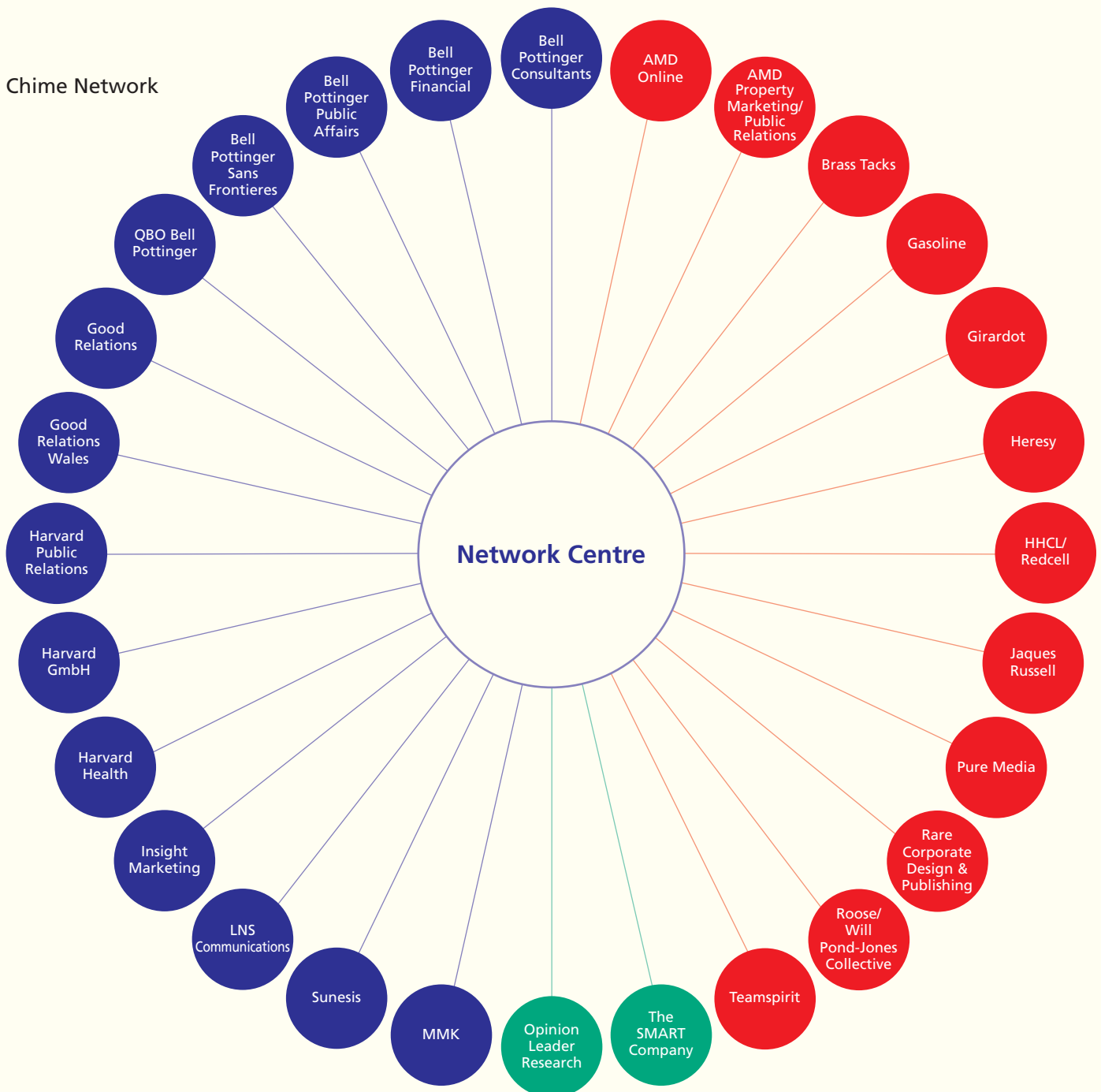


“The ultimate measure of a man is not where he stands in moments of comfort, but where he stands at times of challenge.”

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Chime Network



Public Relations Division

Advertising and Marketing Services Division

Research Division

Financial highlights

Summary of 2002 results

	2002	2001
• Headline Results in line with City analyst forecasts		
• Operating Income	£70.4 million	(£95.1 million)
• Headline Operating Profit	£ 8.4 million	(£17.8 million)
• Headline Profit on Ordinary Activities Before Tax	£ 7.0 million	(£16.3 million)
• Headline Operating Costs	£ 62.0 million	(£77.3 million)
• Headline Earnings Per Share	3.2p	(7.6p)
• Basic Loss Per Share	27.8p	(earnings 4.1p)
• Headline Operating Profit Margin	12.0%	(18.7%)
• No Final Dividend		
• Sale of 49% of HHCL completed		
• New banking arrangements agreed		

Note: Headline figures are shown prior to exceptional costs and goodwill amortisation and impairment charges. Reported Group operating loss, after total exceptional costs of £12.6 million (2001 – £6.3 million) was £4.2 million and after total goodwill amortisation and impairment charges of £34.6 million (2001 – £0.8 million), was £38.7 million (2001 – profit £10.7 million).

Chairman's statement



Lord Bell, Chairman

This is the ninth set of full year results since joining the Stock Market in 1994. For eight years we achieved consecutive double digit growth in operating profits. In 2002 we have experienced a major setback with a decline in headline operating profits of over 50%. I will go into the reasons for this at some length in the next section.

Operating income in 2002 decreased by 26% to £70.4 million (£95.1 million) and operating profit (prior to exceptional costs and goodwill amortisation and impairment) by 53% to £8.4 million (£17.8 million).

Because our income declined we had to cut costs which we did by 20% from £77.3 million to £62 million. The result of this reduction in cash in and increase in cash out to pay for enforced redundancies meant that we breached our banking covenants.

However I am pleased to tell you that we have entered into a new 3-year committed facility with our bank, Royal Bank of Scotland. (The new arrangements are detailed in the Finance Director's statement.)

The effect of this very poor year is that headline profit before tax decreased by 57% to £7.0 million (£16.3 million) and headline earnings per share decreased by 58% to 3.2p. These figures are both prior to exceptional costs and goodwill amortisation and impairment. Exceptional costs are £12.6 million resulting in a loss before tax and goodwill amortisation and impairment of £5.6 million. Goodwill amortisation and impairment was £36.0 million resulting in a loss before tax of £41.6 million.

Exceptional costs and goodwill amortisation and impairment are detailed at some length in the Finance Director's statement.

Reasons for the fall in operating profits

From mid 2001 right through to the end of 2002 we have seen major reductions in marketing and communication expenditure. In effect, an 18-month recession in our marketplace. This has seen a number of constant features:

- Budget cuts
- Pressure on our income through fee and commission cuts
- Cancellation and postponements of projects
- Switching from retainer to project-based relationships
- Switching from fees to time costs
- An increase in pitching and re-pitching with the attendant non-recoverable costs
- Regular downsizing of the workforce with all the attendant short term cost disadvantages
- A reduction in occupied space with the attendant cost provision.

These pressures on income, costs and profit have been right across the entire range of services we offer, all forms of public relations, advertising and marketing services. The only exception has been research.

In detail, we have been hit by some clearly identifiable marketplace factors:

- The absence of major M&A activity
- A major reduction in flotation activity
- A heavy reduction in corporate activity and reputation management in reaction to low corporate profitability
- A reduction in consumer marketing despite the continued growth in consumer spending. Marketing has been carried out primarily by cutting prices to the consumer
- A heavy reduction in financial services marketing as the brands in this sector have been hit by stock market falls and the pensions crisis

In spite of all this gloom we have seen real profit growth in a number of our businesses, mainly as a result of our continuing restructuring and refreshment of our offerings

- A virtual collapse of the hi-tech sector as dot.coms disappeared and major hi-tech brands retrenched into minimal marketing activity to offset profit declines and balance sheet problems
- In addition to all this our advertising business has been very hard hit, not just because of the market downturn but also the loss of major clients through change of client management, international realignment and changes of fashion. HHCL lost its place as the UK top hotshop to Mother, and Roose's position as the agency for non-aligned multi national brands diminished as the clients changed their policy on alignment.

Some bright spots

In spite of all this gloom we have seen real profit growth in a number of our businesses, mainly as a result of our continuing restructuring and refreshment of our offerings.

- Bell Pottinger Public Affairs where we brought in a new managing director is now the leading brand in the sector
- Opinion Leader Research where the founders have returned and re-established the business as the pre-eminent qualitative and consultative research brand
- Harvard Health where we merged our two different brands and have seen real growth in the business
- Bell Pottinger Public Relations where we restructured the management we have seen a change from loss to a profit of nearly £0.75 million
- Our contract publishing business, AMD Brass Tacks has also increased profits with a strengthened management team.

Other bright spots have been at AMD Online, our website design business which continued to prosper despite the massive downturn in the sector, and Pure Media where our specialist media buying service has prospered against the reduction in media spend.

Overall, all our brands, despite the difficulties chronicled above, are strong and resilient and well able to capitalise on the eventual return to growth in the marketplace.

The results by sector are as follows (all operating profit figures are shown prior to exceptional costs, goodwill amortisation and impairment):

Public relations

Operating income in 2002 was £28.5 million (£36.2 million in 2001) and operating profit was £3.7 million (£7.0 million in 2001). The margin was 12.8% compared to 19.4% in 2001.

Our public relations businesses continue to be the largest part of our Group contributing 40% of the operating income and 43% of the operating profit in 2002.

Hi-tech

Operating income in 2002 was £8.9 million (£16.3 million in 2001) and operating profit was £0.7 million (£2.8 million in 2001). The margin was 8.3% compared to 16.8% in 2001.

Despite the difficult trading conditions the Group has continued to win major new clients and be involved in high profile marketing and communications activities

Marketing services/Research

Operating income was £11.0 million (£10.5 million in 2001) and operating profit was £1.3 million (£0.7 million in 2001). The margin was 12.3% compared to 6.5% in 2001.

Advertising

Operating income was £22.0 million (£32.1 million in 2001) and operating profit was £2.7 million (£7.3 million in 2001). The margin was 12.2% compared to 22.9% in 2001.

The Group has sold 49% of HHCL & Partners to WPP and going forward the remaining investment in HHCL will be accounted for on an associate basis and not included in the segmental analysis. Operating income in 2002 for HHCL was £8.6 million (£16.6 million in 2001) and operating profit was £0.4 million (£2.5 million in 2001).

Excluding HHCL, advertising represented 22% of Group operating income and 28% of operating profit.

Business activity

Despite the difficult trading conditions the Group has continued to win major new clients and be involved in high-profile marketing and communications activities.

The Group acted for 1,085 clients in 2002 compared to 1,148 in 2001, 168 (127 in 2001) of our clients used more than one of our brands and 33 (30 in 2001) clients used more than two of our brands. Average fee per client has decreased from £83,000 in 2001 to £65,000 in 2002 (£69,000 in 2000).

155 clients each paid over £100,000, compared to 195 in 2001.

The difficult trading conditions, oversupply in the marketplace and continued pressure from clients to reduce costs, has put downward pressure on fees which is reflected in the above statistics.

Corporate activity

In February 2003 the Group sold 49% of HHCL & Partners Ltd to WPP Group (UK) Limited for £3.5 million in cash. HHCL has become part of the international Red Cell Group owned by WPP. Further consideration of up to £0.5 million will be payable in cash provided HHCL achieves operating trading income of at least £8 million in 2003. In addition, Chime has the right to sell its remaining interest in HHCL to WPP after 1 January 2004. Under the terms of the agreement WPP will have day-to-day management control of HHCL.

In March 2003 the Group completed the purchase of the remaining 40% of Pure Media Group Limited (Media Buying Agency) which it did not already own. The consideration was £600,000 in bank guaranteed loan notes, £300,000 in non-guaranteed loan notes and the issue of 2.6 million shares.

Looking ahead

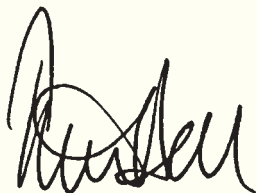
The first quarter of 2003 appears to be no worse than the last quarter of 2002 and we think this may be an indication that the declines in operating income experienced in the second half of 2001 and throughout 2002 have now stopped. However there are no signs so far that anything is getting much better.

Some of our businesses are growing – particularly those in research, consumer public relations and public affairs, but overall performance appears to be flat. We continue to bear down very heavily on costs.

There remains a lack of visibility. The present economic conditions and the war lead us to believe that there will be no recovery in 2003. If operating income starts to decline further at any point in 2003 we will take quick action to reduce costs. We have continued to win clients in 2003 and major wins so far have included Wal*Mart in its potential bid for Safeway, BAE Systems, O₂, Wedgwood and Madame Tussauds.

Our staff have continued to be very supportive through what has been the most difficult year in our history and I am grateful for their hard work and support.

We now have the Company on a sound financial footing and we are well positioned to respond to any upturn in the marketplace when it happens.



Lord Bell, Chairman

Major new clients won in 2002 include:

AEA Technology	L'Oreal UK
Adobe	MFI
Autoglass	National Trust
Chubb	Norwich Union Life
Cushman & Wakefield	Sun Microsystems
Healey & Baker	UBS Global Asset Management
Dubai International Finance Centre	Vauxhall
English Partnerships	Vodafone
Heidrick & Struggles	Yorkshire Water
IAMS Petfood	

High profile activities in 2002 include:

The launch of Ocado, the internet shopping operation backed by Waitrose

Rolex's sponsorship of the Ryder Cup

The launch of the euro currency for Travelex

The IPR award-winning launch of Glas Cymru, which took over Welsh Water

The Pantene Pro-V Spirit of Beauty Awards, hailed as the "Oscars of the Beauty Industry"

Jazz FM's defence against the offer from Guardian Media Group

Go's acquisition by easyJet

The financial restructuring of Marconi

Pubmaster's \$523 million acquisition of Inn Partnership from Nomura

The Railtrack Shareholders Action Group's successful campaign for compensation

Chelys's £690 million acquisition of Energis

Arsenal FC's successful planning application for a new stadium

Chief Executive's review



Chris Satterthwaite, Chief Executive

Marketing in the Age of Reference

I break no new ground by suggesting that the last two years have been particularly challenging for the marketing services industry. They have seen all major clients begin to ask serious questions of their marketing and communications activity and, against a background of economic turbulence, this has inevitably led to serious issues as budgets are cancelled and projects are deferred. Chime has been far from immune to this – and our last 12 months, in particular, have proved painful. However, in the medium to long term, we can only welcome this questioning of the fundamental assumptions that have underpinned marketing services for decades.

