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Cello Group plc

Strong 2014 performance – robust gross profit growth.

Cello Group plc (AIM:CLL, "Cello" or "the Group"), the pharmaceutical and consumer strategic marketing group, today announces its final audited results for the year to 31 December 2014.

Financial Highlights

- Revenue up 6.4% to £169.9m (2013: £159.7m)
- Gross profit up 8.4% to £81.0m (2013: £74.7m)
- Like-for-like[1] gross profit growth of 3.9%
- Headline[2] profit before tax up 9.9% to £9.4m (2013: £8.5m)
- Headline basic earnings per share[3] up 12.3% to 8.14p (2013: 7.25p)
- Statutory basic earnings per share 2.70p (2013: 4.41p)
- Full Year dividend up 15.6% to 2.60p (2013: 2.25p)
- Pre-tax provision made for £2.1m VAT liability with HMRC. Considerable progress made in negotiations
- Good start to 2015, with encouraging bookings momentum continuing from Q4 2014

Divisional Highlights

	Cello Health			Cello Signal		
	2014 £'000	2013 £'000	% change	2014 £'000	2013 £'000	% change
Gross profit	39,966	35,632	12.2%	39,469	37,873	4.2%
Headline operating profit	8,464	7,560	12.0%	3,433	3,877	(11.45)%
Headline operating margin[4]	21.2%	21.2%		8.7%	10.2%	

- Cello Health like-for-like gross profit growth of 3.6%, margins maintained at competitive levels.
- Cello Signal like-for-like gross profit growth of 4.2%, solid performance against tough comparative and Pulsar headline operating loss of £0.4m.

Operational Highlights

- Successful launch of Cello Health brand (www.cellohealth.com), which replaces a number of core existing operating brands.
- Successful acquisition of iS Healthcare Dynamics Limited in May 2014.
- Strong performance from recent start-ups, together contributing £1.5m of gross profit in 2014.
- Major Cello Health contract win for 2015, contributing at least $7m of gross profit in 2015.
- Appointment of Stephen Highley, Chairman of Cello Health, as Chief Operating Officer of Cello Group plc with immediate effect.

Mark Scott, Chief Executive, commented:

"2014 was a critical year in establishing Cello Health as an integrated global player in the pharma space under a single brand and operating structure. We have been very pleased with the positive impact this has had on our ability to compete for and win large integrated contracts on a global scale. It also underpins our ability to continue our rapid expansion in the core US marketplace which is key to our growth strategy. I am also delighted to welcome Stephen Highley to the role of Chief Operating Officer to support the central management team in its rapid global expansion of the Group."

[1] Like-for-like measures exclude the results from companies acquired in the year and results from start-ups which are defined in note 6.
[2] Headline measures exclude, where applicable, restructuring costs, amortisation of intangible assets, impairment charges, acquisition accounting adjustments, start-up losses and the provision for VAT payable.
[3] Headline earnings per share is defined in note 9.
[4] Operating margin is calculated by expressing operating profit as a percentage of gross profit.

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Cello Group plc

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Overview

2014 saw a strong financial and operational performance. The Group reported an 8.4% increase in gross profit to £81.0m (2013: £74.7m) and headline profit before tax up 9.9% to £9.4m (2013: £8.5m).

2014 was the first full year of trading for Cello Health companies under the unified Cello Health brand. The potential of this unified structure to deliver sustained growth has been demonstrated by the type of contracts now being secured. This culminated in several joint project wins towards the end of 2014, as well as a significant $7m contract won at the end of the year.

The speed at which Cello Health has secured a global, integrated footprint has been reinforced by two focused acquisitions. The most significant was the acquisition by Cello Health of iS Healthcare Dynamics Limited ("iS Health") in May 2014, enabling Cello Health to offer a strengthened global medical education and communications capability. Cello Health also acquired Worldwide Promedica Inc ("Promedica") in December 2014, giving access to a new suite of biotech clients for the Cello Health Insight capability, as well as a physical presence on the West Coast of the USA for its other offerings. Expansion in the US market remains a high priority for Cello Health in 2015.

Cello Signal continued to make solid progress, against the headwind of a tough comparator for 2013 dominated by a one off large high margin project. Cello Signal continues to focus its activities into the growth areas of social media analytics and large scale technology platform building for communications applications. Cello Signal acquired Line Digital Limited ("Line Digital") in April 2014, adding essential programming and technological expertise. Cello Signal has also continued to push its global offering which is primarily focused on technology clients, with profitable offices now established in the USA and Asia. Pulsar, Cello Signal's social media analytics software product, continues to grow rapidly, with encouraging renewal rates so far in 2015.

The Group invested £0.4m in start-up activity during the year (2013: £0.4m), in new client offerings in Cello Health and Cello Signal and also in new overseas offices. These activities contributed £1.5m of gross profit in 2014 and we expect these businesses to grow their contribution to operating profits in the future.

As announced by the Group with its trading update on 22 January 2015, and subsequently on 9 February 2015, a subsidiary of Cello Signal is the subject of a review by HMRC regarding the VAT status of certain supplies to its charity clients. Agreement in principle has now been reached with HMRC on the most material of these supplies, and consequently a provision has been made for £2.1m. This provision is stated before any potential recovery from clients. Tax relief will also reduce the impact on the Group to £1.7m. While there are further types of supply on which queries have been raised, the amounts concerned are less material, and will be defended robustly.

The Board is pleased to announce the appointment of Stephen Highley, Chairman of Cello Health, as Chief Operating Officer of Cello Group plc to assist the senior team with the global expansion of the Group.

The New Year has started well, with good income visibility and solid momentum from the end of 2014.

Financial Review

Total Group gross profit was £81.0m (2013: £74.7m) on revenues of £169.9m (2013: £159.7m). Headline profit before tax was £9.4m (2013: £8.5m). The Group's results reflect a strong performance by Cello Health and a solid performance by Cello Signal against a tough comparator with 2013.

The Group's headline operating margin was 12.1% (2013: 12.2%) with a headline operating margin of 21.2% in Cello Health (2013: 21.2%), and 8.7% in Cello Signal (2013: 10.2%).

Headline finance costs were £0.4m (2013: £0.6m), reflecting the lower amortisation of facility costs as well as lower headline interest rates over the year, following the extension of bank facilities in September 2014.

The Group's tax charge was £1.5m (2013: £1.8m) which is a headline tax rate of 26.5% (2013: 29.8%). The headline tax rate is dropping as the UK Corporation Tax rate drops, and the geographical mix of profit changes.

Headline basic earnings per share was up 12.3% to 8.14p (2013: 7.25p).

