THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in **Lion Rock Group Limited**, you should at once hand this circular to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

LION ROCK GROUP LIMITED
獅子山集團有限公司*
(Incorporated in Bermuda with limited liability)
(Stock code: 1127)

MAJOR TRANSACTION
ACQUISITION OF QUARTO SHARES

A letter from the Board is set out on pages 4 to 13 of this circular.

The Acquisition has been approved by written Shareholders' approval obtained from Lion Rock Group Limited, pursuant to Rule 14.44 of the Listing Rules in lieu of holding a general meeting of the Company. This circular is being despatched to the Shareholders for information only.

25 May 2022

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DEFINITIONS

In this circular, unless the context requires otherwise, the following expressions have the following meanings:

"A$"	Australian dollars, the lawful currency of Australia
"£"	British pound, the lawful currency of the UK
"1010 Printing"	1010 Printing Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company
"2021 Acquisition"	the acquisition of 1,679,743 Quarto Shares by 1010 Printing from Mr. Lau for a consideration of £1,511,769 (equivalent to approximately HK$15.6 million) (excluding stamp duty and related expenses) on 11 October 2021
"Acquisition"	the acquisition of 1,875,000 Quarto Shares by 1010 Printing from Mr. Zen Wei Peu on 1 April 2022 (after trading hours of the Stock Exchange) at a consideration of £2,250,000 (equivalent to approximately HK$23,175,000) (excluding stamp duty and related expenses)
"Board"	the board of Directors
"City Apex"	City Apex Ltd., a company incorporated in the British Virgin Islands with limited liability
"Company"	Lion Rock Group Limited (獅子山集團有限公司*), an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 1127)
"Director(s)"	the director(s) of the Company
"Enlarged Group"	The Group and Quarto Group
"ER2"	ER2 Holdings Limited, a company incorporated in Hong Kong with limited liability
"First Open Market Acquisitions"	the acquisition of an aggregate of 1,185,000 Quarto Shares in the open market of the London Stock Exchange by 1010 Printing between 6 August 2021 and 6 January 2022 (both dates inclusive) for an aggregate consideration of approximately £1,404,950 (equivalent to approximately HK$14.5 million) (excluding stamp duty and related expenses)

"Great Eagle"	The Great Eagle Company, Limited, a company incorporated in Hong Kong with limited liability and a Shareholder
"Great Eagle Holdings"	Great Eagle Holdings Limited, a company listed on the Stock Exchange (Stock code: 0041.HK)
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	third party(ies) independent of the Company and its connected persons
"Latest Practicable Date"	18 May 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Lau"	Mr. Lau Chuk Kin, an executive Director and substantial Shareholder and an executive director of Quarto
"Ms. Lam"	Ms. Lam Mei Lan, an executive Director, a Shareholder and a non-executive director of Quarto
"PRC" or "China"	the People's Republic of China
"Quarto"	The Quarto Group, Inc., incorporated in the United States and the issued shares of which are listed on the London Stock Exchange (LSE: QRT)
"Quarto Group"	Quarto and its subsidiaries
"Quarto Share(s)"	share(s) of US$0.1 each in the issued share capital of Quarto
"Relevant Shareholders"	Mr. Lau, City Apex, ER2, Ms. Lam and Great Eagle
"Second Open Market Acquisitions"	the acquisition of an aggregate of 398,000 Quarto Shares in the open market of the London Stock Exchange by 1010 Printing between 7 January 2022 and 26 January 2022 (both dates inclusive) for an aggregate consideration of approximately £497,488 (equivalent to approximately HK$5.1 million) (excluding stamp duty and related expenses)

"Share(s)"	the ordinary Share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	shareholder(s) of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	The Codes on Takeovers and Mergers and Share Buy-backs
"UK"	The United Kingdom of Great Britain and Northern Ireland
"US$"	United States dollars, the lawful currency of the United States
"United States" or "US"	the United States of America
"%"	per cent.

For the purpose of illustration only and unless otherwise stated, conversion of £ to HK$ in this circular is based on the exchange rate of £1.00 to HK$10.3. Such conversion should not be construed as a representation that any amounts have been, could have been, or may be, exchanged at this or any other rate.

* *For identification purpose only*

LION ROCK GROUP LIMITED
獅子山集團有限公司*
(Incorporated in Bermuda with limited liability)
(Stock code: 1127)

Executive Directors:
Lau Chuk Kin
Lam Mei Lan
Chu Chun Wan

Non-Executive Directors:
Li Hoi, David
Guo Junsheng

Independent Non-Executive Directors:
Yeung Ka Sing *(Chairman)*
Lee Hau Leung
Ng Lai Man, Carmen

Registered office:
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Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:
Level 11 East Wing
NEO, 123 Hoi Bun Road
Kwun Tong
Kowloon
Hong Kong

25 May 2022

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
ACQUISITION OF QUARTO SHARES

INTRODUCTION

Reference is made to the announcement of the Company dated 1 April 2022 in relation to the Acquisition.

The purpose of this circular is to provide you with, among other things, (i) information of the Acquisition; (ii) financial information of the Group; (iii) financial information of Quarto Group; (iv) unaudited pro forma financial information of the Enlarged Group; and (v) other information as required under the Listing Rules.

THE ACQUISITION

On 1 April 2022 (after trading hours of the Stock Exchange), 1010 Printing, an indirect wholly-owned subsidiary of the Company, acquired 1,875,000 Quarto Shares, representing approximately 4.6% of the issued share capital of Quarto, from Mr. Zen Wei Peu at a price of £1.20 per Quarto Share (equivalent to approximately HK$12.36) (excluding stamp duty and related expenses). To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, Mr. Zen Wei Peu is an Independent Third Party.

BASIS OF DETERMINATION OF THE CONSIDERATION

The total consideration for the Acquisition was £2,250,000 (equivalent to approximately HK$23,175,000) (excluding stamp duty and related expenses). The consideration for the Acquisition was determined after arm's length negotiations and with reference to the net asset value of Quarto Group and the closing price of £1.35 per Quarto Share quoted on the London Stock Exchange's Main Market on 31 March 2022.

The consideration for the Acquisition (1,875,000 Quarto Shares at a price of £1.20 per Quarto Share) represents:

(a) a discount of approximately 11.1% to the closing price of £1.35 of Quarto's stock as quoted on the London Stock Exchange on 31 March 2022, which is the business day immediately preceding the date of the Acquisition;

(b) a discount of approximately 3.0% to the average closing price of approximately £1.24 of Quarto's stock as quoted on the London Stock Exchange for the one month preceding 31 March 2022; and

(c) a discount of approximately 5.5% to the average closing price of approximately £1.27 of Quarto's stock as quoted on the London Stock Exchange for the three months preceding 31 March 2022.

The consideration of the Acquisition has been funded by the Group's internal resources.

PREVIOUS ACQUISITIONS

Reference is made to (i) the Company's announcement dated 11 October 2021 in relation to the acquisition of 1,679,743 Quarto Shares by 1010 Printing from Mr. Lau, an executive Director and substantial Shareholder, at a consideration of £1,511,769 (equivalent to approximately HK$15.6 million) (excluding stamp duty and related expenses) (the "**2021 Acquisition**"); and (ii) the Company's announcement dated 7 January 2022 in relation to the acquisition of 1,185,000 Quarto Shares by 1010 Printing in the open market of the London Stock Exchange for an aggregate consideration of approximately £1,404,950 (equivalent to approximately HK$14.5 million) (excluding stamp duty and related expenses) (the "**First Open Market Acquisitions**").

Between 7 January 2022 and 26 January 2022 (both dates inclusive), 1010 Printing acquired an aggregate of 398,000 Quarto Shares in the open market of the London Stock Exchange for an aggregate consideration of approximately £497,488 (equivalent to approximately HK$5.1 million) (the "**Second Open Market Acquisitions**"). The Second Open Market Acquisitions do not constitute any notifiable transaction of the Company under Chapter 14 of the Listing Rules and, when aggregated with the 2021 Acquisition and the First Open Market Acquisitions, constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

SHARES ACQUIRED IN THE ACQUISITION

Immediately before the Acquisition, 1010 Printing held approximately 44.7% of the issued share capital of Quarto. Immediately after the Acquisition, 1010 Printing holds approximately 49.2% of the issued share capital of Quarto. The Acquisition would result in the consolidation of the assets of Quarto Group in the accounts of the Group by reason of the Company having gained control over Quarto based on accounting treatment.

SHARES ACQUIRED AFTER THE ACQUISITION

Between 1 April 2022 and the Latest Practicable Date (both dates inclusive), 1010 Printing acquired an aggregate of 280,000 Quarto Shares in the open market of the London Stock Exchange for an aggregate consideration of approximately £450,000 (equivalent to approximately HK$4.6 million) (excluding stamp duty and related expenses).

On 19 April 2022 (after trading hours of the Stock Exchange), 1010 Printing acquired a total of 40,000 Quarto Shares, representing approximately 0.1% of the issued share capital of Quarto, from Mr. Michael Mousley and Ms. Diane Mousley at a consideration of £68,000 (equivalent to approximately HK$700,400) (excluding stamp duty and related expenses). Mr. Michael Mousley (i) was the former chief financial officer of Quarto from 17 May 2018 until 10 February 2020; (ii) was an executive director of Quarto from 17 May 2018 until 30 April 2019; (iii) was a non-executive director of Quarto from 1 May 2020 until 10 February 2020; and (iv) has been retained as an advisor to the board of directors of Quarto since his stepping down from the board of directors of Quarto. Ms. Diane Mousley is the wife of Mr. Michael Mousley. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, Mr. Michael Mousley and Ms. Diane Mousley are Independent Third Parties.

On 5 May 2022 (after trading hours of the Stock Exchange), 1010 Printing acquired a total of 2,000 Quarto Shares, from Mr. Frederick Delon at a consideration of £3,200 (equivalent to approximately HK$32,960) (excluding stamp duty and related expenses). To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, Mr. Frederick Delon is an Independent Third Party.

The above acquisitions, on a standalone basis, do not constitute any notifiable transaction of the Company under Chapter 14 of the Listing Rules and, when aggregated with the 2021 Acquisition, the First Open Market Acquisitions, the Second Open Market Acquisitions and the Acquisition, constitute a major transaction of the Company under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, 1010 Printing holds approximately 50.02% of the issued share capital of Quarto.

INFORMATION OF QUARTO

Quarto is a company incorporated in the United States and the issued shares of which are listed on the Main Market of the London Stock Exchange (LSE: QRT). Quarto is principally engaged in illustrated book publishing.

Set out below is a summary of certain audited consolidated financial information of Quarto Group extracted from the published documents of Quarto for the year ended 31 December 2020 and 2021, respectively:

	For the year ended 31 December	
	2021	**2020**
	(audited)	**(audited)**
	US$ million	*US$ million*
Revenue	151.5	126.9
Profit before tax	14.2	6.6
Profit after tax	9.9	4.6

Based on the audited consolidated financial statements of Quarto for the year ended 31 December 2020 and 2021, the net asset value of Quarto Group as at 31 December 2020 and 2021 was approximately US$43,713,000 and US$53,209,000, respectively.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the provision of printing services to international book publishers, trade, professional and educational publishing conglomerates and print media companies. One of the driving forces for the Group in moving forward is diversification.

Quarto is a leading global illustrated non-fiction book publisher and one of the Group's top five customers which has been trading with the Group since 2007.

The Acquisition enables the Group to further increase its shareholding in Quarto in order to maximize the economic benefits through the Group's interest in Quarto. With Quarto Group's improving financial performance and return to financial health in the past year, Directors believe that it is the right time for the Group to obtain control in Quarto to become a subsidiary of the Group.

The Acquisition is an important part of the Group's diversification strategy to establish the publishing business as one of our three revenue engines. The Group will look for 'bolt-on' acquisitions of publishers or imprints that could generate synergistic value by leveraging Quarto Group's procurement, operations, and sales platform. This in turn will bring in additional potential revenue for the print manufacturing segment of the Group.

The Acquisition will also allow the Group to strengthen the supply chain capability by gaining visibility of the end-to-end supply chain of the book industry and tighter integration of planning, procurement, production and logistics functions across the publishing and print manufacturing segments. The strengthening of the supply chain capability will serve as a key differentiator for us versus our competitors.

The Directors (including the independent non-executive Directors) are of the view that the consideration of the Acquisition is fair and reasonable and it is the appropriate timing to further increase the Group's equity interest in Quarto. The Directors (including the independent non-executive Directors) consider that the terms of the Acquisition are fair and reasonable and the Acquisition is on normal commercial terms and in the interest of the Company and the Shareholders as a whole. If a general meeting were to be convened for the approval of the Acquisition, the Board would recommend the Shareholders to vote in favour of the resolution to approve the Acquisition and the transaction contemplated thereunder at such general meeting.

IMPLICATIONS OF THE ACQUISITION UNDER THE LISTING RULES

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Acquisition, on a standalone basis and when aggregated with previous acquisitions (which include the 2021 Acquisition; the First Open Market Acquisitions and the Second Open Market Acquisitions) over the past 12 months, are more than 25% but less than 100%, the Acquisition constitutes a major transaction of the Company under Rule 14.06 of the Listing Rules and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Under Rule 14.44 of the Listing Rules, Shareholders' approval for the Acquisition may be obtained by way of written Shareholders' approval in lieu of holding a general meeting if (a) no Shareholder is required to abstain from voting if the Company were to convene a general meeting to obtain such Shareholders' approval; and (b) written Shareholder's approval has been obtained from a Shareholder or a closely allied group of Shareholders who together hold more than 50% of the entire issued share capital of the Company having the right to attend and vote at that general meeting to approve such transactions.

The Directors confirmed that, to the best of their knowledge, information and belief after having made all reasonable enquiries, no Shareholders or any of their respective close associates have any material interest in the Acquisition. As such, no Shareholders would be required to abstain from voting in favour of the resolution approving the Acquisition.

As at 1 April 2022, the following closely allied group of Shareholders are directly interested in approximately 51.05% of the entire issued share capital of the Company:

Name of Shareholder	No. of Shares held	Approximate percentage of shareholding in the Company
Mr. Lau *(Note i)*	78,701,906	10.22%
City Apex *(Note i)*	258,135,326	33.52%
ER2 *(Note i)*	8,297,391	1.08%
Ms. Lam *(Note ii)*	16,568,688	2.15%
Great Eagle *(Note iii)*	31,387,503	4.08%
Total	**393,090,814**	**51.05%**

Notes:

i. ER2 directly holds 77% equity interest in City Apex and Mr. Lau directly owns approximately 69.76% of the issued share capital of ER2. Accordingly, Mr. Lau is interested in 345,134,623 Shares, representing approximately 44.82% of the issued share capital of the Company. ER2 and City Apex are deemed as parties acting in concert with Mr. Lau for the purpose of the Takeovers Code and Rule 14.45(4) of the Listing Rules.

ii. Ms. Lam and Mr. Lau have an established long term past and present business association with each other since 1996. Ms. Lam has become a Shareholder since 2011.

iii. Great Eagle is a wholly-owned subsidiary of Great Eagle Holdings, which indirectly holds 23% of issued share capital of City Apex. Great Eagle is deemed as a party acting in concert with Mr. Lau, City Apex and ER2 for the purpose of the Takeovers Code and Rule 14.45(4) of the Listing Rules.

The aforesaid Relevant Shareholders have given its written approval for the Acquisition pursuant to Rule 14.44 of the Listing Rules. Accordingly, such written approval has been accepted in lieu of convening a special general meeting of the Company to approve the Acquisition as permitted under Rule 14.44.

WAIVER FROM STRICT COMPLIANCE WITH RULE 14.67(6)(A)(I) OF THE LISTING RULES

Pursuant to Rule 14.67(6)(a)(i) of the Listing Rules, the Company is required to include in this circular an accountants' report on Quarto prepared in accordance with Chapter 4 of the Listing Rules. The accountants' report of Quarto needs to include the financial information of Quarto for each of the three financial years ended 31 December 2021 prepared using accounting policies which should be materially consistent with those of the Company.

The Company has applied for a waiver from strict compliance with the requirement for an accountants' report on Quarto under Rule 14.67(6)(a)(i) of the Listing Rules on the following grounds:

Quarto was incorporated in Delaware and listed on the Main Market of London Stock Exchange (LSE: QRT). The audited the financial statements of Quarto Group for the three financial years ended 31 December 2021 comprising the consolidated income statements, the consolidated statements of comprehensive income, the consolidated balance sheets, the consolidated statements of changes in equity, the consolidated cash flow statements, Quarto's balance sheets, Quarto's statements of comprehensive income, Quarto's statements of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

Quarto Group's audited consolidated financial statements for the year ended 31 December 2021 have been properly prepared in accordance with UK-adopted International Accounting Standards; and Quarto Group's audited consolidated financial statements for the two years ended 31 December 2020 have been properly prepared in accordance with International Financial Reporting Standards ("**IFRSs**") as adopted by the European Union. The transition on the use of the financial reporting standards from IFRSs as adopted by the European Union to UK-adopted International Accounting Standards did not have significant impact to the financial reporting of Quarto Group. The accounting policies and disclosures used by Quarto Group for the three years ended 31 December 2021 comply with IFRS. The audit of Quarto Group's consolidated financial statements for the three years ended 31 December 2021 have been conducted in accordance with International Standards on Auditing (UK) (ISAs (UK)).

Quarto has also been publishing financial information to the market on a regular basis to enable investors to assess its activities and financial position. Apart from its audited annual results, Quarto publishes its unaudited half-year (for the six months ended 30 June) results on the London Stock Exchange.

The consolidated financial statements of Quarto Group for each of the three financial years ended 31 December 2021 have been audited by Quarto's auditors, Grant Thornton UK LLP, which has been the independent auditors of Quarto since 2017 and has extensive experience in auditing financial information of public companies. It is a chartered firm of the Institute of Chartered Accountants in the UK and a member firm of Grant Thornton global network. Grant Thornton is one of the leading professional services networks in the world providing assurance, tax and advisory services with offices in 130 countries and has an international name and reputation. Considering the above, the Directors are of the view that the Company complies with the requirements under Rule 4.03(2) of the Listing Rules.

The Directors are of the view that given (i) Grant Thornton UK LLP (a) has knowledge about the operations, accounting and reporting systems of Quarto Group, (b) is familiar with the financial information of Quarto Group and (ii) the audited consolidated financial statements comply with IFRS, it will be more cost and time effective for the Group to use such financial statements for the purpose of this circular.

Grant Thornton's opinions on the consolidated financial statements of Quarto Group for the three financial years ended 31 December 2021 are unmodified.

Quarto, an associate corporation of the Company since 2018, whose financial results was already equity-accounted for into the audited consolidated financial results of the Group for the past three years. The Company is not aware of any material difference between the accounting policies adopted by Quarto and those adopted by the Company.

BDO Limited was engaged by the Company to conduct work in accordance with the Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" ("**HKSAE3000**") issued by the HKICPA. The work consisted primarily of:

(i) comparing the unadjusted financial information of the Quarto Group with the Quarto Group's published accounts ("**Unadjusted Financial Information**");

(ii) considering the adjustments made and evidence supporting the adjustments made in arriving at the Unaudited Adjusted Financial Information of the Quarto Group under the Company's Accounting Policies, which includes examining the differences between the Quarto Group's accounting policies and the Company's accounting policies; and

(iii) checking the arithmetical accuracy of the compilation of the Unaudited Adjusted Financial Information of the Quarto Group under the Company's Accounting Policies.

BDO Limited engagement did not involve independent examination of any of the underlying financial information. The work carried out in accordance with HKSAE3000 is different in scope from an audit or a review conducted in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA and consequently, BDO Limited did not express an audit opinion nor a review conclusion. BDO Limited's engagement was intended solely for the use of the Directors in connection with this circular and may not be suitable for another purpose. Based on the work performed, BDO Limited has concluded that:

(i) the Unadjusted Financial Information under UK-adopted International Accounting Standards and IFRSs as adopted by the European Union of the Quarto Group has been properly extracted from the Quarto's audited account for the three years ended 31 December 2019, 2020 and 2021 ("**Quarto Historical 3 Years' Accounts**");

(ii) in all material respects, there were no differences between the accounting policies of the Quarto as set out in Quarto Historical 3 Years' Accounts and the accounting policies presently adopted by the Company for the year ended 31 December 2019, 2020 and 2021 requiring adjustments to the Unadjusted Financial Information to arrive at the Unaudited Financial Information under HKFRS; and

(iii) the computation of the Unaudited Financial Information under HKFRS is arithmetically accurate.

Quarto has subsidiaries having business in the UK and the US. Complying with the strict requirements of Rule 14.67(6)(a)(i) of the Listing Rules in having to produce an accountants' report on Quarto Group based on HKFRS would create practical difficulties, and require Quarto to undertake a considerable amount of work, which would have significant timing, resource and cost implications for the parties involved.

The Company is prepared to make alternative disclosure as described in detail below to ensure the Shareholders to have sufficient financial information of Quarto Group.

Alternative Disclosure

The following information will be included in place of an accountants' report on Quarto Group based on HKFRS in this circular:

- Quarto Group's audited financial statements for the year ended 31 December 2021 which have been properly prepared in accordance with UK-adopted International Accounting Standards; and Quarto's audited financial statements for the two years ended 31 December 2020 which have been properly prepared in accordance with IFRSs as adopted by the European Union;

- supplemental financial information of Quarto Group for each of the three financial years ended 31 December 2021, which is required for an accountants' report under the Listing Rules but has not been disclosed in the published accounts of Quarto Group excluding the information required under Rule 4.08(3) of the Listing Rules; and

- to the Company's understanding, insofar as disclosures in compliance with the Listing Rules are concerned, the following information is absent from the financial reports of Quarto Group for the three financial years ended 31 December 2021: (i) ageing analysis on trade receivables by invoice date; (ii) ageing analysis on trade payables by invoice date; (iii) five highest paid individuals and directors remuneration; and (iv) an analysis as at the date of statement of financial position in relation to loans and borrowings, firstly of bank loans and overdrafts and, secondly of other borrowings, showing the aggregate amounts repayable: (a) on demand or within a period not exceeding one year; (b) within a period of more than one year but not exceeding two years; (c) within a period of more than two years but not exceeding five years; and (d) within a period of more than five years. The above items will be disclosed as required under the Listing Rules in this circular. The Company has no intention to exclude in this circular any information disclosed in the financial reports of Quarto Group for three financial years ended 31 December 2021.

The Directors considered that the published financial disclosure concerning Quarto Group and the additional financial disclosure as mentioned above will afford the Shareholders with all material information necessary to assess the financial performance of Quarto Group throughout the past three financial years, such information being broadly commensurate in all material respects to the disclosure that would otherwise have been provided if an accountants' report on Quarto Group is produced under Rule 14.67(6)(a)(i) of the Listing Rules.

Based on the above, the Stock Exchange granted to the Company the waiver from strict compliance with the requirements under Rule 14.67(6)(a)(i) of the Listing Rules.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to this circular.

By order of the Board
Lion Rock Group Limited
Yeung Ka Sing
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three financial years ended 31 December 2019, 2020 and 2021 are disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkexnews.com.hk) and the Company (https://www.lionrockgrouphk.com/):

(a) on pages 30 to 119 of the annual report of the Company for the year ended 31 December 2019 published on 2 April 2020 (https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0402/2020040202030.pdf);

(b) on pages 32 to 123 of the annual report of the Company for the year ended 31 December 2020 published on 12 April 2021 (https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0412/2021041201104.pdf); and

(c) on pages 30 to 123 of the annual report of the Company for the year ended 31 December 2021 published on 13 April 2022 (https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0413/2022041301170.pdf).

2. INDEBTEDNESS

At the close of business on 31 March 2022, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding indebtedness of approximately HK$395,536,000, consisting of (1) bank borrowings of approximately HK$298,680,000; (2) other borrowings of approximately HK$1,161,000 and (3) lease liabilities of approximately HK$95,695,000. Bank borrowings of approximately HK$255,326,000 were secured by the corporate guarantee provided by the Company; bank borrowings of approximately HK$43,354,000 were secured by the joint guarantee and the charge of assets over Quarto and its subsidiaries, namely Quarto Publishing Plc, Quarto Publishing Group USA Inc. and Quarto Inc. Other borrowings represented unsecured and wholly guaranteed loan provided by the government of the US given under the Coronavirus Aid, Relief and Economic Security Act.

At the close of business on 31 March 2022, the Group also had pledged deposits of approximately HK$0.2 million as a security for the banking guarantee facilities of a subsidiary.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, at the close of business on 31 March 2022, the Enlarged Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, financial lease, hire purchases commitments, guarantees or other material contingent liabilities.

3. FINANCIAL IMPACT OF THE ACQUISITION

Immediately before the Acquisition, 1010 Printing held approximately 44.7% of the issued share capital of Quarto. Immediately after the Acquisition, 1010 Printing holds approximately 49.2% of the issued share capital of Quarto. The Acquisition would result in the consolidation of the assets of Quarto Group in the accounts of the Group by reason of the Company having gained control over Quarto based on accounting treatment.

There is no variation regarding the aggregate remuneration payable to and benefits in kind receivable by the directors of Quarto and its subsidiaries in consequence of the Acquisition.

Assets and Liabilities

Based on the unaudited supplementary financial information of the Enlarged Group as set out in section C of Appendix III to the Circular, after taking into account the acquisition of Quarto Shares from 1 January 2022 till the date of Acquisition, the unaudited pro forma consolidated total assets of the Enlarged Group would increase from approximately HK$2,028.0 million to approximately HK$2,726.7 million and the consolidated total liabilities of the Enlarged Group would increase from approximately HK$680.5 million to approximately HK$1,234.9 million. The net assets of the Enlarged Group would increase from HK$1,347.5 million to HK$1,491.8 million.

The unaudited supplementary financial information has been prepared for illustrative purpose only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, it may not reflect the true financial position of the Enlarged Group as at the date of completion or any future date. Moreover, since the actual fair values of the assets, liabilities and contingent liabilities of Quarto Group as at the completion date would be different from their estimated fair values used in the preparation of the unaudited pro forma financial information, the actual financial effects of the Acquisition might be materially different from the financial position as shown in Appendix III to this circular.

Earnings

Based on the consolidated financial statements of Quarto Group as set out in Appendix II to this circular, it is expected that the earnings of the Enlarged Group will increase as a result of the Acquisition. After considering the factors set out in the section headed “Reasons for and benefits of the Acquisition” of the Letter from the Board, the Directors expect that the Acquisition could produce a positive impact on the earnings of the Group in the near future.

4. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

Upon completion, the Enlarged Group continues to be engaged in print manufacturing, print services management, and publishing.

In fiscal 2021, the three business segments of the Group, namely, print manufacturing, print services management and publishing, all performed very strongly. Revenue of the Group increased by approximately 26.5% to approximately HK$1,737.6 million for the year ended 31 December 2021 from that of approximately HK$1,373.5 million for the year ended 31 December 2020; and net profit of the Group increased by approximately 22.1% to approximately HK$142.0 million for the year ended 31 December 2021 from that of approximately HK$116.3 million for the year ended 31 December 2020.

We have long predicted that the cost advantage of PRC printers versus overseas printers will gradually decline due to various cost-based factors. On the PRC labour cost front, we expect wages to rise in the long term as the demographic dividend that drove PRC's economic growth gradually disappears. Material costs for chemicals, paper and zinc plates will also trend upward as PRC continues its economic growth path and the cost of shipping from PRC will remain high as shipping capacity worldwide is still constrained.

The Acquisition is an important part of the Group's diversification strategy to establish the publishing business as one of our three revenue engines. With Quarto Group's return to financial health, we will look for 'bolt-on' acquisitions of publishers or imprints that could generate synergistic value by leveraging Quarto Group's procurement, operations, and sales platform. This in turn will bring in additional potential revenue for the print manufacturing segment of the Enlarged Group.

The Acquisition will also allow us to strengthen the Enlarged Group's supply chain capability as we gain visibility of the end-to-end supply chain of the book industry and tighter integration of planning, procurement, production and logistics functions across the publishing and print manufacturing segments. The strengthening of the supply chain capability will serve as a key differentiator for us versus our competitors, especially in the challenging COVID-driven environment.

Immediately before the Acquisition, 1010 Printing held approximately 44.7% of the issued share capital of Quarto. Immediately after the Acquisition, 1010 Printing holds approximately 49.2% of the issued share capital of Quarto. The Acquisition would result in the consolidation of the assets of Quarto Group in the accounts of the Group by reason of the Company having gained control over Quarto based on accounting treatment. The Acquisition enables the Group to further increase its shareholding in Quarto in order to maximise the economic benefits through the Group's interest in Quarto. The Directors consider that the Acquisition is an important milestone for the Group's future development and will benefit the operation of the Enlarged Group in the long run.

5. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, in the absence of unforeseeable circumstances, after taking into account the existing financial resources and the effect of the Acquisition, the Enlarged Group has sufficient working capital for its present requirements and to satisfy its requirements for at least the next 12 months from the date of publication of this circular.

6. MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2021, being the date up to which the latest published audited accounts of the Company were made up.

FINANCIAL INFORMATION OF QUARTO GROUP FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2019, 2020 AND 2021

The following is an extract of the audited consolidated financial statements of Quarto Group for the years ended 31 December 2019, 2020 and 2021, as extracted from the annual reports of Quarto Group. These financial statements were presented in thousands of US$ except where otherwise stated. The annual reports of Quarto Group is available free of charge, in printable format on Quarto's website (www.quarto.com).

Independent Auditor's Report to the Members of The Quarto Group, Inc.

Opinion

OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the financial statements of The Quarto Group, Inc. (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2021, which comprise of the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Company Balance Sheet, the company statement of comprehensive income, the company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK-adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group and of the parent company's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 which would have applied were the parent company incorporated in the United Kingdom.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the group or the parent company to cease to continue as a going concern.

As part of our risk assessment, we evaluated the Group's and the parent company's cash position, assessed the Group's and the parent company's performance and headroom against bank covenants throughout the year, considered the Group's and the parent company's lack of reliance on government assistance throughout the current year, and concluded that the Group's and the parent company's ability to continue as a going concern was not a significant risk that required special audit consideration.

Our evaluation of the directors' assessment of the Group's and the parent company's ability to continue to adopt the going concern basis of accounting included reviewing management's base case cash flow forecasts covering the period to 31 March 2023, challenging the underlying assumptions and reviewing forecast covenant compliance throughout the going concern period. We obtained management's reverse stress test prepared to consider the scenario that would cause a breach in covenant compliance and evaluated the impact and availability of mitigating actions available to management to restrict the impact on the Group's and the parent company's performance and covenant compliance. Our assessment also included a review of the accuracy of management's past forecasting and an assessment of the adequacy of related disclosures within the annual report.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the group's and the parent company's business model including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the group's and the parent company's financial resources or ability to continue operations over the going concern period.

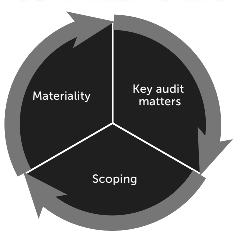
Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

Our approach to the audit

Grant Thornton



Overview of our audit approach

OVERALL MATERIALITY:

- **Group:** $693,600, which represents approximately 0.5% of the group's revenue.
- **Parent company:** $48,000, which represents 1% of the parent company's total assets.

KEY AUDIT MATTERS WERE IDENTIFIED AS:

- completeness of the sales return provision; and
- valuation and accuracy of pre-publication intangible assets.

Our auditor's report for the year ended 31 December 2020 included two key audit matters that have not been reported as key audit matters in our current year's report. These relate to the assessment of the carrying value of goodwill and the going concern assessment.

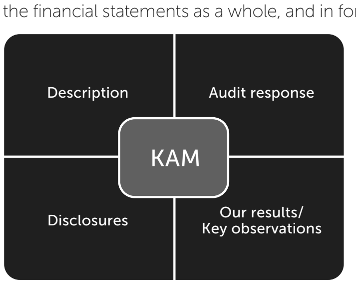
The exclusion of these matters from our current year's report reflects our risk assessment, wherein the group's continued improvement in profitability and performance over the past several years, combined with decreased uncertainty surrounding the impact of Covid-19 has informed a lower risk assessment relating to these matters. Therefore, these have not been reported as key audit matters for the year ended 31 December 2021.

We have performed an audit of the financial information of the components using component materiality (full-scope audit) for the parent company, of Quarto Publishing plc ('Quarto UK'), and of Quarto Publishing Group USA Inc. ('Quarto US').

We have performed analytical procedures on the financial information of other companies within the group. This is consistent with the scope of the audit in the prior year.

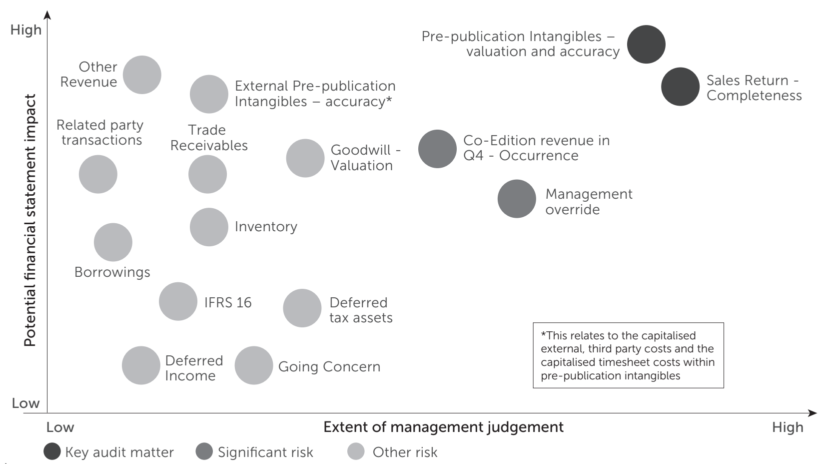
Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



INDEPENDENT AUDITOR'S REPORT (continued)

In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.



Key Audit Matter – Group

RISK 1: COMPLETENESS OF SALES RETURN PROVISION

We identified the completeness of the sales returns provision as one of the most significant assessed risks of material misstatement due to error.

The Group generates material revenues from published books. Certain trade customers have a right of return for these books and therefore the revenue is recognised net of a provision for these returns. At 31 December 2021, this provision totals $5,776,000. Management judgement is required when assessing the level of returns which are expected to occur subsequent to the year end for sales made during the year.

The key assumption applied is in relation to historical return experience, which is used to predict future returns and therefore the provision which is required to be made.

RELEVANT DISCLOSURES IN THE ANNUAL REPORT AND ACCOUNTS 2021

- Financial statements: Note 1, General information and significant accounting policies and Note 20, Trade and other payables
- Audit and Risk Committee Report: Page 25

How our scope addressed the matter – Group

In responding to the key audit matter, our audit work included but was not restricted to:

- Considering the appropriateness of the accounting policy for the provision for sales returns by checking whether it is in accordance with the financial reporting framework, including IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and IFRS 15 'Revenue from Contracts with Customers';
- Selecting a sample of returns made during the year and agreeing to supporting documentation in order to confirm the accuracy of the data used to calculate the rates of returns used in management's calculation of the provision;
- Recalculating the provision to confirm that it is appropriate and in accordance with management's policy;
- Comparing actual returns in the period to the provision made in the prior period in order to evaluate the accuracy of management's forecasting;
- Obtaining actual returns for the period after the balance sheet date and comparing these with the returns provision for the same period; and
- Inquiring of sales and operations staff as to their knowledge of any exceptional returns in the period or the potential for these in the returns period.

OUR RESULTS

- Our audit work did not identify any material errors in the completeness of the sales returns provision.

Key Audit Matter – Group	How our scope addressed the matter – Group
RISK 2: VALUATION AND ACCURACY OF PRE-PUBLICATION INTANGIBLE ASSETS We have identified valuation and accuracy of pre-publication intangible assets as one of the most significant assessed risks of material misstatement due to error. The Group holds capitalised pre-publication costs as intangible assets which have a net book value of $29,941,000 on its consolidated balance sheet. There is judgement involved in assessing the useful economic life of these assets, which informs management's amortisation policy. Therefore, there is a risk that intangible assets are misstated due to an inappropriate amortisation policy. During the period management have amended the useful economic life of these assets from a three-year straight-line policy to a reducing balance method. A significant portion of the capitalised costs relate to creative staff time and internal overheads, which management have determined relate to the development of book titles. There is management judgement involved in determining the portion of overhead costs and employee time which is directly attributable to the development of books, as well as assessing the split between research and development activities, which would determine how much of this time should be capitalised. **RELEVANT DISCLOSURES IN THE ANNUAL REPORT AND ACCOUNTS 2021** • Financial statements: Note 1, General information and significant accounting policies and Note 14, Intangible assets – pre-publication costs; • Audit and Risk Committee Report: Page 25	In responding to the key audit matter, our audit work included but was not restricted to: • Considering the appropriateness of the amortisation policy by checking whether it is in accordance with the financial reporting framework, including IAS 38 'Intangible Assets'; • Challenging management on the appropriateness of the assumption of a three-year useful economic life by reviewing historic sales patterns and assessing how well these support management's estimate; • Obtaining management's paper on their proposed amendments to the group's amortisation policy and challenging management's assumptions; • Selecting a sample of the underlying sales and publishing data which underpins management's analysis and agreeing these to support; • Recalculating the amortisation charge to confirm it is appropriate, in accordance with management's policy and reflects the economic pattern of the underlying assets useful life; • Performing a benchmarking analysis against businesses of a similar size and industry to Quarto; • Recalculating management's impairment analysis of titles held in pre-publication intangibles, challenging management's underlying assumptions and agreeing a sample of the underlying data to support; • Assessing the adequacy of financial statement disclosures in relation to the management estimate associated with the useful economic life of pre-publication intangibles; • Considering the appropriateness of the capitalisation policy by checking whether it is in accordance with the financial reporting framework, including IAS 38 'Intangible Assets'; • Challenging judgements made by management in determining which costs are directly attributable to the development of book titles; • Challenging management over the assumptions used to determine the capitalisation percentages applied to overheads and corroborating these assumptions to support where appropriate; • Selecting a sample of costs capitalised in the year and agreeing to supporting documentation to confirm they are directly attributable to the development of book titles; and • Making inquiries with members of the creative team to understand their role and the appropriateness of their time being capitalised to pre-publication costs. **OUR RESULTS** Our audit work identified that the straight line amortisation of pre-publication intangibles over a useful economic life of three years was no longer appropriate given the sales profile of the assets. Management subsequently revised their amortisation policy for the current and future years, to a 50% reducing balance method. Following the application of the revised amortisation policy, our audit work did not identify any material errors in the accuracy or valuation of pre-publication intangibles.

We did not identify any key audit matters relating to the audit of the financial statements of the parent company.

INDEPENDENT AUDITOR'S REPORT (continued)

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

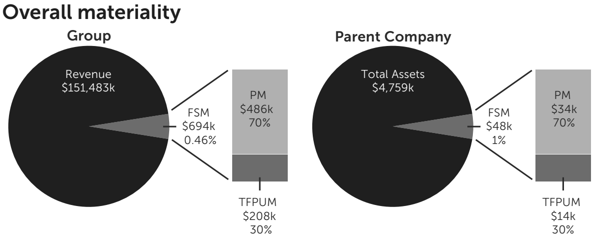
Materiality was determined as follows:

Materiality measure	Group	Parent company
MATERIALITY FOR FINANCIAL STATEMENTS AS A WHOLE	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.	
Materiality threshold	$693,600, which is approximately 0.5% of group revenue.	$48,000, which is approximately 1% of the parent company's total assets.
Significant judgements made by auditor in determining materiality	This benchmark is considered the most appropriate because revenue is a key driver and a key performance indicator of the business, monitored by management and the directors. As part of this assessment, we considered the use of earnings before tax as the benchmark however as there have been significant fluctuations in the group's earnings before tax in recent years this was not deemed to be appropriate. Given the current uncertainties in the macro-economic environment a percentage of 0.5% of the revenue benchmark has been applied. We also referred to key metrics and performance indicators raised in the annual report to determine our revenue based materiality; this is therefore also a reflection of what the entity deem to be key benchmarks for users of the financial statements. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2020 to reflect the increase in the group's revenue in the current year.	This benchmark is considered the most appropriate because the parent company is a holding company and has no revenue. Materiality for the current year is the same as the level that we determined for the year ended 31 December 2020.
Significant revision of materiality threshold that was made as the audit progressed	We calculated materiality during the planning stage of the audit based on a straight-line extrapolation of revenue earned from January 2021 to September 2021. During the course of our audit, we re-assessed initial materiality based on actual revenue for the year ended 31 December 2021 and adjusted our audit procedures accordingly. This was to ensure our audit work has been completed to an appropriate level based on the materiality benchmark selected.	No reassessment of materiality was required.

Materiality measure	Group	Parent company
PERFORMANCE MATERIALITY USED TO DRIVE THE EXTENT OF OUR TESTING	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.	
Performance materiality threshold	$486,000, which is 70% of financial statement materiality.	$33,600, which is 70% of financial statement materiality.
Significant judgements made by auditor in determining performance materiality	In determining performance materiality, we made the following significant judgements: • Our experience with auditing the financial statements of the Group in previous years – based on the number and quantum of identified misstatements in the prior year audit and management's attitude to correcting misstatements identified; • Our assessment of the strength and effectiveness of the control environment; and • The number of components within the Group and the extent of audit procedures planned and performed at these components.	In determining performance materiality, we made the following significant judgements: • Our experience with auditing the financial statements of the parent company in previous years – based on the number and quantum of identified misstatements in the prior year audit and management's attitude to correcting misstatements identified; and • Our assessment of the strength and effectiveness of the control environment.
SPECIFIC MATERIALITY	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	
Specific materiality	We determined a lower level of specific materiality for the following areas: • Related party transactions; and • Directors' remuneration	We determined a lower level of specific materiality for the following areas: • Related party transactions; and • Directors' remuneration
COMMUNICATION OF MISSTATEMENTS TO THE AUDIT COMMITTEE	We determine a threshold for reporting unadjusted differences to the audit committee.	
Threshold for communication	$34,680 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	$2,400 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality



FSM: Financial statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements

An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the group's and the parent company's business and in particular matters related to:

UNDERSTANDING THE GROUP, ITS COMPONENTS, AND THEIR ENVIRONMENTS, INCLUDING GROUP-WIDE CONTROLS

- The engagement team obtained an understanding of the group and its environment, including group-wide controls, and assessed the risks of material misstatement at the group level; and
- The group comprises of two trading components alongside multiple dormant components. The groups financial system is independent at each component however input is provided into the group wide controls by group management.

INDEPENDENT AUDITOR'S REPORT (continued)

IDENTIFYING SIGNIFICANT COMPONENTS

- The group audit team evaluated the various components to assess their significance and determined the planned audit response based on a measure of materiality. Significance was determined as a percentage of the group's total assets, revenues and profit before taxation.

