

CHIME COMMUNICATIONS

PLC

Communications

Advertising

Research

Annual report and accounts 1998

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Financial highlights

- Operating profit up 113% to £7.8 million (1997 – £3.7m)
- Operating income up 73% to £48.8 million (1997 – £28.3m)
- Dividend per share up 17%
- Earnings per share up 21%
- Operating profit margin up to 16% from 13%
- Continued cash generation – cash balances of £6.5 million
- Acquisitions deliver outstanding performance
- Underlying business still growing at a healthy rate
- More blue chip companies added to client list
- Continued involvement of Group companies in high profile activities

£7.8m

£48.8m

16%

21%

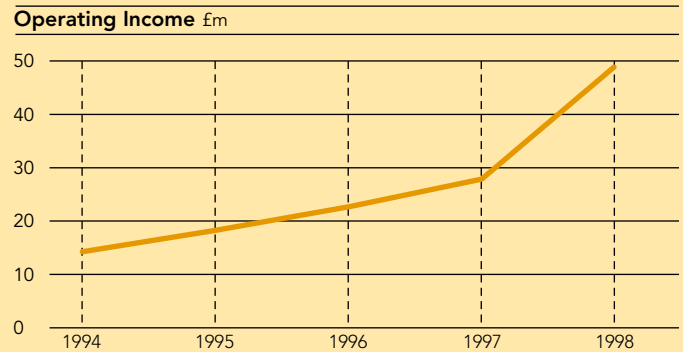
17%

£6.5m

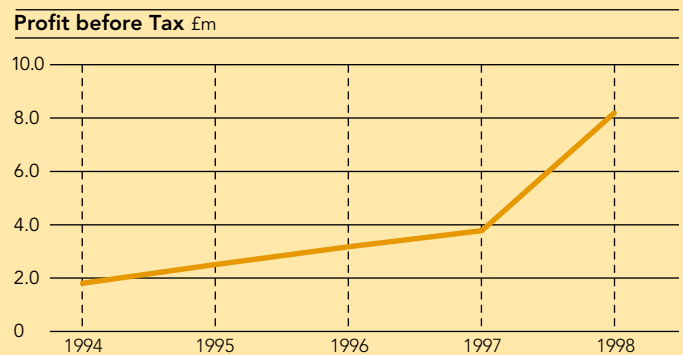
Chairman's statement

“1998 has been our most successful year so far...”

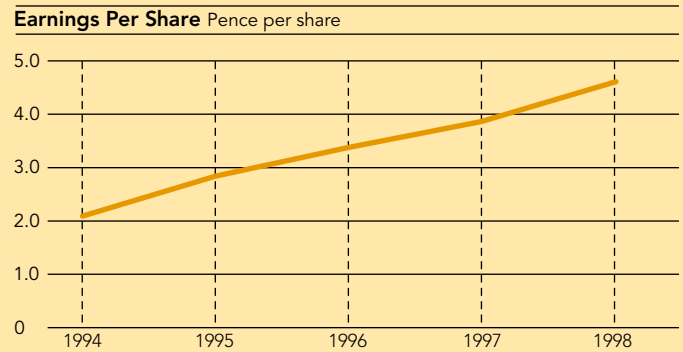
- Operating income grew by 73%



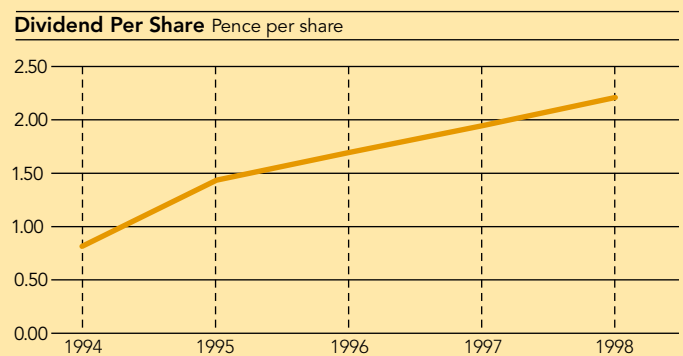
- Profit before tax grew by 118%



- Earnings per share grew by 21%



- Dividend per share grew by 17%



The merger with the HHCL Group and our acquisitions of Opinion Leader Research and AMD have made a major contribution to these record results. All achieved profits well ahead of our expectations at the time of acquisition.

Our public relations business changed its name from Lowe Bell Communications to Bell Pottinger Communications at the beginning of 1998 and had another very successful year.

The Group acted for 795 clients in 1998 compared to 675 in 1997 and 579 in 1996. 61% (1997 – 58%) of our operating income comes from retained clients. No client represented more than 5% of total operating income. 147 (1997 – 124) of our clients used more than one of our companies and 54 clients used more than two of our companies.

We said at the end of 1997 that we would focus on improving our operating profit margin. It has increased to 16% (1997 – 13%). Our publicly quoted competitors have reported a range of margin levels between 8.6% and 17.1%. We believe there is scope for further improvement but we are at the top level of achievement in the industry.

Overview

1998 was a very good year. The merger with HHCL has been completed and the agency is now in the Top 20 in the UK. Opinion Leader Research and AMD, our most recent acquisitions, have already proven very successful. They have achieved their deferred payment targets well ahead of schedule.

We are seeing an increase in the number of clients who use more than one of our companies, which is an important trend because it helps to improve our margin and strengthen our relationships.

Importantly we have won public relations contracts from existing advertising clients and we have won a number of new research contracts from existing public relations and advertising clients.

Major new clients won include Cornwall County Council, Prudential Banking (launch of Egg), the RAC, Swiss Re, Asda Property Holdings, BP Amoco, the Thoroughbred Breeders' Association, the CBI, COI/Welsh Assembly, the World Trade Centre, Fairview New Homes, Annington Homes (Purchaser of the MOD's UK residential property portfolio), Giorgio Armani and Cacharel Fragrances, Friends Provident, the England & Wales Cricket Board, Hays DX, Unisys, ITV, Birds Eye Ready Meals, Thomson Holidays, Iceland Frozen Foods, Bass Taverns, BAA, SmithKline Beecham, Enterprise Oil and The Prince's Trust.

Some of the high profile events on which we advised included the merger of Daimler Benz and Chrysler which was, at the time, the world's largest industrial merger.

We also advised on the merger of General Accident and Commercial Union, the BSkyB bid for Manchester United, the disposal of Polygram Film Entertainment, the sale of Rothmans to BAT, the launch of Sky Digital, the launch of Tesco's SchoolNet 2000 (the largest educational web site in the world), WHSmith's acquisition of the John Menzies high street retail chain, TV Licensing on the launch of their new detection technology, and the campaign for ENIC which successfully reversed a UEFA decision regarding multi-club ownership in football.

We successfully launched GO for British Airways and Egg for Prudential. We relaunched ITV, Pearl Assurance and Thomson Holidays and helped to achieve an all time record membership high for the Automobile Association.

Chairman's statement continued

Acquisitions

We have continued to make acquisitions which increase the range of services we can offer our clients or which can be merged with one of our existing businesses to improve their performance.

In December 1997 we set up Interactive Bureau, a partnership with Interactive Bureau in New York. They have launched a number of highly praised web sites on the internet and are already making profits.

In March 1998 we acquired Keith McDowall Associates, a public affairs and corporate public relations consultancy.

In June 1998 we acquired Opinion Leader Research, one of the UK's leading and fastest growing research companies.

In June 1998 we also acquired Michael Humphreys & Partners, a sports public relations and sponsorship agency.

As I said earlier, I am delighted to report that HHCL, AMD and Opinion Leader Research have all achieved profit levels which have enabled us to pay them the maximum deferred consideration. These deferred considerations totalled £7.75 million and were paid in March and April 1999. The Group has no further major deferred consideration liabilities.

Liquidity

The Group continued to generate cash during 1998 and at the end of the year there were cash balances (excluding amounts used to guarantee loan notes) of £6.5 million (1997 – £6.7 million).

The Group had no borrowings other than £268,000 (1997 – £837,000) owed under finance leases.

The payment of £7.75 million in deferred considerations in the first half of 1999 may cause the Group to temporarily use some of its

£3 million overdraft facility. However it is expected that by the end of 1999 the Group will have net cash.

Year 2000

A comprehensive review of the likely impact of the Year 2000 on the Group's systems and business was carried out in 1998 and as a consequence our Information Technology and Communications Strategy was accelerated.

We do not believe that there will be any significant internal operational risks arising from the Year 2000. The additional cost of the work relating to the Year 2000 is not material.

Dividend

The Board recommends an increase of 22% in the final dividend to 1.52p net per share making a total of 2.22p per share for 1998, a 17% increase over 1997. The Group has followed a dividend policy of twice cover since 1994.

Looking Ahead

1999 has started well and we have won several new accounts including Sega Europe, Goldman Sachs, Storehouse, The Guide Association, Youth Justice Board, Compaq Computers, Hartwell, Sci-Fi Channel and projects for Carphone Warehouse/Tandy, Littlewoods and Eastern Energy.

In 1999 we have handled the launch of the Nike/Youth Sport Trust 'Girls in Sport' Partnership and acted for English China Clays in their defence and subsequent recommended offer from Imetal, Sun Life on its acquisition of GRE, Delancey Estates in their bid for Greycoat, Applied Graphics Technologies in their bid for Wace Group, and Enterprise Oil on their exploratory discussions with Lasmo. We have

also handled the successful relaunch of Iceland Frozen Foods.

We have registered the domain name e-communications.co.uk worldwide as we start to develop a new stream of services, advising and implementing on the internet and other digital technologies.

We believe we are well positioned for organic growth and for continuing our policy of acquiring businesses which either increase the range of services we can offer our clients or which can be merged with one of our existing businesses to improve their performance.

There was a slow down in activity in the last quarter of 1998 but business has picked up in 1999. In order to properly manage our way through the predicted recession at the end of 1998 we set up a process of monthly consultations with our senior management about their business expectations. The survey we carried out in the first quarter showed that fears of a serious recession had subsided and there was a more positive outlook for the overall economy.

We expect conditions to improve as the year progresses and we look forward to a very satisfactory outcome for the year.

Finally I would like to thank all our staff and shareholders for their continued support.

A handwritten signature in black ink, appearing to read 'Lord Bell', written in a cursive style.

Lord Bell
Chairman

Numbers matter

The numbers that make up the numbers

21

Businesses

- HHCL & Partners
 - Environment Marketing
 - Response Marketing
- In Real Life
- Bell Pottinger Consultants
- Bell Pottinger Financial
- Bell Pottinger Public Affairs
- Green Moon
- First Financial
- Meropa Communications
- Michael Humphreys & Partners
- Bell Pottinger Good Relations
- Smithfield Financial
- Bell Pottinger Healthcare
- Keith McDowall Associates
- Opinion Leader Research
- AMD
- Smithfield Design
- Bell Pottinger Marketing & Events
- Graphiti
- IAB

516

Shareholders

190 employees are shareholders or option holders

325

Female employees

29.8%

WPP stake in Chime

634

PCs

18

Offices

With 102,830 sq ft total space

32%

Staff with shares

or options to buy (representing 32.7% of company equity)

56%

Employees with degrees

2.3 million

Miles
Travelled on client business

£1.6 trillion

Market capitalisation
of all our publicly quoted clients

9.2 million

Minutes
Spent on the telephone for or
with clients

393

Clients
in 1989

16

795

Clients
in 1998, of whom 25 held for 10
years and 105 for 5 years

Services

Chime represents a powerful group of companies which can deliver unrivalled communications expertise in every area a client is likely to need. Collective excellence, individual flair.

