



CHIEFTAIN GROUP plc

ANNUAL REPORT AND ACCOUNTS 2005

CHIEFTAIN GROUP PLC

Contents

Directors and Advisers	2
<hr/>	
Notice of Meeting	3
<hr/>	
Chairman's Statement	4
<hr/>	
Directors' Report	5 - 9
<hr/>	
Directors' Remuneration Report	10 - 12
<hr/>	
Independent Auditors' Report	13
<hr/>	
Consolidated Profit and Loss Account	14
<hr/>	
Balance Sheets	15
<hr/>	
Consolidated Cash Flow Statement	16
<hr/>	
Notes to the Accounts	17 - 24
<hr/>	

Directors and Advisers

Directors	<p>Peter Wardle (Non-executive Chairman)</p> <p>William Platt Taylor (Chief Executive)</p> <p>Stanley Elliott (Finance Director and Company Secretary)</p> <p>Laurence George Adams</p> <p>Anthony William Cutchie</p> <p>Raymond Johnson</p> <p>Malcolm William Oliver (Appointed 14 February 2005)</p> <p>Christopher John Fleetwood (Senior Independent Non-executive appointed 1 January 2005)</p> <p>John Frederic Dawson (Non-executive)</p>
Company Secretary	Stanley Elliott FCMA
Registered Office	Chieftain House White Street Walker Newcastle upon Tyne NE6 3PJ
Registered Number	1455149
Sponsors, Financial Advisers and Corporate Stockbrokers	Brewin Dolphin Securities Ltd 34 Lisbon Street Leeds LS1 4LX
Independent Auditors	PricewaterhouseCoopers LLP 89 Sandyford Road Newcastle upon Tyne NE1 8HW
Solicitors	Dickinson Dees St Ann's Wharf 112 Quayside Newcastle upon Tyne NE99 1SB
Bankers	Barclays Bank PLC Dobson House Regent Centre Gosforth Newcastle upon Tyne NE3 3PS
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Financial Public Relations Consultants	Buchanan Communications Ltd 3 The Courtyard Thorpe Lane Guisely Leeds LS20 8LG

Notice of Meeting

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF Chieftain Group plc will be held in the Newcastle Gateshead Hilton, Bottle Bank, Newcastle upon Tyne NE8 2AR on 19 May 2006 at 12 Noon for the following purposes:

1. To receive the Report and Accounts for the year ended 31 December 2005.
2. To approve the Remuneration Committee report for the year ended 31 December 2005.
3. To declare a final dividend of 2.25p per ordinary share.
4. To re-elect as a Director Mr P Wardle who retires by rotation. Mr Wardle, who is a Non-executive Chairman, joined the Company as a Director in 1984, having spent 11 years with Cape Contracts Limited, the UK's largest insulation contractor and subsidiary of Cape Industries, latterly as its Managing Director. Mr Wardle is a member of the Remuneration Committee and has a contract which can be determined within one year.
5. To re-elect as a Director Mr S Elliott who retires by rotation. Mr Elliott joined the Company in 1985, having previously worked for Cape Industries, where he was latterly the Finance Director and Company Secretary of Hunting Painting Contractors Ltd, one of its subsidiaries. He has a service contract with a notice period in his favour of 2 years.
6. To re-elect as a Director Mr J F Dawson who retires by rotation. Mr Dawson joined the company in 1995 having spent 33 years with Yorkshire Chemicals plc, the final 18 of which were as Group Technical Director. He is a member of the Remuneration Committee and does not have a service contract. He is also a Director of BMM Weston Holdings Ltd.
7. To re-appoint PricewaterhouseCoopers LLP as the independent auditors of the Company.
8. To authorise the Directors to fix the remuneration of the auditors.

As special business to consider and, if thought fit, pass the following Resolution as a Special Resolution:

9. THAT the Directors are hereby empowered to allot equity securities (as defined in Section 94 of the Companies Act 1985) pursuant to the authority conferred by the Ordinary Resolution of the Company passed on 28 May 2004 as if Section 89 of the said Act did not apply to any such allotment provided that this power shall be limited
 - (a) to the allotment of equity securities in connection with an offer of securities 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 number of ordinary shares held by them on a fixed record date (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of or the requirements of any recognised regulatory body or any stock exchange in any territory); and
 - (b) to the allotment of equity securities (otherwise than pursuant to paragraph (a) above) up to an aggregate nominal value of £21,782

and shall expire at the conclusion of the next Annual General Meeting of the Company (or, if earlier, the day which is 15 months from 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 Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

10. To transact any other ordinary business of an Annual General Meeting.

By Order of the Board

S Elliott, Company Secretary

Chieftain House, White Street
Walker, Newcastle upon Tyne,
NE6 3PJ

13 April 2006

To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members at 6pm on 17 May 2006.

Any member of the Company entitled to attend and vote may appoint one or more proxies to attend and vote in his/her stead. A proxy need not be a member of the Company. The instrument appointing a proxy must be lodged with the Company's Registrars not less than 48 hours before the meeting.

The register of interests of the Directors and of their families in the share capital of the Company will, together with copies of Directors' service contracts, be available for inspection at the Registered Office of the Company from the date of the above notice until the date of the meeting (during normal business hours on any weekday except Saturday) and at the place of the meeting from 15 minutes prior to commencement of the meeting until conclusion of the meeting.

The Group has made substantial progress in the course of 2005 in its business development, activity levels, order book, cash resources and, in the second half of the year, profitability.

On a turnover of £15 million, compared with a turnover of £11.8 million in 2004, pre-tax profit for 2005 was £729,000, compared with a pre-tax profit in 2004 of £902,000. Basic earnings per share in 2005 were 5.73p compared with 8.75p in 2004.

As reported in our 2004 year end statement, we experienced a slow start to 2005. However, the depressed first half trading was more than compensated for by an outstanding second half. Turnover in the first half was £4.7 million with a pre-tax profit of only £1,000, whilst in the second half, both turnover and pre-tax profit increased markedly, to £10.3 million and £728,000 respectively.

As an indication of the progress made during 2005, our workforce increased by some 300% from 75 to 300 as at the year end. This has increased yet further to in excess of 500 at the present time, helped by the securing of substantial business at our Teesside operation.

Dividend

The Board is again demonstrating its confidence in the future profitable expansion of the Group by maintaining its progressive dividend policy and recommending an increased final dividend of 2.25p per share. This brings the total dividend for 2005 to 3.50p per share compared with 3.00p per share in 2004, representing an increase of 17%.

Financial Overview

The Group continues to enjoy a very healthy cash position. As reported in our 2004 year end statement, we successfully completed a number of major contracts in 2003 and 2004 which resulted in a transformation of our net cash position to a positive balance of £2 million. We ended 2005 with a positive balance of £2.1 million and, despite a doubling of our turnover run-rate since the beginning of 2005, had no requirement to call upon our overdraft facility at any time during the year. Furthermore, we do not anticipate a need to call upon our overdraft facility during 2006.