The unrest in marketing and communication departments has its roots in something more profound than the current economic difficulties – it comes from a growing awareness that we are entering a new era of marketing communications, where the system of authority that has held sway in our marketplace for over two centuries is being transformed and where the content and role of the media serving that marketplace has changed equally dramatically. As a Group, Chime's exceptional connections to politics, the media, opinion formers and business stakeholders, give it a unique opportunity to understand and exploit these changes.

Slaying some sacred cows

It's a common assumption of communications groups at times like these that the slowdown in marketing expenditure is simply a knee-jerk reaction to prevailing economic conditions – a symptom of the fact that marketing is usually the first budget to be cut. However, our conversations with CEOs and marketing directors over the last year indicate that a far more significant change is taking place; the product of media fragmentation that is undermining traditional methods of broadcast communication. Our conversations have less to do with a few years' belt-tightening and more to do with questions such as, "Has advertising had its day as lead medium?" "Is there still a role for the Big Idea in marketing?" and "I value Public Relations but is it measurable?" Such issues are all underpinned by one ever-present concern: "Why are we seeing diminished returns from our marketing investment?"

The end of the age of deference

The old system of advertising-led communications was based on and designed for an authority structure that has fitted society since the industrial revolution, something we like to term 'The Age of Deference'. In this system, the credibility of a message actually grows with its distance from its recipients. The vast majority of the population hold a small number of distant individuals in authority, while giving far less respect and credibility to their peers, whom they can identify with personally. By the same rationale, in this model, a piece of marketing gains rather than loses credibility from the number of individuals it addresses. The size of the broadcast audience gives greater authority.

As a Group, Chime's exceptional connections to politics, the media, opinion formers and business stakeholders, give it a unique opportunity to understand and exploit these changes

The age of deference
Advertising-led model

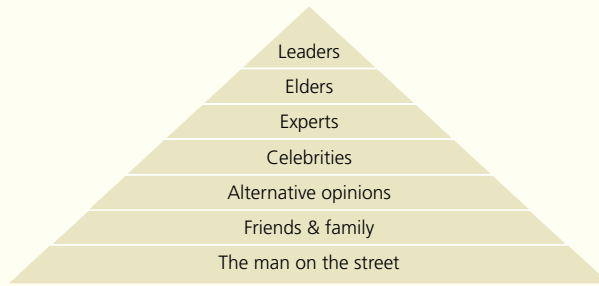
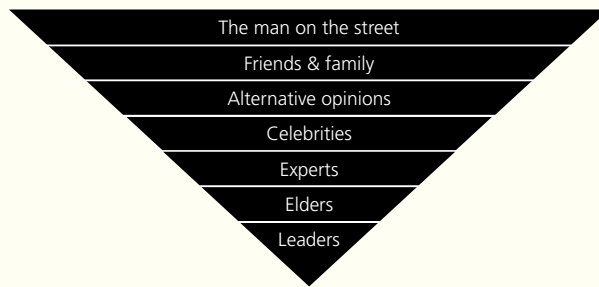


Fig. 1

The age of reference
3rd party referral model/'word of mouth' model



Source: Chime Network Centre

Who do you trust to give you the facts on MMR?

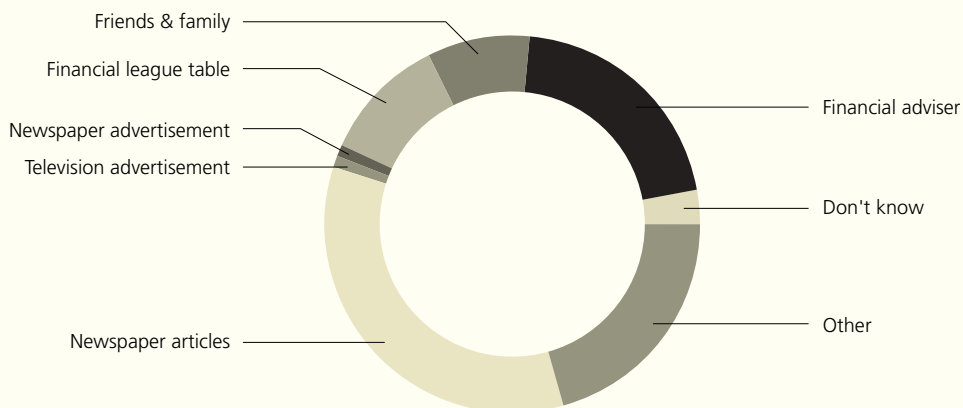
Fig. 2



Source: Opinion Leader Research

What is the biggest influence on your investment decisions?

Fig. 3



Source: Teamspirit

Over the last few years, this model has been eroded so completely, that it now makes a lot more sense standing on its head. (See fig.1.) Today, we are far more likely to give credence to those that we identify with closely, those that we know have had similar experiences to ourselves, or those media sources that we feel have actively earned our respect. In this way, the Age of Deference has ended and the Age of Reference, where the public chooses from an individualised menu of credible personal sources, many of which have little to do with traditional media, has begun.

Some startling findings

When Chime's market-leading research company, Opinion Leader Research, conducted a survey on trust earlier this year, they uncovered startling evidence of how our reference system has shifted. On the issue of MMR, the general public are more likely to trust Richard and Judy than they are to believe either the General Medical Council or the Health Secretary, Alan Milburn. (See fig.2.) When it came to the Foot and Mouth crisis, the public were three times more likely to trust Animal Rights Groups than they were the Prime Minister.

Research conducted by another Chime company, Teamspirit, shows the direct influence of this shift on advertising effectiveness in financial services. (See fig.3.) When asked about the biggest influence on their investment decisions, less than 1% of investors chose newspaper advertisements, while almost ten times as many put their trust in family and friends.

A hungry media

In the same survey, a majority of around 35% gave newspapers as a source of trusted information, indicating the high esteem in which the public still holds credible editorial content. However, the nature of the media that seeks to provide such content is also changing. The fragmentation that has so hampered traditional broadcast messages has also left a real hunger for original content amongst media outlets themselves, be they radio, television, print or online. Among the public as a whole, the lack of unified broadcast channels has also left a hunger for connection. This growing need for identification shows itself in the unexpected outpourings of togetherness that accompanied the Jubilee and the funeral of the Queen Mother, as well as the national hysteria over football's World Cup.

The client as content generator

This hunger for both content and connection points the way towards effective marketing in the Age of Reference. Companies must begin to focus less on broadcasting messages and more on engaging in ongoing conversations via the media. They must continue these conversations both with traditional opinion formers and with a new generation of protagonists among the public, who play a growing role in influencing those around them. It's our contention that these conversations can best be maintained through the continual generation of varied, original and credible content, either through Public Relations or advertising, groundbreaking research, the direct production of editorial or the development of content through customer relationships.

Chime has an unequalled range of Public Relations expertise and unique contacts in all aspects of the media. It also has a portfolio of leading research companies offering thought-leader insights into targeting all opinion leaders. And Chime has a growing number of companies generating content and advertising, dedicated to bringing clients media owner status. The potential is obvious. However, the case is not yet proven. Breadth of service for breadth of service' sake will not bring any real advantage to either ourselves or our clients.

True integration

Clients have every reason to be suspicious of agency groups that promise integration but deliver only aggregation – the bolting-on of endless, special-offer services to a core discipline. From its inception, Chime has preached the values of individual flair and collective excellence. However, over the next 12 months, we will drive to improve our performance in both areas, in order to take maximum advantage of the opportunities available to us.

We must reinforce our reputation as a group of super-niche, market-leading companies that benefit from a super-collective culture, designed to make integration more than the sum of its parts. Achieving super-niche status will involve a rigorous concentration on core disciplines. Building a super-collective culture will involve establishing a shared outlook and style of working – and the sharing of original, market-leading knowledge within the Group.

Over the following pages, we will review how, during the difficult market conditions of the last 12 months, our operating companies are already taking steps to fulfil this strategy.

PUBLIC RELATIONS COMPANIES:

Bell Pottinger Consultants, Bell Pottinger Financial, Bell Pottinger Public Affairs, Bell Pottinger Sans Frontières, QBO Bell Pottinger, Good Relations, Good Relations Wales, Harvard Public Relations, Harvard GmbH, Harvard Health, Insight Marketing, LNS Communications, Sunesis, MMK.

Our Public Relations businesses faced tough market conditions in 2002, with the mergers and acquisitions market continuing to drop off and the technology and telecommunications marketplace contracting significantly. However, building the scope of businesses through consolidation and re-focusing on core disciplines has paved the way for greater opportunity in 2003.

The formation of QBO Bell Pottinger will reinforce the heavyweight status of two of Chime's strongest brands

The merger of Bell Pottinger Public Relations with QBO to form **QBO Bell Pottinger** concluded at the end of the year and will reinforce the heavyweight status of two of Chime's strongest brands. Earlier in the year we had consolidated several small businesses into Bell Pottinger Public Relations, including its travel and tourism capability and sports sponsorship team. QBO's Royal Mail business departed during the year, but the combined agency will launch with several new clients acquired during 2002, including MFI, Rolex, GB Railways and DTI Small Business Service.

Despite the slowdown in M&A work, **Bell Pottinger Financial** was able to reinforce its status as a top tier financial specialist with continuing high-profile work. This included Pubmaster's acquisition of Inn Partnership and Go's sale to easyJet. It also picked up awards from PR Week, for work with the Railtrack Shareholders Action Group, and the Institute of Public Relations, for the demutualisation of Friends Provident, and acquired new business including Standard Chartered and Heidrick and Struggles.

Bell Pottinger Public Affairs defied the general contraction in the public affairs industry to record its most profitable year since launch in 1995. The consultancy picked up business from a range of clients, including mmo2, Sun Microsystems and Macmillan Cancer Relief and also advised Newport County Borough Council on its successful bid for city status.

The tough conditions necessitated a reduction in headcount at **Bell Pottinger Consultants**, with clients such as Goldman Sachs departing. However, the consultancy was able to pick up high-profile new clients such as Vauxhall and Boots, and also introduced new planning and management tools such as the Relationship Premium Model. The year also saw the launch of **Bell Pottinger Sans Frontieres**, specialising in projects that cross national and disciplinary boundaries. Graham Barr MBE joined as chairman of the new company, which has offices in Brussels and Washington DC and started with wins including Microsoft and BP Europe.

The **Good Relations** brand is still one of the oldest and strongest in both corporate and consumer public relations work. The departure of Securicor and Nescafé was balanced by the arrival of new clients such as IAMS, AEA Technology and the BSI Group. **Good Relations Political** continued to build its profile, winning an IPR Excellence Award for its presentation of Welsh Water's not-for-profit owner, Glas Cymru, to the city. **Good Relations Wales**, meanwhile, will handle communications for the largest brownfield project of its kind in Europe: the redevelopment of the crude oil refinery at Llandarcy near Neath.

Harvard Public Relations experienced poor trading conditions that necessitated a reduction in headcount and a refocusing of the business. The sustained downturn in the company's core IT and telecommunications sectors led to a broader focus communicating the benefits of innovation in all forms. New business arrived from Vodafone, amid signs of a more promising 2003 for the wireless sector. **Harvard Health** was

established by the merger of Harvard's healthcare division with Radius Healthcare, ensuring communications expertise across both patient and professional audiences. Early wins included Pfizer, Johnson & Johnson MSD and Coloplast.

The deteriorating technology market resulted in a significant revenue downturn for **Insight Marketing**, which was further hampered by the merger of its client Hewlett-Packard with Compaq. A reduction in headcount was necessary. Insight's analyst relations practice was relaunched as **Sunesis**, to take better advantage of this growing market sector.

ADVERTISING AND MARKETING SERVICES COMPANIES: **AMD Online, AMD Property Marketing, AMD Public Relations, Brass Tacks, Gasoline, Girardot, Heresy, HHCL/Redcell, Jaques Russell, Pure Media, Rare Corporate Design and Publishing, Roose, Will Pond-Jones Collective, Teamspirit.**

We responded to the slowdown in marketing expenditure with several launches and initiatives outside traditional broadcast channels. Meanwhile, our advertising and direct marketing interests were strengthened through mergers, broadening companies' offerings and ensuring robustness in the difficult climate.

The merger of **HHCL** with WPP's Red Cell network was completed in January, giving the agency genuine international reach. During 2002, HHCL reasserted its creative reputation with high-profile, effective campaigns for Pot Noodle and Birds Eye. The management of **Roose** was restructured under chief executive Ed Will and Jay Pond-Jones, one of the UK's leading creative directors. Despite a necessary reduction in headcount, Roose was able to make some progress, picking up accounts for FCUK's drinks brand, Spirit, and the launch of Littlewoods Gaming.

Teamspirit also enjoyed an impressive 2002, outperforming the depressed financial services market to deliver strong profits and a revenue increase

January 2003 saw the launch of **Will Pond-Jones Collective**, a sister agency to Roose which will create branded content for clients. Early indications are encouraging, with appointments from Nestlé Rowntree, Madame Tussauds and talkSport.

With the housing market beginning to slow in the last quarter of the year, **AMD Property Marketing** moved to strengthen its range of services and expand activity outside London. The year saw key appointments from Crosby Homes and St James Homes, work for which secured the agency the overall award for creativity at the 2002 Property Advertising Marketing and Design Awards. **AMD Public Relations** continues to work closely with the agency, consolidating its reputation as a specialist operator.

Girardot Partners launched successful campaigns for Cantor Index, which saw its response rates double, and Scottish Value Management. Despite tough market conditions, the company was able to add Voicepath, a provider of digital solutions for the legal profession, to its business-to-business client list.

Pure Media, now wholly owned by Chime, continues to operate as a specialist media buyer concentrating on the property, financial services and automotive sectors.

The direct marketing agency, **Heresy**, was successfully merged with Digital Experiences to form a fully integrated direct and digital agency. Turnover rose from £2 million to £3 million as a result of the merger. During 2002, the agency was able to land new accounts for Speedo and Centrebet, and picked up a Direct Marketing Association Gold for launching Waitrose's online shopping arm, Ocado.

In September 2002, Chime moved into the promotional marketing sector with the launch of **Gasoline** under the experienced trio Chris Killingbeck, Simon Melville and Mark Joy. Gasoline's client list already includes RAC and HSBC.

Our belief in the marketing power of editorial content was exemplified by the hiring of Craig Waller, an expert in the field, who took charge of our publishing businesses mid-way through the year. This was the rationale behind the relaunch of AMD Corporate Design as **Rare Corporate Design and Publishing**. The addition of an editor-in-chief to Rare has ensured that the content of clients' corporate reporting achieves equal prominence to outstanding design. Rare's early successes have included producing reports for Chubb plc, Jarvis and HBOS.

The customer publishing operation, **Brass Tacks**, has experienced similar success pushing content into new areas, developing its collaboration with Ogilvy One across several clients, including Royal Mail. During 2002, the company was appointed to relaunch Littlewoods' Select Living title and develop a new magazine for Coventry Building Society. The contract to publish The Somerfield Magazine was successfully retained after a statutory review.

