

CHIEFTAIN GROUP PLC

ANNUAL REPORT AND ACCOUNTS 2004

CHIEFTAIN GROUP PLC

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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 Chieftain's premises at White Street, Walker, Newcastle upon Tyne NE6 3PJ on 6 May 2005 at 1.00pm for the following purposes:

1. To receive the Report and Accounts for the year ended 31 December 2004.
2. To approve the Remuneration Committee report for the year ended 31 December 2004.
3. To declare a final dividend of 2.0p per ordinary share.
4. 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.
5. To re-elect as a Director Mr A W Cutchie who retires by rotation. Mr Cutchie joined the Company in July 1995 having spent 25 years in design and estimating in the marine industry latterly with Swan Hunter Shipbuilders Limited.
6. To re-elect as a Director Mr R Johnson who retires by rotation. Mr Johnson joined the Company in 1991 and has in excess of 26 years experience of contract and project management.
7. To re-elect Mr C J Fleetwood who was appointed by the Directors on 1 January 2005. Mr Fleetwood was Chief Executive of Whessoe Plc which under his leadership was transformed from a UK – based heavy engineering business into a multi-national group specialising in electronics, software instrumentation and control systems.
8. To re-elect Mr M W Oliver who was appointed by the Directors on 14 February 2005. Mr Oliver was Managing Director of Aker Kvaerner Engineering Services Ltd which provided life cycle engineering services to energy, process and water industries.
9. To re-appoint PricewaterhouseCoopers LLP as the independent auditors of the Company.
10. 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:

11. 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.

12. 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

31 March 2005

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 4 May 2005.

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.

Chairman's Statement

I am pleased to report that the Group enjoyed a very successful year in 2004, indicated by a return to full financial health following a disappointing 2003. On a turnover of £11.8 million, slightly ahead of the 2003 figure of £11.1 million, pre-tax profit for 2004 was £902,000 compared with a pre-tax loss of £458,000 in 2003. Basic earnings per share in 2004 were 8.75p compared with a basic loss per share of 3.96p in 2003.

Dividend

The Board is demonstrating its confidence in the future profitable expansion of the Group by recommending an increased final dividend of 2.0p per share. This brings the total dividend for 2004 to 3.0p per share compared with 2.5p in 2003. The Board's recommendation, together with a payment date of 20 May 2005, will be proposed at the forthcoming AGM on 6 May 2005.

Trading Outlook

During 2003 and 2004, we focussed on the completion of a number of major contracts and the agreement of associated final accounts. The success of this exercise can be demonstrated by the transformation to a net cash position with funds in the bank of some £2 million. In addition, we have repaid loans to the founding directors in full.

The challenge now is to put the funds available to good use by building up new profitable business and so expanding the Group's turnover and profits in 2005 and future years. This process has already started with particular emphasis on our Environmental business and Mechanical Services business. The Board considers that these two sectors offer strong growth opportunities as well as improved margins.

Services provided by the Environmental division include building surveys, encapsulation and removal of hazardous materials including all grades of asbestos. This is a highly regulated activity and has seen an increase in demand following legislation which came into force in May 2004. Until recently, the Group's activities were largely confined to the North East of England but they have now been rolled out to all parts of the United Kingdom and the Province of Northern Ireland.

Over the past two years the Group has expanded the services offered by its wholly owned subsidiary R. Blackett Charlton Limited from the fabrication and fitting of industrial pipework to the complete mechanical services package. This is a very large market and is in one which we see good opportunities for 2005 and beyond.

The Group continues to trade on 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 outfitting of the Astute class of submarine. As reported previously the opportunities in the offshore market are very limited at the present time but the Group maintains its presence in this market.

Cash

Our cash position has been transformed over the past eighteen months. Net cash inflow from operating activities was £2.5 million, up from £1.8 million in 2003.

At the end of 2003, net cash stood at £600,000 with loans to the founder Directors still outstanding. As at the end of 2004, net cash stood at £2,025,000 with all founder Director's loans having been re-paid. We are now in the best cash position for several years to take advantage of the opportunities facing the Group.

Developments

We have strengthened the Board with the appointment of two additional Directors. Mr Chris Fleetwood joined us in January 2005 in a non-executive capacity. Mr Fleetwood, aged 53, is a qualified accountant with strong general management experience. He was Chief Executive of Whessoe plc, one of the North East's major engineering companies which was acquired by a Swiss led consortium in 1997.

