

Chartwell Investment Management Limited

Report and Financial Statements

Year Ended

31 December 2004

Registered number: 3122913



Tenon Audit Limited
Registered Auditor

CHARTWELL INVESTMENT MANAGEMENT LIMITED

Annual report and financial statements for the year ended 31 December 2004

Contents

Page:

2	Report of the directors
4	Report of the auditor
6	Profit and loss account
7	Balance sheet
8	Cash flow statement
9	Notes forming part of the financial statements

Directors

C A Wetton
Mrs C A Wetton
S M P Brady
Mrs J M Cook

Secretary and registered office

M S Rule, Tringham House, Deansleigh Road,
Bournemouth, BH7 7DT

Company number

3122913

Accountants and business advisers

Tenon Limited, Clifton House, Bunnian Place, Basingstoke, Hampshire, RG21 7JE

Auditor

Tenon Audit Limited, Clifton House, Bunnian Place, Basingstoke, Hampshire,
RG21 7JE

Bankers

HSBC Bank plc, 4 Strand, Torquay, Devon, TQ1 2AB

CHARTWELL INVESTMENT MANAGEMENT LIMITED

Report of the directors for the year ended 31 December 2004

The directors present their report together with the audited financial statements for the year ended 31 December 2004.

Results and dividends

The profit and loss account is set out on page 6 and shows the result for the year.

The directors do not recommend the payment of a dividend.

Principal activity, trading review and future developments

The principal activity of the company is that of independent financial advisers.

Donations

Charitable contributions made by the company during the year totalled £450 (2003: £405).

Directors

The directors of the company during the year were:

C A Wetton
Mrs C A Wetton
S M P Brady
Mrs J M Cook (appointed 24 August 2004)
Miss S Whitbread (resigned 13 July 2004)

No director had any beneficial interest in the shares of the company or the parent company at either 31 December 2004 or 2003. In addition, no director had any beneficial interest in the shares of any group company at either date.

CHARTWELL INVESTMENT MANAGEMENT LIMITED

Report of the directors for the year ended 31 December 2004 (*Continued*)

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

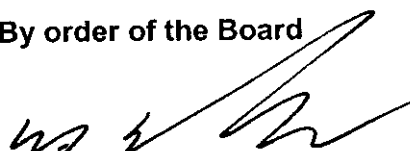
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor

On 28th February 2005 our auditors, Blueprint Audit Limited, changed their name to Tenon Audit Limited and have signed the audit report in their new name.

Tenon Audit Limited have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the annual general meeting.

By order of the Board



C A Wetton
Director

CHARTWELL INVESTMENT MANAGEMENT LIMITED

Report of the auditor

Independent auditor's report to the shareholders of Chartwell Investment Management Limited

We have audited the financial statements of Chartwell Investment Management Limited for the year ended 31 December 2004, which comprise of the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

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 auditor's 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 auditor

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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. 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 company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

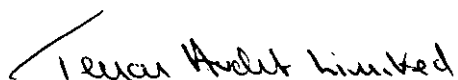
CHARTWELL INVESTMENT MANAGEMENT LIMITED

Report of the auditor (*Continued*)

**Independent auditor's report to the shareholders of Chartwell Investment Management Limited
(*Continued*)**

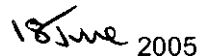
Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004, and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Tenon Audit Limited
Registered Auditor

Clifton House
Bunnian Place
Basingstoke
Hampshire
RG21 7JE

 18 June 2005

CHARTWELL INVESTMENT MANAGEMENT LIMITED**Profit and loss account for the year ended 31 December 2004**

	Note	2004	2003
		£	£
Turnover	1, 2	1,083,050	1,034,963
Cost of sales		(181,602)	(229,276)
Gross profit		<u>901,448</u>	<u>805,687</u>
Administrative expenses	3	(1,019,449)	(1,001,169)
Other operating income		-	986
Operating loss	4	<u>(118,001)</u>	<u>(194,496)</u>
Interest receivable	5	5,293	4,407
Loss on ordinary activities before taxation		<u>(112,708)</u>	<u>(190,089)</u>
Taxation on loss on ordinary activities	6	90,000	2,164
Loss for the year	11	<u>(22,708)</u>	<u>(187,925)</u>

All amounts relate to continuing activities.