Statutory profit before tax was £3.8m (2013: £5.5m) after the impact of acquisition related costs of £1.3m (2013: £0.8m); restructuring costs of £0.5m (2013: £0.5m); amortisation of £1.0m (2013: £1.2m); start-up losses of £0.4m (2013: £0.4m); and the provision for £2.1m following an HMRC review into some of Cello Signals activity in the charities sector.

In May 2014, the Group acquired the entire share capital of iS Health. The total maximum payable is £7.2m, and net assets acquired were £2.4m, which included £2.4m of cash. £2.5m was settled at closing in 2014, of which £2.0m was paid in cash with the balance paid in new ordinary shares. The remaining consideration will be payable in cash and new ordinary shares based on performance over the period ending 31 December 2016.

In December 2014, the Group acquired the entire share capital of Promedica. The total maximum payable is $2.5m. $0.7m was settled at closing in 2014. The balance is payable in cash and new ordinary shares based on performance over the period ending 31 December 2017.

In April 2014, the Group acquired the entire share capital of Line Digital. The total maximum payable is £0.5m. £0.2m was settled at closing in 2014 in cash. The balance will be payable in cash in May 2015, based on performance conditions.

Total Group estimated future acquisition related obligations are £3.6m, payable from 2015-2018, with a maximum of £0.7m payable in new ordinary shares.

Cello Health produced headline operating profit growth of 12.0% on an increase in gross profit of 12.2%, reflecting continued robust demand from global clients for its highly specialist range of clinically led services. It enjoyed a partial year contribution from iS Health which was acquired in May 2014. Like-for-like gross profit in Cello Health grew by 3.6%.

Cello Signal had a solid year, against an excellent year in 2013. Headline operating profit was £3.4m (2013: £3.9m) on gross profits of £39.5m (2013: £37.9m). Like-for-like gross profit growth was 4.2%. The fastest growing areas of Cello Signal were the US offices (27.8% gross profit growth) and pure digital services (35.5% gross profit growth). These areas are lower operating margin as they are still being invested in. This strong performance was substantially offset by the non-recurrence of a large high margin project that was completed in 2013.

A notable feature of the performance in Cello Signal was the growth of Pulsar, which grew its client base from 11 to 88 during the year. Pulsar is a social media analytics product which is sold on a licence basis. The product is continuing to sell well in 2015 and renewal rates of prior year licences are encouraging so far in 2015. Operating losses of £0.4m from Pulsar are included in headline numbers.

Over the past two years, the Group has invested in start-up initiatives as an efficient and profitable way to expand organically. We have continued this strategy in 2014, by opening up offices in Hong Kong, as well as investing in the continued development of Cello Health Consulting in the US. The total losses from these activities commenced in 2014 were £0.4m.

During 2014, the Group incurred exceptional costs of £0.5m, substantially as a result of the strategy to reshape the proposition of Cello Signal towards higher growth areas of social media and technology delivery, resulting in the reduction of certain skills areas not relevant to this agenda. This process will continue in 2015.

Operating cash flow before tax of £4.8m (2013: £11.1m) during the year represented a 48.7% conversion of headline operating profit. This followed excessive cash conversion in 2013 (121.8%), with the inevitable subsequent reversal of cash in early 2014. The Group's net debt position at 31 December 2014 was £7.2m (2013: £3.6m), reflecting this cash flow effect, investment in acquisitions and a one-off impact of the acceleration of the dividend payment. The net debt[1]:ebitda[2] ratio at 31 December 2014 was 0.6 (2013: 0.3). In September 2014, the Group was pleased to extend its debt facilities. They now expire in March 2018. Interest rate margins and annual facility cost amortisation were also reduced at this point. Total debt facilities are £20.0m with a £4.0m overdraft facility.

As announced by the Group with its trading update on 22 January 2015, and subsequently on 9 February 2015, a subsidiary of Cello Signal is the subject of a review by HMRC regarding the VAT status of certain supplies to its charity clients. Agreement in principle has now been reached with HMRC on the most material of these supplies, and consequently a provision has been made for £2.1m (before any tax deductions and recovery from clients). This agreement in principle has removed the potential for a considerable further claim on this core type of supply. Discussions and negotiations are still ongoing with HMRC on other less material types of supply as described in more detail in note 16. The Board continues to believe, with the support of its advisors and industry bodies, that these issues are unlikely to result in further material provisions in future years.

The Board is proposing a final dividend of 1.80p per share (2013: 1.61p), giving a total dividend for the year of 2.60p (2013: 2.25p) an increase of 15.6%. The dividend has grown every year since 2006 and has grown by 10% or more for the past five years. Subject to shareholder approval, the final dividend will be paid on 29 May 2015 to all shareholders on the register at 1 May 2015, and will be recognised in the year ending 31 December 2015. It should be noted, that as outlined in the interim results on 17 September 2014, this timetable is accelerated from prior years.

The Group incurs a number of charges in the income statement below headline operating profit, which are:

	2014 £'000	**2013 £'000**
Headline operating profit	**9,787**	**9,089**
Net interest payable	(425)	(568)
Headline profit before tax	**9,362**	**8,521**
Restructuring costs	(534)	(514)
Provision for VAT payable	(2,109)	-
Start-up losses	(446)	(373)
Acquisition costs	(106)	(66)
Amortisation of intangibles*	(965)	(1,190)
Acquisition related employee remuneration expense	(1,200)	(745)
Share option charges*	(212)	(179)
Fair value gain on financial instruments*	-	5
Statutory profit before tax	**3,790**	**5,459**

*no cash flow impact

The Group monitors many financial measures on a regular basis but our key performance indicators are headline operating profit, headline operating margin, like-for-like gross profit, headline profit before tax, headline operating cash flow conversion and headline basic earnings per share.

[1] Net debt is defined in note 18.
[2] ebitda is defined as headline earnings before tax, interest, depreciation and amortisation.

Operational Review

Cello Health (www.cellohealth.com)

	2014 £'000	2013 £'000
Gross profit	39,966	35,632
Headline operating profit	8,464	7,560
Headline operating margin	21.2%	21.2%

Cello Health had another strong year, delivering headline operating profit of £8.5m (2013: £7.6m) from gross profit of £40.0m (2013: £35.6m). The business continues to service the majority of the largest 50 pharmaceutical clients globally as well as a growing number of biotech clients. The employee base increased to 398 during the year (2013: 328) reflecting the addition of senior resource, particularly in the USA, as well as the acquisitions completed in the year. Despite this ongoing senior headcount increase, operating margins were maintained at the competitive level of 21.2%. It is likely that investment in senior headcount within Cello Health Consulting in the US will continue in 2015.

