CELLO

GROUP

Interim Report 2008

Contents

Highlights	1
Chairman's Statement	2-7
Consolidated Income Statement	8
Consolidated Balance Sheet	9
Consolidated Cash Flow Statement	10
Consolidated Statement of Changes in Equity	11
Notes to the Financial Information	12-20

Highlights

- Turnover up 44% to £66.1m (2007: £45.8m)
- Operating income up 39% to £33.9m (2007: £24.4m)
- Headline operating profit up 33% to £4.4m (2007: £3.3m)
- Like-for-like operating income growth of 5%
- Basic headline earnings per share up 7% to 6.84p (2007: 6.42p)
- Interim dividend up 11% to 0.50p (2007: 0.45p)
- Largest single earnout settlement of £14.4m completed through a mix of cash and shares, representing 43% of outstanding earnout provisions
- Re-branding and consolidation of Tangible underpins strong performance
- Cello Research and Consulting ranked 10th in the UK[1] and 21st globally[2]
- Tangible ranked 6th in the UK[3]

source: [1]Marketing September 2008 [2]Marketing News August 2008 [3]Marketing April 2008

Overview

The first six months of 2008 has been a successful period for Cello. It has also been a period of single minded market focus, and pursuit of organic operating efficiency. This will hold us in good stead against a backdrop of challenging market conditions which are having some impact on the general research and direct marketing markets, albeit to a lesser extent than other areas of the marketing mix. We continue to demonstrate organic growth in this more challenging environment, with growth in like-for-like operating income of 5%.

Our market research and consulting business, which contributed 59% of Group operating income, has been more closely configured as a unified business, Cello Research and Consulting, which is amongst the largest research players domiciled in the UK. As the 10th largest such entity in the UK and the 21st globally, we are also the only such business which is not part of a global network.

Our response business, which contributed 41% of Group operating income, has been re-branded as Tangible, with the majority of underlying operating units trading under the Tangible name. The efficiency benefits of this are already becoming apparent. Tangible has emerged as the 6th largest response business domiciled in the UK.

As such, both businesses are now real forces to be contended with and are able to compete for larger scale contracts with competitive pricing.

Financial Review

Turnover increased 44% to £66.1m (2007: £45.8m), operating income increased 39% to £33.9m (2007: £24.4m). On a like-for-like basis (adjusting for currency movements) the Group achieved 5% growth in operating income. Our markets grew by less than 5%.

Headline operating profit was up 33% to £4.4m (2007: £3.3m). Headline operating margins reduced to 12.9% (2007: 13.4%), reflecting the investment programme in our digital research business without which headline operating margins would have been 13.6%. Reported operating profit was £2.9m (2007: £2.0m).

The following table details the adjustments that have been made to calculate headline operating profit. All but the exceptional item are non cash items. The exceptional item relates to redundancy costs incurred during the first six months which remove approximately £1.0m of ongoing annualised cost. We will continue to tightly control cost and actively manage our resources.

	Six months ended 30 June	
	2008 £'000	2007 £'000
Headline operating profit	**4,362**	**3,280**
Exceptional costs	(471)	–
Share option costs	(163)	(154)
Deemed remuneration	(354)	(715)
Amortisation	(458)	(364)
Reported operating profit	**2,916**	**2,047**

Headline pretax profit, after an interest charge of £0.5m, was up 26% to £3.9m (2007: £3.1m). Reported pretax profit was £2.2m (2007: £1.6m).

Headline basic earnings per share was up 7.0% to 6.84p (2007: 6.42p). Reported earnings per share was up 16% to 3.66p (2007: 3.16p).

The Board is increasing the interim dividend by 11% to 0.50p per share (2007: 0.45p). It will be paid on 5 November 2008 to all shareholders on the register on 10 October 2008.

The Group's net debt position at the half year was £15.2m (31 December 2007: £5.8m). The increase in debt largely reflects the earnout related cash and loan notes settled in April 2008 of £8.0m. This position should reduce substantially by year end. We retain a £22.0m total facility with RBS.

Operating cash flow remained strong with £2.3m generated in the six months. This reflects an operating profit conversion rate of 79% which is in line with historical patterns.

As a consequence of the settlement of £14.4m of earnouts in April 2008 and the regular six monthly review of commitments, provisions for future earnouts have reduced by 43% to £17.3m. It is anticipated that there will be additional future employee related remuneration and additional future notional interest charges over the next five years of £1.8m. This total of £19.2m is anticipated to be split £8.3m in cash and £10.9m in shares, to be paid over the next five years of which £4.2m is payable in cash and loan notes before May 2009.