Mr Malcolm Oliver, aged 47, joined us in February 2005 as an Executive Director. Mr Oliver's career has been in the mechanical and electrical services field, primarily in the process industry. Until recently, he was Managing Director of Aker Kvaerner Engineering Services Limited, responsible for its engineering business in the United Kingdom and Benelux. He will be responsible for the Group's mechanical services activities based in a new facility we have established on Teesside.

The Directors are confident that these appointments, which substantially strengthen the Board, have been made at an opportune time as the Group expands its mechanical services activities.

Outlook and transfer to AIM

Despite a slow start to 2005, we look forward with confidence to another successful year and the laying down of a solid foundation for significant growth in the next few years.

In addition the board has decided to make arrangements for the transfer of trading in the Company's shares from the Official List to AIM. AIM is a market designed for smaller growing companies and we believe is better suited to Chieftain's size and ambitions. We hope to complete the transfer during the first half of the year and will make further announcements in due course.

P. Wardle
Chairman

8 March 2005

The Directors present their report together with the audited accounts for the year ended 31 December 2004.

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.
- 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 future developments is given in the Chairman's Statement on page 4.

Results and Dividends

The results for the year and the appropriation thereof are shown in the consolidated profit and loss account on page 14. An interim dividend of 1.0p (2003 - 1.0p) has been paid. The Directors recommend the payment of a final dividend of 2.0p (2003 - 1.5p) per ordinary share to be paid on 20 May 2005 to the shareholders on the register on 18 March 2005.

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 2004 | | 31 December 2003 | |
|---|----------------------|-------------------------|----------------------|-------------------------|
| | <i>held directly</i> | <i>held by nominees</i> | <i>held directly</i> | <i>held by nominees</i> |
| 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) | – | – | – | – |

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

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.

Mr A W Cutchie retires by rotation and offers himself for re-election. Mr Cutchie joined the Company in July 1995 having spent 25 years in design and estimating in the marine industry latterly with Swan Hunter Shipbuilders Limited.

Mr R Johnson retires by rotation and offers himself for re-election. Mr Johnson joined the Company in 1991 and has in excess of 26 years experience of contract and project management.

Mr C J Fleetwood, appointed by the Directors on 1 January 2005, retires in accordance with the Company's Articles of Association and offers himself for re-election. Mr Fleetwood was Chief Executive of Whessoe Plc which under his leadership was transformed from a UK - based heavy engineering business into a multi-national group specialising in electronics, software instrumentation and control systems.

Mr M W Oliver, appointed by the Directors on 14 February 2005, retires in accordance with the Company's Articles of Association and offers himself for re-election. Mr. Oliver was Managing Director of Aker Kvaerner Engineering Services Ltd which provided life cycle engineering services to energy, process and water industries.

During the period from the end of the financial year to 1 March 2005 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 shares in Chieftain Group plc. The interests of those Directors at 31 December 2004 and 31 December 2003 are shown on page 12.

Substantial Shareholdings

On 1 March 2005, 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:

| | | <i>No of shares</i> | <i>%</i> |
|--------------|--------------------|---------------------|----------|
| M A Fairlamb | – held directly | 108,480 | 1.2 |
| | – held by nominees | 492,624 | 5.7 |
| V V Shah | | 450,000 | 5.2 |

Annual General Meeting - Special Business

A resolution will be proposed as special business at this year's Annual General Meeting. The effect of this resolution is as follows:

Resolution 11: Disapplication of pre-emption rights

This resolution renews the existing authority to the Directors under Section 95 of the Companies Act 1985 to allot shares by way of rights to shareholders and to allot shares for cash up to a nominal value of £21,782 (5% of the issued share capital) without first offering such shares pro rata to existing shareholders, as would otherwise be required under Section 89 of that Act. This will allow the Directors some flexibility when considering how best to finance new business opportunities. In accordance with the requirements of the London Stock Exchange this resolution will come up for renewal at the next Annual General Meeting.

Corporate Governance and Compliance

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

The Company is led and controlled by a Board which provides 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 Board met 9 times during 2004 and all the Directors were in attendance for each meeting save for one occasion on which illness prevented the attendance of a Non-executive Director and one occasion on which holiday commitments prevented the attendance of an Executive Director.

The Remuneration Committee met 4 times during 2004 with all 3 members being in attendance for each of the meetings.

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

Performance evaluation of Directors and Committees is carried out on an informal basis. The Board are considering establishing a more formal approach for future years.

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 accounts 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 accounts.

