease (increase) in receivables	<b>3,472</b>	(1,106)
(Decrease) increase in payables	<b>(8,780)</b>	6,171
Cash generated by operations	<b>17,762</b>	23,763
Income taxes paid	<b>(954)</b>	(1,093)
<b>Net cash from operating activities</b>	<b>16,808</b>	22,670
<b>Investing activities</b>		
Interest received	<b>279</b>	421
Proceeds on disposal of property, plant and equipment	<b>118</b>	183
Investment in pre-publication costs	<b>(12,384)</b>	(13,071)
Purchases of property, plant and equipment	<b>(352)</b>	(1,038)
Acquisition of subsidiaries	<b>(532)</b>	(293)
<b>Net cash used in investing activities</b>	<b>(12,871)</b>	(13,798)
<b>Financing activities</b>		
Dividends paid	<b>(1,407)</b>	(1,407)
Interest payments	<b>(4,000)</b>	(4,043)
Proceeds on issue of share capital	-	1
New bank loans raised	-	4,000
Dividends paid to minority interest	<b>(185)</b>	(248)
<b>Net cash used in financing activities</b>	<b>(5,592)</b>	(1,697)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(1,655)</b>	7,175
<b>Cash and cash equivalents at beginning of year</b>	<b>28,180</b>	16,109
Foreign currency exchange differences on cash and cash equivalents	<b>(2,433)</b>	4,896
<b>Cash and cash equivalents at end of year</b>	<b>24,092</b>	28,180

## NOTES

### 1. Segmented analysis

Operating segments

	<b>Co-edition Publishing 2009 £000</b>	Co-edition Publishing 2008 £000	<b>Publishing 2009 £000</b>	Publishing 2008 £000	<b>Total 2009 £000</b>	Total 2008 £000
<b>Revenue</b>						
Total sales	<b>38,555</b>	44,861	<b>70,112</b>	70,033	<b>108,667</b>	114,894
Inter-segment revenue	<b>(2,036)</b>	(2,148)	-	(3)	<b>(2,036)</b>	(2,151)
External sales	<b>36,519</b>	42,713	<b>70,112</b>	70,030	<b>106,631</b>	112,743
Segment result before amortization of intangibles and exceptional items	<b>4,960</b>	6,397	<b>6,704</b>	6,259	<b>11,664</b>	12,656
Amortization of intangibles	<b>(12)</b>	(12)	<b>(1,584)</b>	(1,818)	<b>(1,596)</b>	(1,830)
Restructuring costs	<b>(221)</b>	-	<b>(1,404)</b>	(4,274)	<b>(1,625)</b>	(4,274)
Segment result	<b>4,727</b>	6,385	<b>3,716</b>	167	<b>8,443</b>	6,552
Unallocated corporate expenses					<b>(1,473)</b>	(1,306)
Operating profit					<b>6,970</b>	5,246
Investment income					<b>279</b>	421
Finance costs					<b>(3,611)</b>	(4,107)
Profit before tax					<b>3,638</b>	1,560
Tax					<b>(881)</b>	(1,216)
Profit after tax					<b>2,757</b>	344

### Geographical segments

	<b>Revenue 2009 £000</b>	Revenue 2008 £000
United Kingdom	<b>14,363</b>	17,109
United States of America	<b>52,206</b>	54,717
Australasia and the Far East	<b>20,489</b>	20,904
Europe	<b>14,426</b>	15,793
Rest of the World	<b>5,147</b>	4,220
	<b>106,631</b>	112,743

## 2. Exceptional items

Exceptional items in 2009 reflect redundancies in the UK and Far East as well as the cost of consolidating the US warehouse and back office functions.