The Board of Cello Health has continued to execute its global strategy of establishing Cello Health as one of a small number of high quality, technically led advisers to the pharmaceutical and healthcare sector. During the course of 2014, the single brand and unified operating format of Cello Health already began to deliver clear benefits in the form of better sharing of professional resource, successful joint pitching for larger client opportunities and the raising of Cello Health's market profile, with associated commercial benefits. This culminated in late 2014 with the winning of a $7m annual gross profit global contract with a large client buying Cello Health's services on an integrated basis.

In line with the stated strategy, the international profile of Cello Health continues to progress rapidly. All of Cello Health's core businesses are now represented in the US market, which is by far the largest market for such services globally. The acquisition of iS Health enables the extension of the previously US based medical education and communications offering to European clients. The acquisition of Promedica enables Cello Health to provide a global insight capability, as well as access to the biotech client community of the West Coast of the USA. The core capabilities of Cello Health (Cello Health Consulting, Cello Health Insight and Cello Health Communications) are now organised globally, enabling rapid deployment of resource against global opportunity.

Product innovation and the use of digital platforms has been a key investment area over the last few years, and the benefits of this investment began to flow in 2014. eVillage, Cello Health's online digital community research platform, is recognised as a leader in this field with over 100 platforms implemented, providing invaluable insights to clients. This innovative methodology is becoming more widely adopted in the industry and we are excited about the global opportunities for this product. Use of digital tools and techniques is allowing clients to break new grounds in many areas. Cello Health will continue to invest in these developing areas.

The client base remains strong. Cello Health works with 21 of the top 25 pharmaceutical organisations[3]. Within these 21 clients the substantial majority now work with more than one Cello Health capability. It is also a common feature that Cello Health benefits from having multiple buying points within these clients. We have long term relationships with our largest clients, laying the foundations for a strong 2015 and beyond.

New business momentum was strong in Q4 2014 and this momentum has continued into 2015. Notable, disclosable client wins in 2014 included: Amgen, Boehringer Ingelheim, Celgene, Cooper Vision, Eli Lilly and Company, GSK Consumer Healthcare, GSK Global, HP, Johnson & Johnson, Lloyds Pharmacy, MSD Schering Plough, Nexus, NHS Business Services Authority, NHS Leadership Team, NHS Warrington, Novartis IHC, Novartis Respiratory, NS&I, Pfizer, Reckitt Benckiser, Roche Oncology, Shire HGT, Shire, UCB Pharma and Unilever.

2015 represents a further continuation on the journey towards becoming the leading Healthcare Marketing service partner to our clients. Cello Health will continue to offer best-in-class capabilities of research, consulting and evidence based communications; and blended teams with experts from appropriate capabilities to meet the challenges faced by our clients.

[3] Source Pharmaceutical Executive June 2014.

Cello Signal (www.cellosignal.com)

	2014 £'000	2013 £'000
Gross profit	39,469	37,873
Headline operating profit	3,433	3,877
Headline operating margin	8.7%	10.2%

Cello Signal had a solid year, delivering headline operating profit of £3.4m (2013: £3.9m) on gross profit of £39.5m (2013: £37.9m). Operating margins were 8.7% (2013: 10.2%), reflecting the non-recurrence of a single large high margin project at the end of 2013, the impact of a £0.4m headline operating loss from Pulsar and also low margins in high growth but newly started US offices. Headcount increased to 558 (2013: 500), reflecting the acquisitions of Line Digital, expansion of overseas capability, and investment in technical staff in line with the stated growth strategy.

Cello Signal made material progress in its development as a leading digital advisory and delivery business. The business's unique combination of data analytics, systems delivery and creativity lends it genuine competitive advantage, enabling it to both identify key customer challenges and deliver solutions of a highly technical nature. The launch of Cello Signal as the umbrella brand for the business in 2014 helped secure a range of significant new client contracts.

Cello Signal has continued to develop its strong digital footprint with large client contracts. Cello Signal has a blue chip client list spanning the full range of technology led sectors, including mobile telephony, electronic games, and personal computing, ensuring Cello Signal is at the cutting edge of digital marketing developments. This is complemented by deep client expertise in fmcg, financial services, and retail. Core clients include EA, HP, Sony, Unilever, Tesco, LBG, L'Oreal, NHS, BASF, TfL, IFAW, Oxfam, and General Motors. 2014 saw an ongoing increase in the average size of client contracts and an ongoing increase in visibility achieved through multi-year contracts.

Cello Signal has developed a number of proprietary software products to support its sales process, including Pulsar, a ground-breaking social media analytics tool (www.pulsarplatform.com). Pulsar software sales continue to progress strongly, increasing clients in the year from 11 to 88, with high contract renewal rates in 2015. The 2014 headline operating loss of £0.4m is expected to reduce as volumes grow in future years.

Cello Signal has been rapidly transforming itself from a UK focused business into a global business. With offices in San Francisco, Los Angeles, New York, Singapore and Hong Kong, it can now offer truly global coverage. The short term effect of this has been to lower headline operating margins as these offices scale from small beginnings, but operating margins will normalise as they mature.

Cello Signal's strong new business momentum from the last quarter of 2014 has continued into 2015. Notable, disclosable client wins in 2014 included: ABF Soldier's Charity, AEGON, Alliance Trust Savings, Alzheimer's Society, Anthony Nolan, Apetito, Arthritis Research UK, Aviva, BBC, Canon, Centro, Chamberlain, Christian Aid, Cofunds, Corgi, Creative Clyde, Crisis, Deloitte, Economist Korea, Electrolux, E.ON, First Group, GSK, HP, Intercontinental Hotels Group, JP Morgan, Kaplan University, Legg Mason Asset Management, Macmillan, National Audit Office, Network Rail, NEST, Nexus, NHS Greater East Midlands, NS&I, Reliance Mutual, RaVaBe, RBS Roster, Renaissance Hotels, RNLI, RR Donnelley, S1, Samsung, Scotland's House, Scottish Government, Sightsavers, Smile Train, Tesco, The Famous Grouse, and Unilever.

People

Cello continues to pride itself on investing in developing its people, with a range of initiatives which encompasses the whole Group. The Cello Partnership comprises 49 Associates, 30 Partners and 12 Managing Partners. This Partnership meets regularly and forms sub-groups to address areas critical to the future of the business, for example innovation, international expansion and cross group working. Many Partners and Associates are alumni of the Cello Academy.

The Cello Academy is the Group's well respected and proprietary training programme through which over 200 people have graduated.

In 2014 30 new graduate trainees were recruited over the course of the year (2013: 26).

Current Trading and Outlook

The Group begins 2015 with a good level of secured forward bookings, particularly within Cello Health, and has also seen encouraging levels of new business wins so far this year. The strong balance sheet position of the Group means the Board is able to further invest in the growth strategy. At this relatively early stage of the year, the Board is confident that expectations for 2015 will be met.