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 an Audit Committee or a Nomination Committee and the requirement for the Remuneration Committee to consist exclusively of Non-executive Directors is not met. The Board recognises that two of the Non-executive Directors, Mr. P. Wardle and Mr. J. Dawson, are not classified as independent in the sense referred to in the Code.
2. The Company does not have a formal performance evaluation procedure for its Directors and Committees as the Board considers that having regard to the size of the Company an informal approach is adequate. This approach, however, is currently under review.
3. 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 Financial reporting Standard (FRS) 13 "Derivatives and other financial instruments". The numerical disclosures are set out in note 24 and 25 to the accounts. 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 2004 the Company had no trade creditors (2003 – Nil).

Directors' Report

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.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

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.

Charitable and Political Donations

Charitable contributions during the year totalled £228 (2003 – £NIL). They were made to enhance the Group's standing in the communities in which it operates.

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. Communication is maintained by means of regular circulars.

Auditors

PricewaterhouseCoopers LLP are willing 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

8 March 2005

Remuneration Committee

The remuneration committee comprises:

| | |
|------------|-------------------------|
| P Wardle | -Non-executive Chairman |
| J F Dawson | -Non-executive Director |
| W P Taylor | -Executive Director |

There were no changes in the composition of the committee during the year.

Mr C J Fleetwood, Senior Independent Non-executive Director was appointed to the Committee on 1 January 2005.

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 overall profit achieved 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 2004 each Executive Director received a payment of £3,000.

The bonus scheme will continue in operation for 2005.

- 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.

The Company currently has no plans to introduce any other long term incentive schemes.

- 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 | 6 months |
| A W Cutchie | 11 July 2003 | 6 months |
| R Johnson | 11 July 2003 | 6 months |
| M W Oliver | 14 February 2005 | 6 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.

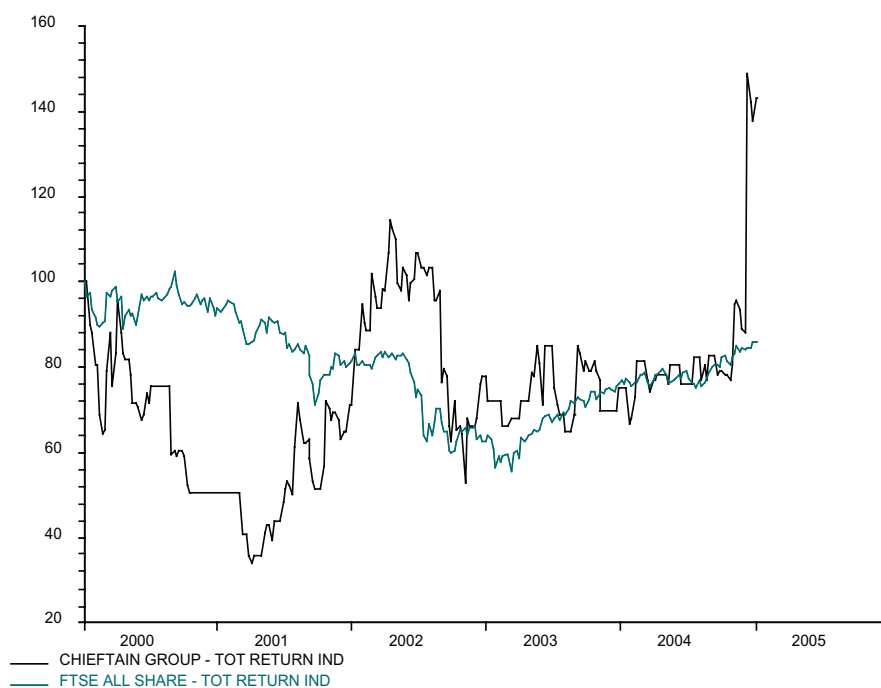
Mr C J Fleetwood was appointed on 1 January 2005 and is Senior Independent Non-executive Director. He is entitled to 3 months notice of termination.

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 2004 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 were as follows:

| | <u>2004</u> | <u>2003</u> |
|--------------------------------------|-------------|-------------|
| | £'000 | £'000 |
| Emoluments | 434 | 392 |
| Money purchase pension contributions | 30 | 25 |
| | <u>464</u> | <u>417</u> |

Directors' Remuneration Report

Directors' Emoluments and Compensation

| | <u>Salary</u> | <u>Bonus</u> | <u>Benefits</u> | <u>2004 Total</u> | <u>2003 Total</u> |
|----------------------|---------------|--------------|-----------------|-----------------------|-----------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| * P Wardle | 21 | – | 3 | 24 | 26 |
| W P Taylor | 97 | 3 | 18 | 118 | 121 |
| S Elliott | 80 | 3 | 11 | 94 | 95 |
| L G Adams | 54 | 3 | 4 | 61 | 45 |
| A W Cutchie | 54 | 3 | 8 | 65 | 50 |
| R Johnson | 54 | 3 | 7 | 64 | 48 |
| * J F Dawson | 8 | – | – | 8 | 7 |
| Aggregate emoluments | <u>368</u> | <u>15</u> | <u>51</u> | <u>434</u> | <u>392</u> |

