

## Notes to the Company financial statements

Year ended 31 December 2009

### 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 2009.

#### 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 earnouts 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 Group's business activities, which include these of the Company, together with the factors likely to affect its future development, performance and position are set out in The Chairman's Statement on pages 2 to 5. The financial position of the Group, its cash flows and borrowing facilities are described in the Finance Director's Report on pages 8 and 9. In addition, notes 41 of the consolidated financial statements include the Group's objectives, policies

and processes for managing its capital; its financial risk management objectives and details of its financial instruments; and its exposure to credit risk and liquidity risk.

As highlighted in note 41 to the consolidated financial statements, the Group meets its day to day working capital requirements through an overdraft facility that is due for renewal in June 2010 and a committed facility which matures in June 2013. These facilities are subject to banking covenants as disclosed in note 41 to the consolidated financial statements.

In preparing 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; and
- current new business targets compared to levels achieved in previous years.

## 2. Profit of parent company

As permitted by Section 230 of the Companies Act 1985, the income statement of the parent company is not presented as part of these accounts. The parent company's profit for the financial year amounted to £9,982,000 (2008 – £6,318,000).

## 3. Equity dividends

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

## 4. Investments

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facility and banking covenants.

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

More detail on the Group's cash position and facilities at 31 December 2009, as well as maturities of the financial liabilities, can be found in note 27 to the consolidated financial statements. The principal risks and uncertainties faced by the Group are included in the Directors Report. Details of potential contingent liabilities and potential cash outflows in relation to these liabilities can be found in note 36 to the consolidated financial statements.

<b>The Company</b>	<b>Investments in and loans to associated undertakings £'000</b>	<b>Equity interest in subsidiaries £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
At 1 January 2009	376	122,288	122,664
Additions	104	25,016	25,120
Disposals	–	(323)	(323)
Adjustment to prior year acquisitions	–	314	314
Transfer of investment from subsidiary	117	72	189
Loans to associated undertakings	(16)	–	(16)
Shared based payment	–	2,304	2,304
Reduction of carrying value	(313)	–	(313)
Foreign exchange	–	–	–
At 31 December 2009	268	149,671	149,939

## Notes to the Company financial statements (continued)

Year ended 31 December 2009

### 4. Investments (continued)

The Company	Investments in and loans to associated undertakings £'000	Equity interest in subsidiaries £'000	Total £'000
<b>Cost</b>			
At 1 January 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
Shared based payment	–	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

### 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.

In 2009 this investment was written down, resulting in a charge to the income statement of £350,000.

### 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.

### 7. Debtors

	2009 £'000	2008 £'000
Amounts owed by Group undertakings	4,300	772
Other debtors	151	53
	4,451	825
Due within one year	4,451	825
	4,451	825

### 8. Short-term investments

	2009 £'000	2008 £'000
Loan note cash deposit	58	416

The loan note cash deposit of £0.058 million (2008 – £0.4 million) relates to a cash deposit held on three months notice at Royal Bank of Scotland plc. The deposit guarantees £0.058 million (2008 – £0.4 million) of the loan note creditors of £0.058 million (2008 – £0.4 million). Interest accruing on the deposit is payable to the holders of the loan notes less any costs arising (see note 24 of the consolidated financial statements).

**9. Creditors: amounts falling due within one year**

	2009 £'000	2008 £'000
Bank overdraft	4,002	3,661
Deferred/contingent consideration	9,561	207
Amounts owed to Group undertakings	83	1,158
Loan notes	58	416
Current taxation	93	80
Other taxation and social security costs	4	4
Other creditors	2,283	–
Accruals and deferred income	1,169	464
	<b>17,253</b>	5,990

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

	2009 £'000	2008 £'000
Deferred/contingent consideration	6,052	14,428
Bank loans	–	–
	<b>6,052</b>	14,428
Due in more than one year but not more than two years	1,126	9,766
Due in more than two years but not more than five years	503	4,591
Due in more than five years	4,423	71
	<b>6,052</b>	14,428