TYPE OF WORK TO BE PERFORMED ON FINANCIAL INFORMATION OF PARENT AND OTHER COMPONENTS

- The parent entity has been subjected to a full scope audit, being an audit of the financial information of the component using component materiality, of its financial statements;
- Based on our evaluation we considered that the only significant components of the group are Quarto Publishing plc and Quarto Publishing Group (USA) Inc. due to their significance to the group;
- We have performed a full-scope audit of all significant components of the group as identified above;
- Key audit matters were identified within the group as part of our risk assessment procedures. Disclosures as to how the key audit matters identified have been addressed can be found within the key audit matter section of our audit report;
- The financial information of the other components in the group has been subjected to analytical procedures at a group level.

PERFORMANCE OF OUR AUDIT

- The full scope audits performed represent 100% of the group's continuing revenue for the year, 100% of the group's total assets, and 99.1% of the group's total liabilities;
- As part of our procedures a review of the group's IT systems and controls has been completed.

CHANGES IN APPROACH FROM PREVIOUS PERIOD

- Our approach is consistent with the approach used in the previous year, due to travel restrictions imposed as a result of COVID-19, our audit work in relation to Quarto Publishing Group (USA) Inc. had to be completed virtually as opposed to an on-site visit.
- We have been able to complete site visits through the audit engagement at the client site for Quarto Publishing plc as well as completing in person stock counts for Quarto Publishing Group (USA) Inc at the main distribution site in the US.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinions on other matters prescribed by the Companies Act 2006, were it to apply to the parent company, are unmodified

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006, were it to apply to the parent company

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception, were the Companies Act 2006 to apply to the parent company

- We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Corporate governance statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's and the parent company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the directors' explanation in the annual report as to how they have assessed the prospects of the group and the parent company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group and the parent company will be able to continue in operation and meet their liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions;
- the directors' statement that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's and the parent company's performance, business model and strategy;
- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal and emerging risks facing the group and the parent company, including the impact of Brexit and Covid-19, and the disclosures in the annual report that describe the principal risks, procedures to identify emerging risks and an explanation of how they are being managed or mitigated;
- the section of the annual report that describes the review of the effectiveness of group's and the parent company's risk management and internal control systems, covering all material controls, including financial, operational and compliance controls; and
- the section of the annual report describing the work of the audit committee, including significant issues that the audit committee considered relating to the financial statements and how these issues were addressed.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

EXPLANATION AS TO WHAT EXTENT THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

INDEPENDENT AUDITOR'S REPORT (continued)

- We obtained an understanding of the legal and regulatory frameworks applicable to the parent company and the group and the industry in which they operate. We determined that the following laws and regulations were most significant: UK-adopted international accounting standards, for the Group, Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' for the parent company, Listing Rules, Companies Act 2006, Tax rules in the UK and US and the UK Corporate Governance Code.
- We obtained an understanding of how the parent company and the group is complying with those legal and regulatory frameworks by making inquiries of management, at a group and component level, inquiring with those responsible for legal and compliance procedures and with the company secretary. We corroborated our inquiries through our review of board minutes and papers provided to the Audit Committee.
- We evaluated the design and implementation of controls over the financial reporting systems and the effectiveness of the control environment as part of our risk assessment.
- We assessed the susceptibility of the parent company's and group's financial statements to material misstatement, including how fraud might occur. Audit procedures performed included:
  - identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
  - understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
  - challenging assumptions and judgments made by management in its significant accounting estimates; and
  - identifying and testing journal entries posted in the year which were deemed to be unusual.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The engagement partner assessed whether the engagement team collectively had the appropriate competence and capabilities to identify and recognise non-compliance with laws and regulations through an assessment of the engagement team's:
  - understanding of, and practical experience with, audit engagements of a similar nature and complexity, through appropriate training and participation; and
  - knowledge of the industry in which the Group and parent company operate
- We note our key audit matter in relation to the completeness of the sales return provision relates to irregularities, including fraud. Refer to key audit matters for work completed and our results from the procedures performed.
- We note that there is no specific industry legislation that significantly impacts The Quarto Group, inc. and the engagement team are deemed to hold appropriate competence and capabilities to identify non-compliance with laws and regulations.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the Board on 20 November 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 5 years, covering the periods ending 31 December 2017 to 31 December 2021.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with the terms that have been agreed in our engagement letter dated 23 November 2021. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

David White
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
17 March 2022

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 $000	2020 $000
Continuing operations			
Revenue	2	151,483	126,883
Cost of sales		(103,897)	(89,298)
Gross profit		47,586	37,585
Administrative expenses		(22,314)	(18,264)
Impairment of financial assets	16	(874)	(1,571)
Distribution costs		(8,439)	(7,132)
Operating profit before amortization of acquired intangibles and exceptional items	4	15,959	10,618
Amortization of acquired intangibles		(7)	(890)
Exceptional items	5	—	(446)
Operating profit		15,952	9,282
Finance costs	7	(1,796)	(2,693)
Profit before tax		14,156	6,589
Tax	8	(4,230)	(2,020)
Profit for the year		9,926	4,569
Attributable to:			
Owners of the parent		9,926	4,569
		9,926	4,569
Earnings per share (cents)			
From continuing operations			
Basic	9	24.3	11.7
Diluted	9	24.3	11.6

The notes on pages 62 to 89 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 $000	2020 $000
Profit for the year	9,926	4,569
Items that may be reclassified to profit or loss		
Foreign exchange translation differences	(506)	1,087
Tax relating to items that may be reclassified to profit or loss	66	54
Total other comprehensive income	(440)	1,141
Total comprehensive income for the year	9,486	5,710
Total comprehensive income for the year attributable to:		
Owners of the parent	9,486	5,710
	9,486	5,710

The notes on pages 62 to 89 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

AS AT 31 DECEMBER 2021

	Notes	2021 $000	Restated[1] 2020 $000
Non-current assets			
Property, plant and equipment	12	5,181	6,818
Goodwill	10	19,286	19,381
Intangible assets: Pre-publication costs	14	29,941	40,913
Other intangible assets	11	51	159
Intangible assets		49,278	60,453
Deferred tax assets	18	2,436	1,360
Total non-current assets		56,895	68,631
Current assets			
Inventories	15	20,393	15,465
Trade and other receivables	16	51,242	44,519
Cash and cash equivalents	17	28,432	22,079
Total current assets		100,067	82,063
Total assets		156,962	150,694
Current liabilities			
Short term borrowings	17	(5,438)	(41,819)
Trade and other payables	20	(53,789)	(50,064)
Lease liabilities	19	(1,363)	(1,968)
Tax payable		(7,467)	(4,355)
Total current liabilities		(68,057)	(98,206)
Non-current liabilities			
Long term borrowings	17	(28,508)	—
Deferred tax liabilities	18	(3,130)	(4,079)
Tax payable		(386)	(386)
Lease liabilities	19	(3,672)	,(4,310)
Total non-current liabilities		(35,696)	(8,775)
Total liabilities		(103,753)	(106,981)
Net assets		53,209	43,713
Equity			
Share capital	23	4,089	4,089
Paid in surplus	23	48,701	48,701
Retained earnings and other reserves	24	419	(9,077)
Total equity		53,209	43,713

1 Please refer to note 18.

The notes on pages 62 to 89 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors and authorized for issue on 17 March 2022. They were signed on its behalf by:

Chuk Kin Lau
Director
17 March 2022

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Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital $000	Paid in surplus $000	Translation Reserve $000	Retained earnings $000	Equity attributable to owners of the parent $000
Balance at 1 January 2020	2,045	33,764	(6,748)	(8,007)	21,054
Profit for the year	–	–	–	4,569	4,569
Other comprehensive income					
Foreign exchange translation differences	–	–	1,087	–	1,087
Tax relating to items that may be reclassified to profit or loss	–	–	54	–	54
Total comprehensive income for the year	–	–	1,141	4,569	5,710
Transactions with owners					
Share capital raised	2,044	16,307	–	–	18,351
Costs of raising share capital	–	(1,370)	–	–	(1,370)
Share based payments credit	–	–	–	(32)	(32)
Total transactions with owners for the year	2,044	14,937	–	(32)	16,949
Balance at 31 December 2020	4,089	48,701	(5,607)	(3,470)	43,713
Profit for the year	–	–	–	9,926	9,926
Other comprehensive income					
Foreign exchange translation differences	–	–	(506)	–	(506)
Tax relating to items that may be reclassified to profit or loss	–	–	66	–	66
Total comprehensive income for the year	–	–	(440)	9,926	9,486
Transactions with owners					
Share based payments credit	–	–	–	10	10
Total transactions with owners for the year	–	–	–	10	10
Balance at 31 December 2021	4,089	48,701	(6,047)	6,466	53,209

The notes on pages 62 to 89 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 $000	2020 $000
Profit for the year	9,926	4,569
Adjustments for:		
Net finance costs	1,796	2,693
Depreciation of property, plant and equipment	1,741	2,160
Software amortization	101	231
Tax expense	4,230	2,020
Profit on disposal of right-of-use assets	—	(35)
Share based payments/(credits)	10	(32)
Amortization of acquired intangibles	7	890
Amortization and impairment of pre-publication costs	31,000	28,646
Operating cash flows before movements in working capital	48,811	41,142
(Increase)/decrease in inventories	(5,036)	4,023
(Increase)/decrease in receivables	(7,106)	2,721
Increase/(decrease) in payables	4,035	(9,205)
Cash generated by operations	40,704	38,681
Income taxes paid	(3,053)	(1,760)
Net cash from operating activities	37,651	36,921
Investing activities		
Investment in pre-publication costs	(20,229)	(20,324)
Purchases of property, plant and equipment	(111)	(34)
Net cash used in investing activities	(20,340)	(20,358)
Financing activities		
Interest payments	(1,866)	(1,297)
New share capital raised	—	18,351
Costs of raising new share capital	—	(1,370)
Lease payments	(1,426)	(1,995)
Drawdown of revolving credit facility and other loan	22,994	4,520
Repayment of term loan and revolving credit facility	(30,840)	(28,413)
Net cash used in financing activities	(11,138)	(10,204)
Net increase in cash and cash equivalents	6,173	6,359
Cash and cash equivalents at beginning of year	22,079	15,621
Foreign currency exchange differences on cash and cash equivalents	180	99
Cash and cash equivalents at end of year	28,432	22,079

The notes on pages 62 to 89 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

1 General information and significant accounting policies

The Quarto Group, Inc. is a company incorporated in the State of Delaware, United States. The address of the registered office is given on page 97. The nature of the Group's operations and its principal activities are set out in the Chief Executive Officer's Statement on page 7.

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

CHANGE IN ESTIMATE

The group undertook a review of the amortization period and method of the pre-publication costs in the development of the books title prior to publication. The review resulted in the change of method used to amortize the pre-publication costs in accordance with IAS 38 - Intangible Assets. The amortization rate has now changed prospectively from a 3 year straight line to a 50% reducing balance basis. The impact of this change is that the amortization charge of the group for the current year has been reduced by $1.26m.

During 2021, actual returns reduced by 31% year on year. As the directors believe this to be a short-term issue, the directors have extended the period which they monitor historical returns to ensure that the longer term trend is reflected in the provision. Accordingly, the period that sales and returns are reviewed was extended from 1 to 3 years. The estimated period that returns are made from the point of sale remains at 6 months, being the final six months of the financial year.

STATEMENT OF COMPLIANCE

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). The parent company financial statements present information about the Company as a separate entity and not about its Group.

The Group financial statements have been prepared and approved by the Directors in accordance with 'UK Adopted' International Financial Reporting Standards ('IFRS'). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP, including The Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS 102'). These are presented on pages 90 to 95.

BASIS OF ACCOUNTING

The financial statements are prepared on the historical cost basis, except that derivative financial instruments are stated at fair value.

STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN ADOPTED EARLY BY THE GROUP

A number of amendments to accounting standards and Interpretations, effective in the current financial year have been adopted but have not had a material impact on the Group financial statements.

The Group has not applied any other standards, Interpretations or amendments that have been issued but are not yet effective.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

Key estimates at the balance sheet date are:

GOODWILL

Note 10:
Management makes estimates and assumptions in measuring the carrying amount of goodwill. In considering whether goodwill has been impaired, the recoverable amount of cash generating units has been determined based on value in use calculations. These calculations require management to estimate future cash flows, a long-term growth rate and an appropriate discount rate. The sensitivity of the carrying amount of goodwill to these variables are considered.

INTANGIBLE ASSETS

Note 14:
Management makes estimates and assumptions when assessing the estimated economic life attributed to such titles. The capitalisation of these assets and the related amortization and impairment charges are based on estimates about the value and economic life of such items. The Group undertook a review of the pre-publication cost amortization with the benefits generated from the book title revenues. We concluded that a 50% reducing balance method of amortization was now appropriate rather than the 3 year straight line basis.

1 General information and significant accounting policies (continued)

The carrying amount of the intangible assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow valuation.

SALES RETURNS ALLOWANCE
Note 1, 2, 20:
On certain contracts, the customer has a right to return the products. The Group makes an allowance for this, based on a review of the historical return patterns associated with each customer, as well as current market trends. During 2021, actual returns reduced by 31% year on year which the directors believe was due to a large extent, by logistic and distribution issues that resulted in a significant backlog of returns and a change in customer habits. As this is believed to be a short-term issue, the directors have extended the period which they monitor historical returns to ensure that the longer-term trend is reflected in the provision. Accordingly, the period that sales and returns are reviewed to form an expectation of the sales return percentage was extended from 1 year to 3 years, with equal weighting given to each year. The estimated period that returns are made from the point of sale remains at 6 months, being the final six months of the financial year. The returns provision for the group, was $5.8m at 31 December 2021 which in accordance with the requirements of IFRS 15 - Revenue from Contracts with Customers, represents a weighted expectation of returns and the estimation of the variable income as a result of the sales returns has been constrained to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised. However, if the prior year methodology of 1 year had been used, the impact to the provision would have been a decrease of $1.1m.

Management deem that the sales returns provision could have a reasonable possible range from $3.4m to $6.1m as a result of the estimation uncertainty. The lower range reflects actual returns for 2022 to date increased by the expected backlog which has been extrapolated across the 6 month returns period.

This allowance is included within other payables. The Group also recognize an asset in relation to stock which is expected to be returned within inventory, based on average print margins and an additional allowance for unsaleable returns.

Key judgements at the balance sheet date are:

GOVERNMENT GRANTS
During 2020, the Group received a loan of $2,422,000 relating to government support given under the Coronavirus Aid, Relief and Economic Security Act of the USA. The loan is forgivable under certain prescribed conditions. As at the balance sheet date, the Group couldn't adequately ascertain that the prescribed conditions had all been satisfied and, therefore, without such reasonable assurance, the loan has continued to be treated as a borrowing. Please see note 22 for more details.

GOING CONCERN BASIS
The Board assessed the Group's ability to operate as a going concern for at least the next 12 months from the date of signing the financial statements.

The Directors have considered the underlying robustness of the Group's business model, products and proposition and its recent trading performance, cash flows and key performance indicators. They have also reviewed the cash forecasts prepared in detail to 31 March 2023. This is to satisfy themselves of the going concern assumption used in preparing the financial statements. The base case model was built using a detailed sales forecast driven by the publishing program for 2022. Core margins have been reviewed, with the ongoing Issues of freight and shipping pushing margins down. Trade receivable days remaining consistent with 2021.

As part of this work, the model was sensitized initially by a 5% reduction in revenue to ensure headroom within the covenants. This is deemed as a severe but plausible scenario. Management performed a reverse stress test to assess the point in which the banking covenants were breached. This occurred at a reduction in revenue of 9% from the base case. It is considered unlikely that such a reduction of revenue would occur, given, the detailed nature of the sales forecast and even with the challenges of 2020, revenue dropped by only 7% year on year. Should we start to see a reduction in revenue, then mitigating action will be taken, such as reduction in investment in pre-publication costs, print volumes, staffing levels and other variable costs.

Based on the above indications, the Directors believe that it remains appropriate to continue to adopt the going concern in preparing the financial statements.

BASIS OF CONSOLIDATION
The Group financial statements include the results of the Company and all of its subsidiary undertakings. A subsidiary is an entity controlled, directly or indirectly, by the Group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intragroup balances and any unrealized gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

1 General information and significant accounting policies (continued)

The interest of non-controlling interests on an acquisition is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

BUSINESS COMBINATIONS, INTANGIBLE ASSETS AND GOODWILL

All business combinations are accounted for by applying the acquisition method. Goodwill represents the excess of the consideration transferred over the fair value of the net assets and any contingent liabilities acquired. Acquisition costs are expensed as incurred.

Goodwill arising on acquisitions is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. Quarto identifies its cash-generating units based on its operating model and how data is collected and reviewed for management reporting and strategic planning purposes, in accordance with IAS36 - Impairment of Assets. Corporate overheads have been divided between cash-generating units and factored into the value in use calculation.

Other intangible assets, such as backlists, that are acquired by the Group are stated at cost less accumulated amortization and impairment losses.

Amortization of intangible assets is charged to profit or loss on a straight-line basis over the estimated useful lives of the intangible assets. The amortization period for non-contractual relationships is 2.5 years, for backlists is 5 years and for software is 4 years.

VOLUME REBATES

In the ordinary course of business, the Group receives volume rebates from its printers. This is accounted for in accordance with contractual terms and is credited to Inventory or cost of sales, as appropriate.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS INCLUDING GOODWILL

The carrying amount of the Group's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow valuation.

For goodwill, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

GOVERNMENT GRANTS

During 2020, the Group received financial support from Governments in UK and USA. The grants related to expense items. Any monies received or receivable are initially held as liabilities on the balance sheet. Grants are subsequently recognized in profit and loss when there is reasonable assurance that compliance has been satisfied. Additional Information is disclosed in note 6 and note 17.

SEGMENT REPORTING

The Group has two operating segments: US Publishing and UK Publishing. In identifying these operating segments, management follows the information provided to the chief operating decision maker of our business which relates to the two geographical locations. The two segments are managed separately and focus on different geographic markets. For management purposes, the Group uses the same measurement policies as those used in its financial statements.

REVENUE RECOGNITION

Revenue arises largely from the sale of physical products. To determine whether to recognize revenue, the Group considers the following criteria:

- Identifying the contract with a customer
- Identifying the performance obligations
- Determining the transaction price
- Allocating the transaction price to the performance obligations
- Recognizing revenue as/when performance obligations are satisfied

Each contract is for an agreed price and revenue is recognized at a point in time when the Group satisfies performance obligations by transferring the products to its customers; this is determined with reference to delivery terms. Invoices for products transferred are due on the terms specified in the contract. Contracts can span over 1 year. Where invoices are issued prior to transfer of the product to the customer, and there are unconditional rights to consideration the amounts invoiced are recorded as contract liabilities on the balance sheet, under deferred Income. In most cases this contract liability will be recognized within 12 months. When the product has been transferred to the customer, the liabilities are released and treated as revenue accordingly.

Revenue from the sale of publishing rights is recognized at the point the customer is able to use and benefit from the right to use the license. This is when the Group has discharged its performance obligations under the contractual arrangements. The sale of publishing rights includes the right to future sales based royalties. Revenue generated from the sales based royalties is only recognized when the subsequent sale occurs. Quarto licences the intellectual property rights to the customer on a right to use basis. This allows the customer to use the intellectual property as detailed in the contract. Once the term of the contract has expired, the licence becomes cancelled.

1 General information and significant accounting policies (continued)

On certain contracts, the customer has a right to return the products. The Group makes an allowance for this, based on a review of the historical return patterns associated with the customer, as well as current market trends. The estimated returns period is a key input of the returns allowance and is calculated by reference to historic returns data. The estimated returns period for the current and prior year is 6 months. The estimation of the variable income as a result of the sales returns is constrained to the extent that it is deemed highly probable that there will be no significant reversal in the amount of cumulative revenue recognized. This allowance is included within other payables. The Group also recognize an asset in relation to stock which is expected to be returned within inventory, based on average print margins and an additional allowance for unsaleable returns.

QUARTO DISTRIBUTION SERVICES
Quarto acts as an agent for our distributed customers facilitating sales through our distribution channels. Quarto recognizes the revenue from the sales in line with the above-mentioned revenue recognition policy.

FOREIGN CURRENCIES
Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at that date with any exchange differences arising on retranslation being recognized in the income statement.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into US Dollars at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into US Dollars at average exchange rates. Foreign exchange differences arising on retranslation are charged or credited to other comprehensive income and are recognized in the currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognized in equity are reclassified to profit or loss and are recognized as part of the gain or loss on disposal.

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

RETIREMENT BENEFIT COSTS
The Group's pension costs relate to individual pension plans and are charged to profit or loss as they fall due.

TAXATION
Tax on the profit or loss for the year comprises both current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years. Tax provisions are based on Management's interpretation of country specific tax law and recognized when it is considered probable that there will be a future outflow of funds to a tax authority. Provisions are made annually based on the specific information available at that time and therefore there is limited risk of change in the estimates in the short term. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or a liability unless the related transaction is a business combination or effects tax or accounting profit. Not all temporary differences give rise to deferred tax assets/liabilities. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Changes in deferred tax assets or liabilities are recognized as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to other comprehensive income or equity, in which case the related deferred tax is also charged or credited directly to other comprehensive income or equity, respectively.

PROPERTY, PLANT AND EQUIPMENT
Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairments in value.

Depreciation is provided on a straight-line basis to write off the cost, less the estimated residual value, of property, plant and equipment over their estimated useful lives, which are reviewed annually. Where parts of an item of plant and equipment have separate lives, they are accounted for and depreciated as separate items. Residual values are reassessed on an annual basis. Land is not depreciated.

Estimated useful lives are as follows:

Right-of-use assets	Over the period of the lease
Short leasehold property improvements	Over the period of the lease
Plant, equipment and motor vehicles	4 to 10 years
Fixtures and fittings	5 to 7 years

1 General information and significant accounting policies (continued)

In the case of right-to-use assets, expected useful lives are determined by reference to comparable owned assets or the lease term, if shorter. Material residual value estimates and estimates of useful life are updates as required, but at least annually.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income.

LEASED ASSETS

For any new contracts entered into on or after 1 January 2021, the Group considers whether a contract is, or contains, a lease. A lease is defined as a 'contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Group recognizes a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate. The Group's incremental borrowing rate reflects the marginal interest rates available to the Group, in the countries in which the assets reside. Lease payments included in the measurement of the lease liability are made up of fixed payments, variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are any changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term lease and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities are disclosed separately.

INTANGIBLE ASSETS - PRE-PUBLICATION COSTS

Pre-publication costs represent directly attributable costs and attributable overheads incurred in the development of book titles prior to their publication. Attributable overheads are allocated on a title by title basis. These costs are recognized as non-current intangible assets in accordance with IAS38 - Intangible Assets, where the book title will generate future economic benefits and costs can be measured reliably. Management has made judgements and assumptions when assessing the estimated economic life attributed to such titles. The capitalisation of these assets and the related amortization charges are based on judgements about the value and economic life of such items. The Group undertook a review of the pre-publication cost amortization with the benefits generated from the book title revenues. Specific imprints that had been impaired were excluded from the review. The review resulted in the change of method used to amortize the pre-publication costs in accordance with IAS 38 - Intangible Assets. The amortization rate has now changed prospectively from a 3 year straight line to a 50% reducing balance basis. The impact of this change is that the amortization charge of the group for the current year has been reduced by $1.26m. The investment in pre-publication costs has been disclosed as part of the investing activities in the cash flow statement.

Pre-publication costs include work-in-progress. Costs on such unpublished titles are regularly reviewed and if they fail to meet economic expectations, the costs are impaired.

1 General information and significant accounting policies (continued)

INVENTORIES

Inventory is valued at the lower of cost and net realisable value, on a weighted average cost basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognized on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

FINANCIAL ASSETS

Financial assets are measured at amortized cost using the effective interest method.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses is recognized in profit or loss or directly in equity. See note 21 for a summary of the Group's financial assets by category.

Generally, the Group recognizes all financial assets using trade date accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expense relating to financial assets are recognized in the income statement line item 'finance costs' or 'finance income', respectively, with the exception of trade and other receivables which are recorded in revenue and administrative expenses.

After initial recognition, Financial Assets are measured at amortized cost using the effective interest method. Discounting is ignored, where the effect is immaterial. The Group's cash and cash equivalents, trade and most other receivables, fall into this category of financial instrument. Assets in this category are measured, initially, at their transaction price with gains or losses recognized in profit or loss.

In considering impairment of financial assets, the group uses a wide range of information when assessing credit risk and measuring credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of future cash flows of the instrument.

The Group adopts a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. The Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

FINANCIAL LIABILITIES

The Group's financial liabilities include borrowings, trade and other payables (including lease liabilities).

After initial recognition at fair value, all financial liabilities, with the exception of derivative financial instruments, are measured at amortized cost using the effective interest rate method. A summary of the Group's financial liabilities by category is given in note 21.

FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of financial liabilities.

FINANCE COSTS

Finance costs comprise interest payable on borrowings calculated using the effective interest method together with the amortization of debt issuance costs.

CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash balances, call deposits and bank overdrafts that form an integral part of the Group's cash management processes.

SHARE-BASED PAYMENTS

The Group issues equity settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant. The fair value, determined at the grant date, of equity settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

The fair value of employee share option grants is calculated using a Monte Carlo model, taking into account the terms and conditions upon which the options were granted. The value of the charge is adjusted to reflect expected and actual levels of options vesting.

BORROWING COSTS
All borrowing costs are recognized in the income statement in the period in which they are incurred. Debt issuance costs comprising arrangement fees and legal costs are capitalized and amortized on a straight-line basis over the period of the borrowing facility or included within the amortized cost calculation as appropriate. The annual amortization charge is included within finance costs in the Consolidated Statement of Comprehensive Income.

No borrowing costs have been capitalized in the current or prior years in relation to any asset.

FINANCIAL RISK MANAGEMENT
The principal risk factors faced by the Group are disclosed in note 21.

2 External revenue

	Products	Publishing Rights	Products	Publishing Rights
	2021 $000	2021 $000	2020 $000	2020 $000
Sales	147,939	3,544	122,848	4,035

See accounting policies for detail of the revenue recognition concerning the above revenue streams.

During the year, sales to our primary distributor exceeded 10% of Group revenue (2020: one primary distributor). The value of these sales was $62.0m (2020: $58.8m).

3 Operating segments

The core publishing businesses comprises two divisions: US Publishing and UK Publishing. This is the basis on which operating results are reviewed and resources allocated by the Chief Executive Officer, who is deemed to be the chief operating decision maker.

2021	US Publishing $000	UK Publishing $000	Total Group $000
Continuing operations			
External revenue	81,062	70,421	151,483
Operating profit before amortization of acquired intangibles and exceptional items	10,024	7,001	17,025
Amortization of acquired intangibles	(7)	—	(7)
Segment result	10,017	7,001	17,018
Unallocated corporate expenses			(1,066)
Corporate exceptional items			—
Operating profit			15,952
Finance costs			(1,796)
Profit before tax			14,156
Tax			(4,230)
Profit after tax			9,926
Capital expenditure	39	72	111
Disposals	(44)	—	(44)
Depreciation and software amortization	(1,399)	(443)	(1,842)
Depreciation on disposals	44	—	44
Investment in pre-publication costs	10,280	9,949	20,229
Amortization and impairment of pre-publication costs	(14,438)	(16,562)	(31,000)
Deferred Income released	1,811	10,617	12,428

3 Operating segments (continued)

2020	US Publishing $000	UK Publishing $000	Total Group $000
Continuing operations:			
External revenue	63,137	63,746	126,883
Operating profit before amortization of acquired intangibles and exceptional items	3,249	8,360	11,609
Amortization of acquired intangibles	(851)	(39)	(890)
Segment result	2,398	8,321	10,719
Unallocated corporate expenses			(991)
Corporate exceptional items			(446)
Operating profit			9,282
Finance costs			(2,693)
Profit before tax			6,589
Tax			(2,020)
Profit after tax			4,569
Capital expenditure	7	27	34
Depreciation and software amortization	(1,333)	(1,058)	(2,391)
Investment in pre-publication costs	10,349	9,975	20,324
Amortization of pre-publication costs	(15,702)	(12,944)	(28,646)
Deferred income released	964	12,769	13,733

BALANCE SHEET

	2021 $000	Restated[1] 2020 $000
Quarto Publishing Group USA	54,313	69,330
Quarto Publishing Group UK	71,877	57,925
Unallocated (Deferred tax and cash)	30,772	25,439
Total assets	156,962	150,694
Quarto Publishing Group USA	28,472	26,930
Quarto Publishing Group UK	30,351	29,413
Unallocated (Deferred tax, corporation tax and debt)	44,930	50,638
Total liabilities	103,753	106,981

1 Refer to note 18 for further details.

GEOGRAPHICAL AREAS
The Group operates in the following main geographic areas:

	Revenue		Non-current assets	
	2021 $000	2020 $000	2021 $000	Restated[1] 2020 $000
United States of America	93,399	76,061	31,333	36,858
United Kingdom	20,241	18,250	23,127	30,413
Europe	21,204	17,446	—	—
Rest of the world	16,639	15,126	—	—
	151,483	126,883	54,460	67,271

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 Operating segments (continued)

1 The comparative value for non-current assets held within the United States of America operating segment has been restated. In the prior year financial statements, the non-current assets incorrectly included a balance of $3,604k in relation to deferred tax assets. The comparative numbers have been amended to reflect the revision.

The revenue in the above table has been allocated by country of destination, whilst the non-current assets have been allocated by location.

4 Operating profit

Whilst costs have been shown on the Income statement by function within the company, the following table shows costs grouped by nature:

	2021 $000	2020 $000
Direct costs		
Purchase of goods and changes in inventories	61,414	50,078
Royalties and product development	11,483	10,574
Amortization of pre-publication costs (note 14)	19,808	23,304
Impairment of pre-publication costs (note 14)	11,192	5,342
	103,897	89,298
Operating costs		
Staff	14,651	12,068
Depreciation of property, plant and equipment (note 12)	1,741	2,160
Software amortization (note 11)	101	231
Distribution Costs	8,439	7,131
Marketing Costs	4,461	3,075
Impairment of losses of financial assets	874	1,450
Other	1,361	852
	31,628	26,967

AUDITOR'S REMUNERATION

Fees payable to the Company's auditor for the audit of the Company's annual accounts	142	108
Fees payable to the Company's auditor and its associates for the audit of subsidiary companies	223	179
	365	287

5 Exceptional items

	2021 $000	2020 $000
Staff severance costs	–	251
Refinancing costs	–	195
Total	–	446

During the year, there were no exceptional Items (2020: $446,000), in accordance with the accounting policy disclosed in note 1. In 2020, costs comprised $251,000 in respect of redundancy costs following restructuring during the Covid-19 pandemic and a further $195,000 of refinancing costs in connection with amendments to the existing facility agreement. There was no charge, net of taxation for the year (2020: $349,000).

6 Staff costs

	2021 Number	2020 Number
Average monthly number of employees (excluding Executive Directors)	304	302

	$000	$000
Wages and salaries	23,107	19,074
Share-based credits	(38)	(32)
Social security costs	2,214	1,969
Other pension costs	918	730
	26,201	21,741
Less monies received by UK Government under Coronavirus Job Retention Scheme	—	(387)
	26,201	21,354

Directors remuneration is disclosed in the Remuneration Committee Report on page 28.

Total emoluments for Directors was:

	2021 $000	2020 $000
Short term employee benefits	900	878
Long term employee benefits	281	175
Termination benefits	29	—
Post-employment benefits	50	47
	1,260	1,110

The Directors' remuneration disclosed above included the following amounts earned in respect of the highest paid director:

	2021 $000	2020 $000
Short term employee benefits	620	504
Post-employment benefits	20	18
	640	522

The Group considers key management personnel as defined under IAS 24 - Related Party Disclosures. To be Directors of the company, this includes Non-Executive Directors and those having authority and responsibility for planning, directing and controlling the activities of Quarto.

Total emoluments for Executive Directors and other key personnel were:

	2021 $000	Restated[1] 2020 $000
Short term employee benefits	1,366	1,043
Long term employee benefits	281	175
Termination benefits	29	—
Post-employment benefits	88	67
	1,765	1,285

1 The key management personnel disclosure for the comparative year has been restated. The 2020 disclosure of key management personnel has been amended to include non-executive directors and those having authority and responsibility for planning, directing and controlling the activities of the group, as well as to include employer's NI contribution with respect of key management personnel and the reclassification of long-term employee benefits which were previously disclosed within short-term employee benefits. The impact of these amendments is an increase in key management remuneration of $244k.

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 Finance costs

	2021 $000	2020 $000
Interest expense on borrowings	1,399	1,724
Amortization of debt issuance costs and bank fees	85	543
Interest expense on lease liabilities arising from the adoption of IFRS 16	276	390
Other interest	36	36
	1,796	2,693

8 Taxation

	2021 $000	2020 $000
Corporation tax		
Current tax	6,209	3,156
Prior periods	—	2
Total current tax	6,209	3,158
Deferred tax (note 18)		
Origination and reversal of temporary differences	(1,979)	(1,138)
Total tax expense	4,230	2,020

Corporation tax on UK profits is calculated at 19%, based on the UK standard rate of corporation tax, (2020: 19%) of the estimated assessable profit for the year. An increase in the UK corporation rate from 19% to 25% is effective 1 April 2023. This will increase the company's future current tax charge accordingly and would increase our net tax liability by $361k. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The table below explains the difference between the expected expense at the UK statutory rate of 19% and the Group's total tax expense for the year.

	2021 $000	2020 $000
Profit before tax	14,156	6,589
Tax at the UK corporation tax rate of 19% (2020: 19%)	2,690	1,252
Effect of different tax rates of subsidiaries operating in other jurisdictions	1,058	161
Change in overseas tax rates during the year	—	68
Adjustment to prior years	—	2
Tax effect of items that are not deductible in determining taxable profit	(16)	240
Other	498	297
Tax expense	4,230	2,020
Effective tax rate	29.9%	30.7%

9 Earnings per share

	2021 $000	2020 $000
From continuing operations		
Profit for the year	9,926	4,569
Amortization of acquired intangibles (net of tax)	5	626
Exceptional items (net of tax)	—	349
Earnings for the purposes of adjusted earnings per share	9,931	5,544

9 Earnings per share (continued)

Number of shares	Number	Number
Weighted average number of ordinary shares	40,889,100	39,185,388
Average number of potentially dilutive share options	—	123,037
Diluted weighted average number of ordinary shares	40,889,100	39,308,425
Earnings per share (cents) – continuing operations		
Basic	24.3	11.7
Diluted	24.3	11.6
Adjusted earnings per share (cents)		
Basic	24.3	14.1
Diluted	24.3	14.1

10 Goodwill

	2021 $000	2020 $000
Cost		
At 1 January	43,102	42,913
Exchange differences	(95)	189
At 31 December	43,007	43,102
Accumulated impairment losses		
At 1 January	(23,721)	(23,721)
Exchange differences	—	—
At 31 December	(23,721)	(23,721)
Carrying value		
At 31 December	19,286	19,381

IMPAIRMENT TESTS FOR CASH GENERATING UNITS CONTAINING GOODWILL
The following units have significant carrying amounts of goodwill:

	2021 $000	2020 $000
Quarto Publishing Group USA (QUS)	12,882	12,882
Quarto Publishing Group UK (QUK)	6,404	6,499
	19,286	19,381

Quarto identifies its cash-generating units based on its operating model and how data is collected and reviewed for management reporting and strategic planning purposes, in accordance with IAS36 - Impairment of Assets. Corporate overheads have been divided between cash-generating units and factored into the value in use calculation.

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

The key assumptions for calculating value in use are:

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 Goodwill (continued)

	Terminal Growth Rates		Discount Rates	
	2021	2020	2021	2020
United States of America	2%	2%	11.13%	11.40%
United Kingdom	2%	2%	10.86%	11.12%

Revenue growth rates: forecast sales growth rates are based on those applied to the Board approved budget for the year ending 31 December 2022 and three-year plan. They incorporate future expectations of growth driven by investment plans for each CGU.

Long-term growth rates: the three-year forecasts are extrapolated to perpetuity on the basis that the CGU's are long-established business units. The long-term growth rates are blended rates formed from the territory-specific long-term growth rates.

Gross margins: gross margins are based on historic performance and expected changes to the sales mix in future periods.

The Group has undertaken various sensitivities of the QUK and QUS CGU's. There were no reasonably possible changes in QUK that would lead to impairment. QUS, which has the largest goodwill and non-current assets, carries a greater risk that reasonably possible changes would result in impairment. Based on the above long-term growth rate and discount rate, QUS exceeded the carrying value of goodwill by $9m. The following sensitivities were applied to this CGU:

- 1.5% increase in discount rate, at which level there was no impairment. The recoverable amount exceeded the carrying value of goodwill by $1.8m. The discount rate would need to increase to 13.05% to record any impairment.
- 0.5% terminal growth rate, at which level there was no impairment. The recoverable amount exceeded the carrying value of goodwill by $1.8m. The terminal growth rate would need to be 0% before any impairment was recorded.
- 5% decline in first year revenues, at which level there was no impairment. The recoverable amount exceeded the carrying value of goodwill by $5.4m.
- 5% decline in first year revenues and an increased discount rate of 12.3% would cause impairment if there were no mitigation actions.

Should there be a headline change in revenues and margins, this could create an impairment.

11 Other intangible assets

	Backlists $000	Software $000	Total $000
Cost			
At 1 January 2020	21,174	1,630	22,804
Exchange differences	79	–	79
At 1 January 2021	21,253	1,630	22,883
Exchange differences	(39)	–	(39)
At 31 December 2021	21,214	1,630	22,844
Amortization and impairment			
At 1 January 2020	20,274	1,248	21,522
Exchange differences	81	–	81
Charge for the year	890	231	1,121
At 1 January 2021	21,245	1,479	22,724
Exchange differences	(39)	–	(39)
Charge for the year	7	101	108
At 31 December 2021	21,213	1,580	22,793
Carrying amount			
At 31 December 2021	1	50	51
At 31 December 2020	8	151	159

12 Property, plant and equipment

Cost	Short-term Leasehold Improvements $000	Right-of-use Leasehold Property $000	Plant, Equipment and Motor Vehicles $000	Fixture and Fittings $000	Total $000
At 1 January 2020	1,010	11,202	1,197	1,086	14,495
Exchange difference	21	(22)	25	2	26
Additions	—	227	34	—	261
Remeasurement	—	2	—	—	2
Disposals	—	(2,313)	—	—	(2,313)
At 31 December 2020	1,031	9,096	1,256	1,088	12,471
Exchange difference	(11)	—	(13)	(1)	(25)
Additions	27	—	84	—	111
Disposals	—	—	(44)	—	(44)
At 31 December 2021	1,047	9,096	1,283	1,087	12,513
Depreciation					
At 1 January 2020	362	1,545	782	923	3,612
Exchange differences	13	—	50	2	65
Charge for the year: right of use asset	—	1,760	—	—	1,760
Charge for the year: other property, plant and equipment	105	—	217	78	400
Disposals	—	(184)	—	—	(184)
At 31 December 2020	480	3,121	1,049	1,003	5,653
Exchange differences	(7)	—	(11)	—	(18)
Charge for the year: right of use asset		1,432			1,432
Charge for the year: other property, plant and equipment	115	—	129	65	309
Disposals	—	—	(44)	—	(44)
At 31 December 2021	588	4,553	1,123	1,068	7,332
Net book value					
At 31 December 2021	459	4,543	160	19	5,181
At 31 December 2020	551	5,975	207	85	6,818

All property, plant and equipment has been pledged as security for the Group's bank borrowings (note 17).

13 Subsidiaries

A list of the investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 5 to the Company's balance sheet. All of these subsidiaries are included in the consolidated results.

14 Intangible assets – pre-publication costs

	2021 $000 Work in progress	2021 $000 Published products	2021 $000 Total	2020 $000 Work in progress	2020 $000 Published products	2020 $000 Total
Cost						
At 1 January	11,442	86,496	97,938	12,929	118,271	131,200
Exchange difference	(64)	(1,037)	(1,101)	147	2,056	2,203
Additions	20,229	–	20,229	20,324	–	20,324
Transfers	(17,069)	17,069	–	(18,508)	18,508	–
Amounts expensed	(4,433)	–	(4,433)	(3,450)	–	(3,450)
Disposals	–	–	–	–	(52,339)	(52,339)
At 31 December	10,105	102,528	112,633	11,442	86,496	97,938
Amortization and impairment						
At 1 January	–	57,025	57,025	–	82,503	82,503
Exchange difference	–	(900)	(900)	–	1,665	1,665
Amortization charge	–	19,808	19,808	–	23,304	23,304
Amounts expensed	–	6,759	6,759	–	1,892	1,892
Disposals	–	–	–	–	(52,339)	(52,339)
At 31 December	–	82,692	82,692	–	57,025	57,025
Net book value	10,105	19,836	29,941	11,442	29,471	40,913

The assessment of the useful life of pre-publication costs and amortization involves a significant management estimate based on historical trends and future potential sales, in accordance with the accounting policy stated in note 1. The Group undertook a review of the pre-publication cost amortization with the benefits generated from the book title revenues. We concluded that a 50% reducing balance method of amortization was now appropriate rather than the 3 year straight line basis.

The carrying amount of the intangible assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow valuation.

Pre-publication costs form part of the carrying value of the CGU for each segment and are considered for impairment of goodwill in note 10.

15 Inventories

	2021 $000	2020 $000
Finished goods	20,267	15,285
Raw materials	126	180
	20,393	15,465

All of the Group's inventories have been reviewed for indicators of impairment. Certain inventories were found to be impaired and a provision of $1,967,000 (2020: $2,220,000) has been recorded accordingly.

All inventories have been pledged as security for the Group's bank borrowings (Note 17).

16 Trade and other receivables

	2021 $000	2020 $000
Trade receivables	45,086	38,361
Other receivables and prepayments	6,156	6,158
	51,242	44,519

The average credit period on sales of goods is 79 days (2020: 77 days).

The Group applies the IFRS 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component. In measuring the expected credit losses, the trade receivables have been assessed on an individual basis, as much as possible, because credit risk characteristics vary by customer. The expected loss rates are based on the payment profile over the last 12 months, to reflect the current and future economic environment. Trade receivables are written off (ie, derecognized) when there is no reasonable expectation of recovery.