* Non-executive

Directors' Pension Contributions

6 Directors (2003 - 6) are members of the Company's money purchase scheme. Contributions paid by the Company in respect of such Directors were as follows:

| | <u>2004</u> | <u>2003</u> |
|-----------------------------|-------------|-------------|
| | £'000 | £'000 |
| * P Wardle | 1 | 1 |
| W P Taylor | 9 | 8 |
| S Elliott | 8 | 7 |
| L G Adams | 4 | 3 |
| A W Cutchie | 4 | 3 |
| R Johnson | 4 | 3 |
| Total Company contributions | <u>30</u> | <u>25</u> |

* 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 2004 and 31 December 2004 the interests of those Directors who served during the year were as follows:

| | <u>Number</u> | <u>Issue Date</u> | <u>Price</u> | <u>Period</u> |
|-------------|---------------|-------------------|--------------|--------------------|
| S Elliott | 8,500 | 20.8.96 | 25p | 20.8.99 to 19.8.06 |
| A W Cutchie | 30,000 | 20.8.96 | 25p | 20.8.99 to 19.8.06 |

During the period from the end of the financial year and 1 March 2005 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 2004 was 65p and the range during the year was 30p to 67.5p.

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

8 March 2005

Independent auditors' report to the members of Chieftain Group plc

We have audited the financial statements which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the Group statement of total recognised gains and losses and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' remuneration report ("the auditable part").

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities. The Directors are also responsible for preparing the Directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the Directors' remuneration report in accordance with the relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 and whether the financial statements and the auditable part of the Directors' remuneration report have been 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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's statement, the Directors' report and the unaudited part of the Directors' remuneration report.

We review whether the corporate governance statement within the directors' report reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with 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 and the auditable part of the Directors' remuneration report. 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 considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the Directors' remuneration report 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 of the state of affairs of the Company and the Group at 31 December 2004 and of the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

Consolidated Profit and Loss Account

Chieftain Group plc and Subsidiaries
for the year ended 31 December 2004

| | <u>Notes</u> | <u>2004</u> | <u>2003</u> |
|---|--------------|---------------------|-----------------------|
| | | £'000 | £'000 |
| TURNOVER | 2 | 11,759 | 11,071 |
| Cost of sales | | <u>(8,374)</u> | <u>(8,704)</u> |
| GROSS PROFIT | | 3,385 | 2,367 |
| Administrative expenses | | <u>(2,444)</u> | <u>(2,714)</u> |
| OPERATING PROFIT/(LOSS) | | 941 | (347) |
| Interest receivable and similar income | | 16 | 1 |
| Interest payable and similar charges | 3 | <u>(55)</u> | <u>(112)</u> |
| PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION | 3 | 902 | (458) |
| TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES | 4 | <u>(140)</u> | <u>113</u> |
| PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION | | 762 | (345) |
| Dividends paid and proposed | 5 | <u>(261)</u> | <u>(218)</u> |
| RETAINED PROFIT/(LOSS) FOR THE YEAR | 16 | <u><u>501</u></u> | <u><u>(563)</u></u> |
| | | | |
| BASIC EARNINGS/(LOSS) PER SHARE | 6 | <u><u>8.75p</u></u> | <u><u>(3.96)p</u></u> |
| | | | |
| DILUTED EARNINGS/(LOSS) PER SHARE | 6 | <u><u>8.72p</u></u> | <u><u>(3.96)p</u></u> |

Group Statement of Gains and Losses

| | | |
|--|-------------------|---------------------|
| Profit/(loss) for the financial year | 762 | (345) |
| Exchange rate adjustments offset in reserves | – | 96 |
| Tax on exchange rate adjustments | – | (75) |
| Total recognised gain/(loss) for the year | <u><u>762</u></u> | <u><u>(324)</u></u> |

A statement of the movement in reserves can be found in Note 16.

There is no difference between the reported profits/(losses) and the historical cost profits/(losses) for 2004 and 2003.

All amounts above relate to continuing operations.

