

CHIME COMMUNICATIONS
PLC

Annual Report & Accounts 1996

Low Bell Financial Ltd
A Low Bell Communications Company

News Release

25th March 1997

CHIME COMMUNICATIONS PLC

Preliminary Results for the year ended
31st December 1996

- Operating income up 21% to £22.5 million (1995 - £18.6 million)
- Operating profit up 21% to £3 million (1995 - £2.5 million)
- Operating margin maintained at 13.5%
- Adjusted earnings per share up 21% to 3.4p (1995 - 2.8p)
- Final dividend up 20% to 1.15p
(compared to £2 million in 1995)

CHIME COMMUNICATIONS
— P L C —

the holding company of

LOWE BELL COMMUNICATIONS



LOWE BELL CONSULTANTS



LOWE BELL FINANCIAL



LOWE BELL GOOD RELATIONS



LOWE BELL POLITICAL



LOWE BELL MARKETING AND EVENTS



LOWE BELL INTERNATIONAL



LOWE BELL & MANN



GREEN MOON



FIRST FINANCIAL



SMITHFIELD DESIGN

Financial Highlights

- Operating income up 21% to £22.5 million (1995 – £18.6 million)

- Operating profit up 21% to £3 million (1995 – £2.5 million)

- Operating margin maintained at 13.5%

- Adjusted earnings per share up 21% to 3.4p (1995 – 2.8p)

- Final dividend up 20% to 1.15p

- Cash balances of £2.6 million compared to £2 million in 1995

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Chairman's Statement

RESULTS

1996 was another very good year for Chime with record levels of both revenue and operating profit.

OPERATING HIGHLIGHTS

All our nine businesses were profitable and six of them showed strong profit growth. Both our operating income and operating profit grew by 21% and our operating profit margin remained at 13.5%. This margin level is significantly higher than most of our major competitors.

In 1996 the Group acted for 579 clients compared to 457 in 1995 and 400 in 1994. 63% (1995 - 62%) of our operating income came from retainer fee clients and no client represented more than 4.5% of our revenue in 1996. Operating income per employee for our UK operation was slightly lower at £88,000 (1995 - £90,000).

ACQUISITIONS

We have continued our policy of making small acquisitions in order to enhance the service we offer our clients and to make our individual businesses become more effective. The strategy is to acquire good clients and good people at sensible prices.

In May 1996, we acquired the business of LMB Public Relations, a healthcare specialist, to strengthen the healthcare side of Green Moon. LMB's creator, Louise Blakeborough, is now Managing Director of Green Moon Healthcare.

In June 1996 we acquired the business of Graphiti, a specialist typesetting company. This has enabled us to do in-house work which Smithfield Design, First Financial and Lowe Bell Marketing and Events had previously commissioned from outside suppliers.

In September 1996, we made our South African office into one of the largest public relations offices in Southern Africa. We merged Lowe Bell in Cape Town with Sussens Mann in Johannesburg and the business is now called Lowe Bell & Mann. It is run by Peter Mann and Mark Turnbull who comes from our UK consultancy. The merged company is proving a great success, winning many blue chip clients from its new Johannesburg headquarters.

REMUNERATION COSTS

Our business is about high fees, top clients and top people. An important part of managing our business is incentivising and rewarding our people properly. Once again bonus levels are well within the range of profit growth.

On an annualised basis, the average salary increase for 1996 was 8.3% (1995 - 8.8%). Staff and directors received a bonus averaging 8.3% of salary (1995 - 8.6%). 47 out of 302 staff (1995 - 37 out of 232) now have executive

CHAIRMAN'S STATEMENT CONTINUED

share options and 66 (1995 - 55) have joined the Savings-Related Share Option Scheme.

The three executive directors received salary increases averaging 8.6% (1995 - 7.9%) and received bonuses for achievement of targets of 15% (1995 - 15%). The three executive directors do not have any executive share options.

LIQUIDITY

Our businesses continued to generate cash during 1996 and cash balances rose from £1,988,000 at the end of 1995 to £2,569,000 at the end of 1996. Amounts owed under finance leases reduced during the year from £944,000 to £767,000 and no further finance leases are being taken out.

In November 1996 our 12.5% stake in Venesta Cubicle Systems was sold for a profit of £619,000. The sale proceeds, together with dividends received from Venesta, generated cash of £726,000. Since the year end, we have sold our freehold property in Sevenoaks for £600,000 which has completed the disposal of the assets of the original Chartwell Group plc. Chartwell's assets at the time of the reversal in 1994 were valued at £2.3 million. We have achieved sale proceeds for those assets of £3.3 million.

During 1996 £809,000 of cash was used to fund acquisitions.

DIVIDEND

The Board recommends an increase of 20% in the final dividend to 1.15p net per share, making a total of 1.70p net per share for 1996, a 20% increase over 1995.

LOOKING AHEAD

1996 was a very good year, we won a lot of business, we handled our existing clients well, we lost very few clients and we brought a lot more good people into the company. The market grew and we grew faster.

Media fragmentation, the demand for information and high levels of both competition and competitiveness look like creating even more demand for our services. We are a cautious company by nature but we are very optimistic about the future.

We think having clearly established our brand and its reputation in the market place, and having achieved annual growth in revenue and profits for a number of years, it is time to take the next step. We are actively looking to acquire another well known brand to add to our business.



Review of Operations

We have had a very successful year and that success is about increasing revenue and profits. Revenue comes from keeping our clients and gaining new ones. Making it profitable comes from having good people who contribute to success for our clients. What follows is a brief description of the highlights of each of our companies in terms of the clients, people and success criteria.

LOWE BELL CONSULTANTS

New Clients - included Jones Lang Wootton, Theo Fennell, The Rugby Football Union, The Stationery Office, National House Building Council and Malta Financial Services Centre.

New People - Jane Atkinson joined from the office of Diana, Princess of Wales and Paul Nathanson joined from the Mail on Sunday.

Some of our Successes - the flotation of AEA Technology, the contract won by Annington Homes for the Ministry of Defence's married quarters estate and the settlement of the clubs and Union dispute in professional rugby.

LOWE BELL FINANCIAL

New Clients - included The Rank Group, Christian Salvesen, Harrods, AEA Technology, The Football League, Phoenix Group and Megalomedia.

New People - David Beck was promoted to Managing Director. John Antcliffe, a former investment banker with strong privatisation and mergers and acquisitions experience, joined as a Director.

Some of our Successes - The Bank of Ireland's proposed acquisition of The Bristol and West, Rank Group's share capital reorganisation and its reunification of the Hard Rock brand. Hanson's demerger into four separately listed companies and Newman Tonks' defence against FKI and subsequent recommended offer by Ingersoll-Rand.