All recognised gains and losses are included in the profit and loss account.

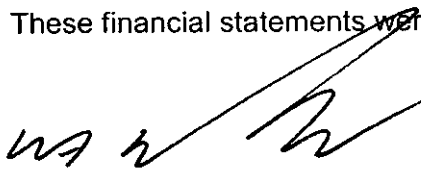
The notes on pages 9 to 17 form part of these financial statements.

CHARTWELL INVESTMENT MANAGEMENT LIMITED

Balance sheet at 31 December 2004

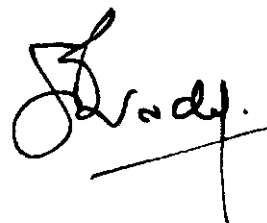
	Note	2004		2003	
		£	£	£	£
Fixed assets					
Tangible assets	7		38,321		70,474
Current assets					
Debtors	8	203,646		112,949	
Cash at bank and in hand		239,834		260,100	
		<u>443,480</u>		<u>373,049</u>	
Creditors: amounts falling due within one year	9	<u>(434,398)</u>		<u>(373,412)</u>	
Net current assets/(liabilities)			9,082		(363)
Total assets less current liabilities			<u>47,403</u>		<u>70,111</u>
Net Assets			<u>47,403</u>		<u>70,111</u>
Capital and reserves - equity					
Called up share capital	10		50,000		50,000
Profit and loss account	11		(2,597)		20,111
Shareholders' funds	15		<u>47,403</u>		<u>70,111</u>

These financial statements were approved by the Board on 23/5 2005.



C A Wetton
Director

S M P Brady
Director



The notes on pages 9 to 17 form part of these financial statements.

CHARTWELL INVESTMENT MANAGEMENT LIMITED

Cash flow statement for the year ended 31 December 2004

	Note	2004		2003	
		£	£	£	£
Net cash (outflow)/inflow from operating activities	12		(9,183)		60,900
Returns on investments and servicing of finance					
Interest received		5,293		4,407	
Net cash inflow from returns on investments and servicing of finance			5,293		4,407
Taxation					
Corporation tax paid			-		-
Capital expenditure					
Payments to acquire tangible fixed assets		(16,501)		(787)	
Receipts from sales of tangible fixed assets		125		666	
Net cash outflow from capital expenditure			(16,376)		(121)
Net cash (outflow)/inflow before financing			(20,266)		65,186
Net cash outflow from financing			-		-
(Decrease)/increase in cash	13		(20,266)		65,186

The notes on pages 9 to 17 form part of these financial statements.

CHARTWELL INVESTMENT MANAGEMENT LIMITED

Notes forming part of the financial statements for the year ended 31 December 2004

1 Accounting policies

There have been no changes in accounting policies during the year.

The financial statements have been prepared under the historical cost convention. The following principal accounting policies have been applied:

Turnover

Turnover represents commission and fees (including fees in lieu of commission) receivable in respect of deals undertaken on behalf of clients and other services provided. Income is recognised in the profit and loss accounts as follows:

Fees	- when invoice is raised
Initial commission	- when investment is made by client
Renewal commission	- when payment is received from investment company

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all fixed assets, evenly over their expected useful lives. It is calculated at the following annual rates:

Computers	- 33%
Fixtures and fittings	- 20%
Motor vehicles	- 25%

Deferred taxation

Current tax: Corporation tax is charged on the taxable profits of the company at the current rate. Group relief is provided for at an appropriate rate if losses can be claimed from or surrendered to a fellow subsidiary company.