- Strategic communications consultancy
- Corporate & product brand strategies
- Reputation management
- Business to business communications
- Corporate, consumer & property advertising
- Media relations
- Financial and investor relations
- Employee communications
- Government & political relations
- Regulatory affairs
- Qualitative & quantitative research
- Digital communications consultancy
- Web site design & management
- Event management
- FMCG marketing & public relations
- Design consultancy and product management

587

Employees
with 4,060 years of experience in the business, of which 1,859 years are within Chime.

38

FTSE 100 clients
of whom 13 are in the top 25

Company activities

Chime Communications is one of Britain's leading communications groups, with a growing list of blue chip clients. We hire the best people, we strive for best practice and are involved in a wide range of high profile activities.

Chime Communications is about collective excellence through individual flair. We provide a level of experience rarely matched in our industry. The pages that follow describe the activities of our businesses, some of our new client gains, and some of our achievements on behalf of our clients.

Our businesses are:

Communications

- **Bell Pottinger Communications**
- **The Good Relations Group**
- **The AMD Group**

Advertising

- **HHCL & Partners**

Research

- **Opinion Leader Research**

2+20

We are the 2nd biggest public relations company and the 20th largest advertising agency in the UK.
Source: *PR Week and Campaign*.

Bell Pottinger Communications

Bell Pottinger Consultants
Bell Pottinger Financial
Bell Pottinger Public Affairs
Green Moon
First Financial
Michael Humphreys & Partners
Meropa Communications
Digital Strategy

Bell Pottinger Consultants

A team of senior consultants with years of experience in advising chairmen and chief executives, in running consultancies and in managing complex global communications projects.

New Clients

Included RAC Holdings, Polygram Filmed Entertainment, ENIC, Cornwall County Council, PPP, Azerbaijan International Operating Company, KPMG Global Markets, Swiss Re, Storehouse, Nike, the Princess Diana Memorial Fund, Goldman Sachs, Acclaim and Sega Europe.

Some of our Successes

- Advised on the merger between Daimler Benz and Chrysler.
- Protected the reputation of Polygram Filmed Entertainment during the sale of its parent company Polygram to Seagram.
- Managed a successful campaign for ENIC to counter UEFA's challenge to multi-club ownership in football.
- Campaigned for Cornwall County Council to win Objective One funding from the European Commission.
- Developed a new brand and communications strategy for the company that won the bid to own and manage over 700 DSS offices nationwide. The new Trillium Group was launched on 1 April 1998.
- Advised Nomura International on the sale of Angel Train Contracts to The Royal Bank of Scotland.
- Helped KPMG with an internal communications programme to deliver integrated global services to their top 100 clients.
- Advised the Brunei Government on the highly successful state visit by Her Majesty the Queen and HRH the Duke of Edinburgh.
- Advised BSkyB on the launch of Sky Digital.

People

Kevin Murray joined the company from British Airways, where he was Director of Communications and Alan Hamerman joined from research company Gould, Greenberg, Carville.

Sky Digital has 550,000 subscribers already. The fastest digital launch anywhere in the world.

550,000

Company activities continued

Bell Pottinger Financial

The City's leading financial and investor relations advisers.

New Clients

RAC Holdings, Asda Property Holdings, Liberty, Swiss Re, Waste Recycling, Asset Guaranty, Sun Life and Provincial Holdings, Delancey Estates and Moorfield Estates.

Some of our Successes

- Advising Investcorp on its successful acquisitions of Watmoughs and The British Printing Corporation.
- Helping to launch News Corp Europe.
- Acting for Richemont in the sale of Rothmans to BAT.
- Advising on the launch of Sky Digital.
- Advising Sun Life on its acquisition of GRE.
- Advising on the merger of General Accident with Commerical Union.
- Worked for RAC Holdings on the sale or flotation of RAC Motoring Services.
- £75 billion, value of mergers and acquisitions handled in 1998.

People

Matthew Moth, previously Corporate Affairs Director of Taylor Woodrow, joined the company.

Directors John Antcliffe and John Kiely were asked to form the Group's second financial public relations business under the name of Smithfield Financial.

Mark Herbert rejoined the company after a period with TI Group.

Bell Pottinger Public Affairs

An all party team of senior government relations consultants.

New Clients

ASDA, Cornwall County Council, Enterprise Oil, The Guides Association, Institute of Trademark Agents, Securities Institute, Kvaerner, Outdoor Advertising Association, RAC, Swiss Re, TEG Environmental and the Thoroughbred Breeders' Association.

Some of our Successes

- Launched Nike's 'Girls in Sport' campaign with the full support of government ministers from the Department of Culture, Media and Sport, and the Department for Education and Employment.
- Helped London Clubs International persuade the government to reduce proposed gaming duties by £2.4m per annum.
- Helped Cornwall County Council to successfully qualify for European Objective One funding, potentially worth hundreds of millions of pounds.
- Helped the Quarry Products Association in their campaign to persuade the government not to introduce an industry wide aggregates tax.
- Helped the Chamber of Shipping in their campaign to persuade the government to hold an independent inquiry into the introduction of major fiscal incentives to revitalise the British merchant fleet.

People

Joined by Amanda Francis, former adviser to Mo Mowlam MP, and by Cathy McGlynn, former Special Adviser to Dr Jack Cunningham MP as Minister of Agriculture and then Minister for the Cabinet Office and Chancellor of the Duchy of Lancaster

£75 billion

Value of mergers and acquisitions handled in 1998.

A successful campaign to prevent the government from imposing an industry wide aggregates tax on behalf of Quarry Products.

0%

Green Moon

Consumer public relations advisers with in-depth experience of product and corporate brand-building.

New Clients

Sagitta Asset Management, Giorgio Armani and Cacharel Fragrances, Rayovac Batteries, Lucozade Energy, Lucozade Low Calorie and Efamol.

Some of our Successes

- An event programme supporting Sagitta's first year of sponsorship of the Guineas Festival at Newmarket.
- High profile fashion event with Carla Bruni celebrating the partnership between Highclere Thoroughbred Racing and Chopard Jewellery.
- A highly visible campaign for TV Licensing supporting the launch of new detection technology.

People

Simon Ewart has rejoined us after two years with Hill & Knowlton.

First Financial

A leading public relations and advertising agency specialising in the personal and corporate financial services markets.

New Clients

AXA Insurance, BWD Rensburg Unit Trust Managers, Friends Ivory & Sime, Royal & SunAlliance Life & Pensions and The Income Drawdown Advisory Bureau.

Some of our Successes

- The public relations launch of Egg, Prudential's radical new e-commerce based financial services.
- Reinforcing the Annuity Bureau's positioning as the reference company for annuities and annuity issues.
- Launching and establishing the Income Drawdown Advisory Bureau as the leading operator in income drawdown and phased retirement.
- A strongly branded high profile advertising campaign helped ensure that Jupiter Asset Management had their best ever PEP season.

There are 23.8 million TV set owners in Britain, of whom 22 million are licence holders. Our campaign helped to launch new technology detection equipment aimed at the 1.8m evaders.

1st

The advertising for Jupiter Asset Management won 1st Prize for 'Creative Marketing and Advertising' at the Financial Advertiser's Provider of the Year Awards 1999

22 million

Company activities continued

Michael Humphreys & Partners

A sports marketing and media relations company, Michael Humphreys & Partners became part of the Bell Pottinger Group in July 1998.

New Clients

Loftus Road, Crystal Palace, ENIC, Investec UK, Unisys, British Ski & Snowboard Federation, British Horseracing Board and Rugby World Cup Hospitality.

Some of our Successes:

- A fifteen year campaign completed for Texaco sponsorship of International One Day Cricket.
- The campaign for ENIC which reversed a UEFA decision regarding multi-club ownership in football (in conjunction with Bell Pottinger Public Affairs).
- The rebranding of snooker to modernise its image and enhance its sponsorship opportunities.
- The appointment to work on Rugby World Cup accreditation and media ticketing in conjunction with IT supplier Unisys.
- Media management and PR for the 1998 European Swimming Championships.
- Increasing coverage of British competitive skiing in the UK media.

10 lengths

Digital Strategy

Adviser on the use of new digital media.

New Clients

Financial Times Television, Philips Electronics, BSkyB, British Interactive Broadcasting and The Information Service.

Some of our Successes

- Created a business plan for an interactive television channel for Financial Times Television.
- Designed and developed communications software to bring clients and agencies together wherever they are in the world, 24 hours a day.
- Created a plan for Philips Electronics for a global radio network distributed over the internet.
- Helped launch BSkyB's digital television service.
- Advised The Information Service on the launch of its free internet access service.

People

Digital Strategy is headed by Alan Griffiths who was formerly Head of Multimedia for BBC News and was responsible for creating the BBC News web site.

Meropa Communications

South Africa's leading public relations and communications consultancy.

New Clients

The Premier of Gauteng, Partnership against Aids for President-elect Thabo Mbeki, Water Week for the Department of Water Affairs, the German Submarine Consortium, Spicer Holdings, Oracle SA and Pfizer Laboratories SA.

Some of our Successes

- The only South African agency used by the US government for the visit of the US President for the opening of the Ronald H Brown centre in Johannesburg.
- Ran Pregnancy Education Week for Procter & Gamble.
- Created two new divisions specialising in healthcare and information technology.

15,000

South Africa's President Nelson Mandela and Mozambique's President Joaquim Chissano addressed a launch that we ran on behalf of Trans African Concessions. The event was attended by 15,000 guests and was nominated for an 'Oscar' by the International Special Events Society. (The only time a South African event has ever been nominated).

There's little to do with sport we don't take a passionate interest in. We helped to crisis manage swimming's response on drug issues and an ASA investigation into possible fraud by an outside agent. We also kept swimming a compulsory part of the national curriculum.

\$350,000,000,000

Estimated value of global online commerce by 2002.

The Good Relations Group

Smithfield Financial
Bell Pottinger Good Relations
Bell Pottinger Healthcare
Keith McDowall Associates

Smithfield Financial

Specialist investor and financial public relations advice to large UK and international companies, particularly in the areas of mergers and acquisitions and global equity offerings.

Clients

Bank of Ireland, Billiton, English China Clays, Enterprise Oil, Enron Corp, Scottish & Newcastle, Stagecoach, HP Bulmer, L'Oréal and National Power.

Some of our Successes

- Advising Enron Corp on its acquisition of Wessex Water.
- Advising Stagecoach on its acquisition of Hong Kong bus operator, Citybus Group.
- Advising English China Clays on the recommended offer by Imetal.

People

Smithfield Financial was launched in October 1998 with John Antcliffe, John Kiely and Michael Oke as the founding directors. Andrew Hey joined as a director in April 1999. He was formerly a director at Dewe Rogerson.

\$100 billion

Before joining Smithfield Financial, Andrew Hey specialised in privatisations and share offers – in total worth in excess of \$100 billion.

Company activities continued

Bell Pottinger Good Relations

A full service public relations company covering the corporate, consumer, business to business, property and trade sectors.

New Clients

British Interactive Broadcasting, BP Amoco, International League for the Protection of Horses, Prudential Banking (Egg), Swiss Re – new HQ for Baltic Exchange site, COI/Welsh Office, National Assembly for Wales campaign, Roland (UK), Arsenal FC, Southend United FC, Leicester City FC, Blackfriars Investments, Allied London Properties, Bracknell Town Leisure, Proderm Sunscreen and Hazlewood Foods.

Some of our Successes

- Ongoing work with Pantene included the Pantene Model Search.
- Launch of the official Diana, Princess of Wales Crown for the Royal Mint.
- Achieved planning consent for a new 40,000 seater stadium and associated retail uses for Leicester City Football Club.
- Additional international work for Philips, our largest client.
- Launched the campaign on behalf of the COI and the Welsh Office to inform the electorate about the powers of the new National Assembly for Wales, to encourage people to vote, and to explain the new voting system.
- Launched Open ... Britain's first national interactive television channel.
- Repositioned Britain's fastest growing health & fitness group, LA Fitness.

