



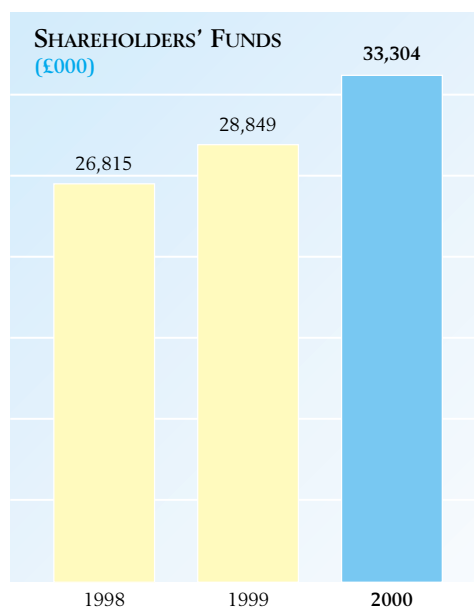
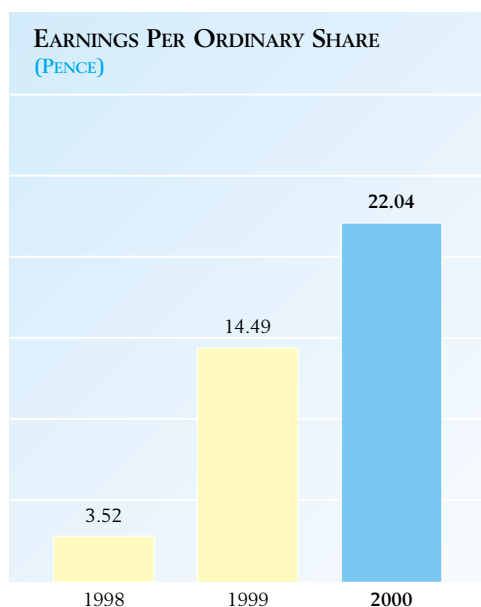
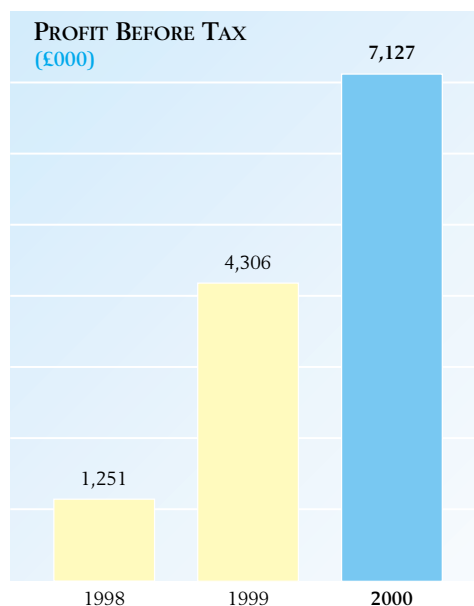
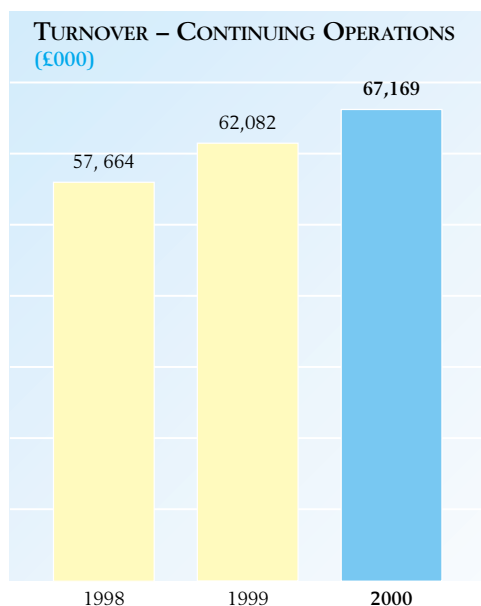
# CHEMRING GROUP PLC

FINANCIAL STATEMENTS 2000





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These figures are derived from the Group's audited accounts for the years ended 31 October 2000 and 31 October 1999, and for the thirteen month period ended 31 October 1998.



## SUMMARY FINANCIAL INFORMATION

for the year ended 31 October 2000

	<i>Audited</i> <i>Year</i> <i>ended</i> <i>31 Oct 2000</i> <i>£000</i>	<i>Unaudited</i> <i>6 month</i> <i>period ended</i> <i>28 April 2000</i> <i>£000</i>	<i>Audited</i> <i>Year</i> <i>ended</i> <i>31 Oct 1999</i> <i>£000</i>
<b>Turnover: Continuing operations</b>			
<b>Defence</b>			
Countermeasures	28,538	11,311	25,180
Military pyrotechnics and explosives	11,169	4,535	10,616
	<u>39,707</u>	<u>15,846</u>	<u>35,796</u>
<b>Non-defence</b>			
Marine safety	17,700	8,522	16,765
Wiring harnesses	7,608	3,968	7,197
Chemical coatings	2,154	1,204	2,324
	<u>27,462</u>	<u>13,694</u>	<u>26,286</u>
	67,169	29,540	62,082
<b>Turnover: Discontinued operations</b>	<u>–</u>	<u>–</u>	<u>3,316</u>
	67,169	29,540	65,398
<b>Operating profit/(loss)</b>			
Continuing operations	8,806	4,011	7,766
Discontinued operations	–	–	(1,551)
<b>Profit before taxation</b>	7,127	3,223	4,306
<b>Dividend per ordinary share</b>	6.30p	2.30p	5.50p
<b>Basic earnings per ordinary share</b>	22.04p	10.02p	14.49p