Deferred tax: In accordance with Financial Reporting Standard 19, deferred tax liabilities are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except where the timing difference is permanent. Deferred tax assets are recognised to the extent that they are regarded as recoverable. Where appropriate, a discounted tax rate has been used to take account of the time value of the amount of tax deferred until future periods.

Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

CHARTWELL INVESTMENT MANAGEMENT LIMITED

Notes forming part of the financial statements for the year ended 31 December 2004 (*Continued*)

2 Turnover

The turnover for the period was wholly attributed to the company's principal activity. The whole of the turnover is attributable to the UK market.

3 Employees and directors

Staff costs, including the directors, consist of:

	2004 £	2003 £
Wages and salaries	569,670	563,312
Social security costs	59,104	55,757
	<u>628,774</u>	<u>619,069</u>

The average monthly number of employees during the year was as follows:

	Number	Number
Consultancy	7	7
Administration	16	17
	<u>23</u>	<u>24</u>

Directors' emoluments consist of:

	£	£
Remuneration for management services	218,577	224,406
Benefits in kind	2,411	-
	<u>220,988</u>	<u>224,406</u>

Emoluments disclosed above include the following amounts paid to the highest paid director:

	£	£
Emoluments for qualifying services	<u>94,628</u>	<u>84,878</u>

CHARTWELL INVESTMENT MANAGEMENT LIMITED**Notes forming part of the financial statements for the year ended 31 December 2004 (Continued)****4 Operating loss**

	2004	2003
	£	£
This is stated after charging/(crediting):		
Depreciation of owned assets	48,654	61,941
Auditors' remuneration	4,500	4,500
(Profit)/Loss on disposal of fixed assets	(125)	116
Rentals under operating leases	62,335	58,428
Management charge to fellow subsidiary company	(199,395)	(152,455)
	<u> </u>	<u> </u>

5 Interest receivable

	2004	2003
	£	£
Bank interest receivable	5,293	4,407
	<u> </u>	<u> </u>

CHARTWELL INVESTMENT MANAGEMENT LIMITED

Notes forming part of the financial statements for the year ended 31 December 2004 (*Continued*)

6 Taxation on loss on ordinary activities

	2004 £	2003 £
(a) Analysis of charge in year		
<i>Current tax:</i>		
UK corporation tax on loss of the year	-	-
<i>Deferred tax:</i>		
Origination and reversal of timing differences	90,000	2,164
	<hr/>	<hr/>
Tax on loss on ordinary activities	90,000	2,164
	<hr/>	<hr/>

(b) Factors that may affect future tax charges

The company has estimated losses of £500,000 (2003: £400,000) available for carry forward against future trading profits.

The directors have considered the future profitability of the company and believe that sufficient taxable profits will be generated in the foreseeable future that will use up past taxable losses. In accordance with FRS 19 a deferred tax asset has been included representing the future taxable benefit of their losses at a tax rate of 19%.

CHARTWELL INVESTMENT MANAGEMENT LIMITED

Notes forming part of the financial statements for the year ended 31 December 2004 (*Continued*)

7 Tangible assets

Cost	Computers £	Fixtures and fittings £	Motor vehicles £	Total £
At 1 January 2004	115,160	80,442	14,911	210,513
Additions	-	16,501	-	16,501
Disposals	-	(2,495)	-	(2,495)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	115,160	94,448	14,911	224,519
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At 1 January 2004	82,109	47,473	10,457	140,039
Provided for the year	27,552	18,374	2,728	48,654
Disposals	-	(2,495)	-	(2,495)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	109,661	63,352	13,185	186,198
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 December 2004	5,499	31,096	1,726	38,321
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	33,051	32,969	4,454	70,474
	<hr/>	<hr/>	<hr/>	<hr/>

8 Debtors

	2004 £	2003 £
Trade debtors	49,881	51,417
Prepayments	37,265	35,032
Other debtors	116,500	26,500
	<hr/>	<hr/>
	203,646	112,949
	<hr/>	<hr/>

Other debtors includes an amount of £26,500 due for payment after one year (2003: £26,500) and £90,000 of a deferred tax asset (See note 6).