People

David Hill, formerly Chief Media Spokesman for the Labour Party, joined as a director.

Bell Pottinger Healthcare

A full service healthcare team for the ethical pharmaceutical, over-the-counter and allied healthcare sectors. Re-named Bell Pottinger Healthcare in January 1999 from Green Moon Healthcare.

New Clients

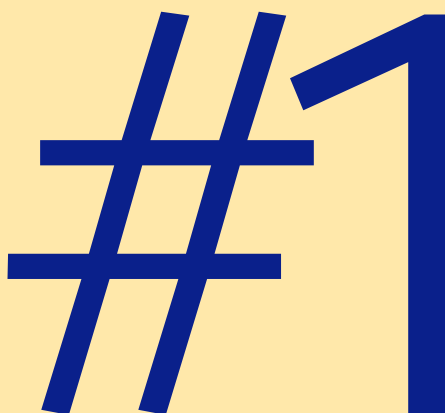
Nutricia Dietary Care.

Some of our Successes

- Facilitated a group of opinion leaders to produce recommendations for minimum standards of healthcare in children with cerebral palsy.
- As part of an ongoing healthcare professional education programme, produced pregnancy and weaning nutrition information guides.

People

Nigel Breakwell and Hilary Franklin promoted to directors.



When it comes to the management of multiple sclerosis anything other than the best is not an option. That's the view we took in bringing together primary and secondary care experts to produce the definitive best practice document.

We helped to launch Tesco SchoolNet 2000 – the largest educational web site in the world.

2000

Keith McDowall Associates

A specialist and strategic service covering Government, Parliamentary, media and financial public relations.

Some of our Successes

- Following changes to their Royal Charter allowing greater commercial freedom, working closely with the British Standards Institution (BSI) on their first international acquisition resulted in widespread press coverage.
- Advising the Royal British Legion on their successful campaign to persuade HM Treasury not to introduce changes to VAT arrangements which would have resulted in a significant loss of revenue for the Legion.
- Organising the opening of Saga Petroleum UK's head office by John Battle MP, Minister for Energy and Industry.
- Re-appointed following open competition to work closely with the Post Office on general parliamentary liaison and in its bid to gain greater commercial freedom.
- Advising the pioneering London Heart Hospital in its submission to the Office of Fair Trading on anti-competitive behaviour within the private health sector.

People

James O'Keefe, formerly of Connect Public Affairs, joined the team of Keith McDowall, Monty Meth and Mary Graham.

Members of the British Legion.

685,000

Company activities continued

The AMD Group

AMD

Smithfield Design

Bell Pottinger Marketing & Events

Interactive Bureau

AMD

The UK's largest property marketing, advertising and design agency.

New Clients

Fairview New Homes, Rialto Homes, Annington Homes (backed by Nomura, Annington Homes bought 57,400 residential properties from the MOD in November 1996 and overnight became Britain's largest private residential landlord), Hammerson and Pillar Property.

Some of our Successes

- Created a marketing campaign for St. James Homes on an important brownfield site in Surbiton, subsequently heralded as the fastest selling development in the South East.
- Developed the new Berkeley Homes corporate identity.

People

The company continues to expand and has maintained its policy of combining property marketing experts with colleagues who have joined the company at a senior level from mainstream advertising and marketing agencies.

£2 billion

The value of property marketed in 1998.

Smithfield Design

One of the country's leading design agencies, producing corporate identities, annual reports and corporate and product literature.

New Clients

Friends Provident, Arriyadh Development Authority (Saudi Arabia), Cornwall County Council, Bahrain Embassy, John Menzies, Securicor and the English Cricket Board.

Some of our Successes

- The development and implementation of the corporate identity for Friends Provident.
- The design and production of the John Menzies Annual Report which reflected their strategic repositioning as a distribution services group.
- The corporate identity for KPMG.

People

Lin Roworth-Stokes joined as New Business Director. She has 20 years experience in the design industry and is a director of the DBA and a Fellow of the RSA.

Bell Pottinger Marketing & Events

A widely experienced team of specialists in event management, national and international exhibitions, property marketing, advertising and tourism promotion.

New Clients

Cabot Hall, Tower Hamlets, NAI Europe, World Trade Centre, CBI and The National Maritime Museum.

Some of our Successes

- International marketing campaign on behalf of Eurotunnel Developments.
- Media and logistical support to Brunei for the visit of Her Majesty the Queen.
- Winning our first contract from the USA with New America International, property brokers.
- Organising the Financial Services Authority 'family day' to celebrate their office move to Canary Wharf.
- Producing floats in the Lord Mayor's Show for Malmo Aviation and Canary Wharf.

People

Susie Paylor, ex marketing manager of Canary Wharf joined to strengthen our work in the commercial property market.

388 tons Annual reports and brochures designed in 1998.

We handled the Prime Minister, the Right Honorable Tony Blair, MP's visit to Shanghai, where we organized an exhibition promoting British Food and Drink at a major reception for 800 VIP guests.

800

Company activities continued

Interactive Bureau

A joint venture between Bell Pottinger and Interactive Bureau LLC (America's leading web site design company), which specialises in internet strategy, and designing, building and managing web sites.

New Clients

Richemont, KPMG, The Guardian, the Chilean Reconciliation Movement, IBM, and the Youth Justice Board.

Some of our Successes

- Major redesign of IBM's Europe, Middle East and Africa Intranet.
- Took KPMG's new brand identity and brought it to life on the Web.
- Designed and built the Web site for the newly formed Youth Justice Board.
- Brought the elegance of some of the world's leading luxury goods to the Web under one corporate design for Richemont.

People

Joined by David Curless as Design Director (formerly senior designer at The Times) and, as Technical Director, by Medwyn Jones one of the industry's most respected applications designers.

Hits on
www.reconcile-chile.co.uk.

381,074

HHCL Group

1998 was the first full year after HHCL's merger with Chime.

We enjoyed our most successful year ever in terms of new business, including our first joint wins with Bell Pottinger Communications.

We retained all existing clients and key staff during the year, and recruited several excellent new executives. Involvement of WPP as a minority shareholder enabled us to handle a major pan-European launch in partnership with one of their networks.

HHCL & Partners

In Real Life

HHCL Response Marketing

Environment Marketing

HHCL & Partners

The UK's 20th largest advertising and marketing communications agency, highly regarded for its innovative strategies and creative, effective solutions.

New Clients

ITV, Birds Eye Ready Meals, Prudential/Egg, COI/Welsh Assembly, Thomson Holidays, Iceland Frozen Foods and BAA.

Some of our Successes

- High profile launches of GO for British Airways and Egg for Prudential.
- Major relaunches of ITV, Pearl Assurance and Thomson Holidays.
- Award winning campaigns for Pot Noodles, Birds Eye Ready Meals, Guinness Ireland, Bacardi-Martini and Tango.
- Major new campaigns with Bell Pottinger for COI/Welsh Assembly and the launch of Egg.

People

The HHCL 'Partners' are: Robin Azis (Managing Director), Alan Young, Cathy Mason, Chas Bayfield, David O'Hanlon, Deirdre Wright, Dominic Field, Ian Priest, Jim Bolton, Jon Leach, Lou Burrows, Mark Coldham, Mark Piper, Mary Stow, Minnie Moll, Nick Howarth, Pam Nichols, Paul Garrett, Peter Warner, Rajeev Saxena, Roger McKerr, Sarah Snoxall, Emma Serednyj, Richard Packer, John Parkin, Darrell Berry, Richard Huntingdon and Tamsin Robilliard.

The average length of service of the current partners is five years, 25% of whom have been with the agency for eight years or more.

Since the launch in October 1998 Egg has recruited more than 500,000 customers and has over £5 billion under management.

500,000

Company activities continued

In Real Life

A marketing communications agency offering brand design and face-to-face brand experience consultancy and implementation.

New Clients

Bel, Campbells Distillers, Citibank, Discovery Networks Europe, Disney TV International, Nestlé, ONdigital, Rialto and Bacardi Martini.

Some of our Successes

- Design and delivery of a business to business campaign for Energis including sales conferences, exhibitions and sales materials.
- For Disney TV International, the creation of a 3D brand experience framework and guidelines for building receptions, studio visits and office environments throughout Europe.
- The name and service launch of ONdigital and implementation of a consumer events programme.
- Introduction of a new "on-brand" reception, meeting rooms and brand discovery centre for Pearl Assurance at their Peterborough HQ.
- For Martini, conversion of a shopping centre in Manchester into "Milanchester", a themed sampling environment.
- Appointed to develop and implement a number of retail design concepts and proposals for a major Nestlé FMCG brand.
- Design and delivery of Discovery Networks Europe's exhibition presence at the European Cable Show in London.

People

During 1998 the agency continued to strengthen its design, production and account management capabilities, as well as recruiting Simon Dodd as Head of Marketing and Ken Dixon as Head of Planning. The company now employs 38 people.

HHCL Response Marketing

A specialist division of HHCL that delivers marketing consultancy, sales promotion, direct marketing and response advertising.

New Clients

ECB World Cup '99, Bass Taverns/O'Neills, Hays DX, COI/Welsh Assembly, Iceland Frozen Foods, BAA, Carphone Warehouse/Tandy, FIFA, Eastern Electricity and Sci-Fi Channel.

Some of our Successes

- Positioning of '99 Cricket World Cup as a 'Carnival of Cricket', achieving sell out of all tickets.
- Record call volumes for the AA.

Environment Marketing

A specialist division of HHCL that offers publicity solutions to marketing problems with no commitment to one medium or process. EM works to position brands where traditional advertising is restricted.

New Clients

Westbay Distributors, Iceland Frozen Foods, Prudential/Egg and the AA.

Some of our Successes

- Continuing high profile coverage for the expansion of GO, British Airways' low cost airline.
- Extensive coverage of the launch of Egg for Prudential.
- Repositioning of Iceland Frozen Foods.



30%

Since positioning the AA as the country's 4th Emergency Service in 1993, the organisation has recruited over 2.5 million new members building to a total membership of over 9.5 million – 30% of all UK motorists.

We took more than two to tango. Exploiting media hype around the World Cup we took the Tango brand experience on tour and shared it with 500,000 people.

Opinion Leader Research

Opinion Leader Research is run by Viki Cooke and Deborah Mattinson. Both Viki and Deborah started their careers in advertising working for the leading international agency McCann Erickson.

In the mid 1980s Deborah set up her own business as a research and planning consultant initially with Philip Gould and then with GMA Monitor which specialised in social and political research.

Viki Cooke set up the successful research and marketing consultancy – The Right Hand which specialised in business to business research.

In 1992 Viki and Deborah founded Opinion Leader Research.

Viki has particular experience in the development, trial and evaluation of innovative methodologies including juries, workshops, forums and qualitative panels.

Deborah was responsible for establishing and co-ordinating Labour's Shadow Communications Agency in the mid 1980s. This informal network of communications experts drawn from journalism, TV, film, advertising, public relations and market research advised Labour on all aspects of communications and policy development from the mid 1980s to the early 1990s.

Opinion Leader Research continues to have a close relationship with New Labour, managing a qualitative monitor of key seats during the 1997 General Election together with other, more recent ad hoc projects.

Opinion Leader Research

Market research consultancy specialising in key areas including consultation with stakeholders and opinion leaders, Reputation Audits, public involvement methods and employee motivation approaches.

New Clients

BBC Broadcast, British Airways, SmithKline Beecham, Department of Health, Department for Education and Employment, The Prince's Trust, The Sports Council, Royal Automobile Club and RAC Holdings.

Some of our Successes

- Commencement of the UK's largest programme of public consultation, outside Government, for the Millennium Debate of the Age.
- Appointment to conduct Reputation Audits for British Airways and SmithKline Beecham (UK & US).
- Celebrating five years of our relationship with Esso.