On the above basis, the expected credit loss for trade receivables as at 31 December 2021 and 31 December 2020 was determined as follows:

31 December 2021	Current	Overdue Less Than 30 Days	Overdue Less Than 60 Days	Overdue Less Than 90 Days	Overdue More Than 90 Days	Total
Gross carrying amount $000	39,177	3,317	2,010	1,166	2,195	47,865
Expected credit loss rate	3.1%	3.1%	4.2%	13.2%	55.3%	5.8%
Lifetime expected credit loss $000	1,223	103	85	154	1,214	2,779

31 December 2020	Current	Overdue Less Than 30 Days	Overdue Less Than 60 Days	Overdue Less Than 90 Days	Overdue More Than 90 Days	Total
Gross carrying amount $000	33,877	2,039	1,506	1,096	1,757	40,275
Expected credit loss rate	1.0%	1.8%	3.8%	18.1%	72.5%	4.8%
Lifetime expected credit loss $000	347	37	58	199	1,273	1,914

Movement in provision for lifetime expected credit loss is as follows:

	2021 $000	2020 $000
Provision at beginning of year	1,914	1,168
Amounts de-recognized in the year	(109)	(977)
Amounts recovered during the year	124	138
Exchange differences	(24)	14
Increase in allowance recognized in profit or loss	874	1,571
Provision at end of the year	2,779	1,914

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Note 21 includes disclosures relating to credit risk exposures and analysis relating to the allowance for expected credit losses.

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 Cash, borrowings and net debt

CASH

	2021 $000	2020 $000
Cash and cash equivalents	28,432	22,079

The carrying amount of these assets approximates to their fair value.
The effective interest rate on bank balances and short-term deposits was 0% (2020: 0%).

BORROWINGS

	2021 $000	2020 $000
Bank and other loans	33,946	41,819
On demand or within one year	5,438	41,819
	33,946	41,819
Less: Amount due for settlement within 12 months (shown under current liabilities)	(5,438)	(41,819)
Amount due for settlement after 12 months	28,508	—

	Total $000	Fixed rate borrowings $000	Variable rate borrowings $000	Weighted average interest rate for fixed rate borrowings %	Average time over which interest rate is fixed Months
US dollar borrowings	33,879	27,212	6,667	3.75	32
Other currency borrowings	67	—	67	—	—
As at 31 December 2021	33,946	27,212	6,734	3.75	32
US dollar borrowings	39,408	16,408	23,000	3.1	6.5
Other currency borrowings	2,411	—	2,411	—	—
As at 31 December 2020	41,819	16,408	25,411	3.1	6.5

OTHER LOANS

	2021 $000	2020 $000
Other loans (unsecured)	27,212	16,408
On demand or within one year	2,771	16,408
	27,212	16,408
Less: Amount due for settlement within 12 months (shown under current liabilities)	(2,771)	(16,408)
Amount due for settlement after 12 months	24,441	—

Other loans comprise:

(a) Loans of $13,000,000 (2020: $11,500,000) from related parties, as disclosed in note 28, are repayable 31 August 2024, together with the accrued interest.
(b) A loan for $10,000,000 from related parties, as disclosed in note 28 is repayable on 31 August 2024 and carries an interest rate of 4%.
(c) A loan of $2,422,000 (2020: $2,422.000) relates to government support given under the Coronavirus Aid, Relief and Economic Security Act of the USA. This attracts an interest rate of 1%. Without reasonable assurance of forgiveness, it has been treated as debt to be repaid within the next 12 months. See note 22.
(d) Accrued Interest of $1,790,000 (2020: $986,000) on the above loans.

17 Cash, borrowings and net debt (continued)

	Total $000	Fixed rate borrowings $000	Variable rate borrowings $000	Weighted average interest rate for fixed rate borrowings %	Average time over which interest rate is fixed Months
US dollar borrowings					
As at 31 December 2021	27,212	27,212	–	3.75	32
As at 31 December 2020	16,408	16,408	–	2.8	6.5

BANK LOANS

	2021 $000	2020 $000
Bank loans	6,734	25,411
On demand or within one year	2,667	25,411
	6,734	25,411
Less: Amount due for settlement within 12 months (shown under current liabilities)	(2,667)	(25,411)
Amount due for settlement after 12 months	4,067	–

At 31 December 2021, undrawn borrowing facilities totalled $9.7m (2020: $9.6m). The variable rate borrowings carry interest based on SOFR plus a margin, depending on the leverage ratio. The banking facilities expire on 16 July 2024. The Directors estimate the fair value of the Group's borrowings to be equal to book value, by reference to market rates.

	Total $000	Fixed rate borrowings $000	Variable rate borrowings $000	Weighted average interest rate for fixed rate borrowings %	Average time over which interest rate is fixed Months
US dollar borrowings	6,667	–	6,667	–	–
Other currency borrowings	67	–	67	–	–
As at 31 December 2021	6,734	–	6,734	–	–
US dollar borrowings	23,000	–	23,000	–	–
Other currency borrowings	2,411	–	2,411	–	–
As at 31 December 2020	25,411		25,411	–	–

STRATEGIC REPORT GOVERNANCE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 Cash, borrowings and net debt (continued)

CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 January 2021 $000	Profit and Loss $000	Cashflows $000	Non-cash items $000	Foreign exchange $000	31 December 2021 $000
Borrowings	(41,819)	–	7,846	(417)	444	(33,946)
IFRS 16 lease liabilities	(6,278)	–	1,426	(207)	24	(5,035)
Interest	–	(1,796)	1,866	(70)	–	–
Cash and cash equivalents	22,079	–	6,173	–	180	28,432
Net debt	(26,018)	(1,796)	17,311	(694)	648	(10,549)

	1 January 2020 $000	Profit and Loss $000	Cashflows $000	Non-cash items $000	Foreign exchange $000	31 December 2020 $000
Borrowings	(66,077)	–	23,893	(92)	457	(41,819)
IFRS 16 lease liabilities	(9,866)	–	1,995	1,574	19	(6,278)
Interest	–	(2,693)	1,297	1,396	–	–
Cash and cash equivalents	15,621	–	6,359	–	99	22,079
Net debt	(60,322)	(2,693)	33,544	2,878	575	(26,018)

18 Deferred tax

	2021 $000	2020 $000
Deferred tax liabilities		
Pre-publication costs and other temporary differences – UK	3,131	4,103
Pre-publication costs and other temporary differences – US	–	2,220
	3,131	6,323
Deferred tax assets		
Goodwill, intangible assets and other temporary differences – US	2,436	3,604
	2,436	3,604
Net deferred taxation liability	695	2,719

Quarto US have a deferred tax asset of $3,604k and a deferred tax liability of $2,220k. In the prior year statement of financial position these were incorrectly disclosed as gross balances, however, in accordance with IAS 12 - Income Taxes, the deferred tax asset and deferred tax liabilities have been offset as they relate to the same taxable entity. The comparative numbers within the statement of financial position have been amended to reflect the revision. A restated statement of financial position as at 1 January 2020 has not been presented, in accordance with IAS 1 - Presentation of Financial Statements, on the grounds that the misstatement does not impact on net assets and as it represents a grossing up on assets and liabilities is not considered to be qualitatively material.

The movement on the net provision for deferred taxation is as follows:

	2021 $000	2020 $000
Net provision at 1 January	2,719	3,808
Charge direct to equity	–	(54)
Exchange difference through other comprehensive income	(45)	103
Credit to profit and loss	(1,979)	(1,138)
Net provision at 31 December	695	2,719

19 Lease liabilities

	2021 $000	2020 $000
Current	1,363	1,968
Non-current	3,672	4,310
Total	5,035	6,278

The Group has leases for its offices and some IT equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Group revenues) are excluded from the initial measurement of the lease liability and asset. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (note 12).

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. For leases over office buildings the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Group's leasing activities by type of right-to-use asset recognized on the balance sheet:

Right-of-use asset	No of right-of-use assets leased	Range of remaining term	Average remaining lease term	No of lease with extension options	No of lease with options to purchase	No of lease with variable payments linked to an index	No of lease with termination options
Office building	6	4-9 years	6 years	1	–	4	1

Properties with extension, or termination, options are assessed on a case-by-case basis in determining take-up of the options. The property lease in Seattle includes the option to extend this lease by 5 years. At this point in time, there is no intention by the company to exercise this extension. However, if we were to extend, the future cash flow would be $1.75m.

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 31 December 2021 were as follows:

	Minimum lease payments due US$000						
	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	Total
31 December 2021							
Lease payments	1,601	794	450	272	161	2,414	5,692
Finance charges	(223)	(164)	(122)	(80)	(42)	(26)	(657)
Net present values	1,378	630	328	192	119	2,388	5,035
31 December 2020							
Lease payments	2,358	1,551	1,585	1,044	1,013	–	7,551
Finance charges	(390)	(269)	(219)	(161)	(234)	–	(1,273)
Net present values	1,968	1,282	1,366	883	779	–	6,278

The total cash outflow in relation to lease liabilities during the year was $1,426,000 (2020: $1,995,000). Please see note 17.

The Group has elected not to recognize a lease liability for short term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis and amounted to $4,000 in the year (2020: $26,000).

20 Trade and other payables

CURRENT LIABILITIES

	2021 $000	2020 $000
Trade payables	29,450	28,529
Other payables	24,339	21,535
Total	53,789	50,064

Under IFRS 15, the reserve for sales returns is included in other payables; it amounts to $5,776,000 (2020: $6,481,000). The reserve is calculated based on a time lag between sales and returns and historical return patterns. Management monitors actual returns against the reserve on a regular basis. If the rate of sales return had been 1% higher during the year, the provision would have increased by $545,000 (2020: $512,000).

Included within other payables is $1,957,000 in respect of deferred Income (2020: $2,274,000), detailed below:

	2021 $000	2020 $000
Opening liability	2,274	2,525
Deferred income invoiced	12,136	13,436
Revenue recognized	(12,428)	(13,733)
Exchange difference	(25)	46
Closing liability	1,957	2,274

We expect deferred Income to be recognized within the next 12 months.

21 Financial instruments

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk, credit risk, liquidity risk and certain other price risks, which result from both its operating and investing activities. The Group's risk management is coordinated at its headquarters, in close co-operation with the Board of Directors, and focuses on actively securing the Group's short to medium-term cash flows by minimising the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed and a summary of financial assets and liabilities by category are described below.

FOREIGN CURRENCY SENSITIVITY

Exposures to currency exchange rates arise from the Group's overseas sales and costs, which are primarily denominated in Sterling, and, to a much lesser extent in Euros. The Group has minimal exposure to other foreign currencies.

Foreign currency denominated financial assets and liabilities, translated into US Dollars at the closing rate, are as follows:

	2021		2020	
	$000 Sterling	$000 Other	$000 Sterling	$000 Other
Financial assets	15,465	1,394	11,792	1,053
Financial liabilities	(1,362)	(1,000)	(755)	(3,033)
Short-term exposure	14,103	394	11,037	(1,980)
Financial liabilities	—	—	—	—
Long-term exposure	—	—	—	—
At 31 December	14,103	394	11,037	(1,980)

The following table illustrates the sensitivity of the net result for the year and equity in regard to the Group's financial assets and financial liabilities and the US Dollar – Sterling exchange rate.

It assumes a ± 5% change of the Sterling/US-Dollar exchange rate, in line with the movement over the last year.

The sensitivity analysis is based on the Group's foreign currency financial instruments held at each balance sheet date.

If Sterling had strengthened against the US Dollar by 5% (2020: 5%) then this would have had the following impact:

21 Financial instruments (continued)

	2021 $000	2020 $000
Profit/(loss) after tax for the year	46	(240)
Equity	46	(240)

If Sterling had weakened against the US Dollar by 5% (2020: 7.5%) then this would have had the following impact:

	2021 $000	2020 $000
(Loss)/profit after tax for the year	(46)	240
Equity	(46)	240

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

INTEREST RATE SENSITIVITY

The Group's policy is to minimize interest rate cash flow risk exposures, where possible and commercially appropriate, on long-term financing, through interest rate swaps. A part of longer-term borrowings are sometimes, therefore, at fixed rates.

At 31 December 2021, the Group is exposed to changes in market interest rates through its bank borrowings, which are subject to variable interest rates – see note 17 for further information.

The following table illustrates the sensitivity of the profit after tax for the year and equity to a reasonably possible change in interest rates of ± 0.25%, with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments held at each balance sheet date. All other variables are held constant.

A 0.25% increase in interest rates would have the following impact:

	2021 $000	2020 $000
Loss for the year	(13)	(48)
Equity	(13)	(48)

A 0.25% decrease in interest rates would have the following impact:

	2021 $000	2020 $000
Profit for the year	13	48
Equity	13	48

CREDIT RISK ANALYSIS

The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized at the balance sheet date, as summarized below:

	2021 $000	2020 $000
Cash and cash equivalents	28,432	22,079
Trade receivables	45,086	38,361
	73,518	60,440

The Group's credit risk is primarily attributable to its trade receivables. There is minimal credit risk within other receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. The ongoing credit risk is managed through regular review of ageing analysis together with credit limits per customer.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

21 Financial instruments (continued)

The Group's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. Credit losses written off during the year which are subject to enforcement activity are minimal.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk for liquid funds and other short-term financial assets is limited, since the counterparties are reputable banks with high quality external credit ratings.

LIQUIDITY RISK ANALYSIS

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis.

The Group maintains cash and marketable securities to meet its liquidity requirements. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

A new facility agreement was signed on 16 February 2021 with borrowing facilities of US$20m. This facility is subject to two principal covenants in 2021, being:

(a) Net banking Indebtedness shall not exceed 2.0 times EBITDA (as defined in the facility agreement)
(b) EBITDA shall exceed 4 times net finance charges (as defined in the facility agreement)

The Group's liabilities have contractual maturities which are summarized below:

	Current		Non-Current	
31 December 2021	Within 6 months $000	6 to 12 months $000	1 to 5 years $000	Over 5 years $000
Bank and other loans	348	2,422	28,508	—
Lease liabilities	800	800	4,092	—
Trade payables	29,450	—	—	—
Other short-term financial liabilities	24,339	—	—	—
	54,937	3,222	32,600	—

	Current		Non-Current	
31 December 2020	Within 6 months $000	6 to 12 months $000	1 to 5 years $000	Over 5 years $000
Bank and other loans	3,132	40,965	—	—
Lease liabilities	984	984	4,310	—
Trade payables	28,529	—	—	—
Other short-term financial liabilities	21,535	—	—	—
	54,180	41,949	4,310	—

SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and liabilities as recognized at the balance sheet date of the reporting periods under review may also be categorized as follows. See note 1, significant accounting policies, covering financial assets and financial liabilities for explanations about how the category of instruments affects their subsequent measurement.

21 Financial instruments (continued)

	2021 $000	Restated[1] 2020 $000
Current assets		
Financial assets at amortized cost:		
Trade receivables	45,086	38,361
Cash and cash equivalents	28,432	22,079
	73,518	60,440
Current liabilities		
Financial liabilities measured at amortized cost:		
Borrowings	5,438	41,819
Trade payables	29,450	28,529
Other payables	21,475	19,146
	56,363	89,494
Non-current liabilities		
Financial liabilities measured at amortized cost:		
Borrowings	28,508	–
	28,508	–

1 The comparative year has been restated to reflect disclosure errors identified within the prior year financial statements in relation to the financial liabilities. Within the prior year financial statements amounts for non-financial liabilities, including contractual liabilities and statutory obligations had been incorrectly disclosed. The comparative numbers have been amended to reflect the revision which has reduced current liabilities by $2,389k. The comparative year has also been restated with the removal of lease liabilities as these have been disclosed on the face of the Statement of financial position.

CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through an optimal balance of debt and equity. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 17, cash and cash equivalents and equity attributable to equity holders of the parent, comprising share capital and reserves as disclosed in the consolidated statement of changes in equity.

The Board reviews the capital structure, including the level of indebtedness and interest cover, as required. The Board's objective is to maintain the optimal level of indebtedness and manage interest cover to comply with the covenant requirements set out in note 17. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Group has complied with its covenant obligations during the year.

22 Post balance sheet events

C.K. Lau and 1010 Printing Limited were repaid $6m and $9m respectively in Q1 2022, including accrued interest. This repayment was made outside the agreement due to a favorable liquidity position at this point in time.

In February 2022, we received notification from Bank of America advising that $2.272m of the loan relating to government support given under the Coronavirus Aid, Relief and Economic Security Act of the USA of $2.422m was being forgiven. We are still in the process of finalising the repayment of the unforgiven portion, which will take place once agreement has been reached.

23 Share capital and paid in surplus

SHARE CAPITAL

	2021 $000	2020 $000
Authorized		
55,000,000 (2020: 55,000,000) shares of common stock of par value of US$0.10 each	5,500	5,500
Allotted, called up and fully paid:		
40,889,100 (2020: 40,889,100) shares of common stock of par value of US$0.10 each	4,089	4,089

The Company has one class of common stock which carries no right to fixed income.

23 Share capital and paid in surplus (continued)

PAID IN SURPLUS
This reserve records the amount above par value received for common stock sold less transaction costs. The movement on this reserve was as follows:

	2021 $000	2020 $000
At 1 January	48,701	33,764
Issue of new common stock	–	14,937
At 31 December	48,701	48,701

24 Retained earnings and other reserves

TRANSLATION RESERVE
The translation reserve comprises all foreign exchange differences arising from the translation of the closing balance sheets of foreign operations of the Group and the results of foreign operations of the Group since 1 January 2004.

RETAINED EARNINGS
The retained earnings reserve comprises profit for the year attributable to owners of the Group and other items recognized directly through equity as presented on the consolidated statement of changes in equity.

25 Dividends

No dividends have been declared in the current or prior year.

26 Notes to the cash flow statement

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

27 Share based payments

PERFORMANCE SHARE PLAN ('PSP')
The Company operates a PSP scheme that awards free shares.

2016 AWARD
The awards under this scheme were granted on 19 April 2016. The vesting period is 4 years from the date of grant. The award vests in the following proportion:

- 50% is conditional on the cumulative growth in Adjusted Diluted EPS being between 5% and 10% over the performance period, resulting in the awards vesting on a sliding scale of 20% to 100%; and
- 50% is conditional on Total Shareholder Return being between 7% and 15%, resulting in vesting on a sliding scale of 20% to 100%.

Participants are not entitled to receive dividends until awards have vested.

Details of the share options outstanding during the year are as follows:

	2021 Number	2020 Number
Outstanding at beginning of the year	–	143,784
Forfeited during the year	–	(33,673)
Lapsed during the year	–	(110,111)
Outstanding at the end of the year	–	–

27 Share based payments (continued)

The key inputs used to value the options are:

	EPS Portion	TSR Portion
Share price at date of grant	£2.45	£2.45
Expected life (years)	4	4
Fair value per award	£2.10	£0.44
Weighted average remaining contractual life (years)	2.3	3.3
Dividend yield (%)	3.88	3.88
Expected volatility of share price (%)	n/a	19.1
	Dividend discount	Monte-Carlo

2017 AWARD

The awards under this scheme were granted on 28 April 2017. The vesting period is 4 years from the date of grant. The award vests in the following proportion:

- 50% is conditional on the cumulative growth in Adjusted Diluted EPS being between 5% and 10% over the performance period, resulting in the awards vesting on a sliding scale of 20% to 100%; and
- 50% is conditional on Total Shareholder Return being between 7% and 15%, resulting in vesting on a sliding scale of 20% to 100%.

Participants are not entitled to receive dividends until awards have vested.

Details of the share options outstanding during the year are as follows.

	2021 Number	2020 Number
Outstanding at beginning of the year	65,223	84,995
Forfeited during the year	–	(19,772)
Lapsed during the year	(65,223)	–
Outstanding at the end of the year	–	65,223

The key inputs used to value the options are:

	EPS Portion	TSR Portion
Share price at date of grant	£2.64	£2.64
Expected life (years)	4	4
Fair value per award	£2.20	£0.48
Weighted average remaining contractual life (years)	3.3	3.3
Dividend yield (%)	£4.55	£4.55
Expected volatility of share price (%)	n/a	18.6
Model used	Dividend discount	Monte-Carlo

28 Related party transactions

The Group had the following related party transactions over the periods under review:

PRINTING PURCHASES:

Lion Rock Group Limited	2021 $000	2020 $000
Accounts payable at start of year	12,895	13,692
Purchases	23,830	14,720
Rebate received	—	(1,464)
Payments	(20,123)	(14,053)
Accounts payable at end of year	16,602	12,895

LOANS AND ACCRUED INTEREST:

	At 31 December 2021 $000	At 31 December 2020 $000
Loans	23,000	11,500
Accrued interest on loans at end of year	1,789	874

The loans are from 1010 Printing Limited $17m (2020: $7m) and C.K. Lau $6m ($6m). The loans are unsecured, are repayable, on 31 August 2024, and carry interest at 3.5% and 4.0%. Interest is paid annually on one loan with the remaining accrued interest to be paid at the end of the term.

Lion Rock Group Limited and 1010 Printing Limited are companies over which C.K. Lau exercises control.

The rebate received in 2020 was accounted for in accordance with the accounting policy disclosed in note 1. The rebate scheme was not renewed in 2021.

REVENUES AND TRADE RECEIVABLES:

	At 31 December 2021 $000	At 31 December 2020 $000
Revenues	631	137
Outstanding receivables balance at end of year	126	63

The Group recorded revenues of $623,000 (2020: $129,000) with Giunti Editore S.p.A, a company over which Andrea Giunti Lombardo, a non-executive director, exercises control. The transactions were in the normal course of business on arms-length terms. The amount outstanding at 31 December 2021 was $126,000 (2020: $58,000).

The Group recorded revenues of $8,000, up to 30 June 2021, (2020: $8,000) with Pavilion Books Limited, a company over which Polly Powell, the CEO for Pavilion Books, exercises control. The transactions were in the normal course of business on arms-length terms.

DISTRIBUTION SERVICES:

Pavilion Books Limited	At 31 December 2021 $000	At 31 December 2020 $000
Net sales less distribution fees	1,357	—

From January to June 2021, Quarto provided distribution services to Pavilion Books Group Limited, which was owned by Polly Powell, who resigned on 1 July 2021.

29 Reconciliation of figures included in other parts of the financial statements

	2021 $000	2020 $000
Adjusted operating profit		
Operating profit	15,952	9,282
Add back: Amortization of acquired intangibles	7	890
Other exceptional items (note 5)	—	446
Adjusted operating profit	15,959	10,618
EBITDA		
Operating profit before amortization of acquired intangibles and exceptional items	15,959	10,618
Less: Net finance costs	(1,796)	(2,693)
Impact of IFRS 16	(18)	(270)
Adjusted profit before tax	14,145	7,655
Net finance costs	1,796	2,693
Depreciation of property, plant and equipment and software (excluding right-of-use assets)	410	631
Share based payments/(credits)	10	(32)
One off non-cash costs	—	1,892
EBITDA for banking purposes	16,361	12,839
Impact of IFRS 16	18	270
Depreciation of right-of-use assets	1,432	1,760
Less: one off non-cash costs	—	(1,892)
EBITDA	17,811	12,977
Adjusted profit before tax before amortization of acquired intangibles and exceptional items		
Adjusted operating profit before amortization of acquired intangibles and exceptional items	15,959	10,618
Less: net finance costs	(1,796)	(2,693)
Adjusted profit before tax before amortization of acquired intangibles and exceptional items	14,163	7,925
Free cashflow		
Net cash from operating activities	37,651	36,921
Investment in pre-publication costs	(20,229)	(20,324)
Purchases of property, plant and equipment excluding IFRS 16 assets	(111)	(34)
Free cashflow	17,311	16,563
Net debt		
Short-term borrowings	5,438	41,819
Long-term borrowings	28,508	—
Cash and cash equivalents	(28,432)	(22,079)
Net debt	5,514	19,740

Company Balance Sheet

AS AT 31 DECEMBER 2021

	Notes	2021 $000	2020 $000
Fixed assets			
Investments	4	1,244	1,234
		1,244	1,234
Current assets			
Other receivables falling due within one year	6	3,515	3,370
		3,515	3,370
Current liabilities			
Creditors falling due within one year	7	(431)	(52)
		(431)	(52)
Creditors falling due after more than one year			
Tax payable		—	(430)
Net assets		4,328	4,122
Equity			
Called up share capital	8	4,089	4,089
Paid in surplus		48,701	48,701
Retained earnings		(48,462)	(48,668)
Total equity		4,328	4,122

The company reported a profit for the financial year ended 31 December 2021 of $195,000 (2020 $2,214,000).

The notes on pages 92 to 95 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors and authorized for issue on 17 March 2022.

They were signed on its behalf by

Chuk Kin Lau
Director
17 March 2022

Company Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 $000	2020 $000
Other operating income			
Dividends received		—	1980
Administrative expenses		196	—
Foreign exchange (loss)/gain		(52)	224
Profit before tax		144	2,204
Tax	3	52	10
Profit for the year		196	2,214

The notes on pages 92 to 95 are an integral part of these consolidated financial statements.

Company Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital $000	Paid in surplus $000	Retained earnings $000	Equity attributable to owners $000
Balance at 1 January 2020	2,045	33,764	(50,850)	(15,041)
Profit for the year	—	—	2,214	2,214
Transactions with owners				
Share capital raised	2,044	16,307	—	18,351
Costs of raising share capital	—	(1,370)	—	(1,370)
Share based charges	—	—	(32)	(32)
Balance at 1 January 2021	4,089	48,701	(48,668)	4,122
Profit for the year			196	196
Transactions with owners				
Share capital raised	—	—	—	—
Costs of raising share capital	—	—	—	—
Share based payments/charges	—	—	10	10
Balance at 31 December 2021	4,089	48,701	(48,462)	4,328

The notes on pages 92 to 95 are an integral part of these consolidated financial statements.

Notes to the Company Accounts

AT 31 DECEMBER 2021

1 Basis of preparation

The separate financial statements of the Company are presented and have been prepared in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. These financial statements present information for the Company, not about the Group.

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules modified to include certain items as fair value and in accordance with FRS 102. The financial statements have been prepared using the going concern basis, as discussed in the Group going concern disclosure.

The Company has adopted the following disclosure exemptions:

- the requirement to present a statement of cash flow and related notes; and
- financial instrument disclosures, including,
- categories of financial instruments;
- items of income, expenses, gains or losses relating to financial instruments; and
- exposure to, and management of, financial risks.

There were no significant judgements or estimates in preparing the financial statements of the Company.

2 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements. The functional currency of the company is Pounds Sterling, with the parent company accounts presented in US Dollars.

INVESTMENTS

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

OTHER RECEIVABLES

Amounts owed by subsidiary undertakings are initially recognized at fair value, and subsequently measured at amortized cost using the effective interest method.

CREDITORS

Amounts owed to subsidiary undertakings are initially recognized at fair value, and subsequently measured at amortized cost using the effective interest method.

SHARE-BASED PAYMENTS

The Company operates a number of equity-settled, share based compensation plans that are awarded to employees of the Company's subsidiary undertakings. The fair value of the employee services received under such schemes is recognized as an expense in the subsidiary undertakings financial statements, which benefit from the employee services. The Company has recognized the fair value of the share-based payments as an increase to equity with a corresponding adjustment to investments. Equity settled share-based payments are measured at fair value at the date of grant. The fair value, determined at the grant date, of equity settled share–based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The fair value of employee share option grants is calculated using a Monte Carlo model, taking into account the terms and conditions upon which the options were granted. The value of the charge is adjusted to reflect expected and actual levels of options vesting. Further detail is set out in note 27 to the group consolidated Financial Statements.

CASH AND CASH EQUIVALENTS

There were no cash transactions during the year and accordingly no cash flow statement has been presented.

FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at that date with any exchange differences arising on retranslation being recognized in the income statement.

FINANCIAL GUARANTEE CONTRACTS

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

3 Tax

	2021 $000	2020 $000
Current tax credit	(52)	(10)

Corporation tax is calculated at 21%, based on the US standard rate of corporate tax (2020: 21%) of the estimated assessable profit for the year. The table below explains the difference between the expected expense at the US statutory rate of 21% and the Company's total tax expense for the year.

	2021 $000	2020 $000
Profit before tax	144	2,204
Tax at the US corporation tax rate of 21% (2020: 21%)	30	463
Tax effect of items that are not (taxable)/deductible in determining taxable profit	(30)	(463)
Other	–	(10)
Tax Credit	–	(10)

4 Investments

	2021 $000	2020 $000
At 1 January	1,234	1,266
Movement during the year	10	(32)
At 31 December	1,244	1,234

5 Subsidiaries

A) TRADING COMPANIES

	Incorporation					
Name	Place	Date	Registered address key	Issued and fully paid up share capital	% held	Segment
Quarto Publishing Group USA Inc.	Delaware, USA	28 June 2004	B	380 shares of US$0.01 each	100	US Publishing
Quarto Publishing plc	United Kingdom	1 April 1976	A	100,000 shares of £1 each	100*	UK Publishing
Quarto, Inc.	Delaware, USA	16 October 1986	B	86 shares of no par value	100*	US Publishing

*Directly held by The Quarto Group, Inc.

NOTES TO THE COMPANY ACCOUNTS (continued)

5 Subsidiaries (continued)

B) DORMANT COMPANIES

	Incorporation		Registered		
Name	Place	Date	address key	Issued share capital	% held
AP Screen Printers Limited	United Kingdom	30 September 1980	A	1000 shares of £1 each	100
Apple Press Limited	United Kingdom	5 June 1984	A	100 shares of £1 each	100
Aurum Press Limited	United Kingdom	31 May 1977	A	382,502 shares of £1 each	100
Books & Gifts Direct Limited	New Zealand	27 September 1996	C	400,000 shares of NZ$1 each	100*
Cartographica Press Limited	United Kingdom	27 July 1981	A	1000 shares of £1 each	100
Design Eye Holdings Limited	United Kingdom	22 June 1992	A	200 shares of £1 each	100
Design Eye Limited	United Kingdom	18 March 1988	A	100 shares of £1 each	100
Design Eye Publishing Limited	United Kingdom	17 June 1992	A	2 shares of £1 each	100
EYE Quarto Inc	Delaware, USA	19 December 2002	B	1000 shares of no par value	100
Fine Wine Editions Limited	United Kingdom	23 June 1949	A	9020 shares of £1 each	100
Frances Lincoln Limited	United Kingdom	15 December 1980	A	565,000 shares of 10p each	100
Frances Lincoln Publishers Limited	United Kingdom	11 March 1987	A	100 shares of £1 each	100
Global Book Publishing Pty Limited	United Kingdom	7 July 1986	A	1000 shares of £1 each	100
Global Book Publishing Pty Limited[1]	Australia	4 November 1999		1,000 shares of A$1 each	100
The Great American Trading Company Limited	United Kingdom	24 February 1982	A	100 shares of £1 each	100
IQON Editions Limited	United Kingdom	5 December 1972	A	300 shares of £1 each	100
iqu-digital.com Limited	United Kingdom	30 November 1978	A	100 shares of £1 each	100
The Ivy Press Limited	United Kingdom	9 July 1996	A	1042 shares of 10p each	100
Quarto (JS) LLP	United Kingdom	6 November 1998	A	100 units	100
JR Books Limited	United Kingdom	9 September 1986	A	43 004 shares of £1 each	100
Lewes Holdings Limited	United Kingdom	21 July 2005	A	20,840 shares of £0.01 each	100
Marshall Editions Limited	United Kingdom	7 February 2002	A	1 shares of £1 each	100
Marshall Publishing Limited	United Kingdom	7 February 2002	A	1 shares of £1 each	100
QEB Publishing Inc	Delaware, USA	27 April 2004	B	1500 shares of no par value	100
QED Publishing Limited	United Kingdom	12 November 1974	A	400 shares of £1 each	100
QU:ID Publishing Limited	United Kingdom	30 September 1980	A	100 shares of £1 each	100
Quarto Australia Pty Limited[2]	Australia	14 September 1981	D	110 shares of $A1 each	100
Quantum Books Limited	United Kingdom	7 February 1983	A	100 shares of £1 each	100
Quarto Children's Books Limited	United Kingdom	6 January 1976	A	2 shares of £1 each	100
Quarto China Company Limited	Hong Kong	16 March 2021	E	1 share of HKD1 each	100
Quarto Group HK Ltd[3]	Hong Kong	26 January 2015		100 shares of HKD1 each	100
Quarto Magazines Limited	United Kingdom	20 May 1986	A	1000 shares of £1 each	100
Quarto Marketing Inc	Delaware, USA	26 April 1995	B	3000 shares of no par value	100
Quarto Media Inc	Delaware, USA	10 December 2010	B	1000 shares of $1 each	100
Quarto Multi Media Limited	United Kingdom	14 December 1984	A	1000 shares of £1 each	100
Quill Publishing Limited	United Kingdom	14 May 1979	A	1000 shares of £1 each	100
Quintessence Editions Limited	United Kingdom	7 February 2002	A	1 shares of £1 each	100
Quintet Publishing Limited	United Kingdom	14 May 1979	A	100 shares of £1 each	100
RotoVision S.A.[2]	Switzerland	18 July 1977	F	1,500 shares of SFr500 each	100
Small World Creations Limited	United Kingdom	20 September 1997	A	1,536 share of £1 each	100

*Directly held by The Quarto Group, Inc.
1 Deregistered on 24 February 2021.
2 In the process of deregistration.
3 Deregistered on 5 March 2021.

NOTES TO THE COMPANY ACCOUNTS (continued)

5 Subsidiaries (continued)

C) LIST OF REGISTERED OFFICES
A The Old Brewery, 6 Blundell Street, London, N7 9BH, United Kingdom
B 100 Cummings Center, Suite 265D, Beverly, MA 01915-6115, USA
(Quarto Publishing Group USA Inc., 251 Little Falls Drive, Wilmington, DE 19808, Delaware, USA; Quarto Inc., 1209 Orange Street, Wilmington, Delaware 19801, USA)
C c/o Brownes CA Limited, Unit K, 215 Rosedale Road, Albany, Auckland, 0632, New Zealand
D c/o ZM Partners, Suite 10 Ground Floor, 123 Clarence Street, Sydney, NSW 2000, Australia
E Level 11 East Wing, NEO, 123 Hoi Bun Road, Kwun Tong, Hong Kong
F Passage Perdonet 1, 1005 Lausanne, Switzerland

6 Other receivables falling due within one year

	2021 $000	2020 $000
Amounts owed by subsidiary undertakings	3,515	3,370
	3,515	3,370

7 Creditors falling due within one year

	2021 $000	2020 $000
Amounts owed to subsidiary undertakings	–	–
Tax payable	(431)	52
	(431)	52

8 Called up share capital
Details of called up share capital are set out in note 23 of the consolidated Financial Statements.

9 Contingent liabilities
The Quarto Group, Inc. has issued guarantees in respect of bank loans of subsidiaries of $6.7m, (2020: $25,411,000). Refer to note 17 of the group consolidated Financial Statements.

10 Related parties
The Company made no repayments to its wholly owned subsidiary, Quarto Publishing plc, during the year (2020: $19,184,000 borrowed in the year). The balance on the loan at 31 December 2021 was $3.5m (due to the company) (2020: $3.4m owed by the company). These balances are non-interest bearing and repayable on demand.

Independent Auditor's Report to the Members of The Quarto Group, Inc.

Opinion

OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the financial statements of The Quarto Group, Inc. (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2020 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement, the company balance sheet, the company statement of comprehensive income, the company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's profit and the parent company's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 which would have applied were the parent company incorporated in the United Kingdom; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the group or the parent company to cease to continue as a going concern.

A description of our evaluation of management's assessment of the ability to continue to adopt the going concern basis of accounting, and the key observations arising with respect to that evaluation is included in the Key Audit Matters section of our report.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the group's and the parent company's business model including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the group's and the parent company's financial resources or ability to continue operations over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

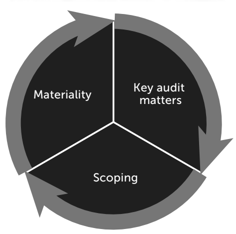
In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

In relation to the group's and the parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

Our approach to the audit

Grant Thornton

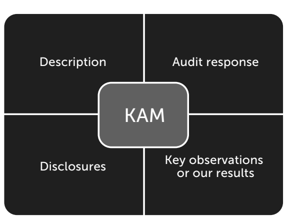


OVERVIEW OF OUR AUDIT APPROACH

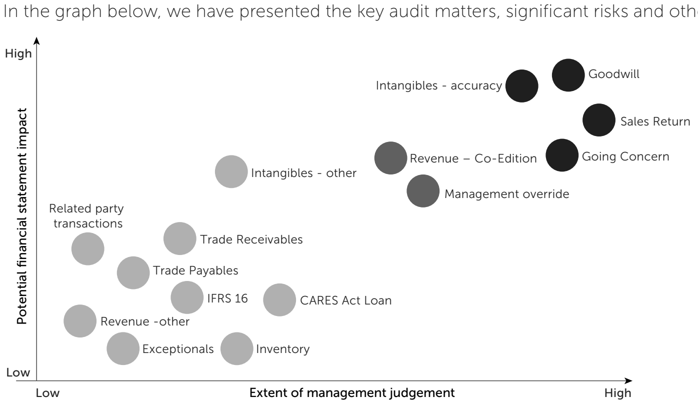
- Overall materiality: £632,000, which represents approximately 0.5% of the group's revenue.
- Key audit matters were identified as assessing the completeness of the sales return provision, assessment of the carrying value of goodwill, assessment of the accuracy of pre-publication intangible assets and the going concern assessment. This is consistent with the key audit matters identified in the prior year.
- We have performed a full scope audit of the financial statements of the parent company and of the financial information of Quarto Publishing plc ('Quarto UK') and Quarto Publishing Group USA Inc. ('Quarto US'). We have performed analytical procedures on the financial information of other companies within the group.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.



INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matter – Group	How our scope addressed the matter – Group
COMPLETENESS OF THE SALES RETURNS PROVISION We have identified the completeness of the sales returns provision as one of the most significant assessed risks of material misstatement due to error The Group generates material revenues from published books. Certain trade customers have a right of return for these books and therefore the revenue is recognised net of a provision for these returns. At 31 December 2020, this provision totals $6,481,000. Management judgement is required when assessing the level of returns which are expected to occur subsequent to the year end for sales made during the year. The key assumption applied is in relation to historical return experience, which is used in order to predict future returns and therefore the provision which is required to be made. We therefore identified the completeness of the sales returns provision as a significant risk, which was one of the most significant assessed risks of material misstatement. **RELEVANT DISCLOSURES IN THE ANNUAL REPORT AND ACCOUNTS 2020** • **Financial statements:** Note 1, General information and significant accounting policies and Note 21, Trade and other payables; • **Audit and risk committee report:** Page 26	Our audit work included, but was not restricted to: • Considering the appropriateness of the accounting policy for the provision for sales returns by checking whether it is in accordance with the financial reporting framework, including IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and IFRS 15 'Revenue from Contracts with Customers'. • Testing a sample of returns made during the year to supporting documentation in order to confirm the accuracy of the data used to calculate the rates of returns used in management's calculation of the provision; • Recalculating the provision to confirm that it is appropriate and in accordance with management's policy; • Comparing actual returns in the period to the provision made in the prior period in order to evaluate the accuracy of management's forecasting; • Obtaining actual returns for the period after the balance sheet date and comparing these with the returns provision for the same period; and • Inquiring of sales and operations staff as to their knowledge of any exceptional returns in the period or the potential for these in the returns period. **OUR RESULTS** • Our audit work did not identify any material errors in the completeness of the sales returns provision.

