

# CELLO

GROUP

ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

DISCOVERY

DELIVERY



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# discover who we are

## Who We Are

Cello Group is the global insight and strategic marketing Group that cuts through the increasing mass of data and unlocks the real value of information for brand owners, allowing them to act more quickly and with greater conviction than the competition. We help our clients get it right – and fast.

Our primary focus is the pharmaceutical and broader health sector, with additional core strengths in the FMCG, telecoms, retail, financial services, business-to-business and charities sectors.

We operate globally and have professional hubs in the UK and USA from which we support global client account teams.

While the Group as a whole is only six years old, it consists of a cohort of very well established market leading and complementary client facing brands that have been operating considerably longer – in a number of cases for more than a quarter of a century.

## What We Do

We create business ideas with effect.

We do this using a shared group philosophy and an approach we call “Powerful Realisation” – a concept which has at its core the duality of *discovery* and *delivery*.

### **Discovery:**

The process of getting to the crux of the problem and the ‘aha’ moment that unlocks value.

### **Delivery:**

Translating strategic direction into action to maximise the economic impact of a business idea.

We believe that information is interesting, but knowledge is power.

Ideas are valuable but only when turned into action.

With Powerful Realisation we take a journey with the client, this starts with discovering and distilling original customer and market insights; then crafts from these insights highly differentiated marketing strategies; and finally executes these strategies using a variety of both traditional and new delivery methods, both on and offline.



# what makes us different



## People

Because strategic marketing advice is central to what we do, we have chosen to adopt the Partnership model seen in other world class professional service firms as the means of actively developing and organising the Group.

In 2010 out of a total staff of circa. 750, Cello's Partnership group consisted of 7 managing partners who lead the major group brands; 23 business leading partners; and 37 associate partners. Partners and Associates are elected each year for their contributions to management, client development and Cello thought leadership. Many of these individuals are part of the 100+ Academy alumni members. We offer high fliers courses in leadership, business development and commercial excellence which has, over time, enhanced careers, with Academists progressing to Board positions, Partner Status and Executive positions in our US offices.

The partnership ethos, supported by The Cello Academy, is a vital means of creating a strong

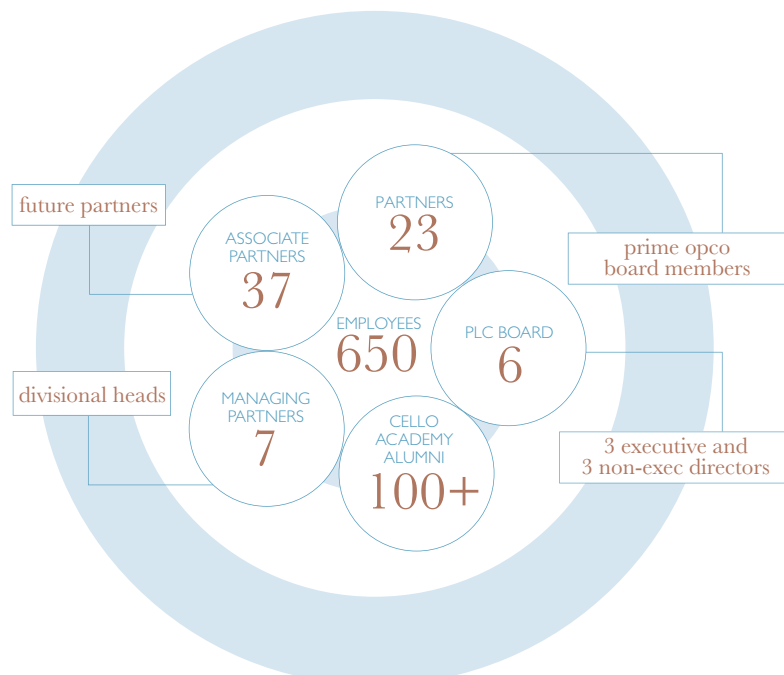
Group culture and a commitment to Powerful Realisation for clients. It distinguishes us from our peers and is also a vital element of our recruitment strategy.

We have also created a Cello Graduate Forum for the 28 graduate trainees taken into Group businesses this year.

## The Role of the Cello Brand

Cello Group acts as the marketing platform and endorser brand for our underlying operating brands. Our Partnership structure has facilitated the creation of a number of client focused account teams blended from our underlying speciality disciplines to optimise client impact. We regularly organise a variety of Group client events such as Cello Group conferences which in 2010 took 'Welcome to Wellbeing' and 'Money Talks' as themes.

Cello is structured around a network of hubs – Edinburgh, Cheltenham, London, Manhattan and San Francisco. These act as centres of professional excellence as well as providing shared office facilities and locations for incubating innovative new ventures. For management and reporting purposes, our leading brands are organised into two divisions.



# chairman's statement

## Overview

2010 saw a strong recovery in profitability, with the Group reporting a 21% growth in headline operating profit<sup>1</sup> to £7.3m (2009: £6.0m) on gross profit of £60.3m (2009: £59.7m). The final quarter showed continued improving commitment to spend by clients in the Group's core areas of expertise.

The Research and Consulting Division of the Group experienced a particularly robust recovery, with full year like-for-like<sup>2</sup> gross profit growth of 3.6%. This produced a like-for-like growth in headline operating profit of 27.0%. The Communications Division, Tangible, saw a like-for-like increase in headline operating profits of 9.2%, despite a like-for-like decline in gross profit of 3.1% as a result of the marked slowdown of public sector spend.

The Group continues to benefit from its focus on the pharmaceutical and broader health markets and increasing orientation towards large global contracts. Healthcare continued to grow at a higher rate than the rest of the Group and in 2010 accounted for 41.5% of gross profit in Research (2009: 38.1%). The acquisition of MedErgy HealthGroup Inc ("MedErgy") in March 2011 significantly accelerates the Group's migration towards the health services market, in line with the Group's strategy.

The Group's emphasis on international activity has continued to yield good returns, with overseas revenue accounting for over 40% of Research and Consulting revenue in 2010. This has been achieved by continuing to target multinational client contracts

which represent higher growth opportunities outside the relatively mature UK market. The acquisition of MedErgy will materially shift the balance of the Group towards international revenue sources. The Group now has a strong US footprint in New York, Philadelphia and San Francisco.

The Group's top 20 clients remained largely unchanged, a clear demonstration of the Group's ability to manage long term relationships. In 2010 they accounted for 37.7% of Cello's total gross profit (2009: 37.7%). At the same time the Group has achieved significant new client wins.

Following continued strong operating cash generation, net debt at the year end was reduced to £8.8m (2009: £11.5m).

In March 2011, the Group raised gross proceeds of £2.8m via a placing of 5.3m ordinary shares at 52.5p per share to a range of existing and new investors. These funds were applied to the acquisition of 100% of the equity of MedErgy, for which the initial consideration was settled by \$5.5m in cash and the issue of 5,804,049 new Cello ordinary shares of 10 pence each.

The Group continues to invest in developing its professional service model, supported by its in-house management development programme, Cello Academy, and a comprehensively structured bonus scheme. The Group has recently completed a substantial brand enhancement exercise, including a new website, in order to optimise the Group's combined credentials with multinational clients placing large contracts with the Group.

<sup>1</sup> Headline operating profit is defined as operating profit before restructuring costs, acquisition accounting adjustments, share option charges, impairment charges and amortisation.

<sup>2</sup> Like-for-like measures exclude discontinued operations and the impact of any reclassification of business between reporting segments.

# chairman's statement

## Financial Review

Total Group gross profit was £60.3m (2009: £59.7m). Headline profit before tax was £6.4m (2009: £5.1m). The Group's overall results reflect continued success in the core activities of healthcare research, healthcare consulting and specialist research. Within these areas, both qualitative and quantitative research have continued to grow strongly.

The Group's headline operating margin<sup>3</sup>, before head office costs, recovered strongly to 15.2% (2009: 12.5%), with headline operating margin of 18.8% in Research and Consulting (2009: 15.4%).

In response to the long anticipated reduction in public sector activity, the Group took prompt action to materially reduce its exposure to this area. As indicated in the interim results, this resulted in an exceptional restructuring charge of £0.8m. This charge relates to employee termination payments and surplus space provisions. All of these were deemed prudent actions given the likelihood that

public sector spend will remain depressed for the foreseeable future.

Headline finance costs<sup>4</sup> were £0.9m (2009: £1.0m), reflecting the Group's reduced debt levels. The Group's tax charge in the year was £1.3m (2009: £0.2m).

Headline basic earnings per share<sup>5</sup> rose to 7.67p (2009: 7.56p) and headline fully diluted earnings per share rose to 6.40p (2009: 6.09p). Fully diluted earnings per share reflects the impact of the anticipated future issuance of shares to vendors of companies acquired by the Group under earn out arrangements.

The Board is proposing a final dividend of 0.905p per share, giving a total dividend per share for the year ended 31 December 2010 of 1.43p (2009: 1.30p), an increase of 10%. This dividend will be paid, subject to shareholder approval, on 8 July 2011 to all shareholders on the register at 10 June 2011 and will be recognised in the year ending 31 December 2011.



*Cello Executive Directors.  
Left to Right – Mark Bentley, Group Finance Director,  
Paul Walton, Group Strategy Director, Mark Scott,  
Chief Executive.*

<sup>3</sup> Headline operating margin is calculated by excluding central head office costs from headline operating profit and expressing that as a percentage of gross profit.

<sup>4</sup> Headline finance costs are defined as finance costs excluding notional finance costs on future deferred consideration payments.

<sup>5</sup> Headline earnings per share is defined in note 8.

## Financial Review *continued*

The Group's net debt position at 31 December 2010 was £8.8m (2009: £11.5m). Operating cash flow before tax of £7.8m (2009: £5.2m) during the year represented an 107% conversion of headline operating profit.

The Group's banking facilities consist of an £8.0m term loan, a £7.0m revolving credit facility and a multi-currency overdraft facility of £2.0m. Interest margin is between 250pts and 325pts above LIBOR.

In April 2010, £2.2m of earn out liabilities were settled. These were settled by £1.3m in cash and loan notes, and £0.9m in shares issued at an average issue price of 32.8p per share. Following a detailed review of further liabilities, expected 2011 earn out commitments have returned to levels estimated prior to the recession, reflecting recovery in underlying performance. Earn out commitments now stand at £7.3m at 31 December 2010. Of this, approximately £5.3m will fall payable in April 2011. The minimum cash or loan note element of this 2011 payment is £2.4m. Shares issued under these arrangements will be subject to contractual trading lock-ins for up to three years after their issue. The Board retains discretion to pay a larger proportion of this in the form of loan notes or cash. The remaining earn out obligations payable after April 2011 are capped at £2.4m.

The Group incurs a number of charges in the income statement below headline operating profit, detailed below.

	2010 £'000	2009 £'000
<b>Headline operating profit</b>	<b>7,305</b>	<b>6,023</b>
Net interest payable	(902)	(887)
<b>Headline profit before tax</b>	<b>6,403</b>	<b>5,136</b>
Restructuring costs	(822)	(1,949)
Fair value gain on financial instruments*	170	155
Acquisition related employee remuneration expenses*	(362)	(163)
Share option charge*	(39)	–
Impairment of investments*	–	(207)
Impairment of goodwill and intangibles*	–	(8,161)
Amortisation of intangibles*	(344)	(455)
Notional finance costs*	(78)	(104)
<b>Reported profit/(loss) before tax</b>	<b>4,928</b>	<b>(5,748)</b>

\* 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 operating cash flow conversion and headline basic earnings per share.



# chairman's statement

## Operational Review

### *Research and Consulting*

The Group's market research and consulting business experienced a strong second half of the year, with robust like-for-like annual gross profit growth of 3.6%. Operating profits rose by over 27% on a like-for-like annual basis, reflecting continued strong spending patterns from our broad international blue-chip client base. The research business delivered a headline operating profit of £6.9m (2009: £5.6m) from gross profit of £36.9m (2009: £36.3m).

With an employee base of 369 (2009: 399) and revenue of £59.9m (2009: £59.9m), the business ranks firmly in the top ten market research companies based in the UK (Marketing Magazine, March 2010) and is the only such business which is not part of a much larger group. With continued consolidation in the market research sector, the business now ranks 23rd globally (Inside Research, August 2010).

Operating margins have recovered to a good level at 18.8% (2009: 15.4%) reflecting more normal operating conditions.

Performance has been particularly strong in the pharmaceutical and health related client sectors which now constitute the primary area of our research and consulting activity and which operate at a higher margin than other client sectors. In 2010, healthcare research represented approximately 42% of gross profit in this Division (2009: 38%). As well as continued strength in the pharmaceutical sector, the business has successfully extended into the growing over-the-counter and brand oriented market for drugs and therapies, particularly in the USA.

The Group's New York office has performed strongly and is expanding rapidly. The Group also intends to expand its US West Coast office more aggressively in 2011, backed by recent new client wins. A small



office was also opened in Switzerland in 2010 to service pharmaceutical clients. In 2011, the Group will embark on a concerted strategy to expand into Asia.

The acquisition of MedErgy in March 2011 will accelerate the Group's growth strategy, extending its healthcare reach and international capabilities. For the year ended 31 December 2010, MedErgy delivered \$2.3m of profit before tax on gross profits of \$9.0m, with an exclusive focus on the pharmaceutical market from its offices in Pennsylvania and London.

Notable project wins in Research and Consulting in 2010 came from Allergen, Amgen, Astellas, GSK Global, Pfizer, Novartis, Novo Nordisk, Roche, Sandoz, Viropharma, 3M, Adidas, Bauer, BBC, Boots, British Airways, BUPA, Cadbury, Camelot, Citi, EA, eBay, Eurostar, hotel.com, HMRC, HP, ITV, Kellogg's, KPMG, Kraft, Lloyds Banking Group, Macmillan Cancer Support, MTV, Nestle, News International, Nokia, L'Oreal Paris, P&G, Prudential, PWC, PZ Cussons, RBS, RIM, TFL, Travis Perkins, Unilever, Virgin Media, Visa, Wrigleys and Yell.

The Group has continued to integrate its research, consulting and communications capability to achieve competitive advantage against the much larger networks with which it is now directly competing. MedErgy further reinforces this integration process. The Group has also continued to consolidate its field force and online data capture capacity to improve utilisation levels and to position itself as a competitive outsourcing solution for larger research networks.

# chairman's statement

## Operational Review *continued*

Online activity continues to grow as a proportion of the Group's overall research activity. The Group's eVillage product for pharmaceutical clients and the Group's social media research applications sold under the Face brand have performed strongly.

As indicated with the interim results in September, the Group has incurred an exceptional restructuring charge of approximately £0.8m, relating to the material reduction of the Group's exposure to public sector client spend in research. This process is now complete.

### *Tangible*

The Group's communications business, Tangible, delivered solid like-for-like growth in headline operating profit of 9.2%, with headline operating profit of £2.2m (2009: £1.9m) on flat gross profit of £23.4m (2009: £23.4m), despite the pronounced decline in public sector spending. On a like-for-like basis, gross profit declined by 3.1%

Headline operating margins in this business recovered somewhat to 9.4% (2009: 8.1%), reflecting an increased focus on research and value added consulting work, and away from the more commoditised aspects of communications delivery. Approximately 20% of Tangible's activity is now in the research and consulting area, a transition which we anticipate continuing rapidly in 2011. Tangible's strong position in web based social media research and communications has continued to benefit the network, as well as the Group's overall research offering. Tangible remains the 4th largest direct marketing company in the UK.

Tangible is opening an office in Beijing which will also serve as a hub for the Research and Consulting business.

Notable new business wins by Tangible came from Airwick, Birmingham Midshires, Cancer Research

UK, Dettol, IFAW, Ben & Jerry's, British Red Cross, Consumer Credit Counselling Service, Damart, Dove, First Great Western, Hays Recruitment, Lloyds Banking Group, Lovatts, Macmillan Cancer Support, Mortein, Nestle Purina, NHS, Northern Rock, O2, Organ Donation, Royal Mail, Sainsbury's Finance, Salvation Army, Scottish Government, Scottish & Southern Energy, Stroke Association, Pfizer, Sony, SPX, Sue Ryder Care, The Royal British Legion, Tesco Bank, Vanish and VisitScotland.

## Current Trading and Outlook

The Group is optimistic that the higher levels of client activity, particularly in the research sector, seen in the last quarter of 2010 and so far in 2011, will continue. The Group continues to enjoy strong gross profit pipelines. The acquisition of MedErgy and the expansion of the business internationally in healthcare, will provide the Group with additional momentum. At this early stage of the year the Board is optimistic that current expectations for 2011 can be met.

Allan Rich  
Non-Executive Chairman

14 March 2011



# cello research and consulting



Cello Research and Consulting consolidated its position as a leading player in the global market research and advisory market, ranked 4th largest in the UK<sup>1</sup> and 23rd globally<sup>2</sup>.

Cello's dominant area of focus on the pharmaceutical and healthcare sector has continued to grow into a market leadership position in the UK, with a strengthening international capacity. The Group's focus on blue-chip, multinational private sector clients has helped it largely avoid the contraction in government related spend. With the largest Group client no more than 4% of gross revenues and the top ten clients accounting for 25% of spend, the group has maintained a balanced portfolio of clients with healthy growth opportunities.

Notable project wins in the year came from, Allergan, Amgen, Astellas, GSK Global, Pfizer, Novartis, Novo Nordisk, Roche, Sandoz, Viropharma, 3M, Adidas, Bauer, BBC, Boots, British Airways, BUPA, Cadbury, Camelot, Citi, EA, Bay, Eurostar, hotel.com, HMRC, HP, ITV, Kellogg's, KPMG, Kraft, Lloyds Banking Group, Macmillan Cancer Support, MTV, Nestle, News International, Nokia, L'Oreal Paris, P&G, Prudential, PWC, PZ Cussons, RBS, RIM, TFL, Travis Perkins, Unilever, Virgin Media, Visa, Wrigleys and Yell.

