21 February 2012

Preliminary Results

Quarto (Full List: QRT.L), one of the largest international co-edition book publishers based in London, announces its preliminary results for the year ended 31 December 2011.

Financial Highlights

Year to December 31	2011 $000	2010 $000	Growth %
Revenue	**186,126**	176,409	6
Adjusted EBITDA	**37,316**	36,256	3
Adjusted operating profit	**16,735**	16,377	2
Adjusted profit before taxation	**12,106**	11,505	5
Adjusted diluted earnings per share	**45.6c**	42.3c	8
Dividend per share	**7.9p/12.4c**	7.5p/11.9c	5
Net debt	**81,421**	71,712	14
Net debt to adjusted equity	**85%**	81%	5

- Bank revolving credit facility successfully refinanced
- Proposed final dividend up 9.6%, making total dividend for year of 7.9p (2010:7.5p), an increase of 5.3%

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Operational Highlights

- Publishing division
    - Revenue for this segment was up 6% at $123.6m (2010:$116.4m)
    - Operating profit margin of 10.0% (2010:10.1%)
    - Continued strong backlist sales generating 61% of revenue (2010:61%)
- Co-edition division
    - Revenues for this segment were up 4% at $62.5m (2010:$60.0m).
    - Reprints accounted for 69% of co-edition book publishing revenues, compared to 71% last year (which was a record year).
- Digital Investment
    - Digital revenues for our publishing businesses totalled $2.1m in the year (2010:$0.4m).
- Acquisitions
    - Satisfactory performances from the two acquisitions (Cool Springs Press and Frances Lincoln) made during the year
- Succession - appointment of COO to be announced shortly

Commenting on the results, Chairman and Chief Executive Officer, Laurence Orbach said:

"These results are welcome. Book publishing is a mature business facing significant change. The depth of experience of senior management, allied to adventurous creative teams...has produced a winning combination, able to confront challenges and define opportunities.

"We continue to redouble our efforts to make and sell good books and give shareholders and employees a fair distribution. In recognition of the results for 2011, the board is recommending a final dividend of 4.55p per share, up 9.6%."

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About Quarto:

Quarto is one of the largest international co-edition book publishers with two principal strands of activity: its Publishing segment publishes books, under imprints owned by the Group; and its Co-Edition Publishing segment creates books that are licensed to third party publishers for publication under their own imprints in many languages around the world.

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Chairman's Statement

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

- Profit before tax up 5.2% at $12.1 million (2101: $11.5 million)
- Revenues ahead 5.5% at $186.1 million (2010: $176.4 million)
- Earnings per share grew 7.8% to 45.6 cents (2010: 42.3 cents)
- Digital revenues up 500% at $2.1 million (2010: $0.42 million)
- In the Publishing segment, backlist sales accounted for 61% (2010: 61%) of revenues; in the Co-edition Publishing segment, 69% (2010: 71%) of revenues came from backlist sales
- Proposed final dividend up 9.6%, making the total dividend for the year 7.9p (2010: 7.5p), an increase of 5.3%
- Net debt, including cost of two acquisitions and buy-in of non-controlling interests, increased 14% to $81.4 million (2010: $71.7 million)
- Bank revolving credit facility refinanced successfully.

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

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

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

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

Commentary on 2011 Trading

Book Publishing

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

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

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

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

Co-edition Publishing

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

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

Acquisitions

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

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

Strategy: challenges and opportunities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Corporate activity

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

Finance

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

Prospects and Succession

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

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

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

The business is now of a scale that requires more, better, and younger professional management, and the first step will be the appointment of a chief operating officer. The candidate has been identified, and will be announced shortly. The candidate and the Nominations Committee have asked me to continue as chairman and chief executive for at least 12 months. If, as we expect, the appointment is successful, I would then relinquish my position as chief executive, continuing as chairman, and for only so long as my experience and abilities remain useful to the company.

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

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

Laurence F Orbach
Chairman and Chief Executive Officer

London, February 21, 2012

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FINANCIAL REVIEW

Business Performance

	2011	2010	Growth
	$000	$000	%
Revenue	186,126	176,409	6
Adjusted EBITDA	37,316	36,256	3
Adjusted operating profit	16,735	16,377	2
Adjusted profit before taxation	12,106	11,505	5
Adjusted diluted earnings per share	45.6c	42.3c	8
Dividend per share	7.9p/12.4c	7.5p/11.9c	5
Net debt	81,421	71,712	14
Net debt to adjusted equity	85%	81%	5
Statutory results			
Operating profit	14,056	12,640	11
Profit before tax	9,427	7,768	21
Basic earnings per share	38.9c	29.2c	33

A reconciliation from the statutory measures to the adjusted measures appears in note 5 of this announcement. The commentary below focuses on the adjusted performance.