I am delighted to inform shareholders of a further substantial improvement in Group profit before tax to £7,127,000 (1999: £4,306,000) and earnings per share of 22.04p (1999: 14.49p), increases of 65% and 52% respectively.

The year has seen major progress in the prospects of our two main businesses, Countermeasures and Marine Safety.

The acquisition of Kilgore in the US, announced today, will strengthen significantly our position as the world leader in supplying aircraft expendable decoys. Kilgore also manufactures a range of pyrotechnics that complements our existing Military Pyrotechnics activity.

## RESULTS

	<b>2000</b>	<b>1999</b>	<b>%</b>
	<b>£000</b>	<b>£000</b>	<b>Increase</b>
Operating profit	8,806	6,215	42
Profit before tax	7,127	4,306	65
Profit after tax	5,261	3,435	53
Earnings per share	22.04p	14.49p	52

Group interest and finance costs reduced by 14% to £1,709,000.

The Group has continued its major investment in research and development, particularly in the areas of Countermeasures and Marine Safety.

## BUSINESS ACTIVITIES

Chemring Countermeasures, Alloy Surfaces and Kilgore now make your Group the undisputed world leader in expendable countermeasure devices for air, naval and land based systems, an industry with high levels of growth projected for the immediate future. Chemring Countermeasures UK continued its excellent performance, where further growth of 29% for the year followed the total 31% growth achieved in the last year, producing earnings substantially in excess of expectations.

Alloy Surfaces' range of products continues to grow as demand from the US Department of Defense for our proprietary products increases, particularly in pre-emptive operational mode. There are also considerable export opportunities. However in the second half of the year, Alloy Surfaces experienced minor quality problems with one product line, the result of which was a major product rework to correct the defect. The impact of these problems was not only the cost of the rework, but disruption to the production programme during the second half, at a time when several new products were entering production. It is estimated that this disruption has cost in excess of US\$1 million in lost profit.

The acquisition of Kilgore will have a significant impact on our international Countermeasures capability, bringing to the Group additional annual sales in excess of US\$30 million and a range of products complementary to those produced by Alloy Surfaces, with considerable potential for exports.

Our Marine Safety business is an international market leader in this industry. The business consists of essentially two activities, the rapidly growing electronics business and the more mature marine pyrotechnics business. During the year, electronics growth was 20%, whilst pyrotechnics sales reduced, predominantly due to European competition and the impact of a weak Euro. The substantial research and development programme for our electronic products has already been highly successful and in January 2001 the business received a prestigious award for 'Marine Product of the Year' for

one of its new electronic products at the London Boat Show's nautical awards. The business is searching for acquisition opportunities, both to consolidate its position as the market leader and also to establish a more substantial base in the US market.

PW Defence, the Group's Military Pyrotechnics business, had a quiet first half whilst it consolidated the majority of its manufacturing operations on one site in Derby. However, the second half was very satisfactory, meeting our expectations for the year. Although this market is not a high growth area, the expectations for this year, when combined with the export potential from the complementary military activities of Kilgore, are good. The business continues to look for co-operation projects with other European manufacturers.

Kembrey Wiring Systems received the accolade from both BAE Systems and Rolls-Royce as a Centre of Excellence during the year, securing its future as a preferred sub-contractor for aircraft wiring systems. Unfortunately, this coincided with short term delays in production scheduling by both customers, resulting in a significant shortfall in workload, sales and full year results, turning the profit for the first half into a small loss for the full year. Predictions are that the coming year should return to more acceptable levels of profitability, with strong growth thereafter.

#### DIVIDENDS

An interim dividend for the year ended 31 October 2000 of 2.30p per ordinary share was paid on 16 August 2000. The directors recommend a final dividend of 4.00p per ordinary share to be paid on 10 April 2001, making a total for the year of 6.30p per ordinary share, up 15% on last year's total dividend of 5.50p.

#### EMPLOYEES

I would like to thank all our employees for another year of hard work and commitment to the Group.

#### PROSPECTS

The acquisition of Kilgore, announced today, enhances our foremost position in expendable countermeasures, a rapidly expanding area of worldwide defence expenditure. This, together with our technical superiority in certain "at risk" situations, gives us high levels of confidence for substantial growth in this industry.