Cello has continued to focus on creating a global network to service clients internationally. The Group has strengthened its US offer with the relocation of its New Jersey office into Manhattan which now acts as a hub for the Group's major brands. Cello has also expanded its presence in San Francisco, with a new office able to act as a West Coast hub for the Group's numerous client activities in the area. International work now accounts for over 40% of income.

We continue to ensure Cello remains at the cutting edge of industry developments, with a leading position in social media research. The Group's web based social community based tool for the pharmaceutical sector, eVillage, is expanding rapidly. The Group's web enabled marketing sciences offer for pharmaceutical clients is expanding as Cello Business Sciences. Cello continues to aim to be a leading force for innovation in the industry.

<sup>1</sup> Source: Marketing Market Research League Tables September 2010

<sup>2</sup> Source Inside Research, August 2010

# cello research and consulting

Name	Turnover £m (2009)*
1. TNS UK	166
2. Ipsos Mori	128
3. GfK UK	125
<b>4. Cello</b>	<b>52</b>
5. Mintel	50
6. Research Now	48
7. Hall and Partners	20
8. Harris Interactive	20
9. ICM Research	19
10. BDRC Continental	15

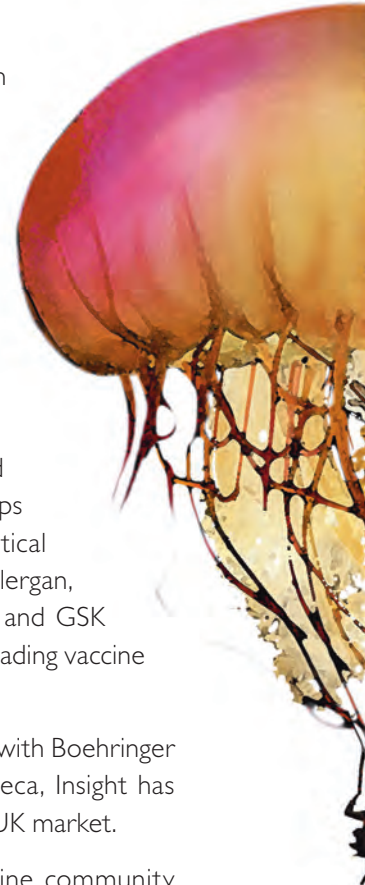
\*Source: Marketing Market Research Leagues September 2010

## MSI

- Significantly expanding its international pharmaceutical client base, MSI won projects in the US, Middle East, Asia Pacific and on a pan-European basis.
- Most notably the agency worked on Brand Genetix, helping a global client with the commercialisation of an important new product at Phase II in their research pipeline.
- 2010 saw MSI working with a number of clients using its FUTURESTM methodology, an innovative approach to visualising a number of different possible futures, enabling companies to develop more robust strategies.
- MSI consolidated its expertise within rare and orphan disease pharmaceutical commercialisation, working on six specific rare disease areas in 2010 alone.

## Insight

- An excellent year overall with sustained growth across all markets and a significant increase in year-on-year profits.
- A successful year at an international level; breaking new ground with ViiV Healthcare – a global specialist HIV company established by GlaxoSmithKline and Pfizer, and forging closer working relationships with a raft of major Pharmaceutical Companies including Novartis, Allergan, Sandoz, Astellas, Pfizer Europe, and GSK Biologicals – one of the world's leading vaccine manufacturers.
- Building on existing relationships with Boehringer Ingelheim, Boots, and AstraZeneca, Insight has strengthened its position in the UK market.
- eVillage, a market research online community was launched by Insight, a first in the healthcare research arena. A web-based platform that involves respondents – healthcare professionals, patients or consumers – in a range of activities such as blogging, online polls, video diaries, forums and message boards, over an extended period of time eVillage can be designed to allow communities to be set up for single projects or for long-term research programmes.
- In the US market, Insight Health, has consolidated their growth, moving to new offices in Manhattan, NY and working with key clients including GSK Global, Boehringer Ingelheim, and Advanced BioHealing – developers of bioengineered human tissue products.



# cello research and consulting

## RS

- A strong year, both domestically and internationally, with major new wins from P&G, Macmillan Cancer Support, Fed-Ex, and HMT.
  - The agency continued to innovate strongly. e-luminate, RS's online qualitative diary tool, achieved in excess of £100,000 sales in its first year.
  - RS's market profile enjoyed a strong boost, winning the Green Apple Bronze Award for environmental practice, and Macmillan Cancer Support award for best research project 2010.
- The agency defended its position in the public sector. Its Investment Funds Survey was successfully refreshed, with 3 new clients added, enabling public sector business growth in 2010 against a challenging backdrop.

## 2CV

- A strong year, particularly in the US market, with wins from HP, Microsoft, EA and Nokia's North American business.
- The UK office continues to pick up media, technology and entertainment studies on a domestic and international basis for a broad base of clients, including Camelot, Sony Consumer Electronics, and News International. Also recently re-pitched for the ITV brand tracker and retained the contract after a five way pitch.
- Now conducting research in 16 markets worldwide, including nine European countries and seven countries spanning North and South America.

- EXP, the experiential evaluation division, continues to provide an innovative edge for clients ranging from 2CV's core client base of Nokia and EA as well as new clients such as Cadbury, O2 and MTV.

## Leapfrog

- The agency achieved strong growth as a result of the increasing internationalisation of its capabilities.
- Major new client wins included Rolex, Marriott, and Odeon, along with significant projects from a major healthcare company, GSK, Tesco, Clarks and Bayer.
- International turnover rose to approximately a third of total turnover.
- Leapfrog was shortlisted for Best Agency 2010 at the Research Awards.

## TVE

- Another year of robust performance, with the opening of TVE's first overseas office in New York.
- In the UK, client relationships were successfully deepened with RBS in Financial Services; Homebase in Retail; Nom, Tyrrells and Wrigley in FMCG; and British Airways in Travel.
- US based client wins included Citi Group, Unilever and BP.
- 2010 saw the successful integration of sister company, SMT, and its competitive benchmarking and audit capabilities.

# tangible group

Tangible made steady progress in 2010, consolidating its position as the 4th largest response oriented communications agency in the UK. The improvement in profit performance in both the London and Cheltenham hubs of Tangible was most gratifying. The exposure of the Edinburgh hub to the fall away in public sector spend was tightly managed and performance protected successfully.

Notable new business wins by Tangible came from Airwick, Birmingham Midshires, Cancer Research UK, Dettol, IFAW, Ben & Jerry's, British Red Cross, Consumer Credit Counselling Service, Damart, Dove, First Great Western, Hays Recruitment, Lloyds Banking Group, Lovatts, Macmillan Cancer Support, Mortein, Nestle Purina, NHS, Northern Rock, O2, Organ Donation, Royal Mail, Sainsbury's Finance, Salvation Army, Scottish Government, Scottish & Southern Energy, Pfizer, Stroke Association, Sony, SPX, Sue Ryder Care, The Royal British Army, Tesco Bank, Vanish and VisitScotland.

Tangible has continued the rapid growth of its insight and planning brand capability, bringing it much closer to the research and consulting core of Cello. Our social media consultancy brand, Face, has pioneered both co-creation and online communities as insight tools and continues to attract a blue-chip, global client base at a rapid pace.

Growing Tangible more aggressively outside of the UK will be a key priority for the next two years, particularly in the insight and consulting area. Face has secured a number of global client briefs, in both North America and Asia. Our production brand 'Brightsource' has also won some significant international business in 2010, including one of the world's largest US based charity clients.

Name	Gross Profit £m (2009)*
1. Gyro HSR	44
2. Iris Worldwide	43
3. Digital Marketing Group	42
<b>4. Tangible</b>	<b>24</b>
5. Tullo Marshall Warren	22
6. The Marketing Store	22
7. CHI & Partners	20
8. The Direct Marketing Group	16
9. Billington Cartmell	15
10. Transactis	14

\*Source: Marketing magazine published March 2010

DISCOVERY



# tangible group

## Insight: Face

- Face had a strong year, benefiting from the migration of client budgets towards online social media and social media monitoring, including Unilever, Google, Coca Cola, Molson Coors, Pfizer, O2 and Reckitt Benckiser.
- Continuing its geographic reach extension and now working with Nike in Rwanda, Ben & Gerry's in the US and Italy and Mortein in Brazil and O2 in Europe.
- A small qualitative research company, Rosenblatt, was recently absorbed into the Face management structure, enabling Face to offer qualitative research solutions, alongside agency services offered through the Farm brand.

## Communications: Leith and Tangible

- Leith and Tangible had a strong new business year, winning a number of key commercial clients including Scottish & Southern Energy, The Scottish Sun, First Great Western and the Tesco owned garden centre chain Dobbies.
- Tangible's data planning skills have continued to grow in reputation with a notable project being the transfer of British Gas into the Nectar loyalty card scheme.
- Tangible London were appointed alongside Farm to lead communications for Northern Rock; Tangible Cheltenham were appointed by Macmillan Cancer Care, World Vision and grew their relationship with Lloyds Banking Group; and Tangible Edinburgh were appointed Sainsbury's Finance sole DM agency and won a place on Royal Mail's roster.

## Production: Brightsource

- Brightsource experienced a strong year of growth, including the integration of Magnetic to augment its client offer.
- Brightsource won two major international clients (IFAW & SPX), established a US supply chain in the process and recently opened an office in Beijing.



DELIVERY

# director's report

The directors present their report and the financial statements of Cello Group plc for the year to 31 December 2010. To the best of their knowledge the Directors' Report includes a fair view of the business and position of the Group, together with a description of the principal risks and uncertainties faced by the Group.

## Principal Activities

The principal activity of the Group during the year under review is that of market research, consulting and communications consultancy.

## Review of the Business and Future Developments

The results for the year ended 31 December 2010 are set out in the Group income statement on page 24. These show a profit attributable to shareholders of £3.5m. An interim dividend of 0.525p per share was paid during the year and a final dividend of 0.905p per share is proposed.

The directors are required by the Companies Act to present a business review, reporting on the development and performance of the Group and the Company during the year and their positions at the end of the year. A review of the development and future prospects of the business and key performance indicators ("KPIs") are given in the Chairman's Statement on pages 4 to 8 which are incorporated in this report by reference.

The Group's KPIs are outlined in various sections of this review. Whilst there are many financial measures that the Group monitors on a regular basis our core financial objectives are:

- Headline operating profit
- Headline operating margin
- Like-for-like gross profit
- Headline operating cash flow conversion
- Headline basic earnings per share

The Company regularly reviews the risks and uncertainties facing the business through a regular series of board and operational meetings. The directors believe the current largest risks are as follows:

### 1. UK economy

The Group's business is domiciled in the UK but 24.8% of the Group's revenues are from clients based overseas. It is clear that the current economic downturn and the reduction in public sector spending continues to affect the Group and there is a risk that further downturn in any of our markets will have an additional affect. However, the mix of services we are offering is proving resilient as the economy stabilises.

### 2. Loss of the Group's key clients

Client relationships are crucial to the Group, and the strength of them is key to its continued success. The risk is mitigated by our client base being broadly spread and by several of our pharmaceutical clients being subject to longer term master service agreements. The loss of any large client would require replacement. The Group's client review programmes help mitigate this risk.

### 3. Loss of key staff

The Group's directors and staff are critical to the servicing of existing business and the winning of new accounts, departure of key staff could be a risk to maintaining client service. With that risk in mind all senior staff are subject to financial lock-ins and long term incentive arrangements, as well as being under contractual non-compete and non-solicit clauses.

## Directors

The following directors have held office since 1 January 2010:

Mark Scott  
Mark Bentley  
Paul Hamilton  
Will David  
Allan Rich  
Chris Outram (resigned 20 July 2010)  
Paul Walton (appointed 22 July 2010)

# director's report

Biographical details of the directors at the date of this report are set out on pages 82 to 83.

## Directors' Interests in Shares and Options

Directors' interests in the shares of the Company were as follows:

	Number of ordinary shares of 10p each At 31 December 2010	Number of ordinary shares of 10p each At 31 December 2009
Mark Scott	754,010	724,010
Mark Bentley	35,000	15,000
Paul Hamilton	50,000	50,000
Will David	15,000	15,000
Allan Rich	474,595	444,595
Paul Walton	1,869,180	1,869,180

Under the rules of the Enterprise Management Incentive Scheme Unapproved Share Option Scheme, the PSP Scheme (2010) and the Approved Option Scheme, the Executive Directors have been granted an interest in options over ordinary shares of 10p each as follows:

		At 1 January 2010 number of ordinary shares of 10p each	Granted in the year number of ordinary shares of 10p each	Lapsed in the year number of ordinary shares of 10p each	At 31 December 2010 number of ordinary shares of 10p each	Date from which exercisable	Expiry date	Exercise price (pence)
Mark Scott	(1)	100,000	–	–	100,000	Nov 2004	Nov 2014	100
Mark Scott	(2)	200,000	–	–	200,000	Nov 2004	Nov 2004	100
Mark Scott	(3)	–	430,000	–	430,000	June 2013	June 2020	10
Mark Scott	(4)	–	72,000	–	72,000	June 2013	June 2020	31.5
Mark Bentley	(1)	81,633	–	–	81,633	June 2008	June 2015	122.5
Mark Bentley	(2)	81,633	–	–	81,633	June 2008	June 2015	122.5
Mark Bentley	(3)	–	214,000	–	214,000	June 2013	June 2020	10
Mark Bentley	(4)	–	72,000	–	72,000	June 2013	June 2020	31.5
Paul Walton	(3)	–	36,000	–	36,000	June 2013	June 2020	10
Paul Walton	(4)	–	36,000	–	36,000	June 2013	June 2020	31.5

(1) Granted under the EMI Share Option Scheme

(2) Granted under the Unapproved Share Option Scheme

(3) Granted under the Cello Group plc Performance Share Plan 2010

(4) Granted under the Approved Share Option Plan 2009

None of the options that have been granted were exercised in the year.



# director's report

## Substantial Shareholdings

Other than the directors' interests disclosed on the previous page, the Company is aware of the following shareholdings of 3% or more in the issued share capital at 28 February 2011:

	No. of shares	%
Octopus Asset Management Limited	6,030,222	9.78
Richard Gilmore	3,037,888	4.93
Universities Superannuation Scheme	2,797,000	4.54
Ennismore Fund Management Limited	2,645,000	4.29
Williams De Broe Limited	2,155,396	3.50

## Share Capital

Changes to the Company's share capital during the year are given in note 22 to the consolidated financial statements.

## Treasury Shares

The total number of shares in treasury at 31 December 2010 was 237,000 (0.39% of the issued share capital). The purpose of the treasury shares is to satisfy future earn out payments and/or option awards.

## Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

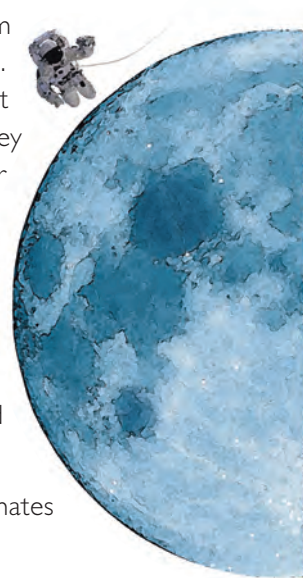
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), and the parent company financial statements in accordance with United Kingdom ("UK") Generally Accepted

Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the EU and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent company financial statements respectively;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.


The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



# director's report

## Employees



It is the Company's policy not to discriminate between employees or potential employees on any grounds. Full and fair consideration is given to the recruitment, training and promotion of disabled people and, should staff become disabled during the course of their employment, efforts are made to provide appropriate re-training. The Company places enormous importance on the contributions of its employees and aims to keep them informed of developments in the Company through a combination of meetings and electronic communication.

## Political and Charitable Contributions

During the year the Company made no political or charitable donations.

## Directors Third Party Indemnity Provisions

A qualifying third party indemnity provision was in place for directors throughout the year.

## Policy on Payment to Creditors

The Company agrees the terms and conditions under which business transactions with suppliers are conducted. It complies with these payment terms, provided that it is satisfied that the supplier has provided the goods or services in accordance with agreed terms and conditions.

The effect of the Company's payment policy is that the number of days credit taken for purchases represents 45 days at 31 December 2010 (2009: 48 days).

## Research and Development Activities

During the year the Group spent £283,000 (2009: £141,000) on the development of new software products which are expected to generate economic benefits in the future. These amounts were capitalised as intangible assets.

## Statement as to Disclosure of Information to the Auditors

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware. Each of the directors has confirmed that he, as far as he is aware, has taken all the steps that he ought to have taken as a director in order to make him aware of any relevant audit information and to establish that it has been communicated to the auditor.

## Auditors

A resolution to reappoint PricewaterhouseCoopers LLP, Chartered Accountants, as auditors will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Mark Bentley  
Company Secretary

14 March 2011

# corporate governance

The Board of Cello Group plc appreciates the value of good corporate governance not only in the areas of accountability and risk management but also as a positive contribution to the business. The Board considers that the Company, whilst trading on the AIM Market, has adopted those requirements of the Combined Code on Corporate Governance (the "Code") published in June 2008 as best applicable to the Company given its current size.

## Board Structure

The Board comprises three Executive Directors and three Non-Executive Directors. The roles of Chairman and Chief Executive are separate. The Non-Executive Directors are independent of management and free from any business or other relationship with the Company other than owning shares. The directors' biographies appear on pages 82 to 83.