## 3. Earnings per share

	<b>2009</b>	2008
	<b>£000</b>	£000
Earnings for the purposes of basic and diluted earnings per share, being net profit attributable to equity holders of the parent	<b>2,567</b>	(117)
	<b>Number</b>	Number
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>19,679,229</b>	19,678,237
Effect of dilutive potential ordinary shares:		
Share options	<b>3,562</b>	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>19,682,791</b>	19,678,237
	<b>2009</b>	2008
	<b>pence</b>	pence
Basic	<b>13.0</b>	(0.6)
Diluted	<b>13.0</b>	(0.6)

The dilutive effect of share options (24,896 shares) and the loan note (317,871 shares) in 2008 were not included in the above calculations because they were not dilutive in that year. The dilutive effect of these items in 2008 was, however, included in the calculation below because the items were dilutive on adjusted earnings. The total shares for the calculation in 2008 became 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	<b>2,567</b>	(117)
Amortization of intangibles (net of tax and minority interest)	<b>1,075</b>	1,210
Restructuring costs (net of tax and minority interest)	<b>1,474</b>	4,197
	<hr/>	<hr/>
Earnings for the purposes of adjusted earnings per share	<b>5,116</b>	5,290
Effect of dilutive potential ordinary shares:		
Interest on loan notes (net of tax)	-	16
	<hr/>	<hr/>
Earnings for the purposes of diluted earnings per share	<b>5,116</b>	5,306
	<hr/> <hr/>	<hr/> <hr/>
	<b>2009</b>	2008
	<b>pence</b>	pence
	<hr/> <hr/>	<hr/> <hr/>
Basic	<b>26.0</b>	26.9
	<hr/> <hr/>	<hr/> <hr/>
Diluted	<b>26.0</b>	26.5
	<hr/> <hr/>	<hr/> <hr/>

**4. Dividends**

	<b>2009</b>	2008
	<b>£000</b>	£000
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the year ended December 31, 2009 of 3.15p (2008: 3.15p) per share	<b>620</b>	620
Final dividend for the year ended December 31, 2008 of 4.0p (2007: 4.0p) per share	<b>787</b>	787
	<hr/>	<hr/>
	<b>1,407</b>	1,407
	<hr/> <hr/>	<hr/> <hr/>
Proposed final dividend for the year ended December 31, 2009 of 4.0p (2008: 4.0p) per share	<b>787</b>	787
	<hr/>	<hr/>
	<b>787</b>	787
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>2009</b>	2008
	<b>£000</b>	£000
Adjusted pre-tax profit	<b>6,859</b>	7,664
Amortization of intangibles	<b>(1,596)</b>	(1,830)
Exceptional items	<b>(1,625)</b>	(4,274)
Profit before tax	<b>3,638</b>	1,560
EBITDA		
Profit before tax, before amortization of intangibles and exceptional items	<b>6,859</b>	7,664
Net interest	<b>3,332</b>	3,686
Depreciation	<b>1,049</b>	1,089
Amortization of pre-publication costs	<b>11,559</b>	9,529
EBITDA, before exceptional items	<b>22,799</b>	21,968
Net debt		
Medium and long term borrowings	<b>74,176</b>	80,234
Short term borrowings	<b>250</b>	333
Cash and cash equivalents	<b>(24,092)</b>	(28,180)
	<b>50,334</b>	52,387

## **6. Committed facilities and banking covenants**

The Group has a US\$115m (2008: US\$115m) syndicated bank facility which expires on June 12, 2012. In addition, the Group has a five year floating rate note of US\$50m (2008: US\$50m). These facilities are subject to three principal covenants, namely:

(a) Total consolidated net indebtedness shall not exceed 3 times EBITDA. For the year ended December 31, 2009, net indebtedness was 2.21 times (2008: 2.38 times) EBITDA.

(b) The consolidated operating profit before exceptional items and goodwill amortization shall exceed three times net interest payable. For the year ended December 31, 2009, net interest payable was 3.06 times (2008: 3.08 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, 2009, net interest payable was 2.57 times (2008: 1.92 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, 2009 or 2008, prepared in accordance with the Companies Act 2006 as applicable to overseas companies. The financial information for the year ended December 31, 2008 is derived from the statutory accounts for that year, which have been delivered to the Registrar of Companies. The auditor reported on those accounts and their report was unqualified. The statutory accounts for the year ended December 31, 2009 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 22, 2010.

8. The accounting policies adopted for use in the preparation of the 2009 Preliminary Results and of the 2009 Annual Financial Statements were consistent with those used in the preparation of the 2008 Annual Financial Statements, with the exception of IAS 1 and IFRS 8 which have impacted on presentation and disclosure only.
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](mailto:mickm@quarto.com)).