Allan Rich
Non-Executive Chairman
18 March 2015

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2014

	Notes	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Continuing operations			
Revenue	2	169,866	159,671
Cost of sales		(88,882)	(84,971)
Gross profit	2	**80,984**	**74,700**
Administrative expenses	4	(76,769)	(68,678)
Operating profit	2	**4,215**	**6,022**
Finance income	3	5	16
Finance costs	3	(430)	(579)
Profit before taxation		**3,790**	**5,459**
Taxation	7	(1,508)	(1,828)
Profit for the year		**2,282**	**3,631**
Attributable to:			
Owners of the parent		2,283	3,634
Non-controlling interests		(1)	(3)
		2,282	**3,631**

		Year ended 31 December 2014	Year ended 31 December 2013
Basic earnings per share	9	2.70p	4.41p
Diluted earnings per share	9	2.63p	4.28p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2014

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Profit for the year	2,282	3,631
Other comprehensive income/(expense):		
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translation of foreign operations	75	(34)
Total comprehensive income for the year	**2,357**	**3,597**
Total comprehensive income/(loss) attributable to:		
Owners of the parent	2,358	3,600
Non-controlling interest	(1)	(3)
Total comprehensive income for the year	**2,357**	**3,597**

CONSOLIDATED BALANCE SHEET
31 December 2014

	Notes	31 December 2014 £'000	31 December 2013 £'000
Goodwill	10	73,396	71,192
Intangible assets		1,492	1,275
Property, plant and equipment		2,321	2,212
Deferred tax assets		898	792
Non-current assets		**78,107**	**75,471**
Trade and other receivables	12	40,044	36,320
Cash and cash equivalents		5,566	5,984
Current assets		**45,610**	**42,304**
Trade and other payables	13	(37,181)	(38,403)
Current tax liabilities		(1,241)	(1,271)
Borrowings	14	(300)	(373)
Provisions	15	(2,109)	-
Obligations under finance leases		(34)	(13)
Current liabilities		**(40,865)**	**(40,060)**
Net current assets		**4,745**	**2,244**
Total assets less current liabilities		**82,852**	**77,715**
Trade and other payables	13	(700)	-
Borrowings	14	(12,359)	(9,146)
Obligations under finance leases		(65)	(13)
Deferred tax liabilities		(249)	(292)
Non-current liabilities		**(13,373)**	**(9,451)**
Net assets		**69,479**	**68,264**
Equity			
Share capital		8,530	8,348
Share premium		18,663	18,368
Merger reserve		28,807	28,345
Capital redemption reserve		50	50
Retained earnings		12,923	12,810
Share-based payment reserve		544	455
Foreign currency reserve		(83)	(158)
Equity attributable to owners of the parent		**69,434**	**68,218**
Non-controlling interests		45	46
Total equity		**69,479**	**68,264**

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2014

	Notes	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Net cash generated from operating activities before taxation	17	**4,763**	**11,074**
Tax paid		(2,372)	(1,738)
Net cash generated from operating activities after taxation		**2,391**	**9,336**
Investing activities			
Interest received		5	11
Purchase of property, plant and equipment		(1,103)	(1,047)
Sale of property, plant and equipment		29	27
Purchase of intangible assets		(374)	(312)
Purchase of subsidiary undertakings	11	(1,549)	(777)
Net cash used in investing activities		**(2,992)**	**(2,098)**
Financing activities			
Proceeds from issuance of shares		330	112
Dividends paid to equity holders of the parent	8	(2,559)	(1,643)
Repayment of borrowings		(4,000)	(7,500)
Repayment of loan notes		(73)	(125)
Drawdown of borrowings		6,800	4,524
Capital element of finance lease payments		(36)	(23)
Interest paid		(449)	(498)
Purchase of own shares		-	(117)
Net cash generated from / (used in) financing activities		**13**	**(5,270)**
Net (decrease) / increase in cash and cash equivalents		**(588)**	**1,968**
Exchange losses on cash and cash equivalents		170	(132)
Cash and cash equivalents at the beginning of the year		5,984	4,148
Cash and cash equivalents at end of the year		**5,566**	**5,984**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2014

	Share capital £'000	Share premium £'000	Merger reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Share-based payment reserve £'000	Foreign currency exchange reserve £'000	Total attributable to the owners of the parent £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2013	**8,226**	**18,188**	**28,228**	**50**	**10,636**	**343**	**(124)**	**65,547**	**49**	**65,596**
Comprehensive income:										
Profit for the year	-	-	-	-	3,634	-	-	**3,634**	(3)	**3,631**
Other comprehensive income:										
Currency translation	-	-	-	-	-	-	(34)	**(34)**	-	**(34)**
Total comprehensive income for the year	-	-	-	-	3,634	-	(34)	**3,600**	(3)	**3,597**
Transactions with owners:										
Shares issued	122	180	117	-	-	-	-	**419**	-	**419**
Purchase of treasury shares	-	-	-	-	(117)	-	-	**(117)**	-	**(117)**
Credit for share-based incentives	-	-	-	-	-	179	-	**179**	-	**179**
Tax on share-based payments recognised directly in equity	-	-	-	-	233	-	-	**233**	-	**233**
Transfer between reserves in respect of share options	-	-	-	-	67	(67)	-	**-**	-	**-**
Dividends (note 8)	-	-	-	-	(1,643)	-	-	**(1,643)**	-	**(1,643)**
Total transactions with owners	122	180	117	-	(1,460)	112	-	**(929)**	-	**(929)**
As at 31 December 2013	**8,348**	**18,368**	**28,345**	**50**	**12,810**	**455**	**(158)**	**68,218**	**46**	**68,264**
Comprehensive income:										
Profit for the year	-	-	-	-	2,283	-	-	**2,283**	(1)	**2,282**
Other comprehensive income:										
Currency translation	-	-	-	-	-	-	75	**75**	-	**75**
Total comprehensive income for the year	-	-	-	-	2,283	-	75	**2,358**	(1)	**2,357**
Transactions with owners:										
Shares issued	182	295	462	-	-	-	-	**939**	-	**939**
Credit for share-based incentives	-	-	-	-	-	212	-	**212**	-	**212**
Tax on share-based payments recognised directly in equity	-	-	-	-	266	-	-	**266**	-	**266**
Transfer between reserves in respect of share options	-	-	-	-	123	(123)	-	**-**	-	**-**
Dividends (note 8)	-	-	-	-	(2,559)	-	-	**(2,559)**	**-**	**(2,559)**
Total transactions with owners	182	295	462	-	(2,170)	89	-	**(1,142)**	-	**(1,142)**
As at 31 December 2014	**8,530**	**18,663**	**28,807**	**50**	**12,923**	**544**	**(83)**	**69,434**	**45**	**69,479**

SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Preparation

The financial information included in this report does not amount to full financial statements within the meaning of Section 434 of Companies Act 2006. The financial information has been extracted from the Group's Annual Report and financial statements for the year ended 31 December 2014, on which an unqualified report has been made by the Company's auditors, PricewaterhouseCoopers LLP.