Operating Review

Engineering

At the beginning of 2005, we set ourselves challenging targets to use our cash resources in the best interests of shareholders. We decided to target work in the Engineering Services sector, a natural extension of our pipe fabrication and general metal fabrication business carried out by R. Blackett Charlton, our wholly owned subsidiary.

During the year, we recruited a team of experienced personnel in this field led by Malcolm Oliver who joined the Chieftain Board in February 2005. To date, this team has secured three major term maintenance contracts with three blue chip companies with a total value of £38 million. Our aim is to develop long term relationships with these companies by providing a first class service and securing extensions to these contracts.

In addition, we are targeting other potential clients in the engineering services sector to provide growth in this business and to improve our visibility and quality of earnings.

Fabrication

The pipe fabrication facilities, the second mainstream activity of R. Blackett Charlton, are presently running at full capacity. We are now tendering to secure further work to maintain our levels of output in the second half of the year.

Manpower Supply

R. Blackett Charlton's third mainstream activity is the provision of skilled manpower for major engineering projects in the UK and Northern Europe. There is a growing demand for these services as construction companies find it increasingly difficult to source employees with appropriate skill levels, at the time they need them, sometimes in remote locations and often on short-term contracts. In these circumstances, R. Blackett Charlton has been successful in providing the level of service required and is presently in discussion with several other companies which we hope will lead to further contracts in 2006.

Environmental Services

Our Environmental division which provides services for the surveying, encapsulation and removal of hazardous materials including all grades of asbestos contaminated materials continues to grow. This market has been expanding following legislation which came into force in May 2004.

Outfitting

The Group continues to trade in its long established business of outfitting of sea-going vessels for the merchant and warship fleets together with oil and gas offshore platforms for the North Sea and elsewhere. The marine business is underpinned by long term contracts for work on the Astute class of submarine.

Outlook

The establishment of an Engineering Services division and recruitment of a well-regarded specialist team has led to a significant upturn in the Group's prospects and much better earnings visibility going forward. We are now positioning Chieftain as a mainstream player in the industrial services field, supplemented by its existing operations which continue to trade satisfactorily.

The value of our order book has increased from £18 million at the end of 2004 to a present value of £53 million. Our rate of turnover has more than doubled from January 2005 to December 2005 and is continuing to increase in the early part of 2006. This expansion has been achieved entirely by organic means without any acquisitions and without the need for any additional financing.

Although we will continue to take advantage of any opportunities that may arise in our present business streams, we are also committed to exploring related activities elsewhere in the UK and in Northern Europe.

We have a professional and motivated team of directors and staff who are to be congratulated on the successes they have achieved in 2005. I believe they are the best people to take Chieftain into its next stage of development and have every confidence in their ability to deliver.

P. Wardle
Chairman

21 March 2006

The Directors present their report together with the audited financial statements for the year ended 31 December 2005.

Principal Activities

The principal activities of the Chieftain Group include:

- the provision of products and services including insulation, fireproofing and architectural outfitting to the process plant, offshore oil and gas, and marine industries;
- the fabrication and erection of specialist pipework and ductwork for the process plant, offshore oil and gas, and marine industries;
- the provision of multi-disciplined human resources to manufacturing and construction groups in the process plant, offshore oil and gas, marine and power industries; and
- Maintenance services to the construction, process plant, marine and oil and gas industries.

A review of the performance of the Group during the year and its comments on future developments are given in the Chairman's Statement on page 4.

Results and Dividends

The results for the year are shown on page 14. An interim dividend of 1.25p (2004 - 1.0p) has been paid. The Directors recommend the payment of a final dividend of 2.25p (2004 - 2.0p) per ordinary share to be paid on 2 June 2006 to the shareholders on the register on 31 March 2006. Details of dividends are shown in note 5 on page 19.

Directors and Their Interests

The Directors who served during the year and their respective interests in the ordinary shares of the Company were as follows:-

	31 December 2005		31 December 2004	
	held directly	held by nominees	held directly	held by nominees
P Wardle*	1,923,640	–	1,923,640	–
W P Taylor*	732,264	270,016	732,264	270,016
S Elliott	–	–	–	–
L G Adams	–	–	–	–
A W Cutchie	–	–	–	–
R Johnson	100	–	100	–
J F Dawson*	20,000	–	20,000	–
C J Fleetwood* (appointed 1 January 2005)	–	–	–	–
M W Oliver (appointed 14 February 2005)	35,099	–	–	–

*Indicates membership of the Remuneration Committee of which P Wardle is Chairman.

Mr P Wardle retires by rotation and offers himself for re-election. Mr Wardle joined the Company as a Director in 1984, having spent 11 years with Cape Contracts Limited, the UK's largest insulation contractor and subsidiary of Cape Industries, latterly as its Managing Director. Mr Wardle is a member of the Remuneration Committee and has a contract which can be determined within one year.

Mr S Elliott retires by rotation and offers himself for re-election. Mr Elliott joined the Company in 1985, having previously worked for Cape Industries, where he was latterly the Finance Director and Company Secretary of Hunting Painting Contractors Ltd, one of its subsidiaries. He has a service contract with a notice period in his favour of 2 years.

Mr J F Dawson retires by rotation and offers himself for re-election. Mr Dawson joined the company in 1995 having spent 33 years with Yorkshire Chemicals plc, the final 18 of which were as Group Technical Director. He is a member of the Remuneration Committee and does not have a service contract. He is also a Director of BMM Weston Holdings Ltd.

During the period from the end of the financial year to 17 March 2006 there were no changes in the interests of the Directors in the ordinary shares of the Company.

The Company has a share option scheme by which certain Directors are able to subscribe for ordinary shares in Chieftain Group plc. The interests of those Directors at 31 December 2005 and 31 December 2004 are shown on page 12.

Substantial Shareholdings

On 17 March 2006, in addition to the Directors' holdings shown above, the following were registered as being interested in 3% or more of the Company's ordinary share capital:

		No of shares	%
M A Fairlamb	– held directly	108,480	1.2
	– held by nominees	492,624	5.7

Corporate Governance and Compliance

The Board sets out below its current stance regarding the 2003 FRC Combined Code (the "Code") - Principles of Good Governance and Code of Best Practice.

The Board recognises that the new Combined Code represents best practice for AIM listed companies and regulates its activities with regard to the principles and provisions contained therein.

The Company is led and controlled by a Board which has established and set out in writing a clear division of responsibilities between the Non-executive Chairman and the Chief Executive.