LOWE BELL GOOD RELATIONS

New Clients - included the Welsh Development Agency, The Meat & Livestock Commission, The Committee of Vice-Chancellors and Principals of the Universities of Great Britain, National Power and Procter & Gamble (Fairy Liquid and Pampers).

New People - Ken Allsop has joined as a Director. He has had a long career in public relations with Ogilvy & Mather, Burson-Marsteller and Shandwick.

REVIEW OF OPERATIONS CONTINUED

Some of our Successes - the Computers for Schools promotion for Tesco. The campaign in support of Millennium funding for the National Rugby Stadium in Cardiff. The launch of the Mince Quality Mark for the Meat & Livestock Commission and a campaign that persuaded the government to reverse cuts in capital funding for Britain's universities.

LOWE BELL POLITICAL

New Clients - included Railtrack, Orange, Construction Industry Employers Council, Building Materials Producers, National House Building Council and Standard Life.

New People - Mark Pendlington joined from British Gas where he was head of Parliamentary Affairs. Adrian Pepper joined from being Special Adviser to the Rt. Hon. Virginia Bottomley MP Secretary of State for National Heritage and Ben Lucas joined from being adviser to Jack Straw MP Shadow Home Secretary.

Some of our Successes - bringing about a change in the rules for Quantum International which had prevented the broadcasting of home shopping programmes on terrestrial analogue television between midnight and 6.00am.

Advising BSkyB on the Broadcasting Bill as it passed through its parliamentary stages and assisting in preventing the introduction of new regulatory burdens.

LOWE BELL MARKETING & EVENTS

New Clients - included NatWest Group Property, Eurotunnel Developments and The Thames Gateway London Partnership.

Some of our Successes - the winning of five awards in the 1996 UK Property Marketing & Design Awards. The marketing of property in Kent on behalf of Eurotunnel Developments and successful exhibition and marketing work for London Docklands which contributed towards significant inward investment from the Far East and the USA.

LOWE BELL & MANN

New Clients - included Iscor, Independent Newspapers, SA Druggists, Procter & Gamble and Development Bank of Southern Africa.

New People - Mark Turnbull was promoted to Deputy Managing Director. Peter Mann, David Carte, Andrew Fasedemi and Alan Rabinowitz joined through the acquisition of Sussens Mann.

REVIEW OF OPERATIONS CONTINUED

Some of our Successes - launch of a national community educational campaign for Iscor, and a cricket development programme for PPC Cement. Assisted British Airways in defending market share against the arrival of Virgin in South Africa.

GREEN MOON

New Clients - included Friends Provident and TV Licensing.

New People - Anne Klahn joined as Joint Deputy Managing Director from L'Oreal where she was Public Relations Director. Joanne Loades was promoted to Director. Louise Blakeborough became Managing Director of Green Moon Healthcare.

Some of our Successes - the very successful Spring Campaign for Direct Debit, an extensive and highly measurable consumer communications campaign for Braun and an effective consumer and trade launch for the innovative new condom, Topaz.

FIRST FINANCIAL

New Clients - included Jupiter Asset Management, Friends Provident and Global Asset Management.

New People - Jerry Wood joined as Managing Director from Lowe Bell Financial.

Some of our Successes - the significant growth in new funds gained by Jupiter Asset Management as a result of a strong advertising campaign.

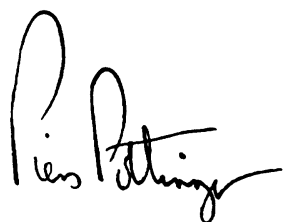
SMITHFIELD DESIGN

New Clients - included Coutts, Friends Provident and The Stationery Office.

New People - Tony Wells joined as Operations Director.

Some of our Successes - production of the book to promote Brunei throughout the world. The development of a worldwide corporate identity for Coutts Group. All 1995 Annual Report clients were retained for 1996.

1997 has started well and is ahead of our performance at this stage in 1996.



DIRECTORS AND PROFESSIONAL ADVISERS

BOARD OF DIRECTORS

Sir Tim Bell Chairman
Piers Pottinger Managing Director
Mark Smith Finance Director
The Rt. Hon. the Lord Carrington Non-Executive*†
Alan Chamberlain Non-Executive*
Sir Ronald Grierson Non-Executive †
Sir David Hannay Non-Executive †
Julian Seymour Non-Executive*†

*Member of the Audit Committee

†Member of the Remuneration Committee

REGISTERED OFFICE

46 Hertford Street London W1Y 8AX Registered in England No: 1983857

FINANCIAL ADVISERS

Nat West Markets Corporate
Finance Limited
32 Queen Anne's Gate
London SW1H 9AB

BROKERS

Panmure Gordon & Co. Ltd.
New Broad Street House
35 New Broad Street
London EC2M 1NH

SOLICITORS

Slaughter and May
35 Basinghall Street
London EC2V 5DB

AUDITORS

Deloitte & Touche
Chartered Accountants
Hill House
1 Little New Street
London EC4A 3TR

BANKERS

National Westminster Bank PLC
Hanover Square Branch
PO Box 4ZE
21 Hanover Square
London W1A 4ZE

REGISTRARS

The Royal Bank of Scotland plc
Registrar's Department
PO Box 82
Caxton House
Redcliffe Way
Bristol BS99 7NH

NON-EXECUTIVE DIRECTORS' BIOGRAPHIES

THE RT. HON. THE LORD CARRINGTON, AGED 77

Lord Carrington is a former Secretary of State for Foreign and Commonwealth Affairs and Minister for Overseas Development, and a former Secretary of State for Defence. He has also been chairman of the Conservative Party, First Lord of the Admiralty and British High Commissioner to Australia. From June 1988 until May 1993, Lord Carrington was chairman of Christies International plc. He has been a director of various banking and business concerns and is currently a director of The Telegraph plc.

ALAN CHAMBERLAIN, AGED 54

Alan Chamberlain is a Chartered Accountant with a wide experience in industry. He spent three years at Massey Ferguson and seven years at Lex Service Group before joining Ellerman Lines as group financial controller in 1977. He was subsequently appointed group finance director. In 1982 David and Frederick Barclay acquired Ellerman Lines and from then until 1994 Alan Chamberlain worked in a variety of roles for them including as Managing Director of Tollemache & Cobbold Breweries and The European newspaper. He now operates as a consultant to a number of publicly quoted and private companies.