Key Audit Matter – Group	How our scope addressed the matter – Group
ASSESSMENT OF THE CARRYING VALUE OF GOODWILL • We identified the assessment of the carrying value of goodwill in relation to Quarto US as one of the most significant assessed risks of material misstatement due to error. • The Group holds $19,381,000 of goodwill on its balance sheet, including $12,882,000 relating to Quarto US as disclosed in Note 11 to the group financial statements. • In accordance with International Accounting Standard 36 'Impairment of Assets' ('IAS 36'), goodwill is subject to an annual impairment test. • We consider that the carrying value of the goodwill for this cash generating unit (CGU) is a key risk due to the sensitivity of the impairment calculations to a reasonably possible change in the key assumptions, including the discount rate, cash flow forecasts and growth rates. • We therefore identified the assessment of the carrying value of goodwill as a significant risk, which was one of the most significant assessed risks of material misstatement. **RELEVANT DISCLOSURES IN THE ANNUAL REPORT AND ACCOUNTS 2020** • **Financial statements:** Note 1, General information and significant accounting policies and Note 11, Goodwill; • **Audit and risk committee report:** Page 26	Our audit work included, but was not restricted to: • Considering the appropriateness of the accounting policy by checking whether it is in accordance with the financial reporting framework, including IAS 36 'Impairment of Assets'; • Consideration of the appropriateness of the CGU definition applied by management, based on discussions with management and inspection of internal reporting documents; • Obtaining management's impairment review model, testing its mathematical accuracy and key assumptions within the model; • Assessing the appropriateness of the asset and liability amounts included in the carrying value of each of the cash generating units which were assessed by management as part of the impairment review; • Challenge of management on the allocation of overheads within the CGUs; • Assessing the discount rate applied, including an assessment by our valuation specialists and benchmarking the rate against that used by competitors; • Performing sensitivity analysis around the value in use calculation performed by management; • Considering the post year end performance for January and February of the group against budget and comparing historical budgets to actual performance in order to assess the accuracy of budgets prepared by management; and • Assessing the adequacy of financial statement disclosures in relation to the impairment reviews and sensitivity analysis. **KEY OBSERVATIONS** • Our audit expert calculated that the discount rate used for the impairment reviews should be in the range 12.0% to 14.3%, whereas management's rate was outside of this range at 11.4%. Using the auditor experts discount rates did not on its own lead to an impairment, but we note that the impact of a change in discount rate has a significant affect on the discounted cash forecasts, as is indicated in management's sensitivities as disclosed in note 11

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matter – Group	How our scope addressed the matter – Group
ASSESSMENT OF THE ACCURACY OF PRE-PUBLICATION INTANGIBLE ASSETS We identified the assessment of the accuracy of pre-publication intangible assets as one of the most significant assessed risks of material misstatement. The Group's holds capitalised pre-publication costs as intangible assets which have a net book value of $41,013,000 on its consolidated balance sheet. This represents costs which are capitalised by the Group in relation to the development of book titles, including directly attributable overhead costs. There is management judgement involved in determining which costs are directly attributable to the development of books and should therefore be capitalised. We therefore identified the assessment of the accuracy of pre-publication intangible assets as a significant risk, which was one of the most significant assessed risks of material misstatement. **RELEVANT DISCLOSURES IN THE ANNUAL REPORT AND ACCOUNTS 2020** • **Financial statements:** Note 1, General information and significant accounting policies and Note 15, Intangible assets – pre-publication costs; • **Audit and risk committee report:** Page 26	Our audit work included, but was not restricted to: • Considering the appropriateness of the accounting policy by checking whether it is in accordance with the financial reporting framework, including IAS 38 'Intangible Assets'; • Testing a sample of costs capitalised in the year to supporting documentation in order to confirm they are directly attributable to the development of book titles; • Holding inquiries with members of the creative team to understand their role and the appropriateness of their time being capitalised to pre-publication costs; • Challenging judgements made by management in determining which costs are directly attributable to the development of book titles; and • Testing the transfers made from assets under construction to pre-publication costs. **OUR RESULTS** • Our audit work did not identify any material errors in the accuracy of pre-publication intangible assets.
GOING CONCERN We identified going concern as one of the most significant assessed risks of material misstatement. Covid-19 is one of the most significant economic events currently faced worldwide and at the date of this report its effects are subject to unprecedented levels of uncertainty. This event could adversely impact the future trading performance of the group and the company. Whilst the Group has seen a decline in sales to some bookstores it has also seen an increase in sales by its online customers. As such we identified going concern as a significant risk, which was one of the most significant assessed risks of material misstatement. **RELEVANT DISCLOSURES IN THE ANNUAL REPORT AND ACCOUNTS 2020** • **Financial statements:** Note 1, General information and significant accounting policies; • **Audit and risk committee report:** Page 25 • **Strategic report:** Financial Review, Page 13	Our audit work included, but was not restricted to: • Obtaining management's forecasts covering the period to 31 March 2022 and assessing their integrity and suitability as a basis for management to assess going concern; • Corroborating the existence and key terms of the group's loan facilities and covenant compliance for the period covered by management's forecasts; • Corroborating the opening net cash position within the model to supporting evidence as at 31 December 2020; • Analysing and challenging management's historical forecasting accuracy; • Considering the severity and plausibility, in light of our knowledge of the business, of management's sensitivity analysis for downside scenarios; • Testing the accuracy of management's reverse stress test scenario; • Evaluating and corroborating key assumptions to underlying supporting information and fact patterns as appropriate whilst considering any contra indicators; and, • Assessing the adequacy of the going concern disclosures included within the financial statements based on our knowledge of the forecasts. **OUR RESULTS** • Our audit work did not identify any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

We did not identify any key audit matters relating to the audit of the financial statements of the parent company.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

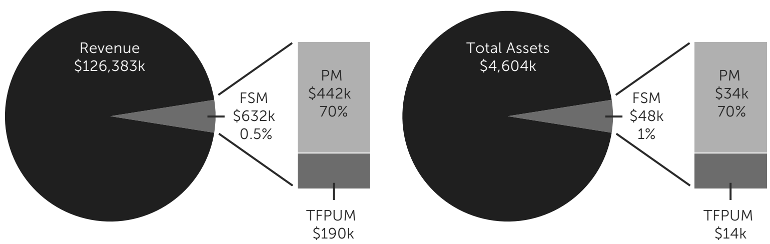
Materiality measure	Group	Parent company
MATERIALITY FOR FINANCIAL STATEMENTS AS A WHOLE	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.	
Materiality threshold	$632,000 which is 0.5% of revenue.	$48,300 which is 1% of the parent company's total assets.
Significant judgements made by auditor in determining the materiality	This benchmark is considered the most appropriate because revenue is a key driver of the business and is monitored by management and the directors. As part of this assessment, we considered the use of earnings before tax as the benchmark however as there have been significant fluctuations in the group's earnings before tax in recent years this was not deemed to be appropriate. Given the current uncertainties in the macro-economic environment a percentage of 0.5% of the revenue benchmark has been applied. We also referred to key metrics and highlights raised in the annual report to pinpoint our revenue based materiality, this is based on expectations of what the entity deems to be key benchmarks for users of the financial statements Materiality for the current year is lower than the level that we determined for the year ended 31 December 2019 to reflect the decrease in the group's revenue in the current year.	This benchmark is considered the most appropriate because the parent company is a holding company and has no revenue. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2019 to reflect the increase in net assets of the parent company as a result of the equity issue.
Significant revision of materiality threshold that was made as the audit progressed	We calculated materiality during the planning stage of the audit based on a pro-rata of revenue from January 2020 to August 2020. During the course of our audit, we re-assessed initial materiality based on actual revenue for the year ended 31 December 2020 and adjusted our audit procedures accordingly. This was to ensure our audit work has been completed to an appropriate level based on the materiality benchmark selected.	No reassessment of materiality was required.

INDEPENDENT AUDITOR'S REPORT (continued)

Materiality measure	Group	Parent company
PERFORMANCE MATERIALITY USED TO DRIVE THE EXTENT OF OUR TESTING	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.	
Performance materiality threshold	$442,400 which is 70% of financial statement materiality.	$33,810 which is 70% of financial statement materiality.
Significant judgements made by auditor in determining the performance materiality	In determining materiality, we made the significant judgement to increase performance materiality from 65% to 70%, this is based on only a small number of adjustments being noted in the prior year and changes being implemented by management in relation to the processes surrounding areas in which adjustments have previously been identified.	
SPECIFIC MATERIALITY	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	
Specific materiality threshold	We determined a lower level of specific materiality for certain areas including directors' remuneration and related party transactions.	We determined a lower level of specific materiality for certain areas including directors' remuneration and related party transactions.
COMMUNICATION OF MISSTATEMENTS TO THE AUDIT COMMITTEE	We determine a threshold for reporting unadjusted differences to the audit committee	
Threshold for communication	$31,600 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	$1,400 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – Group Overall materiality – Parent company



FSM: Financial statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements

An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the group's and the parent company's business and in particular matters related to:

UNDERSTANDING THE GROUP, ITS COMPONENTS, AND THEIR ENVIRONMENT, INCLUDING GROUP-WIDE CONTROLS

- The engagement team obtained an understanding of the group and its environment, including group-wide controls, and assessed the risks of material misstatement at the group level;
- The group comprises of two trading components alongside a number of dormant components. The groups financial system is independent at each component however input is provided into the group wide controls by group management.

IDENTIFYING SIGNIFICANT COMPONENTS

- Evaluation by the group audit team identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality. Significance was determined as a percentage of the group's total assets, revenues and profit before taxation

WORK TO BE PERFORMED ON FINANCIAL INFORMATION OF PARENT AND OTHER COMPONENTS

- The parent entity has been subjected to a full scope audit, being an audit of the financial information of the component using component materiality, of its financial statements;
- Based on our evaluation we considered that the only significant components of the group are Quarto Publishing plc and Quarto Publishing Group (USA) Inc. due to their significance to the group;
- Key audit matters were identified within the group as part of our risk assessment procedures. Disclosures as to how the key audit matters identified have been addressed can be found within the key audit matter section of our audit report;
- The financial information of the other components in the group has been subjected to analytical.

PERFORMANCE OF OUR AUDIT

- The full scope audits performed represent 100% of the group's continuing revenue for the year, 100% of the group's total assets, and 98.8% of the group's total liabilities;
- As part of our procedures a review of the groups IT systems and controls has been completed.

CHANGES IN APPROACH FROM PREVIOUS PERIOD

- Our approach is consistent with the approach used in the previous period with the exception being that due to travel restrictions imposed as a result of COVID-19, our audit work in relation to Quarto Publishing Plc and Quarto Publishing Group (USA) Inc. had to be completed virtually as opposed to site visits, this includes the virtual attendance of stock counts.

INDEPENDENT AUDITOR'S REPORT (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

OUR OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006, WERE IT TO APPLY TO THE PARENT COMPANY, ARE UNMODIFIED

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

MATTER ON WHICH WE ARE REQUIRED TO REPORT UNDER THE COMPANIES ACT 2006, WERE IT TO APPLY TO THE PARENT COMPANY

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION, WERE THE COMPANIES ACT 2006 TO APPLY TO THE PARENT COMPANY

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Corporate governance statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's and the parent company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements - refer to page [25];
- the directors' explanation in the annual report as to how they have assessed the prospects of the group and the parent company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group and the parent company will be able to continue in operation and meet their liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions - refer to page 25;
- the directors' statement that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's and the parent company's performance, business model and strategy - refer to page 42;
- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal and emerging risks facing the group and the parent company (including the impact of Brexit and Covid-19) and the disclosures in the annual report that describe the principal risks, procedures to identify emerging risks and an explanation of how they are being managed or mitigated including the impact of Brexit and Covid-19 - refer to page 19;
- the section of the annual report that describes the review of the effectiveness of group's and the parent company's risk management and internal control systems, covering all material controls, including financial, operational and compliance controls - refer to page 19; and
- the section of the annual report describing the work of the audit committee, including significant issues that the audit committee considered relating to the financial statements and how these issues were addressed - refer to pages 25 to 39.

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT (continued)

EXPLANATION AS TO WHAT EXTENT THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the parent company and the group and the industry in which they operate. We determined that the following laws and regulations were most significant: IFRSs as adopted by the European Union, Listing Rules, Companies Act 2006 and the UK Corporate Governance Code.
- We obtained an understanding of how the parent company and the group is complying with those legal and regulatory frameworks by making inquiries of management, those responsible for legal and compliance procedures and the company secretary. We corroborated our inquiries through our review of board minutes and papers provided to the Audit Committee.
- We assessed the susceptibility of the parent company's and group's financial statements to material misstatement, including how fraud might occur. Audit procedures performed included:
  - identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
  - understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
  - challenging assumptions and judgments made by management in its significant accounting estimates; and
  - identifying and testing journal entries posted in the year which were deemed to be unusual.
- We note our key audit matter in relation to the completeness of the sales return provision relates to irregularities, including fraud. Refer to key audit matters for work completed and our results from the procedures performed.
- No matters of non-compliance with laws and regulations and fraud were identified by the engagement team or communicated to the engagement team.
- We note that there is no specific industry legislation that significantly impacts The Quarto Group, inc. and the engagement team are deemed to hold appropriate competence and capabilities to identify non-compliance with laws and regulations

OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS

Following the recommendation of the audit committee, we were appointed by the audit committee on 20 November 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 4 years, covering the periods ending 31 December 2017 to 31 December 2020.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

David White
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
21 March 2021

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 $'000	2019 $'000
Continuing operations			
Revenue	2	126,883	135,807
Cost of sales		(89,298)	(97,782)
Gross profit		37,585	38,025
Administrative expenses		(18,264)	(19,641)
Impairment of financial assets	17	(1,571)	(853)
Distribution costs		(7,132)	(7,527)
Operating profit before amortisation of acquired intangibles and exceptional items	4	10,618	10,004
Amortisation of acquired intangibles		(890)	(811)
Exceptional items	5	(446)	(419)
Operating profit		9,282	8,774
Finance income	7	—	9
Finance costs	8	(2,693)	(4,939)
Profit before tax		6,589	3,844
Tax	9	(2,020)	(962)
Profit for the year		4,569	2,882
Attributable to:			
Owners of the parent		4,569	2,882
		4,569	2,882
Earnings per share (cents)			
From continuing operations			
Basic	10	11.7	14.1
Diluted	10	11.6	14.0

The notes on pages 62 to 88 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 $'000	2019 $'000
Profit for the year	4,569	2,882
Items that may be reclassified to profit or loss		
Foreign exchange translation differences	1,087	403
Cash flow hedge; (losses) arising during the year	—	(105)
Tax relating to items that may be reclassified to profit or loss	54	(162)
Total other comprehensive income	1,141	136
Total comprehensive income for the year	5,710	3,018
Total comprehensive income for the year attributable to:		
Owners of the parent	5,710	3,018
	5,710	3,018

The notes on pages 62 to 88 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

AS AT 31 DECEMBER 2020

	Notes	2020 $000	2019 $000
Non-current assets			
Goodwill	11	19,381	19,192
Other intangible assets	12	159	1,282
Property, plant and equipment	13	6,818	10,883
Intangible assets: Pre-publication costs	15	40,913	48,697
Deferred tax assets	19	3,604	3,331
Total non-current assets		70,875	83,385
Current assets			
Inventories	16	15,465	19,378
Trade and other receivables	17	44,519	46,397
Cash and cash equivalents	18	22,079	15,621
Total current assets		82,063	81,396
Total assets		152,938	164,781
Current liabilities			
Short term borrowings	18	(41,819)	(66,077)
Trade and other payables	21	(50,064)	(57,381)
Lease liabilities	20	(1,968)	(1,937)
Tax payable		(4,355)	(2,831)
Total current liabilities		(98,206)	(128,226)
Non-current liabilities			
Deferred tax liabilities	19	(6,323)	(7,139)
Tax payable		(386)	(433)
Lease liabilities	20	(4,310)	(7,929)
Total non-current liabilities		(11,019)	(15,501)
Total liabilities		(109,225)	(143,727)
Net assets		43,713	21,054
Equity			
Share capital	24	4,089	2,045
Paid in surplus	24	48,701	33,764
Retained earnings and other reserves	25	(9,077)	(14,755)
Total equity		43,713	21,054

The notes on pages 62 to 88 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 21 March 2021. They were signed on its behalf by:

Polly Powell
Director
21 March 2021

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital $000	Paid in surplus $000	Hedging reserve $000	Translation Reserve $000	Retained earnings $000	Equity attributable to owners of the parent $000
Balance at 1 January 2019	2,045	33,764	105	(6,989)	(10,937)	17,988
Profit for the year	–	–	–	–	2,882	2,882
Other comprehensive income						
Foreign exchange translation differences	–	–	–	403	–	403
Cash flow hedge: losses arising during the year	–	–	(105)	–	–	(105)
Tax relating to items that may be reclassified to profit or loss	–	–	–	(162)	–	(162)
Total comprehensive income for the year	–	–	(105)	241	2,882	3,018
Share based payments charge	–	–	–	–	48	48
Balance at 31 December 2019	2,045	33,764	–	(6,748)	(8,007)	21,054
Profit for the year	–	–	–	–	4,569	4,569
Other comprehensive income						
Foreign exchange translation differences	–	–	–	1,087	–	1,087
Tax relating to items that may be reclassified to profit or loss	–	–	–	54	–	54
Total comprehensive income for the year	–	–	–	1,141	4,569	5,710
Share capital raised	2,044	16,307	–	–	–	18,351
Costs of raising share capital	–	(1,370)	–	–	–	(1,370)
Share based payments credit	–	–	–	–	(32)	(32)
Balance at 31 December 2020	4,089	48,701	–	(5,607)	(3,470)	43,713

The notes on pages 62 to 88 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 $000	2019 $000
Profit for the year	4,569	2,882
Adjustments for:		
Net finance costs	2,693	4,930
Depreciation of property, plant and equipment	2,160	2,127
Software amortisation	231	276
Tax expense	2,020	962
Profit on disposal of right-of-use assets	(35)	—
Share based (credits)/payments	(32)	48
Amortisation of acquired intangibles	890	811
Amortisation and impairment of pre-publication costs	28,646	28,694
Operating cash flows before movements in working capital	41,142	40,730
Decrease in inventories	4,023	3,157
Decrease in receivables	2,721	8,961
(Decrease) in payables	(9,205)	(8,896)
Cash generated by operations	38,681	43,952
Income taxes paid	(1,760)	(2,650)
Net cash from operating activities	36,921	41,302
Investing activities		
Interest received	—	9
Investment in pre-publication costs	(20,324)	(23,786)
Purchases of property, plant and equipment	(34)	(138)
Acquisition of businesses	—	(1,250)
Net cash used in investing activities	(20,358)	(25,165)
Financing activities		
Interest payments	(1,297)	(3,709)
New share capital raised	18,351	—
Costs of raising new share capital	(1,370)	—
Lease payments	(1,995)	(1,882)
Drawdown of revolving credit facility and other loan	4,520	1,963
Repayment of term loan and revolving credit facility	(28,413)	(12,417)
Net cash used in financing activities	(10,204)	(16,045)
Net increase in cash and cash equivalents	6,359	92
Cash and cash equivalents at beginning of year	15,621	15,384
Foreign currency exchange differences on cash and cash equivalents	99	145
Cash and cash equivalents at end of year	22,079	15,621

The notes on pages 62 to 88 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

1 General information and significant accounting policies

The Quarto Group, Inc. is a company incorporated in the State of Delaware, United States. The address of the registered office is given on page 94. The nature of the Group's operations and its principal activities are set out in the Chief Executive Officer's Statement on page 7.

The accounting policies adopted, are consistent with those of the annual financial statements for the year ended 31 December 2019, as described in those financial statements.

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

STATEMENT OF COMPLIANCE

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). The parent company financial statements present information about the Company as a separate entity and not about its Group.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP, including The Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS 102'). These are presented on pages 87 to 92.

BASIS OF ACCOUNTING

The financial statements are prepared on the historical cost basis, except that derivative financial instruments are stated at fair value.

STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN ADOPTED EARLY BY THE GROUP

A number of amendments to accounting standards and Interpretations, effective in the current financial year have been adopted but have not had a material impact on the Group financial statements.

The Group has not applied any other standards, Interpretations or amendments that have been issued but are not yet effective.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.
The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

Key estimates at the balance sheet date are:

Note 1, 21
The revenue recognition policy details our judgement in respect of sales returns and the method of estimating the related sales returns allowance

Note 11: Key assumptions in making the assessment of carrying value of goodwill

Note 15: Recoverability of pre-publication costs and the assessment of their useful life

Key judgements at the balance sheet date are:

- The appropriateness of the going concern basis: when preparing the financial statements, management is required to make an assessment of the entity's ability to continue as a going concern and prepare the financial statements on this basis unless it either Intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. As set out in the going concern basis in the following paragraph, after reviewing the most recent projections, the sensitivity analysis and the mitigating actions available, the Directors have formed the judgement that it is appropriate to prepare the financial statements on the going concern basis.
- Government grants: during the year, the Group received a loan of $2,422,000 relating to government support given under the Coronavirus Aid, Relief and Economic Security Act of the USA. The loan is forgivable under certain prescribed conditions. As at the balance sheet date, the Group cannot adequately ascertain that the prescribed conditions have all been satisfied and, therefore, without such reasonable assurance, the loan has been treated as a borrowing.

1 General information and significant accounting policies (continued)

GOING CONCERN BASIS

The Board assessed the Group's ability to operate as a going concern for the next 12 months from the date of signing the financial statements.

The Directors have considered the underlying robustness of the Group's business model, products and proposition and its recent trading performance, cash flows and key performance indicators. They have also reviewed the cash forecasts prepared in detail to 31 March 2022. This is to satisfy themselves of the going concern assumption used in preparing the financial statements. The base case model was built using a detailed sales forecast driven by the publishing program for 2021. Core margins have remained unchanged with trade receivable days remaining consistent with 2020.

As part of this work, the model was sensitised initially by a 5% reduction in revenue to ensure headroom within the covenants. This is deemed as a severe but plausible scenario. The model was then flexed to a tolerance of 13%, at which point the banking covenants were breached at the end of December 2021. It is considered remote that such a reduction of revenue would occur, given, the detailed nature of the sales forecast and even with the challenges of 2020, revenue dropped by only 7% year on year. Should we start to see a reduction in revenue, then mitigating action will be taken, such as reduction in investment in pre-publication costs, print volumes, staffing levels and other variable costs.

Based on the above indications, the Directors believe that it remains appropriate to continue to adopt the going concern in preparing the financial statements.

BASIS OF CONSOLIDATION

The Group financial statements include the results of the Company and all of its subsidiary undertakings. A subsidiary is an entity controlled, directly or indirectly, by the Group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

The interest of non-controlling interests on an acquisition is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

BUSINESS COMBINATIONS, INTANGIBLE ASSETS AND GOODWILL

All business combinations are accounted for by applying the acquisition method. Goodwill represents the excess of the consideration transferred over the fair value of the net assets and any contingent liabilities acquired. Acquisition costs are expensed as incurred.

Goodwill arising on acquisitions is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Other intangible assets, such as backlists, that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Amortisation of intangible assets is charged to profit or loss on a straight-line basis over the estimated useful lives of the intangible assets. The amortisation period for non-contractual relationships is 2.5 years, for backlists is 5 years and for software is 4 years.

VOLUME REBATES

In the ordinary course of business, the Group receives volume rebates from its printers. This is accounted for in accordance with contractual terms and is credited to Inventory or cost of sales, as appropriate.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS INCLUDING GOODWILL

The carrying amount of the Group's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow valuation.

For goodwill, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 General information and significant accounting policies (continued)

GOVERNMENT GRANTS
During the year, the Group received financial support from Governments in UK and USA. The grants related to expense items. Any monies received or receivable are initially held as liabilities on the balance sheet. Grants are subsequently recognised in profit and loss when there is reasonable assurance that compliance has been satisfied. Additional Information is disclosed in Note 6 and Note 18.

SEGMENT REPORTING
The Group has two operating segments: US Publishing and UK Publishing. In identifying these operating segments, management follows the geographic locations of our business. The two segments are managed separately and focus on different geographic markets. For management purposes, the Group uses the same measurement policies as those used in its financial statements.

REVENUE RECOGNITION
Revenue arises largely from the sale of physical products. To determine whether to recognise revenue, the Group considers the following criteria:

- Identifying the contract with a customer
- Identifying the performance obligations
- Determining the transaction price
- Allocating the transaction price to the performance obligations
- Recognising revenue as/when performance obligations are satisfied

Each contract is for an agreed price and revenue is recognised at a point in time when the Group satisfies performance obligations by transferring the products to its customers; this is determined with reference to delivery terms. Invoices for products transferred are due on the terms specified in the contract. Where invoices are issued prior to transfer of the product to the customer, and there is unconditional rights to consideration the amounts invoiced are recorded as liabilities on the balance sheet, under deferred Income. When the product has been transferred to the customer, the liabilities are released and treated as revenue accordingly.

Revenue from the sale of publishing rights is recognised when the Group has discharged its performance obligations under the contractual arrangements.

On certain contracts, the customer has a right to return the products. The Group makes an allowance for this, based on a review of the historical return patterns associated with the customer, as well as current market trends. The estimated returns period is a key input of the returns allowance and is calculated by reference to historic returns data. The estimated returns period for the current and prior year is 6 months. The estimation of the variable income as a result of the sales returns is constrained to the extent that it is deemed highly probable that there will be no significant reversal in the amount of cumulative revenue recognised. This allowance is included within other payables. The Group also recognise an asset in relation to stock which is expected to be returned within inventory, based on average print margins and an additional allowance for unsaleable returns.

FOREIGN CURRENCIES
Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at that date with any exchange differences arising on retranslation being recognised in the income statement.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into US Dollars at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into US Dollars at average exchange rates. Foreign exchange differences arising on retranslation are charged or credited to other comprehensive income and are recognised in the currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

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

RETIREMENT BENEFIT COSTS
The Group's pension costs relate to individual pension plans and are charged to profit or loss as they fall due.

1 General information and significant accounting policies (continued)

TAXATION

Tax on the profit or loss for the year comprises both current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years. Tax provisions are based on Management's interpretation of country specific tax law and recognised when it is considered probable that there will be a future outflow of funds to a tax authority. Provisions are made annually based on the specific information available at that time and therefore there is limited risk of change in the estimates in the short term. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or a liability unless the related transaction is a business combination or effects tax or accounting profit. Not all temporary differences give rise to deferred tax assets/liabilities. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to other comprehensive income or equity, in which case the related deferred tax is also charged or credited directly to other comprehensive income or equity, respectively.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairments in value.

Depreciation is provided on a straight-line basis to write off the cost, less the estimated residual value, of property, plant and equipment over their estimated useful lives, which are reviewed annually. Where parts of an item of plant and equipment have separate lives, they are accounted for and depreciated as separate items. Residual values are reassessed on an annual basis. Land is not depreciated.

Estimated useful lives are as follows:

Right-of-use assets	Over the period of the lease
Short leasehold property improvements	Over the period of the lease
Plant, equipment and motor vehicles	4 to 10 years
Fixtures and fittings	5 to 7 years

Assets held under right-of-use leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

In the case of right-to-use assets, expected useful lives are determined by reference to comparable owned assets or the lease term, if shorter. Material residual value estimates and estimates of useful life are updates as required, but at least annually.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

LEASED ASSETS

For any new contracts entered into on or after 1 January 2020, the Group considers whether a contract is, or contains, a lease. A lease is defined as a 'contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 General information and significant accounting policies (continued)

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate. The Group's incremental borrowing rate reflects the marginal interest rates available to the Group, in the countries in which the assets reside. Lease payments included in the measurement of the lease liability are made up of fixed payments, variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are any changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term lease and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities are disclosed separately.

INTANGIBLE ASSETS - PRE-PUBLICATION COSTS
Pre-publication costs represent directly attributable costs and attributable overheads incurred in the development of book titles prior to their publication. Attributable overheads are allocated on a title by title basis. These costs are recognised as non-current intangible assets in accordance with IAS38, where the book title will generate future economic benefits and costs can be measured reliably. These costs are amortised on a straight-line basis upon publication of the book title over estimated economic life of three years or less, being an estimate of the expected useful economic life of a book title. The estimated economic life is based on the annual sales profile of the Group. The investment in pre-publication costs has been disclosed as part of the investing activities in the cash flow statement.

Pre-publication costs include work-in-progress. Costs on such unpublished titles are regularly reviewed and if they fail to meet economic expectations, the costs are impaired.

INVENTORIES
Inventory is valued at the lower of cost and net realisable value, on a weighted average cost basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

FINANCIAL INSTRUMENTS
Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

FINANCIAL ASSETS
Financial assets are measured at amortised cost using the effective interest method.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses is recognised in profit or loss or directly in equity. See Note 22 for a summary of the Group's financial assets by category.

Generally, the Group recognises all financial assets using trade date accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expense relating to financial assets are recognised in the income statement line item 'finance costs' or 'finance income', respectively, with the exception of trade and other receivables which are recorded in revenue and administrative expenses.

After initial recognition, Financial Assets are measured at amortised cost using the effective interest method. Discounting is ignored, where the effect is immaterial. The Group's cash and cash equivalents, trade and most other receivables, fall into this category of financial instrument. Assets in this category are measured, initially, at their transaction price with gains or losses recognized in profit or loss.

1 General information and significant accounting policies (continued)

In considering impairment of financial assets, the group uses a wide range of information when assessing credit risk and measuring credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of future cash flows of the instrument.

The Group adopts a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. The Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

FINANCIAL LIABILITIES
The Group's financial liabilities include borrowings, trade and other payables (including finance lease liabilities).

After initial recognition at fair value, all financial liabilities, with the exception of derivative financial instruments, are measured at amortised cost using the effective interest rate method. A summary of the Group's financial liabilities by category is given in Note 22.

FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of financial liabilities.

FINANCE COSTS
Finance costs comprise interest payable on borrowings calculated using the effective interest method together with the amortisation of debt issuance costs.

FINANCE INCOME
Finance income comprises interest receivable, which is recognised in profit or loss as it accrues using the effective interest method.

CASH AND CASH EQUIVALENTS
For the purposes of the statement of cash flows, cash and cash equivalents comprise cash balances, call deposits and bank overdrafts that form an integral part of the Group's cash management processes.

SHARE-BASED PAYMENTS
The Group issues equity settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant. The fair value, determined at the grant date, of equity settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

The fair value of employee share option grants is calculated using a Monte Carlo model, taking into account the terms and conditions upon which the options were granted. The value of the charge is adjusted to reflect expected and actual levels of options vesting.

BORROWING COSTS
All borrowing costs are recognised in the income statement in the period in which they are incurred. Debt issuance costs comprising arrangement fees and legal costs are capitalised and amortised on a straight-line basis over the period of the borrowing facility or included within the amortised cost calculation as appropriate. The annual amortisation charge is included within finance costs in the Consolidated Statement of Comprehensive Income.

No borrowing costs have been capitalized in the current or prior years in relation to any asset.

FINANCIAL RISK MANAGEMENT
The principal risk factors faced by the Group are disclosed in Note 22.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 External Revenue

	2020 $'000	2019 $'000
Sales of products	122,848	131,857
Sales of publishing rights	4,035	3,950
Total revenue	126,883	135,807

See accounting policies for detail of the revenue recognition concerning the above revenue streams.

During the year, sales to our primary distributor exceeded 10% of Group revenue (2019: one primary distributor). The value of these sales was $58.8m (2019: $59.6m).

3 Operating segments

The core publishing businesses comprises two divisions: US Publishing and UK Publishing. This is the basis on which operating results are reviewed and resources allocated by the Chief Executive Officer, who is deemed to be the chief operating decision maker.

2020	US Publishing $000	UK Publishing $000	Total Group $000
Continuing operations			
External revenue	63,137	63,746	126,883
Operating profit before amortisation of acquired intangibles and exceptional items	3,249	8,360	11,609
Amortisation of acquired intangibles	(851)	(39)	(890)
Segment result	2,398	8,321	10,719
Unallocated corporate expenses			(991)
Corporate exceptional items			(446)
Operating profit			9,282
Finance costs			(2,693)
Profit before tax			6,589
Tax			(2,020)
Profit after tax			4,569
Capital expenditure	7	27	34
Depreciation and software amortization	1,333	1,058	2,391
Investment in pre-publication costs	10,349	9,975	20,324
Amortisation and impairment of pre-publication costs	15,702	12,944	28,646
Deferred Income released	12,769	964	13,733

3 Operating segments (continued)

2019	US Publishing $000	UK Publishing $000	Total Group $000
Continuing Operations:			
External revenue	71,488	64,319	135,807
Operating profit before amortisation of acquired intangibles and exceptional items	4,511	6,540	11,051
Amortisation of acquired intangibles	(570)	(241)	(811)
Segment result	3,941	6,299	10,240
Unallocated corporate expenses			(1,047)
Corporate exceptional items			(419)
Operating profit			8,774
Finance income			9
Finance costs			(4,939)
Profit before tax			3,844
Tax			(962)
Profit after tax			2,882
Capital expenditure	17	121	138
Depreciation and software amortisation	1,294	1,109	2,403
Investment in pre-publication costs	10,930	12,856	23,786
Amortisation of pre-publication costs	14,289	14,405	28,694
Deferred Income released	18,220	1,899	20,119

BALANCE SHEET

	2020 $'000	2019 $'000
Quarto Publishing Group USA	69,330	81,154
Quarto Publishing Group UK	57,925	64,675
Unallocated (Deferred tax and cash)	25,683	18,952
Total assets	152,938	164,781
Quarto Publishing Group USA	26,930	29,613
Quarto Publishing Group UK	29,413	37,634
Unallocated (Deferred tax, corporation tax and debt)	52,882	76,480
Total liabilities	109,225	143,727

GEOGRAPHICAL AREAS

The Group operates in the following main geographic areas:

	Revenue		Non-current assets	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
United States of America	76,061	80,131	40,456	47,887
United Kingdom	18,250	19,193	30,419	35,498
Europe	17,446	21,392	—	—
Rest of the World	15,126	15,091	—	—
	126,883	135,807	70,875	83,385

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 Operating profit

Operating profit has been arrived at after charging/(crediting):

	2020 $'000	2019 $'000
Depreciation of property, plant and equipment	2,160	2,127
Profit on disposal of right-to-use assets	35	—
Depreciation of software	231	276
Net foreign currency exchange differences	240	(181)
Amortisation of acquired intangibles	890	811
Amortisation of pre-publication costs (Note 15)	23,304	25,359
Impairment of pre-publication costs (Note 15)	5,342	3,335
Staff costs (Note 6)	21,741	24,985
Impairment losses of financial assets	1,571	853
Cost of inventory recognised as an expense	30,120	32,647
Exceptional items (Note 5)	446	419

AUDITOR'S REMUNERATION

Fees payable to the Company's auditor for the audit of the Company's annual accounts	108	90
Fees payable to the Company's auditor and its associates for the audit of subsidiary companies	179	165
Fees payable to the Company's auditor for other assurance services relating to Open Offer	—	172
	287	427

5 Exceptional items

	2020 $000	2019 $000
Staff severance costs	251	—
Refinancing costs	195	387
Aborted corporate transaction costs	—	32
Total	446	419

During the year, the Group determined that costs amounting to $446,000 (2019: $419,000) should be classified as exceptional items, in accordance with the accounting policy disclosed in Note 1. The costs comprised $251,000 in respect of redundancy costs following restructuring during the Covid-19 pandemic and a further $195,000 of refinancing costs in connection with amendments to the existing facility agreement. In 2019, the Group incurred $387,000 of refinancing costs in connection with the renewal of the facility agreement, signed 16 January 2020 and $32,000 of costs incurred on aborted corporate transaction costs. The charge, net of taxation, amounted to $349,000 (2019: $339,000).

6 Staff costs

	2020 Number	2019 Number
Average monthly number of employees (excluding Executive Directors)	302	334
	$000	$'000
Wages and salaries	19,074	21,854
Share-based (credits)/payments	(32)	48
Social security costs	1,969	2,229
Other pension costs	730	854
	21,741	24,985
Less monies received by UK Government under Coronavirus Job Retention Scheme	(387)	–
	21,354	24,985

Directors' remuneration is disclosed in the Remuneration Committee Report on page 28.

The remuneration of the Executive Directors (2019: Executive Directors), who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	2020	2019
Short term employee benefits	994	788*
Post-employment benefits	47	18
	1,041	806

The Directors' remuneration disclosed above Included the following amounts earned in respect of the highest paid director:

	2020	2019
Short term employee benefits	504	379
Post-employment benefits	18	18
	522	397

* Includes $58,000 discretionary bonus payments paid in 2019 but relating to performance in 2018.

7 Finance income

	2020 $'000	2019 $'000
Interest income	–	9

8 Finance costs

	2020 $'000	2019 $'000
Interest expense on borrowings	1,724	3,360
Amortisation of debt issuance costs and bank fees	543	936
Interest expense on lease liabilities arising from the adoption of IFRS 16	390	454
Other interest	36	189
	2,693	4,939

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 Taxation

	2020 $'000	2019 $'000
Corporation tax		
Current tax	3,156	1,557
Prior periods	2	(123)
Total current tax	3,158	1,434
Deferred tax (Note 19)		
Origination and reversal of temporary differences	(1,138)	(472)
Total tax expense	2,020	962

Corporation tax on UK profits is calculated at 19%, based on the UK standard rate of corporation tax, (2019: 19%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The table below explains the difference between the expected expense at the UK statutory rate of 19% and the Group's total tax expense for the year.

	2020 $'000	2019 $'000
Profit before tax	6,589	3,844
Tax at the UK corporation tax rate of 19% (2019: 19%)	1,252	730
Effect of different tax rates of subsidiaries operating in other jurisdictions	161	(79)
Change in overseas tax rates during the year	68	-
Adjustment to prior years	2	97
Tax effect of items that are not deductible in determining taxable profit	240	174
Other	297	40
Tax expense	2,020	962
Effective tax rate	30.7%	25.0%

10 Earnings per share

	2020 $'000 Group	2019 $'000 Group
From continuing operations		
Profit for the year	4,569	2,882
Amortisation of acquired intangibles (net of tax)	626	654
Exceptional items (net of tax)	349	339
Earnings for the purposes of adjusted earnings per share	5,544	3,875

Number of shares	Number	Number
Weighted average number of ordinary shares	39,185,388	20,444,550
Average number of potentially dilutive share options	123,037	171,597
Diluted weighted average number of ordinary shares	39,308,425	20,616,147
Earnings per share (cents) – continuing operations		
Basic	11.7	14.1
Diluted	11.6	14.0
Adjusted earnings per share (cents)		
Basic	14.1	19.0
Diluted	14.1	18.8

11 Goodwill

	2020 $000	2019 $000
Cost		
At 1 January	42,913	42,675
Exchange differences	189	238
At 31 December	43,102	42,913
Accumulated impairment losses		
At 1 January	(23,721)	(23,721)
Exchange differences	—	—
At 31 December	(23,721)	(23,721)
Carrying value		
At 31 December	19,381	19,192

IMPAIRMENT TESTS FOR CASH GENERATING UNITS CONTAINING GOODWILL

The following units have significant carrying amounts of goodwill:

	2020 $000	2019 $000
Quarto Publishing Group USA (QUS)	12,882	12,882
Quarto Publishing Group UK (QUK)	6,499	6,310
	19,381	19,192

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

The key assumptions for calculating value in use are:

	Terminal Growth Rates		Discount Rates	
	2020	2019	2020	2019
United States of America	2%	2%	11.40%	10.81%
United Kingdom	2%	2%	11.12%	10.54%

Revenue growth rates: forecast sales growth rates are based on those applied to the Board approved budget for the year ending 31 December 2021 and three-year plan. They incorporate future expectations of growth driven by investment plans for each CGU.

Long-term growth rates: the three-year forecasts are extrapolated to perpetuity on the basis that the CGU's are long-established business units. The long-term growth rates are blended rates formed from the territory-specific long-term growth rates.

Gross margins: gross margins are based on historic performance and expected changes to the sales mix in future periods.

11 Goodwill (continued)

The Group has not identified any reasonable possible changes to key assumptions that would cause the carrying value of goodwill of the QUK CGU to exceed its recoverable amount. QUS has by far the largest goodwill and non-current assets and carries a greater risk of impairment. Based on the above long-term growth rate and discount rate, QUS exceeded the carrying value of goodwill by $17.8m. The following sensitivities were applied to this CGU:

- 2% increase in discount rate, at which level there was no impairment. The recoverable amount exceeded the carrying value of goodwill by $7.1m. The discount rate would need to increase to 15.3% to record any Impairment.
- Nil terminal growth rate, at which level there was no impairment. The recoverable amount exceeded the carrying value of goodwill by $8.9m. The terminal growth rate would need to show an annual 2% decline before any impairment was recorded.
- 5% decline in first year revenues, at which level there was no impairment. The recoverable amount exceeded the carrying value of goodwill by $13.1m.
- 5% decline in first year revenues and an increased discount rate of 13.1% would cause impairment if there were no mitigation actions.

Should there be a headline change in revenues and margins, this could create an impairment.

12 Other intangible assets

	Backlists $000	Software $000	Total $000
Cost			
At 1 January 2019	21,204	1,630	22,834
Exchange differences	(30)	–	(30)
At 1 January 2020	21,174	1,630	22,804
Exchange differences	79	–	79
At 31 December 2020	21,253	1,630	22,883
Amortisation and impairment			
At 1 January 2019	19,494	972	20,466
Exchange differences	(31)	–	(31)
Charge for the year	811	276	1,087
At 1 January 2020	20,274	1,248	21,522
Exchange differences	81	–	81
Charge for the year	890	231	1,121
At 31 December 2020	21,245	1,479	22,724
Carrying amount			
At 31 December 2020	8	151	159
At 31 December 2019	900	382	1,282

13 Property, plant and equipment

Cost	Short-term Leasehold Improvements $000	Right-of-use Leasehold Property $000	Plant, Equipment & Motor Vehicles $000	Fixture & Fittings $000	Total $000
At 1 January 2019	1,242	–	943	1,085	3,270
Adjustment on transition to IFRS 16	–	10,538	71	–	10,609
Exchange difference	26	156	27	1	210
Additions	–	–	138	–	138
Remeasurement	–	508	18	–	526
Disposals	(258)	–	–	–	(258)
At 31 December 2019	1,010	11,202	1,197	1,086	14,495
Exchange difference	21	(22)	25	2	26
Additions	–	227	34	–	261
Remeasurement	–	2	–	–	2
Disposals	–	(2,313)	–	–	(2,313)
At 31 December 2020	1,031	9,096	1,256	1,088	12,471
Depreciation					
At 1 January 2019	508	–	391	819	1,718
Exchange differences	8	–	17	–	25
Charge for the year: right of use asset	–	1,545	64	–	1,609
Charge for the year: other property, plant and equipment	104	–	310	104	518
Disposals	(258)	–	–	–	(258)
At 31 December 2019	362	1,545	782	923	3,612
Exchange differences	13	–	50	2	65
Charge for the year: right of use asset	–	1,760	–	–	1,760
Charge for the year: other property, plant and equipment	105	–	217	78	400
Disposals	–	(184)	–	–	(184)
At 31 December 2020	480	3,121	1,049	1,003	5,653
Net book value					
At 31 December 2020	551	5,975	207	85	6,818
At 31 December 2019	648	9,657	415	163	10,883

All property, plant and equipment has been pledged as security for the Group's bank borrowings (note 18).

Included in the net carrying amount of property, plant and equipment are right-of-use assets of $5,975,000 (2019: $9,683,000) of which $5,975,000 (2019: $9,657,000) is attributable to leasehold property improvements and $nil (2019: $26,000) to plant, equipment and motor vehicles. Depreciation charges on these assets are disclosed separately in the above table.

14 Subsidiaries

A list of the investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in Note 5 to the Company's balance sheet. All of these subsidiaries are included in the consolidated results.

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 Intangible assets – pre-publication costs

	2020 $000	2020 $000	2020 $000	2019 $000	2019 $000	2019 $000
	Work in progress	Published products	Total	Work in progress	Published products	Total
Cost						
At 1 January	12,929	118,271	131,200	13,544	124,096	137,640
Exchange difference	147	2,056	2,203	213	1,827	2,040
Additions	20,324	—	20,324	23,786	—	23,786
Transfers	(18,508)	18,508	—	(21,279)	21,279	—
Impairment charge	(3,450)	—	(3,450)	(3,335)	—	(3,335)
Disposals	—	(52,339)	(52,339)	—	(28,931)	(28,931)
At 31 December	11,442	86,496	97,938	12,929	118,271	131,200
Amortisation						
At 1 January	—	82,503	82,503	—	84,934	84,934
Exchange difference	—	1,665	1,665	—	1,141	1,141
Amortisation charge	—	23,304	23,304	—	25,359	25,359
Impairment charge	—	1,892	1,892	—	—	—
Disposals	—	(52,339)	(52,339)	—	(28,931)	(28,931)
At 31 December	—	57,025	57,025	—	82,503	82,503
Net book value	11,442	29,471	40,913	12,929	35,768	48,697

The assessment of the useful life of pre-publication costs and amortisation involves a significant management estimate based on historical trends and future potential sales, in accordance with the accounting policy stated in Note 1. In the current year, certain imprints operating under the US Publishing segment reported material falls in revenues and gross margins, which led to a downward revision of the useful lives of these imprints. The additional charge of $1,892,000 (2019: $nil) is disclosed above.

Pre-publication costs form part of the carrying value of the CGU for each segment and are considered for impairment of goodwill in note 11.

16 Inventories

	2020 $000	2019 $000
Finished goods	15,285	19,270
Raw materials	180	108
	15,465	19,378

All of the Group's inventories have been reviewed for indicators of impairment. Certain inventories were found to be impaired and a provision of $2,220,000 (2019: $2,318,000) has been recorded accordingly.