The Board is responsible for overall Group strategy, for approving acquisitions and disposals, for approving budgets, and for determining significant financing matters and treasury policy. It has a formal schedule of matters for its regular consideration and a schedule of matters specifically reserved for it for decision so as to ensure that the direction and control of the Group is firmly in its hands.

The Audit Committee which comprises the Non-executive Directors meets to consider the scope and key issues in planning the external audit. The external auditors report their findings and any recommendations to the Audit Committee prior to approval of the financial statements.

Directors' attendance at meetings during the year was as follows:

	Board Meetings		Remuneration Committee Meetings		Audit Committee Meetings	
	Attendance	Possible	Attended	Possible	Attended	Possible
P Wardle	8	8	4	4	1	1
W P Taylor	8	8	4	4	-	-
S Elliott	8	8	-	-	-	-
L G Adams	7	8	-	-	-	-
A W Cutchie	8	8	-	-	-	-
R Johnson	8	8	-	-	-	-
J F Dawson	7	8	4	4	1	1
C J Fleetwood	8	8	2	3	1	1
M W Oliver*	7	7	-	-	-	-

*From date of appointment

With the appointment of Mr C J Fleetwood on 1 January 2005 there are three Non-executive Directors. C J Fleetwood is the Senior Independent Non-executive Director. Both P Wardle, who was previously Executive Chairman of the Group, and J F Dawson, who has served more than 9 years, cannot be considered to be independent under the Code.

External recruitment consultants are used for new appointments, all of which are subject to the decision of the Board as a whole. All Directors are required to submit themselves for re-election at least every three years.

The Board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

The Group is centralised in its management, decision making and financial control. The Board, at its meetings, reviews the financial results of all Group Companies. A detailed annual budget and business plan is prepared for each operation in conjunction with senior management. These are then compared in full detail with the monthly management accounts. Executive Directors are required to comment on all areas where performance departs from current expectations.

All Directors have access to the advice and services of the Company Secretary and there is an established procedure for all Directors to take independent legal advice in furtherance of their duties, if necessary, at the Company's expense.

A procedure for evaluating the performance of the Executive Directors has been established based on individual appraisal meetings with the Chief Executive. The Board is considering extending the procedure to include the Chief Executive and the Non-executive Directors. Consideration is also being given to establishing a formal procedure regarding the performance evaluation of the Board as a whole, Remuneration and Audit Committees.

Corporate Governance and Compliance (continued)

The Company's Executive Remuneration policy is described in the Directors' Remuneration Report on page 10. No Director is involved in deciding his own remuneration.

The statement of Directors' responsibilities in respect of preparation of the financial statements is shown on page 9.

Based on the review of the Group cash flow forecast the Directors have a reasonable expectation that both the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The Directors are responsible for the Group's system of internal control which is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable assurance that financial information is relevant, reliable and accurate and that the Group's assets are correctly accounted for and adequately safeguarded.

The Directors have reviewed the effectiveness of the system of internal control taking into account areas highlighted by auditors during the undertaking of their normal audit procedures. The Directors believe the system of internal control is appropriate for the Group.

The Group does not have a separate internal audit function although the Board has recently reviewed the need for one. An informal internal audit role is carried out by head office professionals who monitor business performance and carry out reviews of key business and financial systems and controls throughout the Group. The external auditors report to the board on aspects of the internal financial controls and remedial action, if any is needed, is agreed by the full Board.

Risk management remains an ongoing process within the Group and is formally considered at regular operational reviews which are undertaken by the Group Chief Executive and the Group Finance Director, the results of which are reported to the Board.

The Company reports to shareholders twice a year and Directors make presentations to explain the interim and final results when requested. The Company despatches the notice of its Annual General Meeting, together with a description of the items of special business, at least 20 working days before the meeting. All shareholders have the opportunity to put questions at the Company's Annual General Meeting. The Chairman advises the meeting of the details of proxy votes cast on each of the individual resolutions after they have been voted on in the meeting.

The Company has complied with the Code provisions set out in Section 1 of the Code throughout the accounting period apart from the matters set out below:

1. The Board considers that having regard to the size of the Company three Non-executive Directors are adequate. Furthermore we have not established a Nomination Committee and the requirement for the Remuneration Committee to consist exclusively of Non-executive Directors is not met. On 1 September 2005 we established an Audit Committee comprising Mr P Wardle, Mr C J Fleetwood and Mr J F Dawson. The Board recognises that two of the Non-executive Directors, Mr P Wardle and Mr J F Dawson, are not classified as independent under the Code.
2. Mr. Elliott has a service contract with a notice period in his favour of 2 years.

Treasury Report

Set out below are the narrative disclosures required by FRS 13 "Derivatives and other financial instruments". The numerical disclosures are set out in note 24 and 25 to the financial statements. The Group has taken advantage of the exemption not to include short term debtors and creditors.

The Group's financial instruments, comprise borrowings, some cash and liquid resources, and various items such as trade debtors, trade creditors etc., that arise directly from its operations. The main purpose of these financial instruments is to manage the finance for the Group's operations. 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 risk from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies from managing each of these risks and they are summarised below. These policies have remained unchanged throughout the year.

Interest rate

The Group's borrowing facility is exposed to fluctuation in interest rates.

Given the Group's current borrowing requirements, the Directors do not consider it necessary to secure fixed interest funding for its bank borrowings but do, on occasions, take out fixed interest finance leases to fund tangible fixed asset additions. This is reviewed on a regular basis.

Funding and liquidity

The Group maintains adequate undrawn committed borrowing facilities to provide flexibility in the management of the Group's liquidity. The Group ensures that any net cash at the close of business each day is placed on deposit at the best interest rates available given the company's forecast cash requirements.

Currency risk

The Group's currency exposures comprise those exposures that give rise to net currency gains and losses to be recognised in the profit and loss account. Such exposures predominantly from the Euro comprise the monetary assets and liabilities of the Group that are not denominated in the operating ("or functional") currency of the operating unit involved.

When necessary the Group enters into forward contracts to reduce the currency exposure that arises on sales and purchases in foreign currencies.

Suppliers' Payment Policy

The Group has agreed terms of payment with those suppliers who provide goods or services on a regular basis and it abides by those terms of payment.

For all other suppliers terms of payment are contained in the terms of each transaction and the Group abides by those terms of payment.

At 31 December 2005 the Company had no trade creditors (2004 – Nil).

Directors' Responsibilities

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 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, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements, except that changes have been made to accounting policies to reflect new accounting standards as described in note 1.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the Company website as well as legislation concerning preparation and dissemination of financial statements which may differ from legislation in other jurisdictions.

Charitable and Political Donations

Charitable contributions during the year totalled £NIL (2004 – £228).

There were no political donations in either year.

Disabled Employees and Employee Consultation

The Company continues to give full and fair consideration to applications for employment made by disabled persons, having regard to their respective aptitudes and abilities. The Company policy includes, where practical, the continued employment of those who may become disabled during their employment. Employee consultation and communication is maintained by means of regular discussions and circulars.