SIR RONALD GRIERSON, AGED 75

Sir Ronald Grierson has been a banker and industrialist since 1948 and has on several occasions held full-time appointments in government. His principal business posts were as a director of S.G. Warburg (1948-1985) and as Vice-Chairman of The General Electric Company (1968-1991). His chief government appointments were as Deputy Chairman and Managing Director of the Industrial Reorganisation Corporation and as Director-General for Industry of the European Commission in Brussels. He continues to sit on boards and advisory boards in Europe and the USA and is a director of the Daily Mail and General Trust plc.

SIR DAVID HANNAY, AGED 61

Sir David Hannay was formerly the UK Permanent Representative to the United Nations (1990-1995); UK Permanent Representative to the European Community (1985-1990) and has held posts in the Foreign and Commonwealth Office and the United Kingdom Mission to the European Community in Brussels. He was also head of the Foreign Office Energy Department from 1977 to 1979.

JULIAN SEYMOUR, AGED 52

Julian Seymour has been involved throughout his career in the financial management of businesses in the communications industry, most recently as director of corporate finance at Lowe Group plc. Since 1991 he has been the director of Lady Thatcher's private office. He is a director of the Taiwan Investment Trust plc.

DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE

CORPORATE GOVERNANCE REPORT

The directors' statements on internal financial control and going concern and a summary of the Group's system of corporate governance are set out below. The Remuneration Committee's report to shareholders can be found on page 13 of this Annual Report and Accounts.

STATEMENT OF COMPLIANCE

Throughout the year the Company complied with all the applicable provisions of the Code of Best Practice issued by the Committee on the Financial Aspects of Corporate Governance ("The Cadbury Committee") and with Section A of the Best Practice Provisions on Remuneration Committees as annexed to the Stock Exchange Listing Rules.

BOARD COMPOSITION

The Board of Directors comprises three executive and five non-executive directors. It meets regularly throughout the year to review Group strategy, capital expenditure, significant operational and financial matters, budgets and progress towards achievement of those budgets.

The Board has established an Audit Committee comprising three non-executive directors and a Remuneration Committee comprising four non-executive directors.

AUDIT COMMITTEE

The Audit Committee is chaired by Julian Seymour and monitors the adequacy of the Group's internal controls, accounting policies and financial reporting. It also provides a forum through which the Group's external audit function reports to the non-executive directors. The Audit Committee meets at least twice a year.

REMUNERATION COMMITTEE

Lord Carrington is Chairman of the Remuneration Committee. This committee reviews the terms and conditions of service of the Executive Directors and recommends to the Board their remuneration and benefits. It also supervises the Company's share option schemes.

INTERNAL FINANCIAL CONTROL

The directors are responsible for the Group's system of internal financial control. Although no system of internal financial control can provide absolute assurance against material misstatement or loss, the Group's system is designed to provide the directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately. The key procedures that have been established and are designed to provide effective internal financial control are described under the following headings.

DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE CONTINUED

Financial reporting – the Group has a comprehensive system for reporting financial results to the Board; each operating unit prepares monthly results with a comparison against budget. Forecasts for each operating unit are prepared and updated regularly throughout the year. Towards the end of each financial year the operating units prepare detailed budgets for the following year. These budgets are then reviewed by the Board before being adopted.

Quality and integrity of personnel – the integrity of its personnel is regarded by the Board as vital to the maintenance of the Group's system of internal control. This is reflected in the quality and experience of its financial and administrative personnel.

Operating unit controls – the executive management has defined the financial controls and procedures with which each operating unit is required to comply. Key controls over major business risks include reviews against performance indicators, exception reporting and strict adherence to commitment and expenditure authority levels. All operating units are continually reviewed to ensure compliance with these controls and procedures.

Computer systems – much of the Group's financial and management information is processed by and stored on computer systems. Accordingly, the Group has established controls and procedures over the security of data held on computer systems. Also, the Group has put in place arrangements for computer processing to continue and data to be retained in the event of the complete failure of the Group's own data processing facility.

The Audit Committee has considered reports made to it by the executive management of the Group which assess the major business risks and the control environment against the criteria for assessing internal financial control which are set out in the guidance for directors on reporting on internal control. The Audit Committee has reported to the Board that it has been able to review the effectiveness of the system of internal financial control for the accounting year and the period to the date of approval of the financial statements.

GOING CONCERN

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE CONTINUED

REPORT BY THE AUDITORS

The auditors have confirmed that, in their opinion, with respect to the directors' statements on internal financial control and going concern above, the directors have provided the disclosures required by the Listing Rules of the London Stock Exchange and such statements are not inconsistent with the information of which they are aware from their audit work on the financial statements; and that the directors' other statements on pages 10 and 11 appropriately reflect the Company's compliance with the other aspects of the Cadbury Code specified for their review by Listing Rule 12.43(j). They have also reviewed the statement of compliance with Section A of the Best Practice Provisions on Remuneration Committees and the Report of the Remuneration Committee to the Shareholders set out respectively on pages 10 and 13 to the extent that they provide the disclosures specified by the Listing Rules. They were not required to perform the additional work necessary to, and did not express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures or on the appropriateness of the bases used in determining Directors' remuneration nor on the ability of the Company to continue in operational existence.

REPORT OF THE REMUNERATION COMMITTEE

GROUP POLICY ON THE REMUNERATION OF DIRECTORS AND EMPLOYEES

The Group is committed to attracting and retaining high quality staff. Remuneration is set at levels commensurate with competing firms in the same industry and is monitored on a regular basis. Bonuses, at levels which reflect both the Group's and the individual business unit performances and personal contributions, are paid to executive Group directors and the directors and employees of the Group's operating subsidiaries. The executive directors have a contractual right to these bonuses; bonuses payable to the directors and employees of the Group's operating subsidiaries are discretionary.

In framing its remuneration policy the Committee has given full consideration to Section B of the Best Practice Provisions annexed to the Listing Rules.

SHARE OPTIONS, PENSIONABLE PAY AND TERMINATION OF CONTRACTS

No director has been granted share options with the exception of Mark Smith who has entered the Company's Savings-Related Share Option Scheme. The Company operates an executive share option scheme for subsidiary Board directors and senior employees. It also operates a Savings-Related Share Option Scheme which is open to all UK employees and (where possible) employees in other countries. Pension contributions on behalf of the executive directors are paid by the Company to the Group's money purchase pension scheme or to a personal pension scheme. All directors and employees have rolling contracts of employment with a notice period that does not exceed twelve months. Any compensation payable on early termination of employment contracts is considered on a case by case basis.

This report should be read in conjunction with Note 4 to the accounts which also constitutes part of this report.

Approved by the Remuneration Committee of the Board of Directors
and signed on behalf of the Committee

LORD CARRINGTON

24 March 1997

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 1996.