Group

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

As, has been the case for many years, not one of our titles exceeded 1% of 2011 group revenues. The following titles were our top five sellers, with their respective revenues, in 2011:

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

Co-edition Publishing segment

Revenues for this segment were up 4% at $62.5m (2010:$60.0m). Operating profit was down 1%, at $7.0m (2010:$7.1m). We achieved an operating profit margin of 11.2% (2010:11.8%).Reprints accounted for 69% of co-edition book publishing revenues, compared to 71% last year, which was a record year. This confirms that we have a very valuable backlist and that our business model is working effectively.

At the individual operating level, there was a strong performance from Jacqui Small and three of its cookery titles won Gourmand awards. Jacqui Small produces titles in the gardening, cookery and interior design categories and its best selling title was Decorate; this title has sold over 76,000 copies in its first year. In contrast, revenues at Global, were down substantially. The resource-based buoyant Australian economy, driving a very strong currency, has worked against it, as Global derives most of its revenues from overseas publishers.

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

Publishing segment

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

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

The US, which accounts for 55% of our publishing segment revenue, was subdued, with revenues finishing 1% up on last year. There was a strong performance at Walter Foster, a producer of art instructional books and activity kits for artists of all ages and abilities. Against this, we continue to face difficulties with our transportation and graphic design lists.

Digital revenues for our publishing businesses totalled $2.1m in the year (2010:$0.4m).

Backlist sales in our book publishing units continued to be strong and accounted for 61% (2010:61%) of revenues.

Our display marketing businesses both produced solid performances.

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

Cashflow and Indebtedness

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

We concluded our refinancing on February 14, 2012. We have signed a US$95m multi-currency revolving credit facility, with a tenor through to April 30, 2015. Committed facilities now total

$145m, including this facility and a three year $50m private placement facility, repayment of which commences on December 7, 2012.

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

Shareholder return

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

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

Michael J Mousley
Chief Financial Officer
London, February 21, 2012

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
year ended December 31, 2011

	Note	2011 $000	2010 $000
Continuing operations			
Revenue	1	186,126	176,409
Cost of sales		(120,591)	(116,563)
Gross profit		65,535	59,846
Other operating income		119	183
Distribution costs		(7,612)	(6,403)
Administrative expenses before amortization of intangibles and non-recurring items		(41,307)	(37,249)
Amortization of intangibles		(1,312)	(1,246)
Exceptional items	2	(1,367)	(2,491)
Total administrative expenses		(43,986)	(40,985)
Profit from operations before amortization of non-current intangibles and non-recurring items		16,735	16,377

Operating profit	1	14,056	12,640
Finance income		419	477
Finance costs		(5,048)	(5,349)
Profit before tax		9,427	7,768
Tax		(1,356)	(1,363)
Profit for the year		8,071	6,405
Other comprehensive income			
Foreign exchange translation differences		(446)	1,353
Cash flow hedge: change in fair value		1,048	53
Net income recognised directly in equity		602	1,406
Total comprehensive income for the year		8,673	7,811
Profit for the year attributable to:			
Owners of the parent		7,648	5,749
Non-controlling interests		423	656
		8,071	6,405
Other comprehensive income attributable to:			
Owners of the parent		8,231	6,931
Non-controlling interests		442	880
		8,673	7,811
Earnings per share			
Basic	3	38.9c	29.2c
Diluted	3	38.8c	29.2c

Adjusted earnings per share			
Basic	3	45.6c	42.3c
Diluted	3	45.6c	42.3c

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CONSOLIDATED BALANCE SHEET (UNAUDITED)
at year ended December 31, 2011

	2011 $000	2010 $000	2009 $000
Non-current assets			
Goodwill	39,865	37,197	36,425
Other intangible assets	1,840	989	2,235
Property, plant and equipment	9,785	10,106	10,791
Trade and other receivables	1,228	-	-
Deferred tax assets	1,765	1,942	991
Total non-current assets	54,483	50,234	50,442
Current assets			
Intangible assets: Pre-publication costs	52,711	51,605	51,425
Inventories	27,759	23,861	25,446
Trade and other receivables	57,072	50,786	54,251
Cash and cash equivalents	34,303	43,783	38,788
Total current assets	171,845	170,035	169,910
Total assets	226,328	220,269	220,352
Current liabilities			
Short term borrowings	(82,348)	(265)	(403)
Derivative financial instruments	(133)	(190)	(232)
Trade and other payables	(54,395)	(50,445)	(52,240)
Tax payable	(857)	(1,674)	(481)
Total current liabilities	(137,733)	(52,574)	(53,356)