AMD Online continued its healthy development. The company outperformed the market, winning substantial work from Trade Partners UK among others. There were innovations in working practices and mixed-media applications. However, AMD Online's core focus on clear and

deliverable website solutions remains – and continues to differentiate its offer in an ever-firming marketplace.

Teamspirit also enjoyed an impressive 2002, outperforming the depressed financial services market to deliver strong profits and a revenue increase of 4%. A new business conversion rate of 56% for the media-neutral agency minimised the effect of budgets being squeezed in the second half of the year. UBS Global Asset Management and Standard Life Investments were among the clients that came on board during 2002. A new management team, installed at the year's end and led by Jo Parker, will take the agency on to the next stage of its development.

RESEARCH COMPANIES:

Opinion Leader Research, The SMART Company

Our research companies enjoyed a strong 2002, strengthening their positions and providing Chime with market-leading planning tools, innovative thinking and a range of new business opportunities.

The research companies provided the Chime Group with market-leading planning tools and innovative thinking

Opinion Leader Research continued to demonstrate its market-leader status through groundbreaking work, industry recognition and a strong new business record. During 2002, the company achieved the highest profits in its ten-year history and landed new clients such as British Airways, Camelot and The Greater London Authority. Three Opinion Leader briefings were held during 2002, and the company began 2003 by presenting new work on the nature of influence, which is helping to extend its offer to new areas. Opinion Leader Research will present four papers at the 2002 Market Research Society Conference, further asserting its reputation for innovation within the industry.

In its second full year of operation, **The SMART Company**, was able to continue differentiating itself in the increasingly crowded Corporate Social Responsibility market. A growth in repeat business was best demonstrated by the arrival of SMART's first retained client, HBOS. Prospects for 2003 are good, with CSR continuing to grow as a discipline despite increased pressure on budgets.

Chris Satterthwaite,
Chief Executive

Finance Director's statement



Mark Smith, Finance Director

'New banking arrangements agreed'

2002 was a difficult financial year for the Group. The emphasis was on reducing costs and agreeing new arrangements with the bank.

Banking arrangements and issue of warrants

On 13 November 2002 the Group issued a trading update outlining the deteriorating trading conditions, the increase in exceptional costs as a result of further cost cutting and the consequent breach of banking covenants with the Royal Bank of Scotland.

The Bank commissioned an Independent Business Review by PricewaterhouseCoopers, as a result of which the Bank has reiterated its continued support for the Group. New banking facilities have now been agreed with the Bank, the principal terms of which are as follows:

- Overall facility of £37 million divided between senior debt of £20 million and mezzanine funding of £17 million
- Three year term to run from March 2003 with an annual review
- Interest rate of 1% over LIBOR on all usage of £37 million facility
- Six month period to 30 September 2003 (extendable to 31 December 2003) to arrange alternative funding for the mezzanine debt

- If mezzanine funding is required from the bank, the Company has agreed to issue to the bank warrants to subscribe for 5% of the share capital of the Company. These warrants will be exercisable at any time prior to the third anniversary of the date of issue at a strike price of the nominal value of 25p each
- The principal covenant for the first year is an EBITDA interest cover of 3.

Net debt at 31 December 2002 was £32.4 million. Since the year end the Group has received cash (net of costs) of £3 million from the sale of 49% of HHCL & Partners Ltd.

The Group has total outstanding deferred considerations of £5.3 million, of which £3.5 million is payable in cash (or bank guaranteed loan notes) and £1.8 million in shares.

Deferred considerations payable in 2003 total up to £3.5 million, of which £2.5 million is payable in cash (or bank guaranteed loan notes) and £1.0 million in shares.

Exceptional costs

The reduction in income and the consequent need to cut costs continued from 2001 throughout 2002. We therefore incurred further exceptional costs of £12.6 million.

These exceptional costs comprised three main categories:

- Reducing the number of employees (£7.3 million)
- Reducing our occupied space (£4.1 million)
- Other costs, including the costs of the banking review (£1.2 million).

Out of this total, 44% of the exceptional costs were incurred in advertising, 24% in public relations, 18% in hi-tech and 14% in marketing services.

Our headcount (excluding HHCL) decreased from 798 people at the beginning of the year to 631 at the end, a reduction of 21%.

Our occupied space was reduced from 139,000 square feet at the beginning of the year to 103,000 at the end, a reduction of 26%.

We now have 37,000 square feet of unoccupied space and provision (£2,143,000) has been made in 2002 for the expected costs of disposal.

Exceptional costs incurred in 2002 will result in cost savings of over £13.5 million in 2003.

Goodwill amortisation and impairment

In view of the downturn in trading conditions, the Board has looked particularly carefully at the carrying value of goodwill. As a consequence the decision has been taken to write down goodwill arising on acquisitions by £30.8 million from £75.7 million to £44.9 million.

'Exceptional costs incurred in 2002 will result in cost savings of over £13.5 million in 2003'

Employee trust

The Group's employee trust owns 4,590,315 shares at an average carrying value of £1.48. The Board considers it prudent to write down the carrying value of these shares to 35p each. This has resulted in a write-off of £5.2 million.

Dividend

The goodwill amortisation and impairment charges in 2002 have resulted in the Company having insufficient reserves to pay a final dividend and in any event, the Board has concluded that with current levels of debt it would be imprudent to pay a final dividend (2.16p for 2001). As an interim dividend was paid, the total dividend for the year was 1.27p (3.43p for 2001).

In order to be able to pay dividends out of future profits, the Company intends to propose a subdivision of shares and a reduction of capital. More detailed proposals for this will be put to shareholders for approval later in the year.

Taxation

The headline rate of tax for the Group remains at 33.5%. However, due to the higher exceptional costs, there has been a net tax credit of £1.1 million in 2002.

Forward strategy

Whilst we have reached a good agreement with our bank for the next three years, we want to reduce the total level of debt of the Group. Our financial strategy is therefore to focus on ways of reducing our debt whilst maintaining the quality of the brands we have.

When the marketplace starts to recover we will need to start investing in our businesses and to provide proper incentives for our key people. This we will have to do very cautiously, balancing the need to generate new business and service clients against our continuing need to control costs.

Mark Smith,
Group Finance Director

Directors

Lord Bell	Chairman	Alan Chamberlain	Non-executive
Piers Pottinger	Deputy Chairman	Sir Ronald Grierson	Non-executive##
Mark Smith	Finance Director	Lord Hannay	Non-executive*#
Chris Satterthwaite	Chief Executive (appointed 6 December 2002)	Paul Richardson	Non-executive*
Julian Seymour	Senior non-executive*##	Stephen Sherbourne	Non-executive
Dave Allen	Non-executive	Dame Susan Tinson	Non-executive
Catherine Biner Bradley	Non-executive	Rupert Howell	(resigned 30 November 2002)
		Robin Price	(resigned 12 June 2002)

* Member of the Audit Committee ‡ Member of the Nominations Committee # Member of the Remuneration Committee

Directors' biographies

Lord Bell, aged 61 Chairman

Tim 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 publicity 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 in 1990 by Lady Thatcher in her resignation honours and a Peerage by Tony Blair.

Piers Pottinger, aged 49 Deputy Chairman

Following three years at J Henry Schroder Wagg & Co Limited, 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 is currently Chairman of Newmarket Investments plc, and has been a non executive director of the Scottish Ballet Company and Treasurer of the Poetry Society. He is also a Trustee of the Foundation for Liver Research.

Mark Smith, aged 47 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.

Christopher Satterthwaite, aged 46 Chief Executive

Christopher Satterthwaite began his commercial career as a graduate trainee at H.J Heinz. Since his grounding on the client side, he has been part of three different kind of marketing communication agencies, for all of which he became Chief Executive: IMP 1981-1993, then the UK's largest sales promotion and direct marketing agency; HHCL & Partners 1993-2000, Campaign's Advertising Agency of the Decade; Bell Pottinger 2000-2001, the UK's leading Public Relations agency. Christopher was appointed Chief Executive of Chime Communications PLC in 2002.

Julian Seymour, aged 58

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. From 1991 to 2000, he was the director of Lady Thatcher's private office. He has been a director of Chime Communications since the management buy-out in 1989.

Dave Allen, aged 46

Dave Allen became Chief Executive of The Brand Union in 2001. The Brand Union is the brand, identity and marketing consultancy group of WPP. It comprises over 30 companies operating in 19 countries and includes Addison, Coley Porter Bell, EnterpriselG, Lambie Nairn, Oakley Young, The Event Union and the Walker Group. He is also joint CEO of EnterpriselG in Europe, the Middle East and Africa. Prior to joining WPP he was involved in European Marketing with Kodak and Epson. Today he advises a number of global clients on branding issues.

Catherine Biner Bradley, aged 49

Catherine Biner Bradley is a Geneva lawyer specialising in business law and in Swiss and international tax planning. She founded Bourquin & Biner Bradley where she remains a partner today. She serves on the board of directors of a number of Swiss companies. She has been a director of COLT Telecom PLC for six years commencing with its initial listing on the London Stock Exchange in 1996 serving during that period on its Audit and Compensation Committees.

Alan Chamberlain, aged 60

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 and is Chairman of Gaskell plc.

Sir Ronald Grierson, aged 81

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.

Lord Hannay, aged 67

Lord 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. He is the British Government's Special Representative for Cyprus and he is Pro-Chancellor of the University of Birmingham.

Paul Richardson, aged 45

Paul Richardson became Group Finance Director of WPP Group plc in December 1996 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.

Stephen Sherbourne, aged 57

Stephen Sherbourne was formerly Political Secretary to the then Prime Minister, Margaret Thatcher, and Head of the Political Office of 10 Downing Street from 1983 to 1987. Prior to this he was Special Advisor at the Department of Industry. He also worked for Gallaher and Hill Samuel. He joined Lowe Bell Consultants (now Bell Pottinger Consultants) in 1988, becoming Managing Director and was later appointed Chairman of Bell Pottinger Public Affairs.

Dame Sue Tinson, aged 60

Dame Sue Tinson has extensive business and political experience. She is a consultant with ITN and ITV. She is a non-executive director of The Yorkshire Building Society and Carlton Broadcasting. Prior to them being taken over she was a non-executive director of both ASDA and Freeserve. Dame Sue's main career was with ITN where she produced News at Ten for 11 years and was producer of Her Majesty The Queen's Christmas Broadcast in 2001 and 2002.

Directors' statement on corporate governance

CORPORATE GOVERNANCE REPORT

In June 1998 the London Stock Exchange issued the Combined Code. This Code is based on the report of the Hampel Committee and sets out Principles of Good Corporate Governance and Code provisions that 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 appears below.

NARRATIVE STATEMENT

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

DIRECTORS

The Company is controlled through the Board of Directors which now comprises four executive and nine non-executive directors, whose biographies are set out on pages 12 to 13 of this report and financial statements. 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 Chief Executive's (Christopher Satterthwaite) responsibilities focus on co-ordinating the Company's business and implementing Group strategy. All directors are able to take independent professional advice in the 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. Executive directors may be permitted to take a limited number of external non-executive directorships in non-competing companies, subject to the approval of the Board.

The individual directors have different skills, experience and qualifications with certain of them currently or previously working in other sectors in the economy and they are able to bring independent judgement to bear on matters for consideration by the Board. In addition, the Board considers its non-executive directors to be of sufficient calibre and number that their view may be of sufficient weight that no individual or small group can dominate the Board's decision making process.

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 the 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	6
Audit Committee	2
Remuneration Committee	1
Nominations Committee	1

Under the terms of their subscription agreement, WPP Group plc have appointed two non-executive directors.

Membership of the three Committees is shown on page 12.

Sir Ronald Grierson, Lord Hannay, Paul Richardson, Dave Allen, Julian Seymour, Dame Sue Tinson and Catherine Biner Bradley are all considered by the Board to be independent. Julian Seymour is the senior independent director.

The non-executive directors have no financial or contractual interest in the Company (except Catherine Biner Bradley's, Dame Sue Tinson's, Lord Hannay's and Stephen Sherbourne's interests in shares as stated on page 22) other than by way of the fees that are disclosed in the Report of the Board to the Shareholders' on directors remuneration pages 18 to 23. The non-executive directors do not participate in any of the Group's share option plans (except Alan Chamberlain and Stephen Sherbourne) and their service is not pensionable (except Stephen Sherbourne).

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 pages 18 to 23 and includes details of directors' incentive payments and the related performance criteria.

RELATIONS WITH SHAREHOLDERS

The Company is keen to promote two-way communications 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 the Chief Executive's Review. The Board uses this, together with the Director's report on pages 24 to 25 to present a balanced and understandable assessment of the Company's position and prospects. The directors' responsibilities for the financial statements are described on page 26 of the Report and Financial Statements.

Internal control

The directors are responsible for the Group's system of internal control, including financial, operational and compliance controls and risk management, and for reviewing its effectiveness. Due to the limitations that are inherent in any

system of internal control it is designed to manage rather than eliminate risk and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board has established a process for identifying, evaluating and managing significant risks faced by the Group. This process has been in place for the year under review and up to and including the date of approval of the annual report and financial statements. The effectiveness of this process is reviewed annually by the Board and accords with the guidance set out in 'Internal Control: Guidance for Directors on the Combined Code.'

Information on the Group's significant risks, together with the relevant control and monitoring procedures, is reviewed on a monthly basis by the heads of the business units under the guidance of a nominated executive director. This information is presented to the executive directors to assess any identified risks and the overall effectiveness of the system of internal control. An update on all significant risk management issues is made to the Board at each quarterly meeting.

Given the nature of the Group's activities the Board recognises the risks associated with its ability to attract, motivate and retain talented employees. Accordingly a significant part of the Group's risk management procedures are focused in this area and have led to the introduction of the detailed employee benefits schemes.

An internal audit function was introduced in 2001, reporting to the Audit Committee via the Finance Director. A review of this function has been conducted and reported to the Board within the annual review of the system of internal controls. Recommended changes to the scope and application of internal audit procedures have been adopted and the internal audit programme for the year has been presented to and approved by the Audit Committee.

The Board recognises the need to ensure that established risk management procedures are integrated into all acquired businesses and accordingly potential areas of non-compliance are identified during the due diligence process and addressed post completion. The Group has a number of companies including overseas businesses in Germany and the United States. Control of the overseas businesses is currently effected by designated senior executives reporting directly to the Board.

Directors' statement on corporate governance continued

The Group has material investments in a small number of associated companies that are not managed by the Group. Accordingly the Group can only influence, not control, their management practices and therefore the review of internal controls for these operations is less comprehensive than that for the Group's managed operations.