The Board is scheduled to meet at least six times a year and additionally when necessary. At each scheduled meeting of the Board, the Chief Executive and Finance Director report on the Group's operations. The Board is satisfied that it is provided with information in an appropriate form and quality to enable it to discharge its duties. All directors are subject to re-election by shareholders at the first opportunity after their appointment. All directors are required to retire by rotation and one third of the Board is required to seek re-election each year. The Chairman ensures that the directors are permitted to take independent professional advice as required.

All directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

The following committees of the Board have been established to deal with specific aspects of the Company's affairs.

## Audit Committee

The Audit Committee consists of three Non-Executive Directors; Will David as Chairman, Paul Hamilton and Allan Rich. Will David is considered to have relevant financial experience to chair this Committee. The Committee considers matters relating to the financial accounting controls, the reporting of results, and the effectiveness and cost of the audit. It aims to meet at least twice a year with the Company's auditors in attendance. Other directors attend as required. The Company Secretary provides secretarial support to the Committee. The terms of reference of the Committee are available on request.

In considering the effectiveness of the audit the Audit Committee will also, where appropriate, consider whether any flexibility over rotation of the audit partner is appropriate in order to safeguard the quality of the audit.

## Nomination Committee

The Nomination Committee consists of two independent Non-Executive Directors; Paul Hamilton and Will David. The Committee is chaired by Paul Hamilton and meets as necessary. The Committee is formally constituted with written terms of reference and is responsible for reviewing and making proposals to the Board on the appointment of directors. The Company Secretary provides secretarial support to the Committee. The terms of reference of the Nominations Committee are available on request.

## Remuneration Committee

The Remuneration Committee is formally constituted with written terms of reference and makes recommendations to the Board with regard to remuneration policy and related matters. The Remuneration Committee consists solely of two of the Independent Non-Executive Directors, Paul Hamilton, who chairs the Committee and Will David. However, the Chairman and the Chief Executive attend as required and have the right to

# corporate governance

address the Committee. The Committee aims to meet at least twice a year.

The terms of reference of the Committee are available on request.

Further details of the Company's policies on remuneration, including details of directors' share options are given in the Report of the Remuneration Committee on pages 20 to 22.

## Shareholder Communications

The Company believes in maintaining good communications with shareholders. The Chief Executive and Finance Director meet analysts and institutional shareholders regularly with a view to ensuring that the strategies and objectives of the Company are well understood. The Senior Independent Director will not ordinarily attend such meetings other than at the request of the relevant shareholder. However, he is available to shareholders if they have concerns which contact through the Chairman, Chief Executive or the Finance Director has failed to resolve or for which such contact is inappropriate.

## Going Concern

The directors have satisfied themselves that the Company and Group have adequate resources to continue in operational existence for the foreseeable future, and for this reason the financial statements continue to be prepared on a going concern basis.

## Internal Control

The Board is responsible for ensuring that the Group maintains a system of internal controls and risk management, including suitable monitoring procedures. The objective of the system is to safeguard Group assets, ensure proper accounting records are maintained and that the financial information used within the business and for publication is reliable. Any such system can only provide reasonable, but not absolute, assurance against material misstatement or loss.

Given the Group's size and the nature of its business, the Board does not consider it would be appropriate to have its own internal audit function. An internal audit function will be established as and when the Group is of an appropriate size but meanwhile the audit of internal financial controls forms part of the responsibilities of the Group's finance function.

All the day-to-day operational decisions are taken initially by the Executive Directors or subsidiary directors, in accordance with the Group's strategy. Where appropriate, the Board or subsidiary directors approve such decisions. The Executive Directors or subsidiary Directors are also responsible for initiating all transactions and authorising all payments, save for those relating to their employment. As such, the internal controls primarily comprise:

- the segregation of duties, such that the Executive Directors have no involvement in the recording of any financial data;
- the review of pertinent financial and other information by the Board on a regular basis;
- the prior approval of all significant strategic decisions;
- having a formal strategy for business activities.

## The Environment

The activities of the Group do not have a high impact on the environment. However, we aim to ensure that where waste can be reduced, this is done efficiently, by recycling where viable.

## Employees

The Group employs nearly 750 employees, and we place a great deal of emphasis on their training and retention. Our central programme for rising talent, "Cello Academy", is now a well established feature of our staff development initiatives.

On behalf of the Board

Mark Bentley  
Company Secretary

14 March 2011

# report of the remuneration committee

The directors have applied the principles of good governance relating to directors' remuneration as described below:

## Remuneration Committee

The Remuneration Committee is authorised on behalf of the Board to determine the Company's remuneration policy on Executive Directors' remuneration, including pension rights and share option awards, and the terms of their service contracts. The Committee aims to meet at least twice a year and supervises the operation of share schemes and other employee incentive schemes. The remuneration and terms and conditions of appointment of the Non-Executive Directors will be set by the Board. No director shall participate in discussions relating to his own remuneration. The Remuneration Committee consists of the two independent Non-Executive Directors, Paul Hamilton who chairs the Committee, and Will David.

## Remuneration Policy

The policy of the Board is to provide executive remuneration packages designed to attract, motivate and retain directors of the calibre necessary to maintain the Group's position as a market leader and to reward them for enhancing shareholder value and return on investment. The remuneration should also reflect the directors' responsibilities and contain incentives to deliver the Group's objectives.

The main elements of the Executive Directors' remuneration packages are as follows:

- basic salary;
- performance-related bonus
- benefit package – car allowance and health care insurance;
- share option incentives – details of share options granted to the Executive Directors are shown on page 15;
- contributions to directors' individual defined contribution pension schemes.

The Remuneration Committee reviews the components of each Executive Director's remuneration package annually.



# report of the remuneration committee

## Directors' Remuneration

	Salary/Fees £'000	Bonus £'000	Benefits £'000	Total Emoluments £'000	Pension £'000	Total 2010 £'000	Total 2009 £'000
Mark Scott	214	123	13	350	32	382	278
Mark Bentley	159	91	9	259	24	283	201
Paul Walton <sup>1</sup>	52	20	11	83	6	89	–
Allan Rich	43	–	–	43	–	43	47
Paul Hamilton	26	–	–	26	–	26	28
Will David	26	–	–	26	–	26	25
Chris Outram <sup>2</sup>	21	–	–	21	–	21	23
<b>Total</b>	<b>541</b>	<b>234</b>	<b>33</b>	<b>808</b>	<b>62</b>	<b>870</b>	<b>602</b>

<sup>1</sup> Appointed on 22 July 2010

<sup>2</sup> Resigned on 20 July 2010

## Directors' Titles and Service Arrangements

Name	Title	Date of appointment	Notice period
Allan Rich	Non-Executive Chairman	5 April 2005	3 months
Mark Scott	Chief Executive	5 May 2004	12 months
Mark Bentley	Group Finance Director	1 May 2005	12 months
Paul Walton	Group Director of Strategy	21 July 2010	6 months
Paul Hamilton	Senior Non-Executive Director	8 October 2004	6 months
Will David	Non-Executive Director	8 October 2004	6 months

## Long Term Incentive Arrangements

In 2004, the Company established an EMI Share Option Plan and an Unapproved Share Option Plan. Vesting of the share options awarded to Mark Scott in November 2004 under the EMI and Unapproved Share Option Plans is not subject to performance conditions but vesting of the share options granted to Mark Bentley in June 2005 under these plans is subject to performance conditions which have been met.

On 13 March 2006 the Board adopted the Cello Group plc Performance Share Plan 2006 (the "PSP 2006"). However, no awards made under the PSP 2006 have vested or are capable of vesting and the

Remuneration Committee decided that no further awards would be made under the PSP 2006. As previously announced, to replace the PSP 2006 the Board considered adopting a Joint Ownership Share Plan but decided instead to reinstate the PSP 2006, renamed the Cello Group plc Performance Share Plan 2010 (the "PSP 2010"), with new performance conditions, as the principal long term incentive plan for the Group's most senior executives. The performance measure for the PSP 2010 will be Total Shareholder Return ("TSR") relative to a comparator group of the Company's peers over the three years following the date of the award. The proportion of PSP 2010 awards which vest will be calculated as follows:-

# report of the remuneration committee

## Long Term Incentive Arrangements

*continued*

Cello relative TSR performance	Proportion of award vesting
Below median	nil
Median	25%
Upper quartile	100%
Between median and upper quartile	interpolation between 25% and 100%

The comparator companies against which Cello's relative TSR performance will be measured will be as shown below. The Remuneration Committee reserves the right to substitute new comparator companies in certain circumstances, for example the delisting, takeover, merger or liquidation of any comparator companies.

Aegis Group  
Chime Communications  
Creston  
Digital Marketing Group  
Huntsworth  
M&C Saatchi  
Media Square  
The Mission Marketing Group  
Next Fifteen Communications Group  
WPP Group  
YouGov

On 17 November 2009 the Board adopted the Cello Group plc HM Revenue & Customs Approved Share Option Plan 2009 (the "Approved Plan") and on 15 March 2010 adopted the Cello Group plc Unapproved Option Plan 2010 (the "Unapproved Plan"). Under the Approved Plan and the Unapproved Plan (the "Option Plans") performance conditions will be tailored to each participant according to his or her seniority and responsibilities and will be based on performance as measured against an appropriate combination of Company, Division and Group targets and the extent to which these are achieved or exceeded over the performance period will determine the proportion of each participant's options which vest. Awards under the Option Plans to main Board Directors will be subject to the performance conditions which apply to awards under the PSP 2010. The Committee will review the Option Plans on a regular basis and may amend the performance conditions from time to time.

## Market Value of Shares

The market value of the shares at 31 December 2010 was 46.5p and the high and low prices during the year were 49.75p and 27.5p respectively.

On behalf of the Board

Paul Hamilton  
Chairman – Remuneration Committee

14 March 2011

# consolidated financial statements

## – independent auditor's report

We have audited the Group financial statements of Cello Group plc for the year ended 31 December 2010 which comprise the Group Income Statement and Statement of Comprehensive Income, the Group Statement of Financial Position, the Group Cash Flow Statement, the Group Statement of Changes in Equity, and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

### Respective Responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting

estimates made by the directors; and the overall presentation of the financial statements.

### Opinion on Financial Statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on Other Matter Prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

### Matters on which we are Required to Report by Exception

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Other Matter

We have reported separately on the parent company financial statements of Cello Group plc for the year ended 31 December 2010.

David A Snell (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

14 March 2011

# consolidated income statement

FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
<b>Continuing operations</b>			
Revenue	1	124,965	123,707
Cost of sales		(64,672)	(64,004)
<b>Gross profit</b>		<b>60,293</b>	59,703
Administration expenses	3a	(54,555)	(64,615)
<b>Operating profit/(loss)</b>	3	<b>5,738</b>	(4,912)
Finance income	2	188	224
Finance costs	2	(998)	(1,060)
<b>Profit/(loss) on continuing operations before taxation</b>		<b>4,928</b>	(5,748)
Tax	5	(1,306)	(239)
<b>Profit/(loss) on continuing operations after taxation</b>		<b>3,622</b>	(5,987)
Loss from discontinued operations	6	(15)	(333)
<b>Profit/(loss) for the year</b>		<b>3,607</b>	(6,320)
<b>Attributable to:</b>			
Owners of the parent		3,463	(6,359)
Non-controlling interests		144	39
		<b>3,607</b>	(6,320)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009 as restated
<b>Basic earnings/(loss) per share</b>			
From continuing operations	8	5.88p	(11.31)p
From discontinued operations	8	(0.03)p	(0.62)p
<b>Diluted earnings/(loss) per share</b>			
From continuing operations	8	5.25p	(11.31)p
From discontinued operations	8	(0.03)p	(0.62)p

# consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2010

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
<b>Profit/(loss) for the year</b>	<b>3,607</b>	<b>(6,320)</b>
<b>Other comprehensive income:</b>		
Exchange differences on translation of foreign operations	(10)	12
<b>Total comprehensive income for the year</b>	<b>3,597</b>	<b>(6,308)</b>
<b>Total comprehensive income attributable to:</b>		
Equity holders of the parent	3,453	(6,347)
Non-controlling interest	144	39
	<b>3,597</b>	<b>(6,308)</b>

## Reconciliation of profit/(loss) on continuing operations before taxation to headline profits before tax:

	Notes	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
<b>Profit/(loss) on continuing operations before taxation</b>		<b>4,928</b>	<b>(5,748)</b>
Restructuring costs	3c	822	1,949
Amortisation of intangible costs	10	344	455
Acquisition related employee remuneration expense	18	362	163
Share option charges	23	39	–
Impairment of intangible assets	10	–	778
Impairment of goodwill	9	–	7,383
Impairment of available-for-sale investments	12	–	207
Finance cost of deferred consideration	2	78	104
Fair value gain on derivative financial instruments	2	(170)	(155)
<b>Headline profit before taxation</b>		<b>6,403</b>	<b>5,136</b>
<b>Headline profit before taxation is made up as follows:</b>			
Headline operating profit		7,305	6,023
Headline finance income		18	69
Headline finance costs		(920)	(956)
		<b>6,403</b>	<b>5,136</b>

# consolidated balance sheet

31 DECEMBER 2010

	Notes	31 December 2010 £'000	31 December 2009 as restated £'000
<b>Goodwill</b>	9	<b>71,155</b>	67,926
Intangible assets	10	<b>1,113</b>	1,174
Property, plant and equipment	11	<b>2,124</b>	2,515
Available-for-sale investments	12	–	20
Deferred tax assets	21	<b>964</b>	962
<b>Non-current assets</b>		<b>75,356</b>	72,597
Trade and other receivables	14	<b>26,370</b>	25,711
Cash and cash equivalents	14	<b>797</b>	3,135
<b>Current assets</b>		<b>27,167</b>	28,846
Trade and other payables	15	<b>(25,460)</b>	(25,419)
Current tax liabilities		<b>(1,219)</b>	(568)
Borrowings	16	<b>(3,208)</b>	(14,529)
Consideration payable in respect of acquisitions	18	<b>(5,285)</b>	(2,472)
Obligations under finance leases	19	<b>(57)</b>	(68)
Derivative financial instruments	20	–	(289)
<b>Current liabilities</b>		<b>(35,229)</b>	(43,345)
<b>Net current liabilities</b>		<b>(8,062)</b>	(14,499)
<b>Total assets less current liabilities</b>		<b>67,294</b>	58,098
Borrowings	16	<b>(6,250)</b>	–
Provisions	17	<b>(2,432)</b>	(3,315)
Obligations under finance leases	19	<b>(54)</b>	(65)
Derivative financial instruments	20	<b>(119)</b>	–
Deferred tax liabilities	21	<b>(196)</b>	(292)
<b>Non-current liabilities</b>		<b>(9,051)</b>	(3,672)
<b>Net assets</b>		<b>58,243</b>	54,426
Equity			
Share capital	22	<b>6,164</b>	5,876
Share premium		<b>15,738</b>	15,544
Merger reserve		<b>26,741</b>	26,278
Capital redemption reserve		<b>50</b>	50
Retained earnings		<b>9,187</b>	6,523
Share-based payment reserve		<b>112</b>	73
Foreign currency reserve		<b>(45)</b>	(35)
<b>Equity attributable to owners of the parent</b>		<b>57,947</b>	54,309
Non-controlling interests		<b>296</b>	117
<b>Total equity</b>		<b>58,243</b>	54,426

Approved and authorised for issue by the Board on 14 March 2011 and signed on its behalf by

Mark Scott Director

Mark Bentley Director

# consolidated cash flow statement

FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
<b>Net cash inflow from operating activities before taxation</b>	24a	<b>7,800</b>	5,198
Tax paid		(743)	(591)
<b>Net cash inflow from operating activities after taxation</b>		<b>7,057</b>	4,607
<b>Investing activities</b>			
Interest received		18	69
Purchase of property, plant and equipment		(917)	(699)
Sale of property, plant and equipment		74	39
Expenditure on intangible assets		(283)	(141)
Sale of available-for-sale investments		20	–
Purchase of subsidiary undertakings		(537)	(1,478)
Sale of subsidiary undertakings		(69)	–
<b>Net cash outflow from investing activities</b>		<b>(1,694)</b>	(2,210)
<b>Financing activities</b>			
Dividends paid to equity holders of the parent		(814)	(733)
Repayment of borrowings		(4,350)	(3,000)
Repayment of loan notes		(1,445)	(2,187)
Drawdown of borrowings		–	2,600
Capital element of finance lease payments		(22)	(21)
Interest paid		(1,054)	(956)
Purchase of own shares		–	(52)
<b>Net cash outflow from financing</b>		<b>(7,685)</b>	(4,349)
<b>Net decrease in cash and cash equivalents</b>		<b>(2,322)</b>	(1,952)
Exchange (losses)/gains on cash and bank overdrafts		(16)	22
Cash and cash equivalents at the beginning of the year		3,135	5,065
<b>Cash and cash equivalents at end of the year</b>	24b	<b>797</b>	3,135