Independent Auditors

The Auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and resolutions as to their re-appointment and remuneration will be proposed at the Annual General Meeting.

By Order of the Board
S. Elliott, Company Secretary

21 March 2006

Remuneration Committee

This part of the Directors' Remuneration Report is unaudited as it is not the requirement of an AIM listed company.

The Remuneration Committee comprises:

P Wardle	-Non-executive Chairman
J F Dawson	-Non-executive Director
C J Fleetwood	-Senior Independent Non-executive Director
W P Taylor	-Executive Director

The committee makes recommendations to the Board and no Director plays a part in any discussions about his own remuneration.

Remuneration Policy

Executive remuneration packages are prudently designed to attract, motivate and retain Directors of the highest calibre. There are four main elements of the remuneration package for Executive Directors:-

- Basic annual salary

An Executive Director's basic salary is determined on an annual basis and when an individual changes position or responsibility.

In deciding appropriate levels the committee considers the individual's performance and ability and the Group's overall short and medium term strategies.

In addition to basic salary the Executive Directors receive certain benefits-in-kind, principally a car and private medical insurance.

- Annual bonus payments

The Company has a bonus scheme in place based on the achieved profit before tax and the share price performance. Any bonus generated by the scheme is shared equally amongst all Executive Directors. Any such payments made are not pensionable. During 2005 each Executive Director was awarded a bonus of £5,000.

The bonus scheme will be discontinued if the Executive Share Incentive Scheme referred to below is accepted.

- Share options

The Company has an Inland Revenue approved Executive share option scheme by which certain Directors are able to subscribe for shares in Chieftain Group plc. With effect from 29 June 1998 no new share options may be issued.

- Executive Share Incentive Scheme.

The Company intends to propose the implementation of an Executive Share Incentive Scheme at an Extraordinary General Meeting.

- Pension arrangements

Executive Directors and the Non-executive Chairman are members of the Company's defined contribution pension scheme. The Company's contribution to the scheme is 9% of salary for all members.

Executive Directors' Contracts

It is the Company's policy that Executive Directors should have contracts providing for a maximum of one year's notice.

The service contract of Mr Elliott provides for a notice period of twenty four months and, in the event of a change in control, a bonus payment of a sum equal to his annual salary. It is considered that this will motivate Mr Elliott to stay with the Company and commit himself to the Company's business.

Details of the Directors' contracts are summarised in the table below:

	Date of Contract	Notice Period
W P Taylor	1 December 1997	12 months
S Elliott	1 December 1997	24 months
L G Adams	11 July 2003	12 months
A W Cutchie	11 July 2003	12 months
R Johnson	11 July 2003	12 months
M W Oliver	14 February 2005	12 months

In the event of an early termination the Directors' contracts provide for compensation comprising basic salary and a value of benefits as quoted in the last audited accounts. In the case of Mr Taylor and Mr Elliott they also provide for a payment into the pension scheme equivalent to that which would have been earned in the notice period.

Directors' Remuneration Report

Non-executive Directors

There are currently 3 Non-executive Directors.

Mr P Wardle was appointed Non-executive Chairman on 6 April 2000 and is entitled to 12 months notice of termination.

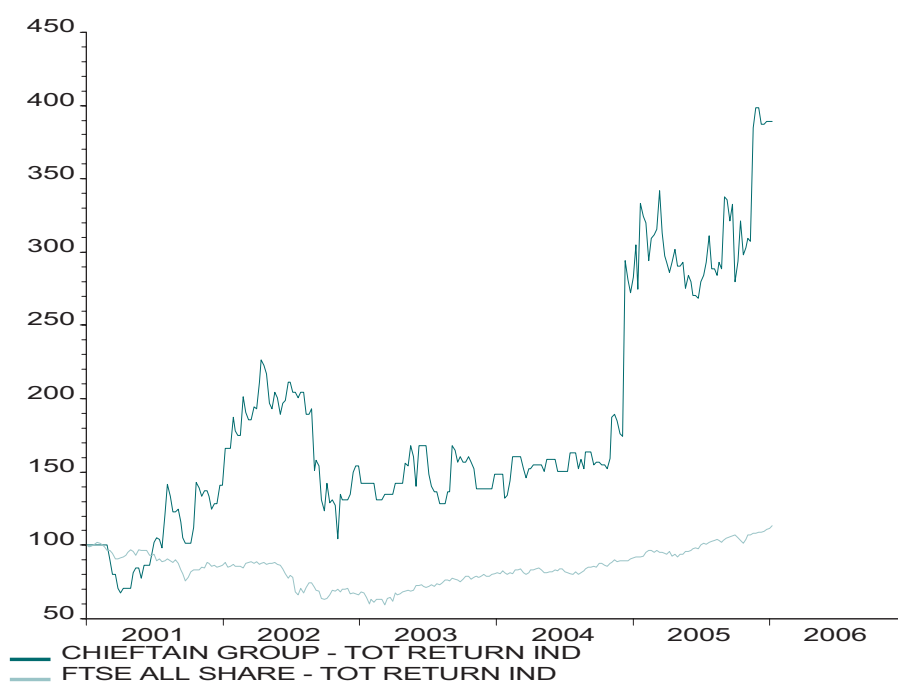
Mr C J Fleetwood was appointed on 1 January 2005 and is Senior Independent Non-executive Director. He is entitled to 3 months notice of termination.

Mr J F Dawson was appointed Non-executive Director on 19 January 1995 and is entitled to 3 months notice of termination.

Performance Graph

During 2005 the company continued to out perform the FTSE all share index total return.

The Directors have selected the FTSE all share index as the most appropriate comparative measure of the Company's total shareholder return as it contains all UK listed companies.



Source: DATASTREAM

The remaining sections of the Directors' Remuneration Report have been audited.

Aggregate Directors' Remuneration

The total amount of Directors' remuneration was as follows:

	<u>2005</u>	<u>2004</u>
	£'000	£'000
Emoluments	544	434
Money purchase pension contributions	39	30
	<u>583</u>	<u>464</u>

Directors' Remuneration Report

Directors' Emoluments and Compensation

	<i>Salary</i>	<i>Bonus</i>	<i>Benefits</i>	<i>2005 Total</i>	<i>2004 Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
* P Wardle	16	–	3	19	24
W P Taylor	101	5	18	124	118
S Elliott	83	5	11	99	94
L G Adams	56	5	5	66	61
A W Cutchie	56	5	9	70	65
R Johnson	56	5	9	70	64
* J F Dawson	12	–	–	12	8
C J Fleetwood	12	–	–	12	–
M W Oliver	62	5	5	72	–
Aggregate emoluments	454	30	60	544	434

* Non-executive

Directors' Pension Contributions

7 Directors (2004 - 6) are members of the Company's defined contribution pension scheme. Contributions paid by the Company in respect of such Directors were as follows:

	<i>2005</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>
* P Wardle	1	1
W P Taylor	9	9
S Elliott	8	8
L G Adams	5	4
A W Cutchie	5	4
R Johnson	5	4
M W Oliver	6	–
Total Company contributions	39	30

* Non-executive

Directors' Share Options

Aggregate emoluments disclosed above do not include any amounts for the value of options held by Directors to acquire ordinary shares in the company.