FINANCIAL CONTROL

The financial control procedures are described under the following five headings:

- 1 *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.
- 2 *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.
- 3 *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.
- 4 *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.
- 5 *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 and detailed 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 that 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. This statement also forms part of the Chairman's statement.

SOCIAL RESPONSIBILITY GUIDELINES

In 2001, the Board committed to review the Association of British Insurer guidelines relating to Social, Environmental and Ethical risks and opportunities.

The Board confirms that regular consideration is given to the significance of social, environmental and ethical (SEE) issues, and as part of our wider operational risk framework, identifies significant risks arising from these areas to short-term and long-term value.

The Group considers Corporate Social Responsibility (CSR) to be an area of business opportunity. In 2001, the acquisition of The SMART Company provided a focus for our investment in this field. The SMART Company also provides the Group with CSR expertise.

ENVIRONMENT

The business of Chime Communications PLC is primarily in the UK and delivers services to clients based on image, ideas, research and content. As such, direct and indirect impact on the environment is minimal and considered low risk.

Nevertheless, there is growing interest from customers and staff in the environmental practices of all companies. As a result, the Group has decided in 2003 to review the existing policies adopted by our businesses with a view to adopting a single Group-wide environmental policy supported by a unified reporting structure.

HEALTH & SAFETY

The Board believes that our people are the Group's most important asset. The businesses do not include any industrial or manufacturing process and all staff are office based. As such, risk of accidents is low. In 2002, the Group commissioned an audit of current health and safety practice in all office buildings. This helped identify new procedures including training and to establish policies which will be communicated to all people in 2003.

EMPLOYEE ISSUES

As a people business, the Groups reputation depends on the skills, knowledge and integrity of its people.

Chime has fostered an entrepreneurial culture and each of its businesses is encouraged to create a stimulating, rewarding and inspiring work environment for its people. People continue to be the main priority.

The Group recognises that greater central oversight on Human Resources issues may be beneficial and are currently midway through a programme of introducing common employment standards across the Group. This work will continue into 2003.

ETHICS

The Group meets all relevant laws, regulations, codes of practice and other advice issued by any Government or appropriate regulator. The Group ensures that all its people are aware and comply with such standards. In addition, the Group recognises that integrity is essential to the maintenance of its reputation in the marketplace. As part of its regular review process, issues of conduct are identified, reviewed and the Board alerted as appropriate.

CHARITIES

During the year, the Group donated £14,624 (2001 – £14,061) for charitable purposes. No political donations were made.

COMPLIANCE STATEMENT

Throughout the year ended 31 December 2002 the Company has been in compliance with the forty-five Code provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the Financial Services Authority.

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

M W Smith
Secretary
17 March 2003

Report of the Board to the Shareholders on Directors' Remuneration

GROUP POLICY ON THE REMUNERATION OF DIRECTORS AND EMPLOYEES

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which introduced new statutory requirements for the disclosure of directors' remuneration in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to directors' remuneration. As required by the regulations, a resolution to approve this report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The Regulations require the auditors to report to the Company's members on the 'auditable part' of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for audited and unaudited information.

UNAUDITED INFORMATION

Remuneration Committee

The Remuneration Committee is comprised entirely of the independent non-executive directors and meets as required but at least once a year. The members of the Committee are Julian Seymour (Chairman), Sir Ronald Grierson and Lord Hannay.

None of the Committee has any personal financial interest (other than as a shareholder), conflicts of interest arising from cross-directorships or day-to-day involvement in the running of the business. The Committee makes recommendations to the Board for final approval.

No director plays a part in any discussion about his or her own remuneration.

In determining the directors' remuneration for the year, the Committee consulted Lord Bell (Chairman) about its proposals. 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 Committee has access to professional advice from inside and outside the company.

Remuneration policy

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. The performance measurement of the executive directors and key senior management and the determination of the annual remuneration package are undertaken by the Committee.

Executive directors are entitled to accept external appointments outside the Company providing that the Chairman's permission is sought.

Remuneration packages

There are five main elements of the remuneration package for executive directors and senior management:

- Basic annual salary and benefits
- Annual bonus payments which cannot exceed 25% of salary
- Share option incentives;
- Long-term incentive plans; and
- Pension arrangements.

The benefits provided by the Group to the executive directors consists principally of a car and private medical insurance.

A bonus of 15% of the relevant executive directors salary may be paid to each director if profit targets set by the Board are met. A bonus of 25% may be paid to each executive director if profit targets set by the Board are exceeded by at least 20%.

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 FTSE 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. The exercise price of the options granted under the above scheme is equal to the market value of the Company's shares at the time when the options are granted.

Lord Bell has special executive options over 1,000,000 ordinary shares which were issued in November 1997. 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 FTSE 100 companies compiled by reference to growth in diluted earnings per share over the same period.

Mark Smith and Alan Chamberlain have special executive options over 160,000 and 25,000 ordinary shares respectively which were issued in May 2001. These special options will not ordinarily be exercisable less than three years from the date of grant and are subject to a performance target growth in earnings per share which is at least equal to the percentage growth in the Retail Price Index plus 9% and an average total shareholder return on the shares which exceeds the average FTSE 100 total shareholder return for the same period.

The Company received shareholders' approval to introduce a long term incentive plan in December 2000 to incentivise the executive Directors and the divisional heads. The scheme is designed to align long term motivations of senior management with the interests of shareholders and to link their remuneration to the performance of the Group. For the initial award in 2001 the targets are as follows: The Group and relevant business units' pre tax profits must have increased by at least 10% per annum and the growth in the Company's headline earnings per share over the performance period must exceed the percentage growth in Retail Price Index over that period by at least 6%. If the first two targets are met, then the number of shares that will be released will be dependent on how the Company's total shareholder return over the performance period compares with that of the companies which comprise the FTSE 100 index over the same period.

The Company also received shareholder approval in December 2000 to introduce The Co-Investment Plan. This is intended to incentivise senior management and to encourage share ownership. Participants will be invited to apply up to 50% of their cash bonus (after tax) in the purchase of shares to be held in the Employee Trust for three years. In return, the participant receives an award over an equivalent number of shares which will be held in the Employee Trust and released at the end of the three year period.

The Company's policy is to grant options to directors at the discretion of the Committee taking into account individual performance. It is the Company's policy to phase the granting of share options rather than to award them in a single large block to any individual.

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

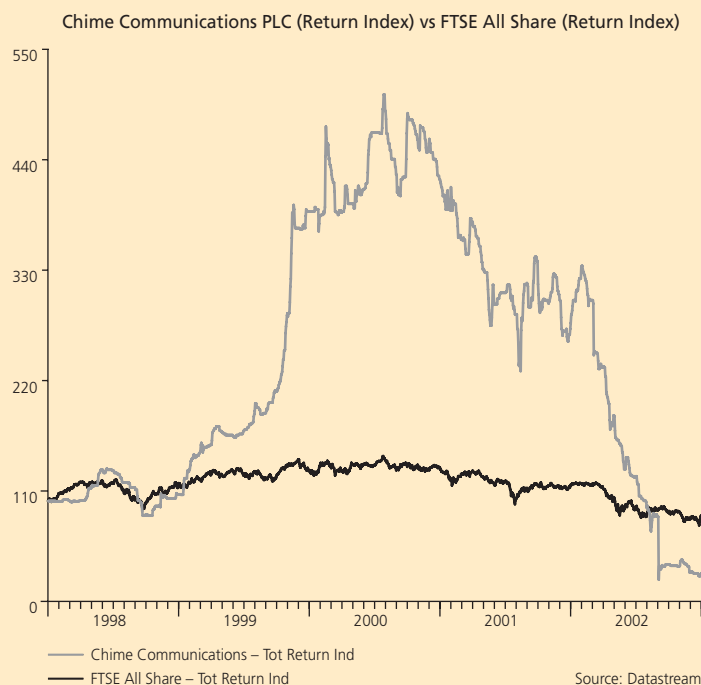
Pension contributions on behalf of the executive directors are paid by the Company to the Group's money purchase pension scheme or to a personal pension scheme up to the value of 20% of their basic salary.

Directors contracts

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.

Performance graph

The following graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE All Share Index also measured by total shareholder return.



Report of the Board to the Shareholders on Directors' Remuneration continued

	Salary and fees £	Benefits £	Bonuses £	Emoluments excluding pension contributions £	Pension contribution £	Total 31 December 2002 £	Total 31 December 2001 £	Total December 2001 restate for salary sacrifice £
Executive directors								
Lord Bell *	615,000	41,514	–	656,514	123,000	779,514	718,871	774,571
Piers Pottinger	401,000	27,364	–	428,364	80,200	508,564	506,533	506,533
Mark Smith	210,000	23,073	–	233,073	42,000	275,073	261,914	271,414
Chris Satterthwaite (appointed 6 December 2002)	23,522	833	–	24,355	4,704	29,059	–	–
Rupert Howell (resigned 30 November 2002)	442,374	10,828	–	453,202	88,475	541,677	412,300	442,300
Robin Price (resigned 12 June 2002)	309,590	5,255	–	314,845	61,918	376,763	250,105	266,105
Non-executive directors								
Stephen Sherbourne #	180,238	9,984	–	190,222	13,800	204,022	168,484	168,484
Alan Chamberlain #	192,500	–	–	192,500	–	192,500	189,972	189,972
Julian Seymour #	30,000	–	–	30,000	–	30,000	30,000	30,000
Catherine Biner Bradley #	17,500	–	–	17,500	–	17,500	5,832	5,832
Sir Ronald Grierson #	17,500	–	–	17,500	–	17,500	17,500	17,500
Lord Hannay #	17,500	–	–	17,500	–	17,500	17,500	17,500
Dame Susan Tinson #	17,500	–	–	17,500	–	17,500	5,832	5,832
Paul Richardson #	–	–	–	–	–	–	–	–
Dave Allen #	–	–	–	–	–	–	–	–
Totals	2,474,224	118,851	–	2,593,075	414,097	3,007,172	2,584,843	2,696,043

* Chairman and highest paid director

Non-executive director

During 2001 some of the executive directors chose to sacrifice part of their annual salary increase as part of a new bonus scheme which allowed them to earn double the sacrifice as a bonus if the profit targets set by the Board were met. In 2001 these targets were not met. In 2002 the executive directors salaries were reinstated to the full amount.

Alan Chamberlain is paid a fee of £17,500 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 disposals.

Stephen Sherbourne is paid a fee of £16,000 in respect of his work as a non-executive director with the balance of his remuneration relating to work carried out by him for the Group on client activities.

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, Mark Smith, Rupert Howell and Robin Price for the year ended 31 December 2001 were £123,000, £80,200, £42,000, £70,000 and £42,000 respectively. Piers Pottinger, Mark Smith, and Stephen Sherbourne are members of the Group's defined contribution scheme.

DIRECTORS' SHARE OPTIONS

The following unexercised options over shares were held by directors:

Executive Share Option Scheme

Directors	1 January 2002 (or on appointment)	Granted	31 December 2002 (or on resignation)	Exercise price	Date from which exercisable	Expiry date
Lord Bell ¹	1,000,000	–	1,000,000	48p	Nov 2002	Nov 2007
Lord Bell	100,000	–	100,000	209p	Nov 2003	Nov 2010
Piers Pottinger	100,000	–	100,000	209p	Nov 2003	Nov 2010
Mark Smith	100,000	–	100,000	209p	Nov 2003	Nov 2010
Mark Smith ¹	160,000	–	160,000	155p	May 2004	May 2011
Alan Chamberlain	50,000	–	50,000	209p	Nov 2003	Nov 2010
Alan Chamberlain ¹	25,000	–	25,000	155p	May 2004	May 2011
Chris Satterthwaite	33,333	–	33,333	90p	Oct 2002	Oct 2009
Stephen Sherbourne	100,000	–	100,000	32p	Oct 1997	Oct 2004
Stephen Sherbourne	100,000	–	100,000	54p	Nov 2000	Nov 2007
Rupert Howell	100,000	–	100,000	209p	Nov 2003	Nov 2010
Robin Price	100,000	–	100,000	209p	Nov 2003	Nov 2010

1 Special executive options

Savings-related Share Option Scheme

Directors	1 January 2002 (or on appointment)	Granted	Exercised in the year	31 December 2002 (or on resignation)	Exercise price	Date from which exercisable	Expiry date
Mark Smith	3,375	–	–	3,375	130p	June 2006	Dec 2006
Mark Smith		2,087	–	2,087	111p	June 2007	Dec 2007
Chris Satterthwaite	8,183	–	–	8,183	43p	June 2003	Dec 2003
Chris Satterthwaite	2,723	–	–	2,723	57p	June 2004	Dec 2004
Rupert Howell	8,183	–	–	8,183	43p	June 2003	Dec 2003
Rupert Howell	2,723	–	–	2,723	57p	June 2004	Dec 2004
Rupert Howell	1,253	–	–	1,253	140p	June 2005	Dec 2005
Robin Price	8,183	–	–	8,183	43p	June 2003	Dec 2003
Robin Price	2,723	–	–	2,723	57p	June 2004	Dec 2004
Robin Price	1,253	–	–	1,253	140p	June 2005	Dec 2005

The market price of the shares at 31 December 2002 was 14.75p and the range during 2002 was 146.5p to 13.25p.

Report of the Board to the Shareholders on Directors' Remuneration continued

Directors' interests in the shares of Chime Communications PLC

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 2002 or on date of resignation and at 1 January 2002 or date of appointment were:

	Beneficial holdings Ordinary shares of 25p each		Share options Ordinary shares of 25p each	
	1 January 2002 (or date of appointment)	31 December 2002 (or as at date of resignation)	1 January 2002 (or date of appointment)	31 December 2002 (or as at date of resignation)
Lord Bell	1,456,494	1,456,494	1,100,000	1,100,000
P J D Pottinger	2,730,800	2,730,800	100,000	100,000
M W Smith	273,214	273,214	263,375	265,462
C J Satterthwaite (appointed 6th December 2002)	32,359	32,359	44,239	44,239
D Allen	–	–	–	–
C Biner Bradley	4,400	4,400	–	–
A Chamberlain	1,676	1,676	75,000	75,000
Sir Ronald Grierson	–	–	–	–
Lord Hannay	25,000	25,000	–	–
J R Seymour	–	–	–	–
S Sherbourne	184,800	184,800	200,000	200,000
Dame S Tinson	–	3,500	–	–
P W G Richardson	–	–	–	–
R C S Howell (resigned 30th November 2002)	3,310,302	3,310,302	112,159	112,159
R M D Price (resigned 12th June 2002)	3,309,598	3,309,598	112,159	112,159

Lord Bell also held a non-beneficial interest in 660,723 ordinary shares at 1 January 2002 and at 31 December 2002.