REVIEW OF THE BUSINESS

The Group is principally engaged in providing public relations, design, financial advertising and event management consultancy and it is the intention of the directors that it should continue to be so. A review of the business is given in the Chairman's Statement and in the Review of Operations.

RESULTS AND DIVIDENDS

The Group's profit and loss account is set out on page 19 and shows a profit before taxation for the year to 31 December 1996 of £3,723,000 (1995 - £2,516,000). The directors recommend the payment of a final dividend of £662,000 (1.15 p per ordinary share) (1995 - £553,000) bringing the total dividend for the year to £979,000 (1995 - £818,000).

DIRECTORS AND THEIR INTERESTS

The directors of the Company, all of whom were directors for the whole year unless otherwise indicated, and their interests in the Company, are set out below:

	Beneficial holdings	
	Ordinary shares of 25p each	
	1 January 1996	31 December 1996
SIR TIM BELL	5,821,200	5,821,200
P J D POTTINGER	3,880,800	3,880,800
M W SMITH	924,000	824,000
LORD CARRINGTON	—	—
SIR RONALD GRIERSON	—	—
J R SEYMOUR	—	—
A J CHAMBERLAIN	—	—
SIR DAVID HANNAY	—	—

On 1 July 1996 Mark Smith was granted 22,258 share options under the Company's Savings-Related Share Option Scheme. Further details relating to directors' share options are given in Note 4 to the accounts. On 24 January 1997 Sir Tim Bell transferred 660,723 ordinary shares to a non-beneficial trust. There has been no other change in the interests of the directors between 31 December 1996 and 24 March 1997.

DIRECTORS' REPORT CONTINUED

Sir David Hannay was appointed as a director on 1 January 1996. Roy Lister retired as a director with effect from 2 April 1996. Sir Ronald Grierson and Julian Seymour, who have rolling contracts with a notice period of three months, are due to retire by rotation and offer themselves for re-election. Sir Ronald Grierson is a member of the Remuneration Committee and Julian Seymour is a member of the Remuneration Committee and the Audit Committee.

Other than described above and in Note 4 to the financial statements no director of the Company has, or had during the period, any interests in any transactions which were unusual in their nature or were significant to the Company's business.

DONATIONS

During the year the Group donated £35,604 (1995 - £29,556) for charitable purposes.

EMPLOYEE INVOLVEMENT

The Group operates a policy of informing all employees on a regular basis of the Group's financial performance. In addition, the Group's Savings-Related Share Option Scheme and bonus scheme encourage employees at all levels to contribute to the achievement of the Group's short and long term goals.

EMPLOYMENT OF DISABLED PERSONS

The Group gives full and fair consideration to all applications for employment made by disabled persons, having regard to their particular aptitudes and abilities. Opportunities for training, career development and promotion do not disadvantage disabled employees.

SUBSTANTIAL INTERESTS

At 24 March 1997 the following interests, other than those of the directors set out above, in three per cent or more of the issued ordinary share capital had been notified to the Company:

	Number of ordinary shares	% of ordinary share capital
PDFM Limited	8,472,900	14.7
Lowe International Limited	6,860,000	11.9
UKAV Continuation Fund Inc.	4,850,000	8.4
Ellerman Corporation Limited	4,200,000	7.3
Morgan Grenfell & Co. Limited	2,501,805	4.3
Herald Investment Trust	1,825,000	3.2

DIRECTORS' REPORT CONTINUED

PAYMENT POLICY

The Group's policy on suppliers is that they will be paid in accordance with agreed terms and conditions of trade on a regular basis.

EVENT AFTER THE YEAR END - SALE OF FREEHOLD PROPERTY

On 25 February 1997 the Company sold its freehold property for £600,000. The financial implications are disclosed in Note 25 to the accounts.

AUDITORS

A resolution for the reappointment of Deloitte & Touche as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

M W SMITH Secretary

24 March 1997

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the Group's system of internal financial controls and for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT TO THE MEMBERS
OF CHIME COMMUNICATIONS PLC

We have audited the financial statements on pages 19 to 38 which have been prepared under the accounting policies set out on pages 24 and 25.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 17 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1996 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants and
Registered Auditors
Hill House
1 Little New Street
London EC4A 3TR
24 March 1997

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 1996

	Note	1996	1995
		£'000	£'000
Turnover	3	33,720	27,509
Gross Profit/Operating Income		22,508	18,587
Operating Profit		3,035	2,507
Exceptional profit	6	619	-
		3,654	2,507
Investment income		39	-
Interest receivable		108	111
Interest payable and similar charges	7	(78)	(102)
Profit on Ordinary Activities before Taxation	8	3,723	2,516
Tax on profit on ordinary activities	9	(1,148)	(880)
Profit for the Financial Year		2,575	1,636
Equity dividends	11	(979)	(818)
Transfer to Reserves	20	1,596	818
Earnings per Share	12	4.5p	2.8p
Adjusted Earnings per Share	12	3.4p	2.8p

Turnover and operating profit relate to continuing operations.

CONSOLIDATED BALANCE SHEET

31 December 1996

	Note	1996		1995	
		£'000	£'000	£'000	£'000
Fixed Assets					
Tangible assets	13		2,750		2,458
Investments	14		10		44
			<hr/>		<hr/>
			2,760		2,502
Current Assets					
Work in progress		740		683	
Debtors	15	7,969		6,681	
Cash at bank and in hand		2,569		1,988	
			<hr/>		<hr/>
			11,278		9,352
Creditors: amounts falling due within one year	16	(12,873)		(11,014)	
Net Current Liabilities			<hr/>		<hr/>
			(1,595)		(1,662)
Total Assets less Current Liabilities			<hr/>		<hr/>
			1,165		840
Creditors: amounts falling due after more than one year	17		(308)		(435)
Provisions for Liabilities and Charges	18		(135)		(298)
			<hr/>		<hr/>
			722		107
Capital and Reserves					
Called up share capital	19		14,402		14,402
Share premium account	20		248		248
Merger reserve	20		1,150		1,150
Goodwill reserve	20		(16,151)		(15,176)
Profit and loss account	20		1,073		(517)
			<hr/>		<hr/>
Equity Shareholders' Funds			722		107
			<hr/>		<hr/>

These financial statements were approved by the Board of Directors on 24 March 1997

Signed on behalf of the Board of Directors

Sir Tim Bell
Chairman

COMPANY BALANCE SHEET

31 December 1996

	Note	1996		1995	
		£'000	£'000	£'000	£'000
Fixed Assets					
Tangible assets	13		525		-
Investments	14		16,837		16,496
			17,362		16,496
Current Assets					
Debtors	15	4,421		1,910	
Cash at bank and in hand		842		2,815	
			5,263		4,725
Creditors: amounts falling due within one year	16			(882)	
					3,843
Net Current Assets			3,574		3,843
Total Assets Less Current Liabilities			20,936		20,339
Capital and Reserves					
Called up share capital	19		14,402		14,402
Share premium account	20		248		248
Merger reserve	20		3,780		3,780
Profit and loss account	20		2,506		1,909
Equity Shareholders' Funds			20,936		20,339

These financial statements were approved by the Board of Directors on 24 March 1997.

