

Notes to the Company financial statements

Year ended 31 December 2008

1. Accounting policies

Basis of preparation

The separate financial statements of the Company are drawn up in accordance with the Companies Act 1985 and United Kingdom generally accepted accounting principles (UK GAAP). The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The particular accounting policies adopted are described below. They have all been applied consistently throughout the year and the prior year.

The financial statements are prepared on a going concern basis as explained in the Directors' Report.

Cash flow

The Company has taken advantage of the exemption contained in FRS 1 "Cash flow statements" and has not produced a cash flow statement.

Financial instruments

The Company has taken advantage of the exemption contained in FRS 29 "Financial Instruments: Disclosures" and has not produced any disclosures required by that standard, as full FRS 29 disclosures are available in Chime Communications Plc Annual Report for the year ended 31 December 2007.

Related parties

The Company has taken advantage of the exemption contained in FRS 8 "Related party disclosures" and has not reported transactions with fellow Group undertakings.

Accounting convention

The financial statements are prepared under the historical cost convention.

Investments

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

Deferred consideration

When earn-outs are to be settled in cash or shares with a fixed monetary value, the fair value of the consideration is obtained by discounting to present value the amounts expected to be payable in the future. The resulting interest charge is included within finance costs of deferred consideration.

Financial instruments

Financial assets and financial liabilities, in respect of financial instruments, are recognised on the balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities and includes no obligation to deliver cash or other financial assets. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Share-based payments

The Group operates a number of equity-settled share-based compensation plans for the employees of subsidiary undertakings, using the Company's equity instruments. The fair value of the compensation given in respect of these share-based compensation plans is recognised as a capital contribution to the Company's subsidiary undertakings, over the vesting period. The capital contribution is reduced by any payments received from subsidiary undertakings in respect of these share-based payments.

Dividends paid or received

Dividends paid and received are included in the financial statements in the period in which the related dividends are actually paid or received or, in respect of the Company's final dividend for the year, approved by shareholders.

Going concern

The Directors have prepared cash flow forecasts which indicate that the Company has adequate resources to continue in operational existence for the foreseeable future. In preparing these forecasts the Directors have taken into account the following key factors:

- The possible impact of the continued economic downturn on the Group's business
- Key client account renewals
- The level of committed and variable costs
- Current new business targets compared with levels achieved in previous years

The Group currently has a borrowing facility of £32 million, which continues until July 2013. This facility is subject to banking covenants.

At year end the Company was not utilising its loan facility.

The Directors have concluded, based on the cash flow forecasts, that it is appropriate to prepare the accounts on a going concern basis.

2. Profit of parent company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts. The parent company's profit for the financial year amounted to £6,318,000 (2007 – £6,971,000).

3. Equity dividends

The equity dividends paid from the Company are disclosed in note 11 of the consolidated financial statements.

4. Investments

The Company	Investments in and loans to associated undertakings	Equity interest in subsidiaries	Total
	£'000	£'000	£'000
Cost			
At 1 December 2008	348	119,945	120,293
Additions	–	921	921
Adjustment to prior year acquisitions	–	1,218	1,218
Transfer of investment to subsidiary	–	(13)	(13)
Loans to associated undertakings	59	–	59
Share-based payments	–	1,292	1,292
Reduction of carrying value	(29)	(1,075)	(1,104)
Foreign exchange	(2)	–	(2)
At 31 December 2008	376	122,288	122,664

The Company	Investments in and loans to associated undertakings	Equity interest in subsidiaries	Total
	£'000	£'000	£'000
Cost			
At 1 December 2007	294	84,264	84,558
Additions	–	32,758	32,758
Adjustment to prior year acquisitions	–	2,438	2,438
Loans to associated undertakings	54	–	54
Share-based payments	–	968	968
Reduction of carrying value	–	(483)	(483)
At 31 December 2007	348	119,945	120,293

5. Other investments

Other investments comprise unlisted equity investment in PSP Holdings Ltd. This has been recorded at cost, less any provision for impairment, as its fair value cannot be reliably measured as there is no active market.

6. Subsidiaries, associates and joint ventures

The Company's principal trading subsidiaries and associated undertakings, which are all incorporated in Great Britain (except where noted) are listed in note 16 of the consolidated financial statements.

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7. Debtors

	2008 £'000	2007 £'000
Prepayments and accrued income	–	39
Amounts owed by Group undertakings	772	7,403
Other debtors	53	97
	825	7,539
Due within one year	825	7,539
Due after more than one year	–	–
	825	7,539

8. Short-term investments

	2008 £'000	2007 £'000
Loan note cash deposit	416	313

The loan note cash deposit of £0.4 million (2007 – £0.3 million) relates to a cash deposit held on three months' notice at Royal Bank of Scotland plc. The deposit guarantees £0.4 million (2007 – £0.3 million) of the loan note creditors of £0.4 million (2007 – £0.9 million). Interest accruing on the deposit is payable to the holders of the loan notes less any costs arising (see note 24 and note 25 of the consolidated financial statements).

9. Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Bank overdraft	3,661	–
Deferred/contingent consideration	207	16,035
Amounts owed to Group undertakings	1,158	–
Loan notes	416	907
Current taxation	80	233
Other taxation and social security costs	4	7
Other creditors	–	3
Accruals and deferred income	464	703
	5,990	17,888

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

	2008 £'000	2007 £'000
Deferred/contingent consideration	14,428	12,011
Bank loans	–	8,375
	14,428	20,386
Due in more than one year but not more than two years	9,766	8,548
Due in more than two years but not more than five years	4,591	6,843
Due in more than five years	71	4,995
	14,428	20,386

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

11. Borrowings

	2008 £'000	2007 £'000
Bank loans	–	8,375
Loan notes	416	907
	416	9,282
Due within one year or on demand	416	907
Due in more than one year but not more than two years	–	8,375
Due in three to five years	–	–
	416	9,282
<i>Maturity analysis</i>		
Bank overdraft/loans		
Within one year or on demand	–	–
Between one and two years	–	8,375
Between two and five years	–	–
Loan notes		
Within one year or on demand	416	907
	416	9,282

12. Share capital and share premium account

The movements on these items are disclosed in notes 29 and 30 to the consolidated financial statements.