All inventories have been pledged as security for the Group's bank borrowings (note 18).

17 Trade and other receivables

	2020 $000	2019 $000
Trade receivables	38,361	38,753
Other receivables and prepayments	6,158	7,644
	44,519	46,397

The average credit period on sales of goods is 77 days (2019: 73 days).

The Group applies the IFRS 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these Items do not have a significant financing component. In measuring the expected credit losses, the trade receivables have been assessed on an Individual basis, as much as possible, because credit risk characteristics vary by customer. The expected loss rates are based on the payment profile over the last 12 months, to reflect the Impact of Covid-19 on our customers. Trade receivables are written off (ie, derecognised) when there is no reasonable expectation of recovery.

On the above basis, the expected credit loss for trade receivables as at 31 December 2020 and 31 December 2019 was determined as follows:

31 December 2020	Current	Overdue Less Than 30 Days	Overdue Less Than 60 Days	Overdue Less Than 90 Days	Overdue More Than 90 Days	Total
Gross carrying amount $000	33,877	2,039	1,506	1,096	1,757	40,275
Expected credit loss rate	1.0%	1.8%	3.8%	18.1%	72.5%	4.8%
Lifetime expected credit loss $000	347	37	58	199	1,273	1,914

31 December 2019	Current	Overdue Less Than 30 Days	Overdue Less Than 60 Days	Overdue Less Than 90 Days	Overdue More Than 90 Days	Total
Gross carrying amount $000	35,616	1,770	950	292	1,293	39,921
Expected credit loss rate	0.1%	1.1%	2.1%	72.2%	68.2%	2.9%
Lifetime expected credit loss $000	35	20	20	211	882	1,168

Movement in provision for lifetime expected credit loss is as follows:

	2020 $000	2019 $000
Provision at beginning of year	1,168	826
Amounts de-recognised in the year	(977)	(677)
Amounts recovered during the year	138	148
Exchange differences	14	18
Increase in allowance recognised in profit or loss	1,571	853
Provision at end of the year	1,914	1,168

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Note 22 includes disclosures relating to credit risk exposures and analysis relating to the allowance for expected credit losses.

18 Cash, borrowings and net debt

CASH

	2020 $000	2019 $000
Bank balances	22,079	15,621
Cash and cash equivalents	22,079	15,621

The carrying amount of these assets approximates to their fair value.
The effective interest rate on bank balances and short-term deposits was 0% (2019: 0%).

BORROWINGS

	2020 $000	2019 $000
Bank and other loans	41,819	66,077
On demand or within one year	41,819	66,077
	41,819	66,077
Less: Amount due for settlement within 12 months (shown under current liabilities)	(41,819)	(66,077)
Amount due for settlement after 12 months	—	—

	Total $'000	Fixed rate borrowings $'000	Variable rate borrowings $'000	Weighted average interest rate for fixed rate borrowings %	Average time over which interest rate is fixed Months
US dollar borrowings	39,408	16,408	23,000	3.1	6.5
Other currency borrowings	2,411	—	2,411	—	—
As at 31 December 2020	41,819	16,408	25,411	3.1	6.5
US dollar borrowings	45,000	13,000	32,000	3.5	19.0
Other currency borrowings	21,077	—	21,077	—	—
As at 31 December 2019	66,077	13,000	53,077	3.5	19.0

OTHER LOANS

	2020 $000	2019 $000
Other loans (unsecured)	16,408	13,000
On demand or within one year	16,408	13,000
	16,408	13,000
Less: Amount due for settlement within 12 months (shown under current liabilities)	(16,408)	(13,000)
Amount due for settlement after 12 months	—	—

Other loans comprise:

(a) Loans of $11,500,000 (2019: $11,500,000) from related parties, as disclosed in note 29, which were repayable, together with the accrued interest on 31 July 2021 and carry an interest rate of 3.5%. After the year end, the repayment date of these loans has been extended to 31 August 2024.

(b) A loan for $1,500,000 (2019: $1,500,000) which was repayable together with accrued interest on 31 July 2021 and carries an interest rate of 3.5%. After the year end, the repayment date has been extended to 31 August 2024.

18 Cash, borrowings and net debt (continued)

(c) A loan of $2,422,000 (2019: $nil) relates to government support given under the Coronavirus Aid, Relief and Economic Security Act of the USA. This attracts an interest rate of 1%. Without reasonable assurance of forgiveness, it has been treated as debt to be repaid within the next 12 months.

(d) Accrued Interest of $986,000 (2019: $nil) on the above loans.

	Total $'000	Fixed rate borrowings $'000	Variable rate borrowings $'000	Weighted average interest rate for fixed rate borrowings %	Average time over which interest rate is fixed Months
US dollar borrowings					
As at 31 December 2020	16,408	16,408	–	2.8	6.5
As at 31 December 2019	13,000	13,000	–	3.5	19.0

BANK LOANS

	2020 $000	2019 $000
Bank loans	25,411	53,077
On demand or within one year	25,411	53,077
	25,411	53,077
Less: Amount due for settlement within 12 months (shown under current liabilities)	(25,411)	(53,077)
Amount due for settlement after 12 months	–	–

	Total $'000	Fixed rate borrowings $'000	Variable rate borrowings $'000	Weighted average interest rate for fixed rate borrowings %	Average time over which interest rate is fixed Months
US dollar borrowings	23,000	–	23,000	–	–
Other currency borrowings	2,411	–	2,411	–	–
As at 31 December 2020	25,411		25,411	–	–
US dollar borrowings	32,000	–	32,000	–	–
Other currency borrowings	21,077	–	21,077	–	–
As at 31 December 2019	53,077	–	53,077	–	–

At 31 December 2020, undrawn borrowing facilities totalled $9.6m (2019: $11.0m). The variable rate borrowings carry interest based on LIBOR plus a margin, depending on the leverage ratio. The Directors estimate the fair value of the Group's borrowings to be equal to book value, by reference to market rates.

At 31 December 2020, the Group had a US$35m (2019: US$64.0m) multi-currency syndicated bank facility which was due to expire on 31 July 2021. A new facility agreement was signed on 16 February 2021 with borrowing facilities of US$20m. Banking EBITDA used for bank covenant purposes was $12,839,000 (Note 30) in 2020 (2019: $10,376,000).

The facilities, which were in place at the year end, were subject to three principal covenants which vary over the course of the financial year. During the year, as part of the Group's Covid-19 course of action, the banking covenants were waived for the year ended 31 December 2020. As part of the new facility agreement referred to above, a new set of banking covenants were agreed for the duration of the new facility.

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 Cash, borrowings and net debt (continued)

NET DEBT

	1 January 2020 $'000	Cashflows $'000	Non-cash items $'000	Foreign exchange $'000	31 December 2020 $'000
Borrowings	(66,077)	23,893	(92)	457	(41,819)
IFRS 16 lease liabilities	(9,866)	1,995	1,574	19	(6,278)
Cash and cash equivalents	15,621	6,359	—	99	22,079
Net debt	(60,322)	32,247	1,482	575	(26,018)

	1 January 2019 $'000	Cashflows $'000	Non-cash items $'000	Foreign exchange $'000	31 December 2019 $'000
Borrowings	(75,752)	10,454	(188)	(591)	(66,077)
IFRS 16 lease liabilities[1]	(10,609)	1,882	(979)	(160)	(9,866)
Cash and cash equivalents	15,384	92	—	145	15,621
Net debt	(70,977)	12,428	(1,167)	(606)	(60,322)

1 The effective date of IFRS 16 Leases was 1 January 2019.

19 Deferred tax

	2020 $000	2019 $000
Deferred tax liabilities		
Excess of capital allowances over depreciation – UK	—	1
Pre-publication costs and other temporary differences – UK	4,103	4,519
	4,103	4,520
Pre-publication costs and other temporary differences - US	2,220	2,619
	6,323	7,139
Deferred tax assets		
Goodwill, intangible assets and other temporary differences – US	3,604	3,331
	3,604	3,331
Net deferred taxation liability	2,719	3,808

The movement on the net provision for deferred taxation is as follows:

	2020 $000	2019 $000
Net provision at 1 January	3,808	3,947
(Charge)/credit direct to equity	(54)	162
Exchange difference through other comprehensive income	103	171
Credit to profit and loss	(1,138)	(472)
Net provision at 31 December	2,719	3,808

20 Lease liabilities

	2020 $000	2019 $000
Current	1,968	1,937
Non-current	4,310	7,929
Total	6,278	9,866

20 Lease liabilities (continued)

The Group has leases for its offices and some IT equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Group revenues) are excluded from the initial measurement of the lease liability and asset. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (note 13).

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. For leases over office buildings the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Group's leasing activities by type of right-to-use asset recognised on the balance sheet:

Right-of-use asset	No of right-of-use assets leased	Range of remaining term	Average remaining lease term	No of lease with extension options	No of lease with options to purchase	No of lease with variable payments linked to an index	No of lease with termination options
Office building	6	4-9 years	6 years	5	—	4	1

Properties with extension, or termination, options are assessed on a case-by-case basis In determining take-up of the options.

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 31 December 2020 were as follows:

	Minimum lease payments due US$000						
	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	Total
31 December 2020							
Lease payments	2,358	1,551	1,585	1,044	1,013	—	7,551
Finance charges	(390)	(269)	(219)	(161)	(234)	—	(1,273)
Net present values	1,968	1,282	1,366	883	779	—	6,278
31 December 2019							
Lease payments	2,253	2,085	1,886	1,504	1,343	2,291	11,362
Finance charges	(390)	(329)	(267)	(204)	(149)	(157)	(1,496)
Net present values	1,863	1,756	1,619	1,300	1,194	2,134	9,866

The total cash outflow in relation to lease liabilities during the year was $1,995,000 (2019: $1,882,000).

The Group has elected not to recognise a lease liability for short term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis and amounted to $26,000 in the year (2019: $26,000).

21 Trade and other payables

CURRENT LIABILITIES

	2020 $000	2019 $000
Trade payables	28,529	36,218
Other payables	21,535	21,163
Total	50,064	57,381

Under IFRS 15, the reserve for sales returns in included in other payables; it amounts to $6,481,000 (2019: $6,749,000). The reserve is calculated based on a time lag between sales and returns and historical return patterns. Management monitors actual returns against the reserve on a regular basis. If the rate of sales return had been 1% higher during the year, the provision would have increased by $512,000 (2019: $488,000).

Included within other payables is $2,274,000 in respect of deferred Income (2019: $2,525,000), detailed below:

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Trade and other payables (continued)

	2020 $000	2019 $000
Opening liability	2,525	1,654
Deferred Income Invoiced	13,436	20,902
Revenue Recognised	(13,733)	(20,119)
Exchange difference	46	88
Closing liability	2,274	2,525

22 Financial instruments

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk, credit risk, liquidity risk and certain other price risks, which result from both its operating and investing activities. The Group's risk management is coordinated at its headquarters, in close co-operation with the Board of Directors, and focuses on actively securing the Group's short to medium-term cash flows by minimising the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed and a summary of financial assets and liabilities by category are described below.

FOREIGN CURRENCY SENSITIVITY

Exposures to currency exchange rates arise from the Group's overseas sales and costs, which are primarily denominated in Sterling, and, to a much lesser extent in Euros. The Group has minimal exposure to other foreign currencies.

Foreign currency denominated financial assets and liabilities, translated into US Dollars at the closing rate, are as follows:

	2020		2019	
	$000 Sterling	$000 Other	$000 Sterling	$000 Other
Financial assets:	11,792	1,053	10,321	2,121
Financial liabilities	(755)	(3,033)	(19,030)	(4,344)
Short-term exposure	11,037	(1,980)	(8,709)	(2,223)
Financial liabilities:				
Long-term exposure	–	–	–	–
At 31 December	11,037	(1,980)	(8,709)	(2,223)

The following table illustrates the sensitivity of the net result for the year and equity in regard to the Group's financial assets and financial liabilities and the US Dollar – Sterling exchange rate.

It assumes a +/– 5% change of the Sterling/US-Dollar exchange rate, in line with the movement over the last year.

The sensitivity analysis is based on the Group's foreign currency financial instruments held at each balance sheet date.

If Sterling had strengthened against the US Dollar by 5% (2019: 7.5%) then this would have had the following impact:

	2020 $000	2019 $000
Profit/(loss) after tax for the year	(240)	(120)
Equity	(240)	(120)

If Sterling had weakened against the US Dollar by 5% (2019: 7.5%) then this would have had the following impact:

	2020 $000	2019 $000
Profit/(loss) after tax for the year	240	120
Equity	240	120

22 Financial instruments(continued)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

INTEREST RATE SENSITIVITY

The Group's policy is to minimise interest rate cash flow risk exposures, where possible and commercially appropriate, on long-term financing, through interest rate swaps. A part of longer-term borrowings are sometimes, therefore, at fixed rates.

At 31 December 2020, the Group is exposed to changes in market interest rates through its bank borrowings, which are subject to variable interest rates – see Note 18 for further information.

The following table illustrates the sensitivity of the profit after tax for the year and equity to a reasonably possible change in interest rates of +/–0.25%, with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments held at each balance sheet date. All other variables are held constant.

A 0.25% increase in interest rates would have the following impact:

	2020 $000	2019 $000
Profit for the year	(48)	(100)
Equity	(48)	(100)

A 0.25% decrease in interest rates would have the following impact:

	2020 $'000	2019 $'000
Profit for the year	48	100
Equity	48	100

CREDIT RISK ANALYSIS

The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	2020 $'000	2019 $'000
Cash and cash equivalents	22,079	15,621
Trade receivables	38,361	38,753
	60,440	54,374

The Group's credit risk is primarily attributable to its trade receivables. There is minimal credit risk within other receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. The ongoing credit risk is managed through regular review of ageing analysis together with credit limits per customer.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

The Group's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. Credit losses written off during the year which are subject to enforcement activity are minimal.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk for liquid funds and other short-term financial assets is limited, since the counterparties are reputable banks with high quality external credit ratings.

LIQUIDITY RISK ANALYSIS

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 Financial instruments (continued)

The Group maintains cash and marketable securities to meet its liquidity requirements. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

As disclosed in Note 18, at 31 December 2020, the Group had a US$35m (2019: US$64.0m) multi-currency syndicated bank facility which was due to expire on 31 July 2021. The covenants linked to this facility were waived for the year ended 31 December 2020 only, as part of the Group's Covid-19 course of action. A new facility agreement was signed on 16 February 2021 with borrowing facilities of US$20m. This facility is subject to two principal covenants in 2021, being:

(a) Net banking Indebtedness shall not exceed 2.0 times EBITDA (as defined in the facility agreement)
(b) EBITDA shall exceed 4 times net finance charges (as defined in the facility agreement)

The Group's liabilities have contractual maturities which are summarised below:

	Current		Non-Current	
31 December 2020	Within 6 months $'000	6 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000
Bank and other loans	3,132	40,965	–	–
Lease liabilities	984	984	4,310	–
Trade payables	28,529	–	–	–
Other short-term financial liabilities	21,535	–	–	–
	54,180	41,949	4,310	–

	Current		Non-Current	
31 December 2019	Within 6 months $'000	6 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000
Bank and other loans	1,365	66,671	–	–
Lease liabilities	932	931	5,870	2,133
Trade payables	31,218	5,000	–	–
Other short-term financial liabilities	21,163	–	–	–
	54,678	72,602	5,870	2,133

SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and liabilities as recognised at the balance sheet date of the reporting periods under review may also be categorised as follows. See note 1, significant accounting policies, covering financial assets and financial liabilities for explanations about how the category of instruments affects their subsequent measurement.

	2020 $000	2019 $000
Current assets		
Financial assets at amortised cost:		
• Trade receivables	38,361	38,753
• Cash and cash equivalents	22,079	15,621
	60,440	54,374
Current liabilities		
Financial liabilities measured at amortised cost:		
• Borrowings	41,819	66,077
• Lease liabilities	1,968	1,937
• Trade payables	28,529	36,218
• Other payables	21,535	21,163
	93,851	125,395

22 Financial instruments (continued)

Non-current liabilities		
Financial liabilities measured at amortised cost:		
• Lease liabilities	4,310	7,929
	4,310	7,929

CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through an optimal balance of debt and equity. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 18, cash and cash equivalents and equity attributable to equity holders of the parent, comprising share capital and reserves as disclosed in the consolidated statement of changes in equity.

The Board reviews the capital structure, including the level of indebtedness and interest cover, as required. The Board's objective is to maintain the optimal level of indebtedness and manage interest cover to comply with the covenant requirements set out in note 18. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Group has complied with its covenant obligations during the year.

23 Post balance sheet events

On 16 February 2021, the Group concluded Its refinancing, signing an extension to its existing bank facilities to 16 July 2024. The multi-currency facility comprises a $10m term loan, a $8m revolving credit facility and a $2m overdraft facility. On the same date, Lion Rock Group Limited, a related party (Note 29) agreed to provide the Group a $10m loan note at 4% interest, repayable on 31 July 2024.

24 Share capital and paid In surplus

SHARE CAPITAL

	2020 $000	2019 $000
Authorised		
55 million shares (2019: 28 million shares) of common stock of par value of US$0.10 each	5,500	2,800
Allotted, called up and fully paid:		
40,889,100 (2019: 20,444,550) shares of common stock of par value of US$0.10 each	4,089	2,045

The Company has one class of common stock which carries no right to fixed income.

PAID IN SURPLUS

This reserve records the amount above par value received for common stock sold less transaction costs. The movement on this reserve was as follows:

	2020 $000	2019 $000
At 1 January	33,764	33,764
Issue of new common stock	14,937	–
At 31 December	48,701	33,764

On 16 January 2020, the Group announced an Open Offer of 20,444,550 new common stock at 68 pence per share, raising net proceeds of $16,981,000. Of this amount, $2,044,450 Is attributed to share capital and the balance, $14,936,550 to the paid in surplus reserve.

25 Retained earnings and other reserves

HEDGING RESERVE

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions.

TRANSLATION RESERVE

The translation reserve comprises all foreign exchange differences arising from the translation of the closing balance sheets of foreign operations of the Group and the results of foreign operations of the Group since 1 January 2004.

25 Retained earnings and other reserves (continued)

RETAINED EARNINGS

The retained earnings reserve comprises profit for the year attributable to owners of the Group and other Items recognised directly through equity as presented on the consolidated statement of changes in equity.

26 Dividends

No dividends have been declared in the current or prior year.

27 Notes to the cash flow statement

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

28 Share based payments

PERFORMANCE SHARE PLAN ('PSP')

The Company operates a PSP scheme that awards free shares.

2016 AWARD

The awards under this scheme were granted on 19 April 2016. The vesting period is 4 years from the date of grant. The award vests in the following proportion:

- 50% is conditional on the cumulative growth in Adjusted Diluted EPS being between 5% and 10% over the performance period, resulting in the awards vesting on a sliding scale of 20% to 100%; and
- 50% is conditional on Total Shareholder Return being between 7% and 15%, resulting in vesting on a sliding scale of 20% to 100%.

Participants are not entitled to receive dividends until awards have vested.

Details of the share options outstanding during the year are as follows:

	2020 Number	2019 Number
Outstanding at beginning of the year	143,784	152,192
Forfeited during the year	(33,673)	(8,408)
Lapsed during the year	(110,111)	—
Outstanding at the end of the year	—	143,784

The key inputs used to value the options are:

	EPS Portion	TSR Portion
Share price at date of grant	£2.45	£2.45
Expected life (years)	4	4
Fair value per award	£2.10	£0.44
Weighted average remaining contractual life (years)	2.3	3.3
Dividend yield (%)	3.88	3.88
Expected volatility of share price (%)	n/a	19.1
	Dividend discount	Monte-Carlo

2017 AWARD

The awards under this scheme were granted on 28 April 2017. The vesting period is 4 years from the date of grant. The award vests in the following proportion:

- 50% is conditional on the cumulative growth in Adjusted Diluted EPS being between 5% and 10% over the performance period, resulting in the awards vesting on a sliding scale of 20% to 100%; and
- 50% is conditional on Total Shareholder Return being between 7% and 15%, resulting in vesting on a sliding scale of 20% to 100%.

Participants are not entitled to receive dividends until awards have vested.

28 Share based payments (continued)

Details of the share options outstanding during the year are as follows.

	2020 Number	2019 Number
Outstanding at beginning of the year	84,995	104,463
Forfeited during the year	(19,772)	(19,468)
Outstanding at the end of the year	65,223	84,995

The key inputs used to value the options are:

	EPS Portion	TSR Portion
Share price at date of grant	£2.64	£2.64
Expected life (years)	4	4
Fair value per award	£2.20	£0.48
Weighted average remaining contractual life (years)	3.3	3.3
Dividend yield (%)	4.55	4.55
Expected volatility of share price (%)	n/a	18.6
Model used	Dividend discount	Monte-Carlo

29 Related party transactions

The Group had the following related party transactions over the periods under review:

PRINTING PURCHASES:

Lion Rock Group Limited	2020 $'000	2019 $'000
Accounts payable at start of year	13,692	6,083
Purchases	14,720	11,562
Rebate received	(1,464)	–
Payments	(14,053)	(3,953)
Accounts payable at end of year	12,895	13,692

LOANS AND ACCRUED INTEREST:

	At 31 December 2020 $000	At 31 December 2019 $000
Loans	11,500	11,500
Accrued interest on loans at end of year	874	470

The loans are from 1010 Printing Limited ($7.0m) and C K Lau ($4.5m). The loans are unsecured, are repayable, together with the accrued interest, on 31 July 2021, and carry interest at 3.5%. After the year end, the repayment date was extended to 31 July 2024.

Lion Rock Group Limited and 1010 Printing Limited are companies over which C K Lau exercises control.

The rebate received in 2020 has been accounted for in accordance with the accounting policy disclosed in Note1. The rebate scheme, at this stage, will not be renewed in 2021.

REVENUES AND TRADE RECEIVABLES:

	At 31 December 2020 $000	At 31 December 2019 $000
Revenues	137	–
Outstanding receivables balance at end of year	63	–

NOTES TO THE FINANCIAL STATEMENTS (continued)

29 Related party transactions (continued)

The Group recorded revenues of $129,000 with Giunti Editore S.p.A, a company over which Andrea Giunti Lombardo, a non-executive director appointed on 10 February 2020, exercises control. The transactions were in the normal course of business on arms-length terms. The amount outstanding at 31 December 2020 was $58,000.

The Group recorded revenues of $8,000 with Pavilion Books Limited, a company over which Polly Powell, CEO (appointed 10 February 2020) exercises control. The transactions were in the normal course of business on arms-length terms. The amount outstanding at 31 December 2020 was $5,000.

30 Reconciliation of figures included in other parts of the financial statements

	2020 $000	2019 $000
Adjusted operating profit		
Operating profit	9,282	8,774
Add back: Amortisation of acquired intangibles	890	811
Other exceptional items (Note [5])	446	419
Adjusted operating profit	10,618	10,004
EBITDA		
Operating profit before amortisation of acquired intangibles and exceptional items	10,618	10,004
Less: Net finance costs	(2,693)	(4,930)
Impact of IFRS 16	(270)	(271)
Adjusted profit before tax	7,655	4,803
Net finance costs	2,693	4,930
Depreciation of property, plant and equipment and software (excluding right-of-use assets)	631	794
Share based (credits)/payments	(32)	48
One off non-cash costs	1,892	—
EBITDA for banking purposes	12,839	10,575
Impact of IFRS 16	270	271
Depreciation of right-of-use assets	1,760	1,609
Less: one off non-cash costs	(1,892)	—
EBITDA	12,977	12,455
Adjusted profit before tax before amortisation of acquired intangibles and exceptional items		
Adjusted operating profit before amortisation of acquired intangibles and exceptional items	10,618	10,004
Less: net finance costs	(2,693)	(4,930)
Adjusted profit before tax before amortisation of acquired intangibles and exceptional items	7,925	5,074
Free cashflow		
Net cash from operating activities	36,921	41,302
Investment in pre-publication costs	(20,324)	(23,786)
Purchases of property, plant and equipment excluding IFRS 16 assets	(34)	(138)
Free cashflow	16,563	17,378
Net debt		
Short-term borrowings	41,819	66,077
Cash and cash equivalents	(22,079)	(15,621)
Net debt	19,740	50,456

Company Balance Sheet

AS AT 31 DECEMBER 2020

	Notes	2020 $000	2019 $000
Fixed assets			
Investments	4	1,234	1,266
		1,234	1,266
Current assets			
Other receivables falling due within one year	6	3,370	–
		3,370	–
Current liabilities			
Creditors: Amounts falling due within one year	7	(52)	(15,866)
		(52)	(15,866)
Creditors: Amounts falling due after more than one year			
Tax payable		(430)	(441)
Net assets/(liabilities)		4,122	(15,041)
Equity			
Called up share capital	8	4,089	2,045
Paid in surplus		48,701	33,764
Retained earnings		(48,668)	(50,850)
Total equity		4,122	(15,041)

The notes on pages 91 to 94 are an integral part of these consolidated financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 21 March 2021. They were signed on its behalf by

Polly Powell
Director
21 March 2021

Company Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 $'000	2019 $'000
Other operating income			
Dividends received		1,980	–
Administrative expenses			
Foreign exchange gain/(loss)		224	(587)
Profit/(loss) before tax		2,204	(587)
Tax	3	10	–
Profit/(loss) for the year		2,214	(587)

The notes on pages 91 to 94 are an integral part of these consolidated financial statements

Company Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital $'000	Paid in surplus $'000	Retained earnings $'000	Equity attributable to owners $'000
Balance at 1 January 2019	2,045	33,764	(50,311)	(14,502)
Loss for the year	–	–	(587)	(587)
Transactions with owners				
Share based payments/charges	–	–	48	48
Balance at 1 January 2020	2,045	33,764	(50,850)	(15,041)
Profit for the year	–	–	2,214	2,214
Transactions with owners				
Share capital raised	2,044	16,307	–	18,351
Costs of raising share capital	–	(1,370)	–	(1,370)
Share based payments/charges	–	–	(32)	(32)
Balance at 31 December 2020	4,089	48,701	(48,668)	4,122

The notes on pages 91 to 94 are an integral part of these consolidated financial statements

Notes to the Company Accounts

AT 31 DECEMBER 2020

1 Basis of preparation

The separate financial statements of the Company are presented and have been prepared in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. These financial statements present information for the Company, not about the Group.

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules modified to include certain items as fair value and in accordance with FRS 102. The financial statements have been prepared using the going concern basis, as discussed in the Group going concern disclosure.

The Company has adopted the following disclosure exemptions:

- the requirement to present a statement of cash flow and related notes; and
- financial instrument disclosures, including,
- categories of financial instruments;
- items of income, expenses, gains or losses relating to financial instruments; and
- exposure to, and management of, financial risks.

There were no significant judgements or estimates in preparing the financial statements of the Company.

2 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements. The functional currency of the company is Pounds Sterling, with the parent company accounts presented in US Dollars.

INVESTMENTS

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

OTHER RECEIVABLES

Amounts owed by subsidiary undertakings are initially recognised at fair value, and subsequently measured at amortised cost using the effective interest method.

CREDITORS

Amounts owed to subsidiary undertakings are initially recognised at fair value, and subsequently measured at amortised cost using the effective interest method.

SHARE-BASED PAYMENTS

The Company operates a number of equity-settled, share based compensation plans that are awarded to employees of the Company's subsidiary undertakings. The fair value of the employee services received under such schemes is recognised as an expense in the subsidiary undertakings financial statements, which benefit from the employee services. The Company has recognized the fair value of the share-based payments as an increase to equity with a corresponding adjustment to investments. Equity settled share-based payments are measured at fair value at the date of grant. The fair value, determined at the grant date, of equity settled share–based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The fair value of employee share option grants is calculated using a Monte Carlo model, taking into account the terms and conditions upon which the options were granted. The value of the charge is adjusted to reflect expected and actual levels of options vesting. Further detail is set out in note [28] to the group consolidated Financial Statements.

CASH AND CASH EQUIVALENTS

There were no cash transactions during the year and accordingly no cash flow statement has been presented.

FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at that date with any exchange differences arising on retranslation being recognised in the income statement.

FINANCIAL GUARANTEE CONTRACTS

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

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NOTES TO THE COMPANY ACCOUNTS (continued)

3 Tax

	2020 $000	2019 $000
Current tax (Credit)	(10)	–

Corporation tax is calculated at 21%, based on the US standard rate of corporate tax (2019: 21%) of the estimated assessable profit for the year. The table below explains the difference between the expected expense at the US statutory rate of 21% and the Company's total tax expense for the year.

	2020 $'000	2019 $'000
Profit/(loss) before tax	2,204	(587)
Tax at the US corporation tax rate of 21% (2019: 21%)	463	(123)
Tax effect of items that are not (taxable)/deductible in determining taxable profit	(463)	123
Other	(10)	–
Tax (Credit)	(10)	–

4 Investments

	2020 $000	2019 $000
At 1 January	1,266	1,209
Movement during the year	(32)	57
At 31 December	1,234	1,266

5 Subsidiaries

A) TRADING COMPANIES

	Incorporation					
Name	Place	Date	Registered address key	Issued and fully paid up share capital	% held	Segment
Quarto Publishing Group USA Inc.	Delaware, USA	28 June 2004	B	380 shares of US$0.01 each	100	US Publishing
Quarto Publishing plc	United Kingdom	1 April 1976	A	100,000 shares of £1 each	100*	UK Publishing
Quarto, Inc.	Delaware, USA	16 October 1986	B	86 shares of no par value	100*	US Publishing

*Directly held by The Quarto Group, Inc.

5 Subsidiaries (continued)

B) DORMANT COMPANIES

	Incorporation		Registered		
Name	Place	Date	address key	Issued share capital	% held
AP Screen Printers Limited	United Kingdom	30 September 1980	A	1000 shares of £1 each	100
Apple Press Limited	United Kingdom	5 June 1984	A	100 shares of £1 each	100
Aurum Press Limited	United Kingdom	31 May 1977	A	382,502 shares of £1 each	100
Books & Gifts Direct Limited	New Zealand	27 September 1996	C	400,000 shares of NZ$1 each	100*
Cartographica Press Limited	United Kingdom	27 July 1981	A	1000 shares of £1 each	100
Design Eye Holdings Limited	United Kingdom	22 June 1992	A	200 shares of £1 each	100
Design Eye Limited	United Kingdom	18 March 1988	A	100 shares of £1 each	100
Design Eye Publishing Limited	United Kingdom	17 June 1992	A	2 shares of £1 each	100
EYE Quarto Inc	Delaware, USA	19 December 2002	B	1000 shares of no par value	100
Fine Wine Editions Limited	United Kingdom	23 June 1949	A	9020 shares of £1 each	100
Frances Lincoln Limited	United Kingdom	15 December 1980	A	565,000 shares of 10p each	100
Frances Lincoln Publishers Limited	United Kingdom	11 March 1987	A	100 shares of £1 each	100
Global Book Publishing Pty Limited	United Kingdom	7 July 1986	A	1000 shares of £1 each	100
Global Book Publishing Pty Limited	Australia	4 November 1999	D	1,000 shares of A$1 each	100
Great American Trading Company Limited (THE)	United Kingdom	24 February 1982	A	100 shares of £1 each	100
IQON Editions Limited	United Kingdom	5 December 1972	A	300 shares of £1 each	100
iqu-digital.com Limited	United Kingdom	30 November 1978	A	100 shares of £1 each	100
Ivy Press (The)	United Kingdom	9 July 1996	A	1042 shares of 10p each	100
Jacqui Small LLP	United Kingdom	6 November 1998	A	100 units	100
JR Books Limited	United Kingdom	9 September 1986	A	43 004 shares of £1 each	100
Lewes Holdings Limited	United Kingdom	21 July 2005	A	20,840 shares of £0.01 each	100
Marshall Editions Limited	United Kingdom	7 February 2002	A	1 shares of £1 each	100
Marshall Publishing Limited	United Kingdom	7 February 2002	A	1 shares of £1 each	100
QEB Publishing Inc	Delaware, USA	27 April 2004	B	1500 shares of no par value	100
QED Publishing Limited	United Kingdom	12 November 1974	A	400 shares of £1 each	100
QU:ID Publishing Limited	United Kingdom	30 September 1980	A	100 shares of £1 each	100
Quarto Australia Pty Limited	Australia	14 September 1981	D	110 shares of $A1 each	100
Quantum Books Limited	United Kingdom	7 February 1983	A	100 shares of £1 each	100
Quarto Children's Books Limited	United Kingdom	6 January 1976	A	2 shares of £1 each	100
Quarto Group HK Ltd	Hong Kong	26 January 2015	E	100 shares of HKD1 each	100
Quarto Magazines Limited	United Kingdom	20 May 1986	A	1000 shares of £1 each	100
Quarto Marketing Inc	Delaware, USA	26 April 1995	B	3000 shares of no par value	100
Quarto Media Inc	Delaware, USA	10 December 2010	B	1000 shares of $1 each	100
Quarto Multi Media Limited	United Kingdom	14 December 1984	A	1000 shares of £1 each	100
Quill Publishing Limited	United Kingdom	14 May 1979	A	1000 shares of £1 each	100
Quintessence Editions Limited	United Kingdom	7 February 2002	A	1 shares of £1 each	100
Quintet Publishing Limited	United Kingdom	14 May 1979	A	100 shares of £1 each	100
RotoVision S.A.	Switzerland	18 July 1977	F	1,500 shares of SFr500 each	100
Small World Creations Limited	United Kingdom	20 September 1997	A	1,536 share of £1 each	100

*Directly held by The Quarto Group, Inc.

NOTES TO THE COMPANY ACCOUNTS (continued)

5 Subsidiaries (continued)

D) LIST OF REGISTERED OFFICES

A The Old Brewery, 6 Blundell Street, London, N7 9BH, United Kingdom
B 100 Cummings Center, Suite 265D, Beverly, MA 01915-6115, USA
(Quarto Publishing Group USA Inc., 251 Little Falls Drive, Wilmington, DE 19808, Delaware, USA; Quarto Inc., 1209 Orange Street, Wilmington, Delaware 19801, USA)
C c/o Brownes CA Limited, Unit K, 215 Rosedale Road, Albany, Auckland, 0632, New Zealand
D c/o ZM Partners, Suite 10 Ground Floor, 123 Clarence Street, Sydney, NSW 2000, Australia
E Room 2306, Technology Plaza, 651 King's Road, North Point, Hong Kong
F Passage Perdonet 1, 1005 Lausanne, Switzerland

6 Other receivables falling due within one year

	2020 $000	2019 $000
Amounts owed by subsidiary undertakings	3,370	–
	3,370	–

7 Creditors: Amounts falling due within one year

	2020 $000	2019 $000
Amounts owed to subsidiary undertakings	–	15,814
Tax payable	52	52
	52	15,866

8 Called up share capital

Details of called up share capital are set out in note 24 of the consolidated Financial Statements.

9 Contingent liabilities

The Quarto Group, Inc. has issued guarantees in respect of bank loans of subsidiaries of $25,411,000 (2019: $53,077,000). Refer to note 18 of the group consolidated Financial Statements.

10 Related parties

The Company repaid an amount of $19,184,000 to its wholly owned subsidiary, Quarto Publishing plc, during the year (2019: $0.6m borrowed in the year). The balance on the loan at 31 December 2020 was $3.4m (due to the company) (2019: $15.8m owed by the company). These balances are non-interest bearing and repayable on demand.

Independent Auditor's Report to the Members of The Quarto Group, Inc.

Opinion

OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the financial statements of The Quarto Group, Inc. (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019, which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement, the company balance sheet, the company statement of comprehensive income, the company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit and the parent company's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 which would have applied were the parent company incorporated in the United Kingdom; and, as regards the group financial statements, Article 4 of the IAS Regulation.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

THE IMPACT OF UNCERTAINTIES ARISING FROM THE UK EXITING THE EUROPEAN UNION ON OUR AUDIT

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and parent company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and parent company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a group and parent company associated with a course of action such as Brexit.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 1 of the financial statements, which indicates that the directors have prepared a downside scenario analysis which models the potential impact of the recent Covid-19 outbreak on the group's trading and cash flow forecasts and financial covenants. As stated in note 1, the downside scenario analysis indicates that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Audit work performed

In evaluating whether a material uncertainty exists, our procedures evaluated management's assessment of the impact of Covid-19 on the group's working capital and covenant conditions by undertaking, inter alia, the following work:

- We have reviewed the forecasts and the assumptions used by management and have considered whether these are consistent with our understanding of the business derived from other detailed work undertaken;
- We assessed the quality of management's forecasting by comparing projections to actual post year-end results;
- We agreed the underlying cash flow projections to management-approved forecasts, assessed how these forecasts are compiled, and considered the adequacy of management's scenario planning by applying appropriate sensitivities to the underlying assumptions;
- Considered the effect of the assumptions regarding the lost revenue, availability of workforce and the resulting effect on working capital during the estimated period of Covid-19 impact;
- Reviewed the terms of the covenant agreement and assessed under what circumstances that there was a risk that a covenant may be breached as a result of the Covid-19 adjustments to the projections; and
- Assessed the impact of the mitigating factors available to management in respect of the ability to restrict cash impact, including the level of available credit facilities.

OVERVIEW OF OUR AUDIT APPROACH

GrantThornton

- Overall materiality: $700,000, which represents approximately 0.5% of the group's revenue;
- Key audit matters were identified as assessing the completeness of the sales return provision, assessment of the carrying value of goodwill in relation to Quarto US and assessment of the valuation of pre-publication intangible assets; and
- We have performed a full scope audit of the financial statements of the parent company and of the financial information of Quarto Publishing plc ('Quarto UK') and Quarto Publishing Group USA Inc. ('Quarto US'). We have performed analytical procedures on the financial information of other companies within the group.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, which Include the matter described in the 'Material uncertainty related to going concern' section, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described In the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated In our report.

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matter – Group	How the matter was addressed in the audit – Group
COMPLETENESS OF THE SALES RETURNS PROVISION The Group generates material revenues from published books. Certain customers have a right of return for these books and therefore the revenue is recognised net of a provision for these returns. At 31 December 2019, this provision totals $6,349,000. Management judgement is required when assessing the level of returns which are expected to occur subsequent to the year end for sales made during the year. The key assumption applied is in relation to historical return experience, which is used in order to predict future returns and therefore the provision which is required to be made. We therefore identified the completeness of the sales returns provision as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Considering the appropriateness of the accounting policy for the provision for sales returns by checking whether it is in accordance with the financial reporting framework, including IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and IFRS 15 'Revenue from Contracts with Customers'. • Testing a sample of returns made during the year to supporting documentation in order to confirm the accuracy of the data used to calculate the rates of returns used in management's calculation of the provision; • Recalculating the provision to confirm that it is appropriate and in accordance with management's policy; • Comparing actual returns in the period to the provision made in the prior period in order to evaluate the accuracy of management's forecasting; and • Inquiring of sales and operations staff as to their knowledge of any exceptional returns in the period or the potential for these in the returns period. The group's accounting policy on the sales returns provision is shown in note 1 to the group financial statements and related disclosures are included in notes 1 and 21. The Audit Committee identified revenue recognition and sales returns as a significant issue in its report on page 24, where the Audit Committee also described the action that it has taken to address this issue. **KEY OBSERVATIONS** Based on our audit work, we concur with management's view that the provision made for sales returns is in accordance with the financial reporting framework, including IAS 37 and IFRS 15. Our audit work did not identify any material errors in the completeness of the sales returns provision recognised at 31 December 2019.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
ASSESSMENT OF THE CARRYING VALUE OF GOODWILL IN RELATION TO QUARTO US The Group holds $19,192,000 of goodwill on its balance sheet, including a balance of $12,882,000 relating to Quarto US as disclosed in Note 11 to the group financial statements. In accordance with International Accounting Standard 36 'Impairment of Assets' ('IAS 36'), goodwill is subject to an annual impairment test. We consider that the carrying value of the goodwill for this cash generating unit (CGU) is a key risk due to the sensitivity of the impairment calculations to a reasonably possible change in the key assumptions, including the discount rate, cash flow forecasts and growth rates. We therefore identified the assessment of the carrying value of goodwill in relation to Quarto US as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Considering the appropriateness of the accounting policy by checking whether it is in accordance with the financial reporting framework, including IAS 36 'Impairment of Assets'. • Obtaining management's impairment review model and testing its mathematical accuracy; • Assessing the appropriateness of the asset and liability amounts included in the carrying value of each of the cash generating units which were assessed by management as part of the impairment review; • Assessing the discount rate applied, including an assessment by our valuation specialists and benchmarking the rate against that used by competitors; • Performing sensitivity analysis around the value in use calculation performed by management; and • Considering the post year end performance of the group against budget and comparing historical budgets to actual performance in order to assess the accuracy of budgets prepared by management. The group's accounting policy on goodwill is shown in note 1 to the group financial statements and related disclosures are included in note 11. The Audit Committee identified assessment of the carrying value of goodwill as a significant issue in its report on page 24, where the Audit Committee also described the action that it has taken to address this issue. **KEY OBSERVATIONS** Our audit work did not identify any material errors in the carrying value of goodwill in relation to Quarto US and we concur with management's view that no impairment charge is necessary. The impairment calculation remains sensitive to changes in key assumptions and these continue to be disclosed in the accounts.

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matter – Group	How the matter was addressed in the audit – Group
ASSESSMENT OF THE VALUATION OF PRE-PUBLICATION INTANGIBLE ASSETS The Group's holds capitalised pre-publication costs with a net book value of $52,213,000 as intangible assets on its consolidated balance sheet. This represents costs which are capitalised by the Group in relation to the development of book titles, including directly attributable overhead costs. There is management judgement involved in determining which costs are directly attributable to the development of books and should therefore be capitalised. These costs are amortised over a three-year period on a straight-line basis to reflect the expected useful economic life of these intangible assets. There is management judgement in relation to the length of life of these intangible assets and whether the balance is recoverable. We therefore identified the assessment of the valuation of pre-publication intangible assets as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Considering the appropriateness of the accounting policy by checking whether it is in accordance with the financial reporting framework, including IAS 38 'Intangible Assets'. • Testing a sample of costs capitalised in the year to supporting documentation in order to confirm they are directly attributable to the development of book titles; • Challenging judgements made by management in determining which costs are directly attributable to the development of book titles; • Assessing the recoverability of pre-publication costs allocated to each CGU as part of the impairment test performed under IAS 36 to ensure that pre-publication costs are recoverable based on management's value in use calculation for each CGU; and • Analysing historic sales patterns to ensure that they support the estimate made by management of a three-year useful economic life. The group's accounting policy on pre-publication costs is shown in note 1 to the group financial statements and related disclosures are included in note 15. The Audit Committee identified recoverability of pre-publication costs as a significant issue in its report on page 24, where the Audit Committee also described the action that it has taken to address this issue. **KEY OBSERVATIONS** Our audit work for the current year identified that certain overhead costs have been capitalised in pre-publication intangible assets in the current and prior year which do not meet the recognition criteria set out in IAS 38. Accordingly, as set out in note 1, management have made a prior period adjustment to restate the prior period financial statements and have made an adjustment in the current year to correct this misstatement. Following the adjustments noted above, based on our audit work, we concur with management's view that pre-publication assets are carried at an appropriate valuation and are amortised over an appropriate useful economic life.