Non-current liabilities			
Medium and long term borrowings	**(33,376)**	(115,230)	(119,423)
Deferred tax liabilities	**(5,782)**	(5,895)	(6,400)
Derivative financial instruments	**(2,863)**	(3,911)	(3,964)
Other payables	**(54)**	(45)	(27)
Total non-current liabilities	**(42,075)**	(125,081)	(129,814)
Total liabilities	**(179,808)**	(177,655)	(183,170)
Net assets	**46,520**	42,614	37,182
Equity			
Share capital	**2,045**	2,045	2,045
Paid in surplus	**33,756**	33,756	33,756
Retained deficit and other reserves	**4,032**	(1,461)	(6,151)
Equity attributable to owners of the parent	**39,833**	34,340	29,650
Non-controlling interests	**6,687**	8,274	7,532
Total equity	**46,520**	42,614	37,182

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
year ended December 31, 2011

	Share capital	Paid in surplus	Hedging reserve	Translation reserves	Treasury shares	Retained profits	Equity attributable to owners of the parent	Non-controlling interests	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000
Balance at January 1, 2010	2,045	33,756	(3,964)	(2,822)	(648)	1,283	29,650	7,532	37,182

Profit for the year	-	-	-	-	-	5,749	5,749	656	6,405
Foreign exchange translation differences	-	-	-	1,129	-	-	1,129	224	1,353
Cash flow hedge: change in fair value	-	-	53	-	-	-	53	-	53
Total comprehensive income for the year	-	-	53	1,129	-	5,749	6,931	880	7,811
Dividends to shareholders	-	-	-	-	-	(2,241)	(2,241)	-	(2,241)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(45)	(45)
Purchase of non-controlling interests	-	-	-	-	-	-	-	(93)	(93)
Balance at December 31, 2010 and January 1, 2011	2,045	33,756	(3,911)	(1,693)	(648)	4,791	34,340	8,274	42,614
Profit for the year	-	-	-	-	-	7,648	7,648	423	8,071
Foreign exchange translation differences	-	-	-	(465)	-	-	(465)	19	(446)
Cash flow hedge: change in fair value	-	-	1,048	-	-	-	1,048	-	1,048
Total comprehensive income for the year	-	-	1,048	(465)	-	7,648	8,231	442	8,673
Dividends to shareholders	-	-	-	-	-	(2,376)	(2,376)	-	(2,376)
	-	-	-	-	-	-	-	(98)	(98)

Dividends paid to non-controlling interests									
Purchase of non-controlling interests	-	-	-	-	-	(362)	(362)	(1,931)	(2,293)
Balance at December 31, 2011	2,045	33,756	(2,863)	(2,158)	(648)	9,701	39,833	6,687	46,520

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CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)
year ended December 31, 2011

	2011 $000	2010 $000
Profit for the year	8,071	6,405
Adjustments for:		
Net finance costs	4,629	4,872
Depreciation of property, plant and equipment	1,534	1,373
Tax expense	1,356	1,363
Amortization of non-current intangible assets	1,312	1,246
Amortization of pre-publication costs	19,047	18,506
Movement in fair value of derivatives	(57)	(42)
Gain on disposal of property, plant and equipment	(380)	(8)
Operating cash flows before movements in working capital	35,512	33,715
(Increase)/decrease in inventories	(415)	1,798
(Increase)/decrease in receivables	(1,835)	4,500
Decrease in payables	(609)	(3,292)
Cash generated by operations	32,653	36,721
Income taxes paid	(2,921)	(1,465)
Net cash from operating activities	29,732	35,256

Investing activities		
Interest received	419	477
Proceeds on disposal of property, plant and equipment	198	49
Investment in pre-publication costs	(18,681)	(18,134)
Purchases of property, plant and equipment	(1,694)	(1,004)
Acquisition of subsidiaries	(12,394)	(634)
Net cash used in investing activities	(32,152)	(19,246)
Financing activities		
Dividends paid	(2,376)	(2,241)
Interest payments	(5,080)	(5,399)
New bank loans/(bank loans repaid)	604	(4,193)
Dividends paid to non-controlling interests	(98)	(45)
Net cash used in financing activities	(6,950)	(11,878)
Net increase (decrease) in cash and cash equivalents	(9,370)	4,132
Cash and cash equivalents at beginning of year	43,783	38,788
Foreign currency exchange differences on cash and cash equivalents	(110)	863
Cash and cash equivalents at end of year	34,303	43,783