At 1 January 2005 and 31 December 2005 the interests of those Directors who served during the year were as follows:

	<i>Number</i>	<i>Issue Date</i>	<i>Exercise Price</i>	<i>Exercise Period</i>
S Elliott	8,500	19.4.96	25p	19.4.99 to 18.4.06
A W Cutchie	30,000	19.4.96	25p	19.4.99 to 18.4.06

During the period from the end of the financial year and 17 March 2006 there were no changes in the interests of the Directors in these share options.

The mid-market price of the ordinary shares at 31 December 2005 was 85.5p and the range during the year was 60p to 87.5p.

The interests of the Directors in the ordinary shares of the Company are shown on page 5.

Remuneration Report approval

An ordinary resolution to consider, and if thought fit approve, this remuneration report will be proposed at the AGM.

P Wardle
Chairman of the Remuneration Committee

21 March 2006

Independent auditors' report to the members of Chieftain Group plc

We have audited the group and parent company financial statements (the "financial statements") of Chieftain Group plc for the year ended 31 December 2005 which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view 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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, and the Chairman's Statement. 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 International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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 considered 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.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2005 and of the group's profit and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne

21 March 2006

**Consolidated
Profit and
Loss Account**

Chieftain Group plc and Subsidiaries
for the year ended 31 December 2005

	<u>Notes</u>	<u>2005</u>	<u>2004</u>
		£'000	£'000
TURNOVER	2	15,016	11,759
Cost of sales		(11,343)	(8,374)
GROSS PROFIT		<u>3,673</u>	<u>3,385</u>
Administrative expenses		(2,980)	(2,444)
OPERATING PROFIT		<u>693</u>	<u>941</u>
Interest receivable and similar income	3	49	16
Interest payable and similar charges	3	(13)	(55)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	<u>729</u>	<u>902</u>
TAX ON PROFIT ON ORDINARY ACTIVITIES	4	(230)	(140)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u><u>499</u></u>	<u><u>762</u></u>
BASIC EARNINGS PER SHARE	6	<u><u>5.73p</u></u>	<u><u>8.75p</u></u>
DILUTED EARNINGS PER SHARE	6	<u><u>5.71p</u></u>	<u><u>8.72p</u></u>
DIVIDENDS PER SHARE	5	<u><u>3.25p</u></u>	<u><u>2.50p</u></u>

There is no difference between the reported profits and the historical cost profits for 2005 and 2004.

All amounts above relate to continuing operations.

The Group has no recognised gains or losses which are not included in the Consolidated Profit and Loss Account.

Balance Sheets

Chieftain Group plc and Subsidiaries
as at 31 December 2005

	<i>Notes</i>	<i>Group</i>		<i>Company</i>	
		<i>2005</i>	<i>Restated 2004</i>	<i>2005</i>	<i>Restated 2004</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
FIXED ASSETS					
Tangible assets	7	698	662	–	–
Investments	8	–	–	40	40
		<u>698</u>	<u>662</u>	<u>40</u>	<u>40</u>
CURRENT ASSETS					
Stocks and work in progress	9	305	206	–	–
Debtors	10	4,576	1,887	9,124	9,461
Cash at bank and in hand		2,145	2,025	–	–
		<u>7,026</u>	<u>4,118</u>	<u>9,124</u>	<u>9,461</u>
CREDITORS					
Amounts falling due within one year	11	(5,285)	(2,560)	(7,510)	(7,918)
NET CURRENT ASSETS		<u>1,741</u>	<u>1,558</u>	<u>1,614</u>	<u>1,543</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,439</u>	<u>2,220</u>	<u>1,654</u>	<u>1,583</u>
CREDITORS					
Amounts falling due after more than one year	12	(51)	(48)	–	–
NET ASSETS		<u>2,388</u>	<u>2,172</u>	<u>1,654</u>	<u>1,583</u>
CAPITAL AND RESERVES					
Called up equity share capital	14	436	436	436	436
Share premium account	15	420	420	420	420
Profit and loss account	16	1,532	1,316	798	727
EQUITY SHAREHOLDERS' FUNDS	17	<u>2,388</u>	<u>2,172</u>	<u>1,654</u>	<u>1,583</u>

The financial statements on pages 14 to 24 were approved by the Board of Directors on 21 March 2006 and signed on their behalf by

W P Taylor
Director

**Consolidated
Cash Flow
Statement**

Chieftain Group plc and Subsidiaries
for the year ended 31 December 2005

	<u>Notes</u>	<u>2005</u>		<u>2004</u>	
		<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
NET CASH INFLOW FROM OPERATING ACTIVITIES	18		832		2,478
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received		49		16	
Interest paid		(1)		(47)	
Interest element of finance lease rental payments		(12)		(8)	
			36		(39)
TAXATION					
Corporation tax paid		(334)		(177)	
Corporation tax received		–		24	
			(334)		(153)
CAPITAL EXPENDITURE					
Purchase of tangible fixed assets		(73)		(16)	
Disposal of tangible fixed assets		29		55	
			(44)		39
EQUITY DIVIDENDS PAID			(283)		(218)
NET CASH INFLOW BEFORE FINANCING ACTIVITIES			207		2,107
FINANCING					
Capital element of finance lease rental payments	20	(87)		(82)	
Decrease in loans	20	–		(600)	
Net cash outflow from financing	19		(87)		(682)
INCREASE IN CASH	19, 20		120		1,425

1. Accounting Policies

Basis of accounting

The financial statements have been prepared in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. A summary of the more important group accounting policies is set out below together with explanation where changes have been made to previous policies on adoption of new accounting standards in the year.

Changes in accounting policy

The group has adopted FRS 21, "Events after the balance sheet date" in the financial statements. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. Details of the effect of the prior year adjustment are given in note 16.

Accounting convention

The financial statements have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements comprise those of the Company and its subsidiaries made up to 31 December each year. Results of subsidiaries and businesses acquired or disposed of during the year are consolidated from or to the date on which control passes.

Turnover and recognition of profit and losses

Turnover represents the value of work done and invoiced to customers, excluding value added tax, plus the value of work done but not invoiced on long-term contracts. Profits on contracts are only recognised after the final account has been agreed with the client or, in the case of long-term contracts, an interim account has been agreed and the outcome of the contract can be assessed with reasonable certainty. Provision is made in full for anticipated future losses on uncompleted contracts.