In a major consultation programme of for the Royal Automobile Club we consulted with 8,072 people in 10 days using group discussions (9), phone interviews (500) and a postal survey (7,500).

8,072

Directors, professional advisers and registered office

Board of directors

Lord Bell	Chairman
Piers Pottinger	Deputy Chairman and Joint Chief Executive
Rupert Howell	Joint Chief Executive
Mark Smith	Finance Director
Robin Price	Director
Julian Seymour	Senior Non-executive *#†
The Rt. Hon the Lord Carrington	Non-executive †
Alan Chamberlain	Non-executive
Sir Ronald Grierson	Non-executive #†
Sir David Hannay	Non-executive ##
Paul Richardson	Non-executive *
Dave Allen	Non-executive

* Member of the Audit Committee

Member of the Remuneration Committee

† Member of the Nomination Committee

Registered office

46 Hertford Street
London W1Y 8AX
Registered in England
No: 01983857

Professional advisers

Financial advisers

RKR Corporate Finance Limited
22 Wilton Place
London
SW1X 8RL

Solicitors

Slaughter & May
35 Basinghall Street
London
EC2V 5DB

Bankers

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

Auditors

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

Registrars

Computershare Services PLC
Registrar's Department
PO Box 82
Caxton House
Redcliffe Way
Bristol BS99 7YA

Directors' biographies (executive)

Lord Bell *Chairman*

Lord Bell is one of the best known figures in the United Kingdom communications industry. He helped found Saatchi & Saatchi in 1970, and as International Chairman he took Saatchi & Saatchi into its position as the first British number one worldwide advertising agency in 1981. He successfully ran the public relations campaigns for the Conservative Party for the general elections in 1979, 1983 and 1987. He was appointed Deputy Chairman of Lowe Howard-Spink & Bell plc in 1985 and remained in that position until the formation of Chime Communications in 1989. He advises the chairmen of many of Britain's leading companies and organisations, as well as foreign heads of state and international business leaders and politicians. He was awarded a Knighthood by Lady Thatcher in her resignation honours and a Peerage by Tony Blair. Aged 58.

Piers Pottinger *Deputy Chairman & Joint Chief Executive*

Following three years at J Henry Schroder Wagg & Co, Piers Pottinger spent three years as an analyst with stockbrokers Laurence Prust. In 1978, he joined Charles Barkers Lyons. He spent two years as Director of Media Relations at Manufacturers Hanover Trust in New York before returning to London as Managing Director of Sterling Financial Public Relations in 1982. He joined Good Relations City (now Bell Pottinger Financial) as Managing Director in 1985 and was also a director of Good Relations Group Plc. He became a director of Chime Communications at the time of the management buy-out in 1989. Aged 45.

Rupert Howell *Joint Chief Executive*

Rupert Howell is a leading figure in the United Kingdom advertising industry. He started his career in Mathers Advertising (now part of Ogilvy & Mather Group) in 1979 and continued in 1981 with Grey Advertising. In 1983 he joined Young & Rubicam, initially as an account director, and in 1984 became a main board director responsible for new business. In 1987, he was one of the five founder members of Howell Henry Chaldecott Lury. Following the merger of the HHCL Group with Chime Communications PLC in 1997 he was appointed Joint Chief Executive of Chime Communications PLC. He is currently President of the Institute of Practitioners in Advertising. Aged 42.

Mark Smith *Finance Director*

Mark Smith has been a Chartered Accountant since 1978 having qualified with Touche Ross & Co (now Deloitte & Touche). Following two years as European Finance Director at RCA Records, he joined Good Relations Group Plc in 1984 and became its Group Finance Director in 1985. In 1986, he became Finance Director of Lowe Bell Communications (now Bell Pottinger Communications) and Finance Director of Chime Communications at the time of the management buy-out in 1989. Aged 43.

Robin Price

Robin Price has been a Chartered Accountant since 1982. In 1983, he joined Frontline Television Group where he became Managing Director. He was one of the founder members of Howell Henry Chaldecott Lury in 1987 with responsibilities for finance, legal and commercial affairs. He became an executive director of Chime Communications PLC following its merger with the HHCL Group in 1997. He is a fellow of the Institute of Practitioners in Advertising and a member of its Financial Policy Group. He is also non-executive director of Frontline Television Group and William Price & Sons. Aged 42.

Directors' biographies (non-executive)

Julian Seymour **†

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. He has been a director of Chime Communications since the management buy-out in 1989. Aged 54.

The Rt. Hon The Lord Carrington †

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. Aged 79.

Alan Chamberlain

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. Aged 56.

Sir David Hannay **

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. Aged 63.

Sir Ronald Grierson #†

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. Aged 77.

Paul Richardson *

Paul Richardson became Group Finance Director of WPP Group plc in December 1997 after four years with the company as Director of Treasury. He is responsible for the Group's worldwide finance function, including external reporting, taxation, procurement, property, treasury and internal audit. Previously he spent six years with the central team of Hanson plc financing major acquisitions and disposals. He is a Chartered Accountant and member of the Association of Corporate Treasurers. Aged 41.

Dave Allen

Dave Allen became Joint Chief Executive of Enterprise IG (Formerly Sampson Tyrrell Enterprise) in 1991. Enterprise IG, part of WPP Group plc, is a leading branding and identity consultancy. He is responsible for the development of Enterprise IG in Europe and Asia. Prior to joining Enterprise IG he was involved in European marketing at Kodak. Today he advises a number of global clients on strategic corporate brand and identity issues. Aged 42.

* Member of the Audit Committee

Member of the Remuneration Committee

† Member of the Nomination Committee

Directors' statement on corporate governance

Corporate governance report

In June 1998 the Combined Code was issued by the London Stock Exchange. This Code is based on the report of the Hampel Committee and sets out Principles of Good Corporate Governance and Code provisions which consolidate the work of the earlier Cadbury and Greenbury Committees. Section 1 of the Code is applicable to companies.

A narrative statement on how the Company has applied the Principles and a statement explaining the extent to which the provisions in the Code have been complied with appear below.

Narrative statement

The Code establishes fourteen Principles of Good Governance, which are split into the four areas described below.

Directors

The Company is controlled through the Board of Directors, which comprises five executive and seven non-executive directors. The Chairman, Lord Bell, is responsible for the running of the Board, and he ensures that all directors receive sufficient relevant information on financial, business and corporate issues prior to meetings. The Joint Chief Executives' (Piers Pottinger and Rupert Howell) responsibilities focus on co-ordinating the Company's business and implementing Group strategy. All directors are able to take independent professional advice in furtherance of their duties if necessary.

The Board meets quarterly and is responsible for overall Group strategy, acquisitions and consideration of significant financing matters. It reviews the strategic direction of trading companies, their annual budgets and their progress towards achievement of those budgets. The Board considers employee issues and key appointments. It also makes appropriate training available to all existing directors as well as ensuring that new directors receive training. All directors, in accordance with the Code, will submit themselves for re-election at least once every three years.

The Board has established three standing Committees. Each Committee operates within defined terms of reference. The principal Committees are the Audit Committee, the Remuneration Committee and, following the introduction of the Code, a Nominations Committee. Trading companies are managed by separate boards of directors.

The Board and committee meetings during the year were as follows:

	Number of Meetings
Board Meetings	4
Audit Committee	2
Remuneration Committee	1
Nominations Committee	0

Under the terms of its subscription agreement, WPP Group is entitled to nominate two non-executive directors. Dave Allen, a senior manager of WPP Group, was appointed during the year. He was interviewed by the Chairman of the Nominations Committee, Julian Seymour, and his application discussed and approved by the Board as a whole prior to his appointment as a director.

Membership of the three committees is shown on page 23, ('Directors, professional advisers and registered office').

The Rt. Hon the Lord Carrington, Sir Ronald Grierson, Sir David Hannay and Julian Seymour are all considered by the Board to be independent. Julian Seymour is the senior independent director.

Directors' Remuneration

The Remuneration Committee, under the chairmanship of Julian Seymour, measures the performance of the executive directors and key members of senior management as a prelude to recommending their annual remuneration, bonus awards and awards of share options to the Board for final determination. The Chairman, Lord Bell, attends the meetings and serves as a technical adviser to the Committee, but is not actually a member. The remuneration of the non-executive directors is recommended by the Chairman and Finance Director and takes account of the time spent on Board and Committee matters. The final decisions are made by the Board as a whole but no director plays a part in any discussion about his own remuneration. The Committee has access to professional advice from inside and outside the company.

The Report of the Board to the Shareholders on Directors' Remuneration is set out on page 28 and includes details of directors' incentive payments and the related performance criteria.

Relations with shareholders

The Company is keen to promote two way communication with both its institutional and private investors and responds quickly to all queries received verbally or in writing. All shareholders have at least twenty working days notice of the Annual General Meeting at which all directors are usually present and at which questions from shareholders are both invited and encouraged.

Accountability and Audit

Financial reporting

A review of the businesses in the Group is included in Company Activities. The Board uses this, together with the Chairman's statement and the Directors' Report on pages 29 to 30, to present a balanced and understandable assessment of the Company's position and prospects.

Internal financial control

The directors are responsible for the Group's system of internal financial control. Such a system can provide only reasonable but not absolute assurance against material misstatement or loss. The key control procedures are described under the following five headings.

Financial reporting

The Group has a comprehensive system for reporting financial results to the Board; each trading company prepares monthly results with a comparison against budget. The Board reviews these for the Group as a whole and determines appropriate action. Towards the end of each financial year the operating units prepare detailed budgets for the following year. Budgets and plans are reviewed and necessary changes made by the Board before being adopted formally.

Quality and integrity of personnel

One of the Group's core values is integrity; this is regarded as vital to the maintenance of the Group's system of internal financial control and is reflected in the quality and experience of the Group's financial staff.

Operating unit financial controls

Key controls over major business risks include reviews against performance indicators and exception reporting. The trading companies regularly assess their exposure to major business risks and appropriate action is taken both at operating and Group level in order to ensure that risk is minimised as far as possible.

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. The Group has put in place arrangements for computer processing to continue and data to be retained in the event of complete failure of any system.

Controls over central functions

A number of the Group's key functions, including treasury, taxation, acquisitions and insurance are dealt with centrally. Each of these functions has clear procedures and is required to report to the Board on a regular basis; the treasury details are reported daily to the Finance Director. The Group does not make use of any derivative instruments.

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 issued in December 1994. The Audit Committee has reported to the Board that it has been able to review the effectiveness of the Group's system of internal financial control for the accounting year and the period to the date of approval of the financial statements.

The Audit Committee and Auditors

The Audit Committee, comprising non-executive directors, has specific terms of reference which deal with its authority and duties. It meets twice a year with the external auditors attending by invitation. The Committee oversees the monitoring of the adequacy of the Group's internal financial controls, accounting policies and financial reporting and provides a forum through which the Group's external auditors report to the non-executive directors.

Going concern basis

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 Group 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.

Compliance Statement

The Listing Rules require the Board to report on compliance with the forty-five Code provisions throughout the accounting period. Except as outlined below, the Company has complied throughout the accounting period ended 31 December 1998 with the provisions set out in Section 1 of the Code.

The exception arises from the fact that the Listing Rules, to which the Code is appended, were published in June 1998 whilst the required compliance statement must relate to the whole year. The exception to the Code and the resulting change to the Company's corporate governance procedures to comply with the specified Code provision was as follows:- A.5.1. The Nominations Committee was established on 29 September 1998. Prior to then the Board had not operated such a Committee because the Board as a whole reviewed the suitability of new directors.

As permitted by the London Stock Exchange, the Company has complied with Code provision D.2.1. on internal control by reporting on internal financial control in accordance with the guidance on internal control and financial reporting issued in December 1994.

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

M W Smith
Secretary
29 March 1999

Report of the board to the shareholders on directors' remuneration

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 Group executive directors have a contractual right to these bonuses; bonuses payable to the directors and employees of the Group's operating subsidiaries are discretionary.