Financial statements for the year ended 31 December 2013 have been delivered to the Register of Companies; the report of the auditors on those accounts was unqualified and did not contain a statement under 498 of the Companies Act 2006. The 2014 statutory accounts are expected to be published on 14 April 2015.

2. Going Concern

During the year the Group generated a profit before tax on continuing activities of £3.8m and excluding non-recurring restructuring costs and other non-headline charges the Group generated a profit before tax of £9.4m.

The Group meets its day-to-day working capital requirements through its bank facilities. At 31 December 2014 the Group's bank facilities consisted of a £4.0m overdraft facility and a £20.0m revolving credit facility ("RCF"). The RCF is committed to March 2018. £7.6m of the RCF is undrawn at 31 December 2014 and the Groups forecasts and projections show that the Group is able to operate within the level of its current facilities and its covenants.

After reviewing the Group's performance and forecast future cash flows, the Directors consider the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing the Group's financial statements.

3. Revenue, Cost of Sales and Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable from services, provided by the Group in the ordinary course of the Group's activities. Services include fees, commissions, rechargeable expenses and sales of materials provided by the Group. Revenue is shown net of Value Added Tax and discounts.

Revenue derived from fees is recognised as contract activity progresses, in accordance with the terms of the contractual agreement and the stage of completion of the work. The stage of completion is assessed based on the proportion of costs incurred or milestone completed, as appropriate to the contract. Where recorded revenue exceeds amounts invoiced to clients, the excess is classified as accrued income and where recorded revenue is less than amounts invoiced to clients, the difference is classified as deferred income.

Revenue derived from retainers is recognised evenly over the contract period.

Revenue derived from commissions, rechargeable expenses and sale of materials is recognised when the risk and rewards have been transferred to the client in line with the individual contract.

Cost of sales include amounts payable to external suppliers where they are retained at the Group's discretion to perform part of a specific client project or service where the Group has full exposure to the benefits and risks of the contract with the client. Cost of sales does not include direct labour costs.

4. Headline Measures

The Group believes that reporting non-GAAP or headline measures provides a useful comparison of business performance and this reflects the way the business is reported internally and 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, start-up losses, share option charges, fair value gains and losses on derivative financial instruments and the provision for VAT payable. These 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 before taxation is presented in note 1. In addition to this, a reconciliation between reported and headline operating profit is presented in note 2, a reconciliation between reported and headline finance income and costs is presented in note 3 and a reconciliation between reported and headline earnings per share is presented in note 9. Headline measures in this report are not defined terms under IFRSs and may not be comparable with similarly titled measures reported by other companies.

5. Accounting Estimates and Judgements

The Group makes estimates and judgements concerning the application of the Group's accounting policies and concerning the future. The resulting estimates may, by definition, vary from the actual results. Estimates are based on historical experience and various other assumptions that management and the Board of Directors believe are reasonable.

The Directors consider the critical accounting estimates and judgements used in the financial statements and concluded that the main areas of judgements are:

i. Revenue recognition policies in respect of contracts which straddle the year end.
The Group is required to make an estimate of the project completion levels in respect of contracts which straddle the year end for income recognition purposes. Estimates are based on expected total costs and revenues from each contract. This involves a level of judgement and therefore differences may arise between the actual and estimated result. Where immaterial differences arise they are recognised in the income statement for the following reporting period. Any material changes to these estimates would affect revenue recognised in the financial statements and the level of deferred or accrued income on the balance sheet.

ii. Contingent deferred consideration payments in respect of acquisitions and acquisition related employee remuneration.
The Group has estimated the value of future amounts payable in respect of acquisitions. The estimate is based on management's estimates of the relevant entities future performance. If these estimates change in the future as the earn out progresses, the amount of the provision will vary. Any changes to the carrying value of the provision are recognised in the income statement.

As part of a typical acquisition an amount is also payable to the employees of the acquired company. These acquisition related employee remuneration costs are calculated using the same estimates of the relevant entities future performance as the deferred consideration payable. If these estimates change in the future, as the earn out progresses, the amount of the employee liability, which is recognised over the earn out period, will vary. Any changes to the carrying value of these liabilities are recognised in the income statement.

iii. Valuation and amortisation period of separately identifiable intangible assets on acquisitions.
The Group is required to value the separately identifiable intangible assets acquired as part of a business combination. In order to value some of these intangible assets, the Group must make assumptions as to future cash flows derived from these costs and estimate the expected lives of these assets. Changes to these estimates would affect the resulting valuation of goodwill and the amortisation charge recognised in the financial statements.

iv. Impairment of goodwill and intangible assets acquired as part of a business combination.
The Group tests goodwill and intangible assets acquired as part of a business combination annually for impairment, in accordance with the Group's accounting policies. The recoverable amount is based on value-in-use calculations, which requires estimates of future cash flows and the discount rate to apply in order to calculate the present values of these cash flows. The estimates used and sensitivity of these assumptions is disclosed in note 10.

v. Provision for VAT payable.
The Group has recognised a £2.1m provision in relation to VAT payable in respect of supplies to some of its charity clients by one of its subsidiaries Brightsource Limited ("Brightsource"). Discussions with HMRC continue. Further details in relation to this provision and a contingent liability in relation to additional VAT payable, are disclosed in note 15 and 16.

NOTES TO THE PRELIMINARY ANNOUNCEMENT

1 Reconciliation of Profit on Continuing Operations Before Taxation to Headline Profit Before Tax

	Notes	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Profit on continuing operations before taxation		**3,790**	**5,459**
Restructuring costs	5	534	514
Provision for VAT payable	15	2,109	-
Start-up losses	6	446	373
Acquisition costs	4	106	66
Amortisation of intangible assets	4	965	1,190
Acquisition related employee remuneration expense	4	1,200	745
Share option charges	4	212	179
Fair value gain on derivative financial instruments	3	-	(5)
Headline profit before taxation		**9,362**	**8,521**
Headline profit before taxation is made up as follows:			
Headline operating profit	2	9,787	9,089
Headline finance income	3	5	11
Headline finance costs	3	(430)	(579)
		9,362	**8,521**

2 Segmental Information

For management purposes, the Group is organised into two operating segments; Cello Health and Cello Signal. These segments are the basis on which the Group reports internally to the plc's Board of Directors, who have been identified as the chief operating decision makers.

Revenue and costs not included in one of these operating segments, for example central overheads and results from start-up operations, have not been allocated to an operating segment in line with the way they are reported to the chief operating decision makers.