Tangible Fixed Assets

Tangible fixed assets are stated at cost less depreciation.

Depreciation is calculated to write off the cost of acquisition of tangible fixed assets which are owned or held under finance lease or hire purchase contracts, by equal instalments over their estimated useful lives or lease period whichever is the shorter as follows:-

Leasehold premises	– the duration of the lease
Plant and machinery	– 2-10 years
Motor vehicles	– 2-4 years
Fixtures and fittings	– 7 years

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost, including an appropriate proportion of attributable overheads, and net realisable value less amounts received and receivable. Long term contracts are included at net cost after deducting foreseeable losses and payments on account. Where turnover on work in progress differs from payments on account the balance is included in debtors or creditors as appropriate.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax, or a right to pay less tax in the future have occurred at the balance sheet date. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not there will be suitable taxable profits against which the future reversal of the underlying timing differences can be deducted. Deferred tax balances are not discounted.

Leased assets

Assets acquired under finance leases or hire purchase contracts are capitalised at the inception of the leases or contracts at the present value of the minimum lease payments payable during the lease term, with the corresponding obligation to the lessor shown as a liability. The finance element of the respective payments is accounted for as it falls due. Operating lease charges are charged to the profit and loss account as they fall due.

Investments

In the balance sheet of the Company, investments in subsidiaries are shown at cost less any provision for impairment.

Pension costs

The Group's contributions to its defined contribution pension scheme are charged to the profit and loss account as incurred.

Dividends

Dividends are only recognised when the liability is irrevocable such that final dividends are recognised as a liability when approved by the shareholders at the AGM and interim dividends are recognised when paid.

Foreign currency translation

Foreign currency assets and liabilities are translated into sterling at rates of exchange ruling at the year end. Trading results are translated at the average rate prevailing during the relevant period. Differences arising on the re-translation of the net investments and the results for the year are taken directly to reserves. All other exchange differences are dealt with in the profit and loss account.

2. Turnover and Segmental Information

In the opinion of the Directors the disclosure of segmental information relating to the business categories and geographical markets of turnover, results and net assets would be seriously prejudicial to the interests of the Group, and has not therefore been provided.

3. Profit on Ordinary Activities before Taxation

The profit on ordinary activities before taxation is stated after charging/(crediting):

	2005	2004
	<u>£'000</u>	<u>£'000</u>
Staff costs (including Directors' emoluments):		
Wages and salaries	5,473	3,950
Social security costs	570	418
Other pension costs	61	50
	<u>6,104</u>	<u>4,418</u>
Depreciation	122	129
Other operating lease rentals - land and buildings	61	44
Auditors' remuneration:		
Audit work (including £4,000 in respect of the Company (2004 - £4,000))	38	32
Non-audit work	11	18
Bank interest received	(49)	(16)
Interest payable:		
Bank overdraft	1	23
Finance leases and hire purchase contracts	12	8
Short term loans	-	24
	<u>13</u>	<u>55</u>
Profit on sale of tangible fixed assets	(22)	(31)

Detailed information regarding Directors' emoluments is shown in the part of the Directors' Remuneration Report which are shown as subject to audit on pages 10 to 12 which form part of the Annual Report.

4. Taxation

a) Analysis of tax charge in the year.

	2005	2004
	<u>£'000</u>	<u>£'000</u>
UK Corporation tax at 30% (2004 - 30%)	207	249
Adjustments in respect of previous periods	-	(22)
	<u>207</u>	<u>227</u>
Foreign tax		
Adjustments in respect of previous periods	-	1
	<u>207</u>	<u>228</u>
Total current tax charge	207	228
Deferred tax		
Origination and reversal of timing differences	23	(88)
	<u>230</u>	<u>140</u>

b) Factors affecting tax charge for the year.

The tax charge assessed for the year is lower than the standard rate of corporation tax in the UK (30%) (2004 - 30%)

The differences are explained below:

	2005	2004
	<u>£'000</u>	<u>£'000</u>
Profit on ordinary tax activities before tax	729	902
UK Corporation tax at standard rate of 30% (2004 - 30%)	219	271
Expenses not deductible for tax purposes	18	7
Capital allowances for year in excess of depreciation	(23)	(21)
Tax losses unutilised in the year	1	3
Adjustments in respect of previous years	-	(21)
Tax at marginal rates	(8)	(11)
	<u>207</u>	<u>228</u>

c) Factors that may affect future tax charges.

There are no factors that are expected to significantly affect the taxation charge in future years.

5. Dividends Paid

	2005	<i>Restated</i> 2004
	<u>£'000</u>	<u>£'000</u>
Ordinary – interim paid 1.25p (2004 – 1.0p)	109	87
– final paid 2.0p (2004 – 1.5p)	174	131
	<u>283</u>	<u>218</u>

In addition the Directors are proposing a final dividend in respect of the financial year ending 31 December 2005 of 2.25p per ordinary share which will absorb an estimated £196,000 of shareholders funds. If approved at the Annual General Meeting it will be paid on 2 June 2006 to those shareholders on the Company's register on 31 March 2006.

6. Earnings per Share

Basic and diluted earnings per share are based upon the profit on ordinary activities after taxation.

Basic earnings per share is based upon 8,713,000 (2004 - 8,713,000) ordinary shares (the weighted average number of shares in issue during the year).

Diluted earnings per share is based upon 8,743,384 (2004 - 8,736,086) ordinary shares (the weighted average number of shares in issue during the year plus the weighted average number of dilutive options in issue during the year. Dilutive options are the difference between the number of shares that would have been issued at the option price and the number of shares that would have been issued at fair value).

7. Tangible Fixed Assets

Group	<i>Land and buildings (long leasehold)</i>	<i>Plant and machinery</i>	<i>Motor vehicles</i>	<i>Fixtures and fittings</i>	<i>Total</i>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Cost					
At 1 January 2005	544	1,192	168	140	2,044
Additions	–	159	–	6	165
Disposals	–	(23)	(140)	–	(163)
At 31 December 2005	<u>544</u>	<u>1,328</u>	<u>28</u>	<u>146</u>	<u>2,046</u>
Depreciation					
At 1 January 2005	105	1,011	134	132	1,382
Charge for the year	8	85	24	5	122
Disposals	–	(17)	(139)	–	(156)
At 31 December 2005	<u>113</u>	<u>1,079</u>	<u>19</u>	<u>137</u>	<u>1,348</u>
Net book amount					
At 31 December 2005	<u>431</u>	<u>249</u>	<u>9</u>	<u>9</u>	<u>698</u>
At 31 December 2004	<u>439</u>	<u>181</u>	<u>34</u>	<u>8</u>	<u>662</u>

Included in land and buildings, plant and machinery and motor vehicles above are assets acquired under hire purchase agreements or finance leases with net book amounts at 31 December 2005 of £47,000, £157,000 and £12,000 (2004 – £48,000, £126,000 and £36,000) respectively. The 2005 depreciation charges relating to these assets were £1,000, £60,000 and £24,000 (2004 – £1,000 £42,000 and £42,000) respectively.