# consolidated statement of changes in equity

FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital £'000	Share premium £'000	Merger reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Share-based payment reserve £'000	Foreign currency exchange reserve £'000	Total attributable to the owners of the parent £'000	Non- controlling interest £'000	Total equity £'000
<b>At 1 January 2009 (as previously stated)</b>	<b>4,456</b>	<b>31,745</b>	<b>10,496</b>	<b>50</b>	<b>10,048</b>	<b>73</b>	<b>(47)</b>	<b>56,821</b>	<b>78</b>	<b>56,899</b>
Restatement	–	(16,569)	16,569	–	–	–	–	–	–	–
<b>At 1 January 2009 (as restated)</b>	<b>4,456</b>	<b>15,176</b>	<b>27,065</b>	<b>50</b>	<b>10,048</b>	<b>73</b>	<b>(47)</b>	<b>56,821</b>	<b>78</b>	<b>56,899</b>
<b>Comprehensive income:</b>										
Loss for the year	–	–	–	–	(6,359)	–	–	(6,359)	39	(6,320)
<b>Other comprehensive income:</b>										
Currency translation	–	–	–	–	–	–	12	12	–	12
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(6,359)</b>	<b>–</b>	<b>12</b>	<b>(6,347)</b>	<b>39</b>	<b>(6,308)</b>
<b>Transactions with owners:</b>										
Shares issued	1,420	368	2,832	–	–	–	–	4,620	–	4,620
Own shares purchased	–	–	–	–	(52)	–	–	(52)	–	(52)
Transfer between reserves in respect of impairment	–	–	(3,619)	–	3,619	–	–	–	–	–
Dividends	–	–	–	–	(733)	–	–	(733)	–	(733)
<b>Total transactions with owners</b>	<b>1,420</b>	<b>368</b>	<b>(787)</b>	<b>–</b>	<b>2,834</b>	<b>–</b>	<b>–</b>	<b>3,835</b>	<b>–</b>	<b>3,835</b>
<b>At 31 December 2009 (as restated)</b>	<b>5,876</b>	<b>15,544</b>	<b>26,278</b>	<b>50</b>	<b>6,523</b>	<b>73</b>	<b>(35)</b>	<b>54,309</b>	<b>117</b>	<b>54,426</b>
<b>Comprehensive income:</b>										
Profit for the year	–	–	–	–	3,463	–	–	3,463	144	3,607
<b>Other comprehensive income:</b>										
Currency translation	–	–	–	–	–	–	(10)	(10)	–	(10)
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>3,463</b>	<b>–</b>	<b>(10)</b>	<b>3,453</b>	<b>144</b>	<b>3,597</b>
<b>Transactions with owners:</b>										
Shares issued	288	194	463	–	–	–	–	945	–	945
Credit for share-based incentives	–	–	–	–	–	39	–	39	–	39
Deferred tax on share-based payments recognised directly in equity	–	–	–	–	15	–	–	15	–	15
Changes in non-controlling interests in shareholdings	–	–	–	–	–	–	–	–	35	35
Dividends	–	–	–	–	(814)	–	–	(814)	–	(814)
<b>Total transactions with owners</b>	<b>288</b>	<b>194</b>	<b>463</b>	<b>–</b>	<b>(799)</b>	<b>39</b>	<b>–</b>	<b>185</b>	<b>35</b>	<b>220</b>
<b>As at 31 December 2010</b>	<b>6,164</b>	<b>15,738</b>	<b>26,741</b>	<b>50</b>	<b>9,187</b>	<b>112</b>	<b>(45)</b>	<b>57,947</b>	<b>296</b>	<b>58,243</b>

# consolidated financial statements

## – accounting policies

### General Information

Cello Group plc and its subsidiaries (“the Group”) provides research, consulting and direct marketing services.

Cello Group plc is incorporated and domiciled in the United Kingdom under the Companies Act 2006 and its shares are listed on the Alternative Investment Market (“AIM”) of the London Stock Exchange. The address of the Company’s registered office is 11-13 Charterhouse Buildings, London, EC1M 7AP.

The consolidated financial statements are presented in UK sterling, which is also the functional currency of the parent company.

At the date of authorisation of these financial statements, the following standards and interpretations, which are issued but not yet effective, have not been applied:

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010:

- IFRS 3 (revised) Business Combinations – The standard is applicable for business combinations occurring in reporting periods beginning on or after 1 July 2009. The revised standard continues to apply the acquisition method to business combinations but with some significant changes. All payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as liabilities subsequently re-measured through the statement of comprehensive income. All acquisition costs are expensed in the income statement. The adoption of this standard has had no impact on these financial statements, but will apply to future acquisitions.

The following new and amended standards and interpretations are mandatory for the first time for

the financial year beginning 1 January 2010 but not currently relevant to the Group:

- IFRIC 17 Distribution of Non-Cash Assets to Owners
- IFRIC 18 Transfer of Assets from Customers
- IFRIC 9 Reassessment of Enhanced Derivatives and IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IAS 1 (amendment) Presentation of Financial Statements
- IAS 36 (amendment) Impairment of Assets
- IFRS 2 (amendment) Group Cash-Settled Share-Based Payment Transactions
- IFRS 5 (amendment) Non-current Assets Held for Sale and Discontinued Operations

The following new standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted. The expected impact of these standards, amendments and interpretations is being assessed by management:

	Effective for reporting period on or after
• IFRS 9 Financial Instruments	1 January 2013
• IAS 24 Related Party Disclosures	1 January 2011
• Classification of Rights Issues (amendment to IAS 32)	1 February 2010
• IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
• Prepayments of a Minimum Funding Requirement (amendments to IFRIC 14)	1 January 2011

# consolidated financial statements

## – accounting policies

### Significant Accounting Policies

#### (1) Basis of Preparation

The consolidated financial statements of Cello Group plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The Group's business activities, performance and position are set out in the Chairman's Statement on pages 4 to 8 and an assessment of the risks and uncertainties is set out in the Directors' Report on page 14 to 17.

During the year the Group generated a profit before tax of £4.9m and excluding non-recurring restructuring costs and other non-headline charges the Group generated a profit of £6.4m.

The Group had net current liabilities of £8.1m at 31 December 2010. This includes £2.75m of the borrowings under the Group's debt facilities, which are to be repaid in 2011, together with £5.3m of deferred consideration for acquisitions, for which conditions of payment have substantially been met. Up to £2.8m of this deferred consideration for acquisitions can be settled through the issuance of new share capital. In addition the Group has a £2.0m overdraft facility and a £7.0m revolving credit facility of which £6.0m is undrawn at 31 December 2010. The revolving credit facility is committed until March 2013.

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.

#### (2) Basis of Consolidation

The Group's financial statements consolidate the financial statements of the Company and all of its subsidiary undertakings. Subsidiaries are entities controlled by the Group. Control is achieved when the Group has the power to govern the financial and operating policies of an entity which generally accompany a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets and liabilities acquired and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Inter-company transactions, balances and unrealised gains are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group treats transactions with non-controlling interests as transactions with equity owners. For purchases of non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains and losses of disposal to non-controlling interests are also recorded in equity.

# consolidated financial statements

## – accounting policies

### (3) Restatements

This year the Group has made the following restatements in relation to merger relief and employee benefit trusts.

Section 612 of the Companies Act 2006 (and previously section 131 of the Companies Act 1985) provides for mandatory relief from the recording of a share premium on shares issued in return for certain equity interests in other companies. In previous years, the Group had recorded a share premium on such transactions. Equity has therefore been restated to reclassify these amounts to a merger reserve. In addition, this merger reserve has been reduced by way of transfers to retained earnings to cover historic impairment charges in accordance with company law. The overall effect of this restatement at 31 December 2009 was a reduction in share premium of £2,832,000 (2008: £16,569,000), a reduction in merger reserve of £787,000 (2008: increase of £16,569,000) and an increase in retained earnings of £3,619,000 (2008: £nil). There is no impact on net assets or on amount recorded in the income statement or cash flow statement.

The Group had previously not consolidated certain employee benefit trusts set up as part of business combinations to remunerate management of the acquired company. Having further considered the nature of these trusts, the directors now believe that it is appropriate to consolidate these trusts because the activities of the trusts are being conducted on behalf of the Group, specific to its business needs, such that the Group derives benefits from the trusts' operations. The consolidation of these trusts has not resulted in an adjustment to profit/(loss) or net assets in previous years. The only material impact is in respect of shares held by these trusts on earnings per share as reported in the prior year. The restated 2009 basic and diluted loss per share from continuing operations figures are 0.19 pence lower than previously reported and the restated headline earnings per share is 0.13 pence higher than previously reported..

### (4) Foreign Currencies

Sterling is the functional currency of the Company and the presentational currency of the Group. The functional currency of subsidiaries is the local currency of the primary economic environment in which the entity operates.

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign exchange gains or losses on monetary assets and liabilities denominated in foreign currencies resulting from the settlement of such transactions and from the translation to the rate prevailing at the year end recognised in the income statement.

The financial statements of subsidiaries whose functional currency is different to the presentational currency of the Group are translated into the presentational currency of the Group on consolidation. Assets and liabilities are translated at the exchange rate prevailing at the balance sheet date. Income and expenses are translated at the average exchange rate for the year. Exchange differences arising on consolidation are recognised in other comprehensive income and the cumulative effect of these as a separate component in equity.

### (5) 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 is recognised as contract activity progresses, in accordance with the terms of the contractual agreement and the stage of completion of the work. 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.

# consolidated financial statements

## – accounting policies

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.

### (6) Pension Contributions

Subsidiaries operate defined contribution pension schemes and contribute to the personal pension schemes of certain employees or to a Group personal pension plan. The assets of the schemes are held separately from those of the subsidiary companies in independently administered funds. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

### (7) Share-based Payments

The Group has applied the requirements of IFRS 2 Share-based Payment to both cash-settled and equity-settled share-based employee compensation schemes.

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

#### i. Share options

Certain employees receive remuneration in the form of share options. The fair value of the share options granted is measured at the date of grant and expensed to the income statement over the appropriate vesting period, with a corresponding adjustment to equity.

The fair value of the share options takes into account market performance vesting conditions and non-market vesting conditions. Non-market vesting conditions are included in assumptions of the number of options expected to vest. At the end of each reporting period the Group revises its estimate of the number of share options expected to vest and recognises the impact of the revisions to previous estimates in the income statement, with a corresponding adjustment to equity.

#### ii. Acquisition related employee remuneration expenses

In accordance with IFRS 3 Business Combinations and IFRS 2 Share-based Payment, certain payments to employees in respect of acquisition arrangements are treated as remuneration within the income statement. These payments are typically payable in cash or shares at the option of the Group so are treated as cash-settled share-based payments. The amount expected to be payable is expensed in the income statement over the appropriate period, with a corresponding adjustment made to amounts payable in respect of acquisitions.

### (8) Headline Measures

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

A reconciliation between reported and headline profit/(loss) before taxation is presented after the Consolidated Statement of Comprehensive Income. In addition to this, a reconciliation between reported and headline operating profit is presented in note 1, a reconciliation between reported and headline finance income and costs is presented in note 2 and a reconciliation between reported and headline earnings per share is presented in note 8. Headline measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies.

# consolidated financial statements

## – accounting policies

### (9) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, which is responsible for allocating resources and assessing performance of the operating segments has been identified as the board of directors.

### (10) Goodwill

Goodwill represents the excess of the cost of acquisitions over the fair value of the Group's share of the identifiable net assets acquired at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses. Impairment losses are recognised in the income statement and cannot subsequently be reversed.

Goodwill is allocated to cash-generating units for the purposes of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

The carrying value of goodwill for each cash-generating unit is reviewed annually for impairment. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets fair value less costs to sell and its value-in-use.

### (11) Intangible Assets Acquired as Part of a Business Combination

In accordance with IFRS 3 Business Combinations, intangible assets acquired in a business combination are recognised at fair value at the acquisition date. Identified intangible assets acquired as part of a business combination are client contracts and licences. These intangible assets have a finite useful economic life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method over the expected life of the asset which vary from 3 months to 8 years.

Intangible assets acquired as part of a business combination are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets fair value less costs to sell and its value-in-use.

### (12) Internally Generated Intangible Assets – Research and Development Expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group's development expenditure is recognised only when the following conditions are met:

- i. an asset is created that can be identified (such as software or a new process);
- ii. it is probable that the asset created will generate future economic benefit;
- iii. the development cost of the asset can be measured reliably;
- iv. there is the availability of adequate technical, financial or other resources and an intention to complete the development and to use or sell the development.

Internally generated assets are amortised on a straight line basis over their useful lives. Where no internally generated intangible asset can be recognised, the development expenditure is recognised as an expense in the period in which it is incurred.

Internally generated intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets fair value less costs to sell and its value-in-use.

# consolidated financial statements

## – accounting policies

### (13) Property, Plant and Equipment

Property, plant and equipment are stated at historical cost. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset, over their estimated useful economic lives as follows:-

Leasehold improvements	Over the remaining term of the lease
Motor vehicles	25% pa. straight line
Computer equipment	33% pa. straight line
Fixtures, fittings and office equipment	25% pa. straight line

### (14) Current and Deferred Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Current tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is income tax recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying value in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill nor from the initial recognition of an asset or liability, other than resulting from a business combination, that does not affect the accounting profit or loss or the taxable profit or loss.

Deferred tax assets are only recognised to the extent that it is probable that they can be utilised against future taxable profits.

Deferred tax is calculated at the tax rates that are enacted or substantially enacted and expected to apply in the period when the liability is settled or the asset is realised.

### (15) Leasing and Hire Purchase Commitments

When the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease or similar hire purchase contract. The asset is recorded at fair value (or present value of minimum lease payments if lower) in the balance sheet as property, plant and equipment and is depreciated over the estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included as a liability. Rentals payable are apportioned between the finance element, which is charged to the income statement, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are treated as operating leases and rentals payable are charged to the income statement on a straight line basis over the lease term.

### (16) Provisions

Provisions are recognised when the Group has; a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle this obligation and a reliable estimate can be made of the amount of the obligation. Expected future cash flows to settle provisions are discounted to present value.

# consolidated financial statements

## – accounting policies

### (17) Financial Instruments

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

#### i. Available-for-sale investments

Investments classified as available-for-sale are initially recorded at fair value including transaction costs. Such instruments are subsequently measured at fair value with gains and losses being recognised in other comprehensive income until the instrument is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recycled to the income statement and recognised in profit or loss for the period. Impairment losses are recognised in the income statement when there is objective evidence of impairment.

#### ii. Trade receivables

Trade receivables are classified as loans and receivables and are initially recognised at fair value and subsequently measured at amortised cost in accordance with IAS 39 Financial Instruments: Recognition and Measurement. A provision for impairment is made where there is objective evidence (including customers with financial difficulties or in default on payments) that amounts will not be recovered in accordance with original terms of the agreement. A provision for impairment is established when the carrying value of the receivable exceeds the present value of the future cash flow discounted using the original effective interest rate. The carrying value of the receivable is reduced through the use of an allowance account and any impairment loss is recognised in the income statement.

#### iii. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and at bank and other short-term deposits held by the Group with original maturities of less than three months.

#### iv. Financial liabilities and equity

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

#### v. Bank borrowings

Interest bearing bank loans and overdrafts are recorded initially at their fair value, net of direct transaction costs. Such instruments are subsequently carried at their amortised cost and finance charges, including premiums payable on settlement or redemption, are recognised in the income statement over the term of the instrument using an effective rate of interest.

#### vi. Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

#### vii. Derivative financial instruments and hedge accounting

The Group's activities expose the entity primarily to foreign currency and interest rate risk. The Group uses interest rate swap contracts to hedge interest rate exposures. The Group does not use derivative financial instruments for speculative purposes.

The interest rate swap contracts do not meet the requirements for hedge accounting so the contracts are initially recognised at fair value on the date the contract is entered into and subsequently re-measured at their fair value. Changes in the fair value are recorded in the income statement.

# consolidated financial statements

## – accounting policies

### (18) 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 differences arise they are recognised in the income statement for the following reporting period. Reasonable variations to these estimates would not create material differences to the results of the Group.
- ii. Contingent deferred consideration payments in respect of acquisitions  
The Group has estimated the value of future amounts payable in respect of acquisitions based on management's estimate of the relevant entities future performance. If this estimate changes in the future as the earn out period progresses, the amount of the provision and goodwill will vary. The Group also uses this calculation to estimate acquisition related employee remuneration expense and notional finance costs on deferred consideration payments. Further disclosure on contingent deferred consideration is included in note 18.
- iii. Recognition of share-based payments  
The Group makes various assumptions that are used to calculate the fair value of share options issued. These assumptions are disclosed in note 23. Changes in these assumptions would vary the number of options expected to vest and would lead to changes in the share options charge in the period and subsequent periods. Reasonable variations to these estimates would not create material differences to the results of the Group.
- iv. Impairment of goodwill  
The Group tests goodwill annually for impairment, in accordance with the Group's accounting policy. 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 9.

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## I. Segmental Information

For management purposes, the Group is organised into two operating groups; Research and Consulting, and Tangible Group. These groups 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.

The principal activities are as follows:

### Research and Consulting

The Research and Consulting Division provides both qualitative and quantitative research to a global

range of clients across a range of sectors. This research combined with a consulting capability puts the Group in a unique position to add real value to client relationships.

### Tangible Group

The Tangible Group offers direct communication solutions from a mixture of direct mail, email and related response media with a focus on the key delivery areas of response: Direct, Digital and Data.