Review of Operations

Within the Group's two businesses, our strategy has been to become a client sector specialist, as a way of building competitive advantage. Accordingly, healthcare, the public sector, and charities account for over 40% of Group operating income. The majority of the balance comprises telecoms, IT, business-to-business, finance, retail and FMCG. Where possible we are pursuing these client sectors globally. International work accounts for 43% of our research and consulting activity. We now have four separate offices across the USA to complement our European foundation all of which are profitable. In due course, we intend to expand this footprint in a sensible fashion.

Innovation is at the core of our client proposition. Our view is that our sector specialisation offers us the best path to ensure we remain ahead of the curve in the advice we can offer clients about their markets and we have organised ourselves accordingly. In addition, in both Research and Consulting as well as Tangible, we continue to migrate activity online at a pace that reflects our clients' growing commitment to this channel, although margins on online work are often lower.

We continue to seek ways to best utilise the talent pool across our 830 person employee base. This involves identifying those individuals who show exceptional client leadership promise and leveraging our management talent wherever possible, as well as ensuring that remuneration structures remain highly competitive.

Research and Consulting

Cello Research and Consulting had a good six months, delivering £33.6m of turnover (2007: £23.7m), £20.1m of operating income (2007: £15.3m). 43% of this was from international work. Headline operating profit was up 8.4% to £3.7m (2007: £3.4m). Headline operating margins reduced to 18.4% (2007: 22.2%) reflecting significant start up investment costs in a digital research business and lower profits than the prior year in our business intelligence operation.

We continued to build on our core strength in healthcare which now accounts for 34% of our research and consulting activity. Growth has been particularly strong in international assignments for major pharmaceutical clients.

Our public sector research offering has accelerated rapidly, with a substantial increase in the average size of contracts secured as we begin to compete successfully against traditional incumbents for larger budget areas.

Our quantitative offering in the retail, technology, and leisure sectors has continued to perform well, developing global research relationships into larger scale contracts. This area of activity has shown itself to be both scalable and more predictable with regard to client spending patterns.

Our FMCG and brand led consulting offer has also made successful strides in building on our research foundation and adding value to client relationships. This is particularly noticeable on international projects in Asia and central Europe. Again, the scale of projects undertaken has grown markedly.

Our data capture and field force capability has also been integrated and upgraded. Within this area we continue to offer increasingly innovative client solutions. Kudos, Digital People and nQual are helping drive a proportion of our data gathering online. As well as providing clients with online solutions, we are bundling this capability alongside our more traditional approaches to optimise the quality of market insight we can provide to clients.

We see the international mix continuing to increase and we intend to further expand our footprint overseas in a prudent fashion.

New client wins in the six month period include: Kraft, Warner Bros, Eurostar, Lush, Wellcome Trust, Meteor Mobile, Florette, Amadeus, Givaudan, Rea Group, Nominet, Cornmarket Group Financial Services, InterMune, Energy Savings Trust, Clarks, Ritz-Carlton, Eisai Corporation of North America, Metsä Tissue, Unilever, Mintel, American Express, Dyson, McKinsey, Sandoz, Vifor Pharma, NPower, Imperea, Divine Research and NMSI Group.

Our strategy is to consolidate behind our lead brands, taking advantage of opportunities to better utilise resource; to continue to innovate in our client solutions and to expand internationally via organic growth.

Tangible

Tangible had an excellent six months, delivering £32.5m of turnover (2007: £22.1m), £13.8m of operating income (2007: £9.1m) and headline operating profit more than doubling to £1.66m (2007: £0.78m).

The closer integration of the business under the Tangible name has yielded clear efficiency gains. Headline operating margins have recovered to 12.0% (2007: 8.6%). The business remains weighted towards the second half due to recurring seasonal patterns of client spending but this weighting is being gradually reduced. We are making better use of our talent to target larger client opportunities which we now have the scale to service properly.

Our public sector work continues to grow both in Scotland and England. This fits well with our established market position in the charities sector which, as the largest area of direct marketing in the UK, continues to fuel healthy growth. These two areas accounted for over 35% of our operating income from this business.

Despite the downturn in the overall financial services market, we continue to benefit modestly from a shift of spend to measurable revenue generating communications within the sector, particularly with savings products, pensions and insurance.