In addition, the prospects for our Marine Safety and Military Pyrotechnics businesses, together with the recovery at Alloy Surfaces and return to acceptable profitability of Kembrey Wiring, gives your Board confidence that substantial growth can be achieved in the coming year and can be sustained for several years. We intend to strengthen the Group's organisation to ensure management resources keep pace with the growth in the business.

Your Group has an exciting future and I am determined that it will be delivered.



K C SCOBIE – Chairman

23 January 2001

The Group's activities are covered under the following headings:

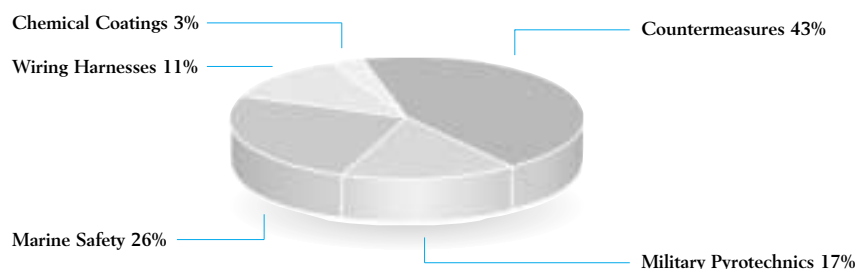
#### DEFENCE

<i>Countermeasures:</i>	Chemring Countermeasures, Alloy Surfaces, Kilgore, Pains Wessex Australia
<i>Military Pyrotechnics and Explosives:</i>	PW Defence, Pains Wessex Australia

#### NON-DEFENCE

<i>Marine Safety:</i>	McMurdo Marine, Pains Wessex Safety Systems, Nova Marine
<i>Wiring Harnesses:</i>	Kembrey Wiring Systems
<i>Chemical Coatings:</i>	Alloy Surfaces

TURNOVER BY BUSINESS AREA for the year ended 31 October 2000



#### DEFENCE BUSINESSES

It was a good year for our defence businesses where further growth in both sales and order book was achieved. Turnover in defence activities improved by 11% to £39.7 million. The policy of investing in new products resulted in several important new defence products entering into the production phase during the year, increasing our product range and underpinning the expected continued organic growth in defence activities. The year ended with a healthy order book of £38 million, up £12 million on 1999.

##### • COUNTERMEASURES

The Group is recognised as an international market leader in the development and manufacture of expendable countermeasures to protect valuable military platform, with operations in the US, the UK and Australia. It continues to develop new products and new markets to maintain its leading position.

Turnover increased by 13% to £28.5 million for the year, and the order book increased by 65% over the year to £25.2 million.

The acquisition of Kilgore, the leading US IR decoy manufacturer, was also announced today. Kilgore, based in Toone, Tennessee, is the largest supplier of conventional IR decoys to the US Government and exports 30% of its turnover. The product range of this business, along with the complementary products of our other UK and US countermeasure activities, further enhances our position and strengthens considerably the Group's IR air decoy capability worldwide. Kilgore has recently been awarded a development IR decoy contract for the US F22 aircraft.

For aircraft countermeasures in the US, the Group is now the leading supplier to the US Department of Defense of IR decoy flares, providing both conventional and special materials decoys (SMDs). The Group is prime contractor to the UK MoD for its current range of IR flares and RF chaff decoys, and exports its range of products worldwide.

Alloy Surfaces' range of products continues to grow as the demand for its proprietary products increases, particularly in pre-emptive operational mode. Alloy's unique IR material features in several advanced IR expendable countermeasure programmes in the US. Production deliveries commenced on the Advanced Strategic and Tactical Expendables (ASTE) programme, where Alloy is the sole source supplier of two out of the family of four flares.

As a consequence of the number of new products entering production in the year, Alloy Surfaces experienced problems in ramping up its production facilities. The production management has now been significantly strengthened, and investment has been made in equipment and people to ensure that the production facility meets its future output targets.



Alloy currently provides special material decoys (SMDs) for Naval helicopters and has also developed a product for US Army helicopters. This will commence series production in 2001, when the Advanced Threat IR Countermeasures (ATIRCM), which combine missile warning with directable IR countermeasures in a single package, enter service.

The use of Alloy's SMDs in pre-emptive mode is attracting increasing interest. This pre-emptive capability has already been demonstrated by the BOL dispenser and in tests with a Raytheon ALE 50 towed decoy containing Alloy's special material. A feasibility study for a pod mounted pre-emptive SMD is underway and we anticipate a growing demand for these types of products, which significantly improve aircraft survival when operating in 'front line' scenarios.

The UK business, Chemring Countermeasures ("CCM"), provides decoys to Tornado aircraft users, which include the UK, Germany, Italy and Saudi Arabia, and is also the developer of the chaff and flare decoys for the European Fighter Aircraft 2000 (Typhoon).

New aircraft products which entered production this year included the MEB (Modular Expendable Block), which incorporates both flare and chaff materials to increase operational effectiveness on both fixed wing aircraft and helicopters. As well as significantly improving operational capabilities, the MEB also confers significant savings in logistic costs to the user. A version of the IR MEB has been selected for the Swiss Cougar programme, and the RF MEB version has already entered service in numerous NATO and non-NATO countries on C130, F16 and various helicopters, including the GKN Westland's WH64 Apache.