Balance Sheets

Chieftain Group plc and Subsidiaries
as at 31 December 2004

| | <i>Notes</i> | <i>Group</i> | | <i>Company</i> | |
|--|--------------|--------------|--------------|----------------|--------------|
| | | <i>2004</i> | <i>2003</i> | <i>2004</i> | <i>2003</i> |
| | | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| FIXED ASSETS | | | | | |
| Tangible assets | 7 | 662 | 738 | – | – |
| Investments | 8 | – | – | 40 | 40 |
| | | <u>662</u> | <u>738</u> | <u>40</u> | <u>40</u> |
| CURRENT ASSETS | | | | | |
| Stocks and work in progress | 9 | 206 | 1,237 | – | – |
| Debtors | 10 | 1,887 | 1,801 | 9,461 | 9,781 |
| Cash at bank and in hand | | 2,025 | 600 | – | 68 |
| | | <u>4,118</u> | <u>3,638</u> | <u>9,461</u> | <u>9,849</u> |
| CREDITORS | | | | | |
| Amounts falling due within one year | 11 | (2,734) | (2,819) | (8,092) | (8,616) |
| NET CURRENT ASSETS | | <u>1,384</u> | <u>819</u> | <u>1,369</u> | <u>1,233</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>2,046</u> | <u>1,557</u> | <u>1,409</u> | <u>1,273</u> |
| CREDITORS | | | | | |
| Amounts falling due after more than one year | 12 | (48) | (60) | – | – |
| | | <u>1,998</u> | <u>1,497</u> | <u>1,409</u> | <u>1,273</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 | 1,142 | 641 | 553 | 417 |
| EQUITY SHAREHOLDERS' FUNDS | 17 | <u>1,998</u> | <u>1,497</u> | <u>1,409</u> | <u>1,273</u> |

The financial statements on pages 14 to 24 were approved by the Board of Directors on 8 March 2005 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 2004

| | <u>Notes</u> | <u>2004</u> | | <u>2003</u> | |
|--|--------------|--------------|---------------------|--------------|---------------------|
| | | <u>£'000</u> | <u>£'000</u> | <u>£'000</u> | <u>£'000</u> |
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 18 | | 2,478 | | 1,758 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | | | |
| Interest received | | 16 | | 1 | |
| Interest paid | | (47) | | (101) | |
| Interest element of finance lease rental payments | | (8) | | (11) | |
| | | | <u>(39)</u> | | <u>(111)</u> |
| TAXATION | | | | | |
| Corporation tax paid | | (177) | | (70) | |
| Corporation tax received | | 24 | | - | |
| | | | <u>(153)</u> | | <u>(70)</u> |
| CAPITAL EXPENDITURE | | | | | |
| Purchase of tangible fixed assets | | (16) | | (25) | |
| Disposal of tangible fixed assets | | 55 | | 24 | |
| | | | <u>39</u> | | <u>(1)</u> |
| EQUITY DIVIDENDS PAID | | | (218) | | (218) |
| NET CASH INFLOW BEFORE FINANCING ACTIVITIES | | | <u>2,107</u> | | <u>1,358</u> |
| FINANCING | | | | | |
| Capital element of finance lease rental payments | 20 | (82) | | (118) | |
| Decrease in loans | 20 | (600) | | - | |
| Net cash outflow from financing | 19 | | <u>(682)</u> | | <u>(118)</u> |
| INCREASE IN CASH IN THE YEAR | 19, 20 | | <u><u>1,425</u></u> | | <u><u>1,240</u></u> |

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, and the following accounting policies which have been consistently applied.

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. Turnover and profits of subsidiaries and businesses acquired during the year are consolidated from their effective dates of acquisition.

Turnover and recognition of profit and losses

Turnover represents the value of work 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.

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.

Finance leases and hire purchase contracts

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 money purchase pension scheme are charged to the profit and loss account as incurred.

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/(loss) on Ordinary Activities before Taxation

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

| | 2004 | 2003 |
|---|--------------|--------------|
| | <u>£'000</u> | <u>£'000</u> |
| Staff costs (including Directors' emoluments): | | |
| Wages and salaries | 3,950 | 4,879 |
| Social security costs | 418 | 473 |
| Other pension costs | 50 | 55 |
| | <u>4,418</u> | <u>5,407</u> |
| Depreciation | 129 | 194 |
| Other operating lease rentals - land and buildings | 44 | 58 |
| Auditors' remuneration: | | |
| Audit work (including £4,000 in respect of the Company (2003 – £4,000)) | 32 | 29 |
| Non-audit work | 18 | 12 |
| Interest payable: | | |
| Bank overdraft | 23 | 62 |
| Finance leases and hire purchase contracts | 8 | 11 |
| Short term loans | 24 | 39 |
| | <u>55</u> | <u>112</u> |
| Profit on sale of tangible fixed assets | (31) | (16) |