Revenues of £5.58m (2009: £3.85m) are derived from the Group's largest client and these revenues are included in the Research and Consulting Division.

for the year ended 31 December 2010	Research and Consulting £'000	Tangible Group £'000	Unallocated corporate expenses £'000	Group £'000
<b>Profit and loss</b>				
Revenue:				
External sales	59,782	65,183	–	124,965
Intersegment revenue	114	96	(210)	–
	59,896	65,279	(210)	124,965
Gross profit	36,858	23,435	–	60,293
Headline operating profit (headline segment result)	6,946	2,210	(1,851)	7,305
Restructuring costs	(822)	–	–	(822)
Amortisation of intangible assets	(228)	(116)	–	(344)
Acquisition related employee expenses	(362)	–	–	(362)
Share option charges	(15)	(5)	(19)	(39)
Operating profit (segment result)	5,519	2,089	(1,870)	5,738
Financing income				188
Finance costs				(998)
Loss before tax				4,928
<b>Other information</b>				
Additions to property, plant and equipment	543	368	6	917
Capitalisation of intangible assets	–	283	–	283
Depreciation of property, plant and equipment	568	541	42	1,151

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## I. Segmental Information *continued*

for the year ended 31 December 2009	Research and Consulting £'000	Tangible Group £'000	Unallocated corporate expenses £'000	Group £'000
<b>Profit and loss</b>				
Revenue:				
External clients	59,807	63,900	–	123,707
Intersegment revenue	81	44	(125)	–
	59,888	63,944	(125)	123,707
Gross profit	36,301	23,402	–	59,703
Headline operating profit (headline segment result)	5,575	1,894	(1,446)	6,023
Restructuring costs	(918)	(1,031)	–	(1,949)
Amortisation of intangible assets	(315)	(140)	–	(455)
Acquisition related employee expenses	(217)	54	–	(163)
Impairment of intangible assets	(778)	–	–	(778)
Impairment of goodwill	(4,637)	(2,746)	–	(7,383)
Impairment of available-for-sale investments	(177)	–	(30)	(207)
Operating loss (segment result)	(1,467)	(1,969)	(1,476)	(4,912)
Financing income				224
Finance costs				(1,060)
Loss before tax				(5,748)
<b>Other information</b>				
Additions to property, plant and equipment	321	371	7	699
Capitalisation of intangible assets	–	141	–	141
Depreciation of property, plant and equipment	680	555	12	1,247

The Group's operations are 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 billing location of the client:

Geographical	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
UK	93,918	95,392
Rest of Europe	18,281	18,790
USA	10,831	8,511
Rest of the World	1,935	1,014
	124,965	123,707

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 2. Finance Income and Costs

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
<b>Finance income:</b>		
Interest receivable on bank deposits	18	69
Headline finance income	18	69
Fair value gain on derivative financial instruments	170	155
Total finance income	188	224
<b>Finance costs:</b>		
Interest payable on bank loans and overdrafts	594	547
Interest payable on loan notes	1	3
Interest payable in respect of finance leases	13	21
Finance costs on cap and collar interest rate hedge	312	385
Headline finance costs	920	956
Notional finance costs on future deferred consideration	78	104
Total finance costs	998	1,060

## 3. Operating Profit/(Loss)

	Notes	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
<b>(a) Operating profit/(loss) is stated after charging:</b>			
<b>Operating costs:</b>			
Staff costs	4	38,368	39,682
Operating lease rentals		1,907	2,223
: land and buildings			2,223
: other leases		206	307
Depreciation of property, plant and equipment		1,077	1,171
: owned assets		1,077	1,171
: leased assets		74	76
Loss on disposal of property, plant and equipment		76	3
Auditors' remuneration	3b	262	397
Net foreign exchange losses		83	263
Restructuring costs	3c	822	1,949
Non-headline charges	3d	745	8,986
Other property costs		1,577	1,579
Other administration costs		9,358	7,979
Total operating costs		54,555	64,615

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 3. Operating Profit/(Loss) *continued*

Notes	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
<b>(b) Auditors' remuneration:</b>		
Fees payable to PricewaterhouseCoopers LLP (2009: Baker Tilly UK Audit LLP) for:		
- audit services to the parent company	27	43
- audit services to subsidiary companies pursuant to legislation	167	238
Total audit fees	194	281
Non-audit fees: - taxation services	59	93
- interim review	9	10
- other services not included above	–	13
Total non-audit fees	68	116
Total auditors' remuneration	262	397
<b>(c) Restructuring costs:</b>		
Staff redundancies	509	1,372
Property costs	313	516
Other	–	61
	822	1,949
<b>(d) Other non-headline charges:</b>		
Amortisation of intangible assets	344	455
Acquisition related employee expenses	362	163
Share options charges	39	–
Impairment of intangible assets	–	778
Impairment of goodwill	–	7,383
Impairment of available-for-sale investments	–	207
	745	8,986

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 4. Staff Costs

The average monthly number of persons (including directors) employed by the Group during the year was as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Cello Research and Consulting	<b>418</b>	438
Tangible Group	<b>338</b>	344
Head Office	<b>6</b>	5
	<b>762</b>	787

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
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The aggregate staff costs of these persons were as follows:

Wages and salaries	<b>33,662</b>	34,838
Social security costs	<b>3,805</b>	3,851
Other pension costs	<b>901</b>	993
Employee costs before non-headline charges/(credits)	<b>38,368</b>	39,682
Acquisition related employee remuneration expense	<b>362</b>	163
Share-based payments – share options	<b>39</b>	–
	<b>38,769</b>	39,845

Included in the aggregate staff costs are the following amounts paid to the directors:

Directors' emoluments	<b>808</b>	551
Money purchase pension contributions	<b>62</b>	51
	<b>870</b>	602

Included in the above is £350,000 (2009: £249,000) of emoluments and £32,000 (2009: £29,000) of pension contributions paid or payable to the highest paid director.

The number of directors to whom retirement benefits accrued under money purchase pension schemes in the year was 3 (2009: 2).

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 5. Taxation

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
<b>Current tax:</b>		
UK corporation tax at 28% (2009: 28%)	1,561	864
Adjustment in respect of prior year	(174)	(413)
	<b>1,387</b>	451
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	9	(108)
Effect of decrease in tax rate on deferred tax assets	22	–
Adjustment in respect of prior year	(112)	(104)
	<b>(81)</b>	(212)
<b>Tax charge</b>	<b>1,306</b>	239

Corporation tax is calculated at 28% (2009: 28%) of the estimated assessable profit for the year. 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/(loss) per the income statement.

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Profit/(loss) before taxation	4,928	(5,828)
Tax at the UK corporation tax rate of 28% (2009: 28%)	1,380	(1,632)
Tax effect of expenses not deductible for tax purposes	190	2,388
Effect of decrease in tax rate on deferred tax assets	22	–
Prior year corporation tax adjustment	(174)	(413)
Prior year deferred tax adjustment	(112)	(104)
	<b>1,306</b>	239

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No.2) Act 2010, which was substantively enacted on 20 July 2010, includes legislation reducing the main rate of corporation tax from 28% to 27% from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014. These further reductions had not been substantially enacted at the balance sheet and therefore are not included in these financial statements.

If it had been enacted at the balance sheet date, the effect of the changes enacted in the Finance (No.2) Act 2010 would reduce deferred tax assets provided at 31 December 2010 by approximately £51,000 and would reduce deferred tax liabilities provided at 31 December 2010 by approximately £14,000. These changes in deferred tax balances would reduce profit for the year by £37,000.

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 6. Discontinued Operations

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

The loss from discontinued operations for the year ended 31 December 2009 also includes the results in that year from Digital People Online Limited, a digital market research company, and Richmark Inc., a qualitative market research agency based in Chicago, which were closed during that year.

In accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations the income statement for the year ended 31 December 2009 has been re-presented to include income and expenses for operations discontinued in the year ended 31 December 2009 in loss from discontinued operations.

An analysis of the result of discontinued operations is as follows:

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Revenue	<b>2,850</b>	3,737
Cost of sales	<b>(2,198)</b>	(2,237)
Gross profit	<b>652</b>	1,500
Administration expenses	<b>(702)</b>	(1,833)
Post-tax loss of discontinued operations	<b>(50)</b>	(333)
Profit from disposal of discontinued operations	<b>35</b>	–
Loss for the year from discontinued operations	<b>(15)</b>	(333)
Loss for the year from discontinued operations attributable to:		
Equity holders of the parent	<b>10</b>	(221)
Non-controlling interest	<b>(25)</b>	(112)
	<b>(15)</b>	(333)

In accordance with IFRS 5 Non-current Assets Held For Sale and Discontinued Operations, cash flows from discontinued operations have been included in the Cash Flow Statement together with cash flows from continuing operations. Cash flows from discontinued operations are as follows:

	2010 £'000	2009 £'000
Operating cash flows	<b>(30)</b>	(342)
Investing cash flows	<b>(77)</b>	(15)
Financing cash flows	–	–
Total cash flows	<b>(107)</b>	(357)

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 7. Equity Dividends

A final dividend of 0.80p (2009: 0.75p) per ordinary share was paid on 16 June 2010 to all shareholders on the register at 21 May 2010. The total amount of the dividend paid was £491,000 (2009: £439,000).

An interim dividend of 0.525p (2009: 0.50p) per ordinary share was paid on 3 November 2010 to all shareholders on the register on 8 October 2010. The total amount of the dividend paid was £323,000 (2009: £294,000).

A final dividend of 0.905p (2009: 0.80p) is proposed to be paid on 8 July 2011 to all shareholders on the register at 10 June 2011. In accordance with IAS 10 Events After the Balance Sheet Date, this dividend has not been recognised in the consolidated financial statements at 31 December 2010, but if approved will be recognised in the year ending 31 December 2011.

## 8. Earnings/(Loss) per Share

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
<b>Earnings/(loss) attributable to ordinary shareholders</b>	<b>3,463</b>	(6,359)
Loss from discontinued operations	15	333
<b>Earnings/(loss) attributable to ordinary shareholders from continuing operations</b>	<b>3,478</b>	(6,026)
<b>Adjustments to earnings/(loss):</b>		
Restructuring costs	822	1,949
Amortisation of intangible assets	344	455
Acquisition related employee remuneration expenses	362	163
Share-based payments charge	39	–
Impairment of intangible assets	–	778
Impairment of goodwill	–	7,383
Impairment of available-for-sale investments	–	207
Notional finance costs on future deferred consideration payments	78	104
Fair value (gain)/loss on derivative financial instruments	(170)	(155)
Tax thereon	(421)	(829)
<b>Headline earnings attributable to ordinary shareholders</b>	<b>4,532</b>	4,029

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 8. Earnings/(Loss) per Share *continued*

	Number of shares	Number of shares as restated
<b>Weighted average number of ordinary shares in issue</b>	<b>60,649,614</b>	54,411,432
Less:		
Weighted average number of treasury shares	(237,000)	(199,340)
Weighted average number of shares held in employee benefit trusts	(1,307,074)	(923,727)
<b>Weighted average number of ordinary shares</b>	<b>59,105,540</b>	53,288,365
Dilutive effect of securities:		
Deferred consideration shares to be issued	7,105,287	7,324,037
<b>Diluted weighted average number of ordinary shares</b>	<b>66,210,827</b>	60,612,402
Further dilutive effect of securities:		
Share options	2,242,594	–
Contingent consideration shares to be issued	2,308,715	5,506,051
<b>Fully diluted weighted average number of ordinary shares</b>	<b>70,762,136</b>	66,118,453

	Year ended 31 December 2010	Year ended 31 December 2009 as restated
<b>Basic earnings/(loss) per share</b>		
From continuing operations	5.88p	(11.31)p
From discontinued operations	(0.03)p	(0.62)p
<b>Diluted earnings/(loss) per share</b>		
From continuing operations	5.25p	(11.31)p
From discontinued operations	(0.03)p	(0.62)p
In addition to basic and diluted earnings/(loss) per share, headline earnings/(loss) per share and fully diluted earnings per share, which are non-GAAP measured, have also been presented.		
<b>Fully diluted earnings/(loss) per share</b>		
From continuing operations	4.92p	(11.31)p
From discontinued operations	(0.03)p	(0.62)p
<b>Headline earnings per share</b>		
Headline basic earnings per share	7.67p	7.56p
Headline diluted earnings per share	6.84p	6.65p
Headline fully diluted earnings per share	6.40p	6.09p

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

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 8. Earnings/(Loss) per Share *continued*

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

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

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

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

## 9. Goodwill

	2010 £'000	2009 £'000
<b>Cost</b>		
At 1 January 2010	<b>67,926</b>	76,291
Goodwill arising on acquisitions in the year	–	48
Adjustment to fair value of deferred consideration	<b>3,229</b>	(1,030)
Impairment of goodwill	–	(7,383)
At 31 December 2010	<b>71,155</b>	67,926

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

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 9. Goodwill *continued*

Goodwill arising on acquisition in the year ended 31 December 2009 relates to the Group's acquisition of a 20% stake in Opticomm Media Limited ("Opticomm"). Opticomm is accounted for as a subsidiary as Cello Group plc has options over the remaining 80% of the shares in Opticomm and under the option agreement the Group has the power to govern the financial and operating policies of Opticomm.

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 the accordance the provisions of IFRS 3 Business Combinations (as revised January 2008).

Goodwill acquired through business combinations is allocated to cash-generating units ("CGU's") for impairment testing. The Goodwill balance was allocated to the following CGU's for the year ended 31 December 2010 and 31 December 2009:

	2010 £'000	2009 £'000
Insight	10,224	10,224
Leapfrog	3,908	3,964
The Value Engineers	9,526	6,495
SMT	–	3,031
RS Consulting	3,364	2,259
MRUK	–	1,105
MSI	7,674	7,569
2CV	8,276	6,212
Tangible UK	24,918	21,395
Tangible Financial	–	1,413
Magnetic	–	2,110
Rosenblatt	545	545
Face	2,672	1,556
Opticomm	48	48
Total	71,155	67,926

During the year ended 31 December 2010, as a result of restructuring initiatives which rationalised the Group's management structure, the goodwill allocations changed.

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 9. Goodwill *continued*

The recoverable amount for each CGU is determined using a value-in-use calculation. This calculation uses pre-tax cash flow projections derived from 2011 budgets, as approved by management, with an underlying growth rate of 3.5% per annum in years two to five, representing long term economic growth and inflation. After year five a terminal value has been applied. 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 12.1% for 2010 (2009: 7.6%). This rate was calculated with the Capital Asset Pricing Model using an estimated cost of debt and equity, with appropriate small company risk factors.

The review performed at 31 December 2010 did not result in the impairment of goodwill for any of the Group's CGU's.

The review at 31 December 2009 resulted in impairment charges of £7.4m. £3.7m of this related to the SMT CGU, £2.4m to the Tangible Financial CGU, £0.9m to the TMI CGU and £0.4m to the Oomph CGU. The TMI and Oomph CGU's were impaired in full so are not included in the analysis of amounts allocated to CGU's above.

### **Sensitivity to changes in assumptions**

Forecast future cash flows are inherently uncertain and could change materially over time.

At 31 December 2010, the Tangible UK CGU had the least excess estimated value-in-use over its carrying value (£1.1m). The table below shows the key assumptions used in the value-in-use calculation and the amount by which the assumption would need to change in isolation for the estimated value-in-use to equal the carrying value for the Tangible UK CGU.

	Assumption used for the value-in-use calculation	Value required for carrying value to equal the recoverable amount
Pre-tax adjusted discount rate	12.1%	12.4%
Long term growth rate	3.5%	3.2%

Reasonable changes to estimates would not result in any impairment to goodwill for the Group's other CGU's.

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 10. Intangible Assets

	Development costs £'000	Client contracts £'000	Licences £'000	Total £'000
<b>Cost</b>				
At 1 January 2009	230	1,280	3,209	4,719
Expenditure on development	141	–	–	141
At 31 December 2009	371	1,280	3,209	4,860
Expenditure on development	283	–	–	283
At 31 December 2010	654	1,280	3,209	5,143
<b>Amortisation</b>				
At 1 January 2009	35	1,215	1,203	2,453
Charge for the year	75	65	315	455
Impairment	–	–	778	778
At 31 December 2009	110	1,280	2,296	3,686
Charge for the year	116	–	228	344
At 31 December 2010	226	1,280	2,524	4,030
<b>Net book value</b>				
At 31 December 2010	428	–	685	1,113
At 31 December 2009	261	–	913	1,174
At 1 January 2009	195	65	2,006	2,266

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## II. Property, Plant and Equipment

	Leasehold improvements £'000	Computer equipment £'000	Fixtures, fittings and office equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>					
At 1 January 2009	1,918	3,048	1,033	316	6,315
Additions	113	423	76	87	699
On acquisition	–	6	–	–	6
Disposals	(28)	(66)	(3)	(63)	(160)
Exchange differences	–	(8)	(3)	(1)	(12)
At 31 December 2009	2,003	3,403	1,103	339	6,848
Additions	75	639	173	30	917
Disposals	(254)	(896)	(69)	(96)	(1,315)
Exchange differences	–	3	1	1	5
At 31 December 2010	1,824	3,149	1,208	274	6,455
<b>Depreciation</b>					
At 1 January 2009	709	1,943	444	116	3,212
Charge for the year	244	759	164	80	1,247
Disposals	(20)	(58)	(2)	(38)	(118)
Exchange differences	–	(6)	(2)	–	(8)
At 31 December 2009	933	2,638	604	158	4,333
Charge for the year	207	652	228	64	1,151
Disposals	(157)	(855)	(71)	(73)	(1,156)
Exchange differences	–	2	1	–	3
At 31 December 2010	983	2,437	762	149	4,331
<b>Net book value</b>					
At 31 December 2010	841	712	446	125	2,124
At 31 December 2009	1,070	765	499	181	2,515
At 1 January 2009	1,209	1,105	589	200	3,103

The net book value of property, plant and equipment of the Group includes £140,000 (2009: £160,000) of motor vehicles and £19,000 (2009: £23,000) of other equipment in respect of assets held under finance leases.

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 12. Available-for-Sale Investments

	2010 £'000	2009 £'000
At 1 January 2010	20	227
Impairment	–	(207)
Disposal	(20)	–
At 31 December 2010	–	20

At 1 January 2010 the Group held 163,936 shares (0.5%) in Pixel Interactive Media Limited, a company that was listed on the Aim Market. This investment was sold for £20,000 during the year ended 31 December 2010.

The Group holds 20% of the share capital in TMI Training Consultants Limited, an unquoted company incorporated in the Republic of Ireland. This company provides brand consulting and training services. This investment is not being treated as an associate on the grounds of materiality. This investment was impaired in full in the year ended 31 December 2009.