Signed on behalf of the Board of Directors

Sir Tim Bell
Chairman

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 1996

	Note	1996	1995
		£'000	£'000
Net cash inflow from operating activities	21(i)	3,696	3,335
Returns on investments and servicing of finance			
Dividends paid		(870)	(726)
Dividends received		39	-
Interest received		106	109
Interest paid		(1)	(1)
Interest element of finance leases		(75)	(92)
Net cash outflow from returns on investments and servicing of finance		(801)	(710)
Taxation			
Corporation tax paid		(1,081)	(519)
Corporation tax refund		84	44
Tax paid		(997)	(475)
Investing activities			
Sale of investment		653	-
Purchase of subsidiary companies (net of cash and cash equivalents acquired)	21(v)	(809)	(371)
Payments to acquire tangible fixed assets		(879)	(471)
Receipts from sales of tangible fixed assets		122	153
Loans repaid		216	137
Net cash outflow from investing activities		(697)	(552)
Net cash inflow before financing		1,201	1,598
Financing			
Capital element of finance leases	21(iii)	(620)	(635)
Net cash outflow from financing		(620)	(635)
Increase in cash and cash equivalents	21(ii)	581	963

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Year ended 31 December 1996

	1996	1995
	£'000	£'000
Profit for the Financial Year	2,575	1,636
Dividends	(979)	(818)
	<hr/> 1,596	<hr/> 818
Other recognised gains and losses relating to the year	(6)	-
Goodwill written off	(975)	(814)
	<hr/> 615	<hr/> 4
Net Increase in Shareholders' Funds		
Opening Shareholders' Funds	107	103
Closing Shareholders' Funds	<hr/> <hr/> 722	<hr/> <hr/> 107

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 December 1996

	1996	1995
	£'000	£'000
Profit for the financial year	2,575	1,636
Currency translations differences on foreign currency net investments	(6)	-
Total recognised gains and losses relating to the year	<hr/> 2,569	<hr/> 1,636

NOTES TO THE ACCOUNTS

Year ended 31 December 1996

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all its subsidiaries.

Turnover

Group turnover represents amounts receivable from clients, exclusive of value added tax, in respect of charges for fees, commission and rechargeable expenses.

Fees are recognised over the period of the relevant assignments or agreements. Other income is recognised when earned.

Depreciation

Depreciation is provided in equal instalments over the estimated useful lives of assets, with the exception of freehold land and buildings which are held for resale and not depreciated, using the following rates:

Short-term leasehold improvements	-	20%
Motor vehicles	-	25%
Fixtures, fittings and equipment	-	33 ¹ / ₃ %
Computer equipment	-	33 ¹ / ₃ %

Work in progress

Work in progress is stated at the lower of invoiced cost and net realisable value, net of payments received on account. Cost represents work supplied from outside the Group awaiting billing to clients at the year end.

Deferred taxation

Deferred taxation is provided on timing differences arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future, calculated at rates at which it is expected that tax will arise.

Pension costs

The pension cost is the amount of contributions payable by the Group to the defined contribution pension scheme during the accounting period.

Commitments in respect of unfunded pension schemes are recognised as a liability.

Leases

Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The excess of the lease payments over the recorded lease obligations is treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligation.

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

Vacant property costs

The full cost of vacant properties is provided at the date at which the Group ceases to occupy a particular building or part of a building. Provision is made for the period during which the directors expect the property to remain vacant.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES (CONTINUED)**Foreign exchange**

Transactions of UK companies denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

The financial statements of foreign subsidiaries are translated into sterling at the closing rates of exchange and the difference arising from the translation of the opening net investment in subsidiaries at the closing rate and matched long-term foreign currency borrowings are taken direct to reserves.

Investments

Investments held as fixed assets are stated at cost less provision for any permanent diminution in value.

Goodwill

Goodwill is written off in full to a goodwill reserve in the year of acquisition.

2. ACQUISITIONS

The following acquisitions have been accounted for by the acquisition method.

(i) Lowe Bell & Mann Communications (Pty) Limited

In September 1996 the business of Lowe Bell Africa, a South African branch of Lowe Bell Communications Limited, was transferred to a new subsidiary, Lowe Bell & Mann Communications (Pty) Limited. On 1 October 1996 Lowe Bell & Mann Communications (Pty) Limited acquired the trade of Sussens Mann Carte (Pty) Limited, a South African public relations business. The fair value of the consideration and costs relating to the acquisition totalled £837,000. An initial payment of £375,000 has been made from the Group's existing resources and two further payments of £187,500 will be made in 1997 and 1998; these payments will also be made from the Group's existing resources. The goodwill arising on acquisition is made up as follows:

Acquired business	£'000
Fair value of net assets acquired	10
Fair value of consideration	(750)
Costs of acquisition	(87)
Goodwill arising	<u>(827)</u>

In the post acquisition period from 1 October to 31 December 1996 the acquired business of Sussens Mann Carte made a small trading profit.

(ii) LMB Public Relations

On 1 May 1996 the Group acquired the business assets of LMB Public Relations. The fair value of the consideration was £127,000. An initial payment of £67,000 has been made from the Group's existing resources and a further payment of £60,000 will be made in May 1997. Costs relating to the acquisition amounted to £16,000. The fair value of the net assets acquired was £26,000, resulting in a write off of goodwill of £117,000. As this business is now a part of Green Moon Limited, it is not practicable to determine the post-acquisition results to the end of the period.

(iii) Graphiti Limited

On 25 June 1996 the Group acquired the business assets of Graphiti Design and Production (London) Limited and Basicfactor Limited. The fair value of the consideration was £58,000. An initial payment of £48,000 has been made from the Group's existing resources and a further payment will be made in 1997. Costs relating to the acquisition amounted to £16,000. The fair value of the net assets acquired was £43,000, resulting in a write off of goodwill of £31,000. Since acquisition this business has broken even.

NOTES TO THE ACCOUNTS

3. SEGMENTAL INFORMATION

Of turnover of £33,720,000 (1995 – £27,509,000), £32,988,000 arose in the United Kingdom (1995 – £27,342,000) and £732,000 arose overseas, principally in South Africa (1995 – £167,000).