C J Satterthwaite also held a non-beneficial interest in 594 ordinary shares at the date of appointment and at 31 December 2002.

Long Term Incentive Plan

Directors	1 January 2002 (or on appointment)	Granted	31 December 2002 (or on resignation)	Date from which available	Expiry date
Lord Bell	27,039	–	27,039	Jan 2004	Mar 2004
Piers Pottinger	17,767	–	17,767	Jan 2004	Mar 2004
Mark Smith	9,224	–	9,224	Jan 2004	Mar 2004
Chris Satterthwaite	12,136	–	12,136	Jan 2004	Mar 2004
Rupert Howell	14,564	–	14,564	Jan 2004	Mar 2004
Robin Price	7,767	–	7,767	Jan 2004	Mar 2004

Co Investment Plan – matching shares

Directors	1 January 2002 (or on appointment)	Granted	31 December 2002 (or on resignation)	Date from which available
Lord Bell	2,801	–	2,801	Feb 2004
Mark Smith	956	–	956	Feb 2004
Chris Satterthwaite	1,257	–	1,257	Feb 2004
Alan Chamberlain	1,676	–	1,676	Feb 2004
Rupert Howell	1,509	–	1,509	Feb 2004
Robin Price	805	–	805	Feb 2004

Approval

This report was approved
By the Board of Directors
and signed on behalf of the Board

M W Smith
Secretary
17 March 2003

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

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 and marketing services and it is the intention of the directors that it should continue to be so. A review of the business is given in the Chief Executive's Review.

RESULTS AND DIVIDENDS

The Group's profit and loss account is set out on page 28 and shows a loss before taxation for the year to 31 December 2002 of £41,569,000 (2001 – Profit £9,122,000) after charging goodwill amortisation and impairment and exceptional items of £48,598,000 (2001 – £7,144,000). The directors do not recommend the payment of a final dividend (2001 – £3,116,000 (2.16p per ordinary share)) leaving the total dividend for the year at £1,883,000 (1.27p per ordinary share) (2001 – £4,968,000 (3.43p per ordinary share)).

DIRECTORS AND THEIR INTERESTS

The directors' interests in the shares of Chime Communications PLC are disclosed as part of the Report of the Board to the Shareholders on Directors' Remuneration.

Details relating to directors' share options are also given, on page 21, as part of the Remuneration Report. There has been no change in the interests of the directors between 31 December 2002 and 17 March 2003.

Lord Bell and P J D Pottinger who have rolling contracts with a notice period of one year, and Sir Ronald Grierson and P W G Richardson, who do not have service contracts, are due to retire by rotation and offer themselves for re-election. Sir Ronald Grierson is a member of the Remuneration Committee and the Nominations Committee. P W G Richardson is a member of the Audit Committee.

C J Satterthwaite was appointed as a director on 6 December 2002 and has been proposed for election at the forthcoming Annual General Meeting.

R M D Price resigned as a director on 12 June 2002 and R C S Howell resigned as a director on 30 November 2002

Other than described in the Remuneration Report no director of the Company has, or had during the year, any interests in the shares of other group companies or in any transactions which were unusual in their nature or were significant to the Company's business.

DONATIONS

During the year the Group donated £14,624 (2001 – £14,061) 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.

ENVIRONMENTAL POLICY

Environmental issues are one of the key areas identified in the Association of British Insurers' Social Responsibility Guidelines. Accordingly the establishment and application of appropriate environmental policies will be a key part of the programme undertaken in conjunction with The SMART Company.

ACQUISITION OF THE COMPANY'S OWN SHARES

At the end of the year, the directors had authority, under the shareholders' resolution of 12 June 2002, to purchase through the market 14,989,024 of the Company's own ordinary shares at prices not less than 25p per ordinary share and not more than 5% above the average of the middle market quotations as derived from the London Stock Exchange Daily Official List. This authority will last until the conclusion of the next Annual General Meeting or, if earlier, 12 September 2003.

SUBSTANTIAL INTERESTS

At 11 March 2003 the following interests, other than those of the directors set out above, in 3% 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	30,453,665	19.78
FMR Corporation	18,845,880	12.24
Scottish Widows Investment Partnership	17,505,963	11.37
Herald Investment Management (UK)	8,750,000	5.68
Gartmore Investment Limited (UK)	5,351,170	3.48

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 41 days in aggregate for the Group (2001 – 42). The Company did not have any trade creditors at 31 December 2001 or 2002.

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
17 March 2003

Statement of directors' responsibilities

United Kingdom 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; and
- prepare the financial statements on the 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 system of internal control and 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.

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

M W Smith
Secretary
17 March 2003

Independent auditors' report to the members of Chime Communications PLC

We have audited the financial statements of Chime Communications PLC for the year ended 31 December 2002 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cashflow statement, the consolidated statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds and the related notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Report of the board to the shareholders on directors' remuneration that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the Report of the Board to the Shareholders on Directors Remuneration. Our responsibility is to audit the financial statements and the part of the Report of the Board to the Shareholders on Directors Remuneration described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Report of the Board to the Shareholders on Directors Remuneration described as having been audited have been 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 regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the directors statement on corporate governance reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority and we report if it does not. We are not required to consider whether the Board's

statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the Report of the Board to the Shareholders on Directors Remuneration and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

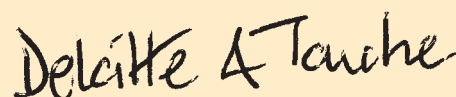
BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom 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 and the part of the Report of the Board to the Shareholders on Directors Remuneration described as having been audited. 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 and the part of the Report of the Board to the Shareholders on Directors' Remuneration described as having been audited 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 and the part of the Report of the Board to the Shareholders on Directors' Remuneration described as having been audited.

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 2002 and of the loss of the Group for the year then ended. The financial statements and the part of the Report of the Board to the Shareholders on Directors' Remuneration described as having been audited have been properly prepared in accordance with the Companies Act 1985.



Chartered Accountants and
Registered Auditors
London
17 March 2003

Consolidated profit and loss account: Year ended 31 December 2002

	Note	2002 Before goodwill amortisation and impairment and exceptional items £'000	2002 Goodwill amortisation and impairment and exceptional items £'000	2002 Total £'000	2001 £'000
Continuing operations		118,469	–	118,469	153,201
Acquisitions		745	–	745	–
		119,214	–	119,214	153,201
Discontinued operations		759	–	759	2,004
Turnover	1, 3	119,973	–	119,973	155,205
Continuing operations		69,376	–	69,376	93,401
Acquisitions		425	–	425	–
		69,801	–	69,801	93,401
Discontinued operations		605	–	605	1,738
Gross profit/operating income	3	70,406	–	70,406	95,139
Operating profit before goodwill amortisation and impairment and exceptional items					
Continuing operations		8,469	–	8,469	18,334
Acquisitions		(28)	–	(28)	–
Discontinued operations		(20)	–	(20)	(527)
		8,421	–	8,421	17,807
Exceptional items	8	–	(12,584)	(12,584)	(6,330)
Goodwill amortisation and impairment		–	(34,577)	(34,577)	(768)
Group operating profit/(loss)		8,421	(47,161)	(38,740)	10,709
Continuing operations		8,469	(46,799)	(38,330)	11,807
Acquisitions		(28)	–	(28)	–
		8,441	(46,799)	(38,358)	11,807
Discontinued operations		(20)	(362)	(382)	(1,098)
Group operating profit/(loss)	3	8,421	(47,161)	(38,740)	10,709
Share of operating loss in associated undertakings:					
Continuing operations		(89)	(1,437)	(1,526)	(780)
Total operating profit/(loss)	3	8,332	(48,598)	(40,266)	9,929
Profit/(loss) on disposal of discontinued operation	2(v)	15	–	15	(42)
Profit/(loss) on ordinary activities before interest and taxation		8,347	(48,598)	(40,251)	9,887
Net interest payable	6	(1,318)	–	(1,318)	(765)
Profit/(loss) on ordinary activities before taxation	7	7,029	(48,598)	(41,569)	9,122
Tax on profit/(loss) on ordinary activities	9	(2,355)	3,436	1,081	(3,329)
Profit/(loss) for the financial year		4,674	(45,162)	(40,488)	5,793
Equity dividends	11	(1,883)	–	(1,883)	(4,968)
Transfer to/(from) reserves	23	2,791	(45,162)	(42,371)	825
Earnings/(loss) per ordinary share	12	3.2p	–	(27.8p)	4.1p
Diluted (loss)/earnings per ordinary share	12			(27.8p)	3.9p
Dividend per ordinary share	11			1.27p	3.43p

Consolidated balance sheet: 31 December 2002

	Note	2002		2001 (as restated)	
		£'000	£'000	£'000	(note 1) £'000
Fixed assets					
Intangible assets	13		47,701		73,632
Tangible assets	14		4,963		8,336
Investments	15		2,014		8,782
			54,678		90,750
Current assets					
Work in progress		912		1,682	
Debtors	16	20,581		29,794	
Investments	17	7,582		16,668	
		29,075		48,144	
CREDITORS: amounts falling due within one year	18	(67,839)		(83,197)	
Net current liabilities			(38,764)		(35,053)
Total assets less current liabilities			15,914		55,697
CREDITORS: amounts falling due after more than one year	19		(1,108)		(2,346)
Provisions for liabilities and charges	21		(2,143)		(1,047)
			12,663		52,304
Capital and reserves					
Called up share capital	22		37,841		37,376
Share premium account	23		42,010		41,001
Shares to be issued	23		2,451		1,123
Profit and loss account	23		(69,639)		(27,199)
Equity shareholders' funds			12,663		52,301
Equity minority interest			–		3
			12,663		52,304

These financial statements were approved by the Board of Directors on 17 March 2003.

Signed on behalf of the Board of Directors

Lord Bell
Chairman

Company balance sheet: 31 December 2002

	Note	2002 £'000	2002 £'000	2001 £'000	2001 £'000
Fixed assets					
Investments	15		72,162		109,039
Current assets					
Debtors	16	15,466		13,832	
Investments	17	7,275		16,127	
		22,741		29,959	
CREDITORS: amounts falling due within one year	18	(41,270)		(41,406)	
Net current liabilities			(18,529)		(11,447)
Total assets less current liabilities			53,633		97,592
CREDITORS: amounts falling due after more than one year	19		(1,048)		(2,337)
			52,585		95,255
Capital and reserves					
Called up share capital	22		37,841		37,376
Share premium account	23		42,010		41,001
Merger reserve	23		3,780		3,780
Shares to be issued	23		2,451		1,123
Profit and loss account	23		(33,497)		11,975
Equity shareholders' funds			52,585		95,255

These financial statements were approved by the Board of Directors on 17 March 2003.

Signed on behalf of the Board of Directors

Lord Bell
Chairman

Consolidated cash flow statement: Year ended 31 December 2002

	Note	2002 £'000	2001 £'000
Net cash inflow from operating activities	26(i)	2,236	9,731
Returns on investments and servicing of finance			
Interest received		440	827
Interest paid		(1,498)	(1,550)
Interest element of finance leases		(4)	(4)
Dividends from associates		16	–
Net cash outflow from returns on investments and servicing of finance		(1,046)	(727)
Taxation			
Corporation tax paid		(2,924)	(3,790)
Corporation tax refund		527	95
Taxation paid		(2,397)	(3,695)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(669)	(3,623)
Receipts from sales of tangible fixed assets		354	359
Receipts from sale of current asset investment		–	50
Purchase of current asset investments	26(iii)	(2,704)	(2,743)
Loans granted to associates		(247)	(1,047)
Sale/(purchase) of own shares		334	(2,489)
Net cash outflow from capital expenditure and financial investment		(2,932)	(9,493)
Acquisitions and disposals			
Purchase of subsidiary undertakings	26(iv)	(1,158)	(16,251)
Net cash acquired with subsidiaries		–	5
Purchase of fixed asset investment		–	(746)
Disposal of subsidiary undertaking		(10)	–
Net cash disposed of with subsidiary undertaking		(69)	–
Net cash outflow from acquisitions and disposals		(1,237)	(16,992)
Equity dividends paid		(5,010)	(4,900)
Net cash outflow before financing		(10,386)	(26,076)
Financing			
Capital element of finance leases	26(ii)	(19)	(36)
Issue of ordinary share capital		292	404
Net cash inflow from financing		273	368
Decrease in cash in the year	26(ii)	(10,113)	(25,708)

Consolidated statement of total recognised gains and losses: Year ended 31 December 2002

	2002 £'000	2001 £'000
(Loss)/profit for the financial year	(40,488)	5,793
Currency translation differences on foreign currency net investments	12	9
Total recognised gains and losses relating to the year	(40,476)	5,802
Prior year adjustment relates to the adoption of FRS 19 (note 1)	611	
Total recognised gains and losses recognised since last annual report and financial statements	(39,865)	

Reconciliation of movements in shareholders' funds: Year ended 31 December 2002

	2002 £'000	2001 (as restated) £'000
(Loss)/profit for the financial year	(40,488)	5,793
Dividends	(1,883)	(4,968)
	(42,371)	825
Other recognised gains and losses relating to the year	12	9
Issue of shares	1,474	1,777
Less impact of shares issued to Qualifying Employee Share Trust	(81)	(297)
Value of shares to be issued as consideration for acquisitions	1,328	1,123
Net (decrease)/increase in shareholders' funds as previously stated	(39,638)	3,437
Opening shareholders' funds	52,301	48,253
Prior year adjustment relating to the adoption of FRS 19 (note 1)	–	611
Opening shareholders' funds as restated	52,301	48,864
Closing shareholders' funds	12,663	52,301

Notes to the accounts: Year ended 31 December 2002

1. Accounting policies

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below. They have all been applied consistently throughout the year and the preceding year with the exception of the policy for deferred tax, as explained 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.

There is no material difference between the segmental destination and origin of turnover.

Depreciation

Depreciation is provided in equal instalments over the estimated useful economic lives of assets, using the following rates:

Short-term leasehold improvements	– 20%
Motor vehicles	– 16 $\frac{2}{3}$ %
Fixtures, fittings and 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

FRS 19 'Deferred Tax' has been adopted for the first time in the current year. Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is recognised as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted. As a result of the adopting FRS 19 there has been no impact on the comparative figure for the tax on profit on ordinary activities for 2001. The effect of adopting FRS 19 on the 2002 results is an increase in the tax charge of £243,000. The impact of adopting FRS 19 on the balance sheet has resulted in a prior year adjustment of £611,000 increasing the profit and loss reserve by this amount.

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 (cont)

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. The consolidated balance sheet includes the Group's share of the net assets, including 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 or associated undertakings 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. Carrying values are 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 directors are of the opinion that goodwill arising on the acquisition of interactive businesses has a defined economic life. For these acquisitions the directors consider it more appropriate to amortise the goodwill over its useful life up to a 10 year period.