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NOTES (UNAUDITED)

1. Segmental analysis

Operating segments

	Co-edition Publishing 2011 $000	Co-edition Publishing 2010 $000	**Publishing 2011 $000**	Publishing 2010 $000	**Total 2011 $000**	Total 2010 $000

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

Geographical segments

	Revenue 2011 $000	Revenue 2010 $000
United States of America	**82,767**	81,984

Australasia and the Far East	39,698	38,549
United Kingdom	31,125	25,604
Europe	22,361	21,334
Rest of the World	10,175	8,938
	186,126	176,409

2. Exceptional items

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

3. Earnings per share

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

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

	2011 cents	2010 cents
Basic	38.9	29.2
Diluted	38.8	29.2

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

Amortization of intangibles (net of tax)	1,034	826
Exceptional items (net of tax and non-controlling interest)	971	1,745
Exceptional tax losses	(670)	-
Earnings for the purposes of adjusted earnings per share	8,983	8,320

	2011 cents	2010 cents
Basic	45.6	42.3
Diluted	45.6	42.3

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

4. Dividends

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

The proposed final dividend of 4.55p per share is payable on July 5, 2012, to shareholders on the register on June 8, 2012, with an ex-dividend date of June 6, 2012.

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

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

	2011 $000	2010 $000
Adjusted pre-tax profit	12,106	11,505
Amortization of intangibles	(1,312)	(1,246)
Exceptional items	(1,367)	(2,491)
Profit before tax	9,427	7,768
EBITDA		
Profit before tax, before amortization of intangiblesand exceptional items	12,106	11,505
Net interest	4,629	4,872
Depreciation	1,534	1,373
Amortization of pre-publication costs	19,047	18,506
EBITDA, before exceptional items	37,316	36,256
Net debt		
Medium and long term borrowings	33,376	115,230
Short term borrowings	82,348	265
Cash and cash equivalents	(34,303)	(43,783)
	81,421	71,712
Adjusted equity		
Total equity	46,520	42,614
Adjustment to reflect valuation for internally generated backlist of titles	48,800	45,500

Adjusted equity	95,320	88,114

6. Committed facilities and banking covenants

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

(a) Total consolidated net indebtedness shall not exceed 3 times EBITDA. For the year ended December 31, 2011, net indebtedness was 2.09 times (2010: 1.97 times) proforma EBITDA.

(b) The consolidated operating profit before exceptional items and goodwill amortization shall exceed three times net interest payable. For the year ended December 31, 2011, net interest payable was 3.62 times (2010: 3.36 times) covered under this covenant.

(c) The consolidated operating profit before goodwill amortization shall exceed 1.5 times net interest payable. For the year ended December 31, 2011, net interest payable was 3.32 times (2010: 2.85 times) covered under this covenant.

7. Post balance sheet event

On February 14, 2012, the Group concluded its refinancing, signing a US$95m multi-currency revolving credit facility, with a tenor through to April 30, 2015. Under the terms of the new facility, the three principal covenants remain unchanged.

8. The financial information set out in the announcement does not constitute the company's statutory accounts for the year ended December 31, 2011 or 2010, prepared in accordance with the Companies Act 2006 as applicable to overseas companies. The financial information for the year ended December 31, 2010 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 unmodified. The audit of the statutory accounts for the year ended 31 December 2011 is not yet complete. These accounts will be finalized 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 Company's annual meeting.

The financial information contained within this Preliminary Announcement was approved by the Board on February 21, 2012.

9. The accounting policies adopted for use in the preparation of the 2011 Preliminary Results and of the 2011 Annual Financial Statements were consistent with those used in the preparation of the 2010 Annual Financial Statements, with the exception of a change in the presentational currency of the Group.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

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

Other than the change in the accounting policy for the Group's choice of presentational currency, no new accounting standards have had a significant impact on the Group's results.

10. The Directors confirm that to the best of their knowledge:

(a) The financial statements, prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and

(b) The Business Review, which will be incorporated into the Directors' Report of the financial statements, will include a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

11. 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: +44 (0)20 7700 9000 (email: mick.mousley@quarto.com).