In naval countermeasures, development of the MK36 130mm naval IR round and innovative proprietary combined MK36 compatible 130mm RF/IR rounds is complete, and the products are in the process of final acceptance trials ahead of deliveries to the UK MoD and Danish customers. CCM is the only company worldwide that can offer the full range of passive IR and RF decoys for the MK36 decoy launcher, which is standard in most NATO navies.

This has been another good year for our Countermeasures business with both orders and sales reaching record highs, and significant opportunities for further increases. Investment will continue in both facilities and R&D to ensure the Group maintains its market position and capitalises on the increasing need to protect valuable military platform.

#### • MILITARY PYROTECHNICS AND EXPLOSIVES

PW Defence is a leading supplier to the UK MoD and an international market leader for its range of specialist pyrotechnic and explosive products used in training and other non-offensive activities.

Turnover in the year increased by 5% to £11.2 million. During the year, the manufacture of military pyrotechnics was concentrated at the production facilities in Derby. At the year end, the order book had increased by 22% to £13 million.

In the domestic market the UK MoD continues to be the major customer. PW Defence again won the majority share of this business and has a number of long-term contracts with this customer for the supply of a variety of training pyrotechnics. The announcement by the MoD that they wish companies to participate in SMART procurement is seen as an opportunity to participate in discussions with MoD.

Export orders increased on last year and at the year end the company had an order book providing nearly 12 months' sales cover. PW Defence has held its international market share and we continue to explore collaboration initiatives particularly in Europe, exploring closer working relationships with our industry participants, to position us for possible European-led defence procurement programmes.

North America is a difficult market to penetrate from overseas but initial orders have been received direct from the US DoD for some of the company's specialised defence pyrotechnics. The acquisition of Kilgore provides a better opportunity to market PW Defence products in the US and for PW Defence to market Kilgore's products overseas. This relationship has existed on an arms length basis for a number of years and the acquisition will enable the product range for both parties to grow.

Pains Wessex Australia's military turnover was at a similar level to last year's high, in support of the Australian government strategy to encourage in-country industrial capability.

## NON-DEFENCE BUSINESSES

### • MARINE SAFETY

The Group is a market leader in providing legislated marine safety products to aid location and rescue, including pyrotechnics, electronic location beacons, location lights and VHF radios.

The business is primarily driven by global legislation set by the International Maritime Organisation (IMO) under its Safety of Life at Sea (SOLAS) convention. This mandates the carrying of pyrotechnic products and marine safety lights. Electronic products in support of the legislated Global Maritime Distress and Safety System (GMDSS) include 406 EPIRBs, SARTs and portable VHF radios.

Turnover increased by 6% to £17.7 million, with electronic sales increasing by 20%, offsetting a reduction in sales of pyrotechnics into Europe, which were affected by the weakness of the Euro. The emphasis on innovative, low cost products, has helped to improve margins for the business, resulting in increased overall operating profitability.

New electronics products will drive the growth of our Marine Safety business. Our continuing development of 406MHz technology has provided an EPIRB with integral Global Positioning Systems (GPS), which has already won a prestigious award for innovation and now has two further award nominations. This is the smallest and most technically advanced GPS EPIRB in the world and makes use of combining two of the world's leading satellite systems to ensure that rescue services can be alerted with an accurate location within three minutes, typically to within 30 metres.

Additional 406MHz technology products currently in development, which will provide access to further new market areas include Personal Location Beacons (PLBs) for land use and Emergency Location Transmitters (ELTs) for aviation use, as legislation is introduced in these areas. Sales are expected to increase significantly in these areas following the recent announcement by Cospas-Sarsat that satellite processing on 121.5 and 243 MHz is to be terminated. This will move all product sales to 406 MHz beacons.

Forthcoming legislation, both internationally from the IMO and from within the European Union, will further expand our market opportunities. This includes new fishing vessel safety requirements within the EU and additional safety measures, such as voyage data recorders and automatic identification systems.

### • WIRING HARNESSES

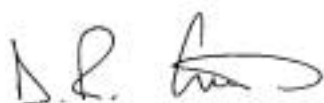
Kembrey Wiring Systems ("Kembrey") is one of the largest UK manufacturers of high specification cable harnesses for the aerospace industry. It has an excellent reputation for supplying quality wiring systems to manufacturers of aircraft and aircraft engines.

Kembrey has established 'Strategic Partnership' status with its major customers, including Rolls-Royce, BAE Systems and Hurel Dubois. These relationships help secure the long-term future of the business.

In support of BAE Systems, the Hawk programme was completed on time and we achieved 'world class' status on the Tornado update programme. However, delays in commencing activity on the Nimrod programme held overall turnover to a similar level as last year. Engineering support to the Nimrod programme has commenced.

### • CHEMICAL COATINGS

Alloy Surfaces has a niche market in supplying special chemicals to the aerospace sector for use in diffusion coating of engine components and demand is expected to continue at current levels.



