Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2009. The Corporate Governance Statement set out on pages 15 to 23 forms part of this report.

Principal Activities

The principal business of the Group is providing public relations, advertising, sports marketing, market research, direct marketing, design and event management consultancy. The subsidiary and associated undertakings principally affecting the profits or net assets of the Group in the year are listed in note 16 to the accounts on page 69.

Business Review

The information that fulfils the requirements of the enhanced business review, as required by Section 417 of the Companies Act 2006 ("the Act") and which form part of this report by reference, are included in the following sections of the Annual Report:

- A review of the performance and development of the Group's business during the year, its position at the year end and its prospects is set out in the Chairman's statement and Finance Director's report on pages 2 to 5 and 8 and 9;
- The principal risks and uncertainties facing the Group are described on page 35 to 37; and
- Details of the principal subsidiaries are set out in note 16.

The Group's use of financial instruments is set out in note 41 of the financial statements.

The Group uses the following key performance indicators to measure progress towards its objectives:

	2009	2008
Organic operating income growth[1]	**8%**	9%
Organic profit growth[1 and 2]	**7%**	10%
Operating profit margin[2]	**16.4%**	16.2%
Earnings per share[2 and 3]	**22.46p**	20.19p
Average fee income per client	**£89,000**	£81,000
Average income per employee	**£118,000**	£111,000
Net cash	**£4,824,000**	£6,324,000
Clients using more than one company	**230**	256
Operating income from international clients	**46%**	37%
Operating income from top 30 clients	**57%**	48%

Note:
1. Organic growth is calculated excluding all acquisitions in 2008 and 2009.
2. Before taking account of amortisation of acquired intangible assets (£0.3 million, 2008: £0.1 million)and costs relating to acquisitions (£0.2 million, 2008: £nil).
3. Before taking account of profit on disposal of a minority of a subsidiary (£1.3 million, 2008: £nil) and write off of investments (£1.0 million, 2008: £nil).

As a whole the annual Report provides information about the Group's businesses, its financial performance during the year and likely future developments. There have been no significant changes to the Group's principal trading activities during the year under review and the Directors are not aware, at the date of this report, of any likely major changes in the Group's activities in the new financial year.

Results and dividends

The Group's income statement is set out on page 40 and shows a profit before tax for the year to 31 December 2009 of £18,553,000 (2008 – £16,339,000). The Directors recommend the payment of a final dividend of 3.50p per ordinary share to be paid on 18 June 2010 to the ordinary shareholders on the register on 28 May 2010 which together with the interim dividend paid on 16 October 2009 makes a total of 5.10p per share for the year (2008 – 4.72p).

Dividends are recognised in the accounts in the year they are paid, or in the case of a final dividend when approved by shareholders, such that the amount recognised in the 2009 accounts comprises 2008's final dividend and 2009's interim dividend.

Directors and their interests

The names of the Directors are set out on pages 10 to 11, which includes brief biographical details. There were no changes to the board structure during 2009.

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 on page 31. Details relating to Directors' remuneration, share options and long-term incentives are also given as part of the Report of the Board to the Shareholders on Directors' Remuneration. There has been no change in the interests of the Directors between 31 December 2009 and 10 March 2010.

At the forthcoming Annual General Meeting, Mark Smith and Catherine Biner-Bradley are due to retire by rotation and offers themselves for re-election and Paul Richardson will also retire and offer himself for re-election at the Annual General Meeting as he has been a Non-Executive Director for more than nine years.

Other than described in the Report of the Board to the Shareholders on Directors' Remuneration 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.

Directors' indemnities
As at the date of this report, indemnities are in force under which the Company has agreed to indemnify the Directors, to the extent permitted by law and Company's Articles of Association, in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities, as Directors of the Company or any of its subsidiaries. There is no agreement in place between the Company and its Directors and employees providing for compensation for loss of office of employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

The Company has purchased and maintains Directors' and Officers' insurance cover against legal liabilities and costs for claims in connection with any act or omission by its Directors or Officers in the execution of their duties.

Donations
During the year the Group donated £18,827 (2008 – £36,567) for charitable purposes.