We did not identify any key audit matters relating to the audit of the financial statements of the parent company.

OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	Group	Parent company
Financial statements as a whole	$700,000, which is approximately 0.5% of the group's revenue. This benchmark is considered the most appropriate because revenue is a key driver of the business and is monitored by management and the directors. We do not consider it appropriate to use earnings before tax as the benchmark as there have been significant fluctuations in the group's earnings before tax in recent years. Materiality for the current year is lower than the level that we determined for the year ended 31 December 2018 to reflect the decrease in the group's revenue in the current year.	$8,000, which is 0.6% of the parent company's total assets. This benchmark is considered the most appropriate because the parent company is a holding company and has no revenue. Materiality for the current year is at the same level that we determined for the year ended 31 December 2018 to reflect that there has been no significant change in the parent company's total assets.
Performance materiality used to drive the extent of our testing	65% of financial statement materiality.	65% of financial statement materiality.
Specific materiality	We determined a lower level of specific materiality for certain areas including directors' remuneration and related party transactions.	We determined a lower level of specific materiality for certain areas including directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	$35,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	$400 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

INDEPENDENT AUDITOR'S REPORT (continued)

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- Evaluation by the group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality. Significance was determined as a percentage of the group's total assets, revenues and profit before taxation;
- Based on this evaluation we considered that the only significant components are Quarto UK and Quarto US due to their financial significance to the group;
- We performed a full scope audit of the financial statements of the parent company;
- For Quarto US, we performed a full scope audit of its financial information using component materiality, being 65% of group materiality.
- For Quarto UK, we performed a full scope audit of its financial information using materiality that we determined for the statutory audit, which was lower than we would have applied had we performed audit procedures only for group purposes.
- The full scope audits performed represent 100% of the group's continuing revenue for the year, 100% of the group's total assets, and 99.8% of the group's total liabilities.
- The financial information of the other components in the group has been subjected to analytical procedures.

EXPLANATION AS TO WHAT EXTENT THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

The objectives of our audit are to identify and assess the risks of material misstatement of the financial statements due to fraud or error; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud or error; and to respond appropriately to those risks. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (UK).

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- We obtained an understanding of the legal and regulatory frameworks applicable to the parent company and the group and the industry in which they operate. We determined that the following laws and regulations were most significant: IFRSs as adopted by the European Union, Listing Rules, and the UK Corporate Governance Code.
- We obtained an understanding of how the parent company and the group is complying with those legal and regulatory frameworks by making inquiries of management, those responsible for legal and compliance procedures and the company secretary. We corroborated our inquiries through our review of board minutes and papers provided to the Audit Committee.
- We assessed the susceptibility of the parent company's and group's financial statements to material misstatement, including how fraud might occur. Audit procedures performed included:
  - identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
  - understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
  - challenging assumptions and judgments made by management in its significant accounting estimates; and
  - identifying and testing journal entries posted in the year which were deemed to be unusual.
- We did not identify any key audit matters relating to irregularities, including fraud.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable – the statement given on page 43 by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section set out on pages 23 to 25 describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on pages 40 and 41 – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

OUR OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006, WERE IT TO APPLY TO THE PARENT COMPANY, ARE UNMODIFIED

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

MATTER ON WHICH WE ARE REQUIRED TO REPORT UNDER THE COMPANIES ACT 2006, WERE IT TO APPLY TO THE PARENT COMPANY

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION, WERE THE COMPANIES ACT 2006 TO APPLY TO THE PARENT COMPANY

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

INDEPENDENT AUDITOR'S REPORT (continued)

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the statement of directors' responsibilities set out on page 43, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS

Following the recommendation of the audit committee, we were appointed by the audit committee on 20 November 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods.

The period of total uninterrupted engagement is 3 years, covering the years ended 31 December 2017 to 31 December 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with the terms that have been agreed in our engagement letter dated 9 January 2019. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

David White
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
22 April 2020

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 $'000	Restated (Note 1) 2018 $'000
Continuing operations			
Revenue	2	135,807	149,292
Cost of sales		(97,782)	(105,113)
Gross profit		38,025	44,179
Administrative expenses		(19,641)	(25,710)
Impairment of financial assets	17	(853)	(245)
Distribution costs		(7,527)	(7,919)
Operating profit before amortisation of acquired intangibles and exceptional items	4	10,004	10,305
Amortisation of acquired intangibles		(811)	(850)
Exceptional items	5	(419)	(5,152)
Operating profit		8,774	4,303
Finance income	7	9	21
Finance costs	8	(4,939)	(4,381)
Profit/(loss) before tax		3,844	(57)
Tax	9	(962)	(495)
Profit/(loss) for the year		2,882	(552)
Attributable to:			
Owners of the parent		2,882	(552)
		2,882	(552)
Earnings/(loss) per share (cents)			
From continuing operations			
Basic	10	14.1	(2.7)
Diluted	10	14.0	(2.7)
Adjusted basic	10	19.0	23.2
Adjusted diluted	10	18.8	23.0

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 $'000	Restated (Note 1) 2018 $'000
Profit/(loss) for the year	2,882	(552)
Items that may be reclassified to profit or loss		
Foreign exchange translation differences	403	(1,950)
Cash flow hedge; (losses) arising during the year	(105)	(60)
Tax relating to items that may be reclassified to profit or loss	(162)	(246)
Total other comprehensive income/(expense)	136	(2,256)
Total comprehensive income/(expense) for the year	3,018	(2,808)
Total comprehensive income/(expense) for the year attributable to:		
Owners of the parent	3,018	(2,808)
	3,018	(2,808)

Consolidated Balance Sheet

AS AT 31 DECEMBER 2019

	Notes	2019 $000	Restated (Note 1) 2018 $000	Restated (Note 1) 2017 $000
Non-current assets				
Goodwill	11	19,192	18,954	19,286
Other intangible assets	12	1,282	2,368	3,516
Property, plant and equipment	13	10,883	1,552	2,129
Intangible assets: Pre-publication costs	15	48,697	52,706	56,243
Deferred tax assets	19	3,331	3,901	3,901
Total non-current assets		83,385	79,481	85,075
Current assets				
Inventories	16	19,378	22,324	22,637
Trade and other receivables	17	46,397	54,476	53,460
Derivative financial instruments		—	105	205
Cash and cash equivalents	18	15,621	15,384	17,946
Total current assets		81,396	92,289	94,248
Total assets		164,781	171,770	179,323
Current liabilities				
Short term borrowings	18	(66,077)	(5,000)	(5,000)
Trade and other payables	21	(57,381)	(64,917)	(60,796)
Lease liabilities	20	(1,937)	—	—
Tax payable		(2,831)	(4,167)	(5,243)
Total current liabilities		(128,226)	(74,084)	(71,039)
Non-current liabilities				
Medium and long-term borrowings	18	—	(70,752)	(76,907)
Deferred tax liabilities	19	(7,139)	(7,848)	(7,615)
Tax payable		(433)	(544)	(1,116)
Lease liabilities	20	(7,929)	—	—
Other payables	21	—	(554)	(1,673)
Total non-current liabilities		(15,501)	(79,698)	(87,311)
Total liabilities		(143,727)	(153,782)	(158,350)
Net assets		21,054	17,988	20,973
Equity				
Share capital	25	2,045	2,045	2,045
Paid in surplus		33,764	33,764	33,764
Retained earnings and other reserves		(14,755)	(17,821)	(14,836)
Total equity		21,054	17,988	20,973

The financial statements were approved by the Board of Directors and authorised for issue on 22 April 2020. They were signed on its behalf by:

C K Lau, Director

STRATEGIC REPORT
GOVERNANCE
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Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital $000	Paid in surplus $000	Hedging reserve $000	Translation Reserve $000	Retained earnings $000	Equity attributable to owners of the parent $000
Balance at 1 January 2018 as previously stated	2,045	33,764	165	(4,793)	(7,078)	24,103
Prior year adjustment (Note 1)	–	–	–	–	(3,130)	(3,130)
Balance at 1 January 2018	2,045	33,764	165	(4,793)	(10,208)	20,973
Loss for the year	–	–	–	–	(552)	(552)
Other comprehensive income						
Foreign exchange translation differences	–	–	–	(1,950)	–	(1,950)
Cash flow hedge: losses arising during the year	–	–	(60)	–	–	(60)
Tax relating to items that may be reclassified to profit or loss	–	–	–	(246)	–	(246)
Total comprehensive income for the year	–	–	(60)	(2,196)	(552)	(2,808)
Share based payments credit	–	–	–	–	(177)	(177)
Balance at 31 December 2018	2,045	33,764	105	(6,989)	(10,937)	17,988
Profit for the year	–	–	–	–	2,882	2,882
Other comprehensive income						
Foreign exchange translation differences	–	–	–	403	–	403
Cash flow hedge: losses arising during the year	–	–	(105)	–	–	(105)
Tax relating to items that may be reclassified to profit or loss	–	–	–	(162)	–	(162)
Total comprehensive income for the year	–	–	(105)	241	2,882	3,018
Share based payments charge	–	–	–	–	48	48
Balance at 31 December 2019	2,045	33,764	–	(6,748)	(8,007)	21,054

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 $000	Restated (Note 1) 2018 $000
Profit/(loss) for the year	2,882	(552)
Adjustments for:		
Net finance costs	4,930	4,360
Depreciation of property, plant and equipment	2,127	693
Software amortisation	276	298
Tax expense	962	495
Impairment of pre-publication costs	—	501
Share based payments	48	(177)
Amortisation and amounts written off acquired intangibles	811	910
Amortisation of pre-publication costs	28,694	29,267
Operating cash flows before movements in working capital	40,730	35,795
Decrease in inventories	3,157	21
Decrease/(increase) in receivables	8,961	(2,280)
(Decrease)/increase in payables	(8,896)	4,639
Cash generated by operations	43,952	38,175
Income taxes paid	(2,650)	(1,962)
Net cash from operating activities	41,302	36,213
Investing activities		
Interest received	9	21
Investment in pre-publication costs	(23,786)	(27,585)
Purchases of property, plant and equipment	(138)	(169)
Purchase of software	—	(77)
Acquisition of businesses	(1,250)	(1,887)
Net cash used in investing activities	(25,165)	(29,697)
Financing activities		
Interest payments	(3,709)	(2,980)
Lease payments	(1,882)	—
Drawdown of revolving credit facility	1,963	18,457
Repayment of term loan and revolving credit facility	(12,417)	(24,238)
Net cash used in financing activities	(16,045)	(8,761)
Net increase/ (decrease) in cash and cash equivalents	92	(2,245)
Cash and cash equivalents at beginning of year	15,384	17,946
Foreign currency exchange differences on cash and cash equivalents	145	(317)
Cash and cash equivalents at end of year	15,621	15,384

Notes to the Financial Statements

1 General information and significant accounting policies

The Quarto Group, Inc. is a company incorporated in the State of Delaware, United States. The address of the registered office is given on page 97. The nature of the Group's operations and its principal activities are set out in Note 3 and in the Chief Executive Officer's Statement on page 5.

The accounting policies adopted, are consistent with those of the annual financial statements for the year ended 31 December 2018, as described in those financial statements. Two new accounting standards, IFRS 16 - Leases and IFRIC 23 - Uncertainty over Income Tax Treatments, have been adopted during the period. There was no impact of IFRIC 23 on the financial statements whilst the impact of IFRS 16 has been disclosed below.

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

RESTATEMENT OF PRIOR YEAR RESULTS

The following tables show the restated prior year comparative figures for the financial year ended 31 December 2018. This restatement reflects a reinterpretation of the directly attributable costs and overheads that should be capitalised under IAS 38, as pre-publication costs; in the past, an element of overheads relating to indirect costs were capitalised which represents an error. The Directors accept responsibility for the error in their interpretation of IAS38 and the treatment of indirect overhead costs. This interpretation first introduced in 2005 has not been challenged or commented on, by any of the Company's auditors in the intervening years. Past Company's auditors include Grant Thornton (2017 - 2019), Deloitte (2014 - 2016), Grant Thornton (2007 - 2013) and RSM (2006). There was no overall impact on the results of the Group for the year ended 31 December 2018. The impact on the financial statements is set out below:

	As reported 2018 $000	Adjustment 2018 $000	Restated 2018 $000
Income statement			
Cost of sales	(107,195)	2,082	(105,113)
Administration expenses	(23,628)	(2,082)	(25,710)
Cash flow statement			
Amortisation and amounts written off pre-publication costs	31,426	(2,159)	29,267
Investment in pre-publication costs	(29,744)	2,159	(27,585)

	As reported 2018 $000	Adjustment 2018 $000	Restated 2018 $000	As reported 2017 $000	Adjustment 2017 $000	Restated 2017 $000
Balance sheet						
Intangible assets: pre-publication costs	56,741	(4,035)	52,706	60,278	(4,035)	56,243
Deferred tax liabilities	(8,753)	905	(7,848)	(8,520)	905	(7,615)
Net assets	21,118	(3,130)	17,988	24,103	(3,130)	20,973
Total equity	21,118	(3,130)	17,988	24,103	(3,130)	20,973

STATEMENT OF COMPLIANCE

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). The parent company financial statements present information about the Company as a separate entity and not about its Group.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP, including The Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS 102'). These are presented on pages 90 to 96.

BASIS OF ACCOUNTING

The financial statements are prepared on the historical cost basis, except that derivative financial instruments are stated at fair value.

1 General information and significant accounting policies (continued)

NEW ACCOUNTING STANDARDS
The Group has adopted the new accounting standard IFRS 16 'Leases' during the year. The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IRFS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 or IFRIC 4.

The Group has elected not to include initial direct costs in the measurement of the right-to-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-to-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 4.29%.

The following is a reconciliation of total operating lease commitments at 31 December 2018, as disclosed in the financial statements to 31 December 2018, to the lease liabilities recognised at 1 January 2019:

	$'000
Total operating lease commitments disclosed at 31 December 2018	12,008
Recognized exemptions at 1 January 2019:	
Leases with remaining lease term of less than 12 months	(266)
Other liabilities now recognised within lease liabilities	837
	12,579
Discounted using incremental borrowing rate	(1,970)
Total lease liabilities recognised under IFRS 16 at 1 January 2019	10,609
Of which are:	
Current lease liabilities	1,885
Non-current lease liabilities	8,724

The adoption of IFRS 16 has impacted the following items:

Impact on Balance Sheet

	1 January 2019 $'000	31 December 2019 $'000
Right-of-use assets		
Property, plant and equipment	10,609	9,683
Lease liabilities		
Trade and other payables: within one year	(1,885)	(1,937)
Trade and other payables: over one year	(8,724)	(7,929)
	(10,609)	(9,866)

The adoption of IFRS 16 on 1 January 2019 had a nil impact on the net assets of the Group due to applying the modified retrospective approach where assets equal liabilities. At 31 December 2019, lease liabilities of $9,866,000 are $183,000 higher than right-of-use assets due to the depreciation charge in the period being in excess of lease repayments, net of interest charges.

1 General information and significant accounting policies (continued)

A reconciliation of the value of right-to-use assets and lease liabilities from 1 January 2019 to 31 December 2019 is presented below:

	Right-of-use assets $'000	Lease liabilities $'000
Right-of-use assets and lease liabilities at 1 January 2019	10,609	(10,609)
Depreciation	(1,609)	—
Lease payments	—	1,882
Lease interest	—	(454)
Remeasurement	526	(526)
Exchange differences	157	(159)
Right-of-use assets and lease liabilities at 31 December 2019	**9,683**	**(9,866)**

Impact on Income Statement

	2019 $'000
Reduction in occupancy expenses	1,882
(Increase) in depreciation of property, plant and equipment	(1,609)
(Increase) in exchange differences	(2)
(Increase) in interest expense	(454)
Net (decrease) in profit before tax	**(183)**

STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN ADOPTED EARLY BY THE GROUP

Standards and amendments that are not yet effective and have not been adopted early by the Group include:

- IFRS 17 Insurance Contracts
- Definition of a business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Conceptual Framework for Financial Reporting

At the date of authorisation of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Group.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Group's financial statements.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.
The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

Key estimates at the balance sheet date are:

Note 1, 21 The revenue recognition policy details our judgement in respect of sales returns and the method of estimating the related sales returns allowance

Note 11: Key assumptions in making the assessment of carrying value of goodwill

Note 15: Recoverability of pre-publication costs and the assessment of their useful life

1 General information and significant accounting policies (continued)

Key judgements at the balance sheet date are:

The appropriateness of the going concern basis: when preparing the financial statements, management Is required to make an assessment of the entity's ability to continue as a going concern and prepare the financial statements on this basis unless It either Intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. As set out In going concern, there are a number of events or conditions that Indicate a material uncertainty exists In relation to going concern. After reviewing the most recent projections and the sensitivity analysis and having carefully considered the material uncertainty, and the mitigating actions available, the directors have formed the judgement that It Is appropriate to prepare the financial statements on the going concern basis.

At 31 December 2019 there was no explicit evidence of human to human transmission of Covid-19. The subsequent spread of Covid-19 does not provide further evidence of conditions that existed at the year-end and is, therefore, considered to be a non-adjusting post balance sheet event in accordance with IAS 10. Accordingly, the development of Covid-19 has not been reflected in the directors' assessment of the measurement of assets and liabilities such as impairment of tangible and intangible assets, expected credit losses, the net realisable value of inventory and the recoverability of deferred tax assets.

GOING CONCERN BASIS

The Board initially assessed the Group's ability to operate as a going concern for the next 12 months from the date of signing the financial statements, based on a financial model which was prepared as part of the process of considering and approving the 2020 budget.

The Directors considered the underlying robustness of the Group's business model, products and proposition and its recent trading performance, cash flows and key performance indicators. They have also reviewed the cash forecasts prepared for the three years ending 31 December 2022, together with certain assumptions for revenue and costs, to satisfy themselves of the appropriateness of the going concern basis used in preparing the financial statements.

Regarding financing, the Group has raised equity of $18.5m (£13.9m), approximately $16.5m net of expenses, since the end of the year, and renewed its facilities on the remaining debt which now expire on 31 July 2021, which is outside of the going concern period. Notwithstanding, given this recent renewal, the directors believe that the debt providers will continue to support the Group thereafter.

The Directors also took account of the principal risks and uncertainties facing the business referred to above, a sensitivity analysis on the key revenue growth assumption and the effectiveness of available mitigating actions.

The uncertainty as to the future impact on the Group of the recent Covid-19 outbreak has subsequently been considered as part of the Group's adoption of the going concern basis. In the downside scenario analysis performed, the Directors have considered the impact of the Covid-19 outbreak on the Group's trading and cash flow forecasts. In preparing this analysis, the directors assumed that the lockdown effects of the Covid-19 virus will peak around the end of June and trading will normalise over the subsequent few months, albeit attaining substantially lower levels of revenue than budgeted, for at least the rest of the current financial year. This scenario will lead to a material reduction in the Group's revenues and results for 2020.

A range of mitigating actions within the control of management were assumed, including reductions in the investment in pre-publication costs, print volumes, staffing levels and other variable costs. The Directors have also considered the financial support commitment made by the UK Government and they believe the Group is eligible for some elements of this financial support. This has been factored in to the forecasts. The Directors have also assumed, having had productive discussions with its lenders, that certain bank fees due to be paid in August 2020, can be deferred to the end of the current facility.

In this scenario, whilst the Group would remain within its banking facilities, some of the financial covenants would, within the current financial year, be breached, unless a waiver agreement is reached with the majority of lenders. Further adverse changes arising from Covid-19 would increase the challenge of complying with financial covenants and remaining within the banking facilities. The Directors, as stated above, are in discussions with its lenders which, albeit at early stages, are considered as being productive. The financial covenants, which are tested every calendar quarter, and generally vary by each quarter, are referred to in Note 18.

Based on the above indications, after taking into account the impact of Covid-19 on the Group's future trading, the Directors believe that it remains appropriate to continue to adopt the going concern in preparing the financial statements. However, the downside scenario detailed above, Including successfully taking mitigating actions, would indicate the existence of a material uncertainty which may cast doubt on the Group's ability to continue as a going concern.

BASIS OF CONSOLIDATION

The Group financial statements include the results of the Company and all of its subsidiary undertakings. A subsidiary is an entity controlled, directly or indirectly, by the Group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 General information and significant accounting policies (continued)

Intragroup balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

The interest of non-controlling interests on an acquisition is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

BUSINESS COMBINATIONS, INTANGIBLE ASSETS AND GOODWILL
All business combinations are accounted for by applying the acquisition method. Goodwill represents the excess of the consideration transferred over the fair value of the net assets and any contingent liabilities acquired. Acquisition costs are expensed as incurred.

Goodwill arising on acquisitions is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Other intangible assets, such as backlists, that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Amortisation of intangible assets is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The amortisation period for non-contractual relationships is 2.5 years, for backlists is 5 years and software is 4 years.

PROFIT OR LOSS FROM DISCONTINUED OPERATIONS
A discontinued operation is a component of the Group that has been disposed of. Profit or loss from discontinued operations comprises the post-tax profit or loss of discontinued operations.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS INCLUDING GOODWILL
The carrying amount of the Group's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow valuation.

For goodwill, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

REVENUE RECOGNITION
Revenue arises largely from the sale of physical products. Each contract is for an agreed prices and revenue is recognised at a point in time when the Group satisfies performance obligations by transferring the products to its customers; this is determined with reference to delivery terms. Invoices for products transferred are due on the terms specified in the contract.

Revenue from the sale of publishing rights is recognised when the Group has discharged its performance obligations under the contractual arrangements.

On certain contracts, the customer has a right to return the products. The Group makes an allowance for this, based on a review of the historical return patterns associated with the customer, as well as current market trends. The estimated returns period is a key input of the returns allowance and is calculated by reference to historic returns data. The estimated returns period for the current and prior year is 6 months. This allowance is included within other payables. The Group also recognise an asset in relation to stock which is expected to be returned within inventory.

FOREIGN CURRENCIES
Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at that date with any exchange differences arising on retranslation being recognised in the income statement.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into US Dollars at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into US Dollars at average exchange rates. Foreign exchange differences arising on retranslation are charged or credited to other comprehensive income and are recognised in the currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

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

RETIREMENT BENEFIT COSTS
The Group's pension costs relate to individual pension plans and are charged to profit or loss as they fall due.

1 General information and significant accounting policies (continued)

TAXATION
Tax on the profit or loss for the year comprises both current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years. Tax provisions are based on Management's interpretation of country specific tax law and recognised when it is considered probable that there will be a future outflow of funds to a tax authority. Provisions are made annually based on the specific information available at that time and therefore there is limited risk of change in the estimates in the short term. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or a liability unless the related transaction is a business combination or effects tax or accounting profit. Not all temporary differences give rise to deferred tax assets/liabilities. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to other comprehensive income or equity, in which case the related deferred tax is also charged or credited directly to other comprehensive income or equity, respectively.

PROPERTY, PLANT AND EQUIPMENT
Property, plant and equipment are stated at deemed cost less accumulated depreciation and any provision for impairments in value.

The Group recognises in the carrying amount of property, plant and equipment the subsequent costs of replacing part of such items when there are future economic benefits. All other costs are recognised in profit or loss as an expense as they are incurred.

Depreciation is provided on a straight-line basis to write off the cost, less the estimated residual value, of property, plant and equipment over their estimated useful lives, which are reviewed annually. Where parts of an item of plant and equipment have separate lives, they are accounted for and depreciated as separate items. Residual values are reassessed on an annual basis. Land is not depreciated.

Estimated useful lives are as follows:

Right-of-use assets	Over the period of the lease
Short leasehold property improvements	Over the period of the lease
Plant, equipment and motor vehicles	4 to 10 years
Fixtures and fittings	5 to 7 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

In the case of right-to-use assets, expected useful lives are determined by reference to comparable owned assets or the lease term, if shorter. Material residual value estimates and estimates of useful life are updates as required, but at least annually.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

LEASED ASSETS
As described on page 60, the Group has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains, a lease. A lease is defined as a 'contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 General information and significant accounting policies (continued)

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments, variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are any changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term lease and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in trade and other payables.

INTANGIBLE ASSETS - PRE-PUBLICATION COSTS
Pre-publication costs represent directly attributable costs and attributable overheads incurred in the development of book titles prior to their publication. Attributable overheads are allocated on a title by title basis. These costs are recognised as non-current intangible assets in accordance with IAS38, where the book title will generate future economic benefits and costs can be measured reliably. These costs are amortised on a straight-line basis upon publication of the book title over estimated economic life of three years or less, being an estimate of the expected useful economic life of a book title. The estimated economic life is based on the annual sales profile of the Group. The investment in pre-publication costs has been disclosed as part of the investing activities in the cash flow statement.

INVENTORIES
Inventory is valued at the lower of cost and net realisable value, on a first in, first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

FINANCIAL INSTRUMENTS
Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

FINANCIAL ASSETS
Financial assets other than those designated and effective as hedging instruments are divided into the following categories:

- amortised costs
- fair value through profit or loss
- fair value through other comprehensive income

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses is recognised in profit or loss or directly in equity. See Note 22 for a summary of the Group's financial assets by category.

Generally, the Group recognises all financial assets using trade date accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expense relating to financial assets are recognised in the income statement line item 'finance costs' or 'finance income', respectively, with the exception of trade and other receivables which are recorded in revenue and administrative expenses.

After initial recognition, Financial Assets are measured at amortised cost using the effective interest method. Discounting is ignored, where the effect is immaterial. The Group's cash and cash equivalents, trade and most other receivables, fall into this category of financial instrument. Assets in this category are measured, initially, at fair value with gains or losses recognized in profit or loss.

In considering impairment of financial assets, the group uses a wide range of information when assessing credit risk and measuring credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of future cash flows of the instrument.

1 General information and significant accounting policies (continued)

The Group adopts a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. The Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

Derivative financial instruments are initially recognised at fair value, and subsequently classified as financial assets at fair value through profit and loss. Any gain or loss arising from derivative financial instruments is based on changes in fair value, which is determined by direct reference to active market transactions or using a valuation technique where no active market exists.

FINANCIAL LIABILITIES
The Group's financial liabilities include borrowings, trade and other payables (including finance lease liabilities).

After initial recognition at fair value, all financial liabilities, with the exception of derivative financial instruments, are measured at amortised cost using the effective interest rate method. A summary of the Group's financial liabilities by category is given in Note 22.

All of the Group's derivative financial instruments that are not designated as hedging instruments in accordance with the strict conditions explained under the heading 'Derivative financial instruments and hedge accounting', are accounted for at fair value through profit or loss by definition.

FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of financial liabilities.

FINANCE COSTS
Finance costs comprise interest payable on borrowings calculated using the effective interest method together with the amortisation of debt issuance costs.

FINANCE INCOME
Finance income comprises interest receivable, which is recognised in profit or loss as it accrues using the effective interest method.

CASH AND CASH EQUIVALENTS
For the purposes of the statement of cash flows, cash and cash equivalents comprise cash balances, call deposits and bank overdrafts that form an integral part of the Group's cash management processes.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING
The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses interest rate swap contracts to hedge interest rate exposures. The Group does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives.

Derivative financial instruments are accounted for at fair value through profit and loss, except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet all of the following requirements:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually use to hedge that quantity of hedged item.

All derivative financial instruments used for hedge accounting are recognized initially at fair value and reported subsequently at fair value in the statement of financial position.

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognized in other comprehensive income and included within cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognized immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognized as a result of the hedged transaction, the gains and losses previously recognized in other comprehensive income are included in the initial measurement of the hedged item.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 General information and significant accounting policies (continued)

If a forecast transaction is no longer expected to occur, any related gain or loss recognized in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

The interest rate swaps are level 2 financial instruments and they are valued using techniques based significantly on observable market data such as yield curves as at the balance sheet date.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in other comprehensive income until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to net profit or loss for the period.

SHARE-BASED PAYMENTS
The Group issues equity settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant. The fair value, determined at the grant date, of equity settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

The fair value of employee share option grants is calculated using a Monte Carlo model, taking into account the terms and conditions upon which the options were granted. The value of the charge is adjusted to reflect expected and actual levels of options vesting.

BORROWING COSTS
All borrowing costs are recognised in the income statement in the period in which they are incurred. Debt issuance costs comprising arrangement fees and legal costs are capitalised and amortised on a straight-line basis over the period of the borrowing facility or included within the amortised cost calculation as appropriate. The annual amortisation charge is included within finance costs in the Consolidated Statement of Comprehensive Income.

No borrowing costs have been capitalized in the current or prior years in relation to qualifying assets. Qualifying assets are considered to be those assets that take in excess of one year to be ready for use.

FINANCIAL RISK MANAGEMENT
The principal risk factors faced by the Group are disclosed in Note 21.

2 Revenue

	2019 $'000	2018 $'000
Sales of products	131,857	144,880
Sales of publishing rights	3,950	4,412
Total revenue	**135,807**	**149,292**

See accounting policies for detail of the revenue recognition concerning the above revenue streams.

During the year, sales to one customer exceeded 10% of Group revenue (2018: one customer). The value of these sales was $29,404,000 (2018: $26,664,000).

3 Operating segments

The core publishing businesses comprises two divisions: US Publishing and UK Publishing. This is the basis on which operating results are reviewed and resources allocated by the Chief Executive Officer. The Group reorganised the number of its divisions from three to two at the start of the current year. The previous year's figures have been restated accordingly.

3 Operating segments (continued)

2019	US Publishing $000	UK Publishing $000	Total Group $000
Continuing operations			
Revenue	71,488	64,319	135,807
Operating profit before amortisation of acquired intangibles and exceptional items	4,511	6,540	11,051
Amortisation of acquired intangibles	(570)	(241)	(811)
Segment result	3,941	6,299	10,240
Unallocated corporate expenses			(1,047)
Corporate exceptional items			(419)
Operating profit			8,774
Finance income			9
Finance costs			(4,939)
Profit before tax			3,844
Tax			(962)
Profit after tax			2,882
Capital expenditure	17	121	138
Depreciation and software amortization	1,294	1,109	2,403
Investment in pre-publication costs	10,930	12,856	23,786
Amortisation of pre-publication costs	14,289	14,405	28,694

2018 (restated)	US Publishing $000	UK Publishing $000	Total Group $000
Continuing Operations:			
Revenue	78,108	71,184	149,292
Operating profit before amortisation of acquired intangibles and exceptional items	5,027	7,708	12,735
Amortisation of acquired intangibles	(596)	(254)	(850)
Segment result	4,431	7,454	11,885
Exceptional pre-publication asset impairment and write-off (note 5)	(1,164)	–	(1,164)
Exceptional items other (note 5)	(811)	(402)	(1,213)
	2,456	7,052	9,508
Unallocated corporate expenses			(2,430)
Corporate exceptional items			(2,775)
Operating profit			4,303
Finance income			21
Finance costs			(4,381)
Loss before tax			(57)
Tax			(495)
Loss after tax			(552)
Capital expenditure	135	111	246
Depreciation and software amortisation	575	416	991
Investment in pre-publication costs	12,974	14,611	27,585
Amortisation of pre-publication costs	13,968	15,299	29,267

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 Operating segments (continued)

BALANCE SHEET

	2019 $'000	Restated (Note 1) 2018 $'000
Continuing operations:		
Quarto Publishing Group USA	81,154	81,960
Quarto Publishing Group UK	64,675	70,525
Unallocated (Deferred tax and cash)	18,952	19,285
Total assets	164,781	171,770
Continuing operations:		
Quarto Publishing Group USA	29,613	30,518
Quarto Publishing Group UK	37,634	34,953
Unallocated (Deferred tax, corporation tax and debt)	76,480	88,311
Total liabilities	143,727	153,782

GEOGRAPHICAL AREAS
The Group operates in the following main geographic areas:

	Revenue		Non-current assets	
	2019 $'000	2018 $'000	2019 $'000	Restated (Note 1) 2018 $'000
United States of America	80,131	86,092	47,887	47,453
United Kingdom	19,193	20,384	35,498	32,028
Europe	21,392	25,314	—	—
Rest of the World	15,091	17,502	—	—
	135,807	149,292	83,385	79,481

4 Operating profit

Operating profit has been arrived at after charging/(crediting):

	2019 $'000	Restated (Note 1) 2018 $'000
Depreciation of property, plant and equipment	2,127	693
Depreciation of software	276	298
Net foreign currency exchange differences	(181)	(129)
Amortisation of acquired intangibles	811	850
Amortisation of pre-publication costs	28,694	29,267
Staff costs (Note 6)	24,985	29,789
Doubtful debt allowance	853	245
Cost of inventory recognised as an expense	32,647	36,080
Exceptional items (Note 5)	419	5,152

4 Operating profit (continued)

AUDITOR'S REMUNERATION

Fees payable to the Company's auditor for the audit of the Company's annual accounts	90	93
Fees payable to the Company's auditor and its associates for the audit of subsidiary companies	165	151
Fees payable to the Company's auditor for other assurance services relating to Open Offer	172	–
	427	244

5 Exceptional items

	2019 $000	2018 $000
Reorganisation costs		
• Impairment of pre-publication intangible assets (note 15)	–	501
• Impairment of backlists (note 12)	–	60
• Write-off of pre-publication costs	–	603
• Staff severance costs	–	1,039
• Other reorganisation costs	–	672
• Board changes	–	831
Refinancing costs	387	1,446
Aborted corporate transaction costs	32	–
Total	419	5,152

In 2019, the Group incurred $387,000 of refinancing costs in connection with the renewal of the facility agreement, signed on 16 January 2020 and $32,000 of costs incurred on aborted corporate transaction costs. This year's charges, net of taxation, amount to $339,000.

During 2018, the Group incurred the following exceptional costs: (a) staff severance and reorganisation costs relating to a cost-out programme that was implemented in order to right-size the Group and to provide a path to sustainable debt reduction (of the costs incurred, $634,000 would ordinarily have been included within cost of sales and $1,077,000 would ordinarily have been included within administrative costs), (b) costs relating to board changes, following the Annual Meeting, which would ordinarily have been included within administrative costs, (c) refinancing costs, which would ordinarily have been included within administrative costs and (d) impairment and write-off of pre-publication costs as a consequence of the cost-out programme, which would ordinarily have been included within cost of sales.

6 Staff costs

	2019 Number	2018 Number
Average monthly number of employees (excluding Executive Directors)	334	374
	$'000	$'000
Wages and salaries	21,854	26,343
Share-based payments	48	(177)
Social security costs	2,229	2,617
Other pension costs	854	1,006
	24,985	29,789

Directors' remuneration is disclosed in the Remuneration Committee Report on page 34.

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 Staff costs (continued)

The remuneration of the Executive Directors (2018: Executive Directors), who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	2019	2018
Short term employee benefits	788*	1,442
Post-employment benefits	18	18
	806	1,460

* Includes $58,000 discretionary bonus payments paid in 2019 but relating to performance in 2018.

7 Finance income

	2019 $'000	2018 $'000
Interest income	9	21

8 Finance costs

	2019 $'000	2018 $'000
Interest expense on borrowings	3,360	3,710
Amortisation of debt issuance costs and bank fees	936	301
Interest expense on lease liabilities arising from the adoption of IFRS 16	454	–
Other interest	189	370
	4,939	4,381

9 Taxation

	2019 $'000	2018 $'000
Corporation tax		
Current tax	1,557	73
Prior periods	(123)	176
Total current tax	1,434	249
Deferred tax (Note 19)		
Origination and reversal of temporary differences	(472)	246
Total tax expense	962	495

Corporation tax on UK profits is calculated at 19%, based on the UK standard rate of corporation tax, (2018: 19%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The table below explains the difference between the expected expense at the UK statutory rate of 19% and the Group's total tax expense for the year.

	2019 $'000	2018 $'000
Profit/(loss) before tax	3,844	(57)
Tax at the UK corporation tax rate of 19% (2018: 19%)	730	(11)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(79)	(101)
Adjustment to prior years	97	(85)
Tax effect of items that are not deductible in determining taxable profit	174	606
Other	40	86
Tax expense	962	495
Effective tax rate	25.0%	(868.4)%

10 Earnings per share

	2019 $'000 Group	2018 $'000 Group
From continuing operations		
Profit/(loss) for the year	2,882	(552)
Amortisation of acquired intangibles (net of tax)	654	701
Exceptional items (net of tax)	339	4,603
Earnings for the purposes of adjusted earnings per share	3,875	4,752

Number of shares	Number	Number
Weighted average number of ordinary shares	20,444,550	20,444,550
Average number of potentially dilutive share options	171,597	256,655
Diluted weighted average number of ordinary shares	20,616,147	20,701,205
Earnings/(loss) per share (cents) – continuing operations		
Basic	14.1	(2.7)
Diluted	14.0	(2.7)
Adjusted earnings per share (cents)		
Basic	19.0	23.2
Diluted	18.8	23.0

11 Goodwill

	2019 $000	2018 $000	2017 $000
Cost			
At 1 January	42,675	43,007	42,425
Exchange differences	238	(332)	582
At 31 December	42,913	42,675	43,007
Accumulated impairment losses			
At 1 January	(23,721)	(23,721)	(6,281)
Exchange differences	–	–	(26)
Impairment	–	–	(17,414)
At 31 December	(23,721)	(23,721)	(23,721)
Carrying value			
At 31 December	19,192	18,954	19,286

IMPAIRMENT TESTS FOR CASH GENERATING UNITS CONTAINING GOODWILL
The following units have significant carrying amounts of goodwill:

	2019 $000	2018 $000	2017 $000
Quarto Publishing Group USA (QUS)	12,882	12,882	12,882
Quarto Publishing Group UK (QUK)	6,310	6,072	6,404
	19,192	18,954	19,286

11 Goodwill (continued)

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

	Terminal Growth Rates			Discount Rates		
	2019	2018	2017	2019	2018	2017
United States of America	2%	2%	2%	10.81%	10.90%	11.72%
United Kingdom	2%	2%	2%	10.54%	10.38%	11.16%

If a reasonably possible change occurred in either forecast revenues, terminal growth rate or discount rate there would be no impairment. The sensitivities applied were 2.5% reduction in revenues and a 1% increase in discount rate.

12 Other intangible assets

	Backlists $000	Software $000	Total $000
Cost			
At 1 January 2018	21,342	1,579	22,921
Exchange differences	(138)	–	(138)
Additions	–	77	77
Disposals	–	(26)	(26)
At 1 January 2019	21,204	1,630	22,834
Exchange differences	(30)	–	(30)
At 31 December 2019	21,174	1,630	22,804
Amortisation and impairment			
At 1 January 2018	18,705	700	19,405
Exchange differences	(121)	–	(121)
Charge for the year	850	298	1,148
Amount written off for the year	60	–	60
Disposals	–	(26)	(26)
At 1 January 2019	19,494	972	20,466
Exchange differences	(31)	–	(31)
Charge for the year	811	276	1,087
At 31 December 2019	20,274	1,248	21,522
Carrying amount			
At 31 December 2019	900	382	1,282
At 31 December 2018	1,710	658	2,368
At 31 December 2017	2,637	879	3,516

13 Property, plant and equipment

Cost	Short-term Leasehold Improvements $000	Right-of-use Leasehold Property $000	Plant, Equipment & Motor Vehicles $000	Fixture & Fittings $000	Total $000
At 1 January 2018	1,308	–	1,116	1,117	3,541
Exchange difference	(57)	–	(58)	(23)	(138)
Additions	–	–	167	2	169
Disposals	(9)	–	(282)	(11)	(302)
At 1 January 2019	1,242	–	943	1,085	3,270
Adjustment on transition to IFRS 16	–	10,538	71	–	10,609
Exchange difference	26	156	27	1	210
Additions	–	–	138	–	138
Remeasurement	–	508	18	–	526
Disposals	(258)	–	–	–	(258)
At 31 December 2019	1,010	11,202	1,197	1,086	14,495
Depreciation					
At 1 January 2018	434	–	295	683	1,412
Exchange differences	(30)	–	(35)	(20)	(85)
Charge for the year	113	–	413	167	693
Disposals	(9)	–	(282)	(11)	(302)
At 1 January 2019	508	–	391	819	1,718
Exchange differences	8	–	17	–	25
Charge for the year: right of use asset	–	1,545	64	–	1,609
Charge for the year: other property, plant and equipment	104	–	310	104	518
Disposals	(258)	–	–	–	(258)
At 31 December 2019	362	1,545	782	923	3,612
Net book value					
At 31 December 2019	648	9,657	415	163	10,883
At 31 December 2018	734	–	552	266	1,552
At 31 December 2017	874	–	821	434	2,129

All property, plant and equipment has been pledged as security for the Group's bank borrowings (note 18).

Included in the net carrying amount of property, plant and equipment are right-of-use assets of $9,683,000 of which $9,657,000 is attributable to leasehold property improvements and $26,000 to plant, equipment and motor vehicles. Depreciation charge on these assets are disclosed separately in the above table.

14 Subsidiaries

A list of the investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in Note 5 to the Company's balance sheet. All of these subsidiaries are included in the consolidated results.

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 Intangible assets – pre-publication costs

	2019 $000	Restated (Note 1) 2018 $000	Restated (Note 1) 2017 $000
Cost			
At 1 January	137,640	188,531	179,021
Exchange differences	2,040	(3,354)	4,609
Additions	23,786	27,585	33,360
Reclassification to other balance sheet line	—	—	(2,113)
Disposals	(28,931)	(75,122)	(26,346)
At 31 December	134,535	137,640	188,531
Amortisation			
At 1 January	84,934	132,288	120,658
Exchange differences	1,141	(2,000)	1,822
Charge for the year	28,694	29,267	31,286
Impairment charge	—	501	4,868
Disposals	(28,931)	(75,122)	(26,346)
At 31 December	85,838	84,934	132,288
Net Book Value			
At 31 December	48,697	52,706	56,243

The assessment of the useful life of pre-publication costs and amortisation involves a significant amount of judgement based on historical trends and management estimates of future potential sales, in accordance with the accounting policy stated in Note 1. The impairment charge and the amount written-off for the year, for 2018 is included in exceptional items and further information is included in Note 5. Pre-publication costs form part of the carrying value of the CGU for each segment and are considered for impairment of goodwill in note 11.