The business continues to innovate rapidly, driving delivery online through our digital brands: Blonde, Oomph and Face. Our strength in data management has been particularly useful in accelerating this process, on the back of substantial investment in proprietary CRM software capability. The volume of client data we now handle has increased substantially. Our innovative approach to technical and planning support for the print management process has also thrived, helping create a business of real scale.

New client wins in the six month period include: SEAT UK, Energy Savings Trust, Which?, British Red Cross, 3 Telecom, AXA PPP, BNP Paribas, CMC Markets, Dyson, MS Society, Kew Gardens, Scottish Enterprise, confused.com, freesat, Food Standards Authority, Department for Children, Schools and Families and Tourism Malaysia.

Our strategy is to consolidate our position behind the Tangible brand, continue to innovate rapidly and secure a leadership position in our key client segments.

Outlook

We are clearly operating in a more challenging market. Our specialist focus and ability to deliver internationally in key client sectors represent distinct sources of competitive advantage. We have also acted pre-emptively to reduce our cost base and will continue to do so in the second half. We maintain a robust balance sheet, with only moderate earnout obligations outstanding and a focus on operating cash conversion. We will continue to appraise acquisitions but on a highly selective basis.

Provided that our markets and trading conditions do not deteriorate markedly, we continue to be cautiously optimistic that our full year headline operating profit will be in line with the Board's expectations.

I am writing this Chairman's Statement because, as announced on 2 September 2008, Kevin Steeds, our Executive Chairman, is seriously ill and I have been appointed by the Board to the position of Acting Chairman which I will carry out in a non-executive capacity. My fellow Board members and I wish Kevin a speedy recovery and return to work.

Allan Rich
Chairman
16 September 2008

Consolidated Income Statement

for the six months ended 30 June 2008

	Notes	Unaudited six months ended 30 June 2008 £'000	Unaudited six months ended 30 June 2007 £'000	Audited year ended 31 December 2007 £'000
Continuing operations				
Revenue	3a	66,115	45,784	108,315
Cost of sales		(32,237)	(21,386)	(51,503)
Operating income	3b	**33,878**	**24,398**	**56,812**
Administration expenses		(29,516)	(21,118)	(48,669)
Headline operating profit	3c	**4,362**	**3,280**	**8,143**
Exceptional items	5	(471)	–	–
Amortisation of intangible assets		(458)	(364)	(904)
Acquisition related employee expenses		(354)	(715)	(1,179)
Share option charges		(163)	(154)	(449)
Operating profit		**2,916**	**2,047**	**5,611**
Finance income	6	102	129	211
Other finance costs	7	(558)	(314)	(770)
Finance cost of deferred consideration	7	(236)	(221)	(468)
Profit before taxation	3d	**2,224**	**1,641**	**4,584**
Tax	8	(670)	(521)	(1,478)
Profit for the period		**1,554**	**1,120**	**3,106**
Attributable to:				
Equity holders of parent		1,507	1,113	3,074
Minority interest		47	7	32
		1,554	**1,120**	**3,106**
Earnings per share				
Basic earnings per share	9	3.66p	3.16p	8.44p
Diluted earnings per share	9	3.66p	3.06p	7.28p

at 30 June 2008

	Notes	Unaudited at 30 June 2008 £'000	Unaudited at 30 June 2007 £'000	Audited at 31 December 2007 £'000
Goodwill	10	78,950	65,656	77,912
Intangible assets		2,592	3,152	3,005
Property, plant and equipment		3,246	2,765	3,277
Available-for-sale investments		227	228	227
Deferred tax assets		1,664	1,260	1,549
Non-current assets		**86,679**	**73,061**	**85,970**
Trade and other receivables		29,473	23,293	28,720
Cash and cash equivalents		7,448	4,781	6,986
Current assets		**36,921**	**28,074**	**35,706**
Trade and other payables		(25,122)	(18,774)	(26,829)
Current tax liabilities		(1,405)	(1,362)	(2,037)
Borrowings		(6,054)	(2,321)	(950)
Consideration payable in respect of acquisitions	11	–	–	(15,436)
Obligations under finance leases		(56)	(71)	(70)
Current liabilities		(32,637)	(22,528)	(45,322)
Net current assets/(liabilities)		4,284	5,546	(9,616)
Total assets less current liabilities		**90,963**	**78,607**	**76,354**
Non-current liabilities				
Borrowings		(16,500)	(9,900)	(11,750)
Provisions	11	(17,350)	(24,834)	(15,145)
Obligations under finance leases		(44)	(57)	(50)
Deferred tax liabilities		(757)	(958)	(950)
Net assets	3e	**56,312**	**42,858**	**48,459**
Capital and reserves				
Share capital	12	4,456	3,631	3,884
Share premium		31,745	22,498	25,776
Retained earnings		8,794	5,924	7,692
Equity reserves		11,232	10,792	11,069
Equity attributable to equity holders		**56,227**	**42,845**	**48,421**
Minority interest		85	13	38
Total equity		**56,312**	**42,858**	**48,459**