Share options, pensionable pay and termination of contracts

The Company operates an Executive Share Option Scheme for executive Board directors, subsidiary Board directors and senior employees. All executive options granted from November 1997 (other than special executive options) are subject to the Group achieving during the period of grant an average total shareholder return on the shares for the preceding three years which exceeds the average FT-SE 100 total shareholder return for the same period and a percentage growth in earnings per share which is at least equal to the percentage growth in the Retail Price Index plus 6% over three years. Executive share options granted before November 1997 have no performance criteria.

Lord Bell has special executive options over 1,000,000 ordinary shares. These special options will not ordinarily be exercisable less than five years from the date of grant and are subject to a performance target of growth in diluted earnings per ordinary share being achieved such as would place the Group in the upper quartile of the FT-SE 100 companies compiled by reference to growth in diluted earnings per share over the same period.

The Company also operates a Savings-Related Share Option Scheme which is open to all employees after an initial qualifying period.

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 executive 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 Board of Directors
and signed on behalf of the Board

M W Smith
Secretary
29 March 1999

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1998.

Review of the business

Chime Communications PLC is the parent company of a group of companies principally engaged in providing public relations, advertising, market research, design 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 Company activities.

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 at 31 December 1998 and at 1 January 1998 or date of appointment were:

	Beneficial holdings		Share options	
	Ordinary shares of 25p each		Ordinary shares of 25p each	
	1 January 1998 (or date of appointment)	31 December 1998	1 January 1998 (or date of appointment)	31 December 1998
Lord Bell	2,228,693	2,228,693	1,730,784	1,730,784
P J D Pottinger	3,230,800	3,230,800	600,000	600,000
R C S Howell	3,808,793	3,808,793	–	8,183
M W Smith	700,000	700,000	147,258	147,258
R M D Price	3,808,793	3,808,793	–	8,183
J R Seymour	–	–	–	–
Lord Carrington	–	–	–	–
A J Chamberlain	–	–	–	–
Sir Ronald Grierson	–	–	–	–
Sir David Hannay	–	25,000	–	–
P W G Richardson	–	–	–	–
D Allen (appointed 3 December 1998)	–	–	–	–

Lord Bell also held a non-beneficial interest in 660,723 ordinary shares at 1 January 1998 and 31 December 1998. Further details relating to directors' share options are given in note 4 to the accounts. There has been no change in the interests of the directors between 31 December 1998 and 29 March 1999.

M W Smith who has a rolling contract with a notice period of one year, and J R Seymour, A J Chamberlain and Sir David Hannay, who do not have service contracts, are due to retire by rotation and offer themselves for re-election. J R Seymour is a member of the Remuneration Committee, the Audit Committee and the Nominations Committee. Sir David Hannay is a member of the Remuneration Committee and the Audit Committee.

R C S Howell and R M D Price, who have rolling contracts with a notice period of one year, have been proposed for election at the forthcoming Annual General Meeting.

D Allen, who was appointed during the year and who does not have a service contract, has been proposed for election at the forthcoming Annual General Meeting.

M Scott resigned as a director on the 29 September 1998.

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

Results and dividends

The Group's profit and loss account is set out on page 33 and shows a profit before taxation for the year to 31 December 1998 of £8,346,000 (1997-£3,834,000). The directors recommend the payment of a final dividend of £1,780,000 (1.52p per ordinary share) (1997-£1,478,000 (1.25p per ordinary share)) bringing the total dividend for the year to £2,606,000 (2.22p per ordinary share) (1997-£1,859,000 (1.90p per ordinary share)).

Directors' report continued

Donations

During the year the Group donated £72,000 (1997-£32,000) 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 encourages 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 these employees.

Substantial interests

At 29 March 1999 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
WPP Group plc	36,453,665	29.84%
Fidelity Investment Management Limited	12,670,300	10.37%
Philips & Drew Fund Management Limited	7,749,823	6.34%
The Chime Communications PLC Employee Trust	5,065,784	4.15%
Axel Chaldecott	3,808,793	3.12%
Stephen Henry	3,808,793	3.12%

Creditor payment terms

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.

The number of days outstanding between receipt of invoices and date of payment, calculated by reference to the amount owed to trade creditors at the year end as a proportion of the amounts invoiced by suppliers during the year, was 30 days in aggregate for the Group (1997-35). The Company did not have any trade creditors at 31 December 1997 or 1998.

Year 2000

A comprehensive review to assess the likely impact of the Year 2000 issue on the Group's systems was completed in 1998. As a consequence, elements of the Group's Information Technology and Communications Strategies were accelerated and this work is nearing completion. The Group has been communicating with trading partners and has put in place contingency plans where there is a possible element of risk. The Group therefore anticipates no significant internal operational risks associated with the Year 2000.

The majority of work undertaken under the Group's Year 2000 programme has been in the replacement of equipment already programmed to take place and the additional cost has not been material.

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
29 March 1999

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 Company'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 33 to 54 which have been prepared under the accounting policies set out on pages 38 and 39.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 31 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the statement on pages 26 and 27 reflects the compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the corporate governance procedures or the Group's internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit 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 1998 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
29 March 1999

Consolidated profit and loss account

Year ended 31 December 1998

	Note	1998 £'000	1997 £'000
Continuing operations		79,215	42,367
Acquisitions		1,646	—
Turnover	3	80,861	42,367
Continuing operations		47,473	28,283
Acquisitions		1,341	—
Gross profit/operating income	3	48,814	28,283
Continuing operations		7,338	3,668
Acquisitions		489	—
Group operating profit	3	7,827	3,668
Share of operating profit in associate		228	18
		8,055	3,686
Interest receivable		536	234
Interest payable and similar charges	6	(245)	(86)
Profit on ordinary activities before taxation	7	8,346	3,834
Tax on profit on ordinary activities	8	(2,879)	(1,380)
Profit on ordinary activities after taxation		5,467	2,454
Equity minority interests		(32)	(7)
Profit for the financial year		5,435	2,447
Equity dividends	10	(2,606)	(1,859)
Transfer to reserves	22	2,829	588
Earnings per ordinary share	11	4.6p	3.8p
Diluted earnings per ordinary share	11	4.6p	3.8p
Dividend per ordinary share	10	2.22p	1.90p

Consolidated balance sheet

31 December 1998

		1998		1997 (as restated)	
	Note	£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	12		4,884		–
Tangible assets	13		4,089		3,900
Investments	14		2,838		2,581
			11,811		6,481
Current assets					
Work in progress		830		893	
Debtors	15	16,008		15,870	
Investments	16	2,632		2,691	
Cash at bank and in hand		6,487		6,708	
		25,957		26,162	
Creditors: amounts falling due within one year	17	(37,404)		(27,361)	
Net current liabilities			(11,447)		(1,199)
Total assets less current liabilities			364		5,282
Creditors: amounts falling due after more than one year	18		(828)		(4,545)
Provisions for liabilities and charges	20		(100)		(95)
			(564)		642
Capital and reserves					
Called up share capital	21		30,544		30,480
Share premium account	22		5,387		5,372
Profit and loss account	22		(36,495)		(35,241)
Equity shareholders' funds			(564)		611
Equity minority interests			–		31
			(564)		642

These financial statements were approved by the Board of Directors on 29 March 1999.

Signed on behalf of the Board of Directors

Lord Bell
Chairman

Company balance sheet

31 December 1998

	Note	1998 £'000	1997 £'000
Fixed assets			
Tangible assets	13	238	255
Investments	14	49,464	41,678
		49,702	41,933
Current assets			
Debtors	15	4,580	6,123
Investments	16	2,500	2,500
Cash at bank and in hand		1,625	–
		8,705	8,623
Creditors: amounts falling due within one year	17	(13,858)	(4,458)
Net current (liabilities)/assets		(5,153)	4,165
Total assets less current liabilities		44,549	46,098
Creditors: amounts falling due after more than one year	18	–	(4,230)
		44,549	41,868
Capital and reserves			
Called up share capital	21	30,544	30,480
Share premium account	22	5,387	5,372
Merger reserve	22	3,780	3,780
Profit and loss account	22	4,838	2,236
Equity shareholders' funds		44,549	41,868

These financial statements were approved by the Board of Directors on 29 March 1999.

Signed on behalf of the Board of Directors

Lord Bell
Chairman

Consolidated cash flow statement

Year ended 31 December 1998

	Note	1998 £'000	1997 £'000
Net cash inflow from operating activities	23(i)	8,881	6,246
Dividends received from associates		505	–
Returns on investments and servicing of finance			
Interest received		547	224
Interest paid		(182)	(9)
Interest element of finance leases		(67)	(60)
Net cash inflow for returns on investments and servicing of finance		298	155
Taxation			
Corporation tax paid		(2,847)	(1,626)
Corporation tax refund		1,025	7
Tax paid		(1,822)	(1,619)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(1,920)	(1,350)
Receipts from sales of tangible fixed assets		340	719
Purchase of current asset investment		–	(2,500)
Purchase of own shares		(616)	(2,001)
Net cash outflow for capital expenditure and financial investment		(2,196)	(5,132)
Acquisitions and disposals			
Purchase of subsidiary undertakings		(3,492)	(10,362)
Net cash acquired with subsidiaries	23(v)	437	1,888
Net cash outflow for acquisitions and disposals		(3,055)	(8,474)
Equity dividends paid		(2,300)	(1,043)
Net cash inflow/(outflow) before financing		311	(9,867)
Financing			
Capital element of finance leases	23(iii)	(583)	(504)
Issue of ordinary share capital		79	14,510
Net cash (outflow)/inflow from financing		(504)	14,006
(Decrease)/increase in cash	23(ii)	(193)	4,139

Statement of total recognised gains and losses

Year ended 31 December 1998

	1998 £'000	1997 £'000
Profit for the financial year	5,435	2,447
Currency translation differences on foreign currency net investments	(13)	(2)
Total recognised gains and losses relating to the year	5,422	2,445

Reconciliation of movements in shareholders' funds

Year ended 31 December 1998

	1998 £'000	1997 £'000
Profit for the financial year	5,435	2,447
Dividends	(2,606)	(1,859)
	2,829	588
Other recognised gains and losses relating to the year	(13)	(2)
Issue of shares	79	25,637
Goodwill written off	(4,270)	(26,334)
Goodwill written off to profit and loss account	200	–
Net decrease in shareholders' funds	(1,175)	(111)
Opening shareholders' funds	611	722
Closing shareholders' funds	(564)	611

Notes to the accounts

Year ended 31 December 1998

1. Accounting policies

The financial statements are prepared in accordance with applicable accounting standards. Minor reclassifications have been made to the prior year's figures to achieve comparability with the current years. 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, using the following rates:

Short leasehold buildings	–	period of lease
Short-term leasehold improvements	–	20%
Motor vehicles	–	16 $\frac{2}{3}$ %
Fixtures, fittings and equipment	–	33 $\frac{1}{3}$ %
Computer equipment	–	33 $\frac{1}{3}$ %

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 and to personal pension schemes of certain employees 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.

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.

1. Accounting policies – continued

Investments

In the Company's accounts, investments in subsidiary undertakings are stated at cost less provision for any impairment in value.

In the consolidated accounts, shares in associated undertakings are accounted for using the equity method. The consolidated profit and loss account includes the Group's share of the pre-tax profits and attributable taxation of the associated undertakings and is shown as the Group's share of the net assets excluding goodwill, of the associated undertakings.

Investments in own shares are stated at cost less provision for any permanent diminution in value.

Goodwill

Goodwill arising on the acquisition of subsidiaries made on or after 1 January 1998 has been capitalised as an intangible fixed asset. In most cases, the asset will not have a defined economic life and will not therefore be amortised. Their carrying values will be reviewed annually for impairment and adjusted to the recoverable amount as necessary. If there is a clearly defined economic life, then the asset will be amortised over the appropriate period.