16 Inventories

	2019 $000	2018 $000	2017 $000
Finished goods	19,270	22,098	22,309
Raw materials	108	226	328
	19,378	22,324	22,637

All of the Group's inventories have been reviewed for indicators of impairment. Certain inventories were found to be impaired and a provision of $2,318,000 (2018: $2,079,000) has been recorded accordingly.

All inventories have been pledged as security for the Group's bank borrowings (note 18).

17 Trade and other receivables

	2019 $000	2018 $000	2017 $000
Trade receivables	38,753	45,430	43,127
Other receivables and prepayments	7,644	9,046	10,333
	46,397	54,476	53,460

The average credit period on sales of goods is 73 days (2018: 71 days).

The Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables, including certain trade receivables not yet due, were not considered to be recoverable and a provision of $1,168,000 (2018: $826,000) has been recorded accordingly. The trade receivables considered irrecoverable relate to customers which are experiencing trading difficulties. In addition, some of the recoverable trade receivables are past due as at the reporting date. The extent of financial assets past due but not impaired is as follows:

	2019 $000	2018 $000	2017 $000
Less than one month	1,750	1,022	2,475
More than one month but less than two months	930	687	860
More than two months but less than three months	81	182	699
More than three months but less than six months	242	171	245
More than six months	167	49	341
	3,170	2,111	4,620

The Group has not provided against these receivables as there has not been a significant change in credit quality and the Group believes they are still recoverable. No collateral is held over these balances.

Movement in allowance for doubtful debts:

	2019 $000	2018 $000	2017 $000
Balance at beginning of year	826	801	670
Amounts written off in the year	(677)	(215)	(476)
Amounts recovered during the year	148	12	17
Exchange differences	18	(17)	25
Increase in allowance recognised in profit or loss	853	245	565
Balance at end of the year	1,168	826	801

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Note 22 includes disclosures relating to credit risk exposures and analysis relating to the allowance for expected credit losses.

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 Cash, borrowings and net debt

CASH

	2019 $000	2018 $000	2017 $000
Bank balances	15,621	11,134	17,946
Short term deposits	—	4,250	—
Cash and cash equivalents	15,621	15,384	17,946

The carrying amount of these assets approximates to their fair value.
The effective interest rate on bank balances and short-term deposits was 0% (2018: 0.4%).

BORROWINGS

	2019 $000	2018 $000	2017 $000
Bank and other loans	66,077	75,752	81,907
On demand or within one year	66,077	5,000	5,000
In the second year	—	70,752	76,907
	66,077	75,752	81,907
Less: Amount due for settlement within 12 months (shown under current liabilities)	(66,077)	(5,000)	(5,000)
Amount due for settlement after 12 months	—	70,572	76,907

	Total $'000	Fixed rate borrowings $'000	Variable rate borrowings $'000	Weighted average interest rate for fixed rate borrowings %	Average time over which interest rate is fixed Months
US dollar borrowings	45,000	13,000	32,000	3.5	19.0
Other currency borrowings	21,077	—	21,077	—	—
As at 31 December 2019	66,077	13,000	53,077	3.5	19.0
US dollar borrowings	55,450	23,000	32,450	4.0	14.6
Other currency borrowings	20,302	—	20,302	—	—
As at 31 December 2018	75,752	23,000	52,752	4.0	14.6
US dollar borrowings	55,500	20,000	35,500	3.8	13.5
Other currency borrowings	26,407	—	26,407	—	—
As at 31 December 2017	81,907	20,000	61,907	3.8	13.5

18 Cash, borrowings and net debt (continued)

OTHER LOANS

	2019 $000	2018 $000	2017 $000
Other loans	13,000	13,000	–
On demand or within one year	13,000	–	–
In the second year	–	13,000	–
	13,000	13,000	–
Less: Amount due for settlement within 12 months (shown under current liabilities)	(13,000)	–	–
Amount due for settlement after 12 months	–	13,000	–

Other loans, of which $11,500,000 (2018: $13,000,000) are with related parties, as disclosed in note 30, are unsecured, are repayable, together with the accrued interest on 31 August 2020 and carry an interest rate of 3.5%. A loan for $1,500,000 (2018: $1,500,000) is from Recruit & Company Limited which was a related party at 31 December 2018 but is no longer classified as such C K Lau no longer exercises control.

Post the year end date the facilities detailed above were extended to 31 July 2021.

	Total $'000	Fixed rate borrowings $'000	Variable rate borrowings $'000	Weighted average interest rate for fixed rate borrowings %	Average time over which interest rate is fixed Months
US dollar borrowings	13,000	13,000	–	3.5	19.0
As at 31 December 2019	13,000	13,000	–	3.5	19.0
As at 31 December 2018	13,000	13,000	–	3.5	20.0
As at 31 December 2017	–	–	–	–	–

BANK LOANS

	2019 $000	2018 $000	2017 $000
Bank loans	53,077	62,752	81,907
On demand or within one year	53,077	5,000	5,000
In the second year	–	57,752	76,907
	53,077	62,752	81,907
Less: Amount due for settlement within 12 months (shown under current liabilities)	(53,077)	(5,000)	(5,000)
Amount due for settlement after 12 months	–	57,752	76,907

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 Cash, borrowings and net debt (continued)

	Total $'000	Fixed rate borrowings $'000	Variable rate borrowings $'000	Weighted average interest rate for fixed rate borrowings %	Average time over which interest rate is fixed Months
US dollar borrowings	32,000	–	32,000	–	–
Other currency borrowings	21,077	–	21,077	–	–
As at 31 December 2019	53,077	–	53,077	–	–
US dollar borrowings	42,450	10,000	32,450	5.8	7.5
Other currency borrowings	20,302	–	20,302	–	–
As at 31 December 2018	62,752	10.000	52,752	5.8	7.5
US dollar borrowings	55,500	20,000	35,500	3.8	13.5
Other currency borrowings	26,407	–	26,407	–	–
As at 31 December 2017	81,907	20,000	61,907	3.8	

At 31 December 2019, undrawn borrowing facilities totalled $11.0m (2018: $9.4m). The variable rate borrowings carry interest based on LIBOR plus a margin, depending on the leverage ratio. The Directors estimate the fair value of the Group's borrowings to be equal to book value, by reference to market rates.

At 31 December 2019 the Group had a US$64.0m (2018: US$72.5m) multi-currency syndicated bank facility which was due to expire on 31 August 2020. A new facility agreement was signed on 16 January 2020 with borrowing facilities of US$35m, subsequent to the net proceeds of the Open Offer being received by the banks prior to 20 February 2020. Banking EBITDA used for bank covenant purposes was $10,376,000 in 2019 (2018: $11,707,000).

These facilities are subject to three principal covenants which vary over the course of the financial year. At December 31, 2019, the covenants were:

(a) Total consolidated net banking indebtedness shall not exceed 4.07 times EBITDA (as defined in the committed facility agreement). At December 31, 2019 net indebtedness was 3.54 times EBITDA.

(b) EBITDA shall exceed 2.79 times net finance charges (as defined in the committed facility agreement). For the year ended December 31, 2019, net finance charges were 3.47 times covered under this covenant.

(c) Cash flow (as defined in the committed facility agreement) shall exceed 1.1 times Debt Service. For the year ended December 31, 2019, Debt Service was 3.10 times covered under this covenant.

NET DEBT

	1 January 2019 $'000	Cashflows $'000	Non-cash items $'000	Foreign exchange $'000	31 December 2019 $'000
Borrowings	(75,752)	10,454	(188)	(591)	(66,077)
Cash and cash equivalents	15,384	92	–	145	15,621
Net debt	(60,368)	10,546	(188)	(446)	(50,456)

	1 January 2018 $'000	Cashflows $'000	Non-cash items $'000	Foreign exchange $'000	31 December 2018 $'000
Borrowings	(81,907)	5,781	(301)	675	(75,752)
Cash and cash equivalents	17,946	(2,245)	–	(317)	15,384
Net debt	(63,961)	3,536	(301)	358	(60,368)

18 Cash, borrowings and net debt (continued)

	1 January 2017 $'000	Cashflows $'000	Non-cash items $'000	Foreign exchange $'000	31 December 2017 $'000
Borrowings	(80,748)	1,761	(384)	(2,536)	(81,907)
Cash and cash equivalents	18,824	(1,310)	—	432	17,946
Net debt	(61,924)	451	(384)	(2,104)	(63,961)

19 Deferred tax

	2019 $000	Restated (Note 1) 2018 $000	Restated (Note 1) 2017 $000
Deferred tax liabilities			
Excess of capital allowances over depreciation – UK	1	8	32
Pre-publication costs and other temporary differences – UK	4,519	4,688	5,060
	4,520	4,696	5,092
Pre-publication costs and other temporary differences - US	2,619	3,152	2,523
Other overseas temporary differences	—	—	—
	7,139	7,848	7,615
Deferred tax assets			
Tax losses and other timing differences – UK	—	99	509
Goodwill, intangible assets and other temporary differences – US	3,331	3,802	3,392
	3,331	3,901	3,901
Net deferred taxation liability	3,808	3,947	3,714

The movement on the net provision for deferred taxation is as follows:

	2019 $000	Restated (Note 1) 2018 $000
Net provision at 1 January as previously stated	3,947	4,619
Prior year adjustment (note 1)	—	(905)
	3,947	3,714
Credit direct to equity	162	246
Exchange difference through other comprehensive income	171	(259)
(Credit)/charge to profit and loss	(472)	246
Net provision at 31 December	3,808	3,947

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 Lease liabilities

	2019 $000	2018 $000	2017 $000
Current	1,937	–	–
Non-current	7,929	–	–
Total	9,866	–	–

The Group has leases for its offices and some IT equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Group revenues) are excluded from the initial measurement of the lease liability and asset. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (note 13).

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. For leases over office buildings the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Group's leasing activities by type of right-to-use asset recognised on the balance sheet:

Right-of-use asset	No of right-of-use assets leased	Range of remaining term	Average remaining lease term	No of lease with extension options	No of lease with options to purchase	No of lease with variable payments linked to an index	No of lease with termination options
Office building	7	2-9 years	6 years	5	–	4	1
IT equipment	2	1 year	1 year	–	–	–	–

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 31 December 2019 were as follows:

	Minimum lease payments due US$000						
	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	Total
31 December 2019							
Lease payments	2,253	2,085	1,886	1,504	1,343	2,291	11,362
Finance charges	(390)	(329)	(267)	(204)	(149)	(157)	(1,496)
Net present values	1,863	1,756	1,619	1,300	1,194	2,134	9,866
31 December 2018							
Lease payments	2,263	2,102	1,938	1,746	1,683	2,847	12,579
Finance charges	(454)	(395)	(334)	(271)	(208)	(308)	(1,970)
Net present values	1,809	1,707	1,604	1,475	1,475	2,539	10,609

The Group has elected not to recognise a lease liability for short term lease or for leases of low value assets. Payments made under such leases are expenses on a straight-line basis and amounted to $26,000 in the year.

21 Trade and other payables

CURRENT LIABILITIES

	2019 $000	2018 $000	2017 $000
Trade payables	36,218	45,850	46,514
Other payables	21,163	19,067	14,282
Total	57,381	64,917	60,796

Under IFRS 15, the reserve for sales returns in included in other payables, amounting to $6,749,000 (2018: $5,391,000). The reserve is calculated based on a time lag between sales and returns and historical return patterns. Management monitor actual returns against the reserve on a regular basis.

Other payables include the discounted deferred and contingent consideration liabilities of $nil in respect of prior year acquisitions (2018: $1.2m). $1.2m was paid in the year (2018: $1.9m).

NON-CURRENT LIABILITIES

At 31 December 2019, Other Payables comprise $nil in respect of the discounted deferred and contingent liabilities of prior year acquisitions (2018: $0.6m).

The Directors consider that the carrying amount of trade payables approximates to their fair value.

22 Financial instruments

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk, credit risk, liquidity risk and certain other price risks, which result from both its operating and investing activities. The Group's risk management is coordinated at its headquarters, in close co-operation with the Board of Directors, and focuses on actively securing the Group's short to medium-term cash flows by minimising the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed and a summary of financial assets and liabilities by category are described below.

FOREIGN CURRENCY SENSITIVITY

Exposures to currency exchange rates arise from the Group's overseas sales and costs, which are primarily denominated in Sterling.

Foreign currency denominated financial assets and liabilities, translated into US Dollars at the closing rate, are as follows:

	2019		2018	
	$000 Sterling	$000 Other	$000 Sterling	$000 Other
Financial assets:	10,321	2,121	8,232	1,948
Financial liabilities	(19,030)	(4,344)	(1,603)	(1,045)
Short-term exposure	(8,709)	(2,223)	6,629	903
Financial liabilities:				
Long-term exposure	—	—	(16,841)	(3,459)
At 31 December	(8,709)	(2,223)	(10,212)	(2,556)

The following table illustrates the sensitivity of the net result for the year and equity in regard to the Group's financial assets and financial liabilities and the US Dollar – Sterling exchange rate.

It assumes a +/– 7.5% change of the Sterling/US-Dollar exchange rate.

The sensitivity analysis is based on the Group's foreign currency financial instruments held at each balance sheet date.

If Sterling had strengthened against the US Dollar by 7.5% (2018: 7.5%) then this would have had the following impact:

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 Financial instruments (continued)

	2019 $000	2018 $000
Profit/(loss) after tax for the year	244	92
Equity	4,228	3,914

If Sterling had weakened against the US Dollar by 7.5% (2018: 7.5%) then this would have had the following impact:

	2019 $000	2018 $000
Profit/(loss) after tax for the year	(244)	(92)
Equity	(4,228)	(3,914)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

INTEREST RATE SENSITIVITY

The Group's policy is to minimise interest rate cash flow risk exposures, where possible and commercially appropriate, on long-term financing, through interest rate swaps. A part of longer-term borrowings are, therefore, at fixed rates.

At 31 December 2019, the Group is exposed to changes in market interest rates through its bank borrowings, which are subject to variable interest rates – see Note 18 for further information.

The following table illustrates the sensitivity of the profit after tax for the year and equity to a reasonably possible change in interest rates of +/–0.25%, with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments held at each balance sheet date. All other variables are held constant.

A 0.25% increase in interest rates would have the following impact:

	2019 $000	2018 $000
Profit/(loss) for the year	(100)	(118)
Equity	(100)	(118)

A 0.25% decrease in interest rates would have the following impact:

	2019 $'000	2018 $'000
Profit/(loss) for the year	100	118
Equity	100	118

CREDIT RISK ANALYSIS

The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	2019 $'000	2018 $'000
Cash and cash equivalents	15,621	15,384
Trade receivables	38,753	45,430
Derivative financial instruments	—	105
	54,374	60,919

22 Financial instruments (continued)

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. The ongoing credit risk is managed through regular review of ageing analysis together with credit limits per customer.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

The Group's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. Credit losses written off during the year which are subject to enforcement activity are minimal.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk for liquid funds and other short-term financial assets is limited, since the counterparties are reputable banks with high quality external credit ratings.

LIQUIDITY RISK ANALYSIS

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis.

The Group maintains cash and marketable securities to meet its liquidity requirements. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

The Group's liabilities have contractual maturities which are summarised below:

31 December 2019		Current		Non-Current
	Within 6 months $'000	6 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000
Bank and other loans	1,365	66,671	—	—
Trade payables	31,218	5,000	—	—
Other short-term financial liabilities	21,163	—	—	—
	53,746	71,671	—	—

31 December 2018		Current		Non-Current
	Within 6 months $'000	6 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000
Bank and other loans	7,130	2,165	74,686	—
Trade payables	45,850	—	—	—
Other short-term financial liabilities	17,836	1,250	—	—
Other long-term payables	—	—	569	—
	70,816	3,415	75,255	—

SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and liabilities as recognised at the balance sheet date of the reporting periods under review may also be categorised as follows. See note 1, significant accounting policies, covering financial assets, financial liabilities and derivative financial instruments and hedge accounting for explanations about how the category of instruments affects their subsequent measurement.

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 Financial instruments (continued)

	2019 $000	2018 $000
Current assets		
Derivative financial instruments designated as hedging instruments:		
• Interest rate swap	–	105
Financial assets at amortised cost:		
• Trade receivables	38,753	45,430
• Cash and cash equivalents	15,621	15,384
	54,374	60,919
Non-current liabilities		
Financial liabilities measured at amortised cost:		
Borrowings	–	70,752
Other payables	–	554
	–	71,306
Current liabilities		
Financial liabilities measured at amortised cost:		
• Borrowings	66,077	5,000
• Trade payables	36,218	45,850
• Other payables	21,163	19,067
	123,458	69,917

CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through an optimal balance of debt and equity. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 18, cash and cash equivalents and equity attributable to equity holders of the parent, comprising share capital and reserves as disclosed in the consolidated statement of changes in equity.

The Board reviews the capital structure, including the level of indebtedness and interest cover, as required. The Board's objective is to maintain the optimal level of indebtedness and manage interest cover to comply with the covenant requirements set out in note 18. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Group has complied with its covenant obligations during the year.

23 Other financial assets/liabilities

In the reporting periods under review, other financial assets/liabilities comprise derivative financial instruments as follows:

	2019 $000	2018 $000
Current financial assets		
Derivative financial instruments – interest rate swaps	–	105
Total	–	105

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses interest rate swap contracts to hedge the interest rate exposures. The Group does not use derivative financial instruments for speculative purposes. All interest rate swaps have been designated as hedging instruments in cash flow hedges in accordance with IAS 39.

The Group's interest rate swaps have been designated to match the corresponding loan terms to maximise the effectiveness of the hedging instrument. There was no ineffectiveness during the year and all movements were recorded in other comprehensive income, with amounts reclassified to finance costs within profit or loss. Exchange rate swaps are not treated as hedging instruments for hedge accounting purposes.

23 Other financial assets/liabilities (continued)

The following table details the principal amounts and the remaining terms of interest rate swap contracts outstanding at the reporting date:

	Interest rate		Principal amounts		Committed interest payments	
	2019 %	2018 %	2019 $000	2018 $000	2019 $000	2018 $000
Within one year	–	5.8	–	10,000	–	(370)
Within one to two years	–	–	–	–	–	–
Derivative			–	10,000	–	(370)

24 Post balance sheet events

On 16 January 2020, the Group announced an Open Offer of 20,444,550 new Common Shares at 68 pence per share. On the same day, the Group concluded its refinancing, signing an extension to its existing bank facilities to 31 July 2021. The multi-currency facility comprises a $25m term loan, a $8m revolving credit facility and a $2m overdraft facility. The effective date of the new facility was dependent on the raising of the funds from the Open Offer which was successfully completed on 4 February 2020.

The outbreak of Covid-19 is considered to be a non-adjusting post balance sheet event. At this stage of the outbreak, It Is not possible to make an estimate of the financial effect that Covid-19 will have on the Group.

25 Share capital

	2019 $000	2018 $000	2017 $000
Authorised			
28 million shares of common stock of par value of US$0.10 each	2,800	2,800	2,800
Allotted, called up and fully paid:			
20,444,550 (2018: 20,444,550) shares of common stock of par value of US$0.10 each	2,045	2,045	2,045

The Company has one class of common stock which carries no right to fixed income.

26 Retained earnings and other reserves

HEDGING RESERVE

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions.

TRANSLATION RESERVE

The translation reserve comprises all foreign exchange differences arising from the translation of the closing balance sheets of foreign operations of the Group and the results of foreign operations of the Group since 1 January 2004.

27 Dividends

No dividends have been declared in the current or prior year.

28 Notes to the cash flow statement

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

29 Share based payments

PERFORMANCE SHARE PLAN ('PSP')
The Company operates a PSP scheme that awards free shares.

2015 AWARD
The awards under this scheme were granted on 24 September 2015. The vesting period is 4 years from the date of grant. The award vests in the following proportion:

- 50% is conditional on the cumulative growth in Adjusted Diluted EPS being between 5% and 10% over the performance period, resulting in the awards vesting on a sliding scale of 20% to 100%; and
- 50% is conditional on Total Shareholder Return being between 7% and 15%, resulting in vesting on a sliding scale of 20% to 100%.

Participants are not entitled to receive dividends until awards have vested.

Details of the share options outstanding during the year are as follows:

	2019 Number	2018 Number
Outstanding at beginning of the year	–	167,464
Forfeited during the year	–	(167,464)
Outstanding at the end of the year	–	–

The key inputs used to value the options are:

	EPS Portion	TSR Portion
Share price at date of grant	£2.09	£2.09
Expected life (years)	4	4
Fair value per award	£1.78	£1.07
Weighted average remaining contractual life (years)	2.7	3.7
Dividend yield (%)	3.97	3.97
Expected volatility of share price (%)	n/a	19
Model used	Dividend discount	Monte-Carlo

2016 AWARD
The awards under this scheme were granted on 19 April 2016. The vesting period is 4 years from the date of grant. The award vests in the following proportion:

- 50% is conditional on the cumulative growth in Adjusted Diluted EPS being between 5% and 10% over the performance period, resulting in the awards vesting on a sliding scale of 20% to 100%; and
- 50% is conditional on Total Shareholder Return being between 7% and 15%, resulting in vesting on a sliding scale of 20% to 100%.

Participants are not entitled to receive dividends until awards have vested.

Details of the share options outstanding during the year are as follows:

	2019 Number	2018 Number
Outstanding at beginning of the year	152,192	287,136
Forfeited during the year	(8,408)	(134,944)
Outstanding at the end of the year	143,784	152,192

29 Share based payments (continued)

The key inputs used to value the options are:

	EPS Portion	TSR Portion
Share price at date of grant	£2.45	£2.45
Expected life (years)	4	4
Fair value per award	£2.10	£0.44
Weighted average remaining contractual life (years)	2.3	3.3
Dividend yield (%)	3.88	3.88
Expected volatility of share price (%)	n/a	19.1
	Dividend discount	Monte-Carlo

2017 AWARD

The awards under this scheme were granted on 28 April 2017. The vesting period is 4 years from the date of grant. The award vests in the following proportion:

- 50% is conditional on the cumulative growth in Adjusted Diluted EPS being between 5% and 10% over the performance period, resulting in the awards vesting on a sliding scale of 20% to 100%; and
- 50% is conditional on Total Shareholder Return being between 7% and 15%, resulting in vesting on a sliding scale of 20% to 100%.

Participants are not entitled to receive dividends until awards have vested.

Details of the share options outstanding during the year are as follows.

	2019 Number	2018 Number
Outstanding at beginning of the year	104,463	178,131
Forfeited during the year	(19,468)	(73,668)
Outstanding at the end of the year	84,995	104,463

The key inputs used to value the options are:

	EPS Portion	TSR Portion
Share price at date of grant	£2.64	£2.64
Expected life (years)	4	4
Fair value per award	£2.20	£0.48
Weighted average remaining contractual life (years)	3.3	3.3
Dividend yield (%)	4.55	4.55
Expected volatility of share price (%)	n/a	18.6%
Model used	Dividend discount	Monte-Carlo

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30 Related party transactions

The Group had the following related party transactions over the periods under review:

PRINTING PURCHASES:

Lion Rock Group Limited	2019 $'000	2018 $'000
Accounts payable at start of year (2018: 17 May 2018)	6,083	4,806
Purchases	11,562	1,872
Payments	(3,953)	(595)
Accounts payable at end of year	13,692	6,083

LOANS AND ACCRUED INTEREST:

	At 31 December 2019 $000	At 31 December 2018 $000
Loans (advanced on 1st and 2nd November 2018)	11,500	13,000
Accrued interest on loans at end of year	470	76

The loans are from 1010 Printing Limited ($7.0m) and C K Lau ($4.5m). The loans are unsecured, are repayable, together with the accrued interest, on 31 July 2021, and carry interest at 3.5%. In the prior year, a further loan of $1.5m from Recruit & Company was designated as a related party loan but this ceased to be a related party during 2019.

Lion Rock Group Limited and 1010 Printing Limited are companies over which C K Lau exercises control.

31 Reconciliation of figures included in other parts of the financial statements

		2019 $000	Restated (Note 1) 2018 $000
Adjusted operating profit			
Operating profit (continuing operations)		8,774	4,303
Add back:	Amortisation of acquired intangibles	811	850
	Other exceptional items (Note 5)	419	5,152
Adjusted operating profit		10,004	10,305
EBITDA			
Operating profit before amortisation of acquired intangibles and exceptional items		10,004	10,305
Less: Net finance costs		(4,930)	(4,360)
Impact of IFRS 16		(271)	—
Adjusted profit before tax (before amortisation of acquired intangibles and exceptional items)		4,803	5,945
Net finance costs		4,930	4,360
Depreciation of property, plant and equipment and software (excluding right-of-use assets)		794	991
Share based payments		48	(177)
EBITDA on consistent measure		10,575	11,119
Impact of IFRS 16		271	—
Depreciation of right-of-use assets		1,609	—
EBITDA		12,455	11,119
Adjusted profit before tax before amortisation of acquired intangibles and exceptional items			
Adjusted operating profit before amortisation of acquired intangibles and exceptional items		10,004	10,305
Less: net finance costs		(4,930)	(4,360)
Adjusted profit tax before amortisation of acquired intangibles and exceptional items		5,074	5,945
Free cashflow			
Net cash from operating activities		41,302	36,213
Investment in pre-publication costs		(23,786)	(27,585)
Purchases of property, plant and equipment		(138)	(169)
Purchases of software		—	(77)
Free cashflow		17,378	8,382
Net debt			
Short-term borrowings		66,077	5,000
Medium-and long-term borrowings		—	70,752
Cash and cash equivalents		(15,621)	(15,384)
Net debt		50,456	60,368

Company Balance Sheet

AS AT 31 DECEMBER 2019

	Notes	2019 $000	2018 $000
Fixed assets			
Investments	4	1,266	1,209
		1,266	**1,209**
Current liabilities			
Creditors: Amounts falling due within one year	6	(15,866)	(15,167)
		(15,866)	**(15,167)**
Creditors: Amounts falling due after more than one year		(441)	(544)
Net liabilities		**(15,041)**	**(14,502)**
Equity			
Called up share capital	7	2,045	2,045
Paid in surplus		33,764	33,764
Retained earnings		(50,850)	(50,311)
Total equity		**(15,041)**	**(14,502)**

The financial statements were approved by the Board of Directors and authorised for issue on 22 April 2020.
They were signed on its behalf by

C K Lau
Director
22 April 2020

Company Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 $'000	2018 $'000
Administrative expenses		–	–
Foreign exchange (loss)/gain		(587)	822
(Loss)/profit before tax		(587)	822
Tax	3	–	472
(Loss)/profit for the year		(587)	1,294

Company Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital $'000	Paid in surplus $'000	Retained earnings $'000	Equity attributable to owners $'000
Balance at 1 January 2018	2,045	33,764	(51,428)	(15,619)
Profit for the year	–	–	1,294	1,294
Transactions with owners				
Share based payments charges	–	–	(177)	(177)
Balance at 1 January 2019	2,045	33,764	(50,311)	(14,502)
Loss for the year	–	–	(587)	(587)
Transactions with owners				
Share based payments/charges	–	–	48	48
Balance at 31 December 2019	2,045	33,764	(50,850)	(15,041)

Notes to the Company Accounts

AT 31 DECEMBER 2019

1 Basis of preparation

The separate financial statements of the Company are presented and have been prepared in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. These financial statements present information for the Company, not about the Group.

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules modified to include certain items as fair value and in accordance with FRS 102. The financial statements have been prepared using the going concern basis, as discussed in the Group going concern disclosure.

The Company has adopted the following disclosure exemptions:

- the requirement to present a statement of cash flow and related notes; and
- financial instrument disclosures, including,
- categories of financial instruments;
  - items of income, expenses, gains or losses relating to financial instruments; and
  - exposure to, and management of, financial risks.

There were no significant judgements or estimates in preparing the financial statements of the Company.

2 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements. The functional currency of the company is Pounds Sterling, with the parent company accounts presented in US Dollars.

INVESTMENTS

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

CREDITORS

Amounts owed to subsidiary undertakings are initially recognised at fair value, and subsequently measured at amortised cost using the effective interest method.

SHARE-BASED PAYMENTS

The Company operates a number of equity-settled, share based compensation plans that are awarded to employees of the Company's subsidiary undertakings. The fair value of the employee services received under such schemes is recognised as an expense in the subsidiary undertakings financial statements, which benefit from the employee services. The Company has recognized the fair value of the share-based payments as an increase to equity with a corresponding adjustment to investments. Equity settled share-based payments are measured at fair value at the date of grant. The fair value, determined at the grant date, of equity settled share–based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The fair value of employee share option grants is calculated using a Monte Carlo model, taking into account the terms and conditions upon which the options were granted. The value of the charge is adjusted to reflect expected and actual levels of options vesting. Further detail is set out in note 28 to the group consolidated Financial Statements.

CASH AND CASH EQUIVALENTS

There were no cash transactions during the year and accordingly no cash flow statement has been presented.

FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at that date with any exchange differences arising on retranslation being recognised in the income statement.

FINANCIAL GUARANTEE CONTRACTS

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

3 Tax

	2019 $000	2018 $000
Current tax (Credit)/charge	–	(472)

Corporation tax is calculated at 21%, based on the US standard rate of corporate tax (2018: 21%) of the estimated assessable profit for the year. The table below explains the difference between the expected expense at the US statutory rate of 21% and the Company's total tax expense for the year.

	2019 $'000	2018 $'000
Profit/(loss) before tax	(587)	822
Tax at the US corporation tax rate of 21% (2018: 21%)	(123)	173
Adjustment to prior years	–	(472)
Tax effect of items that are not deductible in determining taxable profit	123	(173)
Tax (Credit)/charge	–	(472)

4 Investments

	2019 $000	2018 $000
At 1 January	1,209	1,436
Capital contribution (note 2)	57	(227)
At 31 December	1,266	1,209

5 Subsidiaries

A) TRADING COMPANIES

	Incorporation					
Name	Place	Date	Registered address key	Issued and fully paid up share capital	% held	Segment
Quarto Australia Pty Limited	Australia	14 September 1981	D	110 shares of $A1 each	100	UK Publishing
Books & Gifts Direct Limited	New Zealand	27 September 1996	C	400,000 shares of NZ$1 each	100*	UK Publishing
Quarto Group HK Ltd	Hong Kong	26 January 2015	E	100 shares of HKD1 each	100	UK/US Publishing
Quarto Publishing Group USA Inc.	Delaware, USA	28 June 2004	B	380 shares of US$0.01 each	100	US Publishing
Quarto Publishing plc	United Kingdom	1 April 1976	A	100,000 shares of £1 each	100*	UK Publishing
Quarto, Inc.	Delaware, USA	16 October 1986	B	86 shares of no par value	100*	US Publishing
RotoVision S.A.	Switzerland	18 July 1977	F	1,500 shares of SFr500 each	100*	UK Publishing

*Directly held by The Quarto Group, Inc.

NOTES TO THE COMPANY ACCOUNTS (continued)

5 Subsidiaries (continued)

B) DORMANT COMPANIES

Name	Incorporation Place	Incorporation Date	Registered address key	Issued share capital	% held
AP Screen Printers Limited	United Kingdom	30 September 1980	A	1000 shares of £1 each	100
Apple Press Limited	United Kingdom	5 June 1984	A	100 shares of £1 each	100
Aurum Press Limited	United Kingdom	31 May 1977	A	382,502 shares of £1 each	100
Cartographica Press Limited	United Kingdom	27 July 1981	A	1000 shares of £1 each	100
Design Eye Holdings Limited	United Kingdom	22 June 1992	A	200 shares of £1 each	100
Design Eye Limited	United Kingdom	18 March 1988	A	100 shares of £1 each	100
Design Eye Publishing Limited	United Kingdom	17 June 1992	A	2 shares of £1 each	100
EYE Quarto Inc	Delaware, USA	19 December 2002	B	1000 shares of no par value	100
Fine Wine Editions Limited	United Kingdom	23 June 1949	A	9020 shares of £1 each	100
Frances Lincoln Limited	United Kingdom	15 December 1980	A	565,000 shares of 10p each	100
Frances Lincoln Publishers Limited	United Kingdom	11 March 1987	A	100 shares of £1 each	100
Global Book Publishing Pty Limited	United Kingdom	7 July 1986	A	1000 shares of £1 each	100
Global Book Publishing Pty Limited	Australia	4 November 1999	D	1,000 shares of A$1 each	100
Great American Trading Company Limited (THE)	United Kingdom	24 February 1982	A	100 shares of £1 each	100
IQON Editions Limited	United Kingdom	5 December 1972	A	300 shares of £1 each	100
iqu-digital.com Limited	United Kingdom	30 November 1978	A	100 shares of £1 each	100
Ivy Press (The)	United Kingdom	9 July 1996	A	1042 shares of 10p each	100
Jacqui Small LLP	United Kingdom	6 November 1998	A	100 units	100
JR Books Limited	United Kingdom	9 September 1986	A	43 004 shares of £1 each	100
Lewes Holdings Limited	United Kingdom	21 July 2005	A	20,840 shares of £0.01 each	100
Marshall Editions Limited	United Kingdom	7 February 2002	A	1 shares of £1 each	100
Marshall Publishing Limited	United Kingdom	7 February 2002	A	1 shares of £1 each	100
QEB Publishing Inc	Delaware, USA	27 April 2004	B	1500 shares of no par value	100
QED Publishing Limited	United Kingdom	12 November 1974	A	400 shares of £1 each	100
QU:ID Publishing Limited	United Kingdom	30 September 1980	A	100 shares of £1 each	100
Quantum Books Limited	United Kingdom	7 February 1983	A	100 shares of £1 each	100
Quarto Children's Books Limited	United Kingdom	6 January 1976	A	2 shares of £1 each	100
Quarto Magazines Limited	United Kingdom	20 May 1986	A	1000 shares of £1 each	100
Quarto Marketing Inc	Delaware, USA	26 April 1995	B	3000 shares of no par value	100
Quarto Media Inc	Delaware, USA	10 December 2010	B	1000 shares of $1 each	100

5 Subsidiaries (continued)

	Incorporation		Registered		%
Name	Place	Date	address key	Issued share capital	held
Quarto Multi-Media Limited	United Kingdom	14 December 1984	A	1000 shares of £1 each	100
Quill Publishing Limited	United Kingdom	14 May 1979	A	1000 shares of £1 each	100
Quintessence Editions Limited	United Kingdom	7 February 2002	A	1 shares of £1 each	100
Quintet Publishing Limited	United Kingdom	14 May 1979	A	100 shares of £1 each	100
Small World Creations Limited	United Kingdom	20 September 1997	A	1,536 share of £1 each	100

D) LIST OF REGISTERED OFFICES

A The Old Brewery, 6 Blundell Street, London, N7 9BH, United Kingdom
B 100 Cummings Center, Suite 265D, Beverly, MA 01915, USA
C 135b Morrin Road, Saint Johns, Auckland, 1072, New Zealand
D c/o ZM Partners, Suite 10 Ground Floor, 123 Clarence Street, Sydney, NSW 2000, Australia
E Room 2306, Technology Plaza, 651 King's Road, North Point, Hong Kong
F Passage Perdonet 1, 1005 Lausanne, Switzerland

6 Creditors: Amounts falling due within one year

	2019 $000	2018 $000
Amounts owed to subsidiary undertakings	15,814	15,167
Tax payable	52	—
	15,866	15,167

7 Called up share capital

Details of called up share capital are set out in note 25 of the consolidated Financial Statements.

8 Contingent liabilities

The Quarto Group, Inc. has issued guarantees in respect of bank loans of subsidiaries of $53,077,000 (2018: $62,752,000). Refer to note 18 of the group consolidated Financial Statements.

9 Related parties

The Company borrowed an amount of $647,000 from its wholly owned subsidiary, Quarto Publishing plc, during the year (2018: $0.1m borrowed in the year). The balance on the loan at 31 December 2019 was $15.8m (2018: $15.2m). These balances are non-interest bearing and repayable on demand.

SUPPLEMENTAL FINANCIAL INFORMATION OF QUARTO GROUP

The following is the supplemental financial information of Quarto Group, which was not included in Quarto Group's audited financial statements showing the financial information for the three years ended 31 December 2021.

Ageing analysis of gross carrying amounts of trade receivables by invoice date

	For the year ended 31 December		
	2019	**2020**	**2021**
	US$'000	*US$'000*	*US$'000*
0-30 days	14,909	13,347	14,919
31-60 days	9,125	12,221	14,402
61-90 days	5,129	5,695	10,777
91-120 days	4,154	4,527	4,088
121-150 days	2,888	2,654	1,178
Over 150 days	3,716	1,831	2,501
Total gross carrying amounts of trade receivables	**39,921**	**40,275**	**47,865**

Ageing analysis of trade payables by invoice date

	As at 31 December		
	2019	**2020**	**2021**
	US$'000	*US$'000*	*US$'000*
0-30 days	7,316	6,810	10,714
31-60 days	3,426	3,043	3,928
61-90 days	2,865	2,242	1,829
91-120 days	3,167	3,267	4,197
Over 120 days	19,444	13,167	8,782
Total trade payables	**36,218**	**28,529**	**29,450**

Directors' emoluments

Year ended 31 December 2019

	Fee	Salaries and allowances	Pension	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
Executive Directors				
Lau Chuk Kin	–	–	–	–
Michael Mousley (re-designated to non-executive director on 1 May 2019)	–	183	–	183
Ken Fund	–	379	18	397
Non-executive Directors				
Andy Cumming	92	–	–	92
Mei Lan Lam	–	–	–	–
Jane Moriarty	64	–	–	64
Michael Mousley (re-designated from executive director on 1 May 2019)	65	–	–	65
	221	562	18	801

Year ended 31 December 2020

	Fee	Salaries and allowances	Pension	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
Executive Directors				
Lau Chuk Kin	–	–	–	–
Polly Powell (appointed on 10 February 2020)	–	286	29	315
Ken Fund	–	504	18	522
Non-executive Directors				
Andy Cumming	93	–	–	93
Mei Lan Lam	–	–	–	–
Jane Moriarty	64	–	–	64
Michael Mousley (resigned on 10 February 2020)	7	–	–	7
Andrea Giunti Lombardo (appointed on 10 February 2020)	40	–	–	40
	204	790	47	1,041

Year ended 31 December 2021

	Fee	Salaries and allowances	Pension	Payment for loss of office	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Executive directors					
Lau Chuk Kin	–	–	–	–	–
Polly Powell (resigned on 1 July 2021)	–	285	30	–	315
Ken Fund (re-designated to non-executive director on 1 December 2021	–	617	20	29	666
Non-executive Directors					
Andy Cumming	99	–	–	–	99
Mei Lan Lam	–	–	–	–	–
Jane Moriarty	69	–	–	–	69
Ken Fund (re-designated from executive director on 1 December 2021)	3	–	–	–	3
Andrea Giunti Lombardo	49	–	–	–	49
	220	902	50	29	1,201

Five highest paid individuals

The five individuals whose emoluments were the highest in Quarto Group for the years ended 31 December 2019, 2020 and 2021 included one, two and two directors whose emolument are reflected in the analysis presented above. Emoluments payable to the remaining four, three and three individuals during the years are as follows:

	2019	2020	2021
	US$'000	*US$'000*	*US$'000*
Salaries, allowances and other benefits	822	593	675
Pension and national insurance	58	53	101
	880	646	776

Their emoluments fell within the following bands presented in Hong Kong dollars (HK$) is as follows:

	Number of individuals		
	2019	**2020**	**2021**
Emolument bands			
HK$1,000,001 – HK$1,500,000	1	–	–
HK$1,500,001 – HK$2,000,000	3	3	1
HK$2,000,001 – HK$2,500,000	–	–	2
HK$2,500,001 – HK$3,000,000	–	–	–
	4	3	3

Save as disclosed above, during each of the three years ended 31 December 2019, 2020 and 2021, no emoluments were paid by the Quarto to any of the five highest paid individuals as an inducement to join or upon joining Quarto or as compensation for loss of office.

Bank and other borrowings

Bank and other borrowings as at 31 December 2019, 2020 and 2021 were due for repayment as follows:

Bank loans

	As at 31 December		
	2019	**2020**	**2021**
	US$'000	***US$'000***	***US$'000***
On demand or within one year	53,077	25,411	2,667
In the second year	–	–	2,667
In the third to fifth year	–	–	1,400
	53,077	25,411	6,734

Other loans

	As at 31 December		
	2019	**2020**	**2021**
	US$'000	***US$'000***	***US$'000***
On demand or within one year	13,000	16,408	2,771
In the second year	–	–	–
In the third to fifth year	–	–	24,441
	13,000	16,408	27,212

A. INTRODUCTION

The following unaudited pro forma financial information has been prepared by the Directors in accordance with Rule 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the completion of the Acquisition on the financial information of the Group as if the transaction had been completed on 31 December 2021.

The unaudited pro forma financial information of the Enlarged Group is prepared, in accordance with the accounting policies of the Group under Hong Kong Financial Reporting Standards, based on the audited consolidated statement of financial position of the Group as at 31 December 2021 extracted from the published audited annual report of the Group for the year ended 31 December 2021 which have been published on the website of the Stock Exchange and the website of the Company, as if the Acquisition had been completed on 31 December 2021.

The unaudited pro forma financial information is based on the aforesaid historical data after giving effect to the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments of the completion of the Acquisition that are (i) directly attributable to the Acquisition on 1 April 2022 and not relating to future events or decisions; and (ii) factually supportable, is summarised in the accompanying notes.

The accompanying unaudited pro forma financial information has been prepared by the Directors for illustrative purpose only and is based on certain assumptions, estimates, uncertainties and other currently available information. Accordingly, and because of its nature, the unaudited pro forma financial information may not give a true picture of the financial position of the Enlarged Group following the completion of the Acquisition as at 31 December 2021 or at any other dates. Further, the unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position.

Unaudited supplementary financial information of the Enlarged Group has been prepared by the Directors as set out in section C on pages 177-184 to illustrate the effect of (i) the First Open Market Acquisitions, (ii) the Second Open Market Acquisitions, and (iii) the Acquisition, as if these transactions had taken place on 31 December 2021. The unaudited supplementary financial information of the Enlarged Group has been prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2021 extracted from the published audited annual report of the Group for the year ended 31 December 2021 which have been published on the website of the Stock Exchange and the website of the Company, the consolidated balance sheet of the Quarto Group as at 31 December 2021 as extracted from the financial information of the Quarto Group set out in Appendix II to this circular, as if these transactions had been completed on 31 December 2021.

The unaudited supplementary financial information of the Enlarged Group is based on the aforesaid historical data after giving effect to the adjustments described in the accompanying notes. Narrative descriptions of the adjustments of (i) the First Open Market Acquisitions, (ii) the Second Open Market Acquisitions, and (iii) the Acquisition are set out in the accompanying notes.