All turnover relates to the Group's principal activity of public relations and related activities.

The results of the acquisitions described in Note 2 above are not significant in relation to the Group's results as a whole.

4. DIRECTORS' EMOLUMENTS AND EMPLOYEE REMUNERATION

	1996	1995
	£'000	£'000
The aggregate emoluments of the directors were:		
Salary and other emoluments	1,133	1,056
Pension contributions	85	87
	<u>1,218</u>	<u>1,143</u>

A table showing directors' emoluments is set out below:

Name	Salary and fees £	Benefits £	Bonuses £	Emoluments excluding Pension contributions £	Pension contributions £	Total	Total
						31 December 1996 £	31 December 1995 £
Sir Tim Bell*	410,000	28,672	61,500	500,172	41,000	541,172	501,532
Piers Pottinger	270,000	23,909	40,500	334,409	27,000	361,409	325,640
Mark Smith	140,000	14,394	21,000	175,394	14,000	189,394	179,991
The Rt. Hon. the Lord Carrington#	10,000	-	-	10,000	-	10,000	10,000
Alan Chamberlain#	68,950	-	-	68,950	-	68,950	67,700
Sir Ronald Grierson#	10,000	-	-	10,000	-	10,000	10,000
Roy Lister#	13,875	-	-	13,875	2,750	16,625	38,500
Julian Seymour#	10,000	-	-	10,000	-	10,000	10,000
Sir David Hannay#	10,000	-	-	10,000	-	10,000	-
Totals	<u>942,825</u>	<u>66,975</u>	<u>123,000</u>	<u>1,132,800</u>	<u>84,750</u>	<u>1,217,550</u>	<u>1,143,363</u>

* Chairman and highest paid director

Non-executive director

NOTES TO THE ACCOUNTS

4. DIRECTORS' EMOLUMENTS AND EMPLOYEE REMUNERATION (CONTINUED)

Alan Chamberlain is paid a fee of £10,000 in respect of his work as a non-executive director; the balance of his remuneration relates to work carried out by him for the Group on acquisitions and as Chairman of Lowe Bell Marketing and Events Limited.

The sums paid to Julian Seymour are in respect of consultancy fees.

The pension contributions in respect of Sir Tim Bell, Piers Pottinger, Mark Smith and Roy Lister for the year ended 31 December 1995 were £37,500, £24,750, £13,250 and £11,000 respectively.

Sir Ronald Grierson has made an advance payment of £20,000, representing one year's rent, to the Company in relation to office space which he has taken at the Company's premises in Hertford Street. He is being charged rent on an arm's length basis.

The main benefit provided by the Group to each of the executive directors consists of the provision of a fully expensed motor car.

Savings-Related Share Option Scheme

On 1 July 1996 Mark Smith was granted 22,258 share options under the Chime Communications PLC Savings-Related Share Option Scheme at 31p. According to the rules of the scheme these share options can be exercised 5 years after the date of grant.

The market price at 31 December 1996 was 33.5p and the range during 1996 was 33.5p to 45p.

	1996	1995
	£'000	£'000
Employee costs of the Group including those of the directors were as follows:		
Wages and salaries	10,909	8,982
Social security costs	1,096	939
Other pensions costs	624	530
	<u>12,629</u>	<u>10,451</u>

The average number of persons employed during the period was 265 (1995 – 207).

5. COST OF SALES AND ADMINISTRATIVE EXPENSES

	1996	1995
	£'000	£'000
Cost of sales	11,212	8,922
Administrative expenses	<u>19,473</u>	<u>16,080</u>

NOTES TO THE ACCOUNTS

6. EXCEPTIONAL PROFIT

	1996	1995
	£'000	£'000
Profit on disposal of fixed asset investment	619	-

7. INTEREST PAYABLE AND SIMILAR CHARGES

	1996	1995
	£'000	£'000
Other loans	1	1
Finance leases	77	101
	<u>78</u>	<u>102</u>

8. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1996	1995
	£'000	£'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of owned tangible fixed assets	379	216
Depreciation of assets held under finance leases	509	452
Auditors' remuneration	61	57
Other fees paid to auditors	33	32
Rentals under operating leases – Property	1,143	969
Profit on disposal of tangible fixed assets	<u>(71)</u>	<u>(41)</u>

In addition to the amounts charged to the profit and loss account in the year ended 31 December 1996 £27,000 (1995 – £6,000) was paid to Deloitte & Touche and charged to reserves in connection with acquisitions made during the year.

NOTES TO THE ACCOUNTS

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1996	1995
	£'000	£'000
Corporation tax at 33% (1995 – 33%)	1,269	976
Prior year adjustment	(121)	(96)
	<u>1,148</u>	<u>880</u>

The tax charge is disproportionate in relation to profit due to costs in the period which did not qualify for tax relief, offset in part by the utilisation of capital losses not previously recognised in the accounts.

10. PROFIT OF PARENT COMPANY

The profit and loss account of the Company is not presented as part of these accounts. The Company's profit after tax for the year amounted to £1,576,000 (1995 – profit £1,880,000).

11. EQUITY DIVIDENDS

	1996	1995
	£'000	£'000
Interim – paid 0.55p (1995 – 0.46p) per ordinary share	317	265
Final proposed 1.15p (1995 – 0.96p) per ordinary share	662	553
	<u>979</u>	<u>818</u>

12. EARNINGS PER ORDINARY SHARE

	1996	1995
	£'000	£'000
Earnings per share	4.5p	2.8p
Adjustment for profit on sale of investment	(1.1p)	-
Adjusted earnings per share	<u>3.4p</u>	<u>2.8p</u>

The calculation of earnings per ordinary share is based on the profit of £2,575,000 (1995 – profit £1,636,000) and on an average of 57,607,403 (1995 – 57,607,403) ordinary shares in issue during the year. No material dilution of earnings per share would arise if all outstanding share options were exercised. An additional earnings per share figure has been provided adjusting for the exceptional profit arising on the sale of an investment.

NOTES TO THE ACCOUNTS

13. TANGIBLE FIXED ASSETS

The Group	Freehold land and buildings	Short-term leasehold improve- ments	Motor vehicles	Fixtures, fittings, and equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 1996	1,599	1,124	1,736	2,066	6,525
Acquisitions	-	-	6	73	79
Additions	-	299	306	547	1,152
Disposals	-	(531)	(244)	(553)	(1,328)
At 31 December 1996	1,599	892	1,804	2,133	6,428
Depreciation					
At 1 January 1996	1,074	831	756	1,406	4,067
Charge for the year	-	92	398	398	888
Disposals	-	(531)	(193)	(553)	(1,277)
At 31 December 1996	1,074	392	961	1,251	3,678
Net book value					
At 31 December 1996	525	500	843	882	2,750
At 31 December 1995	525	293	980	660	2,458

The net book value of motor vehicles and of fixtures, fittings and equipment includes £652,000 (1995 – £797,000) and £226,000 (1995 – £317,000) respectively in respect of assets held under finance leases.