The financial statements depart from the specific requirement of the Companies Act 1985 to amortise goodwill over a finite period in order to give a true and fair view. In the opinion of the directors, it is not possible to determine the useful economic life of goodwill arising because of the nature of the businesses acquired and the specific circumstances of the industry within which the Group operates. Due to the infinite life of these assets, it is not possible to quantify the impact.

Goodwill arising on the acquisition of subsidiaries before 31 December 1997 is eliminated against the profit and loss reserve and the merger reserve. The comparatives for the previous periods have been restated to reflect the change in accounting treatment. Such goodwill would be charged in the profit and loss account on any subsequent disposal of the business to which it related.

2. Acquisitions

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

(i) Keith McDowall Associates Limited

On 13 March 1998 the Group acquired the business assets of Keith McDowall Associates and Monty Meth Associates. The fair value of the consideration was £705,000. An initial payment of £235,000 has been made from the Group's existing resources. Deferred consideration of £470,000 is payable over the next two years. Costs relating to the acquisition amounted to £25,000. The fair value of the net assets acquired was £1,000, resulting in goodwill of £729,000 which has been capitalised as an intangible fixed asset.

In the post acquisition period, Keith McDowall Associates Limited contributed £130,000 to profit on ordinary activities before taxation.

(ii) Opinion Leader Research Limited

On 16 June 1998 the Group acquired the whole issued share capital of Opinion Leader Research Limited. The fair value of the consideration given for the acquisition was £3,030,000. An initial payment of £1,280,000 has been made out of existing Group resources. Contingent consideration of £1,750,000 is dependent on the profitability of Opinion Leader Research Limited over the next three years. Costs relating to the acquisition amounted to £69,000. The fair value of the net assets acquired was £285,000, resulting in goodwill of £2,814,000 which has been capitalised as an intangible fixed asset.

In the post acquisition period, Opinion Leader Research Limited contributed £367,000 to profit on ordinary activities before taxation.

The profits after tax of Opinion Leader Research Limited were as follows:

	Profit on ordinary activities after taxation £'000
Results prior to acquisition	
1 December 1997 (date financial period began) to the date of acquisition	70
Preceding financial year ended 30 November 1997	260

Notes to the accounts continued

2. Acquisitions – continued**(iii) Michael Humphreys & Partners Limited**

On 19 June 1998 the Group acquired the whole of the share capital of Michael Humphreys & Partners Limited. The fair value of the consideration given for the acquisition was £580,000. An initial payment of £50,000 has been made out of existing Group resources. Contingent consideration of £530,000 is dependent on the profitability of Michael Humphreys & Partners Limited over the next five years. Costs relating to the acquisition amounted to £69,000. The fair value of the net liabilities acquired was £15,000, resulting in goodwill of £664,000 which has been capitalised as an intangible fixed asset.

In the post acquisition period Michael Humphreys & Partners Limited have broken even.

(iv) In Real Life Limited

On 8 September 1998 the Group acquired the remaining 26% of the share capital of In Real Life Limited from three of the directors. The fair value of the consideration given for the acquisition was £663,000. The consideration was satisfied in cash from existing Group resources. Costs relating to the acquisition amounted to £77,000. The fair value of net assets acquired was £63,000, resulting in goodwill of £677,000 which has been capitalised as an intangible fixed asset.

(v) Fair value of net assets acquired

The following table summarises fair value of the major category of assets and liabilities at the date of acquisition. No adjustments were required to the book values of the assets and liabilities acquired to arrive at their fair value. The cash flow effects of the acquisition are given in note 23(v).

	Book amount and Fair value to the Group £'000
Tangible fixed assets	38
Current assets	717
Creditors and provisions	(452)
Taxation	(32)
Minority interest	63
	334
Goodwill capitalised	4,884
Goodwill written off directly to reserves on acquisitions made in prior periods	4,270
	9,488
Consideration	
Cash	2,468
Deferred consideration	470
Contingent consideration in respect of 1998 acquisitions	2,280
Contingent consideration – adjustments arising on prior year acquisitions	4,270
	9,488

The contingent consideration of £2,280,000 relates to Opinion Leader Research Limited (£1,750,000) and Michael Humphreys & Partners Limited (£530,000). Full contingent consideration has been provided for in all cases. The contingent consideration is calculated as follows:

Opinion Leader Research Limited – a multiple of four times the operating profits for 1998, 1999 and 2000. The contingent consideration is restricted in total to £1,750,000.

Michael Humphreys & Partners Limited – 50% of the operating profits between 1998 and 2002. The contingent consideration is restricted in total to £530,000.

The adjustment arising on prior year acquisitions relates to the contingent consideration not provided for on the acquisition of HHCL Group Limited and AMD Plc.

3. Analyses of turnover, operating income, operating profit and net assets

Analyses by class of business of turnover, operating income, operating profit and operating (liabilities)/net assets are stated below:

Class of business	Turnover		Operating income		Operating profit	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Bell Pottinger Communications Group						
– continuing operations	47,953	39,893	30,927	26,867	3,456	3,414
– acquisitions	673	–	599	–	132	–
	48,626	39,893	31,526	26,867	3,588	3,414
HHCL Group						
– continuing operations	31,262	2,474	16,546	1,416	3,882	254
Opinion Leader Research						
– acquisitions	973	–	742	–	357	–
	80,861	42,367	48,814	28,283	7,827	3,668
					Net assets	
					1998	1997
					£'000	£'000
Class of business						
Bell Pottinger Communications Group					8,283	1,331
HHCL Group					(1,566)	(1,478)
Opinion Leader Research					405	–
					7,122	(147)
Non operating amounts						
Cash at bank and in hand					6,487	6,708
Deferred/contingent consideration					(8,750)	(1,730)
Current taxation					(2,549)	(1,883)
Dividends					(2,606)	(1,859)
Lease borrowings					(268)	(837)
Associated undertakings					–	359
Minority interest					–	31
					(564)	642

Of turnover of £80,861,000 (1997 – £42,367,000), £78,777,000 (1997 – £40,295,000) arose in the United Kingdom and £2,084,000 (1997 – £2,072,000) arose overseas, principally in South Africa.

Notes to the accounts continued

4. Directors' emoluments and employee remuneration

	1998 £'000	1997 £'000
The aggregate emoluments of the directors were:		
Salary and other emoluments	1,698	1,298
Pension contributions	182	138
	1,880	1,436

A table showing directors' emoluments is set out below:

Name	Salary and fees £	Benefits £	Bonuses £	Emoluments excluding pension contributions £	Pension contributions £	Total 31 December 1998 £	Total 31 December 1997 £
Lord Bell*	490,000	49,904	73,500	613,404	73,500	686,904	636,570
Piers Pottinger	322,000	24,003	48,300	394,303	48,300	442,603	417,621
Rupert Howell	150,303	12,556	4,559	167,418	17,340	184,758	11,245
Mark Smith	167,004	14,853	25,050	206,907	25,050	231,957	217,709
Robin Price	156,738	2,381	4,559	163,678	17,340	181,018	11,052
Julian Seymour#	13,750	–	–	13,750	–	13,750	10,000
The Rt. Hon the Lord Carrington#	11,250	–	–	11,250	–	11,250	10,000
Alan Chamberlain#	104,850	–	–	104,850	–	104,850	101,800
Sir Ronald Grierson#	11,250	–	–	11,250	–	11,250	10,000
Sir David Hannay#	11,250	–	–	11,250	–	11,250	10,000
Paul Richardson#	–	–	–	–	–	–	–
Dave Allen#	–	–	–	–	–	–	–
Mark Scott#	–	–	–	–	–	–	–
Totals	1,438,395	103,697	155,968	1,698,060	181,530	1,879,590	1,435,997

* Chairman and highest paid director

Non-executive director

Rupert Howell and Robin Price waived their rights to the 1998 bonus during the year. The amounts waived were £22,500 each.

Alan Chamberlain is paid a fee of £11,250 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 consultant to a number of subsidiaries.

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

The pension contributions made by the Company are in respect of money purchase schemes. Contributions in respect of Lord Bell, Piers Pottinger, Rupert Howell, Mark Smith and Robin Price for the year ended 31 December 1997 were £68,700, £45,150, £454, £23,400 and £453 respectively. Piers Pottinger and Mark Smith are members of the Company's defined contribution scheme.

Sir Ronald Grierson pays rent of £17,292 per annum 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 balance outstanding at 31 December 1998 was £34,929. This was repaid in full in January 1999.

The main benefit provided by the Group to each of the executive directors (with the exception of Robin Price) consists of the provision of a fully expensed motor car.

4. Directors' emoluments and employee remuneration – continued

Directors' share options

The following unexercised options over shares were held by directors:

Executive Share Option Scheme

Directors	1 January 1998	Granted	31 December 1998	Exercise price	Date from which exercisable	Expiry date
Lord Bell	730,784	–	730,784	54p	Nov 2000	Nov 2007
Lord Bell*	1,000,000	–	1,000,000	48p	Nov 2002	Nov 2007
Piers Pottinger	600,000	–	600,000	54p	Nov 2000	Nov 2007
Mark Smith	125,000	–	125,000	54p	Nov 2000	Nov 2007

* Special options

Executive Share Options (excluding special options) are subject to the Group achieving, during the period of grant, an average total shareholder return on the shares for the preceding three years which exceeds the average FT-SE 100 total shareholder return for the same period, and a percentage growth in its earnings per share which is at least equal to the percentage growth in retail price index plus 6%, over three years.

The special share options granted to Lord Bell are subject to a performance target of growth in diluted earnings per ordinary share being achieved such as would place the Group in the upper quartile of the FT-SE 100 companies compiled by reference to growth in diluted earnings per share over the same period.

Savings-Related Share Option Scheme

Directors	1 January 1998	Granted	31 December 1998	Exercise price	Date from which exercisable	Expiry date
Mark Smith	22,258	–	22,258	31p	June 2001	Dec 2001
Rupert Howell	–	8,183	8,183	43p	June 2003	Dec 2003
Robin Price	–	8,183	8,183	43p	June 2003	Dec 2003

The market price of the shares at 31 December 1998 was 48p and the range during 1998 was 40p to 63p.

	1998 £'000	1997 £'000
Employee costs of the Group including those of the directors were as follows:		
Wages and salaries	24,963	14,101
Social security costs	2,274	1,325
Other pensions costs	1,086	812
	28,323	16,238

The average number of persons employed during the period was 558 (1997 – 339).

5. Cost of sales and administrative expenses

	1998 £'000	1997 £'000
Cost of sales		
Continuing operations	31,742	14,084
Acquisitions	305	–
	32,047	14,084
Administrative expenses		
Continuing operations	40,135	24,615
Acquisitions	852	–
	40,987	24,615

Notes to the accounts continued

6. Interest payable and similar charges	1998 £'000	1997 £'000
Bank overdraft and other borrowings	178	26
Finance leases	67	60
	245	86

The majority of the interest payable relates to interest received on the loan note deposit which is then paid onto the holders of the loan notes.

7. Profit on ordinary activities before taxation	1998 £'000	1997 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of owned tangible fixed assets	1,435	583
Depreciation of assets held under finance leases	201	388
Auditors' remuneration	107	79
Other fees paid to auditors	57	44
Rentals under operating leases		
Property	2,032	1,426
Profit on disposal of tangible fixed assets	(115)	(145)

In addition to the amounts charged to the profit and loss account in the year ended 31 December 1998 £25,000 was paid to the Group's auditors and capitalised as an intangible fixed asset (1997 – £209,000 written off directly to reserves) in connection with acquisitions made during the year.