CHARTWELL INVESTMENT MANAGEMENT LIMITED

Notes forming part of the financial statements for the year ended 31 December 2004 (*Continued*)

9 Creditors: amounts falling due within one year

	2004 £	2003 £
Trade creditors	23,078	15,238
Commission rebates	45,034	7,254
Amounts owed to group undertakings	15,570	13,221
Creditors for taxation and social security	19,313	35,126
Accruals and deferred income	331,403	302,573
	<u>434,398</u>	<u>373,412</u>

10 Share capital

	Authorised		Allotted, called up and fully paid	
	2004 £	2003 £	2004 £	2003 £
Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>	<u>50,000</u>	<u>50,000</u>

11 Profit and loss account

	£
Balance at 1 January 2004	20,111
Loss for the year	(22,708)
	<u></u>
Balance at 31 December 2004	<u>(2,597)</u>

CHARTWELL INVESTMENT MANAGEMENT LIMITED**Notes forming part of the financial statements for the year ended 31 December 2004 (Continued)****12 Reconciliation of operating loss to net cash (outflow)/inflow from operating activities**

	2004 £	2003 £
Operating loss	(118,001)	(194,496)
Depreciation charges	48,654	61,941
(Loss)/profit on sale of tangible fixed assets	(125)	116
(Increase)/decrease in debtors	(697)	89,108
Increase in creditors	60,986	104,231
	<hr/>	<hr/>
Net cash (outflow)/inflow from operating activities	(9,183)	60,900
	<hr/>	<hr/>

13 Analysis of net funds

	2003 £	Cashflow £	2004 £
Net cash:			
Cash at bank and in hand	260,100	(20,266)	239,834
	<hr/>	<hr/>	<hr/>
Net funds	260,100	(20,266)	239,834
	<hr/>	<hr/>	<hr/>

14 Reconciliation of net cashflow to movement in net funds

	2004 £	2003 £
(Decrease)/increase in cash in the year	(20,266)	65,186
	<hr/>	<hr/>
Change in net funds resulting from cashflows and movement in debt in the year	(20,266)	65,186
	<hr/>	<hr/>
Net funds at start of year	260,100	194,914
	<hr/>	<hr/>
Net funds at end of year	239,834	260,100
	<hr/>	<hr/>

CHARTWELL INVESTMENT MANAGEMENT LIMITED

Notes forming part of the financial statements for the year ended 31 December 2004 (*Continued*)

15 Reconciliation of movements in shareholders' funds

	2004 £	2003 £
Loss on ordinary activities after taxation	(22,708)	(187,925)
Opening shareholders' funds	70,111	258,036
	<hr/>	<hr/>
Closing shareholders' funds/(deficit)	(47,403)	70,111
	<hr/>	<hr/>

16 Contingent Liabilities

In the 2003 audited accounts, reference was made to complaints received by the company about advice the company gave recommending clients invest in zero dividend preference shares (Zero's). During 2004, the company has continued to vigorously defend its position in respect of these complaints. 2004 has seen the Financial Ombudsman (FOS) start to issue adjudications on Zero related complaints and in Chartwell's case the trend of the adjudications has been in favour of the company.

Based on this trend and the basis of the FOS's adjudications the Directors now feel it is unlikely that further liability exists beyond the level represented by the specific provision carried forward from the 2003 audited accounts.

17 Commitments under operating leases

As at 31 December 2004, the company had annual commitments under non-cancellable operating leases for land and buildings as set out below:

	2004 £	2003 £
Operating leases which expire:		
- After five years	47,500	45,000
	<hr/>	<hr/>
	47,500	45,000
	<hr/>	<hr/>

As at 31 December 2004, the company had annual commitments under non-cancellable operating leases for plant and equipment as set out below:

	2004 £	2003 £
Operating leases which expire:		
- In one year	-	2,326
- In two to five years	14,835	-
	<hr/>	<hr/>
	14,835	2,326
	<hr/>	<hr/>

CHARTWELL INVESTMENT MANAGEMENT LIMITED

Notes forming part of the financial statements for the year ended 31 December 2004 (*Continued*)

18 Related party transactions

The voting rights of the company are controlled by Newday Group Limited and advantage has been taken of the exemption from the requirements of Financial Reporting Standard 8 concerning the disclosure of information on related party transactions.