## 13. Subsidiaries

Details of the Company's principal subsidiary undertakings as at 31 December 2010 are as follows:

Company name	Country of incorporation/ principal operation	Class of share	Proportion of nominal value of issued shares held	Principal activity
<b>Held directly:</b>				
2CV Limited	England	Ordinary	100%	RC
Chiaros Holdings Limited	England	Ordinary	100%	RC
Fenix Media Limited	England	Ordinary	51%	T
Insight Medical Research Limited	England	Ordinary	100%	RC
Leapfrog Research and Planning Limited	England	Ordinary	100%	RC
Opticomm Media Limited*	England	Ordinary	20%	T
Rosenblatt Limited	England	Ordinary	100%	RC
RS Group Limited	England	Ordinary	100%	RC
Tangible Group Limited	England	Ordinary	100%	T
The MSI Consultancy Limited	England	Ordinary	100%	RC
The Value Engineers Limited	England	Ordinary	100%	RC
<b>Held indirectly:</b>				
2CV inc	USA	Ordinary	100%	RC
Blonde Digital Limited	Scotland	Ordinary	84%	T
Brightsource Limited	England	Ordinary	100%	T
Insight Research Group USA Inc	USA	Ordinary	100%	RC
Labinah Management Training Limited	England	Ordinary	100%	RC
RS Consulting Limited	England	Ordinary	100%	RC
Stripe PR and Communications Limited	Scotland	Ordinary	76%	T
Tangible UK Limited	Scotland	Ordinary	100%	T

\*Opticomm Media Limited is included as a subsidiary as Cello Group plc has options over the remaining 80% of the shares in Opticomm Media Limited and under the option agreement Cello has the power to govern the financial and operating policies of Opticomm Media Limited.

RC = Research and Consulting T= Tangible Group

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 14. Current Assets

	2010 £'000	2009 £'000
<b>Trade and other receivables</b>		
Trade receivables	20,038	19,021
Other receivables	1,202	907
Prepayments and accrued income	5,130	5,783
	<b>26,370</b>	<b>25,711</b>

The average credit period taken on the provision of services was 53 days (2009: 56 days).

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

	2010 £'000	2009 £'000
<b>Cash and cash equivalents</b>		
Cash at bank and in hand	797	3,135

Cash of £69,000 (2009: £1,179,000) is maintained in a designated account with The Royal Bank of Scotland plc as security for the loan notes issued on acquisitions and is therefore not freely available to the Group.

## 15. Trade and Other Payables

	2010 £'000	2009 £'000
Trade payables	11,404	10,124
Other taxation and social security costs	2,777	2,517
Accruals and deferred income	10,913	12,425
Other payables	366	353
	<b>25,460</b>	<b>25,419</b>

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 16. Borrowings

	2010 £'000	2009 £'000
Bank loans	9,000	13,350
Loan notes	458	1,179
	<b>9,458</b>	14,529
The borrowings are repayable as follows:		
- on demand or within one year	3,208	14,529
- within two to five years	6,250	–
	<b>9,458</b>	14,529

### Bank loans

During the year ended 31 December 2010 the Group entered into a new debt facility with the Royal Bank of Scotland plc. This new facility consists of a £10.0m term loan and a £7.0m revolving credit facility. Both the term loan and the revolving credit facility bear interest at a variable rate of 2.50% to 3.25% over LIBOR. The average interest rate on the Group's bank loans in the year was 3.3% (2009: 3.4%).

At 31 December 2010, £8.0m of the term loan remains outstanding. £2.75m is due to be paid in the year ended 31 December 2011 and therefore is included in amounts payable within one year.

At 31 December 2010, the Group has drawn £1.0m under the revolving credit facility.

### Loan notes

Loan notes have been issued as part of the consideration for certain acquisitions. Secured loan notes are secured on cash deposits and by way of guarantee. Cash deposits provided as security are included within cash and cash equivalents and amount to £69,000. Loan notes bear interest at the following rates:

	2010 £'000	2009 £'000
<b>Secured</b>		
LIBOR less 2%	337	808
LIBOR	121	371
	<b>458</b>	1,179

## 17. Provisions

	Notes	2010 £'000	2009 £'000
Contingent consideration for acquisitions	18	1,976	3,315
Restructuring provision		456	–
		<b>2,432</b>	3,315

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 18. Deferred Consideration for Acquisitions

	2010 £'000	2009 £'000
At 1 January 2010	5,787	14,433
Settled in the year	(2,193)	(7,761)
Adjustment to provision for additions in prior years	3,227	(1,152)
Acquisition related employee remuneration expense	362	163
Notional finance costs on future deferred consideration payments	78	104
At 31 December 2010	7,261	5,787
<b>Within one year:</b>		
Consideration for which all conditions have been met	5,285	2,472
<b>In more than one year but not more than five years</b>		
Contingent consideration for acquisitions	1,976	3,315
At 31 December 2010	7,261	5,787
<b>Analysis of consideration for which all conditions have been met:</b>		
Cash liabilities	2,443	1,357
Shares to be issued	2,842	1,115
	5,285	2,472
<b>Analysis of the contingent consideration:</b>		
Cash liabilities	933	1,193
Shares to be issued	1,043	2,122
	1,976	3,315

Acquisitions made by the Group typically involve an earn out agreement whereby the consideration payable includes a deferred element that is contingent on the future financial performance of the acquired entity. Earn out payments are to be in cash (or loan notes) and shares; in the analysis above the minimum percentage of cash (or loan notes) has been assumed. However, at the Group's sole discretion, this percentage can be increased. Conditions have substantially been met on £5.3m (2009: £2.5m) of earn out and other consideration which is payable in 2011.

The provision for contingent consideration for acquisitions represents the directors' best estimate of the amount expected to be payable in cash (or loan notes) and shares to be issued. The provision is discounted to present value at the risk free rate at the acquisition date.

As a result of a review of contingent consideration at the year end, the directors' best estimate of contingent consideration payable in respect of acquisitions prior to 1 January 2010 has increased the provision for consideration payable by £3.2m (2009: decreased by £1.2m).

If the remaining earn out conditions are met, based on current expectations, £2.0m will become payable in 2013.

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 19. Obligations under Finance Leases

A maturity analysis of obligations under finance leases is shown below:

	2010 £'000	2009 £'000
Finance leases which expire:		
- within one year	57	68
- in more than one year but not more than five years	54	65
	111	133

The Group's policy is to lease certain of its plant, property and equipment under finance leases. The average lease term is 3 years. The average effective borrowing rate is 10% (2009: 16%). Interest rates are fixed at the contract date and all leases are on a fixed repayment basis.

All lease obligations are denominated in sterling.

The fair value of the Group's obligations approximates to their carrying value.

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets.

## 20. Derivative Financial Instruments

	2010 £'000	2009 £'000
Cap and collar interest rate hedge at fair value	–	289
Interest rate swap at fair value	119	–
	119	289

On 22 October 2007, the Group entered into a nil cost cap and collar interest rate hedge over £10.0m of borrowings, which reduced to £9.0m on 1 January 2009 and reduced to £7.0m on 1 January 2010. The cap and collar interest rate hedge expired on 31 December 2010. The cap and collar are limited to LIBOR at 6.50% with a floor of 5.01%. At 31 December 2010 the fair value of this hedge is a liability of £nil (2009: £289,000). The cap and collar interest rate hedge is included within Tier 2 as defined in IFRS 7 (Revised) Financial Instruments: Disclosures.

On 24 April 2010, the Group entered into an interest rate swap over £5.3m of borrowings from December 2010, this reduces to £3.3m on 31 December 2011, to £1.0m on 31 December 2012 and £nil on 31 March 2013 in line with the Group's current borrowing facilities. The interest rate swap fixes the LIBOR rate at 2.35%. At 31 December 2010 the fair value of this interest rate swap is a liability of £119,000 (2009: £nil). The interest rate swap is included within Tier 2 as defined in IFRS 7 (Revised) Financial Instruments: Disclosures.

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 21. Deferred Taxation

The deferred tax asset of £964,000 (2009: £962,000) and deferred tax liability of £196,000 (2009: £292,000) recognised in the financial statements is set out below:

	2010 £'000	2009 £'000
<b>Deferred tax assets</b>		
Decelerated capital allowances	302	262
Unrelieved share-based payment expense	25	–
Unrelieved acquisition related employee remuneration expense	605	619
Unrelieved loss on derivative financial instruments	32	81
	<b>964</b>	<b>962</b>
<b>Deferred tax liabilities</b>		
Accelerated capital allowances	(4)	(8)
Temporary difference between the net book value and the tax value of intangible assets	(192)	(256)
Other temporary differences	–	(28)
	<b>(196)</b>	<b>(292)</b>
	<b>768</b>	<b>670</b>

The movement for the year is analysed as follows:

	2010 £'000	2009 £'000
At 1 January 2010	670	464
Income statement	81	212
Recognised in equity	15	–
Movement due to disposal of a subsidiary	(3)	–
Foreign exchange differences	5	(6)
At 31 December 2010	<b>768</b>	<b>670</b>

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 22. Share Capital

	Authorised number of 10p shares	Allotted, issued and fully paid number of 10p shares	Share capital £'000
At 1 January 2009	65,000,000	44,561,603	4,456
Movements in the year	19,600,000	14,200,594	1,420
At 31 December 2009	84,600,000	58,762,197	5,876
Movements in the year	–	2,882,457	288
At 31 December 2010	84,600,000	61,644,654	6,164

The Company has one class of ordinary shares which carry no right to fixed income.

On 23 April 2009, 285,735 ordinary shares of 10p each were issued at a value of 32.8p to the vendor of Rosenblatt Limited to purchase all of the remaining shares in Rosenblatt pursuant to the terms of the share purchase agreement of that company.

On 8 May 2009, 443,792 ordinary shares of 10p each were issued at a value of 33.4p to the vendors of Fenix Media Limited pursuant to the terms of the share purchase agreement of that company. Following the issue of shares the Group owns 50.7% of Fenix Media Limited.

On 16 April 2009, 13,471,067 ordinary shares of 10p each were issued at a value of 32.5p to vendors of The Value Engineers Limited, The MSI Consultancy Limited, Magnetic Advertising Limited and Market Research International Limited, all wholly owned subsidiaries, pursuant to the terms of the share purchase agreements of these companies.

On 29 April 2010, 2,882,457 new ordinary shares of 10p each were issued at a value of 32.8p to vendors of Leapfrog Research and Planning Limited and 2CV Limited, both wholly owned subsidiaries, pursuant of the terms of the share purchase agreements of these companies.

## 23. Share-based Payments

### Share options

The Group has the following share options schemes.

#### EMI Share Option Scheme and Unapproved Share Option Scheme 2004

In 2004, the Company established an EMI Share Option Scheme plan ("EMI options") and an Unapproved Share Option Scheme ("Unapproved options 2004"). 600,000 share options awarded under these schemes have vested in full and expire on 1 November 2014. 163,266 share options awarded under these have also vested in full and expire on 1 June 2015. On 13 March 2006, the Remuneration Committee agreed that no further awards would be made under these plans. The range of exercise prices of options granted under these schemes is 100p to 122.5p being the market value of the shares at the date of grant of the options.

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 23. Share-based Payments *continued*

### HM Revenue & Customs Approved Share Option Plan 2009 and the Cello Group plc Unapproved Option Plan 2010

On 17 November 2009 the Company established the Cello Group plc HM Revenue & Customs Approved Share Option Plan 2009 ("Approved options") and on 15 March 2010 established the Cello Group plc Unapproved Option Plan 2010 ("Unapproved options 2010"). Under these plans participants are awarded options over fully paid shares with an exercise price equal to the market value of the shares at the date the awards are granted. Options are exercisable three years, but not later than ten years, after the date of grant subject to performance conditions. Performance conditions are based on Company, Division or Group targets, as appropriate to the participant.

### PSP Option Scheme 2010

On 4 June 2010 the Company established a new Performance Share Plan ("PSP"). Under this plan participants are awarded options over fully paid shares with an exercise price equal to the nominal value of shares, currently 10p per share. Options are exercisable three years, but not more than ten years, after grant subject to performance conditions based on the total shareholder return ("TSR") of the Group. The number of awards that ultimately vest depends on where Cello ranks when compared to the TSR of a list of comparator companies.

The following share options were outstanding under these share option schemes at 31 December 2010 and 31 December 2009.

	31 December 2010		31 December 2009	
	Number of share options	Weighted average exercise price (pence)	Number of share options	Weighted average exercise price (pence)
Outstanding at the beginning of the year	763,266	105	763,266	105
Granted during the year	2,984,000	24	–	–
Lapsed during the year	(98,000)	31	–	–
Outstanding at the end of the year	3,649,266	41	763,266	105
Exercisable at the end of the year	763,266	105	763,266	105

The options outstanding at the end of the year under the EMI Share Option Scheme and Unapproved Share Option Scheme 2004 have a weighted average remaining life of 4.0 years (2009: 5.0 years) and options issued under the PSP Option Scheme 2010, HM Revenue & Customs Approved Share Option Plan 2009 and the Cello Group plc Unapproved Option Plan 2010 have a weighted average remaining life of 9.5 years.

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 23. Share-based Payments *continued*

The Group uses a Black Scholes model to calculate the fair value of options. The key inputs for share options granted in the year are as follows:

	2010
Weighted average share price	31.5p
Weighted average exercise price	24.0p
Expected volatility	27.7%
Expected life	10 years
Risk free rate	3.5%
Dividend yield	4.1%

No share options were granted in the year ended 31 December 2009.

Expected volatility has been determined by calculating the historical volatility of the Group's share price over the previous 5 years. The expected life used in the model has been adjusted, based on management's best estimates, for the effects of the non-transferability, exercise restrictions and behavioural considerations.

At 31 December 2010, 281,633 EMI options (2009: 281,633) and 481,633 unapproved options 2004 (2009: 481,633) had vested. None of the PSP options, Approved options or the Unapproved options 2010 have vested at 31 December 2010 (2009: nil).

The fair value of the options granted in the year was £277,000 (2009: £nil).

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 24. Notes to the Consolidated Cash Flow Statement

### (a) Reconciliation of profit for the year to net cash inflow from operating activities

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Profit/(loss) for the year	3,607	(6,320)
Financing income	(188)	(224)
Finance costs of deferred consideration	998	1,060
Tax	1,306	239
Depreciation	1,151	1,247
Amortisation of intangible assets	344	455
Impairment of intangible assets	–	778
Impairment of goodwill	–	7,383
Impairment of available-for-sale assets	–	207
Share-based payment expense	39	–
Acquisition related employee remuneration expense	362	163
Loss on disposal of property, plant and equipment	76	3
Profit on disposal of subsidiary undertaking	(35)	–
(Increase)/decrease in receivables	(1,106)	977
Increase/(decrease) in payables	1,246	(770)
Net cash inflow from operating activities	<b>7,800</b>	<b>5,198</b>

### (b) Analysis of net debt

	At 1 January 2010 £'000	Cash flow £'000	Issue of loan notes £'000	Foreign exchange £'000	At 31 December 2010 £'000
Cash and cash equivalents	3,135	(2,322)	–	(16)	<b>797</b>
Loan notes	(1,179)	1,445	(724)	–	<b>(458)</b>
Bank loans	(13,350)	4,350	–	–	<b>(9,000)</b>
Finance leases	(133)	22	–	–	<b>(111)</b>
	<b>(11,527)</b>	<b>3,495</b>	<b>(724)</b>	<b>(16)</b>	<b>(8,772)</b>

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 25. Commitments under Operating Leases

At 31 December 2010 the Group had total commitments under non-cancellable operating leases as follows:

	Land and buildings 2010 £'000	Land and buildings 2009 £'000	Other 2010 £'000	Other 2009 £'000
within one year	<b>1,578</b>	1,865	<b>300</b>	187
in more than one year but no more than five years	<b>4,161</b>	4,595	<b>189</b>	173
after five years	<b>959</b>	782	–	–
	<b>6,698</b>	7,242	<b>489</b>	360

## 26. Related Party Transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

### Remuneration of key management personnel

The key management personnel of the Group are considered to be the directors. (Executive and Non-Executive). The remuneration paid to the key management personnel is shown below:

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Salaries and other short-term benefits	<b>808</b>	551
Social security costs	<b>97</b>	65
Post-employment benefits	<b>62</b>	51
Share-based payments – share options	<b>18</b>	–
	<b>985</b>	667

Further information about the remuneration of the directors is provided in the Remuneration Report on pages 20 to 22, and in note 4 to the consolidated financial statements.

## 27. Contingent Liabilities

Under the terms of certain acquisition agreements, additional consideration is payable by the Company contingent on the future financial performance of the acquired entities. The estimated amount of such contingent consideration is included in Provisions (note 17 to the consolidated financial statements).

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 28. Financial Instruments

The Group's principal financial instruments comprise bank loans, bank overdrafts, loan notes, finance leases, trade receivables, trade payables and cash. The main purpose of these financial instruments is to provide finance for the Group operations. The Group has other financial assets and liabilities which arise directly from operations.

The following table provides an analysis of the Group's non-derivative financial assets and liabilities at 31 December 2010 and 31 December 2009:

	2010 £'000	2009 £'000
Financial assets:		
Available-for-sale investments	–	20
Cash and cash equivalents	797	3,135
Trade receivables	20,038	19,021
Other receivables	1,202	907
Accrued income	2,773	2,735
<b>Total financial assets</b>	<b>24,810</b>	<b>25,818</b>
Financial liabilities:		
Bank loans	9,000	13,350
Loan notes	458	1,179
Finance leases	111	133
Consideration payable in respect of acquisitions	5,285	2,472
Trade payables	11,404	10,124
Accruals	6,923	6,516
Other payables	366	353
<b>Total financial liabilities</b>	<b>33,547</b>	<b>34,127</b>

The Group enters into derivative financial instruments in the form of interest rate swaps which are disclosed in note 20. The purpose of these derivative financial instruments is to manage the interest rate risk arising from its sources of finance. The Group does not hold derivative financial instruments for trading purposes.