8. Tax on profit on ordinary activities	1998 £'000	1997 £'000
UK corporation tax at 31% (1997 – 31%)	2,883	1,503
Prior year adjustment	(86)	(128)
Associated company	82	5
	2,879	1,380

The tax charge in the accounts is disproportionately high due to expenditure in the accounts which is not deductible for tax purposes.

9. Profit of parent company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts. The parent company's profit for the financial year amounted to £5,208,000 (1997 – £1,589,000).

10. Equity dividends	1998 £'000	1997 £'000
Interim – paid 0.70p (1997 – 0.65p) per ordinary share	826	381
Final – proposed 1.52p (1997 – 1.25p) per ordinary share	1,780	1,478
	2,606	1,859

11. Earnings per ordinary share

	1998	1997
Earnings per ordinary share	4.6p	3.8p

The calculation of earnings per ordinary share is based on the profit for the financial year of £5,435,000 (1997 – £2,447,000) and on a weighted average of 117,925,297 (1997 – 64,173,719) ordinary shares in issue during the year.

	1998	1997
Diluted earnings per share	4.6p	3.8p

The diluted earnings per ordinary share has been calculated in accordance with Financial Reporting Standard 14 'Earnings per share', and is based on profit for the financial year of £5,435,000 (1997 – £2,447,000) and on a weighted average of 119,016,330 (1997 – 64,877,056) ordinary shares, being the increased weighted average number of ordinary shares in issue during the year assuming the exercise of dilutive employee share options.

12. Intangible fixed assets

The Group	Goodwill £'000
Cost and net book value	
At 1 January 1998	–
Arising on acquisitions in the year	4,884
At 31 December 1998	4,884

13. Tangible fixed assets

The Group	Short leasehold buildings £'000	Short-term leasehold improve- ments £'000	Motor vehicles £'000	Fixtures, fittings, and equipment £'000	Total £'000
Cost					
At 1 January 1998	261	1,111	2,580	5,417	9,369
Acquisitions	–	–	20	57	77
Additions	–	188	612	1,236	2,036
Disposals	–	(23)	(577)	(1,118)	(1,718)
Foreign exchange movement	–	(1)	(5)	(31)	(37)
At 31 December 1998	261	1,275	2,630	5,561	9,727
Depreciation					
At 1 January 1998	6	528	1,231	3,704	5,469
Acquisitions	–	–	13	26	39
Charge for the year	17	188	361	1,070	1,636
Disposals	–	(23)	(399)	(1,071)	(1,493)
Foreign exchange movements	–	–	–	(13)	(13)
At 31 December 1998	23	693	1,206	3,716	5,638
Net book value					
At 31 December 1998	238	582	1,424	1,845	4,089
At 31 December 1997	255	583	1,349	1,713	3,900

The net book value of motor vehicles and of fixtures, fittings and equipment includes £463,000 (1997 – £811,000) and £52,000 (1997 – £320,000) respectively in respect of assets held under finance leases.

Notes to the accounts continued

13. Tangible fixed assets – continued

The Company	Short leasehold buildings £'000
Cost	
At 1 January 1998 and at 31 December 1998	261
Depreciation	
At 1 January 1998	6
Charge for the year	17
At 31 December 1998	23
Net book value	
At 31 December 1998	238
At 31 December 1997	255

14. Investments held as fixed assets

The Group	Investment in associated company £'000	Own shares £'000	Trade investments unlisted £'000	Total £'000
Cost				
At 1 January 1998	359	2,212	10	2,581
Additions	–	616	–	616
Share of retained profits	146	–	–	146
Dividends received	(505)	–	–	(505)
At 31 December 1998	–	2,828	10	2,838

Own shares represent the shares in Chime Communications PLC held by The Chime Communications Employee Trust and by Howell Henry Chaldecott Lury Limited Employee Benefit Trust.

The Company	Own shares £'000	Loans to group undertakings £'000	Equity interest in subsidiaries £'000	Total £'000
Cost				
At 1 January 1998	2,001	678	38,999	41,678
Additions	616	–	3,100	3,716
Adjustment arising on 1997 acquisitions	–	–	4,270	4,270
Write down carrying value of investment	–	(200)	–	(200)
At 31 December 1998	2,617	478	46,369	49,464

The adjustment arising on 1997 acquisitions relates to the contingent consideration not previously provided in respect of the HHCL Group Limited and AMD Plc acquisitions. HHCL Group Limited profit exceeded that originally anticipated and therefore a further £3,000,000 becomes payable in loan notes and/or cash. AMD Plc also exceeded profit expectations and a further £1,270,000 becomes payable in cash. There is no further contingent consideration payable in respect of these acquisitions.

14. Investments held as fixed assets – continued

The Group's principal trading subsidiaries, which are all incorporated in Great Britain (except where noted) are listed below:

Company	Nature of business	Proportion of ordinary shares held and voting rights
Bell Pottinger Communications Limited	Public Relations	100%
Bell Pottinger Financial Limited	Financial Public Relations	100%
Bell Pottinger Public Affairs Limited	Political Public Relations	100%
Bell Pottinger Good Relations Limited	Public Relations	100%
Bell Pottinger Marketing and Events Limited	Property Marketing and Event Management	100%
Meropa Communications (Pty) Limited*+	Public Relations	100%
Green Moon Limited	Consumer Public Relations	100%
The Smithfield Design Group Limited	Design and Print Consultants	100%
First Financial Advertising Limited	Financial Advertising and Public Relations	100%
Graphiti Limited	Typesetting and Design	100%
Howell Henry Chaldecott Lury Limited	Marketing Communications	100%
In Real Life Limited	Marketing Communications	100%
AMD plc+	Advertising, marketing and design	100%
Opinion Leader Research Limited+	Market Research	100%
Michael Humphreys & Partners Limited	Sports Marketing	100%
Smithfield Financial Limited	Financial Public Relations	100%
Keith McDowall Associates Limited+	Public Relations	100%

* Incorporated in South Africa

+ Direct subsidiary of Chime Communications PLC

These companies operate principally in the country of incorporation.

The Group holds a 75% stake in Interactive Bureau, a joint arrangement with Interactive Bureau LLC (based in New York, USA). Its principal place of business is 59 Russell Square, London WC1.

Notes to the accounts continued

15. Debtors

	The Group		The Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Trade debtors	12,627	11,611	–	–
Amounts owed by Group undertakings	–	–	4,014	5,416
Amounts owed by associated undertakings	–	12	–	–
Other debtors	733	1,325	28	31
Prepayments and accrued income	1,760	877	18	4
Tax recoverable	888	2,045	520	672
	16,008	15,870	4,580	6,123
Due within one year	16,008	15,501	4,580	5,754
Due after more than one year	–	369	–	369
	16,008	15,870	4,580	6,123

16. Short term investments

	The Group		The Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Loan note cash deposit	2,500	2,500	2,500	2,500
Cash held in Howell Henry Chaldecott Lury Limited Employee Benefit Trust (see note 21)	132	191	–	–
	2,632	2,691	2,500	2,500

The short term investment of £2.5 million relates to a cash deposit held on three months notice at National Westminster Bank PLC. The deposit guarantees the loan note creditors of £2.5 million. Interest accruing on the deposit is payable to the holders of the loan notes less any costs arising (see note 19).

17. Creditors: amounts falling due within one year

	The Group		The Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Bank overdraft	–	–	–	2
Trade creditors	4,835	3,368	–	–
Amounts owed to Group undertakings	–	–	907	619
Amounts owed to associated undertakings	–	76	–	–
Deferred/contingent consideration	7,985	–	7,750	–
Other creditors	1,177	1,218	546	63
Loan notes	2,500	–	2,500	–
Obligations under finance leases	205	522	–	–
Taxation and social security	5,515	5,921	57	471
Accruals and deferred income	13,404	14,778	315	1,825
Dividends payable	1,783	1,478	1,783	1,478
	37,404	27,361	13,858	4,458

Bank overdrafts are secured by a Mortgage Debenture over Group companies. A cross guarantee exists between each of the subsidiaries and the parent company.

18. Creditors: amounts falling due after more than one year

	The Group		The Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Deferred/contingent consideration	765	1,730	–	1,730
Loan notes	–	2,500	–	2,500
Obligations under finance leases	63	315	–	–
	828	4,545	–	4,230

19. Borrowings

	The Group		The Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Bank overdraft	–	–	–	2
Loan notes	2,500	2,500	2,500	2,500
Obligations under finance leases	268	837	–	–
	2,768	3,337	2,500	2,502
Due within one year	2,705	522	2,500	2
Due after more than one year	63	2,815	–	2,500
	2,768	3,337	2,500	2,502
Analysis of repayments				
Bank overdraft within one year	–	–	–	2
Loan notes				
Within one year	2,500	–	2,500	–
Between one and two years	–	2,500	–	2,500
Obligations under finance leases				
Within one year	205	522	–	–
Between one and two years	63	248	–	–
Between two and three years	–	67	–	–
	2,768	3,337	2,500	2,502

Loan notes totalling £2.5 million were issued to 13 senior employees of HHCL Group Limited as part of the consideration at the time of the acquisition of that company in November 1997. These loan notes are repayable at any time after one year from the date of acquisition on 90 days notice being given by the loan note holder after the anniversary of the date of grant.

The loan notes are guaranteed by National Westminster Bank PLC who hold a deposit of £2.5 million against them (see note 16).

Obligations under finance leases are secured by related leased assets.

Notes to the accounts continued

20. Provisions for liabilities and charges

The Group	Provision for unfunded pension liability £'000
At 1 January 1998	95
Increase in provision	30
Utilised in year	(25)
At 31 December 1998	100

No provision has been made for deferred tax liabilities as there are potential deferred tax assets of £403,000 (1997 – £410,000) relating to timing differences on capital allowances and other timing differences of £123,000 (1997 – £207,000) which have not been recognised.

21. Called up share capital

Ordinary shares of 25p each	Number	Nominal value £'000
Authorised at 1 January 1998 and 31 December 1998	168,503,948	42,126
Called up, allotted and fully paid		
At 1 January 1998	121,918,614	30,480
Issue of shares to staff under share options	258,662	64
At 31 December 1998	122,177,276	30,544

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

Executive Share Option Scheme:

Number of ordinary shares of 25p each at 1 January 1998	Granted in the year	Exercised in the year	At 31 December 1998	Period during which options may be exercised		Price to be paid on the exercise of Options
				From	To	
1,160,000	–	135,000	1,025,000	October 1997	September 2004	32p
130,000	–	110,000	20,000	May 1998	April 2005	30p
235,000	–	–	225,000	October 1999	September 2006	37.5p
60,000	–	–	40,000	April 2000	April 2007	39p
3,705,784	–	–	3,475,784	November 2000	November 2007	54p
1,745,000	–	–	1,645,000	November 2000	November 2007	48p
1,000,000	–	–	1,000,000	November 2002	November 2007	48p
– 460,000	–	–	460,000	May 2001	May 2008	56p
– 900,000	–	–	900,000	November 2001	November 2008	40p

Savings-Related Scheme:

Number of ordinary shares of 25p each at 1 January 1998	Granted in the year	Exercised in the year	At 31 December 1998	Period during which options may be exercised		Price to be paid on the exercise of Options
				From	To	
682,224	–	13,662	635,075	June 2000	June 2001	24p
345,650	–	–	312,710	June 2001	December 2001	31p
194,526	–	–	127,756	June 2002	December 2002	31p
– 471,869	–	–	471,869	June 2003	December 2003	43p

Other reductions during the year were due to lapsed options as employees left the company.

21. Called up share capital – continued

Employee Share Ownership Trusts

The Chime Communications Employee Trust (“The Trust”) was established in 1997 in Jersey. The trustee is Mourant & Co. Trustees Limited. The beneficiaries of the Trust are employees and former employees of the Company in the Group (including any director) and the spouses and children or step children of such employees or former employees. The purpose of the Trust is to facilitate and encourage the ownership of shares by employees. Distributions from the Trust are agreed by the trustee on recommendations from the Board of Directors of Chime Communications PLC.