D R EVANS – Chief Executive

23 January 2001

## OPERATING RESULTS

Group turnover for continuing operations grew by 8% to £67,169,000 (1999: £62,082,000).

The continued introduction of lower cost products and the consolidation of the Military Pyrotechnics business into the Derby site contributed an improvement in gross profits of 11% to £19,005,000 (1999: £17,097,000). Gross profit margins increased to 28% (1999: 27%).

Total overheads have been well controlled in the year and represent 15% of sales (1999: 15%). £2,622,000 was expended on research and development activities during the year.

Operating margins continued to improve and were at 13% for 2000 (1999: 12%).

There were no losses on discontinued businesses in the year (1999: £1,551,000 loss).

## INTEREST

The interest charge for the year was £1,709,000 (1999: £1,979,000). Interest cover generated by continuing operations was 5.2 times (1999: 3.9 times).

## TAXATION

The tax charge of £1,866,000 is at an effective rate of 26%, which represents tax arising on overseas operations and a reduced charge on the UK operations, due to the utilisation of brought forward tax losses. Next year it is anticipated that the tax rate will increase to around 31%.

## SHAREHOLDER RETURNS

Basic earnings per ordinary share increased to 22.04p (1999: 14.49p).

The dividend per ordinary share of 6.30p (1999: 5.50p) is covered 3.48 times (1999: 2.63 times).

Post tax return on capital employed was 15.8% (1999: 11.9%)

## GOODWILL

Goodwill of £18.3 million arose in previous years on acquisitions made in the Countermeasures, Marine Safety and Military Pyrotechnics businesses. The Board has carried out an annual impairment test that has demonstrated that no amortisation is necessary on the constituent parts of the goodwill balance.

## CASH FLOW AND GEARING

Operating cash flow was £7,937,000 (1999: £5,340,000), representing a conversion rate to operating profit of 90% (1999: 86%).

The sharp increase in stock levels is attributable to the production costs associated with the manufacture of naval rounds in our Countermeasures business. After offsetting contract advance payments, net stock in relation to the naval rounds is approximately £1.9 million. These naval rounds are anticipated to be sold in the first half of the current financial year. Stock levels at Alloy Surfaces increased in support of future business.

Capital expenditure on tangible assets and development costs of £3,139,000 (1999: £2,842,000) in support of continued growth was financed through cash flow and leasing.

Net debt stood at £20,118,000 at the year end (1999: £20,681,000). Gearing was 60% (1999: 72%).

#### POST BALANCE SHEET EVENTS AND FUNDING

The acquisition of Alliant Kilgore Flares Company LLC (“Kilgore”) for US\$23 million is to be financed as follows:

	<i>US\$m</i>
Issue of 1,200,000 new ordinary shares	5.2
Balancing cash payment	17.8
Consideration	<u>23.0</u>

The consideration will be subject to adjustment depending on the audited net assets of Kilgore at completion.

In order to finance the acquisition and provide working capital for the Group, total new facilities of £38.5 million have been agreed with The Royal Bank of Scotland plc, supported by the Bank of Scotland.

Facilities of US\$8.2 million are in place with Wilmington Trust and the Pennsylvania Industrial Development Authority, to provide funding for Alloy Surfaces.

Facilities of A\$1.4 million exist to provide funding for Pains Wessex Australia.

The Board has reviewed the latest guidance on going concern and considers the above facilities provide the Group with sufficient resources.

#### NEW ACCOUNTING DEVELOPMENTS

The following accounting standards have been adopted in the year and the financial information amended as appropriate:

- FRS15      Tangible Fixed Assets.
- FRS16      Current Tax.



P A RAYNER – Finance Director

23 January 2001



## DIRECTORS AND PROFESSIONAL ADVISERS

### NON-EXECUTIVE CHAIRMAN

**Kenneth C Scobie**

### EXECUTIVE DIRECTORS

**David R Evans**

Chief Executive

**Paul A Rayner FCA**

Finance Director

### NON-EXECUTIVE DIRECTORS

**Peter J Molony**

**General Sir John Stibbon KCB OBE**

Chairman: ITT Defence Ltd

### PROFESSIONAL ADVISERS

#### AUDITORS

Deloitte & Touche, Southampton

#### SOLICITORS

Ashurst Morris Crisp, London

Bond Pearce, Southampton

#### BANKERS

National Westminster Bank Plc, Portsmouth

#### FINANCIAL ADVISERS

Hawkpoint Partners Ltd, London

#### STOCKBROKERS

CSFB de Zoete & Bevan Ltd, London

#### SECRETARY

Sarah Ellard ACIS

### HEADQUARTERS AND REGISTERED OFFICE

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Hampshire PO15 7AH, England

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Fax: +44 1489 881123

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### REGISTRATION NUMBER

86662

### REGISTRARS

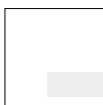
Computershare Services plc

7th Floor, Jupiter House

Triton Court

14 Finsbury Square

London EC2A 1BR



## DIRECTORS' REPORT

for the year ended 31 October 2000

Your directors present the financial statements of the Group for the year ended 31 October 2000.

