13 September 2011

Cello Group plc

Well positioned for further international growth

Cello Group plc ("Cello" AIM: CLL, "The Group"), the insight and strategic marketing group, today announces its interim results for the six month period to 30 June 2011.

Highlights

- Revenue up 2.3% to £62.9m (2010: £61.5m)
- Gross profit up 1.9% to £30.5m (2010: £29.9m)
- Reported operating profit £2.5m (2010: £3.0m)
- Headline profit before tax[2] up 7.7% to £3.1m (2010: £2.8m)
- Headline basic earnings per share 3.01p (2010: 3.48p)
- Gross profit in research and consulting up 6.0% to £19.6m (2010: £18.5m)
- Like-for-like[1] gross profit in research and consulting up 2.8%.
- Headline operating margins[3] in research and consulting improve to 19.1% (2010: 17.8%)
- Interim dividend up 5% to 0.55p (2010: 0.525p)
- Net debt at 30 June 2011 down to £11.2m (2010: £11.7m)
- US pharmaceutical presence significantly increased by acquisition of MedErgy in March 2011
- Significant number of material new international client wins
- Good revenue visibility and project pipeline for second half

1 Like-for-like comparisons remove the impact of acquisitions and discontinued operations
2 Headline profit before tax is stated before exceptional charges and acquisition related charges (see note 2)
3 Headline operating margin is defined as headline operating profit as a percentage of gross profit

Mark Scott, Chief Executive, commented:

"Cello is benefiting from its focus on servicing the pharmaceutical sector, along with other high margin client sectors, on an international basis. This focus has been enhanced by the recent acquisition of MedErgy. The Group has a powerful combination of online data gathering, advisory capability, and the ability to help clients implement their global marketing strategies. This is a good basis for continued growth and we are confident that management expectations for 2011 will be met."

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Notes to Editors (www.cellogroup.co.uk)

Cello is an insight and strategic marketing group.

The Group's strategy is to create value for shareholders by building an international research and consulting business able to advice blue chip clients globally, along with a marketing business capable of delivering world class solutions.

Cello has annualised revenues in excess of £130m, annualised gross profit in excess of £65m and employs over 700 professional staff.

Chairman's Statement

Overview

The Group experienced good growth in headline profits before tax as the Group's multinational client base continued to increase their international activity.

Growth in both gross profit and operating profit has been robust in the Research and Consulting division, with continued strength in pharmaceutical activity which now accounts for 45% of the Group's research and consulting work. New client wins have been healthy across a range of client sectors. This has more than compensated for the expected slowdown of public sector work in the Tangible division compared to the first half of 2010.

Operating cash flow has been in line with expectations and as a consequence net debt has fallen to £11.2m. Earn out obligations continue to reduce significantly following further settlements in May 2011.

The Group continues to expand internationally, particularly in the USA and Asia. International work now accounts for over 50% of the Group's research and consulting activity. Cello also continues to invest in its industry-leading on-line social media research capability which is being sold on an international basis.

Financial review

Revenue for the six months to 30 June 2011 was £62.9m (2010: £61.5m) and gross profit was £30.5m (2010: £29.9m). Headline operating profit was £3.4m (2010: £3.3m). Headline operating margins rose slightly to 11.1% (2010: 10.9%).

Headline pre-tax profit, after a reduced interest charge of £0.3m (2010: £0.4m) was up 7.7% to £3.1m (2010: £2.8m).

On 22 March 2011, the Group completed the acquisition of MedErgy HealthGroup Inc, for a total consideration of £7.4m. The consideration was satisfied by the issue of 5.8m new ordinary shares and by cash consideration of £3.4m. The cash consideration was funded partly by existing debt facilities and partly by the proceeds of a £2.8m gross placing of new ordinary shares. Professional costs on this acquisition amounted to £0.2m and these costs have been treated separately as an exceptional item. On 11 April 2011, the Group also acquired the entire share capital of Red Kite Consulting Group Limited. The consideration was immaterial. Both acquisitions are within the Research and Consulting division.

Headline basic earnings per share were 3.01p (2010: 3.48p). The drop is in line with expectations and has been influenced by the increase in the number of shares following settlement of earn out liabilities in 2010 and 2011.

The interim dividend has been increased by 5% to 0.55p (2010: 0.525p). It is payable on 6 January 2012 to all holders on the register on 9 December 2011.

The Group's net debt at 30 June 2011 reduced to £11.2m (2010: £11.7m) despite £2.2m of cash and loan note payments made under earn out arrangements in May 2011. Operating cash flow was in line with expectations, and reflects structural seasonality in the Tangible business.

Provisions for future earn outs continued to reduce and are now £3.3m (December 2010: £7.3m). This total is expected to be settled through a combination of cash and shares, payable between 2012 and 2014.

The following table details the adjustments made to calculate headline operating profit. The acquisition related remuneration and amortisation are non-cash items.

	Six months ended 30 June	
£m	2011	2010
Headline operating profit	**3.4**	**3.3**
Exceptional acquisition related costs	(0.2)	-
Acquisition related remuneration	(0.2)	(0.1)
Amortisation	(0.5)	(0.2)
Reported operating profit	**2.5**	**3.0**
Interest	**(0.3)**	**(0.4)**
Reported profit before tax	**2.2**	**2.6**
Reported earnings per share (p)	**2.0**	**3.2**

Review of Operations

The Group continues to benefit from a broad set of international client relationships. 18 of the top 20 clients from 2010 remained significant clients in 2011, with many increasing their spend. The Group's largest client accounts for no more than 5.5% of total income and the top 20 clients account for 40% of total income.