The principal activities of the operating segments are as follows:

Cello Health
The Cello Health Division provides market research, consulting and communications services principally to the Group's pharmaceutical and healthcare clients.

Cello Signal
The Cello Signal Division provides market research and direct communications services principally to the Group's consumer facing clients.

Revenues derived from the Group's largest client are less than 10% of the Group's total revenue. Revenue derived from the largest client in each operating segment also represents less than 10% of external revenue in each segment.

Sales between segments are carried out at arms-length. The revenue from external parties reported to the chief operating decision maker is measured in a manner consistent with that in the income statement.

for the year ended 31 December 2014

	Cello Health £'000	Cello Signal £'000	Consolidation Adjustments and Unallocated £'000	Group £'000
Revenue				
External sales	57,948	108,985	2,933	169,866
Intersegment revenue	56	42	(98)	-
Total revenue	58,004	109,027	2,835	169,866
Gross profit	39,966	39,469	1,549	80,984
Operating profit				
Headline operating profit (segment result)	**8,464**	**3,433**	**(2,110)**	**9,787**
Restructuring costs				(534)
Provision for VAT payable				(2,109)
Start-up losses				(446)
Acquisition costs				(106)
Amortisation of intangible assets				(965)
Acquisition related employee remuneration expense				(1,200)
Share option charges				(212)
Operating profit				**4,215**
Financing income				5
Finance costs				(430)
Profit before tax on continuing operations				**3,790**
Other information				
Capital expenditure	422	776	14	**1,212**
Capitalisation of intangible assets	49	325	-	**374**
Depreciation of property, plant and equipment	423	764	3	**1,190**

for the year ended 31 December 2013

	Cello Health £'000	Cello Signal £'000	Consolidation Adjustments and Unallocated £'000	Group £'000
Revenue				
External sales	52,330	105,694	1,647	159,671
Intersegment revenue	18	40	(58)	-
Total revenue	52,348	105,734	1,589	159,671
Gross profit	35,632	37,873	1,195	74,700
Operating profit				
Headline operating profit (segment result)	**7,560**	**3,877**	**(2,348)**	**9,089**
Restructuring costs				(514)
Start-up losses				(373)
Acquisition costs				(66)
Amortisation of intangible assets				(1,190)
Acquisition related employee remuneration expense				(745)
Share option charges				(179)
Operating profit				**6,022**
Financing income				16
Finance costs				(579)
Profit before tax on continuing operations				**5,459**
Other information				
Capital expenditure	205	839	3	**1,047**
Capitalisation of intangible assets	131	181	-	**312**
Depreciation of property, plant and equipment	438	683	3	**1,124**

The Group's operations are materially located in the United Kingdom and the USA.

The following table provides an analysis of the Group's revenue by geographical market, based on the location of the client:

Geographical	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
UK	111,791	105,684
Rest of Europe	17,737	16,487
USA	33,735	32,349
Rest of the World	6,603	5,151
	169,866	159,671

3 Finance Income and Costs

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Finance income:		
Interest received on bank deposits	5	11
Headline finance income	5	11
Fair value gains on derivative financial instruments	-	5
Total finance income	5	16
Finance costs:		
Interest payable on bank loans and overdrafts	425	569
Interest payable in respect of finance leases	5	5
Finance costs paid on derivative financial instruments	-	5
Total and headline finance costs	430	579

4 Administrative Expenses

Profit for the year is stated after charging/(crediting):

	Notes	Year Ended 31 December 2014 £'000	Year Ended 31 December 2013 £'000
Headline administration costs:			
Staff costs		53,149	48,154
Operating lease rentals		2,752	2,267
Depreciation of property, plant and equipment		1,190	1,124
Profit on disposal of property, plant and equipment		(8)	(16)
Amortisation of intangibles		309	247
Auditors remuneration		381	347
Net foreign exchange losses		132	41
Other property costs		1,464	1,755
Other administration costs		10,279	10,497
Non-headline administration costs:			
Restructuring costs	5	534	514
Provision for VAT payable	15	2,109	-
Start-up costs	6	1,995	1,568
Acquisition costs		106	66
Amortisation of intangibles		965	1,190
Acquisition related employee remuneration		1,200	745
Share option costs		212	179
		76,769	68,678

5 Restructuring Costs

Restructuring costs comprise of cost saving initiatives including severance payments, property and other contract termination costs. They are included within administration costs and have been separately identified as a non-headline item because of their size or their nature or because they are non-recurring. In the opinion of the Directors, these costs are required to be separately identified, to enable a full understanding of the Group's financial performance.

An analysis of restructuring costs incurred is as follows:

	Year Ended 31 December 2014 £'000	Year Ended 31 December 2013 £'000
Staff redundancies	510	514
Property costs	24	-
Total restructuring costs	534	514

6 Start-up Losses

Start-up losses have been separately identified as a non-headline item because, in the opinion of the Directors, separate disclosure is required to enable a full understanding of the Group's financial performance.

Start-up losses are defined as the net operating result in the period of the trading activities that relate to new offices, new products, or new organically started businesses. Activities so defined will cease being separately identified where, in the opinion of the Directors, the activities show evidence of becoming sustainably profitable or are closed, whichever is earlier. In any event start-up losses will cease being separately identified after two years from the commencement of the activity.

An analysis of start-up losses incurred is as follows:

	Year Ended 31 December 2014 £'000	Year Ended 31 December 2013 £'000
Revenue	2,933	1,647
Cost of sales	(1,384)	(452)
Gross profit	1,549	1,195
Administration costs	(1,995)	(1,568)
Start-up losses	(446)	(373)

7 Taxation

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Current tax:		
Current tax on profits for the year	1,921	2,312
Prior year current tax adjustment	(158)	(33)
	1,763	2,279
Deferred tax:		
Origination and reversal of temporary differences	(226)	(323)
Effect of decrease in tax rate on deferred tax assets	2	35
Prior year deferred tax adjustment	(31)	(163)
	(255)	(451)
Tax charge	1,508	1,828

The standard rate of corporation tax in the UK changed from 23% to 21% with effect from 1 April 2014. Accordingly the Group's profits from the UK are taxed at an effective rate of 21.50% (2013: 23.25%). A further rate reduction to 20% from 1 April 2015 has also been substantially enacted and this rate has been applied in valuing UK deferred tax assets and liabilities. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdiction.

The charge for the year can be reconciled to the profit per the income statement.