### PRINCIPAL ACTIVITIES

The principal activities of the Group are the design and manufacture of a range of electronic, engineering and chemical products for use in the military, marine, aerospace and industrial fields.

### REVIEW OF THE YEAR AND RESULTS

A review of the year can be found in the Chairman's Statement, the Chief Executive's Review and the Finance Director's Review on pages 4 to 10.

### DIVIDENDS

The directors recommend a final dividend of 4.00p per ordinary share, which together with the interim dividend of 2.30p per ordinary share paid in August 2000, gives a total for the year of 6.30p (1999: 5.50p).

### DIRECTORS

The present directors are shown on page 11.

Mr K C Scobie will be retiring by rotation at the forthcoming Annual General Meeting and will be offering himself for re-election. Details of Mr Scobie's service contract with the Company are set out in the Report of the Remuneration Committee on page 19.

None of the directors had a beneficial interest in any contract of significance to which the Group was a party during the year to 31 October 2000.

Information required as to directors' shareholdings is set out in the Report of the Remuneration Committee.

### EMPLOYEES

The Group pursues a policy of employee communication through meetings (including team briefings and works councils) and house magazines by which employees are made aware of the progress of the Group and the companies in which they work.

The Group employs disabled persons wherever circumstances permit, and full and fair consideration is given to applications for employment by disabled persons having regard to their particular aptitudes and disabilities.

### CHARITABLE AND POLITICAL DONATIONS

Charitable donations amounting to £1,000 were made during the year. No political donations were made during the year.

### SUBSTANTIAL SHAREHOLDINGS

At 22 January 2001 the following interests in the ordinary share capital of the Company exceeding 3% had been notified to the Company under the provisions of section 198 of the Companies Act 1985:

<i>Name</i>	<i>% Interest</i>
Prudential plc	22.8
Deutsche Bank AG	14.1
Lazards Asset Management	3.8
Norwich Union plc	3.8

### THE CHEMRING GROUP SHARE OPTION SCHEME

No options were granted in the year to 31 October 2000. During the year options on 26,400 shares were exercised. Additional information is set out in Note 20.

### THE CHEMRING 1998 EXECUTIVE SHARE OPTION SCHEME

On 3 February 2000, options were granted over 280,000 ordinary shares to 6 directors and senior employees of the Group. During the year options on 193,370 shares were exercised and options on 10,000 shares lapsed. Additional information is set out in Note 20.

### THE CHEMRING GROUP SHARESAVE SCHEME

No options were granted in the year to 31 October 2000. During the year options on 14,702 shares lapsed. Additional information is set out in Note 20.

### THE CHEMRING GROUP PLC SHARE BASED INCENTIVE SCHEME ("THE ESOP")

No options were granted in the year to 31 October 2000. During the year options on 1,041 shares were exercised and options on 2,082 shares lapsed. 2,082 shares were gifted by the Trustees of the ESOP during the year. Additional information is set out in Note 20.

### SHARE CAPITAL

Your Board has decided to seek shareholders' approval to an increase in the Company's authorised share capital by the creation of 3,000,000 new ordinary shares of 5p each. The purpose of this proposal is to ensure that the Board will have sufficient authorised share capital available to issue shares on the exercise of options under the Company's various share option schemes, and if the need should arise, to issue shares as part of the consideration for any future acquisitions.

Under the provisions of section 80 of the Companies Act 1985 ("the Act") the Board is prevented from exercising its powers under the Articles of Association ("the Articles") to allot shares without an authority in terms of the Act contained either in the Articles or in a resolution of the shareholders in general meeting. The authority, when given, can last for a maximum period of five years, but your Board proposes that renewal should be sought at each Annual General Meeting. Such proposal is set out as resolution 6 in the Notice of Meeting.

Section 89 of the Act requires that an allotment of shares for cash may not be made unless the shares are first offered to existing shareholders on a pre-emptive basis in accordance with the terms of the Act. In accordance with general practice, to ensure that small issues of shares can be made without the necessity of convening a general meeting, your Board proposes that advantage be taken of the provisions of section 95 of the Act to disapply the Act's pre-emptive requirements. Accordingly, a special resolution (set out as resolution 7 in the Notice of Meeting) will be proposed which, if passed, will have the effect of granting the directors the power to allot not more than 5% of the present issued ordinary share capital free of the requirements of section 89 of the Act. No issue of these shares will be made which would effectively alter the control of the Company without prior approval of the shareholders in general meeting.

#### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Act 1985 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 as at the end of the financial year and of the Group's profit or loss for that period. It is also the directors' responsibility to maintain adequate accounting records which disclose with reasonable accuracy the financial position of the Company and the Group, safeguard the assets of the Company and the Group, and prevent and detect fraud and other irregularities, and prepare the financial statements on a going concern basis.

The directors confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements, and that applicable accounting standards have been followed.