The Group's policy is not to make direct donations to support political parties. However, the nature of the Group's work is such that to support its commercial activities, certain companies within the Group may need to attend or sponsor events which are organised by political parties or other political organisations, for which a charge is made. In addition, the Group may invite clients and prospective clients to attend events which fall within the meaning of the Companies Act 2006 provisions. The Companies Act 2006 defines '"political party", "political organisations", "political donation" and "political expenditure" widely and as a result, it is possible that political organisations may include bodies concerned with matters such as policy review and law reform, or the representation of the business community or sections of it, or the representation of other communities or special interest groups.

During the year and adopting this wider definition, the Group made payments that might be deemed to be political donations totalling £38,536 (2008 – £22,000) to various organisations, £32,686 connected with the Conservative Party, £2,500 connected with the Scottish National Party, £2,000 connected with the Liberal Democrats and £1,350 connected with the Labour Party.

Employee involvement
The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved principally via the Group's intranet site, emails and formal and informal functions. In addition, the Group's Savings-Related Share Option Scheme, Performance Related Pay and bonus schemes encourage employees at all levels to contribute to the achievement of the Group's short and long term goals.

Employment of disabled persons
The Group believes in an equality of opportunity for all employees based on merit and that no employee or job applicant should receive less favourable treatment on the grounds of: age, sex, marital status, disability, colour, race, religion, nationality or ethnic origin.

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.

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 40 days in aggregate for the Group (2008 – 38). The Company did not have any trade creditors at 31 December 2009 or 2008.

Additional information for shareholders
The following information, which summarises certain provisions of the current Articles and Association of Chime Communications plc ("the Articles") and applicable English law concerning companies (the Companies Act 1985 and the Companies Act 2006, together "the Companies Acts"), is required to be provided to shareholders as a result of the implementation of the European Directive on Takeover bids (2004/25/EC) into English Law. The current Articles were adopted by the Company at the Annual General Meeting on 14 May 2008. This is a summary only and the relevant provisions of the Articles and 'The' Companies Acts should be consulted if further information is required.

Share capital
As at 31 December 2009 the Company's issued share capital comprised 67,336,968 ordinary shares with a nominal value of 25 pence each. As at 10 March 2010, the Company's issued share capital comprised 69,843,357 ordinary shares. Details of the authorised and issued share capital, together with movements in the issued share capital during the year, are shown in note 29 of the accounts on page 80.

Rights and obligations attaching to shares
The rights attaching to the Company's ordinary shares, being the only share class of the company, are set out in the Articles. Subject to the Companies Acts and applicable law, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or if no such resolution is in effect or such resolution does not make specific provision as the Board may determine. There is currently no such applicable resolution in effect.

Voting rights
Holders of ordinary shares are entitled to attend and speak at general meetings of the Company. On a show of hands every holder of ordinary shares who is present in person shall have one vote. On a poll every holder of ordinary shares present in person shall have one vote for every share of which he is the holder. Votes may be exercised in person or by proxy. Every notice of general meeting of the Company shall specify the deadlines in relation to the exercise of voting rights in respect of each resolution proposed at such meeting. Electronic and paper proxy appointments must be received not later than 48 hours before the general meeting, provided that at an adjournment of a meeting the proxy form must be received not later than 24 hours before the date of the adjourned meeting.

No holder of ordinary shares may attend or vote (whether in person or by proxy) nor exercise any other right conferred by being a holder of ordinary shares, unless all calls or other sums presently payable by the holder of such ordinary shares have been paid. A holder of ordinary shares may lose the entitlement to vote at a general meeting where that holder has failed to respond to a disclosure notice made by the Company under the Companies Acts with information concerning interests held in those shares.

Variation of rights
The Company may resolve by the consent of not less than 75% in nominal value of the issued shares of the Company, and subject to the Companies Acts, to vary all or any of the rights attaching to the shares of the Company.

Restriction on transfer of shares
The Directors may refuse, provided such refusal does not prevent dealings in the shares of the company from taking place in an open and proper manner or where the Company has a lien over such shares, to register a transfer of certificated shares which are not fully paid, or where the instrument of transfer has not been correctly stamped and lodged at the place designated by the Board accompanied by the certificate of shares and such other evidence of title as may be reasonably required to show the right of the transferor to make the transfer. The Directors may also refuse to register a transfer unless: (i) it is to a person who is not a minor; (ii) a bankrupt; (iii) is subject to an order made on the grounds of some mental or other incapacity that prevents management of their own affairs; (iv) it is in favour of not more than four transferees; and (v) the instrument of transfer is in respect of one class of shares only.