The Company has no fixed assets.

Capital Commitments

At 31 December 2005 there were no capital commitments contracted for by the Group. (2004 – £NIL).

8. Fixed Asset Investments

Company	£'000
Cost at 1 January and 31 December 2005	40

At 31 December 2005 Chieftain Group plc was the ultimate holding company of the following subsidiary undertakings all of which are wholly owned:

	<i>Principal activity</i>	<i>Country of registration and operation</i>
Chieftain Insulation Limited	Industrial insulation	England
Chieftain Fabrications Limited	Metal fabrication	England
Chieftain Insulation (NI) Limited	Industrial insulation	N. Ireland
R Blackett Charlton Limited	Pipe fabrication	England
R Blackett Charlton (Ireland) Limited (formerly Chieftain Environmental Services Limited)	Industrial insulation and Support services	Ireland
Chieftain Scaffolding Services Limited	Scaffolding	England
Chieftain Power Services Limited	Support services	England

All subsidiary undertakings have been included in the consolidation.

9. Stocks and Work in Progress

	<i>Group</i>		<i>Company</i>	
	<i>2005 £'000</i>	<i>2004 £'000</i>	<i>2005 £'000</i>	<i>2004 £'000</i>
Raw materials and consumables	4	4	–	–
Work in progress		3,189	–	–
Less: Amounts received and receivable (net of £828,000 payments on account of long term contracts (2004 - £51,000))	6,288		–	–
	(5,987)	(2,987)	–	–
	<u>305</u>	<u>206</u>	<u>–</u>	<u>–</u>

10. Debtors

	<i>Group</i>		<i>Company</i>	
	<i>2005 £'000</i>	<i>2004 £'000</i>	<i>2005 £'000</i>	<i>2004 £'000</i>
Amounts recoverable on contracts	1,888	205	–	–
Trade debtors	2,175	1,171	30	30
Other debtors	31	27	–	–
Deferred tax assets (Note 13)	65	88	–	–
Amounts owed by subsidiary undertakings	–	–	9,086	9,423
Prepayments	471	396	8	8
	<u>4,576</u>	<u>1,887</u>	<u>9,124</u>	<u>9,461</u>

Included within Group trade debtors is £NIL (2004 – £32,000) in respect of amounts receivable after more than one year. The amounts owed to the Company by subsidiary undertakings have no fixed repayment terms.

11. Creditors – Amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	<i>2005 £'000</i>	<i>Restated 2004 £'000</i>	<i>2005 £'000</i>	<i>Restated 2004 £'000</i>
Progress claims in advance	921	296	–	–
Trade creditors	2,592	883	–	–
Hire purchase creditors and obligations under finance leases (Note 24)	64	62	–	–
Corporation tax	122	249	–	–
Other taxation and social security	1,249	599	–	–
Accruals and deferred income	337	471	–	–
Amounts owed to subsidiary undertakings	–	–	7,510	7,918
	<u>5,285</u>	<u>2,560</u>	<u>7,510</u>	<u>7,918</u>

The Group's overdraft facility is secured by a fixed and floating charge over the assets of the Group. Hire purchase liabilities are secured on the assets to which they relate.

12. Creditors – Amounts falling due after more than one year

	<i>Group</i>		<i>Company</i>	
	<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Hire purchase creditors and obligations under finance leases (Note 24)	51	48	–	–
	<u>51</u>	<u>48</u>	<u>–</u>	<u>–</u>

13. Deferred Taxation

	<i>2005</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>
Deferred tax provided at 1 January (Debit)/Credit to the profit and loss account	88 (23)	– 88
Deferred tax recognised at 31 December	<u>65</u>	<u>88</u>
Deferred tax has been recognised/(provided) at 30% (2004:30%) in respect of:		
Capital allowances	50	73
Other timing differences	15	15
Deferred tax asset	<u>65</u>	<u>88</u>

14. Called Up Equity Share Capital

	<i>2005</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>
Authorised 12,000,000 (2004 – 12,000,000) ordinary shares of 5p each	<u>600</u>	<u>600</u>
Allotted, called up and fully paid 8,713,000 (2004 – 8,713,000) ordinary shares of 5p each	<u>436</u>	<u>436</u>

During the year no employees exercised options under the Chieftain Group plc Executive Share Option Scheme.

Under the Chieftain Group plc Executive Share Option Scheme, options were outstanding at 31 December 2005 in respect of the following:

<i>Type</i>	<i>Number of shares subject to option</i>	<i>Exercise Period</i>	<i>Exercise Price</i>
Ordinary	45,500	19.4.99 to 18.4.2006	25p

15. Share Premium Account

	<i>Group</i>	<i>Company</i>
	<i>£'000</i>	<i>£'000</i>
At 1 January 2005 and 31 December 2005	<u>420</u>	<u>420</u>

16. Profit and Loss Account

	<u>Group</u>	<u>Company</u>
	<u>£'000</u>	<u>£'000</u>
At 1 January 2005 as previously reported	1,142	553
Prior year adjustment-FRS 21	174	174
At 1 January 2005 as restated	<u>1,316</u>	<u>727</u>
Profit for the financial year	216	71
At 31 December 2005	<u><u>1,532</u></u>	<u><u>798</u></u>

The prior year adjustment relates to the implementation of FRS 21.

Under FRS 21, dividends declared out of profits earned are not deducted from equity until they have either been approved by shareholders or have become irrevocable.

The adoption of FRS 21 has resulted in an increase in shareholders' funds of £174,000 at 1 January 2005 (2004 - £131,000) due to the write back of the final dividend proposed at 31 December 2004.

As permitted by Section 230(1) of the Companies Act 1985 the Parent Company has not presented its own profit and loss account. The profit dealt with in the profit and loss account of the Parent Company is shown in note 17 below.