4. Taxation

a) Analysis of tax charge/(credit) in the year.

| | 2004 | 2003 |
|--|--------------|--------------|
| | <u>£'000</u> | <u>£'000</u> |
| UK Corporation tax at 30% (2003 – 30%) | 249 | 108 |
| Adjustments in respect of previous periods | (22) | (221) |
| | <u>227</u> | <u>(113)</u> |
| Foreign tax | | |
| Adjustments in respect of previous periods | 1 | – |
| | <u>228</u> | <u>(113)</u> |
| Total current tax charge | 228 | (113) |
| Deferred tax | | |
| Origination and reversal of timing differences | (88) | – |
| | <u>140</u> | <u>(113)</u> |

b) Factors affecting tax charge/(credit) for the year.

The tax (credit)/charge assessed for the year is lower than the standard rate of corporation tax in the UK (30%) (2003 - 30%)

The differences are explained below:

| | 2004 | 2003 |
|---|--------------|--------------|
| | <u>£'000</u> | <u>£'000</u> |
| Profit/(loss) on ordinary tax activities before tax | 902 | (458) |
| UK Corporation tax at standard rate of 30% (2003 - 30%) | 271 | (138) |
| Expenses not deductible for tax purposes | 7 | 17 |
| Tax rate adjustment | – | (13) |
| Capital allowances for year in excess of depreciation | (21) | (14) |
| Tax losses unutilised in the year | 3 | 36 |
| Losses carried back to prior periods | – | 222 |
| Adjustments in respect of previous years | (21) | (223) |
| Tax at marginal rates | (11) | – |
| | <u>228</u> | <u>(113)</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 and Proposed

| | <u>2004</u> | <u>2003</u> |
|--|--------------|--------------|
| | <u>£'000</u> | <u>£'000</u> |
| Ordinary – interim paid 1.0p (2003 – 1.0p) | 87 | 87 |
| – final proposed 2.0p (2003 – 1.5p) | 174 | 131 |
| | <u>261</u> | <u>218</u> |

6. Earnings per Share

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

Basic earnings per share is based upon 8,713,000 (2003 - 8,713,000) ordinary shares (the weighted average number of shares in issue during the year).

Diluted earnings per share is based upon 8,736,086 (2003 - 8,713,000) 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 2004 | 544 | 1,199 | 292 | 141 | 2,176 |
| Additions | – | 74 | – | 3 | 77 |
| Disposals | – | (81) | (124) | (4) | (209) |
| At 31 December 2004 | <u>544</u> | <u>1,192</u> | <u>168</u> | <u>140</u> | <u>2,044</u> |
| Depreciation | | | | | |
| At 1 January 2004 | 95 | 1,001 | 210 | 132 | 1,438 |
| Charge for the year | 10 | 71 | 45 | 3 | 129 |
| Disposals | – | (61) | (121) | (3) | (185) |
| At 31 December 2004 | <u>105</u> | <u>1,011</u> | <u>134</u> | <u>132</u> | <u>1,382</u> |
| Net book amount | | | | | |
| At 31 December 2004 | <u>439</u> | <u>181</u> | <u>34</u> | <u>8</u> | <u>662</u> |
| At 31 December 2003 | <u>449</u> | <u>198</u> | <u>82</u> | <u>9</u> | <u>738</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 2004 of £48,000, £126,000 and £36,000 (2003 – £49,000, £106,000 and £78,000) respectively. The 2004 depreciation charges relating to these assets were £1,000, £42,000 and £42,000 (2003 – £1,000, £34,000 and £64,000) respectively.

The Company has no fixed assets.

Capital Commitments

At 31 December 2004 there were no capital commitments contracted for by the Group. (2003 – £NIL).

8. Fixed Asset Investments

| | |
|--|-------|
| Company | £'000 |
| Cost at 1 January and 31 December 2004 | 40 |

At 31 December 2004 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>2004 £'000</i> | <i>2003 £'000</i> | <i>2004 £'000</i> | <i>2003 £'000</i> |
| Raw materials and consumables | 4 | 6 | – | – |
| Work in progress | 3,189 | 12,717 | – | – |
| Less: Amounts received and receivable (net of £51,000 payments on account of long term contracts (2003 - £118,000)) | (2,987) | (11,486) | – | – |
| | <u>206</u> | <u>1,237</u> | <u>–</u> | <u>–</u> |