Pharmaceutical work now accounts for over 30% of total income and 45% of the Group's overall research and consulting activity. 11 of the Group's top 20 clients are in the pharmaceutical sector (2010: 9). In addition, Cello is also seeing growth from a range of other high margin international client sectors, including telecoms, IT and FMCG.

MedErgy, the US healthcare communications consulting business acquired by Cello in March, has had a good first three months as part of the Group, with several significant new business wins. A number of potentially major client opportunities have also arisen through joint client pitches with Cello's other health businesses. In addition, MedErgy has opened a UK operation to service European clients. Red Kite, the UK pharmaceutical consulting business acquired in April, has been successfully integrated with MSI, Cello's primary pharmaceutical consulting business.

The Group continues to invest in its international infrastructure. The Group's offices in New York and San Francisco have continued to expand. With the addition of the MedErgy office in Pennsylvania, the Group now employs nearly 100 people in the United States. To exploit increasing opportunities in Asia, the Group has also recently opened an office in Singapore with a strong management team. A Swiss office has been opened to service European pharmaceutical clients.

On-line activity in both divisions is becoming an increasingly core element of the Group's activity, with particular growth in on-line communities work undertaken for clients where Cello already has a strong research relationship. The Group's eVillage product, which specialises in web community development for the pharmaceutical sector, has experienced strong revenue growth and achieved rapid industry-wide recognition. E-Luminate, the web based community research product, has shown good client uptake. Face, the social media research consultancy, continues to grow robustly, and is now trading in New York.

Research and Consulting

Cello Research and Consulting revenues decreased by 1.3% to £31.0m (2010: £31.4m), with gross profit up 6.0% to £19.6m (2010: £18.5m). Like-for-like gross profit grew at 2.8%.

Headline operating profit was up 13.6% to £3.74m (2010: £3.30m). Headline operating margins improved to 19.1% (2010: 17.8%).

Pharmaceutical and health related activity accounted for 45% of this division's income (2010: 41%). Key clients included HP, Boehringer Ingelheim, Johnson and Johnson, Pfizer, Novartis, GSK, Unilever, BA, VISA and Nokia, which are all long standing Group clients. The Group's focus remains on developing larger relationships into global ones where more advisory value added services can be provided.

New business momentum has been strong with material project wins over the past six months from: Novo, Shire, Sanofi Aventis, AMREF, Danone, Nestle, Tata, Parkinson's UK, Mundipharma, Philips, Carlsberg, EA Games, Heinz, Janssen Pharmaceuticals, NFU Mutual, Royal Caribbean Cruises, Sony Ericsson, SimplyHealth, Wrigleys China, Abbott, Actelion, Pfizer, Roche, Novartis, Allergan, Viiv, GSK Biologicals, GSK Global, Sandoz, Steifel, Teva, UCB Pharma, Astellas, Astra Zeneca, Merz, MSD, Merck Serono, Johnson and Johnson, Boots, Advanced Bio Healing and Vertex.

Cello continues to be highly innovative in its product development, with a particular focus on using social media for research applications where it is a market leader. The Group will continue to invest in and further develop this growth area.

Profit growth was strongest amongst international clients seeking a global perspective on marketing and research issues. To better capture the market for global studies, often commissioned by US clients, the Group has opened an office in Singapore. It will act as a central hub for the Group's Asian client activities. Cello plans to expand further in the US to secure an increased share of international client spend, particularly in the pharmaceutical area which accounts for over 70% of the Group's US income.

On 1 July 2011, and as detailed in the Group's trading statement of 6 July 2011, the Group was informed of the loss of a single large retail research contract following a competitive tender process. The Group has taken immediate action to reduce costs associated with servicing this contract, predominantly through a reduction in the number of professional staff.

Tangible

Tangible, the marketing communications delivery business, met management expectations, generating revenue of £32.0m (2010: £30.1m); £10.9m of gross profit (2010: £11.4m) and headline operating profit of £0.4m (2010: £0.8m). Headline operating margins were 3.9% (2010: 7.2%).

Tangible has won significant new business in the past six months from clients including: Endsleigh Insurance, Macmillan Cancer Care, Blue Cross, Friends of the Earth, Clic Sargent, Keesing Media Group, Damart, Birdseye, Lucozade (GSK), Johnson and Johnson , Kimberly Clark, Unilever, Ernst & Young, AstraZeneca, Nike Foundation, Camelot, Reckitt Benckiser, Expedia, Rayban (Luxottica Group), Coleman, Philips, Halifax Share Dealing, Hiscox, Fidelity, JP Morgan, British Heart Foundation, Chelsea FC, VSO, BT, The Post Office and Jacques Vert.

The decline in like for like gross profit and margins largely reflects the sharp reduction in public sector spend compared to a strong burst of public sector spend in Scotland during the first six months of 2010. As expected, this has not been repeated in 2011 and public sector spend has reduced by around 50%. In the second half of the year, there is evidence of some public sector activity returning, particularly in Scotland.

Tangible has experienced a good flow of private sector new business wins, especially in financial services. This is expected to contribute to a more robust second half performance. The Group is also committed to increasing full year operating margins in Tangible, and as a consequence there have been some headcount reductions in the second half.