#### POLICY ON PAYMENT OF SUPPLIERS

It is the policy of the Group that each of the Group companies should agree appropriate terms and conditions for its transactions with suppliers. These will range from standard written terms to individually negotiated contracts. Payments are then made in accordance with these terms and conditions, provided that the supplier has accorded with them. Creditor days as at 31 October 2000 amounted to 79 days (1999: 69 days).

#### CLOSE COMPANY PROVISIONS

As far as the directors are aware, the close company provisions of the Taxes Acts do not apply to the Group nor has there been any change in that respect since 31 October 2000.

#### AUDITORS

A resolution to re-appoint Deloitte & Touche as auditors will be proposed at the Annual General Meeting.

Approved by the Board of Directors on 23 January 2001.

Signed on behalf of the Board

S L ELLARD – Secretary



## REPORT OF THE REMUNERATION COMMITTEE

for the year ended 31 October 2000

The Remuneration Committee presents its report on behalf of the Board. The Committee comprises the three non-executive directors and is chaired by Mr K C Scobie. The Committee determines the remuneration packages of the executive directors and also reviews remuneration packages for senior management. Fees for the non-executive directors are determined annually by the Board.

### REMUNERATION POLICY

It is the Company's policy to provide remuneration packages which are competitive by reference to market rates and which take into account the individual contribution and performance of each executive director. Remuneration packages comprise the following elements:

- (i) basic salary and benefits;
- (ii) annual bonuses linked to Group performance; and
- (iii) awards of share options linked to long-term growth of the Group.

The performance-related elements of the bonuses and share options are intended to align the interests of executive directors with those of shareholders.

### DIRECTORS' EMOLUMENTS

The emoluments of all the directors who served during the year are shown below:

	Salaries and fees		Cash bonuses paid		Compensation for loss of office		Taxable benefits		Total	
	Year ended 31 Oct 2000 £000	Year ended 31 Oct 1999 £000	Year ended 31 Oct 2000 £000	Year ended 31 Oct 1999 £000	Year ended 31 Oct 2000 £000	Year ended 31 Oct 1999 £000	Year ended 31 Oct 2000 £000	Year ended 31 Oct 1999 £000	Year ended 31 Oct 2000 £000	Year ended 31 Oct 1999 £000
<b>Executives</b>										
D R Evans	171	153	–	25	–	–	17	16	188	194
R J Gibbs										
(resigned 20 Aug 1999)	–	82	–	–	–	142	–	8	–	232
P A Rayner										
(appointed 20 Aug 1999)	79	12	–	2	–	–	11	1	90	15
<b>Non-executives</b>										
P J Molony	20	42	–	25	–	–	–	–	20	67
K C Scobie	56	56	–	–	–	–	–	–	56	56
J Stibbon	20	25	–	–	–	–	1	1	21	26
<b>Total remuneration</b>	<b>346</b>	<b>370</b>	<b>–</b>	<b>52</b>	<b>–</b>	<b>142</b>	<b>29</b>	<b>26</b>	<b>375</b>	<b>590</b>

Amounts shown above in the salaries and fees column relate to basic salary in the case of executive directors and fees in the case of non-executive directors. Mr Molony's prior year remuneration includes payment for his services as Chief Executive up to 31 January 1999.

Mr Scobie's remuneration includes payments to his company, K C Scobie Limited, in respect of his consultancy services. In addition to the remuneration shown above, Mr Scobie has a long term incentive scheme, details of which are given on page 19, in respect of which the Group had accrued £287,000 as at 31 October 2000.

The main taxable benefits for directors are company cars, fuel for private motoring, and private medical insurance.

## PENSIONS

Mr Evans and Mr Rayner are members of The Chemring Group Executive Pension Scheme. This is a non-contributory scheme, to which the Company makes contributions at the rate advised by the scheme actuary. Contributions paid by the Company in respect of the directors for the years ended 31 October 2000 and 31 October 1999 respectively are shown below. Mr Gibbs became a deferred member of the scheme on 20 August 1999.

	<i>Year ended 31 Oct 2000 £000</i>	<i>Year ended 31 Oct 1999 £000</i>
D R Evans	46	41
R J Gibbs	–	21
P A Rayner	20	3
	<u>66</u>	<u>65</u>

Pension benefits earned by the executive directors during the year were as follows:

	<i>Increase/(decrease) in accrued benefit (excluding inflation)</i>		<i>Transfer value of increase in accrued benefit (excluding inflation)</i>
	<i>Pension</i>	<i>Cash sum</i>	
D R Evans	£14,183 pa	£(79,418) <sup>1</sup>	£95,566
P A Rayner	£1,574 pa	£4,721	£12,998

<sup>1</sup>The split of Mr Evans' benefits under the scheme was redefined during the year to reflect the Inland Revenue cap on the cash sum permitted to be paid to him. Excess cash was converted into pension, and the accrued cash sum decreased accordingly.