10. Debtors

| | <i>Group</i> | | <i>Company</i> | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | <i>2004 £'000</i> | <i>2003 £'000</i> | <i>2004 £'000</i> | <i>2003 £'000</i> |
| Amounts recoverable on contracts | 205 | 881 | – | – |
| Trade debtors | 1,171 | 392 | 30 | 45 |
| Other debtors | 27 | 27 | – | – |
| Deferred tax assets | 88 | – | – | – |
| Amounts owed by subsidiary undertakings | – | – | 9,423 | 9,728 |
| Prepayments | 396 | 501 | 8 | 8 |
| | <u>1,887</u> | <u>1,801</u> | <u>9,461</u> | <u>9,781</u> |

Included within Group trade debtors is £32,000 (2003 – £20,000) 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>2004 £'000</i> | <i>2003 £'000</i> | <i>2004 £'000</i> | <i>2003 £'000</i> |
| Progress claims in advance | 296 | 145 | – | – |
| Trade creditors | 883 | 951 | – | – |
| Hire purchase creditors and obligations under finance leases (Note 24) | 62 | 71 | – | – |
| Corporation tax | 249 | 183 | – | – |
| Other taxation and social security | 599 | 556 | – | – |
| Proposed dividends | 174 | 131 | 174 | 131 |
| Accruals and deferred income | 471 | 182 | – | – |
| Amounts owed to subsidiary undertakings | – | – | 7,918 | 7,885 |
| Directors' loans (Note 26) | – | 400 | – | 400 |
| Other loans | – | 200 | – | 200 |
| | <u>2,734</u> | <u>2,819</u> | <u>8,092</u> | <u>8,616</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>2004</i> | <i>2003</i> | <i>2004</i> | <i>2003</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Hire purchase creditors and obligations under finance leases (Note 24) | 48 | 60 | – | – |
| | <u>48</u> | <u>60</u> | <u>–</u> | <u>–</u> |

13. Deferred Taxation

| | <i>2004</i> | <i>2003</i> |
|--|--------------|--------------|
| | <i>£'000</i> | <i>£'000</i> |
| Deferred tax provided at 1 January | – | – |
| Credit to the profit and loss account | 88 | – |
| Deferred tax recognised at 31 December | <u>88</u> | <u>–</u> |
| Deferred tax has been recognised/(provided) at 30% (2003:30%) in respect of: | | |
| Capital allowances | 73 | – |
| Other timing differences | 15 | – |
| Deferred tax recognised | <u>88</u> | <u>–</u> |

At 31 December 2003 there were £112,000 of unrecognised deferred tax assets.

14. Called Up Equity Share Capital

| | <i>2004</i> | <i>2003</i> |
|--|--------------|--------------|
| | <i>£'000</i> | <i>£'000</i> |
| Authorised 12,000,000 (2003 – 12,000,000) ordinary shares of 5p each | 600 | 600 |
| Allotted and fully paid 8,713,000 (2003 – 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 2004 in respect of the following:

| <i>Type</i> | <i>Number of shares subject to option</i> | <i>Period of option</i> | <i>Price per share</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 2004 and 31 December 2004 | <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 2004 | 641 | 417 |
| Profit for the financial year | 501 | 136 |
| At 31 December 2004 | <u>1,142</u> | <u>553</u> |

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>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| | <u>£'000</u> | <u>£'000</u> | <u>£'000</u> | <u>£'000</u> |
| Profit/(loss) for the financial year | 762 | (345) | (3) | (4) |
| Dividends paid | (261) | (218) | (261) | (218) |
| Dividends received | – | – | 400 | 900 |
| Currency translation differences | – | 96 | – | (804) |
| Tax on currency translation differences | – | (75) | – | – |
| Increase/(decrease) in Equity Shareholders' funds | 501 | (542) | 136 | (126) |
| Opening Equity Shareholders' funds | 1,497 | 2,039 | 1,273 | 1,399 |
| Closing Equity Shareholders' funds | <u>1,998</u> | <u>1,497</u> | <u>1,409</u> | <u>1,273</u> |

**18. Reconciliation of operating profit/(loss) to net
cash inflow from operating activities**

| | <u>2004</u> | <u>2003</u> |
|---|--------------|--------------|
| | <u>£'000</u> | <u>£'000</u> |
| Operating profit/(loss) | 941 | (347) |
| Depreciation charges | 129 | 194 |
| Profit on sale of tangible fixed assets | (31) | (16) |
| Decrease in stocks and work in progress | 1,031 | 2,698 |
| (Increase)/decrease in debtors | (7) | 1,133 |
| Increase/(decrease) in creditors | 415 | (1,904) |
| Net cash inflow from operating activities | <u>2,478</u> | <u>1,758</u> |