NOTES TO THE ACCOUNTS

13. TANGIBLE FIXED ASSETS (CONTINUED)

	Freehold land and buildings £'000
The Company	
Cost	
At 1 January 1996	-
Transfers in	525
At 31 December 1996	<u>525</u>
Depreciation	
At 1 January 1996 and 31 December 1996	<u>-</u>
Net book value	
At 31 December 1996	<u>525</u>
At 31 December 1995	<u>-</u>

14. INVESTMENTS HELD AS FIXED ASSETS

	Trade investments - unlisted £'000
The Group	
Cost	
At 1 January 1996	44
Disposals	(34)
At 31 December 1996	<u>10</u>

NOTES TO THE ACCOUNTS

14. INVESTMENTS HELD AS FIXED ASSETS (CONTINUED)

The Company	Loans to group undertakings	Equity interest in subsidiaries	Trade investments – unlisted	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 1996	-	16,462	34	16,496
Disposals	-	-	(34)	(34)
Additions	375	-	-	375
At 31 December 1996	375	16,462	-	16,837

Investments held by the Company represent shares held in subsidiary companies. In the opinion of the directors, the value of the Company's investment in its subsidiaries is not less than the value at which it is shown in the balance sheet.

The Group's principal trading subsidiaries, in all of which the Group holds 100% of the ordinary share capital, and which are all incorporated in Great Britain (except where noted) are listed below:

Low Bell Communications Limited	- Public Relations
Low Bell Financial Limited	- Financial Public Relations
Low Bell Political Limited	- Government Relations
Low Bell Good Relations Limited	- Public Relations
Low Bell Marketing and Events Limited	- Property Marketing and Event Management
Low Bell & Mann Communications (Pty) Limited*	- Public Relations
Green Moon Limited	- Consumer Public Relations
The Smithfield Design Group Limited	- Design and Print Consultants
First Financial Advertising Limited	- Financial Advertising and Public Relations
Graphiti Limited (formerly Smithfield Design Limited)	- Typesetting and Pre-Press Production

*Incorporated in South Africa

These companies operate principally in the country of incorporation.

NOTES TO THE ACCOUNTS

15. DEBTORS

	The Group		The Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Trade debtors	6,386	5,380	-	-
Amounts owed by Group undertakings	-	-	4,092	1,317
Other debtors	510	529	53	267
Prepayments and accrued income	575	452	3	6
Tax recoverable	498	320	273	320
	<u>7,969</u>	<u>6,681</u>	<u>4,421</u>	<u>1,910</u>
Due within one year	7,804	6,537	4,256	1,766
Due after more than one year	165	144	165	144
	<u>7,969</u>	<u>6,681</u>	<u>4,421</u>	<u>1,910</u>

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group		The Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Trade creditors	2,019	1,581	-	-
Amounts owed by Group undertakings	-	-	619	-
Other creditors	1,305	1,453	39	39
Obligations under finance leases	459	510	-	-
Corporation tax and social security	2,005	1,668	244	142
Accruals and deferred income	6,423	5,249	125	148
Dividends payable	662	553	662	553
	<u>12,873</u>	<u>11,014</u>	<u>1,689</u>	<u>882</u>

17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	The Group	
	1996	1995
	£'000	£'000
Obligations under finance leases (payable between two and five years)	<u>308</u>	<u>435</u>

NOTES TO THE ACCOUNTS

18. PROVISIONS FOR LIABILITIES AND CHARGES

	The Group		
	Provision	unfunded	
	for vacant	pension	
	property	liability	Total
	£'000	£'000	£'000
At 1 January 1996	154	144	298
Utilised in year	(139)	(24)	(163)
At 31 December 1996	15	120	135

No provision has been made for deferred tax as there are potential deferred tax assets of £307,000 (1995 – £173,000) relating to timing differences on capital allowances which have not been recognised.

19. CALLED UP SHARE CAPITAL

Ordinary shares of 25p each

	Number	Nominal value £'000
Authorised at 1 January and 31 December 1996	74,693,000	18,673
Issued, called up and fully paid at 1 January and 31 December 1996	57,607,403	14,402

Options have been granted to employees of the Group to purchase ordinary shares of 25p each, as follows:

	Number of ordinary shares of 25p each at			Period	Price to be
	1 January 1996	Granted in the year	At 31 December 1996	during which options may be exercised	paid on the exercise of options
Executive Share Option Scheme	1,340,000	-	1,260,000	Oct 1997 – Sept 2004	32p
Executive Share Option Scheme	140,000	-	140,000	May 1998 – April 2005	30p
Executive Share Option Scheme	-	215,000	215,000	Oct 1999 – Sept 2006	37.5p
Savings-Related Share Option Scheme	824,532	-	727,360	July 2000 – Dec 2000	24p
Savings-Related Share Option Scheme	-	400,623	398,398	July 2001 – Dec 2001	31p

No share options were exercised during the year. Reductions during the year were due to lapsed options as employees left the Company.

NOTES TO THE ACCOUNTS

20. STATEMENTS OF MOVEMENTS ON RESERVES

	Share premium account	Merger reserve	Goodwill reserve	Profit and loss account	Total
The Group	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 1996	248	1,150	(15,176)	(517)	(14,295)
Retained profit for the year	-	-	-	1,596	1,596
Arising on acquisition	-	-	(975)	-	(975)
Foreign exchange difference	-	-	-	(6)	(6)
Balance at 31 December 1996	248	1,150	(16,151)	1,073	(13,680)

The total amount of goodwill written off against reserves, including amounts shown in the goodwill reserve, in respect of the Group's current subsidiaries, is £19,931,000 (1995 – £18,956,000).