Consolidated Cash Flow Statement

for the six months ended 30 June 2008

	Notes	Unaudited six months ended 30 June 2008 £'000	Unaudited six months ended 30 June 2007 £'000	Audited year ended 31 December 2007 £'000
Net cash inflow/(outflow) from operating activities before taxation	**13a**	**2,281**	**(556)**	**7,917**
Tax paid		(1,547)	(1,033)	(2,047)
Net cash inflow/(outflow) from operating activities after taxation		**734**	**(1,589)**	**5,870**
Investing activities				
Interest received		102	129	211
Purchase of property, plant and equipment		(646)	(806)	(1,773)
Sale of property, plant and equipment		32	12	22
Expenditure on intangible assets		(46)	(64)	(111)
Proceeds from sale of available-for-sale investments		–	50	50
Purchase of available-for-sale investments		–	(113)	(137)
Purchase of subsidiary undertakings		–	(4,628)	(8,543)
Net cash acquired with subsidiaries		–	2,088	3,130
Payment of deferred consideration		(3,103)	–	(510)
Expenses paid in connection with purchase of subsidiary undertakings		(234)	(365)	(664)
Net cash outflow from investing activities		**(3,895)**	**(3,697)**	**(8,325)**
Financing activities				
Dividends paid to equity holders		(334)	(215)	(382)
Repayment of bank loan		(3,550)	(1,000)	(3,525)
Repayment of loan notes		(179)	(1,053)	(1,986)
Drawdown of borrowings		8,300	4,850	9,225
Capital element of finance lease payments		(20)	(40)	(72)
Repayment of obligations under finance lease		(11)	(12)	(24)
Interest paid		(512)	(287)	(743)
Purchase of own shares		(71)	–	(26)
Net cash inflow from financing		**3,623**	**2,243**	**2,467**
Movements in cash and cash equivalents				
Net increase/(decrease) in cash and cash equivalents		462	(3,043)	12
Cash and cash equivalents at the beginning of the period		6,986	6,974	6,974
Cash and cash equivalents at end of the period		**7,448**	**3,931**	**6,986**

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2008

	Share Capital £'000	Share Premium £'000	Capital Redemption Reserve £'000	Merger Reserve £'000	Capital Reserve £'000	Retained Earnings £'000	Total £'000	Minority Interest £'000	Total Equity £'000
At 1 January 2008	3,884	25,776	50	10,496	523	7,692	48,421	38	48,459
Profit for the year	–	–	–	–	–	1,507	1,507	47	1,554
Shares issued	572	5,969	–	–	–	–	6,541	–	6,541
Own shares purchased	–	–	–	–	–	(71)	(71)	–	(71)
Credit for share-based incentive schemes	–	–	–	–	163	–	163	–	163
Dividends paid	–	–	–	–	–	(334)	(334)	–	(334)
As at 30 June 2008	4,456	31,745	50	10,496	686	8,794	56,227	85	56,312

Changes in equity for the six months ended 30 June 2007:

	Share Capital £'000	Share Premium £'000	Capital Redemption Reserve £'000	Merger Reserve £'000	Capital Reserve £'000	Retained Earnings £'000	Total £'000	Minority Interest £'000	Total Equity £'000
At 1 January 2007	3,448	19,981	50	10,496	74	5,026	39,075	6	39,081
Profit for the year	–	–	–	–	–	1,113	1,113	7	1,120
Shares issued	183	2,517	–	–	–	–	2,700	–	2,700
Credit for share-based incentive schemes	–	–	–	–	172	–	172	–	172
Dividends paid	–	–	–	–	–	(215)	(215)	–	(215)
As at 30 June 2007	3,631	22,498	50	10,496	246	5,924	42,845	13	42,858

Changes in equity for the year ended 31 December 2007:

	Share Capital £'000	Share Premium £'000	Capital Redemption Reserve £'000	Merger Reserve £'000	Capital Reserve £'000	Retained Earnings £'000	Total £'000	Minority Interest £'000	Total Equity £'000
At 1 January 2007	3,448	19,981	50	10,496	74	5,026	39,075	6	39,081
Profit for the year	–	–	–	–	–	3,074	3,074	32	3,106
Shares issued	436	5,795	–	–	–	–	6,231	–	6,231
Own shares purchased	–	–	–	–	–	(26)	(26)	–	(26)
Credit for share-based incentive schemes	–	–	–	–	449	–	449	–	449
Dividends paid	–	–	–	–	–	(382)	(382)	–	(382)
As at 31 December 2007	3,884	25,776	50	10,496	523	7,692	48,421	38	48,459

1 BASIS OF PREPARATION

The consolidated interim financial information has been prepared on a consistent basis with the accounting policies that we expect to be applied in the financial statements, which will be prepared in accordance with International Financial Reporting Standards as adopted by the EU.

The financial information contained within this interim report has been prepared in accordance with International Accounting Standard 34 (IAS 34 *Interim Financial Reporting*) and are unaudited. It was approved by the Board and authorised for issue on 15 September 2008.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue, Cost of Sales and Revenue Recognition

Revenue is recognised as contract activity progresses, in accordance with the terms of the contractual agreement and the stage of completion of the work. It is in respect of the provision of services including fees, commissions, rechargeable expenses and sales of materials performed subject to specific contract. Where recorded revenue exceeds amounts invoiced to clients, the excess is classified as accrued income.

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.

(b) Goodwill and Intangible Assets

In accordance with IFRS 3 *Business Combinations* goodwill arising on acquisitions is capitalised as an intangible fixed asset. Other intangible assets are also then identified and amortised over their useful economic lives. Examples of these are licences to trade, and client contracts. The useful economic lives vary from 3 months to 8 years. Goodwill is not amortised.

Under IAS 36 *Impairment of Assets*, the carrying values of all intangible fixed assets are reviewed each financial period for impairment on the basis stipulated in IAS 36 and adjusted to the recoverable amount. Typically, such a review will entail an assessment of the present value of projected returns from the asset over a 3-5 year projection period, and an RPI based growth assumption for future years after that.

(c) Share-Based Payments

The Group has applied the requirements of IFRS 2 *Share-Based Payment* which requires the fair value of share-based payments to be recognised as an expense. In accordance with the transitional provisions, IFRS 2 has been applied to such equity instruments that were granted after 7 November 2002 and which had not vested by 1 January 2006.

This standard has been applied to various types of share-based payments as follows:

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Share options
Certain employees receive remuneration in the form of share options. The fair value of the equity instruments granted is measured on the date at which they are granted by using the Black-Scholes model, and is expensed to the profit and loss account over the appropriate vesting period.

ii. Acquisition related employee remuneration expenses
Having regard to the basis for conclusions behind IFRS 2 and in accordance with IAS 8 *Accounting Policies* and IFRS 3 *Business Combinations*, the Group treats certain payments made to employees in respect of earnout arrangements as remuneration within the profit and loss account.

(d) Exceptional items

Exceptional Items are those items which, because of their nature and materiality, merit separate presentation to allow a better understanding of the Group's financial performance.

3 SEGMENTAL INFORMATION

For management purposes, the Group is organised into two businesses; Cello Research and Consulting, and Tangible. These businesses are the basis on which the Group reports its primary segment information.

The Group's turnover, operating income and operating profit were all derived from the following activities:

(a) Turnover

	Unaudited six months ended 30 June 2008 £'000	Unaudited six months ended 30 June 2007 £'000	Audited year ended 31 December 2007 £'000
Cello Research and Consulting	33,572	23,686	50,894
Tangible	32,543	22,098	57,421
	66,115	**45,784**	**108,315**

(b) Operating income

	Unaudited six months ended 30 June 2008 £'000	Unaudited six months ended 30 June 2007 £'000	Audited year ended 31 December 2007 £'000
Cello Research and Consulting	20,078	15,305	32,891
Tangible	13,800	9,093	23,921
	33,878	**24,398**	**56,812**

3 SEGMENTAL INFORMATION (continued)

(c) Headline operating profit

	Unaudited six months ended 30 June 2008 £'000	Unaudited six months ended 30 June 2007 £'000	Audited year ended 31 December 2007 £'000
Cello Research and Consulting	3,692	3,405	6,204
Tangible	1,656	778	4,072
Head Office	(986)	(903)	(2,133)
	4,362	**3,280**	**8,143**