19. Reconciliation to Net Funds/(debt)

| | <u>2004</u> | <u>2003</u> |
|---|--------------|--------------|
| | <u>£'000</u> | <u>£'000</u> |
| Increase in cash in the year | 1,425 | 1,240 |
| Decrease in debt and lease finance | 682 | 118 |
| Change in net funds from cash flows | 2,107 | 1,358 |
| Non cash flow movement - new finance leases | (61) | (96) |
| Movement in net funds in the year | 2,046 | 1,262 |
| Net debt at 1 January | (131) | (1,393) |
| Net funds/(debt) at 31 December | <u>1,915</u> | <u>(131)</u> |

20. Analysis of Net Debt

| | <i>1/1/04</i> | <i>Cash flow</i> | <i>Other non-cash</i> | <i>31/12/04</i> |
|--------------------------|---------------|----------------------|---------------------------|-----------------|
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Cash at bank and in hand | 600 | 1,425 | – | 2,025 |
| Finance leases | (131) | 82 | (61) | (110) |
| Short term loans | (600) | 600 | – | – |
| | <u>(131)</u> | <u>2,107</u> | <u>(61)</u> | <u>1,915</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 was as follows:

| | <i>2004</i> | <i>2003</i> |
|-------------|-------------|-------------|
| | <i>No.</i> | <i>No.</i> |
| Contracting | 142 | 182 |
| Management | 7 | 7 |
| | <u>149</u> | <u>189</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.

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>2004</i> | <i>2003</i> |
| | <i>£'000</i> | <i>£'000</i> |
| Lease expiry date: | | |
| – within one year | – | 3 |
| – within 2-5 years | 24 | 12 |
| – after 5 years | 38 | 38 |
| | <u>62</u> | <u>53</u> |

There were no operating lease commitments relating to plant and machinery at 31 December 2004.

The Group has minimum future finance lease and hire purchase obligations as at 31 December 2004 as follows:

| | <i>Group</i> | |
|-----------------------|--------------|--------------|
| | <i>2004</i> | <i>2003</i> |
| | <i>£'000</i> | <i>£'000</i> |
| Within 1 year | 62 | 71 |
| Between 1 and 2 years | 35 | 43 |
| Between 2 and 5 years | 13 | 17 |
| | <u>110</u> | <u>131</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 2004. 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.

| | 2004 | | 2003 | |
|--|---------------------|---------------------|---------------------|---------------------|
| | Book value £'000 | Fair value £'000 | Book value £'000 | Fair value £'000 |
| Short-term financial liabilities and current portion of long-term borrowings | (62) | (62) | (671) | (671) |
| Long-term borrowings excluding current portion | (48) | (48) | (60) | (60) |
| Cash at bank and in hand | 2,025 | 2025 | 600 | 600 |
| Debtors due after more than one year | 32 | 32 | 20 | 20 |

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 2004 was:

| Currency | 2004 | | | 2003 | | |
|----------|----------------|--|---|----------------|--|---|
| | 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 | 110 | - | 110 | 731 | 600 | 131 |

Fixed rate financial liabilities have a weighted average interest rate of 3.6% (2003- 3.4%) which is fixed for a weighted average period of 2 years (2003- 1 year)

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

| | 2004 £'000 | 2003 £'000 |
|--|---------------|---------------|
| Sterling - cash | 2,025 | 600 |
| - long term debt | 32 | 20 |
| | <u>2,057</u> | <u>620</u> |
| Floating rate Non-interest bearing (maturing 1-2 years) | 2,025 | 600 |
| | 32 | 20 |
| | <u>2,057</u> | <u>620</u> |

Borrowing facilities

The Group had various undrawn committed facilities. The facilities available at 31 December 2004, in respect of which all conditions precedent had been met were as follows:

| | 2004 £'000 | 2003 £'000 |
|------------------------------|---------------|---------------|
| Expiring in one year or less | 1,250 | 1,900 |

Since the year end this facility has been agreed at £1,500,000 and is subject to review on 28 February 2006. The company has a sterling denominated intercompany balance of £21,583 (2003- £137,987) which resides in a Euro denominated subsidiary.

26. Related Party Transactions

During the year the Company paid £200,000 each to two Directors, P Wardle and W P Taylor, in full settlement of unsecured loans. Interest was payable quarterly at the same rate as that currently charged to the Company by Barclays Bank Plc and amounted to £15,000 (2003 - £26,000).



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