Transfers of uncertificated shares of the Company may be made using the CREST system and the Directors may refuse a transfer of shares in accordance with the rules governing the operation of the CREST system.

Significant direct or indirect holdings of securities and special rights
The holdings of shares of the Company by the Directors are notified on page 31. Significant holdings in the shares of the Company are notified on page 35. Under the subscription Agreement between the Company and WPP plc of 1997, WPP plc has the right to appoint two non-executive directors of the Company provided it holds not less than 20% of the shares of the Company and the right to appoint one non-executive director provided it holds not less than 12.5% of the shares of the Company. There are no other holdings of shares of the Company in which there are special rights.

Dividends and other payments
The Company may by ordinary resolution from time to time declare dividends in accordance with the rights of the members subject to the provisions of the Companies Acts and provided that the dividend does not exceed the amount recommended by the Board of Directors. The Board may pay interim dividends in such amount as the Board considers justified by the financial position of the Company.

Employee share trust
The Company operates a number of schemes in order to incentivise the employees of the Company. Shares are held by a trustee in order to satisfy the entitlements of employees under the Group's share schemes other than those that are satisfied by the issue of new shares. The shares held by the trustee do not have any special rights with regard to the control of the Company. The rights attaching to the shares held by the trustee are generally not exercisable by the relevant employees except where the interest is held beneficially by them. Further details son the share schemes may be found on pages 26 and 27.

Appointment and replacement of Directors
Directors may be appointed by ordinary resolution of the Company in general meeting or by the Board upon the recommendation of the Nominations Committee. Directors may be removed by ordinary resolution of the Company in general meeting upon special notice or by notice of not less than 75% of the other Directors of the Company being not fewer than three in number.

Amendment to the Articles
Amendment to the Articles of Association may be made by special resolution of the Company in general meeting in accordance with the Companies Acts.

Powers of the Directors
The Directors of the Company may exercise all the powers of the Company as set out in the Articles including the power to borrow money, to mortgage or charge the assets and property of the Company, to issue securities and to give securities for any debt or liability of the Company or any third party. The Board of Directors exercising such powers shall manage the business of the Company. The Company may also authorise the Directors to issue, increase, consolidate, sub-divide and cancel shares by ordinary resolution and in accordance with the relevant Articles and legislation.

Acquisition of the Company's own shares
The Company may purchase its own shares in accordance with the relevant provisions of the Companies Acts, subject to the resolution of the shareholders. Shares purchased by the Company may be held in treasury or should, if not held in treasury, be cancelled immediately thus reducing the issued share capital of the Company.

At the end of the year, the Directors had authority, under the shareholders' resolution issued on 13 May 2009, to purchase through the market £4,754,825 of the Company's own ordinary shares at prices not less than 25p per ordinary share and not more than five per cent above the average of the middle market quotations as derived from the London Stock Exchange Daily Official List. This authority will last until the conclusion of the next Annual General Meeting.

Substantial interests
At 8 March 2010 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 plc	11,036,718	15.80
Fidelity Investments	9,057,107	12.97
Abeforth Partners	3,930,700	5.63
JM Finn, stockbrokers	3,518,651	5.03
Legal and General Investment Management	3,256,583	4.66
JP Morgan Asset Management	2,462,389	3.53

Significant agreements
The following significant agreement contains provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the Company:

- Under the £32 million committed banking facility agreement dated 18 August 2008 between the Company and The Royal Bank of Scotland Plc, upon a change of control of the Company or any of its subsidiaries, without the consent of the bank, the bank may by written notice declare the loan, all interest accrued and all other sums payable under the agreement to be immediately due and payable and/or terminate the obligations of the bank under the agreement.

The Directors confirm there are no contractual or other arrangements between the Group and any person which are essential to the business of the company.

Risks and uncertainties
The Board has considered the principal risks and uncertainties affecting the Group as at 31 December 2009 and these are summarised below. The Group has specific policies in place to ensure risks are properly evaluated and managed at the appropriate level within the Group. These policies are set out in the Directors' Statement on Corporate Governance, in the section headed internal control on page 20.