The financial statements depart from the specific requirements of the Companies Act 1985 to amortise goodwill over a finite period for all businesses 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. It is not possible to quantify the impact of this departure.

Goodwill arising on the acquisition of subsidiaries before 31 December 1997 is eliminated against the profit and loss reserve and the merger reserve. Such goodwill would be charged in the profit and loss account on any subsequent disposal of the business to which it related.

Related parties

The Group has taken advantage of the exemption which is conferred by Financial Reporting Standard No 8, Related Party Disclosures, that allows it not to disclose transactions with greater than 90% owned Group undertakings.

2. Acquisitions and disposals

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

(i) Ingram Group Promotions Limited

On 1 August 2002 the Group acquired Ingram Group Promotions Limited. The fair value of the consideration was £153,500. Costs relating to the acquisition amounted to £45,000. The fair value of the net assets acquired were £21,900, resulting in goodwill of £176,400 which has been capitalised as an intangible fixed asset.

(ii) Mansfield Lang Direct Media Limited

On 2 October 2002 the Group acquired the trade and assets of Mansfield Lang Direct Media Limited. The fair value of the consideration given for the acquisition was £1,250,000. An initial payment of £500,000 was satisfied as to £250,000 in cash and £250,000 provided by the issue to the shareholders in Mansfield Lang Direct Media Limited of 568,182 ordinary shares of 25p at a premium of 19p. Costs relating to the acquisition amounted to £118,000.

Contingent consideration of £750,000 is dependent on the net revenue of Mansfield Lang Direct Media over the two years to 30 September 2004. The fair value of the net assets acquired were £Nil, resulting in goodwill of £1,368,000 which has been capitalised as an intangible fixed asset.

(iii) Pure Media Group Limited

On 31 December 2002 the Group committed to acquire the remaining equity that it did not already own in Pure Media Group Limited. The fair value of the consideration given for the acquisition was £1,552,000. The payment will be satisfied as to £600,000 in cash guaranteed loan notes, £300,000 in unsecured loan notes and £652,000 provided by the issue to the shareholders in Pure Media Group Limited of 568,182 ordinary shares of 25p. Costs relating to the acquisition amounted to £36,000. The fair value of the net assets acquired were £Nil, resulting in goodwill of £1,588,000 which has been capitalised as an intangible fixed asset.

2. Acquisitions and disposals (cont)

(iv) Killa Communications Limited

On 1 January 2002 the Group acquired a 25% equity holding in Killa Communications Limited. The fair value of the consideration given was £25. Costs relating to the acquisition amounted to £14,945.

(v) Harvard Public Relations SARL

On 7 July 2002 the Group disposed of its interest in Harvard Communications SARL to Trimedia Communications France for €40,000. The disposal was by way of cash. The disposal resulted in a £15,000 gain to the profit and loss account. The costs associated with the disposal amounted to £36,000.

Harvard Public Relations SARL results prior to the disposal was a profit of £11,000.

(vi) Fair value of net assets acquired

The following table summarises the fair value of the major categories 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 acquisitions are given in note 26(iv).

	Book amount and fair value to the Group £'000
Tangible fixed assets	20
Current assets	7
Creditors and provisions	(5)
Net assets	22
Goodwill capitalised	3,132
Goodwill capitalised – adjustment in respect of prior year acquisitions	106
	3,260
Consideration	
Cash	506
Shares allotted	250
Shares to be allotted	652
Deferred consideration	996
Contingent consideration in respect of 2002 acquisitions	750
Contingent consideration – adjustment in respect of prior year acquisitions	106
	3,260

The contingent consideration relates to Mansfield Lang Direct Media Limited (£750,000). The contingent consideration is calculated as follows:

- Mansfield Lang Direct Media – payable on 50% of net revenue for the two years to 30 September 2004. The contingent consideration is restricted to £750,000.

The adjustment arising on prior year acquisitions relates to the contingent consideration being over-provided for in relation to Landmark Consultants (acquired in 1999), Blood Partnership (acquired 2001) and MMK GmbH (acquired 2001) and being under-provided for in The Smart Company.Net Limited (acquired 2001).

3. Analyses of turnover, operating (loss)/profit and net assets

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

Class of business	Turnover		Operating income		Operating (loss)/profit		Operating profit/(loss) (before exceptional items, goodwill amortisation and impairment)	
	2002	2001	2002	2001	2002	2001	2002	2001
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Public relations								
Continuing operations	32,609	41,993	28,365	36,118	707	4,640	3,637	7,095
Discontinued operations	158	61	139	61	(111)	(59)	18	(59)
	32,767	42,054	28,504	36,179	596	4,581	3,655	7,036
Hi-tech								
Continuing operations	10,577	17,056	8,529	14,654	(15,583)	1,492	720	3,218
Discontinued operations	514	1,943	379	1,677	11	(1,039)	15	(468)
	11,091	18,999	8,908	16,331	(15,572)	453	735	2,750
Marketing services/research								
Continuing operations	15,556	20,103	10,506	10,538	(900)	56	1,435	684
Acquisitions	745	–	425	–	(28)	–	(28)	–
	16,301	20,103	10,931	10,538	(928)	56	1,407	684
Discontinued operations	87	–	87	–	(282)	–	(53)	–
	16,388	20,103	11,018	10,538	(1,210)	56	1,354	684
Advertising	59,727	74,049	21,976	32,091	(17,337)	5,619	2,677	7,337
Employee Share Trust impairment (note 15)	–	–	–	–	(5,217)	–	–	–
	119,973	155,205	70,406	95,139	(38,740)	10,709	8,421	17,807
Geographical								
United Kingdom								
Continuing operations	114,271	148,082	65,757	88,860	(24,802)	10,743	8,141	17,220
Acquisitions	745	–	425	–	(28)	–	(28)	–
	115,016	148,082	66,182	88,860	(24,830)	10,743	8,113	17,220
Discontinued operations	87	480	87	477	(282)	(734)	(53)	(474)
	115,103	148,562	66,269	89,337	(25,112)	10,009	8,060	16,746
Europe								
Continuing operations	3,359	2,695	2,827	2,117	96	383	262	389
Discontinued operations	672	1,524	518	1,261	(100)	(364)	33	(53)
	4,031	4,219	3,345	3,378	(4)	19	295	336
USA								
Continuing operations	839	2,424	792	2,424	(8,407)	681	66	725
Employee Share Trust impairment (note 15)	–	–	–	–	(5,217)	–	–	–
	119,973	155,205	70,406	95,139	(38,740)	10,709	8,421	17,807

The share of operating loss in associated undertakings is derived from within the UK and relates to the Hi-tech class of business.

3. Analyses of turnover, operating (loss)/profit and net assets (cont)

	Net assets	
	2002 £'000	2001 £'000
Class of business		
Public relations	13,958	14,029
Hi-tech	16,331	31,935
Marketing services/research	11,926	14,170
Advertising	5,446	20,300
	47,661	80,434
Non operating amounts		
Cash at bank and in hand	(32,354)	(22,241)
Deferred and contingent consideration	(4,434)	(7,850)
Current taxation	(214)	(3,675)
Dividends	–	(3,121)
Lease borrowings	(9)	(27)
Investment in own shares	1,619	7,185
Associated undertakings	394	1,596
Minority interests	–	3
	12,663	52,304

4. Directors' emoluments and employee remuneration

	2002 £'000	2001 £'000
The aggregate emoluments of the directors were:		
Salary and other emoluments	2,593	2,215
Pension contributions	414	370
	3,007	2,585

The directors' emoluments are disclosed as part of the Report of the Board to the Shareholders on Directors' Remuneration on page 18.

	2002 £'000	2001 £'000
Employee costs of the Group including those of the directors were as follows:		
Wages and salaries	42,536	50,670
Social security costs	4,499	5,499
Other pension costs	2,176	2,046
	49,211	58,215

4. Directors' emoluments and employee remuneration (cont)

The average number of persons employed during the year was:

	2002 No.	2001 No.
Public Relations	287	370
Hi-tech	150	226
Marketing Services/Research	165	162
Advertising	236	309
	838	1,067

5. Cost of sales and administrative expenses

	2002 £'000	2001 £'000
Cost of sales		
Continuing operations	49,093	59,800
Acquisitions	320	–
	49,413	59,800
Discontinued operations	154	266
	49,567	60,066
Administrative expenses		
Continuing operations	107,706	81,594
Acquisitions	453	–
	108,159	81,594
Discontinued operations	987	2,836
	109,146	84,430

6. Net interest payable and similar charges

	2002 £'000	2001 £'000
Interest payable		
Bank overdraft and other borrowings	(1,754)	(1,589)
Finance leases	(4)	(4)
Interest receivable	440	828
Net interest payable	(1,318)	(765)

7. Loss/(profit) on ordinary activities before taxation

	2002 £'000	2001 £'000
Loss/(profit) on ordinary activities before taxation is stated after charging:		
Depreciation of owned tangible fixed assets	2,954	3,593
Depreciation of assets held under finance leases	8	30
Amortisation of goodwill (including associated undertaking charge)	417	772
Impairment of goodwill (including £191,000 of other impairment charges)	28,945	–
Permanent diminution in value of own shares	5,217	–
Auditors' remuneration	155	166
Other fees paid to auditors – taxation	128	126
– other	146	61
Rentals under operating leases – property	5,249	5,339
Loss on disposal of tangible fixed assets	635	100
Exceptional operating costs (note 8)	12,584	6,330

Other fees paid to auditors were principally in respect of taxation services and other services in connection with potential acquisitions and disposals.

In addition to the amounts charged to the profit and loss account in the year ended 31 December 2002 £96,000 was paid to the Group's auditors and capitalised as an intangible fixed asset (2001 – £205,000) in connection with acquisitions made during the year.

8. Exceptional costs

Exceptional costs relate to redundancy (£7,258,000, (2001 – £3,608,000)), the costs of disposing of empty properties (£4,108,000, (2001 – £2,722,000)) and other costs, including the costs of the banking review and aborted deal costs (£1,218,000 (2001 – £Nil)).

9. Tax on profit/(loss) on ordinary activities

	2002 £'000	2001 £'000
Analysis of tax charge on ordinary activities		
UK corporation tax at 30% (2001 – 30%)	(529)	3,637
Deferred taxation	(243)	(232)
Overseas tax	221	183
Prior year adjustment	(530)	(259)
	(1,081)	3,329

9. Tax on profit/(loss) on ordinary activities (cont)

Factors affecting tax charge	2002 %	2001 %
Standard tax rate for the year as a percentage of profits	30	30
Effects of:		
Expenses not deductible for tax purposes	(28)	7
Capital allowances in excess of depreciation	–	1
Movement in short term timing differences	–	2
Overseas tax rates	–	2
Associates	(1)	–
Prior year adjustments	1	(3)
	2	39

10. Loss 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 loss for the financial year amounted to £43,589,000 (2001 – £4,927,000 profit).

11. Equity dividends

	2002 £'000	2001 £'000
Interim – paid 1.27p (2001 – 1.27p) per ordinary share	1,883	1,852
Final – proposed £nil (2001 – 2.16p) per ordinary share	–	3,116
	1,883	4,968

12. (Loss)/earnings per ordinary share

	2002	2001
(Loss)/earnings per ordinary share	(27.8)p	4.1p
Diluted (loss)/earnings per ordinary share	(27.8)p	3.9p
Earnings per ordinary share before exceptional items and goodwill amortisation and impairment	3.2p	7.6p

The calculation of loss per ordinary share is based on the loss for the financial year of £40,488,000 (2001 – profit £5,793,000) and on a weighted average of 145,646,896 (2001 – 142,894,462) ordinary shares in issue during the year. Earnings per ordinary share before goodwill amortisation and exceptional items has been shown to disclose the impact of these charges on underlying earnings.

Financial Reporting Standard 14 'Earnings per share' requires presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding share options, net loss per share would only be increased by the exercise of out-of-the-money options. Since it seems inappropriate to assume that option holders would act irrationally, no adjustment has been made to diluted earnings per share for out-of-the-money share options.

13. Intangible fixed assets

The Group	Goodwill £'000
Cost	
At 1 January 2002	74,400
Arising on acquisitions in the year (note 2(vi))	3,132
Adjustments to prior year acquisitions (note 2(vi))	106
At 31 December 2002	77,638
Amortisation	
At 1 January 2002	(768)
Charge for the year	(415)
Impairment charge in year	(28,754)
At 31 December 2002	(29,937)
Net book value	
At 31 December 2002	47,701
At 31 December 2001	73,632

14. Tangible fixed assets

The Group	Short-term leasehold improvements £'000	Motor vehicles £'000	Fixtures, fittings, and equipment £'000	Total £'000
Cost				
At 1 January 2002	4,295	3,267	12,708	20,270
Acquisitions	–	–	20	20
Reclassification between categories	903	–	(903)	–
Additions	291	78	300	669
Disposals	(976)	(871)	(1,412)	(3,259)
Subsidiary disposals	–	–	(200)	(200)
Foreign exchange difference	–	–	5	5
At 31 December 2002	4,513	2,474	10,518	17,505
Depreciation				
At 1 January 2002	1,783	1,475	8,676	11,934
Reclassification between categories	449	–	(449)	–
Charge for the year	878	405	1,679	2,962
Disposals	(609)	(479)	(1,182)	(1,182)
Subsidiary disposals	–	–	(81)	(81)
Foreign exchange difference	–	–	(3)	(3)
At 31 December 2002	2,501	1,401	8,640	12,542
Net book value				
At 31 December 2002	2,012	1,073	1,878	4,963
At 31 December 2001	2,512	1,792	4,032	8,336

The net book value of motor vehicles includes £18,000 (2001 – £27,000) in respect of assets held under finance leases.

15. Investments held as fixed assets

The Group	Trade investments – listed £'000	Investments in and loans to associated companies £'000	Own shares £'000	Total £'000
Cost				
At 1 January 2002	1	1,596	7,185	8,782
Additions	–	262	–	262
Share of retained losses	–	(105)	–	(105)
Disposals	–	–	(334)	(334)
Charge for the year	–	–	(15)	(15)
Provision for permanent diminution in value	–	(1,357)	(5,217)	(6,574)
Goodwill amortisation for the year	–	(2)	–	(2)
At 31 December 2002	1	394	1,619	2,014

Investment in associated undertakings includes goodwill of £234,000 (2001 – £250,000).

Own shares represent the shares in Chime Communications PLC held by The Chime Communications Employee Trust and by the Roose Trustees (UK) Limited Employee Benefit Trust. Further details are included in note 22.