13. Statements of movements on reserves

	Share-based payment reserve £'000	Merger reserve £'000	Capital reduction reserve £'000	ESOP reserve £'000	Profit and loss account £'000
Balance at 1 January 2008	1,771	3,780	32,385	(4,381)	14,077
Retained profit for the year	–	–	–	–	6,318
Dividend payable	–	–	–	–	(2,219)
Capital contribution given relating to share-based payments	1,292	–	–	–	–
Purchase of own equity shares held in treasury	–	–	–	(571)	–
Balance at 31 December 2008	3,063	3,780	32,385	(4,952)	18,176
	Share-based payment reserve £'000	Merger reserve £'000	Capital reduction reserve £'000	ESOP reserve £'000	Profit and loss account £'000
Balance at 1 January 2007	803	3,780	32,385	(5,968)	11,214
Retained profit for the year	–	–	–	–	6,971
Dividend payable	–	–	–	–	(1,561)
Capital contribution given relating to share-based payments	968	–	–	–	–
(Purchase)/Disposal of own equity shares held in treasury	–	–	–	1,587	(2,547)
Balance at 31 December 2007	1,771	3,780	32,385	(4,381)	14,077

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14. Contingent liabilities and commitments

In addition to the potential deferred consideration as shown in note 9 and 10 of £14,635,000 at 31 December 2008 there was a maximum financial commitment of £19,101,033 relating to unprovided deferred contingent consideration payable in respect of acquisitions of subsidiary undertakings. This relates to the acquisition of Fast Track Sales Limited (£12,245,000), The Corporate Citizenship Company Limited (£2,206,034) and Stuart Higgins Communications Limited (£700,000) in 2007, MC Bio Communications Limited (£1,849,999) and Bankbrae Holdings Limited (£2,100,000) in 2008.

Fast Track Sales Limited – The maximum contingent consideration payable is £25,000,000, however provision has only been made of £12,755,000 in the accounts to date (before discounting). The contingent consideration is a multiple of seven times earnings before interest and tax of the average profits for the following periods: average of the three years 2007 to 2009 inclusive, and average of the three years 2010 to 2012 inclusive. The contingent consideration would be satisfied by the issue of new shares until the amount of total consideration paid has been satisfied as to 50% in cash and 50% in new shares. Thereafter, the contingent consideration would be satisfied 50% in loan notes and 50% by the issue of new shares. Chime has the right to pay a higher percentage in cash if it so wishes.

The Corporate Citizenship Company Limited – The maximum contingent consideration payable is £4,206,034, however provision has only been made for £2,000,000 in the accounts to date (before discounting). The contingent consideration is a multiple of 4.75 times the average earnings before interest and tax for the following periods: average of the three years 2007 to 2009 inclusive, and average of the two years 2010 to 2011 inclusive. The contingent consideration would be satisfied entirely in loan notes or cash.

Stuart Higgins Communications Limited – The maximum contingent consideration payable is £1,750,000, however provision has only been made for £1,050,000 in the accounts to date (before discounting). The contingent consideration is a multiple of 4.5 times the average earnings before interest and tax for the three years 2008 to 2010 inclusive. The contingent consideration would be satisfied 50% in cash and 50% by the issue of new shares. Chime has the right to pay a higher percentage in cash if it so wishes.

MC Bio Communications Limited – the maximum contingent consideration payable is £2,249,999, however provision has only been made for £400,000 in the accounts to date (before discounting). The contingent consideration is a multiple of four times the average profits before tax for the following periods: average of the three years 2008 to 2010 inclusive, and average of the three years 2011 to 2013 inclusive. The contingent consideration would be satisfied entirely in loan notes.

Bankbrae Holdings Limited – the maximum contingent consideration payable is £1,150,000, however provision has only been made for £200,000 in the accounts to date (before discounting). The contingent consideration is a multiple of 4.5 times the average profits before tax for the following periods: average of the two years 2008 to 2009 inclusive, and average of the two years 2010 to 2011 inclusive. The contingent consideration would be satisfied 50% in cash and 50% by the issue of new shares. Chime has the right to pay a higher percentage in cash if it so wishes.

15. Share-based payments

The Company currently uses a number of equity-settled share plans to grant options and shares to the directors and employees of its subsidiary undertakings. As at 31 December 2008, the Company had 2,091,942 ordinary share options outstanding (2007 – 1,999,008 as restated).

The Company has made a capital contribution to its subsidiary undertakings in relation to share-based payments. At 31 December 2008, the cumulative capital contribution net of payments received from subsidiary undertakings was £3.1 million (31 December 2007 – £1.8 million). During the year ended 31 December 2008, the capital contribution arising from share-based payments was £1.3 million (2007 – 1.0 million). The Company does not incur a profit and loss account charge in relation to share-based payments.

Full details of share-based payments, share option schemes and share plans are disclosed in note 40 to the consolidated financial statements of Chime Communication plc.

16. Own shares

The own shares reserve represents the cost of shares in Chime Communications plc purchased in the market and held by The Chime Communications Employee Trust to satisfy options under the Group's share options schemes, Deferred Shares Plan and the Co-Investment Plan. Further details are disclosed in note 30 of the Group accounts.