During the year certain directors undertook investment transactions through the company. The company's normal regulatory and compliance controls were applied to these transactions and charges were levied on them at the same rates as are applied to all transactions undertaken by staff.

19 Ultimate parent company

The ultimate parent company is Newday Group Limited. Copies of the financial statements of Newday Group Limited may be obtained by application to the Secretary, Newday Group Limited, Tringham House, Deansleigh Road, Bournemouth, BH7 7DT.

The pages which follow do not
form part of the statutory
financial statements of the company

CHARTWELL INVESTMENT MANAGEMENT LIMITED

Trading and profit and loss account for the year ended 31 December 2004

	2004		2003	
	£	£	£	£
Turnover				
Commissions and fees		1,083,050		1,030,192
Accountancy and taxation fees		-		4,771
		<u>1,083,050</u>		<u>1,034,963</u>
Cost of sales				
Salaries, sub contract, bonuses and commission				
Consultants	(95,818)		(82,153)	
Client services	(85,784)		(58,996)	
Taxation services	-		(1,521)	
	<u></u>	(181,602)	<u></u>	(142,670)
Gross profit		901,448		892,293
Other operating income				
Sundry income	-		986	
Management charge to Chartwell Asset Management Limited	199,395		152,455	
	<u></u>	199,395	<u></u>	153,441
		<u>1,100,843</u>		<u>1,045,734</u>
Administrative expenses		(1,218,844)		(1,240,230)
Net trading loss for the year		<u>(118,001)</u>		<u>(194,496)</u>
Other income				
Bank deposit interest		5,293		4,407
Net loss for the year before taxation		<u>(112,708)</u>		<u>(190,089)</u>

CHARTWELL INVESTMENT MANAGEMENT LIMITED**Trading and profit and loss account for the year ended 31 December 2004 (Continued)**

	2004 £	2003 £
Administrative expenses		
Administrative salaries and sub contract	237,850	273,827
Staff costs	8,670	5,021
Recruitment costs	7,943	6,040
Staff welfare	9,621	6,078
Travel, subsistence and entertainment	9,183	4,937
Motor expenses	3,792	2,972
Telephone and fax	11,592	16,485
Website	8,959	19,448
Printing, postage and stationery	59,240	83,404
Archiving	10,632	5,942
Advertising	96,406	17,199
Subscriptions and library	2,333	1,524
Sundry expenses	450	405
Provision for refunds, rebates and indemnity commission	208,040	125,265
Input VAT recovered	(25,877)	(12,048)
Directors' emoluments	218,577	224,406
Heating and lighting	3,092	3,803
Repairs and renewals	6,474	19,942
Computer support and maintenance	36,791	34,090
Equipment rental and maintenance	17,554	7,580
General insurance	1,172	2,412
Rent	47,604	50,848
Rates	16,714	18,473
Service charge, water and waste	12,803	16,477
Bank charges	4,603	4,697
Bad debts	-	9,468
FSA fees	6,494	7,161
PI insurance	83,413	39,849
Legal and professional fees	19,120	167,999
Directors' and Keyman insurance	4,841	2,318
Audit and accountancy fees	14,029	12,151
Management charge to Newday Group Limited	28,200	-
Depreciation - motor vehicles	2,728	2,728
Depreciation - computers	27,552	39,413
Depreciation - fixtures and fittings	18,374	19,800
(Profit)/Loss on sale of tangible fixed assets	(125)	116
	<hr/>	<hr/>
	1,218,844	1,240,230
	<hr/>	<hr/>