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

**11. Borrowings**

	2009 £'000	2008 £'000
Bank loans	–	–
Loan notes	58	416
	<b>58</b>	416
Due within one year or on demand	58	416
Due in more than one year but not more than two years	–	–
Due in three to five years	–	–
	<b>58</b>	416

*Maturity analysis*

Bank overdraft/loans		
Within one year or on demand	–	–
Between one and two years	–	–
Between two and five years	–	–
Loan notes		
Within one year or on demand	58	416
	<b>58</b>	416

**12. Share capital and share premium account**

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

## Notes to the Company financial statements (continued)

Year ended 31 December 2009

### 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 2009	3,063	3,780	32,385	(4,952)	18,176
Retained profit for the year	-	-	-	-	9,982
Dividends payable	-	-	-	-	(2,666)
Capital contribution given relating to share based payments	2,304	-	-	-	-
Disposal on exercise of options	-	-	-	494	-
Purchase of own equity shares held in treasury	-	-	-	(948)	-
Balance at 31 December 2009	5,367	3,780	32,385	(5,406)	25,492

	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
Dividends 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

### 14. Reconciliation of movement in shareholders' funds

	£'000
Balance at 1 January 2008	93,168
Dividends paid	(2,219)
Profit for the financial year	6,318
Capital contributions given relating to share based payments	1,292
Purchase of own equity shares held in treasury	(571)
	97,988
Increase in share capital	5,849
Balance at 1 January 2009	103,837
Dividends paid	(2,666)
Profit for the financial year	9,982
Capital contributions given relating to share based payments	2,304
Shares disposed on exercise of options	494
Purchase of own equity shares held in treasury	(948)
	113,003
Increase in share capital	18,140
	131,143

### 15. Contingent liabilities and commitments

In addition to the potential deferred consideration as shown in note 9 and 10 of £15,613,000 at 31 December 2009 there was a maximum financial commitment of £18,826,033 in respect of 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 (£1,706,034) and Stuart Higgins Communications Limited (£525,000) in 2007, MC Bio Communications Limited (£2,249,999) 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 7 times earnings before interest and tax 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 £2,500,000 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 £1,225,000 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 4 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 £2,300,000, 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 entirely in loan notes. 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.

### 16. 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 2009, the Company had 2,299,673 ordinary share options outstanding (2008: 2,091,942 as restated).

The Company has made a capital contribution to its subsidiary undertakings in relation to share-based payments. At 31 December 2009, the cumulative capital contribution net of payments received from subsidiary undertakings was £4.5 million (31 December 2008: £3.1 million). During the year ended 31 December 2009, the capital contribution arising from share-based payments was £1.4 million (2008: 1.3 million). The Company does not incur an income statement charge in relation to share-based payments.

Full details of share-based payments, share option schemes and share plans are disclosed in note 38 to the Consolidated Financial Statements of Chime Communication plc.

## Notes to the Company financial statements (continued)

Year ended 31 December 2009

### 17. 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 and the co investment plan. Further details are disclosed in note 31 of the Group accounts.

### 18. Post balance sheet events

On 15 January 2010 the Group successfully completed a placing of 2,250,000 new ordinary shares of 25p each at a premium of 175p. The placing was fully underwritten by Numis Securities Limited.

On 20 January 2010 the Group paid the consideration due on the purchase of Pelham Public Relations Limited. The fair value of the consideration given for the acquisition was £3,400,000; this was satisfied as to £1.8 million in cash and £200,000 by the issue of 100,000 new ordinary shares of 25p each at a premium of 175p and 40% of the ordinary share capital of Bell Pottinger Corporate & Financial, valued at £1,400,000.

On 10 March 2010 the Group completed its acquisition of Tree (London) Limited from Cagney plc. The fair value of the consideration given for the acquisition was £2,000,000, this was satisfied in cash. A full fair value exercise in respect of this acquisition has yet to be completed and full details will be provided in the interim report for the period ended 30 June 2010.