1. The Group receives a significant portion of its revenues from a limited number of large clients, and the loss of those clients would adversely impact the Group's prospects, business, financial condition and result of operations.

   A relatively small number of clients contribute a significant percentage of the Group's operating income. The Group's two largest clients accounted for approximately 22.3 % of operating income in the year ended 31 December 2009 (2008 – 18.4%) and the Group's 30 largest clients accounted for approximately 57% of operating income in the year ended 31 December 2009 (2008 – 48%).

2. The Group is dependent on key personnel and its relationships with clients.

   The Group's future success is substantially dependent on the continued services and continuing contributions of its Directors, senior management and other key personnel. The loss of the services of any of the Group's executive officers or other key employees could have a material adverse effect on the Group's business.

3. The Group's industry is highly competitive.

   The Group may face significant competition, both actual and potential, including competition from global competitors which have large capital resources in the provision of similar services to those provided by the Group. Competition in the industry is based upon: range and quality of services offered; geographical reach; reputation; and client relationships.

4. Goodwill and other acquired intangible assets recorded on the Group's balance sheet with respect to acquired companies may become impaired.

   The Group has a significant amount of goodwill and other acquired intangible assets recorded on its balance sheet with respect to acquired companies. The Group annually tests the carrying value of goodwill for impairment. The estimates and assumptions about results of operations and cash flows made in connection with impairment testing could differ from future actual results of operations and cash flows. In addition, future events could cause the Group to conclude that the asset values associated with a given operation have become impaired.

5. The Group has a large amount of deferred contingent consideration payable pursuant to previous acquisitions that may become payable.

   The Group has deferred contingent consideration payable in the upcoming years pursuant to the terms of previous acquisitions of businesses. The fulfilment of these payment obligations may detrimentally affect cash available to the Group to manage and grow its business efficiently.

6. The Group may be exposed to liabilities from allegations that certain of its clients' advertising claims may be false or misleading or that its clients' products may be defective. The Group has insurance against such claims.

7. The Group is subject to the risk of failure of its information systems.

   The Group's ability to maintain financial controls and provide a high-quality service to clients depends, in part, on the efficient and uninterrupted operation of its management information systems, including its computer systems. The Group's computer systems may be vulnerable to damage or interruption from floods, fires, power loss, telecommunications failures, physical or electronic break-ins, power outages, computer viruses and other malfunctions and disruptions.

8. The Group may be unsuccessful in evaluating material risks involved in completed and future acquisitions.

   The Group regularly reviews potential acquisitions of businesses that are complementary to its businesses. As part of the review, the Group conducts business, legal and financial due diligence with the goal of identifying and evaluating material risks involved in any particular transaction.

9. The Group may be unsuccessful in integrating any acquired operations with its existing businesses.

10. Fluctuations of revenues, expenses and operating results may affect the Group's results.

    The Group's revenues, expenses and operating results could vary significantly from period to period as a result of a variety of factors, some of which are outside the Group's control. These factors include general economic conditions, conditions specific to the market, seasonal trends in revenues, capital expenditure, other costs and the introduction of new products or services by the Group or its competitors. In response to a changing competitive environment, the Group may elect from time to time to make certain pricing, service or marketing decisions that could have a material adverse effect on the Group's revenues, results of operations and financial condition.

11. The Group is subject to recessionary economic cycles.

    The Group's business is affected by recessionary economic cycles. Recessionary economic cycles may also adversely affect the businesses of the Group's clients, which can have the effect of reducing the amount of services they purchase from the Group.

12. The Group is subject to currency rate risk.

    Fluctuations in exchange rates between currencies in which the Group operates, relative to pounds sterling, may cause fluctuations in its financial results.

13. The Group may be subject to certain regulations that could restrict the Group's activities.

    From time to time, governments, government agencies and industry self-regulatory bodies in the countries in which the Group operates have adopted statutes, regulations and rulings that directly or indirectly affect the form, content and scheduling of advertising, public relations and public affairs and market research, or otherwise affect the activities of the Group and its clients.

Post balance sheet events
Post balance sheet events are set out in note 42.

Auditors
Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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

Robert Davison
Secretary
10th March 2010