As the First Open Market Acquisitions, the Second Open Market Acquisitions and Acquisition are separate transactions and not inter-conditional, they could be completed on stand-alone basis. It is therefore presented in another scenario in section C on pages 177-184.

B. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

	The Group as at 31 December 2021 (Audited) *HK$'000*	Pro forma adjustments (Unaudited) *HK$'000* *(Notes 1, 2)*	Pro forma Enlarged Group as at 31 December 2021 (Unaudited) *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment	214,359		214,359
Deposits for acquisition of property, plant and equipment	3,399		3,399
Right of use assets	71,518		71,518
Intangible assets-goodwill	177,925		177,925
Interest in an associate	189,134	23,175	212,309
Loans to an associate	129,490		129,490
Lease receivables	1,698		1,698
Deferred tax assets	23,200		23,200
	810,723		833,898
Current assets			
Inventories	240,605		240,605
Trade and other receivables and deposits	539,200		539,200
Lease receivables	1,142		1,142
Financial asset at fair value through profit or loss	37		37
Tax recoverable	4,217		4,217
Pledged deposits	156		156
Cash and cash equivalents	431,920	(23,175)	408,745
	1,217,277		1,194,102
Total assets	2,028,000		2,028,000

	The Group as at 31 December 2021 (Audited)	Pro forma adjustments (Unaudited)	Pro forma Enlarged Group as at 31 December 2021 (Unaudited)
	HK$'000	*HK$'000* *(Notes 1, 2)*	*HK$'000*
Current liabilities			
Trade and other payables	288,934		288,934
Bank and other borrowings	261,967		261,967
Lease liabilities	29,908		29,908
Provisions	25,508		25,508
Provision for taxation	15,909		15,909
	622,226		622,226
Net current assets	595,051		571,876
Total assets less current liabilities	1,405,774		1,405,774
Non-current liabilities			
Provisions	1,504		1,504
Lease liabilities	43,821		43,821
Deferred tax liabilities	12,910		12,910
	58,235		58,235
Net assets	1,347,539		1,347,539

NOTES TO UNAUDITED PRO FORMA ADJUSTMENTS

Notes:

(1) On 1 April 2022, the Company acquired 1,875,000 Quarto Shares, representing approximately 4.6% of the issued share capital of Quarto, from Mr. Zen Wei Peu at a consideration of £2,250,000 (equivalent to approximately HK$23,175,000).

(2) The pro forma adjustment represents the additional interests acquired by the Group while continuing to apply the equity accounting in accordance with Hong Kong Accounting Standard 28 ("HKAS 28") Investments in Associates, at a cash consideration of £2,250,000 (equivalent to approximately HK$23,175,000) paid by the Group to acquire approximately 4.6% of the issued share capital of the Quarto Group. In the opinion of the Directors, the Company continued to have significant influence in Quarto Group with approximately 45.83% of the issued share capital of Quarto, as if the Acquisition had been completed on 31 December 2021.

(3) No adjustment have been made to the unaudited pro forma financial information of the Enlarged Group as at 31 December 2021 to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 31 December 2021. In particular, the unaudited pro forma financial information of the Enlarged Group as at 31 December 2021 as shown on pages 172 to 173 have not been adjusted to illustrate the effect of (i) the First Open Market Acquisitions, (ii) the Second Open Market Acquisitions and (iii) shares of Quarto acquired after the Acquisition between 1 April 2022 and the Latest Practicable Date (both dates inclusive) ("Shares acquired after the Acquisition"). The effect of Shares acquired after the Acquisition to the unaudited pro forma financial information has been illustrated below. The combining effect of the First Open Market Acquisitions, Second Open Market Acquisitions and the Acquisition has been illustrated in section C to the unaudited pro forma financial information as set out on pages 177-182. The combining effect of the First Open Market Acquisitions, Second Open Market Acquisitions, the Acquisitions and Shares acquired after the Acquisition has been illustrated in note 7 of the unaudited supplementary financial information as set out on pages 182-184.

Had the effect of shares of Quarto acquired after the Acquisition between 1 April 2022 and the Latest Practicable Date (both dates inclusive) been taken into account, the unaudited pro forma financial information of the Enlarged Group as at 31 December 2021 would have been further adjusted as follows:

	The Group as at 31 December 2021 (Audited) *HK$'000*	Pro forma Adjustments (Unaudited) *HK$'000* *(Notes 1, 2)*	Pro forma Adjustments (Unaudited) *HK$'000* *(Note 3(a))*	Pro forma Enlarged Group as at 31 December 2021 (Unaudited) *HK$'000*
ASSETS				
Non-current assets				
Property, plant and equipment	214,359			214,359
Deposits for acquisition of property, plant and equipment	3,399			3,399
Right-of-use assets	71,518			71,518
Intangible assets – goodwill	177,925			177,925
Interest in an associate	189,134	23,175	5,587	217,896
Loans to an associate	129,490			129,490
Lease receivables	1,698			1,698
Deferred tax assets	23,200			23,200
	810,723			839,485
Current assets				
Inventories	240,605			240,605
Trade and other receivables and deposits	539,200			539,200
Lease receivables	1,142			1,142
Financial asset at fair value through profit or loss	37			37
Tax recoverable	4,217			4,217
Pledged deposits	156			156
Cash and cash equivalents	431,920	(23,175)	(5,587)	403,158
	1,217,277			1,188,515
Total assets	2,028,000			2,028,000
Current liabilities				
Trade and other payables	288,934			288,934
Bank borrowings	261,967			261,967
Lease liabilities	29,908			29,908
Provisions	25,508			25,508
Provision for taxation	15,909			15,909
	622,226			622,226
Net current assets	595,051			566,289
Total assets less current liabilities	1,405,774			1,405,774
Non-current liabilities				
Provisions	1,504			1,504
Lease liabilities	43,821			43,821
Deferred tax liabilities	12,910			12,910
	58,235			58,235
Net assets	1,347,539			1,347,539

NOTES TO UNAUDITED PRO FORMA ADJUSTMENTS (CONTINUED)

Notes:

(3) (a) The adjustment represents the additional interests acquired by the Group while continuing to apply the equity accounting in accordance with HKAS 28, at a cash consideration of £527,000 (equivalent to approximately HK$5,587,000) paid by the Group to acquire approximately 0.79% of the issued share capital of the Quarto Group after the Acquisition between 1 April 2022 and the Latest Practicable Date (both dates inclusive). In the opinion of the Directors, the Company continued to have significant influence in Quarto Group with approximately 46.62% of the issued share capital of Quarto, as if the Acquisition and Shares acquired after the Acquisition had been completed on 31 December 2021.

C. UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION OF THE ENLARGED GROUP

		Adjustments					
	The Group as at 31 December 2021 (Audited)	The Quarto Group as at 31 December 2021 (Audited)	The Quarto Group as at 31 December 2021 (Audited)		(Unaudited)		Enlarged Group as at 31 December 2021 (Unaudited)
	HK$'000	*US$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 5)	*(Note 5)*	*(Note 6(i))*	*(Note 6(ii))*	*(Note 6(iii))*	
ASSETS							
Non-current assets							
Property, plant and equipment	214,359	638	4,976				219,335
Deposits for acquisition of property, plant and equipment	3,399	–	–				3,399
Right of use assets	71,518	4,543	35,436				106,954
Intangible assets – goodwill	177,925	19,286	150,431	(47,342)			281,014
Pre-publication cost	–	29,941	233,540	8,634			242,174
Other intangible assets	–	51	398	4,025			4,423
Interest in an associate	189,134	–	–	(189,134)			–
Loans to an associate	129,490	–	–			(129,490)	–
Lease receivables	1,698	–	–				1,698
Deferred tax assets	23,200	2,436	19,001				42,201
	810,723	56,895	443,782				901,198
Current assets							
Inventories	240,605	20,393	159,065				399,670
Trade and other receivables and deposits	539,200	51,242	399,688			(128,997)	809,891
Lease receivables	1,142	–	–				1,142
Financial asset at fair value through profit or loss	37	–	–				37
Tax recoverable	4,217	–	–				4,217
Pledged deposits	156	–	–				156
Cash and cash equivalents	431,920	28,432	221,770	(42,455)	(870)		610,365
	1,217,277	100,067	780,523				1,825,478
Total assets	2,028,000	156,962	1,224,305				2,726,676

					Adjustments		
	The Group as at 31 December 2021 (Audited)	The Quarto Group as at 31 December 2021 (Audited)	The Quarto Group as at 31 December 2021 (Audited)		(Unaudited)		Pro forma Enlarged Group as at 31 December 2021 (Unaudited)
	HK$'000	*US$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 5)	*(Note 5)*	*(Note 6(i))*	*(Note 6(ii))*	*(Note 6(iii))*	
Current liabilities							
Trade and other payables	288,934	53,789	419,554			(128,997)	579,491
Bank and other borrowings	261,967	5,438	42,416				304,383
Lease liabilities	29,908	1,363	10,631				40,539
Provisions	25,508	–	–				25,508
Provision for taxation	15,909	7,467	58,243				74,152
	622,226	68,057	530,844				1,024,073
Net current assets	595,051	32,010	249,679				801,405
Total assets less current liabilities	1,405,774	88,905	693,461				1,702,603
Non-current liabilities							
Long term borrowings	–	28,508	222,362			(129,490)	92,872
Provisions	1,504	–	–				1,504
Tax payable	–	386	3,011				3,011
Lease liabilities	43,821	3,672	28,642				72,463
Deferred tax liabilities	12,910	3,130	24,414	3,649			40,973
	58,235	35,696	278,429				210,823
Net assets	1,347,539	53,209	415,032				1,491,780

NOTES TO THE UNAUDITED SUPPLEMENTARY ADJUSTMENTS

Notes:

(4) Subsequent to 31 December 2021, during the period up to 26 January 2022, the Company further increased its shareholdings in the Quarto with total additional consideration of HK$19,280,000 and increased its shareholding in Quarto from 41.23% to 44.64% through the open market purchases of the shares of Quarto (the "**First Open Market Acquisitions**" and the "**Second Open Market Acquisitions**").

On 1 April 2022, the Company acquired 1,875,000 Quarto Shares (the "**Acquisition**"), representing approximately 4.6% of the issued share capital of Quarto, from Mr. Zen Wei Peu at a consideration of £2,250,000 (equivalent to approximately HK$23,175,000). After the Acquisition, the Company holds approximately 49.24% of the issued share capital of Quarto.

Upon the completion of the First Open Market Acquisitions, the Second Open Market Acquisitions and the Acquisition, the Company holds 49.24% equity interest on the Quarto Group and the Quarto Group is considered by the Directors as a subsidiary of the Company as the Quarto Group is controlled by the Group after the completion of the Acquisition of 4.6% of the issued share capital of Quarto. The consolidated balance sheet of the Quarto Group will be consolidated into those of the Group from the date on which control is transferred to the Group, which is assumed to be 31 December 2021, for the purpose of preparation of the unaudited supplementary financial information.

(5) The figures are extracted from the financial information of the Quarto Group as set out in Appendix II to this circular and translated into HK$ at the exchange rate of US$1 to HK$7.8 prevailing at the close of business on 31 December 2021. No representation is made that US$ amounts have been, could have been or could be converted to HK$, or vice versa, at the applied rate or at any other rates or at all.

(6) The adjustments are to reflect the effect of the completion of First Open Market Acquisitions, the Second Open Market Acquisitions and the Acquisition of Quarto Shares on the unaudited supplementary financial information of the Enlarged Group as if the First Open Market Acquisitions, the Second Open Market Acquisitions and the Acquisition had been completed on 31 December 2021.

(i) This adjustment represents the accounting for the Acquisition using the acquisition method in accordance with Hong Kong Financial Reporting Standard 3 (Revised) Business Combinations issued by the Hong Kong Institute of Certified Public Accountants. For the purpose of preparation of the unaudited supplementary Financial Information of the Enlarged Group, the Group has carried out an illustrative purchase price allocation and the fair values of the identifiable assets and liabilities of the Quarto Group as at 31 December 2021 were estimated by the Directors.

NOTES TO THE UNAUDITED SUPPLEMENTARY ADJUSTMENTS (CONTINUED)

Notes:

(6) (i) The adjustment on goodwill arising from the Acquisition is calculated as follows:

	HK$'000	*HK$'000*
Cash consideration *(Note (a))*		42,455
Add: Fair value of previously held equity interest *(Note (b))*		195,360
		237,815
Less: Fair value of identifiable net assets of the Quarto Group to be acquired		
Identifiable net assets (excluding goodwill recognised at Quarto Group) *(Note 5)*	(264,601)	
Fair value adjustments on:		
– Pre-publication cost *(Note (d))*	(8,634)	
– Backlog order *(Note (d))*	(4,025)	
		(277,260)
Deferred tax liabilities in respect of fair value adjustments *(Note (e))*		3,649
		(273,611)
Add: Non-controlling interest's proportionate share of the Quarto's identifiable net assets *(Note (f))* (HK$273,611,000 x 50.76%)		138,885
Goodwill arising from the Acquisition *(Note (g))*		103,089
Less: Goodwill recognised at Quarto Group		(150,431)
Adjustment on goodwill		(47,342)

Notes:

(a) This represents cash consideration of £2,250,000 (equivalent to approximately HK$23,175,000) paid by the Group to acquire approximately 4.6% of the issued share capital of the Quarto Group and the cash consideration of £1,768,842 (equivalent to approximately HK$19,280,000) paid by the Group to acquire additional shares in the Quarto Group through the open market as if the transactions had been completed on 31 December 2021.

(b) This represents the 41.23% shares held by the Group before the First Open Market Acquisitions, the Second Open Market Acquisitions and the Acquisition of the Quarto Shares amounting to £18,967,015 based on the market price of 16,859,569 Quarto Shares of £1.125 per Quarto Share as quoted on London Stock Exchange as at 31 December 2021 and translated into HK$195,360,000 at the exchange rate of £1 to HK$10.3 prevailing at the close of business on 31 December 2021. No representation is made that £ amounts have been, could have been or could be converted to HK$, or vice versa, at the applied rate or at any other rates or at all.

NOTES TO THE UNAUDITED SUPPLEMENTARY ADJUSTMENTS (CONTINUED)

Notes:

(6) (i) (c) The Group remeasures its previously held equity interest as at 31 December 2021 and recognises the related gain in profit and loss:

	HK$'000
Fair value of previously held equity interest *(Note (b))*	195,360
Less: Carrying amount of previous equity interest *(Note 6(i))*	189,134
Gain on disposal of an associate	6,226

(d) The fair value of pre-publication costs were determined with reference to the valuation performed by an independent professional valuer, which valued the useful life of pre-publication costs by analyzing the revenue from historical trend and working out the percentage to apply on the future potential sales and operating costs. Then using the present value of excess earning method to value the fair value of the pre-publication costs of US$31,048,000. For the backlog order, the valuer valued the useful life of backlog order only for one year as most of the books will be dispatch in 2022. The valuer based on the order book details to work out the revenue generated from backlog order and using the present value of excess earning method to value the fair value of the backlog order of US$516,000. On 31 December 2021, the exchange rate of US$1 to HK$7.8, the pre-publication costs and backlog order are amounting to HK$242,174,000 and HK$4,025,000 respectively. As at 31 December 2021, adjustment amounting to HK$8,634,000 and HK$4,025,000 are provided.

For the purpose of preparing the unaudited supplementary financial information, the Directors expect that, other than the pre-publication costs and backlog order, the carrying amounts of identifiable assets and liabilities of the Quarto Group as at 31 December 2021 approximate their respective fair values at that date.

(e) The deferred tax liabilities relating to the fair value adjustment of the pre-publication costs and backlog order amounting to HK$3,649,000, which is calculated based on the US and UK income tax rate of 28% and 30% respectively.

(f) The non-controlling interests of the Quarto Group is measured at their proportionate share in the recognised fair values of the Quarto Group's identifiable net assets as at 31 December 2021.

(g) The Directors have assessed whether there is any impairment on the goodwill arising from the Acquisition as at 31 December 2021, on a pro forma basis, in accordance with HKAS 36 "Impairment of Assets" and concluded that there is no impairment to be made in respect of the goodwill of the Enlarged Group as at 31 December 2021 on the basis set out in the Group's audited consolidated financial statements for the year ended 31 December 2021. The recoverable amount of the cash generating unit ("**CGU**") comprising these goodwill are determined based on value in use calculation. That calculation uses cash flow projections based on a 3-year financial budgets approved by management of the Quarto Group. Key assumptions of the value in use calculations relate to the estimation of cash inflows or outflows which include budgeted gross margins and operating expenses. Such estimation is based on the unit's past performance and the management's expectations for the market development.

On the date of the completion of the transaction, the actual fair values of the identifiable assets and the liabilities to be acquired will have to be reassessed and accordingly, their fair values at the dates of the transactions may be materially different from those for the preparation of the unaudited supplementary financial information. As a result, the amount of goodwill arising from the transactions may be different from that estimation based on the basis, as stated above, used in the preparation of the unaudited supplementary financial information. Accordingly, the actual goodwill arising from the Acquisition at the date of completion of the Acquisition may be different from that presented above.

NOTES TO THE UNAUDITED SUPPLEMENTARY ADJUSTMENTS (CONTINUED)

Notes:

(6) (ii) This represents the estimated transaction cost amounting to HK$870,000 for the transactions.

(iii) This represents intercompany elimination of loans to the Quarto Group amounting to HK$129,490,000 and trade receivables amounting to HK$128,997,000.

(7) No adjustment have been made to the unaudited supplementary financial information of the Enlarged Group as at 31 December 2021 to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 31 December 2021. In particular, the unaudited supplementary financial information of the Enlarged Group as at 31 December 2021 as shown on pages 177 to 178 have not been adjusted to illustrate the effect of shares of Quarto acquired after the Acquisition between 1 April 2022 and the Latest Practicable Date (both dates inclusive).

Had the effect of shares of Quarto acquired after the Acquisition between 1 April 2022 and the Latest Practicable Date (both dates inclusive) been taken into account, the unaudited supplementary financial information of the Enlarged Group as at 31 December 2021 would have been further adjusted as follows:

	The Group as at 31 December 2021	Adjustments						Enlarged Group as at 31 December 2021
		The Quarto Group as at 31 December 2021	The Quarto Group as at 31 December 2021					
	(Audited)	(Audited)	(Audited)	(Unaudited)				(Unaudited)
	HK$'000	*US$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 5)	*(Note 5)*	*(Note 6(i))*	*(Note 6(ii))*	*(Note 6(iii))*	*(Note 7(a))*	
ASSETS								
Non-current assets								
Property, plant and equipment	214,359	638	4,976					219,335
Deposits for acquisition of property, plant and equipment	3,399	–	–					3,399
Right-of-use assets	71,518	4,543	35,436					106,954
Intangible assets – goodwill	177,925	19,286	150,431	(47,342)				281,014
Pre-publication costs	–	29,941	233,540	8,634				242,174
Other intangible assets	–	51	398	4,025				4,423
Interest in an associate	189,134	–	–	(189,134)				–
Loans to an associate	129,490	–	–			(129,490)		–
Lease receivables	1,698	–	–					1,698
Deferred tax assets	23,200	2,436	19,001					42,201
	810,723	56,895	443,782					901,198
Current assets								
Inventories	240,605	20,393	159,065					399,670
Trade and other receivables and deposits	539,200	51,242	399,688			(128,997)		809,891
Lease receivables	1,142	–	–					1,142
Financial asset at fair value through profit or loss	37	–	–					37
Tax recoverable	4,217	–	–					4,217
Pledged deposits	156	–	–					156
Cash and cash equivalents	431,920	28,432	221,770	(42,455)	(870)		(5,587)	604,778
	1,217,277	100,067	780,523					1,819,891
Total assets	2,028,000	156,962	1,224,305					2,721,089

				Adjustments				
	The Group as at 31 December 2021 (Audited)	The Quarto Group as at 31 December 2021 (Audited)	The Quarto Group as at 31 December 2021 (Audited)		(Unaudited)			Enlarged Group as at 31 December 2021 (Unaudited)
	HK$'000	*US$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 5)	*(Note 5)*	*(Note 6(i))*	*(Note 6(ii))*	*(Note 6(iii))*	*(Note 7(a))*	
Current liabilities								
Trade and other payables	288,934	53,789	419,554			(128,997)		579,491
Bank and other borrowings	261,967	5,438	42,416					304,383
Lease liabilities	29,908	1,363	10,631					40,539
Provisions	25,508	–	–					25,508
Provision for taxation	15,909	7,467	58,243					74,152
	622,226	68,057	530,844					1,024,073
Net current assets	595,051	32,010	249,679					795,818
Total assets less current liabilities	1,405,774	88,905	693,461					1,697,016
Non-current liabilities								
Long term borrowings	–	28,508	222,362			(129,490)		92,872
Provisions	1,504	–	–					1,504
Tax payable	–	386	3,011					3,011
Lease liabilities	43,821	3,672	28,642					72,463
Deferred tax liabilities	12,910	3,130	24,414	3,649				40,973
	58,235	35,696	278,429					210,823
Net assets	1,347,539	53,209	415,032					1,486,193

Notes:

(7) (a) The adjustment represents the additional interests of Quarto acquired by the Group from the non-controlling shareholders, at a cash consideration of £527,000 (equivalent to approximately HK$5,587,000) paid by the Group to acquire approximately 0.79% of the issued share capital of the Quarto Group after the Acquisition between 1 April 2022 and the Latest Practicable Date (both dates inclusive).

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INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the directors of Lion Rock Group Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Lion Rock Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 31 December 2021 and related notes as set out on pages 171 to 184 of the circular dated 25 May 2022 (the "**Circular**") issued by the Company in connection with the acquisition of 4.6% of the issued share capital of The Quarto Group, Inc. ("**Quarto**"). The Group and the Quarto Group are collectively referred to as the "**Enlarged Group**". The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described on 171 to 184 of Appendix III of the Circular.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Acquisition of the Quarto Group on the Group's financial position as at 31 December 2021 as if the Acquisition of the Quarto Group had taken place on 31 December 2021. As part of this process, information about the Group's assets and liabilities has been extracted by the directors from the Group's consolidated financial statements for the year ended 31 December 2021, on which an auditor's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "**Code of Ethics for Professional Accountants**" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2021 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Enlarged Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

BDO Limited
Certified Public Accountants
Au Yiu Kwan
Practising Certificate Number P05018

25 May 2022

MANAGEMENT DISCUSSION AND ANALYSIS OF QUARTO GROUP

The following is the management discussion and analysis of Quarto Group for the years ended 31 December 2019, 2020 and 2021.

The following management discussion and analysis should be read in conjunction with the consolidated financial information of Quarto Group as set out in Appendix II to this circular.

BUSINESS REVIEW

Quarto is a company incorporated in the United States and the issued shares of which are listed on the Main Market of the London Stock Exchange (LSE: QRT). Quarto is principally engaged in illustrated book publishing.

REVENUE

Revenue arises largely from the sale of physical products. Quarto Group has two operating segments: US publishing and UK publishing. In identifying these operating segments, management follows the information provided to the chief operating decision maker of the business which relates to the two geographical locations.

Revenue of Quarto Group increased by approximately 19.4% to approximately US$151.5 million for the year ended 31 December 2021 from that of approximately US$126.9 million for the year ended 31 December 2020, which was mainly due to the well performance of US publishing segment that having a strong bounce back following the disruption due to Covid-19, with segment revenue increasing by approximately 28.5% from approximately US$63.1 million for the year ended 31 December 2020 to US$81.1 million for the year ended 31 December 2021, which was mainly driven by strong sales in some best-selling titles.

Revenue of Quarto Group decreased by approximately 6.6% to approximately US$126.9 million for the year ended 31 December 2020 from that of approximately US$135.8 million for the year ended 31 December 2019, which was mainly due to the US publishing segment having a reduction in the number of new titles published following a review of the publishing program due to Covid-19 and the continuing pandemic, with segment revenue falling by approximately 11.7% from approximately US$71.5 million for the year ended 31 December 2019 to approximately US$63.1 million for the year ended 31 December 2020.

COST OF SALES AND GROSS PROFIT

Cost of sales of Quarto Group consists primarily of direct costs incurred to purchase of goods and changes in inventories and amortization and impairment of pre-publication costs.

Gross profit of the Quarto Group is calculated by subtracting the cost of sales sold from revenue. Gross profit margin is calculated as gross profit divided by revenue.

Gross profit of Quarto Group increased by approximately 26.6% to approximately US$47.6 million for the year ended 31 December 2021 from that of approximately US$37.6 million for the year ended 31 December 2020, which was mainly driven by the increase in revenue. The gross profit margin slightly increased to approximately 31.4% for the year ended 31 December 2021 from that of approximately 29.6% for the year ended 31 December 2020. The revenue increase was driven by a buoyant book market in the US as consumers rediscovered the love for books during the COVID-19 lockdowns. The successful digital transformation of print procurement also helped to achieve cost savings.

Gross profit of Quarto Group slightly decreased by approximately 1.1% to approximately US$37.6 million for the year ended 31 December 2020 from that of approximately US$38.0 million for the year ended 31 December 2019. The gross profit margin slightly increased to approximately 29.6% for the year ended 31 December 2020 from that of approximately 28.0% for the year ended 31 December 2019. This was due to the management's strategy to publish less but profitable titles.

DISTRIBUTION COSTS

Distribution costs of Quarto Group consists primarily of costs relating to order fulfilment, warehousing, billing, returns processing, handling of loss or damage claims and freight.

Distribution costs of Quarto Group increased by approximately 18.3% to approximately US$8.4 million for the year ended 31 December 2021 from that of approximately US$7.1 million for the year ended 31 December 2020, roughly in line with increased sales.

Distribution costs of Quarto Group slightly decreased by approximately 5.3% to approximately US$7.1 million for the year ended 31 December 2020 from that of approximately US$7.5 million for the year ended 31 December 2019, roughly in line with sales decline.

ADMINISTRATIVE EXPENSES

Administrative expenses for Quarto Group consists primarily of salaries and benefits for its administrative and management staff, information technology expenses, office expenses and rental, travel expenses for its staff, as well as expenses related to third-party professionals such as consultants, auditors, lawyers and tax advisors, along with other office-related and miscellaneous expenses.

Administrative expenses of Quarto Group increased by approximately 21.9% to approximately US$22.3 million for the year ended 31 December 2021 from that of approximately US$18.3 million for the year ended 31 December 2020, which was mainly due to the increase in staff costs, related to the support for the strong business growth.

Administrative expenses of Quarto slightly decreased by approximately 6.6% to approximately US$18.3 million for the year ended 31 December 2020 from that of approximately US$19.6 million for the year ended 31 December 2019, which was mainly due to the decrease in headcount.

FINANCE COSTS

Finance costs of Quarto Group comprise interest payable on borrowings calculated using the effective interest method together with the amortization of debt issuance costs.

Finance costs of the Quarto Group decreased by approximately 33.3% from approximately US$2.7 million for the year ended 31 December 2020 to approximately US$1.8 million for the year ended 31 December 2021, the reduction was attributable to reduction in bank debt due to strong cash generation.

Finance costs of the Quarto Group decreased by approximately 44.9% to approximately US$2.7 for the year ended 31 December 2020 from that of approximately US$4.9 million for the year ended 31 December 2019, the reduction was attributable to reduction in bank debt due to strong cash generation and the equity raise.

PROFIT FOR THE PERIODS

For the financial years ended 31 December 2019, 2020 and 2021, Quarto Group's net profit was approximately US$2.9 million, approximately US$4.6 million and approximately US$9.9 million, respectively. During the relevant periods, the net profit of Quarto Group has been on the uptrend, mainly driven by improved trading and reduced finance costs.

LIQUIDITY POSITION, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Total Assets and Total Liabilities

As at 31 December 2019, 31 December 2020 and 31 December 2021, the total assets of Quarto Group were amounted to approximately US$164.8 million, US$150.7 million and US$157.0 million, respectively.

As at 31 December 2019, 31 December 2020 and 31 December 2021, the total liabilities of Quarto Group were amounted to approximately US$143.7 million, US$107.0 million and US$103.8 million, respectively.

Current Assets and Current Liabilities

The current assets of Quarto Group consist primarily of inventories, trade and other receivables and cash and cash equivalents. The current liabilities of Quarto Group consist of short term borrowings, trade and other payables, lease liabilities and tax payable.

As at 31 December 2019, the current assets and current liabilities of Quarto Group were approximately US$81.4 million and approximately US$128.2 million, respectively. As at 31 December 2019, the net current liabilities of Quarto Group was approximately US$46.8 million.

As at 31 December 2020, the current assets and current liabilities of Quarto Group were approximately US$82.1 million and approximately US$98.2 million, respectively. As at 31 December 2020, the net current liabilities of Quarto Group was approximately US$16.1 million.

As at 31 December 2021, the current assets and current liabilities of Quarto Group were approximately US$100.1 million and approximately US$68.1 million, respectively. As at 31 December 2021, the net current assets of Quarto Group was approximately US$32.0 million.

Bank and other Borrowings

Bank and other borrowings of the Quarto Group as at 31 December 2019, 2020 and 2021 amounted to approximately US$66,077,000, US$41,819,000 and US$33,946,000, respectively, comprising bank loan of US$53,077,000, US$25,411,000 and US$6,734,000, respectively and other loans of US$13,000,000, US$16,408,000 and US$27,212,000, respectively.

At 31 December 2019, the Quarto Group had a US$64.0 million multi-currency syndicated bank facility which was due to expire on 31 August 2020. Following the loan repayment from the net proceeds of the open offer in February 2020, a new facility agreement was signed in January 2020 with borrowing facilities decreased to US$35.0 million. In February 2021, new facility agreement was signed with borrowing facilities of US$20.0 million.

Other loans of the Quarto Group increased from 2019 to 2020 were mainly due to the increase in government support loan given under the Conronavirus Aid, Relief and Economic Security Act ("**CARES Act**") of the USA of US$2.4 million and accrued interest. Other loans of the Quarto Group further increased in 2021 after the US$10 million new loan obtained from 1010 Printing. As at 31 December 2021, other loans included loan from 1010 Printing of US$17.0 million, loan from Mr. Lau of US$6.0 million, loan from CARES Act of US$2.4 million and accrued interest. The loans from 1010 Printing and Mr. Lau were unsecured, carried interest at 3.5% to 4.0% and repayable in August 2024.

Bank and other borrowings of the Quarto Group as at 31 December 2019 and 2020 were due on demand or repayment within one year. For the bank and other borrowings as at 31 December 2021, US$5,438,000 were due on demand or within one year, US$2,667,000 were due in the second year and US$25,841,000 were due were in the third to fifth year.

CHARGE OF ASSETS

As at 31 December 2019, 2020 and 2021, Quarto obtained banking facilities of US$64.0 million, US$35.0 million and US$20.0 million respectively. The banking facilities were secured by the joint guarantee and the charge of assets over Quarto and certain of its subsidiaries.

CONTINGENT LIABILITIES

As at 31 December 2019, 2020 and 2021, Quarto Group did not have any significant contingent liabilities.

EMPLOYMENT AND REMUNERATION POLICIES

For the years ended 31 December 2019, 2020 and 2021, Quarto Group had a total of 334, 302 and 304 average monthly number of employees (excluding executive directors), respectively. For the years ended 31 December 2019, 2020 and 2021, the staff costs were approximately US$25.0 million, US$21.7 million and US$26.2 million, respectively.

Quarto Group has a remuneration policy in line with market practice and provides employees remuneration and benefits based on the needs of its subsidiaries and the positions, the duties and responsibilities of the employees.

FOREIGN EXCHANGE EXPOSURE

The Quarto Group's businesses operate in a number of currencies giving rise to a risk of exchange loss from fluctuating exchange rates. Exposures to currency exchange rates arise from the Quarto Group's overseas sales and costs, which are primarily denominated in Sterling, and, to a much lesser extent in Euros. Quarto Group has minimal exposure to other foreign currencies. Quarto Group has a natural hedge that mitigates against currency movements impacting its earnings in that one of Quarto Group's largest costs, which is print costs, are paid in US$. As at the Latest Practicable Date, Quarto Group did not have any foreign currency hedging policies. The management of Quarto Group will continue to access its foreign exchange risk exposure and consider adopting prudent measures as appropriate.

SIGNIFICANT INVESTMENTS

For the years ended 31 December 2019, 31 December 2020 and 31 December 2021, Quarto does not have any material investments.

MATERIAL ACQUISITIONS AND DISPOSALS

For the years ended 31 December 2019, 31 December 2020 and 31 December 2021, Quarto Group has not completed any material acquisition or disposal of subsidiaries, jointly controlled entities and associated companies.

Quarto Group did not have any plans to acquire material investments or capital assets after the Acquisition in the financial year 2022.

TREASURY POLICY AND HEDGING ARRANGEMENT

For the years ended 31 December 2019, 31 December 2020 and 31 December 2021, Quarto Group did not have any treasury policy or hedging arrangement.

CAPITAL COMMITMENTS

As at 31 December 2019, 31 December 2020 and 31 December 2021, Quarto Group did not have any capital commitments.

GEARING RATIO

As at 31 December 2019, 2020 and 2021, the gearing ratios of Quarto Group were 87.2%, 71.0% and 66.1% respectively. The gearing ratio is defined as total liabilities divided by total assets.

PROSPECTS

Quarto Group is in a good financial position and has a strong list of new titles for publication in 2022. The sizeable backlist continues to perform well and Quarto Group is confident in its sales teams ability to navigate the changing market. By combining the competitiveness of the Quarto Group and the Group, Quarto is confident that it can create greater value for its customers. Quarto considers that the Acquisition is an important milestone for the its future development and will benefit the operation of the Enlarged Group in the long run.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTEREST BY DIRECTORS

As at the Latest Practicable Date, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("**SFO**")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are entered in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**"):

Long Positions in the Shares

Name of Directors	Personal Interests *(Shares)*	Family Interests *(Shares)*	Corporate Interests *(Shares)*	Total Interests *(Shares)*	Percentage to the issued share capital of the Company *(%)*
Mr. Lau Chuk Kin *(Note 1)*	78,701,906	Nil	266,432,717	345,134,623	44.82
Ms. Lam Mei Lan	16,568,688	Nil	Nil	16,568,688	2.15
Mr. Guo Junsheng *(Note 2)*	Nil	Nil	249,804	249,804	0.03

Long Position in the shares of Left Field Printing Group Limited ("Left Field"), an associated corporation of the Company

Name of Directors	Personal Interests *(Shares)*	Family Interests *(Shares)*	Corporate Interests *(Shares)*	Total Interests *(Shares)*	Percentage to the issued share capital of Left Field *(%)*
Mr. Lau Chuk Kin *(Note 3)*	9,803,278	Nil	313,048,997	322,852,275	64.74
Ms. Lam Mei Lan	1,035,543	Nil	Nil	1,035,543	0.21

Long Position in the underlying Shares under the share award scheme of the Company

Name of Director	Date of award	Number of Shares: Number of awarded shares	Average fair value per share (HK$)	Vesting period
Mr. Lau Chuk Kin	16 November 2020	200,000	0.68	36 months
Ms. Lam Mei Lan	16 November 2020	1,280,000 and	0.68	36 months and
		2,560,000	0.68	60 months
Mr. Chu Chun Wan	16 November 2020	200,000	0.68	36 months
Mr. Li Hoi David	16 November 2020	200,000	0.68	36 months
Mr. Guo Junsheng	16 November 2020	200,000	0.68	36 months
Mr. Yeung Ka Sing	16 November 2020	200,000	0.68	36 months
Prof. Lee Hau Leung	16 November 2020	200,000	0.68	36 months
Dr. Ng Lai Man Carmen	16 November 2020	200,000	0.68	36 months

Notes:

(1) Of 266,432,717 shares, 258,135,326 shares and 8,297,391 shares are beneficially owned by City Apex and ER2 respectively. As at the Latest Practicable Date, ER2 was the ultimate holding company of City Apex. Mr. Lau owned 69.76% of the issued share capital of ER2 and accordingly, Mr. Lau is deemed to be interested in the said shares pursuant to Part XV of the SFO.

(2) The shares are beneficially owned by Dragon Might Global Limited ("**Dragon Might**"). As at the Latest Practicable Date, Dragon Might is 100% directly owned by Mr. Guo Junsheng and therefore Mr. Guo is deemed to be interested in the said shares.

(3) Of 313,048,997 shares, 16,133,457 shares, 518,586 shares and 296,396,954 shares are beneficially owned by City Apex, ER2 and Bookbuilders BVI Ltd respectively. As at the Latest Practicable Date, Bookbuilders BVI Ltd is an indirect wholly-owned subsidiary of the Company. As stated under note 1 above, Mr. Lau is deemed to be interested in 44.82% issued share capital of the Company. Accordingly, Mr. Lau is deemed to be interested in the said shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company, or any of their spouses, or children under eighteen years of age, had or was deemed to have any interests or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company are taken or deemed to have under such provisions of the SFO), or which were required and had been entered in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

As at the Latest Practicable Date, each of the independent non-executive Directors has entered into a service contract with the Company for a term of two years ending on 31 December 2022. The service contract is subject to termination by either party giving not less than three months' prior written notice to the other. Apart from the service contracts abovementioned, no Directors had any existing or proposed service contracts with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation other than statutory compensation.

As at the Latest Practicable Date, none of the Directors had direct or indirect material interest in any assets which have been, since 31 December 2021 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to or by or proposed to be acquired or disposed of by or leased to or by any member of the Enlarged Group.

There is no contract or arrangement subsisting at the date of this circular in which any of the Directors is materially interested and which is significant in relation to the business of the Enlarged Group.

3. DISCLOSURE OF INTEREST BY SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at the Latest Practicable Date, the following persons, other than a Director or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly interested in 10% or more of the issued voting shares of any other member of the Enlarged Group or held any options in respect of such securities:

	Nature of interest			
Name of shareholder	**Beneficial Owner** *(Shares)*	**Interest in controlled corporation** *(Shares)*	**Total Interests** *(Shares)*	**Percentage to the issued share capital of the Company** *(%)*
ER2 *(Note 1)*	8,297,391	258,135,326	266,432,717	34.60
City Apex *(Note 1)*	258,135,326	Nil	258,135,326	33.52
Mr. Chang Mun Kee *(Note 2)*	10,067,583	54,112,030	64,179,613	8.34
Mr. Webb David Michael *(Note 3)*	27,931,168	41,413,808	69,344,976	9.00
JcbNext Berhad *(Note 2)*	54,112,030	Nil	54,112,030	7.03
Preferable Situation Assets Limited *(Note 3)*	41,413,808	Nil	41,413,808	5.38

Notes:

(1) 258,135,326 shares are beneficially owned by City Apex. ER2 was the ultimate holding company of City Apex. Accordingly, ER2 is deemed to be interested in the said shares pursuant to Part XV of the SFO.

(2) According to the record kept by the Company, as at the Latest Practicable Date, Mr. Chang Mun Kee is interested in 45.49% of the shares in JcbNext Berhad. Therefore, Mr. Chang is deemed to be interested in the said shares held by JcbNext Berhad.

(3) According to the record kept by the Company, as at the Latest Practicable Date, Preferable Situation Assets Limited is 100% directly owned by Mr. Webb David Michael and therefore Mr. Webb is deemed to be interested in the said shares held by Preferable Situation Assets Limited.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified of any other person (other than a Director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly interested in 10% or more of the issued voting shares of any other member of the Enlarged Group or held any options in respect of such securities.

4. MATERIAL CONTRACTS

The Enlarged Group has entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this circular which is or may be material:

(a) the stock transfer form dated 11 October 2021 and entered into between 1010 Printing and Mr. Lau in relation to the acquisition of 1,679,743 Quarto Shares by 1010 Printing at a consideration of £1,511,769;

(b) the stock transfer form dated 1 April 2022 and entered into between 1010 Printing and Mr. Zen Wai Peu in relation to the Acquisition of 1,875,000 Quarto Shares by 1010 Printing at a consideration of £2,250,000;

(c) the deed of assignment, novation and amendment dated 1 April 2022 and entered into among (1) OPUS Group Limited, an indirectly non-wholly owned subsidiary of the Company, (2) Scottish Pacific Business Finance Pty Ltd, (3) Scottish Pacific (BFS) Pty Ltd, (4) Ovato Limited and (5) subsidiaries of Ovato Limited in relation to the acquisition of the outstanding amount of A$4.86 million owed by Ovato Limited to Scottish Pacific Business Finance Pty Ltd, and the provision of additional loan of A$5.14 million by OPUS Group Limited to Ovato Limited; and

(d) the priority deed dated 1 April 2022 and entered into among (1) OPUS Group Limited, (2) HC Management Pty Ltd, and (3) Ovato Limited and its subsidiaries in relation to OPUS Group having the first priority security interest and HC Management Pty Ltd having the second priority interest for the outstanding loan due from Ovato Limited to OPUS Group Limited.

5. LITIGATION AND CLAIMS

At as the Latest Practicable Date, the Enlarged Group was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against the Enlarged Group.

6. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, to the best knowledge, information and belief of the Directors after having made all reasonable enquiries, none of the Directors or their respective close associates had any interests in businesses, which compete or may compete with the Group.

7. GENERAL

The English text of this circular shall prevail over the Chinese text in case of inconsistency.

The company secretary of the Company is Ms. Tan Lai Ming. Ms. Tan is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the head office and principal place of business in Hong Kong is at Level 11 East Wing, NEO, 123 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

The branch share registrar and transfer office in Hong Kong of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

8. EXPERT AND CONSENT

The following are the qualifications of the expert whose name, opinion and/or report are contained in this circular:

Name	Qualifications
BDO Limited	Certified Public Accountants

The expert named above has given and confirmed that it has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, report, advice, opinion and/or references to its name, in the form and context in which they respectively appear.

As at the Latest Practicable Date, the above expert (i) had no shareholding in any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group; (ii) had no direct or indirect interest in any assets which had been, since 31 December 2021 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Enlarged Group, or proposed to be acquired or disposed of by or leased to any member of the Enlarged Group; and (iii) had given and had not withdrawn its consent to the issue of this circular with the inclusion of its letter, opinions and/or reports and the reference to its name included herein in the form and context in which they respectively appear.

9. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on both the website of the Stock Exchange (http://www.hkexnews.hk) and the website of the Company (https://www.lionrockgrouphk.com/) for a period of 14 days from the date of this circular:

(a) the report on unaudited pro forma financial information of the Enlarged Group prepared by BDO Limited, the text of which is set out in Appendix III of this circular;

(b) the written consent as referred to in the paragraph headed "EXPERT AND CONSENT" in this Appendix;

(c) the annual reports of Quarto for the three years ended 31 December 2021, the extract of which is set out in Appendix II to this circular; and

(d) this circular.