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Profit before taxation	3,790	5,459
Tax at the UK corporation tax rate of 21.50% (2013: 23.25%)	815	1,269
Tax effect of expenses not deductible for tax purposes	590	447
Effect of decrease in tax rate on deferred tax assets	2	35
Effect of different tax rates of subsidiaries in foreign jurisdiction	290	273
Prior year current tax adjustment	(158)	(33)
Prior year deferred tax adjustment	(31)	(163)
	1,508	1,828

8 Equity Dividends

The dividends paid in the year were:

	Date paid	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Interim dividend 2012 - 0.58p per share	6 January 2013	-	476
Final dividend 2012 - 1.42p per share	5 July 2013	-	1,167
Interim dividend 2013 – 0.64p per share	6 January 2014	530	-
Final dividend 2013 – 1.61p per share	4 July 2014	1,352	-
Interim dividend 2014 – 0.80p per share	7 November 2014	677	-
		2,559	1,643

A 2014 final dividend of 1.80p has been proposed for approval at the Annual General Meeting in 2015. In accordance with IAS 10 Events after the reporting period these dividends have not been recognised in the consolidated financial statements at 31 December 2014.

9 Earnings per Share

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Profit attributable to owners of the parent	2,283	3,634
Non-controlling interests	-	(3)
Earnings from continuing operations	2,283	3,631
Adjustments to earnings:		
Restructuring costs	534	514
Provision for VAT	2,109	-
Start-up losses	446	373
Acquisition costs	106	66
Amortisation of intangible assets	965	1,190
Acquisition related employee remuneration expenses	1,200	745
Share-based payments charge	212	179
Fair value gain on derivative financial instruments	-	(5)
Tax thereon	(976)	(712)
Headline earnings for the year	6,879	5,981

	2014 Number of shares	2013 Number of shares
Weighted average number of ordinary shares used in basic earnings per share calculation	**84,548,170**	**82,444,872**
Dilutive effect of securities:		
Share options	2,094,597	2,231,510
Deferred consideration shares	69,387	198,540
Weighted average number of ordinary shares in diluted earnings per share	**86,712,154**	**84,874,922**

	Year ended 31 December 2014	Year ended 31 December 2013
Basic earnings per share	2.70p	4.41p
Diluted earnings per share	2.63p	4.28p

In addition to basic and diluted earnings per share, headline earnings per share, which is a non-GAAP measure, has also been presented.

Headline earnings per share		
Headline basic earnings per share	8.14p	7.25p
Headline diluted earnings per share	7.93p	7.05p

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding 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 per share is calculated by dividing earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year adjusted for the potentially dilutive ordinary shares.

The Group's potentially dilutive shares are shares expected to be issued as deferred consideration on acquisitions and share options issued.

Headline earnings per share is calculated using headline post-tax earnings for the year, which excludes the effect of restructuring costs, start-up losses, amortisation of intangibles, impairment charges, acquisition accounting adjustments, share option charges, fair value gains and losses on derivative financial instruments and other exceptional costs. The calculation also excludes non-controlling interests over which the Group has exclusive options to acquire in the future.

10 Goodwill

	£'000
Cost	
At 1 January 2013	83,407
Additions	248
Exchange differences	(84)
At 31 December 2013	83,571
Additions	1,911
Exchange differences	293
At 31 December 2014	85,775
Amortisation	
At 1 January 2013, 31 December 2013 and 31 December 2014	12,379
Net book value	
At 31 December 2014	73,396
At 31 December 2013	71,192
At 1 January 2013	71,028

Goodwill represents the excess of consideration over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Goodwill arising on acquisition in the year ended 31 December 2014 relates to the Group's acquisition of iS Healthcare Dynamics Limited, Line Digital Limited and Worldwide Promedica Inc.

The adjustment to fair value of deferred consideration relates to the changes in estimate to deferred consideration payable under earn out arrangements in accordance with the terms of the relevant acquisition agreements for acquisitions before 1 July 2009 and therefore not accounted for in accordance with the provisions of IFRS 3 Business combinations (as revised January 2008).

Goodwill acquired through business combinations is allocated to cash-generating units ("CGUs") for impairment testing. The goodwill balance was allocated to the following CGUs:

	2014 £'000	2013 £'000
Cello Health Insight	10,224	10,224
Cello Health Consulting	7,666	7,666
MedErgy	4,861	4,568
Mash	248	248
iS Health	1,425	-
Promedica	257	-
The Value Engineers	9,526	9,526
RS Consulting	4,305	4,305
Tangible UK	23,118	22,889
2CV	8,276	8,276
Face	3,442	3,442
Opticomm	48	48
Total	73,396	71,192

The recoverable amount for each CGU is determined using a value-in-use calculation. This calculation uses pre-tax cash flow projections derived from 2015 budgets, as approved by management, with an underlying growth rate of 2.5% per annum in years two to five, representing economic growth and the current rate of inflation. After year five a terminal value has been applied using an underlying long term inflation rate of 2.5%. No additional Cello specific growth has been assumed beyond year one. The pre-tax cash flows are discounted to present value using the Group's pre-tax weighted average cost of capital ("WACC"), which was 9.3% for 2014 (2013: 9.7%). This rate was calculated using the Capital Asset Pricing Model with an estimated cost of debt and equity, with appropriate small company risk factors.

Sensitivity to changes in assumptions

The value-in-use exceeds the total goodwill value across the Group by £110.3m.

The impairment review of the Group is sensitive to changes in the key assumptions, most notably the pre-tax discount rate, the terminal growth rate and projected operating cash flows. Reasonable changes to these assumptions are considered to be:

- 1% increase in the pre-tax discount rate.
- 1% decrease in the terminal growth rate.
- 10% decrease in projected operating cash flows.

Reasonable changes to the assumptions used, considered in isolation, would not result in an impairment to goodwill for any of the Groups CGU's.

11 Acquisitions

iS Healthcare Dynamics

On 12 May 2014, the Group acquired the entire share capital of iS Healthcare Dynamics Limited ("iS Health"), a healthcare communications consulting company based in the UK.

iS Health has contributed £5.2m to revenue and £1.0m to profit before tax for the period between the date of acquisition and the balance sheet date. Had iS Health been consolidated from 1 January 2014, the consolidated income statement for the year ended 31 December 2014 would show revenue of £172.1m and profit before tax of £4.3m.

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

	£'000
Client relationships	903
Property, plant and equipment	49
Trade and other receivables	1,298
Cash and cash equivalents	2,351
Trade and other payables	(1,369)
Current tax liabilities	(607)
Deferred tax liabilities	(186)
Net assets acquired	2,439
Goodwill arising on acquisition	1,425
	3,864

The fair value of trade and other receivables include trade receivables with a fair value of £1,022,000. The gross contractual amount of trade receivables is equal to the fair value.

Goodwill comprises the value of expected synergies and other opportunities arising from the acquisition, management know how, the skilled work force employed by iS Health and other intangible assets that do not qualify for separate recognition. None of the goodwill recognised is expected to be deductible for tax purposes.