These reductions, combined with those necessary in the research business following the contract loss mentioned above, will result in an estimated full year exceptional charge of around £0.7m.

With this action, and with the impact of normal seasonality and recent new business wins, the Group expects that Tangible will produce like-for-like operating profit growth on a full year basis compared to 2010.

Current trading and outlook

Whilst it is clear that the current economic backdrop remains challenging, the Group's emphasis on servicing international blue-chip clients, with a particular focus on the pharmaceutical sector, leaves it well positioned for growth. With a robust pipeline of opportunities and booked work for the second half of the year, the Board is confident that management's expectations for 2011 will be met.

Allan Rich
Non-Executive Chairman
13 September 2011

Condensed Consolidated Income Statement
For the six months ended 30 June 2011

	Notes	Unaudited Six months ended 30 June 2011 £'000	Unaudited Six months ended 30 June 2010 £'000	Audited Year ended 31 December 2010 £'000
Continuing operations				
Revenue	5	62,927	61,485	124,965
Cost of sales		(32,440)	(31,558)	(64,672)
Gross profit	5	30,487	29,927	60,293
Administration expenses		(27,969)	(26,895)	(54,555)
Operating profit	5	2,518	3,032	5,738
Financial income	8	38	49	188
Other finance costs	8	(366)	(460)	(998)
Profit on continuing operations before taxation	5	2,190	2,621	4,928
Tax	9	(704)	(726)	(1,306)
Profit on continuing operations after taxation		1,486	1,895	3,622
Loss from discontinued operations	10	-	(34)	(15)
Profit for the year		1,486	1,861	3,607
Profit attributable to:				
Equity holders of parent		1,330	1,806	3,463
Non-controlling interests		156	55	144
		1,486	1,861	3,607

		Unaudited Six months ended 30 June 2011 £'000	Unaudited Six months ended 30 June 2010 as restated £'000	Audited Year ended 31 December 2010 £'000
Basic earnings/(loss) per share				
From continuing operations	11	1.96 p	3.17 p	5.88 p
From discontinued operations	11	0.00 p	(0.06)p	(0.03)p
Diluted earnings/(loss) per share				
From continuing operations	11	1.85 p	3.06 p	5.25p
From discontinued operations	11	0.00 p	(0.06)p	(0.03)p

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2011

	Unaudited Six months ended 30 June 2011 £'000	Unaudited Six months ended 30 June 2010 £'000	Audited Year ended 31 December 2010 £'000
Profit for the period	1,486	1,861	3,607
Other comprehensive income:			
Exchange differences on translation of foreign operations	25	10	(10)
Total comprehensive income for the year	1,511	1,871	3,597
Total comprehensive income attributable to:			
Equity holders of the parent	1,355	1,816	3,453
Non-controlling interests	156	55	144
	1,511	1,871	3,597

Reconciliation of profit before tax to headline profit before tax

	Notes	Six months ended 30 June 2011 £'000	Six months ended 30 June 2010 £'000	Year ended 30 December 2010 £'000
Profit on continuing operations before taxation		2,190	2,621	4,928
Exceptional costs	7	-	-	822
Acquisition costs	7	211	-	-
Amortisation of intangible assets		457	165	344
Acquisition related employee remuneration expense		159	60	362
Share options charge		39	-	39
Finance cost of deferred consideration		32	29	78
Fair value gain on derivative instruments		(26)	(31)	(170)
Headline profit before tax		3,062	2,844	6,403
Headline profit is made up as follows:				
Headline operating profit		3,384	3,257	7,305
Headline finance income	8	12	18	18
Headline finance costs	8	(334)	(431)	(920)
Headline profit before tax		3,062	2,844	6,403

Condensed Consolidated Balance Sheet
As at 30 June 2011

		Unaudited At 30 June 2011 £'000	Unaudited At 30 June 2010 as restated £'000	Audited At 31 December 2010 £'000
Goodwill	12	76,321	68,841	71,155
Intangible assets		3,029	1,138	1,113
Property, plant and equipment		2,113	2,464	2,124
Available-for-sale investments		-	41	-
Deferred tax assets		1,082	834	964
Non-current assets		82,545	73,318	75,356
Trade and other receivables		28,698	23,659	26,370
Cash and cash equivalents		5,097	2,917	797
Current assets		33,795	26,576	27,167
Trade and other payables		(25,746)	(22,298)	(25,460)
Current tax liabilities		(1,463)	(1,147)	(1,219)
Borrowings		(5,588)	(4,217)	(3,208)
Consideration payable in respect of acquisitions	14	-	-	(5,285)
Obligations under finance leases		(47)	(59)	(57)
Derivative financial instruments		-	(154)	-
Current liabilities		(32,844)	(27,875)	(35,229)
Net current assets/(liabilities)		951	(1,299)	(8,062)
Total assets less current liabilities		83,496	72,019	67,294
Non-current liabilities				
Borrowings		(10,600)	(10,250)	(6,250)
Provisions		(110)	-	(456)
Contingent consideration payable in respect of acquisitions	14	(3,253)	(4,591)	(1,976)
Obligations under finance leases		(46)	(63)	(54)
Derivative financial instruments		(93)	(104)	(119)
Deferred tax liabilities		(1,045)	(260)	(196)
Non-current liabilities		(15,147)	(15,268)	(9,051)
Net assets		68,349	56,751	58,243
Equity				
Share capital	15	7,853	6,164	6,164
Share premium		18,104	15,738	15,738
Merger reserve		31,241	26,741	26,741
Capital redemption reserve		50	50	50
Retained earnings		10,518	7,838	9,187
Share-based payment reserve		151	73	112
Foreign currency reserve		(20)	(25)	(45)
Equity attributable to equity holders of parent		67,897	56,579	57,947
Non-controlling interests		452	172	296
Total equity		68,349	56,751	58,243