The Company	Investments in and loans to associated undertakings £'000	Own shares £'000	Equity interest in subsidiaries £'000	Total £'000
Cost				
At 1 January 2002	1,846	7,118	100,075	109,039
Adjustment to prior year acquisitions	247	–	747	994
Credit for the year	–	50	–	50
Transfer to subsidiary undertaking	–	–	(3,100)	(3,100)
Transfer from current assets	–	–	1,067	1,067
Disposals	–	(334)	(82)	(416)
Provision for permanent diminution in value	(1,864)	(5,217)	(28,391)	(35,472)
At 31 December 2002	229	1,617	70,316	72,162

15. Investments held as fixed assets (cont)

The Group's principal trading subsidiaries and associated undertakings, 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
AMD Brass Tacks Limited §	Contract Publishing	100%
AMD Gasoline Limited	Consumer Marketing	75.1%
AMD Graphiti Limited	Typesetting and Design	100%
AMD Group plc §	Advertising, Marketing and Design	100%
AMD In Real Life Limited	Marketing Communications	100%
Bell Pottinger Communications Limited	Public Relations	100%
Bell Pottinger Financial Limited	Financial Public Relations	100%
Bell Pottinger First Financial Limited	Financial Public Relations	100%
Bell Pottinger Public Affairs Limited	Political Public Relations	100%
BloodPartnership Limited	Advertising	100%
Brands & Issues Limited	Public Relations	100%
Girardot Partnership Limited	Advertising	100%
Good Relations Limited	Public Relations	100%
Harvard Health Limited	Healthcare Public Relations	100%
Harvard Public Relations GmbH †	Public Relations	100%
Harvard Public Relations Limited §	Public Relations	100%
Heresy Limited §	Direct Marketing	100%
HHCL/Red Cell Advertising Limited	Advertising	100%
Insight Marketing & Communications Limited §	Public Relations	100%
IR Focus Limited	Investor Relations	100%
Jaques Russell Limited §	Graphic Designers	100%
LNS Communications Inc ‡	Public Relations	100%
MMK Markt- & Medien-Kommunikation GmbH †	Public Relations	100%
Opinion Leader Research Limited	Market Research	100%
Pure Media Group Limited	Media Buying	100%
QBO Bell Pottinger Limited	Consumer Public Relations & Sports Marketing	100%
Rare Corporate Expressions Limited	Design and Print Consultants	100%
Roose & Partners Advertising Limited	Advertising	100%
Smithfield Financial GmbH †	Financial Public Relations	100%
Smithfield Financial Limited	Financial Public Relations	100%
Teamspirit Limited§	Financial Services Advertising and Marketing	100%
The Quentin Bell Organisation Limited §	Public Relations	100%
The Smart Company.Net Limited §	Corporate and social responsibility consultancy	100%
Wilson Bridges & Trace Limited	Advertising	100%

Associates

Meropa Communications (Pty) Limited *§	Public Relations	35%
Killa Communications Limited	Public Relations and environment marketing	25%
DomainAudit.com	Domain name service	32%

* Incorporated in South Africa

† Incorporated in Germany

‡ Incorporated in America

§ Direct subsidiary/associate of Chime Communications PLC

These companies operate principally in the country of incorporation.

16. Debtors

	The Group		The Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Trade debtors	15,781	23,216	–	–
Amounts owed by Group undertakings	–	–	15,374	13,367
Other debtors	607	1,542	79	310
Prepayments and accrued income	3,128	4,135	13	76
Tax recoverable	–	76	–	79
Deferred tax	1,065	825	–	–
	20,581	29,794	15,466	13,832
Due within one year	19,516	28,878	15,466	13,741
Due after more than one year	1,065	916	–	91
	20,581	29,794	15,466	13,832

An analysis of the deferred tax asset is given below:

	2002 £'000	2001 £'000
Deferred tax asset movement		
At 1 January 2002	843	–
Credit to profit and loss account	222	232
Movement as a result of prior year adjustment (note 1)	–	611
At 31 December 2002	1,065	843

	2002 £'000	2001 £'000
Analysis of deferred tax asset		
Capital allowances in excess of depreciation	850	–
Short term timing differences	215	825
	1,065	825

17. Short term investments

	The Group		The Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Loan note cash deposit	7,269	16,122	7,269	16,121
Cash held in Howell Henry Chaldecott Lury Limited Employee Benefit Trust (see note 22)	–	91	–	–
Cash held in Roose Trustees (UK) Limited Employee Benefit Trust (see note 22)	38	31	–	–
Cash held in Chime USA Inc Trust	157	418	–	–
Cash held in Escrow for client	112	–	–	–
Equity investments	6	6	6	6
	7,582	16,668	7,275	16,127

The loan note cash deposit of £7.3 million relates to a cash deposit held on three months notice at Royal Bank of Scotland plc. The deposit guarantees £7.3 million of the loan note creditors of £7.8 million. Interest accruing on the deposit is payable to the holders of the loan notes less any costs arising (see note 20).

18. Creditors: amounts falling due within one year

	The Group		The Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Bank overdraft	32,354	22,241	30,200	16,023
Deferred/contingent consideration	2,841	4,278	2,805	4,278
Loan notes	7,754	16,906	7,754	16,906
Obligations under finance leases	9	18	–	–
Trade creditors	8,226	8,140	–	–
Amounts owed to Group undertakings	–	–	–	450
Taxation and social security	3,815	8,207	431	42
Other creditors	936	2,028	–	131
Accruals and deferred income	11,904	18,258	80	455
Dividends payable	–	3,121	–	3,121
	67,839	83,197	41,270	41,406

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

	The Group		The Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Deferred/contingent consideration	1,108	2,337	1,048	2,337
Obligations under finance leases	–	9	–	–
	1,108	2,346	1,048	2,337
Due in more than one year but not more than two years	246	9	186	–
Due in more than two years but not more than five years	862	2,337	862	2,337
	1,108	2,346	1,048	2,337

No interest attaches to the deferred consideration, which is payable in sterling and euros.

20. Borrowings

	The Group		The Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Bank overdraft	32,354	22,241	30,200	16,023
Loan notes	7,754	16,906	7,754	16,906
Obligations under finance leases	9	27	–	–
	40,117	39,174	37,954	32,929
Due within one year or on demand	40,117	39,165	37,954	32,929
Due in more than one year but not more than two years	–	9	–	–
	40,117	39,174	37,954	32,929
<i>Maturity analysis</i>				
Bank overdraft/loans				
Within one year or on demand	32,354	22,241	30,200	16,023
Loan notes				
Within one year or on demand	7,754	16,906	7,754	16,906
Obligations under finance leases				
Within one year or on demand	9	18	–	–
Between one and two years	–	9	–	–
	40,117	39,174	37,954	32,929

Loan notes totalling £7.8 million are outstanding as part of the initial and contingent consideration on the acquisition of HHCL Group Limited, Brass Tacks Publishing Group Limited, Roose Holdings Limited, the initial consideration on the acquisitions of The Quentin Bell Organisation Limited, Girardot Partnership Limited and The Smart Company.Net Limited and the contingent consideration on the acquisition of Teamspirit Limited.

Loan notes totalling £5.5 million were issued to senior employees of HHCL Group Limited in two instalments, the balance outstanding at 31 December 2002 being £1.4 million. The loan notes are repayable on giving 90 days' notice by the loan note holder.

Loan notes totalling £1.8 million were issued to the original shareholders of Brass Tacks Publishing Group Limited in three instalments, the balance outstanding at 31 December 2002 being £0.1 million. The loan notes are repayable at any time after one year from the date of issue on 90 days' notice being given by the loan note holder after the anniversary of the date of grant.

Loan notes totalling £8.6 million were issued to the original shareholders of Roose Holdings Limited as part of the initial and contingent consideration. The loan notes are repayable at any time after one year from the date of issue. The balance outstanding at 31 December 2002 is £3.7 million.

Loan notes totalling £5.1 million were issued to the original shareholders of The Quentin Bell Organisation Limited as part of the initial consideration. The loan notes are repayable at any time after six months from the date of issue. The balance outstanding at 31 December 2002 is £0.5 million.

Loan notes totalling £2.1 million were issued to the original shareholders of Girardot Partnership Limited as part of their consideration. Of the £2.1 million loan notes only £1.6 million were guaranteed by Royal Bank of Scotland Plc. The loan notes are repayable in stages from 6 April 2002 to November 2003. The balance outstanding at 31 December 2002 is £0.1 million which is all unsecured.

Loan notes totalling £1.6 million were issued to the original shareholders of Teamspirit Limited for the contingent consideration. The loan notes are repayable at any time after six months from the date of issue. The balance outstanding at 31 December 2002 is £1.6 million.

Loan notes totalling £0.4 million were issued to the original shareholders of The Smart Company.Net Limited for the initial consideration. The loan notes are repayable at any time after six months from the date of issue. The loan notes are not guaranteed by Royal Bank of Scotland Plc. The balance outstanding at 31 December 2002 is £0.4 million.

The loan notes are guaranteed by Royal Bank of Scotland Plc, unless otherwise stated, who hold a deposit of £7.3 million against them (see note 17).

20. Borrowings (cont)

Obligations under finance leases are secured by related leased assets.

The bank overdraft bears interest at 1.0% above LIBOR.

A cross-guarantee exists between each of the subsidiaries and the parent company. Royal Bank of Scotland holds debentures over the assets of the Company and its subsidiaries.

21. Provisions for liabilities and charges

The Group	Empty property £'000	Provision for unfunded pension liability £'000	Total £'000
At 1 January 2002	1,025	22	1,047
Utilised in year	(1,025)	(22)	(1,047)
Provision made during the year	2,143	–	2,143
At 31 December 2002	2,143	–	2,143

The provision for vacant property of £1,025,000 had been made relating to surplus property commitments held by the Group as at 31 December 2001. This provision was utilised during 2002. The additional provision made for vacant property during 2002 relates to surplus property commitments held by the Group as at 31 December 2002. It is anticipated that this vacant property provision will be substantially used by 31 December 2003.

22. Called up share capital

Ordinary shares of 25p each	Number	Nominal value £'000
Authorised at 1 January 2002 and 31 December 2002	280,000,000	70,000
Called up, allotted and fully paid at 1 January 2002	149,503,141	37,376
Issues to staff under share options	634,811	159
Issues relating to contingent consideration on Roose Holdings Limited	656,951	164
Issues to acquire Mansfield Lang Direct Media trade and assets	568,182	142
Called up, allotted and fully paid at 31 December 2002	151,363,085	37,841

On 30 April 2002, 656,951 shares were issued in respect of contingent consideration for Roose Holdings Limited. The fair value of these shares was £1.295.

On 11 October 2002, 568,182 shares were issued in respect of the acquisition of the trade and assets of Mansfield Lang Direct Media. The fair value of these shares was £0.44.

During the year 634,811 shares were issued to staff at prices between 30p and 90p.

No executive options have been granted to employees of the Group during the year.

Executive Share Option Scheme

Number of ordinary shares of 25p each at 1 January 2002	Exercised in the year	Lapsed/ surrendered in the year	At 31 December 2002	From	Period during which options may be exercised To	Price to be paid on the exercise of options
325,000	110,000	–	215,000	Oct 1997	Sept 2004	32p
20,000	20,000	–	–	May 1998	April 2005	30p
50,000	30,000	–	20,000	Oct 1999	Sept 2006	37.5p
20,000	–	–	20,000	April 2000	April 2007	39p
845,643	380,643	10,000	455,000	Nov 2000	Nov 2007	54p
556,032	285,000	–	271,032	Nov 2000	Nov 2007	48p
1,000,000	–	–	1,000,000	Nov 2002	Nov 2007	48p
75,000	–	30,000	45,000	May 2001	May 2008	56p
705,000	320,000	–	385,000	Nov 2001	Nov 2008	40p
275,000	–	5,000	270,000	April 2002	April 2009	71p
855,000	65,000	256,667	533,333	Oct 2002	Oct 2009	90p
800,000	–	225,000	575,000	May 2003	May 2010	175p
2,055,000	–	428,000	1,627,000	Nov 2003	Nov 2010	209p
1,475,780	–	1,475,780	–	Nov 2003	Nov 2010	216p
555,000	–	290,000	265,000	April 2004	April 2011	162p
1,960,220	–	872,220	1,088,000	May 2004	May 2011	155p
845,000	–	174,500	670,500	Oct 2004	Oct 2011	103p

22. Called up share capital (cont)

Savings-related Share Option Scheme:

Number of ordinary shares of 25p each at 1 January 2002	Granted in the year	Exercised in the year	Lapsed in the year	At 31 December 2002	Period during which options may be exercised		Price to be paid on the exercise of options
					From	To	
89,918	–	89,918	–	–	June 2002	Dec 2002	31p
260,128	–	8,352	53,373	198,403	June 2003	Dec 2003	43p
187,890	–	4,815	39,491	143,582	June 2004	Dec 2004	57p
354,621	–	–	181,757	172,864	June 2005	Dec 2005	140p
408,972	–	–	164,556	244,416	June 2006	Dec 2006	130p
–	387,752	–	144,654	144,654	June 2007	Dec 2007	111p

Early exercise of options within the savings related scheme is allowed where the employee has been made redundant. The employee has six months from the date of termination of employment in which to exercise the options.

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 and 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 4,590,315 ordinary shares which have a nominal value of £1,147,579 and over which options were granted in November 1997, May 1998, November 1998, April 1999, October 1999, May 2000, November 2000, April 2001, May 2001 and November 2001. 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 2002 was £677,071 (2001 – £6,815,224). During 2002 a provision for a permanent diminution in the carrying value of the shares in the trust was made of £5,217,000.

The Howell Henry Chaldecott Lury Limited Employee Benefit Trust ("The Benefit Trust") was 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. The Benefit Trust income represents 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 2002 the Benefit Trust held £nil (2001 – £91,000) in cash.

The Roose Trustees (UK) Limited Employee Benefit Trust was established for the benefit of employees and directors of Roose & Partners Limited. The income represents interest received. Costs represent the cost of administering the trust and any associated legal costs. These are charged/(credited) to the trust's profit and loss account as incurred/(received). At 31 December 2002 the trust held 136,524 shares in Chime Communications PLC. The nominal value of the shares is £34,131. The market value of the trust at 31 December 2002 was £20,137 (2001 – £178,846). The trust also held £37,000 in cash at 31 December 2002 (2001 – £30,908).