Available-for-sale investments and derivative financial instruments are recognised in the balance sheet at fair value. All other financial assets and liabilities are recognised in the balance sheet at amortised cost.

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 28. Financial Instruments *continued*

### Risk management objectives and policies

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign exchange risk.

### Interest rate risk

The Group's exposure to interest rate risk arises from the Group's long term debt obligations with floating and fixed interest rates. Floating rate financial instruments comprise of the Group's cash and cash equivalents and borrowings. Fixed rate financial instruments comprise of obligations under finance leases. All other financial assets and liabilities are non-interest bearing.

All of the Group's borrowings and obligations under finance leases are denominated in sterling. Details of the Group's borrowings are set out in note 16 and details of the Groups obligations under finance leases are set out in note 19.

The Group manages interest rate risk with the use of interest rate swaps. Details of the Group's interest rate hedging arrangement are set out in note 20. At 31 December 2010 approximately 56% (2009: 48%) of the Group's total borrowings are at a fixed rate of interest as a result of these hedging arrangements.

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, with all other variables held constant, on the Group's profit before tax and equity:

	2010 £'000	2009 £'000
<b>Increase in rates of 100 basis points</b>		
Effect on headline profit before tax	(56)	(58)
Effect on profit before tax	33	58
<b>Decrease in rates of 50 basis points</b>		
Effect on headline profit before tax	28	29
Effect on profit before tax	(16)	29

The difference in the effects on headline profit before tax and reported profit before tax is due to estimated differences in the fair value of derivative financial instruments.

### Liquidity risk

The Group manages liquidity risk by maintaining adequate reserves on its available bank facilities and by continuously monitoring forecast and actual cash flows.

The Group currently has an agreed committed revolving credit facility ("RCF") of £7.0m with the Royal Bank of Scotland plc, which matures on 31 March 2013, as set out in note 16. In addition to the revolving credit facility, the Group has an overdraft facility of £2.0m with the Royal Bank of Scotland, which is reviewed on an annual basis. Both the RCF and the overdraft are available on demand. At 31 December 2010 the Group had undrawn facility of £6.0m on the RCF and had cash and cash equivalents of £0.7m.

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 28. Financial Instruments *continued*

The table below summarises the maturity profile of the Group's non-derivative financial liabilities at 31 December 2010 and 31 December 2009 based on contractual undiscounted payments, including estimated interest payments where applicable:

	Less than 6 months £'000	Between 6 months and 1 year £'000	Between 1 and 5 years £'000	Total £'000
<b>2010</b>				
Bank loans	946	2,180	6,560	9,686
Loan notes	458	–	–	458
Finance leases	34	33	57	124
Consideration payable in respect of acquisitions	5,285	–	–	5,285
Trade payables	11,404	–	–	11,404
Accruals	6,467	–	–	6,467
Other payables	366	–	–	366
<b>Total</b>	<b>24,960</b>	<b>2,213</b>	<b>6,617</b>	<b>33,790</b>

	Less than 6 months £'000	Between 6 months and 1 year £'000	Between 1 and 5 years £'000	Total £'000
<b>2009</b>				
Bank loans	238	13,588	–	13,826
Loan notes	1,179	–	–	1,179
Finance leases	40	38	68	146
Consideration payable in respect of acquisitions	2,472	–	–	2,472
Trade payables	10,124	–	–	10,124
Accruals	6,516	–	–	6,516
Other payables	353	–	–	353
<b>Total</b>	<b>20,922</b>	<b>13,626</b>	<b>68</b>	<b>34,616</b>

### Credit risk

Credit risk predominately arises from trade receivables and cash and cash equivalents.

The Group only trades with recognised creditworthy third parties. Customers who wish to trade on credit terms are generally subject to credit verification procedures. In addition, trade receivable balances are monitored on a continuous basis with the result that the Group's exposure to bad debt is considered limited.

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 28. Financial Instruments *continued*

The Group considers the maximum exposure to credit risk is as follows:

	2010 £'000	2009 £'000
Trade receivables	<b>20,038</b>	19,021
Accrued income	<b>2,773</b>	2,735
	<b>22,811</b>	21,756

The following table provides an analysis of trade and other debtors that were past due, but not impaired, at 31 December 2010 and 31 December 2009. The Group believes that the balances are ultimately recoverable based on a review of past payment history and the current financial status of customers. There are no material bad debt provisions at either 31 December 2010 or 31 December 2009.

	2010 £'000	2009 £'000
Up to three months	<b>2,081</b>	1,462
Up to six months	<b>263</b>	234
	<b>2,344</b>	1,696

The credit risk from other financial instruments arises from default of the counterparty, with a maximum exposure equal to the carrying value of the asset.

### Foreign exchange risk

The Group operates in a number of markets across the world and is exposed to foreign exchange risk arising from various currency exposures in respect of trade receivables and trade payables, in particular with respect to the US dollar and the euro. This risk is considered to be low.

The Group also has three foreign subsidiaries located in the USA. At 31 December 2010 the net foreign monetary assets were £740,000 (2009; £91,000). The Group does not hedge this translation exposure to its earnings.

# notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 28. Financial Instruments *continued*

The following table demonstrates the sensitivity analysis to reasonably possible changes in the US dollar and Euro exchange rates, with all other variables held constant, on the Group's equity:

	2010 £'000	2009 £'000
<i>Strengthening of sterling by 10% against:</i>		
US dollar	(69)	(40)
Euro	(116)	(78)
<i>Weakening of sterling by 10% against:</i>		
US dollar	84	49
Euro	142	95

### Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders through the optimisation of the debt and equity balance.

The Group considers its capital to be equity attributable to owners of the parent and net debt. Equity attributable to the owners of the parent comprises of issued share capital, reserves and retained earnings and is disclosed in the balance sheet and in the consolidated statement of changes in equity. Net debt comprises short and long term borrowings (including overdrafts and obligations under finance leases) net of cash and cash equivalents.

The ratio of debt to capital ratio at 31 December 2010 and 31 December 2009 is as follows:

	2010 £'000	2009 £'000
Total debt	9,569	14,662
Less cash and cash equivalents	(797)	(3,135)
Net debt	8,772	11,527
Total equity attributable to owner of the parent	58,243	54,426
Debt to capital ratio	15%	21%

The Group has various financial covenants in connection with its current bank loans. During the year ended 31 December 2010 the Group was compliant with its covenants.

## 29. Post Balance Sheet Events

On 14 March 2011, the Group entered into a contingent commitment to purchase the entire share capital of MedErgy HealthGroup Inc for an initial consideration of \$5.5m in cash and the issue of 5,804,049 new Cello ordinary shares of 10 pence each. The transaction will be funded by a mixture of new ordinary shares and existing debt facilities. Additional payments, subject to performance conditions, of up to \$3.5m may be payable to the vendors and key management in April 2014.

# company financial statements

## – independent auditor's report

We have audited the parent company financial statements of Cello Group plc for the year ended 31 December 2010 which comprise the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### Respective Responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 16 the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### Opinion on Financial Statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on Other Matter Prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

### Matters on which we are Required to Report by Exception

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

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

### Other Matter

We have reported separately on the Group financial statements of Cello Group plc for the year ended 31 December 2010.

David A Snell (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

14 March 2011

# company balance sheet

AT 31 DECEMBER 2010

	Notes	31 December 2010 £'000	31 December 2009 as restated £'000
<b>Fixed assets</b>			
Tangible assets	1	20	24
Investments	2	82,636	79,407
		<b>82,656</b>	79,431
<b>Current assets</b>			
Debtors	3	6,729	6,535
Cash at bank and in hand		69	960
		<b>6,798</b>	7,495
<b>Creditors: Amounts falling due within one year</b>	4	<b>(22,748)</b>	(27,552)
<b>Net current liabilities</b>		<b>(15,950)</b>	(20,057)
<b>Total assets less current liabilities</b>		<b>66,706</b>	59,374
<b>Creditors: Amounts falling due after more than one year</b>	5	<b>(6,250)</b>	–
<b>Provisions for liabilities</b>	6	<b>(1,977)</b>	(2,854)
<b>Net assets</b>		<b>58,479</b>	56,520
<b>Capital and reserves</b>			
Called up share capital	9	6,164	5,876
Share premium account	11	15,738	15,544
Capital redemption reserve	11	50	50
Merger reserve	11	26,741	26,278
Share-based payment reserve	11	112	73
Profit and loss account	11	9,674	8,699
<b>Equity shareholders' funds</b>	12	<b>58,479</b>	56,520

Approved and authorised for issue by the Board on 14 March 2011 and signed on its behalf by

Mark Scott            Director

Mark Bentley        Director

# company financial statements

## – accounting policies

### (1) Basis of Accounting

The Company financial statements have been prepared under the historical cost convention and in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). As permitted by section 408 of The Companies Act 2006, the Company's profit and loss account has not been presented. As permitted by FRS1 Cash Flow Statement (as revised 1996), the Company has not presented a cash flow statement.

### (2) Prior Year Adjustment

Section 612 of the Companies Act 2006 (and previously section 131 of the Companies Act 1985) provides for mandatory relief from the recording of a share premium on shares issued in return for certain equity interests in other companies. In previous years, the Company had recorded a share premium on such transactions. Equity has therefore been restated to reclassify these amounts to a merger reserve. In addition, this merger reserve has been reduced by way of transfers to the profit and loss reserve to cover historic impairment charges in accordance with company law. The overall effect of this restatement at 31 December 2009 was a reduction in share premium of £2,832,000 (2008: £16,569,000), a reduction in merger reserve of £787,000 (2008: increase of £16,569,000) and an increase in the profit and loss reserve of £3,619,000 (2008: £nil). There is no impact on net assets.

### (3) Tangible Fixed Assets

Tangible fixed assets are stated at historical cost. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset, over their estimated useful economic lives as follows:-

Computer equipment	33% pa. straight line
Fixtures, fittings and office equipment	25% pa. straight line

### (4) Investments

Fixed asset investments are stated at cost less provision for any impairment in value.

### (5) Deferred Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recoverable against suitable taxable profits in the future.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

### (6) Foreign Currency

Transactions denominated in foreign currencies are initially translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date and the resulting gains and losses are recorded in the profit and loss account.

# company financial statements

## – accounting policies

### **(7) Share-Based Payments**

The Company has applied the requirements of FRS 20 Share-based Payment to both cash-settled and equity-settled share-based employee compensation schemes.

Certain employees of the Company receive remuneration in the form of share options. The fair value of the share options granted is measured at the date of grant and expensed to the income statement over the appropriate vesting period, with a corresponding adjustment to equity.

The fair value of the share options takes into account market performance vesting conditions and non-market vesting conditions. Non-market vesting conditions are included in assumptions of the number of options expected to vest. At the end of each reporting period the Company revises its estimate of the number of share options expected to vest and recognises the impact of the revisions to previous estimates in the income statement, with a corresponding adjustment to equity.

The grant of share options to the employees of subsidiary undertakings is treated as a capital contribution. The fair value of the share options granted is measured at the date of grant and recognised as an increase of cost of investment over the appropriate vesting period, with a corresponding adjustment to equity.

### **(8) Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle this obligation and a reliable estimate can be made of the amount of the obligation. Expected future cash flows to settle provisions are discounted to present value.

### **(9) Related Party Transactions**

In accordance with FRS 8 Related Party Disclosures, the Company is exempt from disclosing transactions with its wholly owned subsidiaries.

# notes to the company financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## I. Tangible Fixed Assets

	Computer equipment £'000	Fixtures, fittings and office equipment £'000	Total £'000
<b>Cost</b>			
At 1 January 2010	35	43	78
Additions	5	–	5
At 31 December 2010	40	43	83
<b>Depreciation</b>			
At 1 January 2010	32	22	54
Charged for the year	2	7	9
At 31 December 2010	34	29	63
<b>Net book value</b>			
At 31 December 2010	6	14	20
At 31 December 2009	3	21	24

## 2. Fixed Asset Investments

	Subsidiaries £'000	Other investments £'000	Total £'000
At 1 January 2010	79,387	20	79,407
Adjustment to deferred consideration	3,229	–	3,229
Disposed in the year	–	(20)	(20)
Capital contribution in relation to share-based payments	20	–	20
At 31 December 2010	82,636	–	82,636

### Subsidiaries:

The Company's principal trading subsidiaries are listed in note 13 to the consolidated financial statements.

### Other investments:

At 1 January 2010, the Company held 163,936 in Pixel Interactive Media Limited, a company that was listed on the AIM Market. This investment was sold for £20,000 during the year.

# notes to the company financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 3. Debtors

	Notes	2010 £'000	2009 £'000
<b>Amounts falling due within one year:</b>			
Amounts owed by subsidiary companies		<b>5,624</b>	5,947
Other debtors		<b>369</b>	–
Deferred tax asset	8	<b>8</b>	2
Prepayments and accrued income		<b>226</b>	38
Corporation tax		<b>502</b>	548
		<b>6,729</b>	6,535

## 4. Creditors: Amounts falling due within one year

	Notes	2010 £'000	2009 £'000
Bank overdraft		<b>11,371</b>	7,954
Trade creditors		<b>90</b>	118
Other taxation and social security costs		<b>156</b>	102
Accruals and deferred income		<b>669</b>	393
Amounts owed to Group companies		<b>2,746</b>	2,543
Loan notes		<b>458</b>	1,179
Bank loans		<b>2,750</b>	13,350
Consideration payable in respect of acquisitions	7	<b>4,438</b>	1,906
Other creditors		<b>70</b>	7
		<b>22,748</b>	27,552

### Bank overdraft

The bank overdraft is part of the £2.0m Group wide overdraft facility with Royal Bank of Scotland plc, which holds a debenture over the assets of the Company and its subsidiaries. There is a cross-guarantee between the Company and its subsidiaries.

### Bank loans

During the year the Company entered into a new debt facility with the Royal Bank of Scotland plc. The new debt facility consists of a £10.0m term loan and a £7.0m revolving credit facility. Both the term loan and revolving credit facility bear interest at a variable rate of 2.50% to 3.25% over LIBOR.

# notes to the company financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 4. Creditors: Amounts falling due within one year *continued*

### Loan notes

Loan notes have been issued as part of the consideration for certain acquisitions. Secured loan notes are secured on cash deposits and by way of guarantee. Cash deposits provided as security are included within cash at bank and in hand and amount to £69,000. Loan notes bear interest at the following rates:

	2010 £'000	2009 £'000
<b>Secured</b>		
LIBOR less 2%	337	808
LIBOR	121	371
	<b>458</b>	<b>1,179</b>

## 5. Creditors: Amounts falling due after more than one year

	2010 £'000	2009 £'000
Bank loans	6,250	–

## 6. Provisions for Liabilities

	Notes	2010 £'000	2009 £'000
Contingent consideration for acquisitions	7	1,977	2,854

## 7. Deferred Consideration for Acquisitions

	£'000
At 1 January 2010	4,760
Settled in the year	(1,650)
Adjustment to provision for additions in prior years	3,227
Notional finance costs on future deferred consideration payments	78
At 31 December 2010	6,415
<b>Due in one year or less:</b>	
Consideration for acquisitions	4,438
<b>Due after more than one year but not more than five years:</b>	
Contingent consideration for acquisitions	1,977
At 31 December 2010	6,415

# notes to the company financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 7. Deferred Consideration for Acquisitions *continued*

Analysis of consideration payable for acquisitions is as follows:

	2010 £'000	2009 £'000
Cash liabilities	2,042	1,054
Shares to be issued	2,396	852
	<b>4,438</b>	1,906

Analysis of the contingent consideration in the Company financial statements is as follows:

	2010 £'000	2009 £'000
Earn out related cash liabilities	934	985
Shares to be issued	1,043	1,869
	<b>1,977</b>	2,854

Acquisitions made by the Company typically involve an earn out agreement whereby the consideration payable includes a deferred element that is contingent on the future financial performance of the acquired entity.

Earn out payments are to be in cash (or loan notes) and shares; in the analysis above the minimum percentage of cash (or loan notes) has been assumed. However, at the Company's sole discretion, this percentage can be increased.

Conditions have substantially been met on £4.4m of earn out and other consideration which is payable in 2011.

The provision for contingent consideration for acquisitions represents the directors' best estimate of the amount expected to be payable in cash or loan notes and shares to be issued. The provision is discounted to present value at the risk free rate at the acquisition date.

As a result of a review of contingent consideration at the year end, the directors' best estimate of contingent consideration payable in respect of acquisitions prior to 1 January 2008 has increased the provision for consideration payable by £2.9m.

If the remaining earn out conditions are met, based on current expectations, £2.0m will be payable in 2013.

## 8. Deferred Taxation

	2010 £'000	2009 £'000
<b>Deferred tax assets:</b>		
Other timing differences	8	2

The movement in the year of £6,000 is included in the tax charge in the profit and loss account.

# notes to the company financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 9. Share Capital

	2010 £'000	2009 £'000
Authorised:		
84,600,000 ordinary shares of 10p each	<b>8,460</b>	8,460
Allotted, issued and fully paid:		
61,644,654 ordinary shares of 10p each	<b>6,164</b>	5,876

The Company has one class of ordinary shares which carry no right to fixed income.

Details of shares issued in the year are given in note 22 to the consolidated financial statements.