(d) Profit before tax

	Unaudited six months ended 30 June 2008 £'000	Unaudited six months ended 30 June 2007 £'000	Audited year ended 31 December 2007 £'000
Cello Research and Consulting	2,910	2,210	5,615
Tangible	1,011	425	3,468
Head Office	(1,697)	(994)	(4,499)
	2,224	**1,641**	**4,584**

(e) Net assets

	Unaudited at 30 June 2008 £'000	Unaudited at 30 June 2007 £'000	Audited 31 December 2007 £'000
Cello Research and Consulting	18,644	14,834	16,939
Tangible	8,069	3,702	6,899
Head Office	29,599	24,322	24,621
	56,312	**42,858**	**48,459**

4 DIVIDEND

An interim dividend of 0.5p (2007: 0.45p) per ordinary share is declared and will be paid on 5 November 2008 to all shareholders on the register on 10 October 2008. In accordance with IAS 10 *Events after the Balance Sheet Date,* this dividend has not been recognised in the accounts at 30 June 2008, but will be recognised in the accounting period ending 31 December 2008.

5 EXCEPTIONAL ITEMS

Exceptional items are redundancy costs incurred in the period which have a material effect on the results. These costs have been separately disclosed in order to assist in understanding the financial performance.

6 FINANCING INCOME

	Unaudited six months ended 30 June 2008 £'000	Unaudited six months ended 30 June 2007 £'000	Audited year ended 31 December 2007 £'000
Interest receivable on bank deposits	**102**	**129**	**211**

7 FINANCE COSTS

	Unaudited six months ended 30 June 2008 £'000	Unaudited six months ended 30 June 2007 £'000	Audited year ended 31 December 2007 £'000
Interest payable on bank loans and overdrafts	505	279	703
Interest payable on loan notes	42	23	43
Interest payable in respect of finance leases	11	12	24
Notional finance costs on future deferred consideration	236	221	468
	794	**535**	**1,238**

8 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

The tax charge for the half year ended 30 June 2008 has been based on an estimated effective tax rate on profit on ordinary activities for the full year of 30% (year ended 31 December 2007: 32%).

9 EARNINGS PER SHARE

	Unaudited six months ended 30 June 2008 £'000	Unaudited six months ended 30 June 2007 £'000	Audited year ended 31 December 2007 £'000
Basic and diluted earnings attributable to ordinary shareholders	1,507	1,113	3,074
Adjustments to earnings:			
Exceptional items	471	–	–
Amortisation of intangibles	458	364	904
Share-based payments expense	163	154	449
Acquisition related employee remuneration expenses	354	715	1,179
Notional finance costs on future deferred consideration payments	236	221	468
Tax thereon	(373)	(308)	(589)
Adjusted earnings attributable to ordinary shareholders	**2,816**	**2,259**	**5,485**

	Number	Number	Number
Weighted average number of ordinary shares	41,163,500	35,209,762	36,426,361
Dilutive effect of securities:			
Share options	–	600,000	600,000
Contingent consideration shares to be issued	3,323,048	510,000	5,198,646
Diluted weighted average number of ordinary shares	44,486,548	36,319,762	42,225,007
Further dilutive effect of securities:			
Share options	1,471,504	1,462,206	1,966,057
Contingent consideration shares to be issued	14,016,244	9,199,538	9,385,087
Fully diluted weighted average number of ordinary shares	59,974,296	46,981,506	53,576,151
Basic earnings per share	3.66p	3.16p	8.44p
Diluted earnings per share	3.39p	3.06p	7.28p
Fully diluted earnings per share	2.51p	2.37p	5.74p
Headline basic earnings per share	6.84p	6.42p	15.06p
Headline diluted earnings per share	6.33p	6.22p	12.99p
Headline fully diluted earnings per share	4.70p	4.81p	10.24p

9 EARNINGS PER SHARE (continued)

Headline earnings per share and fully diluted earnings per share have been presented to provide additional information which may be useful to the readers of this statement.

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period, determined in accordance with the provisions of IAS 33 *Earnings per Share.*

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all the potential dilutive ordinary shares for which all the conditions of issue have been met.

Fully diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all the potentially dilutive ordinary shares.