The Trust currently holds 5,065,784 ordinary shares which have a nominal value of £1,266,446 and over which options were granted in November 1997, May 1998 and November 1998. All costs of the Trust are borne by Chime Communications PLC and expensed through the profit and loss account. The Trust has opted to waive all dividends. The market value of the shares in the Trust at 31 December 1998 was £2,431,576.

The Howell Henry Chaldecott Lury Limited Employee Benefit Trust (“The Benefit Trust”) is established for the benefit of employees and directors of Howell Henry Chaldecott Lury Limited (excluding R C S Howell, S J B Henry, A J Chaldecott, A T Lury and R M D Price). The trustee is Augres Trustees (Jersey) Limited. Share distributions are agreed by the trustee on recommendation from the Board of Directors of Howell Henry Chaldecott Lury Limited. The Benefit Trust income represents dividend income and interest received. Costs represent the cost of the trustee’s services and any associated legal costs. These are charged/(credited) to the Benefit Trust’s profit and loss account as incurred/(received).

At 31 December 1998 the Benefit Trust held 514,118 Chime Communications PLC shares and cash of £132,000. The market value of the shares in the Benefit Trust as at 31 December 1998 was £246,777.

22. Statements of movements on reserves

	Share premium account £'000	Merger reserve £'000	Goodwill reserve £'000	Profit and loss account £'000
The Group				
Balance at 1 January 1998 as previously stated	5,372	5,585	(42,485)	1,659
Prior year adjustment	–	(5,585)	42,485	(36,900)
At 1 January 1998 as restated	5,372	–	–	(35,241)
Retained profit for the year	–	–	–	2,829
Premium on shares issued	15	–	–	–
Goodwill written off to profit and loss account for the year	–	–	–	200
Goodwill written off	–	–	–	(4,270)
Foreign exchange difference	–	–	–	(13)
Balance at 31 December 1998	5,387	–	–	(36,495)
The Company				
Balance at 1 January 1998	5,372	3,780	–	2,236
Retained profit for the year	–	–	–	2,602
Premium on shares issued	15	–	–	–
Balance at 31 December 1998	5,387	3,780	–	4,838

Prior year adjustment

In accordance with Financial Reporting Standard 10 ‘Goodwill and Intangible Assets’, goodwill previously written off directly to reserves has been written off against the profit and loss reserve and the merger reserve.

The total amount of goodwill written off directly against reserves in respect of the Group’s current subsidiaries is £50,335,000 (1997 – £46,265,000).

Notes to the accounts continued

23. Notes to the consolidated cash flow statement

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

	1998 £'000	1997 £'000
Operating profit	7,827	3,668
Depreciation	1,636	971
Profit on sale of tangible fixed assets	(115)	(145)
Decrease/(increase) in work in progress	63	(116)
Increase in debtors	(1,030)	(1,756)
Increase in creditors	495	3,664
Increase/(decrease) in provisions	5	(40)
Net cash inflow from continuing operating activities	8,881	6,246

(ii) Reconciliation of net cash flow to movement in net funds

	1998 £'000	1997 £'000
(Decrease)/increase in cash in the year	(193)	4,139
Cash used to increase liquid resources	–	2,500
Cash outflow from decrease in lease financing	583	504
Change in net funds resulting from cash flows	390	7,143
Loans and finances leases acquired with subsidiary	–	(501)
New finance leases	(14)	(73)
Issue of loan notes	–	(2,500)
Currency translation difference	(28)	–
Movement in net funds in the year	348	4,069
Net funds at 1 January	5,871	1,802
Net funds at 31 December	6,219	5,871

(iii) Analysis of net funds

	At 1 January 1998 £'000	Cashflow £'000	Other non-cash movements £'000	At 31 December 1998 £'000
Cash at bank and in hand	6,708	(193)	(28)	6,487
Liquid resources	2,500	–	–	2,500
Loan notes	(2,500)	–	–	(2,500)
Obligations under finance leases	(837)	583	(14)	(268)
	5,871	390	(42)	6,219

Cash held on deposit of £2.5 million guarantees the loan note creditor of £2.5 million. Thus, for the purpose of this reconciliation, cash held on deposit of £2.5 million has been treated as liquid resources.

23. Notes to the consolidated cash flow statement – continued**(iv) Major non-cash transactions**

During the year, provision was made for additional contingent consideration on the 1997 acquisitions of HHCL Group Limited and AMD Plc. The contingent consideration provisions amounted to £3,000,000 for HHCL Group Limited and £1,270,000 for AMD Plc (see note 14).

During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £14,000 (1997 – £73,000).

(v) Purchase of subsidiary undertakings

	1998 £'000	1997 £'000
Assets and liabilities acquired:		
Tangible fixed assets	38	1,243
Investments	–	557
Debtors	280	6,194
Work in progress	–	37
Cash at bank and in hand	437	1,888
Creditors	(484)	(9,113)
Net assets acquired	271	806
Minority interest	63	(24)
	334	782
Goodwill	4,884	26,334
Consideration	5,218	27,116
Satisfied by:		
Cash	2,468	11,486
Shares allotted	–	11,400
Loan notes	–	2,500
Contingent consideration	2,280	1,730
Deferred consideration	470	–
	5,218	27,116

Cash consideration includes £42,000 of acquisition costs accrued but not paid at 31 December 1998. In addition, £1,066,000 was paid during 1998 in respect of acquisition costs accrued but not paid at 31 December 1997.

The businesses acquired during the period contributed £272,000 (1997 – £1,969,000) to the Group's net operating cash flows, received £9,000 (1997 – £40,000) in respect of net returns on investments and servicing of finance, paid £313,000 (1997 – £90,000) for capital expenditure and financial investment and used £nil (1997 – £18,000) for financing.

Notes to the accounts continued

24. Operating lease commitments

At 31 December 1998, the Group was committed to making the following payments during the next year in respect of property operating leases.

	1998 £'000	1997 £'000
Leases which expire:		
Within one year	122	8
In one to two years	197	50
In two to five years	290	334
Over five years	1,498	1,493
	2,107	1,885

At 31 December 1998 the Group was committed to making payments amounting to £9,000 in respect of leases other than those relating to property.

25. Capital commitments

At 31 December 1998 the Group had no capital commitments.

26. 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 Company.
- (ii) 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. A further provision was made during 1998 following an updated actuarial valuation.

27. Related party transactions

During the year Howell Henry Chaldecott Lury Limited granted a secured interest free loan of £250,000 to Michaelides & Bednash Limited. The loan will be repaid in full during 1999. Howell Henry Chaldecott Lury Limited held 50% of the ordinary shares in Michaelides & Bednash Limited at the start of the year. The rights to these shares were changed in September 1998 so that they became deferred shares with no rights such that Michaelides & Bednash Limited ceased to be an associated undertaking.

During the year, Howell Henry Chaldecott Lury Limited invoiced Michaelides & Bednash Limited £18,000 (1997 – £82,000) for work performed on mutual assignments and was invoiced by Michaelides & Bednash Limited £433,000 (1997 – £339,000) for work performed on mutual assignments. At the year end £58,000 (1997 – £76,000) was due to, and £18,000 (1997 – £12,000) was due from, Michaelides & Bednash Limited in respect of such work performed on mutual assignments.

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Chime Communications PLC will be held at The Terrace Suite, The Dorchester Hotel, Park Lane, London W1A 2HJ at 9.00 a.m. on 10th June 1999 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 1998 and the Report of the Auditors thereon.
2. To re-elect Mark Smith as a Director of the Company.
3. To re-elect Alan Chamberlain as a Director of the Company.
4. To re-elect Sir David Hannay as a Director of the Company.
5. To re-elect Julian Seymour as a Director of the Company.
6. To elect Rupert Howell as a Director of the Company.
7. To elect Robin Price as a Director of the Company.
8. To elect Dave Allen as a Director of the Company.
9. To declare a final dividend on the Company's Ordinary Shares in respect of the year ended 31st December 1998.
10. To re-appoint Deloitte & Touche, Chartered Accountants, as Auditors of the Company and to authorise the Directors to determine their remuneration.

Special business

To consider, and if thought fit pass, the following resolutions as an Ordinary Resolution in the case of resolution 11 and as a Special Resolution in the case of resolutions 12 and 13.

11. 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 £10,181,440 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.
12. 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, open offer or any other pre-emptive offer in favour of ordinary shareholders where the equity securities respectively attributable to the interests 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 arising in any overseas territory, the requirements of any recognised regulatory body or stock exchange or any other matter whatsoever); and

- (ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal amount of £1,523,983;

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 to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

13. THAT the Company be and is hereby generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 163(3) of the Companies Act 1985) on the London Stock Exchange of up to a maximum aggregate amount of 12,217,728 Ordinary Shares of 25p each in the capital of the Company (being 10 per cent of the Company's issued Ordinary Share Capital as at 29 March 1999) at a price per share of not less than 25p and not more than 105 per cent of the average of the middle market quotations for such an Ordinary Share, as derived from the London Stock Exchange Daily Official List, for the five business days immediately preceding the day of purchase; unless previously revoked or varied, such authority will expire at the conclusion of the Annual General Meeting of the Company to be held in 2000 or, if earlier, 15 months from the date of this resolution, save that the Company may purchase Ordinary Shares at any later date where such purchase is pursuant to any contract or contracts made by the Company before the expiry of this authority.

By order of the Board
M W Smith
Secretary
28 April 1999

Registered office:
46 Hertford Street
London W1Y 8AX

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.

Explanation of Special Business

Renewal of Board's authority to allot securities (Resolution 11)

Resolution 11 will allow the Board to allot securities in the Company. The Board's authority will last until the conclusion of the next Annual General Meeting.

The maximum aggregate nominal amount of securities that can be allotted under this authority is £10,181,440 which is equivalent to 33.3 per cent of the issued ordinary share capital of the Company as at 29 March 1999. The Board has no current intention of exercising this authority.

Disapplication of pre-emption rights (Resolution 12)

The effect of Resolution 12 is to allow the Board to allot shares in the Company for cash other than to existing shareholders in proportion to their holdings. Allotments under this authority may be up to a maximum aggregate nominal amount of £1,523,983 which is equivalent to five per cent of the issued ordinary share capital of the Company as at 29 March 1999. This authority will last until the conclusion of the next Annual General Meeting.

Both Resolutions 11 and 12 are consistent with the recommendations of the Investment Committees of the National Association of Pension Funds and the Association of British Insurers.

Purchase of own shares (Resolution 13)

Resolution 13 will allow the Company to make market purchases of up to 12,217,728 of its own ordinary shares (ten per cent of the issued ordinary share capital of the Company as at 29 March 1999) at prices not less than 25p per ordinary share and not more than five per cent above the average of the middle market quotations as derived from the London Stock Exchange Daily Official List for the five business days before each purchase. The Board has no current intention of exercising this authority and will only purchase shares if the effect will be to increase earnings per share and such purchase is in the best interests of shareholders as a whole. Any shares purchased in this way will be cancelled and the number of shares in issue will be reduced. This authority will last until the conclusion of the next Annual General Meeting or, if earlier, 10 September 2000.

No purchases were made pursuant to the equivalent authority granted to the Board at the 1998 Annual General Meeting.

Financial calendar

- 12 April 1999** Ex-dividend date for 1998 final dividend
- 16 April 1999** Record date for 1998 final dividend
- 10 June 1999** Annual General Meeting
- 24 June 1999** Payment date for 1998 final dividend
- September 1999** Announcement of 1999 interim results
- November 1999** Payment of half-yearly dividend based on interim results
- March 2000** Announcement of preliminary results for 1999

...and finally, our telephone number
0171 495 4044

Tim Bell – Chairman

Bertie Way – New Business Director

Mark Smith – Finance Director

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