## 10. Share-based Payments

Details of share option awards and key inputs into the Black Scholes model to calculate the fair value of options are given in note 23 to the consolidated financial statements.

For the year ended 31 December 2010, the Company recognised an expense of £39,000 in the profit and loss account (2009: £nil) in relation to equity settled share-based payment transactions.

## 11. Reserves

	Share premium account £'000	Capital redemption reserve £'000	Merger reserve £'000	Share-based payment reserve £'000	Profit and loss account £'000	Total £'000
<b>Company</b>						
1 January 2010 (as previously stated)	34,945	50	10,496	73	5,080	50,644
Prior year adjustment	(19,401)	–	15,782	–	3,619	–
At 1 January 2010 (as restated)	15,544	50	26,278	73	8,699	50,644
Profit for the year	–	–	–	19	1,789	1,808
Dividends paid	–	–	–	–	(814)	(814)
Share-based payments in subsidiaries	–	–	–	20	–	20
Allotment of shares during the year	194	–	463	–	–	657
31 December 2010	15,738	50	26,741	112	9,674	52,315

# notes to the company financial statements

FOR THE YEAR ENDED 31 DECEMBER 2010

## 12. Equity Shareholders' Funds

	2010	2009
	£'000	as restated £'000
Profit/(loss) for the year	<b>1,789</b>	(2,169)
New share capital subscribed	<b>288</b>	1,420
Premium on shares issued in the year (net of expenses)	<b>194</b>	368
Merger reserve on shares issued in the year	<b>463</b>	2,832
Dividends paid	<b>(814)</b>	(732)
Expense for share-based incentive schemes	<b>19</b>	–
Share-based payments in subsidiaries	<b>20</b>	–
Purchase of own shares	–	(52)
Net addition to equity shareholders' funds	<b>1,959</b>	1,667
Opening equity shareholders' funds	<b>56,520</b>	54,853
Closing equity shareholders' funds	<b>58,479</b>	56,520

## 13. Post Balance Sheet Events

On 14 March 2011, the Company entered into a contingent commitment to purchase the entire share capital of MedErgy HealthGroup Inc for an initial consideration of \$5.5m in cash and the issue of 5,804,049 new Cello ordinary shares of 10 pence each. The transaction will be funded by a mixture of new ordinary shares and existing debt facilities. Additional payments, subject to performance conditions, of up to \$3.5m may be payable to the vendors and key management in April 2014.

# notice of annual general meeting

Notice is hereby given that the Seventh Annual General Meeting of the Company will be held at 11-13 Charterhouse Buildings, London EC1M 7AP on Tuesday 17 May 2011 at 12.30pm, for the transaction of the following business:

## Ordinary Business

1. To receive and adopt the Directors' Report and Financial Statements for the year ended 31 December 2010, together with the auditors' report thereon.
2. To declare a final dividend of 0.905p per ordinary share for the year ended 31 December 2010.
3. To receive and approve the Directors' Remuneration Report for the year ended 31 December 2010.
4. To re-elect Allan Rich as a Director, who resigns in accordance with the Company's Articles of Association.
5. To re-elect Mark Bentley as a Director, who resigns in accordance with the Company's Articles of Association.
6. To re-appoint PricewaterhouseCoopers as auditors of the Company to hold office until the next General Meeting at which accounts are laid and to authorise the Directors to fix their remuneration.

## Special Business

To consider and, if thought fit, pass the following resolutions of which resolution 7 is an ordinary resolution and resolutions 8 and 9 are special resolutions.

7. That, in substitution for existing authorities to the extent unutilised, the directors be and are hereby generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "Act") to exercise all powers of the Company to allot shares or grant rights to

subscribe for or convert any security into shares up to an aggregate nominal amount of £2,721,796.40 to such persons, at such times and on such terms and conditions as the directors determine, during the period expiring (unless previously renewed, varied or revoked by the Company in General Meeting) on whichever is the earlier of the conclusion of the Annual General Meeting of the Company held in 2012 and the date falling 15 months after the date of passing of this resolution, but the Company may make an offer or agreement before the expiry of this authority which would or might require shares to be allotted or rights to subscribe for or convert any security into shares to be granted after expiry of this authority and the directors may allot shares or grant rights to subscribe for or convert any security into shares in pursuance of that offer or agreement.

## Special Resolutions

8. That, subject to the passing of resolution 7 set out in the notice convening this meeting, the directors be empowered pursuant to section 570 of the Companies Act 2006 (the "Act"), to allot equity securities (within the meaning of the Act) of the Company for cash pursuant to the general authority conferred on them by the said resolution 7 as if section 561(1) of the Act did not apply to any such allotment provided that this power shall be limited to:
  - (a) the allotment of equity securities in connection with an offer of equity securities (whether by way of a rights issue, open offer or otherwise), open for acceptance for a period fixed by the directors, to holders of ordinary shares on the register on any fixed record date in proportion (as nearly as practicable) to their holdings of ordinary shares, subject to such exclusions or other such arrangements as the directors may

# notice of annual general meeting

deem necessary or expedient in relation to fractional entitlements or legal or practical problems arising under the laws of, or the requirements of, any regulatory body or any stock exchange in, any territory; and/or

- (b) the allotment (otherwise than pursuant to paragraph (a) above) of equity securities up to an aggregate nominal amount of £727,820.36,

and the power hereby conferred shall operate in substitution for and to the exclusion of any previous power given to the directors pursuant to section 570 of the Act and shall expire on whichever is the earlier of the conclusion of the Annual General Meeting of the Company held in 2012 and the date falling 15 months after the date of the passing of this resolution, unless such power is renewed or extended prior to such expiry, except that the Company may before the expiry of any power conferred by this resolution make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of Section 560(2) of the Act as if in the first paragraph of this resolution the words "pursuant to the general authority conferred on them by the said resolution 7" were omitted.

9. That the Company be and is hereby granted general and unconditional authority (pursuant to section 701 of the Companies Act 2006 (the "Act") to make market purchases (as defined in section 693 of the Act) of any of its own ordinary shares of 10p each on such terms and in such manner as the board of directors of the Company may from time to time determine provided that:

- (a) the maximum number of shares authorised to be purchased is 3,639,102 ordinary shares of 10p each, being 5% of the shares in issue as at 22 March 2011;
- (b) the maximum price which may be paid for a share is an amount equal to not more than 105% of the average of the middle market quotations for the shares taken from the London Stock Exchange Daily Official List for the five business days before the day on which the purchase is made;
- (c) the minimum price which may be paid for a share is 10p exclusive of any attributable expenses payable by the Company; and
- (d) the authority conferred by this resolution shall expire on whichever is the earlier of the conclusion of the Annual General Meeting of the Company held in 2012 and the date falling 15 months after the date of the passing of this resolution, unless such authority is renewed or extended prior to such expiry, whichever is the earlier, except that the Company may, before such expiry, enter into a contract for the purchase of its own shares which may be completed by or executed wholly or partly after the expiration of this authority.

By order of the Board

Mark Bentley  
Company Secretary

14 April 2011

Registered Office  
11-13 Charterhouse Buildings  
London  
EC1M 7AP

# notice of annual general meeting

## Notes to the Notice of Annual General Meeting

1. As a member of the Company, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Annual General Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
2. A proxy does not need to be a member of the Company but must attend the Annual General Meeting to represent you. Details of how to appoint the Chairman of the Annual General Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Annual General Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to him/her.
3. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share.
4. As permitted by Regulation 41 of the Uncertificated Securities Regulations 2001, Shareholders who hold their shares in uncertificated form must be entered on the Company's share register by 12.30 p.m. on 15 May 2011 in order to be entitled to attend and vote at the Annual General Meeting. Such Shareholders may only cast votes in respect of shares held at such time. Changes to entries on the register of members after such time on such date will be disregarded in determining the rights of any person to attend and vote at the Annual General Meeting.
5. To be effective, a proxy form must be duly completed, executed and returned, together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power of attorney or authority, so as to reach the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY by 12.30 pm on 13 May 2011, being 48 hours (excluding any part of a day that is not a working day) prior to the time fixed for the meeting or, in the case of an adjournment, as at 48 hours (excluding any part of a day which is not a working day) prior to the time of the adjourned meeting.
6. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
7. If multiple corporate representatives are appointed, in order to facilitate voting by corporate representatives at the Annual General Meeting, arrangements will be put in place at the Annual General Meeting so that:
  - (i) if a corporate member has appointed the Chairman of the Annual General Meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all the other corporate representatives for that member at the Annual General Meeting, then, on a poll, those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and

# notice of annual general meeting

(ii) if more than one corporate representative for the same corporate member attends the Annual General Meeting but the corporate member has not appointed the Chairman of the Annual General Meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.

8. The following documents will be available at the registered office of the Company on any weekday (except Saturday) during normal business hours from the date of this notice until the date of the Annual General Meeting:
- a copy of the service agreements for the Executive Directors;
  - a copy of the letters of appointment for the Non Executive Directors;
  - the Articles of Association of the Company; and
  - the register of interests of the directors (and their families) in the share capital of the Company.

These documents will also be available for inspection during the Annual General Meeting and for at least 15 minutes before it begins.

# notice of annual general meeting

## Explanation of Special Business at the Annual General Meeting

### Explanation of Resolution 7 (Authority to allot securities)

Resolution 7, which will be proposed as an ordinary resolution, would give the directors authority to allot shares up to a maximum nominal amount of £2,721,796.40 being approximately 37% of the Company's issued share capital as at 22 March 2011. The existing authority would be revoked and this new authority would expire on the date of the 2012 Annual General Meeting or 17 August 2012, whichever is the earlier.

### Explanation of Resolution 8 (Disapplication of pre-emption rights)

Resolution 8, which will be proposed as a special resolution, would renew the power of the directors to allot shares for cash as though the rights of pre-emption conferred by section 561(1) of the Act did not apply:

- (a) in connection with an offer to existing shareholders in proportion to their existing holdings save that the directors are allowed to offer shares to existing shareholders otherwise than strictly in proportion to their holdings where, for example, overseas regulations make it difficult to offer shares pro rata to existing overseas shareholders or when dealing with fractions of shares, and/or
- (b) up to a nominal amount of £727,820.36, being 10%, of the issued share capital of the Company as at 22 March 2011 (to give the directors some flexibility in financing business opportunities as they arise).

This power would expire on the date of the 2012 Annual General Meeting or 17 August 2012, whichever is the earlier.

### Explanation of Resolution 9 (Authority to purchase own shares)

In certain circumstances it may be advantageous for the Company to purchase its own shares. Resolution 9, which will be proposed as a special resolution, seeks authority from shareholders to do so, such authority to expire on the date of the 2012 Annual General Meeting or 17 August 2012, whichever is the earlier. The directors intend to exercise this power only if and when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase earnings per share and is in the best interests of shareholders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account before deciding upon this course of action. Any shares purchased in this way will be cancelled and the number of shares in issue will be accordingly reduced.

This resolution specifies the maximum number of shares which may be acquired (being 3,639,102 ordinary shares, which is 5% of the Company's issued share capital as at 22 March 2011 of 72,782,036 ordinary shares) and the maximum and minimum prices at which they may be bought.

# directors



## Allan Rich – Non-Executive Chairman

Allan Rich has spent all his working life in the advertising business. He co-founded Davidson Pearce Berry and Spottiswood which became one of the most successful agencies in the UK during the late 60's and early 70's. In 1975 he founded the first independent media planning and buying company in the UK which he called The Media Business. In 1995 he took the company to the London Stock Market and in 1998 sold his group to Grey Advertising New York in order to create a truly global media organisation, MediaCom. Over the following 4 years MediaCom became the largest media company in the UK and number 5 in the world. Allan is a member of the Audit Committee.



## Mark Scott – Chief Executive

From 1994 to 1998 Mark Scott was a senior executive at WPP Group plc, latterly being appointed Operations Director for the Group with responsibility for the Group's European and Asian acquisition programme. Post WPP he became Executive Vice President of Lighthouse Global Network LLC where he helped acquire and consolidate more than 15 marketing services companies. From 2000 to 2002 he was appointed a senior executive of Lake Capital Management, a private equity firm, where he was responsible for a range of investments in marketing service firms. He has been a member of the Boards of a number of public companies in the sector including Watermark Group plc, Chime Communications Group plc, Chemistry Communications Group plc and Fitch plc. He obtained his MBA from Harvard Business School and a first class honours degree in English Literature from Oxford University.



## Mark Bentley – Group Finance Director

Mark Bentley joined Cello Group as Group Finance Director in May 2005. He is also Company Secretary. Mark previously worked for Citigate Dewe Rogerson which he joined in 2000 as Financial Controller and spent the next five years in various senior finance roles within Incepta Group plc, including Finance Director of Citigate Dewe Rogerson from February 2001. Whilst maintaining the Finance Director role, he took on wider operational responsibilities when he was appointed Chief Operating Officer in November 2003. From June 2002 he also had the parallel role of Finance Director of the Citigate SMARTS regional network of offices. Prior to Citigate he was Financial Projects Manager at Hodder Headline plc. Mark qualified as a chartered accountant with Coopers & Lybrand in 1996.

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# directors



## Paul Walton – Group Strategy Director

Paul Walton studied Modern History at Brasenose College, Oxford. After spells at French Gold Abbot and Young and Rubicam in the late 1970s, he joined The Creative Business as Director of Planning and Research.

In 1986, he was a founding Partner of The Value Engineers, a strategic consulting business focused on branding and innovation; with a growing international reputation as one of the most stimulating and inspiring consulting firms The Value Engineers joined Cello Group in 2005, where Paul is now an Executive Director of the plc board, responsible for Group Strategy. Paul has worked for a host of FTSE and Fortune 500 businesses throughout Europe, Asia and the Americas. A frequent lecturer and writer on branding topics, he has led projects across 6 continents. His current research focus is on innovation strategy.



## Paul Hamilton – Non-Executive Director and Senior Independent Director

Paul Hamilton was Senior Independent Director of Wellington Underwriting plc until 31 December 2006. Prior to this Paul worked in both corporate finance at UBS Warburg where he was a Managing Director, and in corporate broking at Rowe & Pitman where he was a Partner. In recent years Paul has also been Chairman of the FSA Listing Rules Committee and a member of the FSA Listing Authority Advisory Committee and London Stock Exchange Primary Markets Committee. Paul chairs both the Nomination and Remuneration Committee and is a member of the Audit Committee.



## Will David – Independent Non-Executive Director

Will David was Non-Executive Chairman of Polaron plc until March 2007 and Chairman of its Audit and Remuneration Committees, and of Orca Interactive Limited until it was taken over in May 2008. He is currently Non-Executive Chairman of Advanced Power Components plc. He has more than 20 years experience working in corporate advisory and broking roles for small and mid cap companies. Will has also worked at Investec Henderson Crosthwaite, PricewaterhouseCoopers, Hoare Govett & Co and The London Stock Exchange. During his professional career Will has worked on over twenty flotations for clients across a range of sectors. His experience also includes acquisitions and disposals, public takeovers and secondary fundraisings and provision of advice on corporate governance matters. Will chairs the Audit Committee and is a member of both the Nomination and Remuneration Committees.

# advisors

## Company Secretary

Mark Bentley

## Registered Office

11-13 Charterhouse Buildings  
London  
EC1M 7AP

## Independent Auditor

PricewaterhouseCoopers LLP  
1 Embankment Place  
London  
WC2N 6RH

## Nominated Advisor and Broker

Altium Capital Limited  
30 St. James's Square  
London  
SW1Y 4AL

## Solicitors

Marriott Harrison  
Staple Court  
11 Staple Inn Buildings  
London  
WC1V 7QH

## Principal Banker

Royal Bank of Scotland plc  
280 Bishopsgate  
London  
EC2M 4RB

## Registrars

Computershare Investor Services plc  
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The Pavilions  
Bridgwater Road  
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# group directory

## Research And Consulting

### Insight Research Group

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London EC1M 7AP  
tel: +44 (0)20 7608 9300  
www.insightrg.com  
Contact: Jane Shirley, Nicola Cowland

### Insight Research Group USA

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NY 10001 USA  
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Contact: Avanti Ananthram

### RS Consulting Group

Priory House, 8 Battersea Park Road, London  
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### Leapfrog

13 High Street, Windsor, Berkshire SL4 1LD  
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www.leapfrogresearch.co.uk  
Contact: Judy Taylor

### Leapfrog in America

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### The Value Engineers

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### SMT Consulting

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Buckinghamshire UK HP9 2JH  
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Contact: Paula Coutts

### The Value Engineers – North America

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Contact: Alex Waters

### CelloMRUK

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tel: +44 (0)845 130 4576 www.mruk.co.uk  
Contact: Rachel Cope

### TMI

7 Clarendon Place Royal, Leamington Spa,  
Warwickshire CV32 5QL  
tel: +44 (0)845 330 8312 www.tmi.co.uk  
Contact: Gillian James

### The MSI Consultancy

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tel: +44 (0)1252 717099 www.msi.co.uk  
Contact: Stephen Highley

### 2CV Research

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Contact: Vincent Nolan

### MedErgy HealthGroup Inc.

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www.medergygroup.com  
Contact: Julia Ralston

# group directory

## Tangible Group

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www.tangible.uk.com  
Contact: Yvonne Balfour

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Contact: Guy Harris

## Tangible (London)

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Contact: Karen Trickett

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Contact: Owen Lee

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Contact: Richard Marsham

## Blonde

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Contact: Pete Burns

## Brightsource

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www.brightsource.co.uk  
Contact: Peter Frings

## Magnetic

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Contact: Ben Hutton

## Stripe Communications

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Contact: Juliet Simpson

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Contact: Andrew Needham

## OptiComm Media

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Contact: Spencer Stratford, Paul Cox

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