**17. Reconciliation of Movements
in Equity Shareholders' Funds**

	<u>Group</u>		<u>Company</u>	
	<u>2005</u>	<u>Restated 2004</u>	<u>2005</u>	<u>Restated 2004</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Profit/(loss) for the financial year	499	762	(46)	(3)
Dividends paid	(283)	(218)	(283)	(218)
Dividends received	-	-	400	400
Increase in Equity Shareholders' funds	<u>216</u>	<u>544</u>	<u>71</u>	<u>179</u>
Opening Equity Shareholders' funds (previously £1,497,000 (group) and £1,273,000 (company) before prior year adjustment of £131,000)	<u>2,172</u>	<u>1,628</u>	<u>1,583</u>	<u>1,404</u>
Closing Equity Shareholders' funds	<u><u>2,388</u></u>	<u><u>2,172</u></u>	<u><u>1,654</u></u>	<u><u>1,583</u></u>

**18. Reconciliation of operating profit to net
cash inflow from operating activities**

	<u>2005</u>	<u>2004</u>
	<u>£'000</u>	<u>£'000</u>
Operating profit	693	941
Depreciation charges	122	129
Profit on sale of tangible fixed assets	(22)	(31)
(Increase)/decrease in stocks and work in progress	(99)	1,031
Increase in debtors	(2,712)	(7)
Increase in creditors	2,850	415
Net cash inflow from operating activities	<u><u>832</u></u>	<u><u>2,478</u></u>

19. Reconciliation to Net Funds/(debt)

	<u>2005</u>	<u>2004</u>
	<u>£'000</u>	<u>£'000</u>
Increase in cash in the year	120	1,425
Decrease in debt and lease finance	87	682
Change in net funds from cash flows	<u>207</u>	<u>2,107</u>
Non cash flow movement - new finance leases	(92)	(61)
Movement in net funds in the year	<u>115</u>	<u>2,046</u>
Net funds/(debt) at 1 January	1,915	(131)
Net funds at 31 December	<u><u>2,030</u></u>	<u><u>1,915</u></u>

20. Analysis of Net Funds

	<i>1/1/05</i>	<i>Cash flow</i>	<i>Other non-cash</i>	<i>31/12/05</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cash at bank and in hand	2,025	120	–	2,145
Finance leases (Note 24)	(110)	87	(92)	(115)
	<u>1,915</u>	<u>207</u>	<u>(92)</u>	<u>2,030</u>

Other non-cash movements relate to new finance leases entered into during the course of the year.

21. Pension Commitments

The Group operates a defined contribution scheme for certain employees and Directors. The regular pension cost is 9% of salary for all members and is charged to the profit and loss account as incurred.

22. Employees

The average numbers employed by the Group during the period, including Directors, was as follows:

	<i>2005</i>	<i>2004</i>
	<i>No.</i>	<i>No.</i>
Contracting	176	142
Management	9	7
	<u>185</u>	<u>149</u>

23. Contingent Liabilities

The Group has contingent liabilities in respect of guarantees entered into in the normal course of business in respect of which no loss is expected (2004-Nil).

24. Lease Commitments

The Group leases certain land and buildings on short term leases. The rents payable under these leases are subject to renegotiation at various intervals specified in the leases.

The minimum annual rentals under the foregoing operating leases are as follows:

	<i>Group</i>	
	<i>2005</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>
Lease expiry date:		
– within one year	23	–
– within 2-5 years	12	24
– after 5 years	38	38
	<u>73</u>	<u>62</u>

There were no operating lease commitments relating to plant and machinery at 31 December 2005 (2004-£NIL).

The Group has minimum future finance lease and hire purchase obligations as follows:

	<i>Group</i>	
	<i>2005</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>
Within 1 year	64	62
Between 1 and 2 years	46	35
Between 2 and 5 years	5	13
	<u>115</u>	<u>110</u>

There is no material difference between book value and fair value of lease commitments.

25 Fair values of financial assets and financial liabilities

The following table provides a comparison by category of the carrying amounts and the fair values of the Group's financial liabilities at 31 December 2005. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale, and excludes accrued interest. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest and exchange rates.

	2005		2004	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Short-term financial liabilities and current portion of long-term borrowings	(64)	(64)	(62)	(62)
Long-term borrowings excluding current portion	(51)	(51)	(48)	(48)
Cash at bank and in hand	2,145	2,145	2,025	2,025
Debtors due after more than one year	-	-	32	32
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The book value and fair value of short term financial assets and liabilities are the same due to short maturity of those instruments. The maturity profile of long term financial liabilities is set out in note 24.

Interest rate risk profile of financial liabilities

The interest rate risk profile of the Group's financial liabilities at 31 December 2005 was:

Currency	2005			2004		
	Total £'000	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Total £'000	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000
Sterling	115	-	115	110	-	110
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Fixed rate financial liabilities have a weighted average interest rate of 4.1% (2004- 3.6%) which is fixed for a weighted average period of 1 year (2004- 2 years)

The floating rate financial liability bears interest at 1.875% per annum above Barclays Bank Plc base rate.

Interest rate risk profile of financial assets

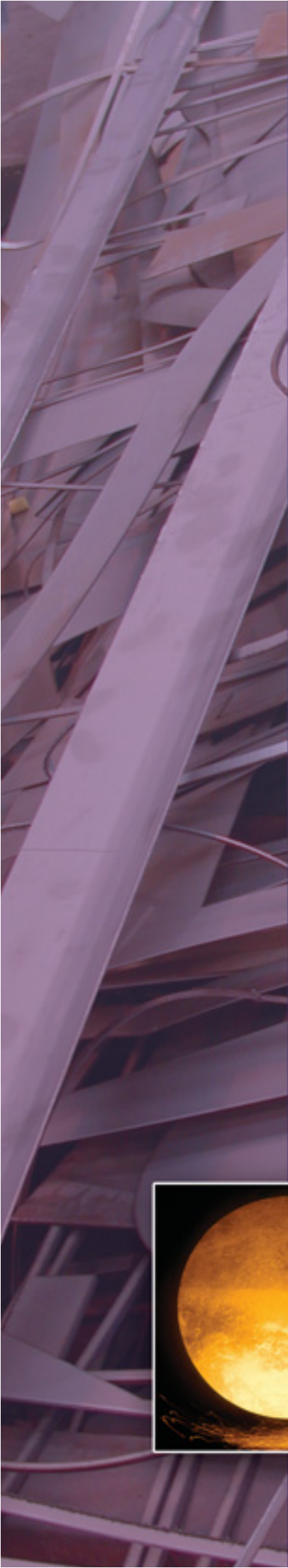
	2005	2004
	£'000	£'000
Sterling - cash	2,145	2,025
- long term debt	-	32
	<u>2,145</u>	<u>2,057</u>
Floating rate	2,145	2,025
Non-interest bearing (maturing less than 1 year)	-	32
	<u>2,145</u>	<u>2,057</u>

Borrowing facilities

The Group had various undrawn committed facilities. The facilities available at 31 December 2005, in respect of which all conditions precedent had been met were as follows:

	2005	2004
	Floating rate £'000	Floating rate £'000
Expiring in one year or less	1,500	1,250
	<u> </u>	<u> </u>

Since the year end this facility has been agreed at £1,500,000 and is subject to review on 20 February 2007. The company has a sterling denominated intercompany balance of £29,060 (2004- £21,583) which resides in a Euro denominated subsidiary.



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