The fair value of the consideration paid is as follows:

	£'000
Cash consideration	3,364
Issue of ordinary shares	500
	3,864

In addition to the consideration, acquisition related employee remuneration of up to £3,300,000 is also payable to the vendors and employees of iS Health. This remuneration is dependent on the profits earned by iS Health in the three years to 31 December 2016 and is recognised in the income statement over that period.

Line Digital

On 24 April 2014, the Group acquired the entire share capital of Line Digital Limited a company based in the UK specialising in web designs and development and online marketing strategy. The net assets acquired and consideration paid do not have a material effect on the results or position of the Group.

Worldwide Promedica Inc.

On 9 December 2014, the Group acquired the entire share capital of Worldwide Promedica Inc, a market research firm servicing pharmaceutical and biotechnology companies, based in San Francisco, USA. The net assets acquired and consideration paid do not have a material effect on the results or position of the Group.

12 Trade and Other Receivables

	2014 £'000	2013 £'000
Trade receivables	29,866	28,468
Other receivables	1,331	789
Prepayments and accrued income	8,847	7,063
	40,044	36,320

The average credit period taken on the provision of services was 55 days (2013: 52 days).

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

13 Trade and Other Payables

The following are included in trade and other payables falling due within one year:

	2014 £'000	2013 £'000
Trade payables	16,871	12,700
Other taxation and social security costs	720	1,344
Accruals and deferred income	18,158	23,098
Deferred consideration for acquisitions	235	201
Acquisition related employee remuneration liability	500	350
Other payables	697	710
	37,181	38,403

The following are included in trade and other payables falling due after one year:

Acquisitions related employee remuneration liability	700	-

The Directors consider that the carrying value of trade and other payables approximates to fair value.

14 Borrowings

	2014 £'000	2013 £'000
Bank loans	12,359	9,146
Loan notes	300	373
	12,659	9,519

	2014 £'000	2013 £'000
The borrowings are repayable as follows:		
- on demand or within one year	300	373
- within two to five years	12,359	9,146
	12,659	9,519

Bank loans

The Group has a multi-currency debt facility with the Royal Bank of Scotland plc (“RBS”). At 31 December 2014 this facility consisted of a £20.0m revolving credit facility (“RCF”). The RCF bears interest at a variable rate of 1.25% to 2.30% over LIBOR and is committed to March 2018. The average interest rate on the Group’s bank loans in the year was 2.4% (2013: 2.8%). The debt facility is secured by a debenture held by RBS over the assets of the Group.

At 31 December 2014, the Group has drawn £12.4m (2013: £9.1m) under the revolving credit facility.

Loan notes

Loan notes have been issued as part of the consideration for certain acquisitions. Loan notes are initially secured by way of cash deposits and by guarantee. This security expires after a period of between 2 and 5 years in accordance with the terms of the relevant acquisition agreement. After this period the loan notes are unsecured. Loan notes bear interest at the following rates:

	2014 £’000	2013 £’000
Unsecured		
LIBOR less 2%	249	322
LIBOR	51	51
	300	373

15 Provisions

	VAT provision £’000	Restructuring provision £’000	Total £’000
At 1 January 2013	-	388	388
Utilisation of provisions	-	(388)	(388)
At 31 December 2013	-	-	-
Additions in the year	2,109	-	2,109
At 31 December 2014	2,109	-	2,109

The restructuring provision related to redundancy costs and onerous lease costs as a result of restructuring of operations within the Cello Signal Division.

The provision for VAT payable is in relation to amounts payable, including an estimate for interest and penalties, to HMRC in respect of certain supplies to charity clients. In accordance with IAS 37 Provision, contingent liabilities and contingent assets, potential recovery from clients has not been recognised. Tax relief of £0.4m in respect of this provision has been recognised in the Income Statement and netted off within current tax liabilities. Further details are provided in note 16.

16 Contingent Liabilities

During the year, one of the Group's subsidiaries, Brightsource Limited ("Brightsource"), was subject to a routine VAT inspection by HMRC. As part of this inspection, it was determined that Brightsource had inadvertently and in good faith, zero rated certain supplies which it believed were ancillary to wider zero rated supplies and Brightsource had therefore incorrectly not charged VAT on those supplies to its charity clients. A provision of £2.1m relating to uncharged VAT on these supplies, together with an estimate of interest and penalties, has been made at 31 December 2014 (note 15).

On 6 February 2015, Brightsource received further correspondence from HMRC informing them that the scope of their review would be extended to include a wider range of supplies to its charity clients, potentially generating a larger liability on one particular type of supply. Subsequently, agreement in principle was reached with HMRC, removing this potential larger liability and restricting the required provision to the zero rated supplies initially queried. The provision recognised reflects this agreement in principle.

Other types of supply remain under query and discussions and negotiations are still ongoing with HMRC on these less material supplies. The Boards of Brightsource and the Group continue to believe, with the support of its advisors and industry bodies, that these further discussions are unlikely to result in further material liabilities in future years. Any further liability claimed by HMRC will be defended robustly. The Board believes that the maximum contingent liability that could be claimed by HMRC in relation to these other supplies is £0.8m.

17 Cash Generated from Operations

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Profit on continuing activities before taxation	3,790	5,459
Financing income	(5)	(16)
Finance costs	430	579
Depreciation of property, plant and equipment	1,190	1,124
Amortisation of intangible assets	1,274	1,437
Share-based payment expense	212	179
Profit on disposal of property, plant and equipment	(8)	(16)
Increase in acquisition related employee remuneration payable	820	433
Increase/(decrease) in provisions	2,109	(388)
Operating cash flow before movements in working capital	9,812	8,791
Increase in trade and other receivables	(2,102)	(5,747)
(Decrease)/increase in trade and other payables	(2,947)	8,030
Net cash inflow from operating activities	4,763	11,074

18 Net Debt

Net debt at 31 December 2014 and 31 December 2013 comprises of:

	2014 £'000	2013 £'000
Bank loans	12,359	9,146
Loan notes	300	373
Finance leases	99	26
Cash and Cash equivalents	(5,566)	(5,984)
Net debt	7,192	3,561

Changes in net debt can be analysed as follows:

	2014 £'000	2013 £'000
Net decrease/(increase) in cash and cash equivalents	588	(1,968)
Changes in net debt as a result of cash flow:		
Repayment of bank loans	(4,000)	(7,500)
Repayment of loan notes	(73)	(125)
Draw down of borrowings	6,800	4,524
Capital element of finance lease payments	(36)	(23)
Other movements:		
Foreign exchange differences	243	(66)
New finance leases	109	-
Movement in net debt in the year	3,631	(5,158)
Net debt at the beginning of the year	3,561	8,719
Net debt at the end of the year	7,192	3,561