Condensed Consolidated Cash Flow Statement
For the six months ended 30 June 2011

	Notes	Unaudited Six months ended 30 June 2011 £'000	Unaudited Six months ended 30 June 2010 £'000	Audited Year ended 31 December 2010 £'000
Net cash inflow from operating activities before taxation	16a	928	2,962	7,800
Tax paid		(298)	(56)	(743)
Net cash inflow from operating activities after taxation		630	2,906	7,057
Investing activities				
Interest received		12	18	18
Purchase of property, plant and equipment		(343)	(530)	(917)
Sale of property, plant and equipment		5	20	74
Expenditure on intangible assets		(17)	(129)	(283)
Sale of available-for-sale investments		-	20	20
Purchase of subsidiary undertakings		(2,673)	(531)	(537)
Sale of subsidiary undertakings		-	-	(69)
Net cash outflow from investing activities		(3,016)	(1,132)	(1,694)
Financing activities				
Proceeds from issuance of shares		2,541	-	-
Dividends paid to equity holders		-	(491)	(814)
Drawdown/(repayment) of bank loans		4,600	(750)	(4,350)
Repayment of loan notes		(105)	(36)	(1,445)
Capital element of finance lease payments		(18)	(53)	(22)
Interest paid		(324)	(675)	(1,054)
Net cash inflow/(outflow) from financing		6,694	(2,005)	(7,685)
Movements in cash and cash equivalents				
Net increase/(decrease) in cash and cash equivalents		4,308	(231)	(2,322)
Exchange gains on cash and bank overdrafts		(8)	13	(16)
Cash and cash equivalents at the beginning of the period		797	3,135	3,135
Cash and cash equivalents at end of the period		5,097	2,917	797

Condensed Consolidated Statement of Changes in Equity
For the six months ended 30 June 2011

Statement of changes in equity for the six months ended 30 June 2011:

	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Capital Redemption Reserve £'000	Retained Earnings £'000	Share-based Payment Reserve £'000	Currency Exchange Reserve £'000	Attributable to Equity Shareholders £'000	Non-Controlling Interest £'000	Total Equity £'000
At 1 January 2011	6,164	15,738	26,741	50	9,187	112	(45)	57,947	296	58,243
Profit for the period	-	-	-	-	1,330	-	-	1,330	156	1,486
Other comprehensive income:										
Currency translation	-	-	-	-	-	-	25	25	-	25
Total comprehensive income in the period	-	-	-	-	1,330	-	25	1,355	156	1,511
Transactions with owners										
Shares issued	1,689	2,366	4,500	-	-	-	-	8,555	-	8,555
Credit for share-based incentives	-	-	-	-	-	39	-	39	-	39
Deferred tax on share based payments recognised directly in equity	-	-	-	-	1	-	-	1	-	1
Total transactions with owners	1,689	2,366	4,500	-	1	39	-	8,595	-	8,595
As at 30 June 2011	7,853	18,104	31,241	50	10,518	151	(20)	67,897	452	68,349

Statement of changes in equity for the six months ended 30 June 2010:

	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Capital Redemption Reserve £'000	Retained Earnings £'000	Share-based Payment Reserve £'000	Currency Exchange Reserve £'000	Attributable to Equity Shareholders £'000	Non-Controlling Interest £'000	Total Equity £'000
At 1 January 2010 (as previously stated)	5,876	34,945	10,496	50	2,904	73	(35)	54,309	117	54,426
Restatement	-	(19,401)	15,782	-	3,619	-	-	-	-	-
At 1 January 2010 (as restated)	5,876	15,544	26,278	50	6,523	73	(35)	54,309	117	54,426
Profit for the period	-	-	-	-	1,806	-	-	1,806	55	1,861
Other comprehensive income:										
Currency translation	-	-	-	-	-	-	10	10	-	10
Total comprehensive income in the period	-	-	-	-	1,806	-	10	1,816	55	1,871
Transactions with owners:										
Shares issued	288	194	463	-	-	-	-	945	-	945
Dividends paid	-	-	-	-	(491)	-	-	(491)	-	(491)
Total transactions with owners	288	194	463	-	(491)	-	-	454	-	454
At 30 June 2010	6,164	15,738	26,741	50	7,838	73	(25)	56,579	172	56,751

Statement of changes in equity for the year ended 31 December 2010:

	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Capital Redemption Reserve £'000	Retained Earnings £'000	Share-based Payment Reserve £'000	Currency Exchange Reserve £'000	Attributable to Equity Shareholders £'000	Non-Controlling Interest £'000	Total Equity £'000
At 1 January 2010	5,876	15,544	26,278	50	6,523	73	(35)	54,309	117	54,426
Profit for the period	-	-	-	-	3,463	-	-	3,463	144	3,607
Other comprehensive income:										
Currency translation	-	-	-	-	-	-	(10)	(10)	-	(10)
Total comprehensive income for the period	-	-	-	-	3,463	-	(10)	3,453	144	3,597
Transactions with owners:										
Shares issued	288	194	463	-	-	-	-	945	-	945
Credit for share-based incentives	-	-	-	-	-	39	-	39	-	39
Deferred tax on share based payments recognised directly in equity	-	-	-	-	15	-	-	15	-	15
Charges in non-controlling interests in shareholding	-	-	-	-	-	-	-	-	35	35
Dividends paid	-	-	-	-	(814)	-	-	(814)	-	(814)
Total transactions with owners	288	194	463	-	(799)	39	-	185	35	220
As at 31 December 2010	6,164	15,738	26,741	50	9,187	112	(45)	57,947	296	58,243

Notes to the Financial Information
For the six months ended 30 June 2011

1. ACCOUNTING POLICIES AND BASIS OF PREPARATION

The condensed consolidated financial information for the six months ended 30 June 2011 has been prepared in accordance with IAS 34 *Interim Financial Reporting*, as adopted by the European Union. The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with IFRSs as adopted by the European Union.

The condensed consolidated financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2010 were approved by the Board of directors on 14 March 2011 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

The condensed consolidated financial information was approved for issue on 12 September 2011 and has neither been audited or reviewed.

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2010, as described in those annual financial statements.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011:

- IAS 24 (revised) Related party disclosures
- IAS 32 (amendments) Financial instruments: Presentation on classification of rights issues
- IFRS 1 (amendment) First time adoption on financial instrument disclosures
- IFRIC 14 Pre-payment of a minimum funding requirement
- IFRIC 19 Extinguishing financial liabilities with equity instruments

The adoption of these standards has not had a material effect on the financial statements of the group.

2. HEADLINE MEASURES

The Group believes that reporting non-GAAP or headline measures provides a useful comparison of business performance and reflects the way the business is controlled. Accordingly headline measures of operating profit, finance income, finance costs, profit before taxation and earnings per share exclude, where applicable, restructuring costs, amortisation of intangible assets, impairment charges, acquisition accounting adjustments, share option charges, fair value gains and losses on derivative financial instruments and other exceptional costs. Exceptional costs are items that, in the opinion of the directors, are required to be disclosed separately, by virtue of their size or incidence, to enable a full understanding of the Group's financial performance.

A reconciliation between reported and headline profit/(loss) before taxation is presented after the Condensed Consolidated Statement of Comprehensive Income. In addition to this, a reconciliation between reported and headline operating profit is presented in note 5, a reconciliation between reported and headline finance income and costs is presented in note 8 and a reconciliation between reported and headline earnings per share is presented in note 11. Headline measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies.

3. RESTATEMENTS

In the year ended 31 December 2010, the Group made restatements in relation to merger relief and employee benefit trusts. These restatements also effect the condensed financial statements for the six months ended 30 June 2010. The effect of these restatements is given below.

Section 612 of the Companies Act 2006 (and previously section 131 of the Companies Act 1985) provides for mandatory relief from the recording of a share premium on shares issued in return for certain equity interests in other companies. In previous years, the Group had recorded a share premium on such transactions. Equity has therefore been restated to reclassify these amounts to a merger reserve. In addition, this merger reserve has been reduced by way of transfers to retained earnings to cover historic impairment charges in accordance with company law. The overall effect of this restatement at 1 January 2010 was a reduction in share premium of £19,401,000, an increase in merger reserve of £15,782,000 and an increase in retained earnings of £3,619,000. There is no impact on net assets or on amount recorded in the income statement or cash flow statement.

The Group had previously not consolidated certain employee benefit trusts set up as part of business combinations to remunerate management of the acquired company. Having further considered the nature of these trusts, the directors now believe that it is appropriate to consolidate these trusts because the activities of the trusts are being conducted on behalf of the Group, specific to its business needs, such that the Group derives benefits from the trusts' operations. The consolidation of these trusts has not resulted in an adjustment to profit/(loss) or net assets in previous years. The only material impact is in respect of shares held by these trusts on earnings per share as reported in the prior year. The restated basic earnings per share from continuing operations and headline basic earnings per share figures for the six months ended 30 June 2010 are 0.07 pence higher than previously reported and the restated diluted earnings per share from continuing operations is 0.06 pence higher than previously reported.

4. SEASONALITY OF OPERATIONS

The Research and Consulting division is not materially influenced by seasonal factors. However, there are a number of clients in the Tangible division who traditionally commission activity in the second half of the year leading to increased revenues for that period with respect to those clients.