	Share premium account	Merger reserve	Profit and loss account	Total
The Company	£'000	£'000	£'000	£'000
Balance at 1 January 1996	248	3,780	1,909	5,937
Retained profit for the year	-	-	597	597
Balance at 31 December 1996	248	3,780	2,506	6,534

NOTES TO THE ACCOUNTS

21. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(i) Reconciliation of operating profit to net cash inflow from operating activities

	1996	1995
	£'000	£'000
Operating profit	3,035	2,507
Depreciation	888	668
Profit on sale of tangible fixed assets	(71)	(41)
Increase in work in progress	(57)	(239)
Increase in debtors	(1,326)	(308)
Increase in creditors	1,390	915
Decrease in provisions	(163)	(167)
Net cash inflow from continuing operating activities	<u>3,696</u>	<u>3,335</u>

(ii) Analysis of changes in cash and cash equivalents during the year

	1996	1995
	£'000	£'000
Cash at bank and in hand		
Balance at 1 January	1,988	1,025
Net cash inflow	581	963
Balance at 31 December	<u>2,569</u>	<u>1,988</u>

(iii) Analysis of changes in financing during the year

	Share capital, including share premium and merger reserve	Loans and finance lease obligations
	£'000	£'000
Balance at 1 January 1996	15,800	944
Inception of finance leases	-	443
Repayment of finance leases	-	(620)
Balance at 31 December 1996	<u>15,800</u>	<u>767</u>

NOTES TO THE ACCOUNTS

21. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(iv) Purchase of subsidiary companies

	1996	1995
	£'000	£'000
Assets and liabilities acquired		
Tangible fixed assets	79	59
Debtors	-	148
Cash at bank and in hand	-	30
Creditors	-	(413)
Net assets acquired	79	(176)
Goodwill	975	814
Consideration	1,054	638
Satisfied by:		
Cash paid (net of tax)	609	438
Deferred consideration	445	200
	1,054	638

During the year the Group paid £200,000 in respect of the deferred consideration payable for the acquisition of KBH Communications Limited in November 1995.

The businesses acquired during the period contributed £64,000 (1995 – £42,000) to the Group's net operating cash flows, received £nil (1995 – £7,000) in respect of net returns on investments and servicing of finance and used £49,000 (1995 – £1,000) for investing activities.

(v) Analysis of net outflow of cash and cash equivalents in respect of the purchase of subsidiary companies:

	1996	1995
	£'000	£'000
Cash consideration	809	401
Cash at bank and in hand acquired	-	(30)
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	809	371

NOTES TO THE ACCOUNTS

22. OPERATING LEASE COMMITMENTS

At 31 December 1996, the Group was committed to making the following payments during the next year in respect of property operating leases.

	1996	1995
	£'000	£'000
Leases which expire: Over five years	1,143	1,143

None of the above amounts have been provided for at 31 December 1996.

23. CAPITAL COMMITMENTS

At 31 December 1996 the Group had no capital commitments.

24. PENSION SCHEMES

The Group operates the following pension schemes.

- (i) A defined contribution pension scheme for the benefit of the majority of employees. This is an independently administered fund, the assets of which are held separately from those of the Group.
- (ii) A defined benefit pension scheme for employees of the Company and its subsidiaries prior to 31 March 1994. The last actuarial valuation of the scheme was at 1 October 1992 and the principal assumptions used were an investment return of 9 per cent per annum and salary increases of 7 per cent per annum. At 1 October 1992 the market value of the scheme's assets was £673,000. A review of the scheme at 31 March 1994 concluded that the scheme was fully funded. The scheme relates entirely to former employees of the Group and no further contributions are being made to the scheme. The Company has been advised that the current value of the fund should cover any expected future liabilities. The Scheme is currently being wound up and this is expected to be completed during 1997.
- (iii) The Group pays ex gratia pensions to three former employees. Full provision for the actuarially calculated liabilities was made in the year ended 31 March 1994.

25. POST BALANCE SHEET EVENTS

On 25 February 1997 the Company sold its freehold property for £575,000 net of expenses of disposal. At 31 December 1996 this property was held in the Group's balance sheet at a value of £525,000.

FINANCIAL CALENDAR

19 May 1997	Ex-Dividend date for 1996 final dividend
23 May 1997	Record date for 1996 final dividend
19 June 1997	Annual General Meeting
26 June 1997	Payment date for 1996 final dividend
September 1997	Announcement of 1997 interim results
November 1997	Payment of half-yearly dividend based on interim results
March/April 1998	Announcement of preliminary results for 1997

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Chime Communications plc will be held at The Pavilion Suite, The Dorchester Hotel, Park Lane, London W1A 2HJ at 9.00 a.m. on 19th June 1997 for the transaction of the following business:

ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and Accounts for the year ended 31st December 1996 and the Report of the Auditors thereon.
2. To re-elect Sir Ronald Grierson as a Director of the Company.
3. To re-elect Julian Seymour as a Director of the Company.
4. To declare a final dividend on the Company's Ordinary Shares in respect of the year ended 31st December 1996.
5. To re-appoint Deloitte & Touche, Chartered Accountants, as Auditors of the Company and to authorise the Directors to fix their remuneration.

SPECIAL BUSINESS

To consider and if thought fit, pass the following resolutions as an Ordinary Resolution in the case of resolution 6 and as a Special Resolution in the case of resolution 7.

6. THAT the Board be and it is hereby generally and unconditionally authorised in substitution for all subsisting authorities to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Companies Act 1985) up to an aggregate nominal amount of £3,586,209 PROVIDED THAT this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.
7. THAT, subject to the passing of the previous resolution, the Board be and it is hereby empowered pursuant to section 95 of the Companies Act 1985 to allot equity securities (within the meaning of section 94 of the said Act) for cash pursuant to the authority conferred by the previous resolution as if sub-section (1) of section 89 of the said Act did not apply to any such allotment, PROVIDED THAT this power shall be limited;
 - (i) to the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interest of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them (subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or requirements of, any recognised regulatory body or any stock exchange in any territory or otherwise howsoever); and
 - (ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal amount of £683,313;and shall expire upon the renewal of this power or, if earlier, at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

Registered office:

46 Hertford Street
London W1Y 8AX

By order of the Board
M W Smith

Secretary
1 May 1997

GENERAL NOTES

A Member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him/her. A proxy need not be a Member of the Company. A form of proxy is enclosed.

The register of Directors' shareholdings and copies of Directors' Service Contracts are available for inspection at the registered office of the Company during usual business hours on any weekday and will be available at the Meeting from 15 minutes prior to the commencement of the Meeting until its conclusion.

If you would like to know more about our services
please contact our New Business Director
Bertie Way on 0171-495 4044

CHIME COMMUNICATIONS

PLC

46 HERTFORD STREET

LONDON W1Y 8AX

TELEPHONE 0171-495 4044

CHIME COMMUNICATIONS
— P L C —

the holding company of

LOWE BELL COMMUNICATIONS



LOWE BELL CONSULTANTS



LOWE BELL FINANCIAL



LOWE BELL GOOD RELATIONS



LOWE BELL POLITICAL



LOWE BELL MARKETING AND EVENTS



LOWE BELL INTERNATIONAL



LOWE BELL & MANN



GREEN MOON



FIRST FINANCIAL



SMITHFIELD DESIGN