The Group has two categories of potential dilutive shares, being share options granted where the exercise price is less than the average price of the Company's ordinary shares during the period and shares to be issued as contingent consideration on completed acquisitions.

10 GOODWILL

	Unaudited at 30 June 2008 £'000	Unaudited at 30 June 2007 £'000	Audited at 31 December 2007 £'000
Cost			
At 1 January 2008	77,912	55,519	55,519
Goodwill arising on acquisition	–	10,366	24,673
Adjustment to fair value of deferred consideration	1,038	(229)	(2,280)
At 30 June 2008	78,950	65,656	77,912

The adjustment to the fair value of deferred consideration relates to changes in estimate of deferred consideration payable under earnout arrangements in accordance with the terms of the relevant acquisition agreements. Adjustment to the value of assets acquired relate to fair value adjustments of the net assets acquired on acquisitions in the prior period.

11 CONTINGENT CONSIDERATION FOR ACQUISITIONS

	Unaudited at 30 June 2008 £'000	Unaudited at 30 June 2007 £'000	Audited at 31 December 2007 £'000
Consideration payable for acquisitions	–	–	15,436
Provisions	17,350	24,834	15,145
	17,350	24,834	30,581

Movements in the period can be analysed as follows:

	Unaudited six months ended 30 June 2008 £'000	Unaudited six months ended 30 June 2007 £'000	Audited year ended 31 December 2007 £'000
At 1 January 2008	30,581	19,590	19,590
Payments in the period	(14,926)	(435)	(1,485)
Additions in the period	–	4,972	13,109
Adjustment to provisions of additions in prior periods	1,105	(229)	(2,280)
Acquisition related remuneration expense	354	715	1,179
Notional finance costs on future deferred consideration payments	236	221	468
At 30 June 2008	17,350	24,834	30,581

Make up of contingent consideration is as follows:

Earnout related cash payables	7,192	9,631	14,697
Shares to be issued	10,158	15,203	15,884
	17,350	24,834	30,581

Earnout payments 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, this percentage can be increased.

12 SHARE CAPITAL

	Unaudited at 30 June 2008 £'000	Unaudited at 30 June 2007 £'000	Audited at 31 December 2007 £'000
Authorised:			
50,000,000 ordinary shares of 10p each	5,000	5,000	5,000
Allotted, issued and fully paid			
44,561,603 ordinary shares of 10p each	4,456	3,631	3,884

During the interim period 5,717,751 ordinary shares of 10p each were issued as part of the consideration for acquisitions.

13 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 2008 £'000	Unaudited six months ended 30 June 2007 £'000	Audited year ended 31 December 2007 £'000
Profit for the period	1,554	1,120	3,106
Finance income	(102)	(129)	(211)
Finance costs of deferred consideration	236	221	468
Other finance costs	558	314	770
Tax	670	521	1,478
Depreciation	677	460	1,116
Amortisation	458	364	904
Share-based payment expense	163	172	449
Acquisition related employee remuneration expense	354	715	1,179
Profit on disposal of property, plant and equipment	(32)	(4)	(13)
Profit on disposal of available-for-sale investments	–	(10)	(10)
Increase in receivables	(753)	(3,206)	(4,617)
(Decrease)/increase in payables	(1,502)	(1,094)	3,298
Net cash inflow/(outflow) from operating activities	**2,281**	**(556)**	**7,917**

13 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of net debt

	At 1 January 2008 £'000	Cash flow £'000	Issue of debt £'000	At 30 June 2008 £'000
Cash at bank and in hand	6,986	462	–	7,448
Overdrafts	–	–	–	–
	6,986	462	–	7,448
Loan notes due within one year	(950)	179	(5,283)	(6,054)
Other loans due within one year	(11,750)	(4,750)	–	(16,500)
Finance leases	(120)	20	–	(100)
	(5,834)	(4,089)	(5,283)	(15,206)

During the period there were the following issuances and repayments of debt:

- £8.4m was drawn down from the Group's loan facility to fund the cash element of acquisitions made in the period.
- £3.5m of the Group's loan facility was repaid from the Group's cash reserves.
- £5,283,469 of secured loan notes were issued as part of the consideration for acquisitions in the period.

14 INTERIM STATEMENT

Copies of the interim statement are being sent to shareholders and will be available from the company's registered office at 11-13 Charterhouse Buildings, London EC1M 7AP.

This statement does not constitute full statutory financial statements within the meaning of section 240 of the Companies Act 1985.

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