5. SEGMENTAL INFORMATION

Six months ended 30 June 2011

	Research and Consulting £'000	Tangible Group £'000	Unallocated Corporate Expenses £'000	Group £'000
Profit and loss				
Revenue				
External sales	30,956	31,971	-	62,927
Intersegmental revenue	-	-	-	-
	30,956	31,971	-	62,927
Gross profit	19,608	10,879	-	30,487
Headline operating profit (headline segment result)	3,741	426	(783)	3,384
Acquisition costs	(211)	-	-	(211)
Amortisation of intangible assets	(385)	(72)	-	(457)
Acquisition related employee expense	(37)	(122)	-	(159)
Share option charges	(15)	(5)	(19)	(39)
Operating profit (segment result)	3,093	227	(802)	2,518
Financing income				38
Finance costs				(366)
Profit before tax				2,190
Other information				
Additions to property plant and equipment	207	135	1	343
Capitalisation of intangible assets	442	17	-	459
Depreciation of property, plant and equipment	262	199	5	466

Six months ended 30 June 2010

	Research and Consulting £'000	Tangible Group £'000	Unallocated Corporate Expenses £'000	Group £'000
Profit and loss				
Revenue:				
External sales	31,351	30,134	-	61,485
Intersegmental revenue	-	-	-	-
	31,351	30,134	-	61,485
Gross profit	18,496	11,431	-	29,927
Headline operating profit (headline segment result)	3,293	831	(867)	3,257
Amortisation of intangible assets	(114)	(51)	-	(165)
Acquisition related employee expense	(60)	-	-	(60)
Operating profit (segment result)	3,119	780	(867)	3,032
Financing income				49
Finance costs				(460)
Profit before tax				2,621
Other information				
Additions to property plant and equipment	254	275	1	530
Capitalisation of intangible assets	-	129	-	129
Depreciation of property, plant and equipment	297	280	5	582

Year ended 31 December 2010

	Research and Consulting £'000	Tangible Group £'000	Unallocated Corporate Expenses £'000	Group £'000
Profit and loss				
Revenue:				
External sales	59,782	65,183	-	124,965
Intersegmental revenue	114	96	(210)	-
	59,896	65,279	(210)	124,965
Gross profit	36,858	23,435	-	60,293
Headline operating profit (headline segment result)	6,946	2,210	(1,851)	7,305
Restructuring costs	(822)	-	-	(822)
Amortisation of intangible assets	(228)	(116)	-	(344)
Acquisition related employee expense	(362)	-	-	(362)
Share option charges	(15)	(5)	(19)	(39)
Operating profit (segment result)	5,519	2,089	(1,870)	5,738
Financing income				188
Finance costs				(998)
Profit before tax				4,928
Other information				
Additions to property plant and equipment	543	368	6	917
Capitalisation of intangible assets	-	283	-	283
Depreciation of property, plant and equipment	568	541	42	1,151

6. DIVIDEND

An interim dividend of 0.55p (2010: 0.525p) per ordinary share is declared and will be paid on 6 January 2012 to all shareholders on the register on 9 December 2011. In accordance with IAS 10 *Events after the Balance Sheet Date*, this dividend has not been recognised in the accounts at 30 June 2011, but will be recognised in the accounting period ending 31 December 2012.

7. EXCEPTIONAL ITEMS AND ACQUISITION COSTS

The exceptional items in 2010 are redundancy and restructuring costs which had a material effect on the results of that year.

In the period ended 30 June 2011 the group incurred £211,000 of professional cost in relation to acquisitions.

Exceptional items and acquisition costs have been separately disclosed in order to assist in understanding the financial performance of the Group.

8. FINANCE INCOME AND COSTS

	Unaudited Six months ended 30 June 2011 £'000	Unaudited Six months ended 30 June 2010 £'000	Audited Year ended 31 December 2010 £'000
Finance income:			
Interest receivable on bank deposits	12	18	18
Headline finance income	12	18	18
Fair value gains on derivative financial instruments	26	31	170
Total finance income	38	49	188
Finance costs:			
Interest payable on bank loans and overdrafts	290	262	594
Interest payable on loan notes	-	1	1
Interest payable in respect of finance leases	5	13	13
Finance costs on cap and collar interest rate hedge	39	155	312
Headline finance costs	334	431	920
Notional finance costs on future deferred consideration	32	29	78
Total finance costs	366	460	998

9. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

The tax charge for the period ended 30 June 2011 is based on management's estimate of weighted average annual tax rate expected for the full financial year. The estimated average annual tax rate used is 29.0% (2010: 30.2%).

10. DISCONTINUED OPERATIONS

The loss for the discontinued operations in the period ended 30 June 2010 and the year ended 31 December 2010 relates to OMP Services Limited, a company in which the Group held a 50.1% stake. OMP Services Limited was sold to the non-controlling interests in December 2010.

In accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations the income statement for the period ended 30 June 2010 and year ended 31 December 2010 has been re-presented to include income and expenses of the discontinued operations within loss for discontinued operations.

The financial performance and cash flow of the discontinued operations are as follows:

	Unaudited Six months ended 30 June 2011 £'000	Audited Six months ended 30 June 2010 £'000	Audited Year ended 31 December 2010 £'000
Revenue	-	1,660	2,850
Cost of sales	-	(1,323)	(2,198)
Gross profit	-	337	652
Administrative expenses	-	(371)	(702)
Post-tax loss on discontinued operations	-	(34)	(50)
Profit on disposal of discontinued operations	-	-	35
Loss in the period from discontinued operations	-	(34)	(15)
Loss for the period from discontinued operations is attributable to:			
Equity holders of the parent	-	(17)	10
Non-controlling interest	-	(17)	(25)
	-	(34)	(15)

	Unaudited Six months ended 30 June 2011 £'000	Audited Six months ended 30 June 2010 £'000	Audited Year ended 31 December 2010 £'000
Operating cash inflows/(outflows)	-	179	(30)
Investing cash outflows	-	(1)	(77)
Total cash flows	-	178	(107)