23. Statements of movements on reserves

The Group	Share premium account £'000	Shares to be issued £'000	Profit and loss account (restated) £'000
Balance at 1 January 2002	41,001	1,123	(27,199)
Retained loss for the year	–	–	(42,371)
Premium on shares issued	1,009	–	–
Foreign exchange difference	–	–	12
On acquisition	–	1,027	–
Adjustment to prior year acquisitions	–	301	–
Impact of shares issued to Qualifying Employee Share Trust	–	–	(81)
Balance at 31 December 2002	42,010	2,451	(69,639)

The Company	Share premium account £'000	Merger reserve £'000	Shares to be issued £'000	Profit and loss account £'000
Balance at 1 January 2002	41,001	3,780	1,123	11,975
Retained loss for the year	–	–	–	(45,472)
Premium on shares issued	1,009	–	–	–
On acquisition	–	–	1,027	–
Adjustment on prior year acquisitions	–	–	301	–
Balance at 31 December 2002	42,010	3,780	2,451	(33,497)

The total amount of pre 1998 goodwill written off directly against reserves in respect of the Group's current subsidiaries is £49,708,000 (2001 – £49,708,000).

Shares to be issued for acquisitions relate to deferred and contingent consideration in respect of the acquisition of Pure Media Group Limited £652,000 and Mansfield Lang Direct Media £375,000.

24. Financial assets and liabilities

The Group's financial instruments comprise cash and various items such as trade debtors and trade creditors that arise directly from its operations. The Group has applied an exemption under Financial Reporting Standard 13 "Derivatives and other financial instruments: Disclosures" from making disclosures on short-term debtors and creditors.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The policy for managing these risks, which have remained unchanged since 1 January 1999, is reviewed and agreed with the Board.

Interest rate risk: cash deposits and loan draw downs are held either at variable rates of interest or at rates of interest fixed for periods of no longer than three months.

Liquidity risk: On 11 September 2002 the Group agreed to committed facilities of £18 million for one year and £20 million for 3 years. There is also an uncommitted facility available of £2 million, which is reviewed on a rolling basis. At 31 December 2002 the Group had net debt. These arrangements were revised on 17 March 2003 as set out in note 29.

24. Financial assets and liabilities (cont)

Foreign currency risk: the Group has one overseas associate, Meropa Communications (Pty) Limited, which trades in South Africa. At 31 December 2002 the Group had a debtor relating to the partial disposal of its shareholding in Meropa. This is payable in South African Rand and is valued at £257,000, of which £28,000 is payable within one year and £229,000 is payable after more than one year. The Group had not entered into forward currency transactions and fluctuations in the value of the South African Rand against sterling would give rise to foreign exchange differences which would affect the profit and loss account. The Group has three overseas subsidiaries which trade in Europe and America. At 31 December 2002 the net foreign currency monetary net assets were £203,000 in Europe and £656,000 in America.

Market price risk: the Group's exposure to market price risk comprises interest rate risk and currency rate risk. The Group regularly monitors these exposures which, setting aside the interrelationships between such rates and their wider impact on the economy, are not considered to have a significant impact on the Group.

Fair values of financial assets and financial liabilities: at 31 December 2002 there was no material difference between the fair value of financial assets and financial liabilities and their book value.

All monetary assets and liabilities are denominated in the same currency as the functional currency of the operations involved except where foreign currency borrowings are used to finance, or provide a hedge against, foreign net investments.

25. Financial and capital commitments

In addition to the potential contingent consideration disclosed in note 2 of £750,000, at 31 December 2002.

Smithfield Financial Limited ("Smithfield"), a wholly owned subsidiary, was established in 1998. Smithfield's management team under the terms of the agreement between them and Bell Pottinger Communications (Bell Pottinger), a wholly owned subsidiary, hold options for the purchase of shares in Smithfield, and are able to require Bell Pottinger to buy out the whole of their interests, on exercise of these options. The earliest point at which the consideration, which is required to be calculated based on a minimum formula of 5 times average after tax profits over the larger of the 3 previous years or the previous year, could be required to be satisfied in cash is in April 2004. There is a maximum financial commitment of £7.0 million (2001 – £7.0 million) in respect of this.

Based on historical performance, the consideration payable under the terms of the agreement would be approximately £0.2 million (2001 – £1.0 million).

26. Notes to the consolidated cash flow statement

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

	2002 £'000	2001 £'000
Operating (loss)/profit	(38,740)	10,709
Depreciation	2,962	3,623
Amortisation and impairment of goodwill and permanent diminution in value of own shares	34,577	768
Loss on sale of tangible fixed assets	635	100
Decrease in work in progress	776	268
Decrease in debtors	9,108	10,302
Decrease in creditors	(8,181)	(17,036)
Increase in provisions	1,099	997
Net cash inflow from continuing operating activities	2,236	9,731

26. Notes to the consolidated cash flow statement (cont)

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

	2002 £'000	2001 £'000
Decrease in cash in the year	(10,113)	(25,708)
Decrease in loan note cash deposit	(8,853)	(964)
Cash outflow from decrease in lease financing	19	36
Change in net debt resulting from cash flows	(18,947)	(26,636)
Redemption of loan notes	8,853	964
Movement in net debt in the year	(10,094)	(25,672)
Net (debt)/funds at 1 January 2002	(22,269)	3,403
Net debt at 31 December 2002	(32,363)	(22,269)

(iii) Analysis of net debts

	At 1 January 2002 £'000	Cash flow £'000	At 31 December 2002 £'000
Cash at bank and in hand/bank overdraft	(22,241)	(10,113)	(32,354)
Loan note cash deposit	16,122	(8,853)	7,269
Loan notes – due within one year	(16,122)	8,853	(7,269)
Obligations under finance leases	(28)	19	(9)
	(22,269)	(10,094)	(32,363)

26. Notes to the consolidated cash flow statement (cont)

Cash held on deposit of £7,269,000 guarantees the loan note creditor in part of £7,754,000. Thus, for the purpose of this reconciliation, cash held on deposit of £7,269,000 has been treated as liquid resources.

During the year, cash deposits of £11,557,000 were used to redeem loan notes and additional deposits were made of £2,704,000.

(iv) Purchase of subsidiary undertakings

	2002	2001
	£'000	£'000
Assets and liabilities acquired:		
Tangible fixed assets	20	489
Debtors	7	1,687
Cash at bank and in hand	–	5
Creditors	(5)	(1,382)
Less share of associates already owned	–	(191)
Minority interest	–	(3)
Net assets acquired	22	605
Goodwill	3,132	15,208
Consideration	3,154	15,813
Satisfied by:		
Cash	506	10,855
Loan notes issued	–	360
Shares allotted	250	1,096
Shares to be allotted	652	–
Contingent consideration	750	3,357
Deferred consideration	996	145
	3,154	15,813

Cash consideration includes £35,000 of acquisition costs accrued but not paid at 31 December 2002, and is represented by actual cash payments of £471,000.

Deferred consideration of £3,024,000 was settled during the year in respect of acquisitions made in the previous year by the issue of £2,704,000 of loan notes and cash payments of £320,000. £366,000 of cash paid in the year relates to costs in respect of prior year acquisitions. The total payment in respect of the purchase of subsidiary undertakings was therefore £1,158,000.

It is not possible to provide cashflow information regarding the businesses acquired during the year as they have been fully amalgamated with existing businesses.

27. Operating lease commitments

At 31 December 2002, the Group was committed to making the following payments during the next year in respect of operating leases:

	Other		Property	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Leases which expire:				
Within one year	26	17	437	28
In one to two years	10	2	107	558
In two to five years	20	10	421	646
Over five years	–	–	3,981	3,805
	56	29	4,946	5,037

28. Pension schemes

The Group operates 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. The amounts charged in this year and the prior year are given in note 4.

29. Post balance sheet event

- (i) On 6 February 2003, Chime Communications PLC (“Chime”) disposed of 49% of its holding in Howell Henry Chaldecott Lury Limited (“HHCL”) to WPP Group (UK) Limited (“WPP”) for an initial consideration of £3.5 million, payable in cash on completion. Contingent consideration of £0.5 million will become due provided that HHCL achieves operating revenue in 2003 of at least £8 million. Chime has an option to sell its remaining interest in HHCL to WPP after 1 January 2004. Further, in the event that Chime is subject to a change of control, WPP will have an option to buy the remaining 51% of HHCL. Under the terms of the Shareholders Agreement in respect of their joint ownership, Chime will retain a majority interest in HHCL but WPP will have day to day management control of HHCL, subject to certain matters which will be subject to unanimous shareholders consent. This transaction will result in a loss on disposal of approximately £8.1 million in the 2003 consolidated accounts, which is calculated after charging £12.3 million of goodwill previously written off directly to reserves. The consolidated net assets will therefore increase by approximately £4.1 million as a result.
- (ii) On the 17 March 2003 the Group agreed new banking facilities with its Bank. The principal terms of which are as follows:
- Overall facility of £37 million divided between senior debt of £20 million and mezzanine funding of £17 million;
 - New three year facility to run from March 2003 with an annual review;
 - Six month period to 30 September 2003 to arrange alternative funding for the mezzanine debt. However Royal Bank of Scotland would continue to provide the mezzanine funding after six months in return for three year warrants to subscribe for an amount of shares up to the equivalent of 5% of the share capital of the Company issued and to be issued under existing commitments prior to 31 December 2003 with a warrant exercise price of 25p (current share price 11p); and
 - Covenants for the first year will be based on EBITDA interest cover and revenue generation.

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Chime Communications plc will be held at 14 Curzon Street, London W1J 5HN at 11 am on 11 June 2003 for the purpose of considering and, if thought fit, passing the following resolutions as Ordinary Resolutions in the case of resolutions 1 to 9 and as Special Resolutions in the case of resolutions 10 and 11.

1. To receive and adopt the Directors' Report and Accounts for the year ended 31 December 2002 and the Report of the Auditors thereon.
2. To elect Chris Satterthwaite as a director of the Company.
3. To re-elect Lord Bell as a director of the Company.
4. To re-elect Piers Pottinger as a director of the Company.
5. To re-elect Sir Ronald Grierson as a director of the Company.
6. To re-elect Paul Richardson as a director of the Company.
7. To re-appoint Deloitte & Touche, Chartered Accountants, as Auditors of the Company and to authorise the directors to determine their remuneration.
8. THAT the directors' remuneration report for the year ended 31 December 2002 set out on page 18 of the Directors' Report and Accounts be and is hereby approved.
9. 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 £13,248,513 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.
10. 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 £1,892,039.

and 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 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 authority conferred hereby had not expired.
11. THAT the Company be and it 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 15,898,215 Ordinary Shares of 25p each in the capital of the Company (being 10% of the Company's issued ordinary share capital as at 11 April 2003) at a price per share of not less than 25p and not more than 105% 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 2004 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
1 May 2003

Registered office:
14 Curzon Street
London W1J 5HN

General notes

1. 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.
2. A form of proxy is enclosed. To be valid, the form of proxy must be completed, signed and returned to the Company's registrars, Computershare Investor Services plc, PO Box 1075, Bristol BS99 3FA, as soon as possible and, in any event, so that it is received not later than 48 hours before the Meeting, or any adjournment thereof.
3. Completion and return of a form of proxy will not preclude a Member from attending and voting at the Meeting should he or she so decide.
4. The register of directors' shareholdings and copies of the 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 Resolution 7 and Resolutions 9 to 11

Resolution 7 – Reappointment of Deloitte & Touche

A resolution proposing the re-appointment of Deloitte & Touche is being put to the members at the Annual General Meeting. The Company has been informed that it is the intention of Deloitte & Touche to transfer their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000, and it is envisaged that this transfer will occur in the early summer of this year. The Company will be asked to extend the audit appointment of Deloitte & Touche to Deloitte & Touche LLP after the Annual General Meeting and the directors will consider the appropriate formalities in due course.

Resolution 9 – Renewal of Board's authority to allot securities

This resolution 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 £13,248,513 which is equivalent to 33.3 per cent. of the issued ordinary share capital of the Company as at 11 April 2003. The Board has no current intention of exercising this authority other than in the exercise of share options as described on pages 48 and 49 of this Report and Accounts.

Resolution 10 – Disapplication of pre-emption rights

The effect of this resolution 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 £1,892,039 which is equivalent to approximately 5% of the issued ordinary share capital of the Company as at 11 April 2003. This authority will last until the conclusion of the next Annual General Meeting.

As part of the financial reorganisation of the business in March 2003, the Company has agreed to issue to West Register

(Investments) Limited (a subsidiary of The Royal Bank of Scotland plc) warrants to subscribe for up to 5% of the issued share capital of the Company. In doing so the Company will be fully utilising its authority to allot equity securities for cash other than to existing shareholders granted at last years Annual General Meeting. As the Company's issued share capital has increased since the date on which the existing authority was granted, the issue of warrants may therefore also utilise a portion of this years authority.

Both Resolutions 9 and 10 are consistent with the recommendations of the Investment Committees of the National Association of Pension Funds and the Association of British Insurers.

Resolution 11 – Purchase of own shares

This resolution will allow the Company to make market purchases of up to 15,898,215 of its own Ordinary Shares (10% of the issued ordinary share capital of the Company as at 11 April 2003) at prices not less than 25p per Ordinary Share and not more than 5% 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, 11 September 2004.

As at 11 April 2003 the total number of Ordinary Shares in the Company in respect of which options were outstanding was 6,048,784, representing 3.8% of the Company's issued ordinary share capital as at that date. If the authority set out in this resolution were exercised in full then the outstanding options would represent 4.2% of the Company's issued ordinary share capital as at 11 April 2003.

No purchases were made pursuant to the equivalent authority granted to the Board at the 2002 Annual General Meeting.

Notes

1. Directors and their interests

There was no change in the interests of the directors in the share capital of the Company between 17 March 2003 and 11 April 2003. The interests of the directors as at 17 March 2003 are set out on page 22 of this Report and Accounts.

2. Substantial Interests

At 11 April 2003 the following interests, other than those of the Directors set out on page 22, in 3% or more of the issued share capital had been notified to the Company.

	Number of ordinary shares	% of ordinary share capital
WPP Group plc	30,453,665	19.16
FMR Corporation	19,859,689	12.49
Scottish Widows Investment Partnership	17,505,963	11.01
Herald Investment Management (UK)	8,750,000	5.50
Gartmore Investment Limited (UK)	5,351,170	3.37

Professional Advisers and Registered Office

FINANCIAL ADVISERS AND STOCKBROKERS

Cazenove
12 Tokenhouse Yard
London EC2R 7AN

SOLICITORS

Slaughter and May
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London EC1Y 8YY

BANKERS

Royal Bank of Scotland
Corporate Banking
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London EC2M 4RB

AUDITORS

Deloitte & Touche
Chartered Accountants
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London WC2R 1BL

REGISTRARS

Computershare Investor Services PLC
Registrar's Department
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

Registered Office

14 Curzon Street London W1J 5HN

Financial calendar

- | | |
|-------------------------|--------------------------------------|
| 11 June 2003 | Annual General Meeting |
| 9 September 2003 | Announcement of 2003 interim results |

Contact details

Tim Bell – Chairman

Bertie Way – Group New Business Director

Mark Smith – Finance Director

020 7861 8515

Chime Communications PLC

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