11. EARNINGS/(LOSS) PER SHARE

	Unaudited Six months ended 30 June 2011 £'000	Unaudited Six months ended 30 June 2010 £'000	Audited Year ended 31 December 2010 £'000
Earnings attributable to ordinary shareholders	1,330	1,806	3,463
Loss from discontinuing operations	-	34	15
Earnings attributable to ordinary shareholders for continuing operations	1,330	1,840	3,478
Adjustments to earnings:			
Exceptional items	-	-	822
Acquisition costs	211	-	-
Amortisation of intangible assets	457	165	344
Acquisition related employee remuneration expense	159	60	362
Share option charges	39	-	39
Finance costs on deferred consideration	32	29	78
Fair value gain on derivative financial instruments	(26)	(31)	(170)
Tax thereon	(164)	(40)	(421)
Headline earnings attributable to ordinary shareholders	2,038	2,023	4,532

	30 June 2011 number of shares	30 June 2010 number of shares as restated	30 December 2010 number of shares
Weighted average number of ordinary shares	69,622,829	59,638,082	60,649,614
Weighted average number of treasury share	(237,000)	(237,000)	(237,000)
Weighted average number of shares held in employee benefit trusts	(1,582,097)	(1,287,281)	(1,307,074)
Weighted average number of ordinary shares	67,803,732	58,113,801	59,105,540
Dilutive effect of securities:			
Deferred consideration shares to be issued	4,126,006	2,006,572	7,105,287
Diluted weighted average number of ordinary shares	71,929,738	60,120,373	66,210,827
Further dilutive effect of securities:			
Share options	2,308,715	-	2,308,715
Contingent consideration shares to be issued	4,294,145	7,939,522	2,242,594
Fully diluted weighted average number of ordinary shares	78,532,598	68,059,895	70,762,136

Basic earnings/(loss) per share			
Continuing operations	1.96 p	3.17 p	5.88 p
Discontinuing operations	0.00 p	(0.06)p	(0.03)p
Diluted earnings/(loss) per share			
Continuing operations	1.85 p	3.06 p	5.25 p
Discontinuing operations	0.00 p	(0.06)p	(0.03)p

In addition to basic and diluted earnings/(loss) per share, headline earnings per share and fully diluted earnings per share, which are non-GAAP measures, have also been presented.

Fully diluted earnings/(loss) per share			
Continuing operations	1.69 p	2.70 p	4.92 p
Discontinuing operations	0.00 p	(0.06)p	(0.03)p
Headline earnings per share			
Headline basic eps	3.01 p	3.48 p	7.67 p
Headline diluted eps	2.83 p	3.36 p	6.84 p
Headline fully diluted eps	2.60 p	2.97 p	6.40 p

Basic earnings/(loss) per share is calculated by dividing the earnings/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding treasury shares and shares in employee benefit trusts, determined in accordance with the provisions of IAS 33 Earnings Per Share.

Diluted earnings/(loss) per share is calculated by dividing earnings/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year adjusted for the potentially dilutive ordinary shares for which the conditions of issue have substantially been met but not issued at the end of the year.

The Group's potentially dilutive shares are shares expected to be issued as deferred consideration on acquisitions and share options issued but not exercised.

Fully diluted earnings/(loss) per share is calculated by dividing earnings/(loss) attributable to ordinary shareholders by the weighted average number of shares in issue during the year adjusted for all of the potentially dilutive ordinary shares expected to be issued in future period whether or not the conditions of the issue have substantially been met. This measure is presented to show the dilutive effect on earnings per share of all shares expected to be issued in the future.

Headline earnings per share is calculated using headline earnings attributable to ordinary shareholders, which excludes the effect of restructuring costs, amortisation of intangibles, impairments charges, acquisition accounting adjustments, share option charges, fair value gains and losses on derivative financial instruments and other exceptional costs on profit/(loss) attributable to ordinary shareholders, in accordance with the way the business is controlled.

12. GOODWILL

	Unaudited 30 June 2011 £'000	Unaudited 30 June 2010 £'000	Audited 31 December 2010 £'000
Cost			
At 1 January 2011	71,155	67,926	67,926
Goodwill arising on acquisitions in the period	5,081	-	-
Adjustment to fair value of deferred consideration	54	915	3,229
Foreign exchange differences	31	-	-
At 30 June 2011	76,321	68,841	71,155

The adjustment to the fair value of deferred consideration relates to changes in estimate of deferred consideration payable under earn out arrangements for acquisitions before 1 July 2009 in accordance with the terms of the relevant acquisition agreements.

13. ACQUISITIONS

MedErgy

On 22 March 2011, the Group acquired the entire share capital of MedErgy HealthGroup Inc. (a company incorporated in the United States), a healthcare communications consulting company based in Pennsylvania, USA.

MedErgy has contributed £1.7m to revenue and £0.4m to profit before tax for the period between the date of acquisition and the balance sheet date. Had MedErgy been consolidated from 1 January 2011, the consolidated income statement for the six months ended 30 June 2011 would show revenue of £64.2m and profit before tax of £2.4m.

The provisional fair value of the net assets at the acquisition date is as follows:

	Fair value £'000
Client relationship	2,348
Property, plant and equipment	159
Deferred tax assets	99
Trade and other receivables	2,686
Cash and cash equivalents	706
Trade and other payables	(2,696)
Deferred tax liability	(992)
Net assets acquired	2,310
Goodwill arising on acquisition	5,081
	7,391

The fair value of trade and other receivables include trade receivables with a fair value of £661,000. The gross contractual amount of trade receivables due is £733,000 of which £72,000 is expected to be uncollectable.

Goodwill comprises the value of expected synergies arising from the acquisition and other intangible assets that do not qualify for separate recognition. None of the goodwill recognised is expected to be deductible for income tax purposes.

The provisional fair value of the consideration paid is as follows:

	£'000
Cash consideration	3,400
Issue of ordinary shares	3,163
Deferred consideration	434
Deferred contingent consideration	394
	7,391

The fair value of the contingent consideration payment is based on forecast average profits for the period from acquisition to 31 December 2013. The potential discounted amount of all future payments that the Group could be required to make under this arrangements is between nil and £1,082,000 and will be paid in a combination of cash and shares at the Group's discretion.

Acquisition costs of £190,000 were incurred. These costs have been included in administration costs in the income statement, but have been excluded from headline measures.

Red Kite

On 11 April 2011, the Group acquired the entire share capital of the Red Kite Consulting Group Limited (a company incorporated in England and Wales); a UK based pharmaceutical consulting business. The net assets acquired and consideration paid were immaterial.

14. CONSIDERATION PAYABLE FOR ACQUISITIONS

	Unaudited Six months ended 30 June 2011 £'000	Unaudited Six months ended 30 June 2010 £'000	Audited Year ended 31 December 2010 £'000
At 1 January 2011	7,261	5,787	5,787
Additions in the period	828	-	-
Settled in the period	(5,086)	(2,200)	(2,193)
Adjustment to provisions of additions in prior periods	54	915	3,227
Acquisition related employee remuneration expense	159	60	362
Notional finance costs on future deferred consideration payments	32	29	78
Foreign currency differences	5	-	-
At 30 June 2011	3,253	4,591	7,261
Consideration is payable as follows:			
Earn out related cash payables	1,760	2,050	3,376
Shares to be issued	1,493	2,541	3,885
	3,253	4,591	7,261

Deferred payments for acquisitions are to be in cash and shares. In the analysis above the minimum percentage of cash has been assumed. However, at the Group's sole discretion and in accordance with the terms of the relevant acquisition agreements, this percentage can be increased.

Total deferred consideration is included in the balance sheet as follows:

	Unaudited Six months ended 30 June 2010 £'000	Audited Year ended 31 December 2010 £'000	Unaudited Six months ended 30 June 2011 £'000
Current liabilities:			
Consideration payable in respect of acquisitions	-	-	5,285
Non-current liabilities:			
Contingent consideration payable in respect of acquisitions	3,253	4,591	1,976
	3,253	4,591	7,261

£874,000 (2010: nil) of the contingent consideration payable is in respect of acquisitions after 1 July 2009 and is a financial instrument in accordance with the IFRS 3 (revised) Business Combinations. £2,379,000 (2010: £4,591,000) of the contingent payable in respect of acquisitions are provisions in accordance with IFRS 3 Business Combinations.

15. SHARE CAPITAL

	Unaudited At 30 June 2011 £'000	Unaudited At 30 June 2010 £'000	Audited At 31 December 2010 £'000
Authorised:			
84,600,000 ordinary shares of 10p each	8,460	8,460	8,460
Allotted, issued and fully paid			
78,526,706 ordinary shares of 10p each	7,853	6,164	6,164

During the interim period the following shares were issued:

On 15 March 2011, 5,333,333 ordinary shares of 10p each were issued at a placing price of 52.5p to new and existing shareholders.

On 22 March 2011, 5,804,049 ordinary shares of 10p each were issued at a value of 54.5p to the vendors of MedErgy HealthGroup Inc. pursuant to the terms of the share purchase agreement of that company.

On 11 May 2011, 5,744,670 ordinary shares of 10p each were issued at a value of 49.6p to the vendors of 2CV Limited and The MSI Consultancy pursuant to the terms of the share price agreements of these companies.

16. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	Unaudited Six months ended 30 June 2011 £'000	Unaudited Six months ended 30 June 2010 £'000	Audited Year ended 31 December 2010 £'000
Profit for the period	1,486	1,861	3,607
Financing income	(38)	(49)	(188)
Finance costs	366	460	998
Tax	704	726	1,306
Depreciation	466	582	1,151
Amortisation of intangible assets	457	165	344
Share based payment expense	39	-	39
Acquisition related employee remuneration expense	159	60	362
Loss on disposal of property, plant and equipment	34	23	76
Profit on disposal of subsidiary undertakings	-	-	(35)
Decrease/(increase) in receivables	190	2,255	(1,106)
(Decrease)/increase in payables	(2,935)	(3,121)	1,246
Net cash inflow from operating activities	928	2,962	7,800

(b) Analysis of net debt

	At 1 January 2011 £'000	Cash flow £'000	Other non-cash changes £,000	Foreign exchange £,000	At 30 June 2011 £'000
Cash and cash equivalents	797	4,308	-	(8)	5,097
Loan notes	(458)	105	(2,235)	-	(2,588)
Bank loans	(9,000)	(4,600)	-	-	(13,600)
Finance leases	(111)	18	-	-	(93)
	(8,772)	(169)	(2,235)	(8)	(11,184)