The Chemring Group Executive Pension Scheme provides a pension of up to two-thirds of basic salary on retirement dependent upon service. The scheme also provides life assurance cover, dependants' pensions and lump sum payments on death in service.

The basic salaries of the executive directors are pensionable; bonuses are not pensionable. The non-executive directors' remuneration is not pensionable.

## DIRECTORS' SHARE INTERESTS

The interests of the directors in the ordinary shares of the Company at 1 November 1999 and 31 October 2000 are shown below. All are beneficial holdings.

	<i>2000 Number</i>	<i>1999 Number</i>
D R Evans	20,644	20,644
P J Molony	–	–
P A Rayner	2,500	1,000
K C Scobie	100,000	100,000
J Stibbon	–	–

No movements have taken place between 31 October 2000 and 23 January 2001.

In addition to the interests detailed above, by virtue of section 324 of the Companies Act 1985, all the executive directors are technically deemed to be interested in all of the shares held by the Trustee of the Chemring Group ESOP.

## SHARE OPTIONS

The holdings by the directors of options over ordinary shares in the Company at 1 November 1999 and 31 October 2000 are shown below.

		At 1 Nov 1999	Number of share options			At 31 Oct 2000	Exercise price (p)	Market price at date of exercise (p)	Date from which exercisable	Expiry date
			Granted during the year	Lapsed during the year	Exercised during the year					
D R Evans										
ESOP	B	3,472	–	–	–	3,472	0	–	5 Apr 1995	5 Apr 2002
	A	6,944	–	–	–	6,944	330	–	5 Apr 1998 <sup>1</sup>	5 Apr 2005
	B	3,085	–	–	–	3,085	0	–	26 Feb 1996	26 Feb 2003
	C	6,170	–	–	–	6,170	0	–	26 Feb 1999 <sup>2</sup>	26 Feb 2003
1998 Executive Scheme	191,182	–	–	–	191,182	139.5	–	6 Apr 2001	5 Apr 2008	
	–	100,000	–	–	100,000	236	–	3 Feb 2003	2 Feb 2010	
P A Rayner										
Sharesave Scheme	1,138	–	–	–	1,138	303	–	1 Aug 2000	31 Jan 2001	
1998 Executive Scheme	30,000	–	–	–	30,000	139.5	–	6 Apr 2001	5 Apr 2008	
	–	50,000	–	–	50,000	236	–	3 Feb 2003	2 Feb 2010	

<sup>1</sup>From 5 Apr 1998 - 4 Apr 2000, only 50% of the option may be exercised; thereafter 100% of the option may be exercised; provided, in both cases, that the B option granted on the same day has not already been exercised.

<sup>2</sup>From 26 Feb 1999 - 25 Feb 2001, only 50% of the option may be exercised; thereafter 100% of the option may be exercised; provided, in both cases, that the B option granted on the same day has not already been exercised.

The market price of the ordinary shares at 31 October 2000 was 281.5p. During the year, the ordinary shares traded within the range 167.5p to 310p.

The Chemring Group Sharesave Scheme (“the Sharesave Scheme”) is an approved all-employee savings-related scheme.

Options under The Chemring 1998 Executive Share Option Scheme (“the 1998 Executive Scheme”) were granted to Mr Evans and Mr Rayner on 6 April 1998 and 3 February 2000, as detailed above. The options were issued subject to a performance condition which provides that options may not normally be exercised unless the growth in the Company’s earnings per share at least matches the growth in RPI over a consecutive three year period by 9% (ie 3% per annum); for the purposes of the options granted on 6 April 1998, the Remuneration Committee has set the base earnings per share figure at 10.0p for the financial year ended 30 September 1997. Participation in the 1998 Executive Scheme is extended to senior management of the Group, who were also awarded options on 6 April 1998 and 3 February 2000. Future grants of options under the 1998 Executive Scheme will be phased over a period of time and will be subject to appropriate performance conditions, in order to provide genuine long term incentives for participants.

The Company also operates The Chemring Group PLC Share Based Incentive Scheme, known as “the ESOP”. Historically, executives have been invited to participate in the scheme, on the recommendation of the Remuneration Committee, by deferring between 35% and 100% of their annual profit-related bonus. In consideration of deferring this amount, the executive is granted an immediately exercisable, nil cost option over a quantity of ordinary shares in the Company. The number of options granted is calculated by dividing the amount of deferred bonus by the then current market price of the ordinary shares. At the same time, the executive is also conditionally granted further nil cost “matching” options of twice this number of options. Providing the executive remains with the Company for three years, he may exercise half of the matching options. The remaining half of the matching options may only be exercised by the executive after completing five years’ service. All options are granted over issued shares held by the Trustee of an ESOP established by the Company. No new options have been granted under the ESOP since 13 January 1997.

The non-executive directors do not normally participate in the Company’s share option schemes. However, a long term incentive scheme, known as The Chemring Group Phantom Share Option Scheme, was established in 1997 to secure the appointment of Mr Scobie as Chairman of the Board at a difficult time when the Group was undergoing a fundamental reorganisation. Mr Scobie, who will be the only participant in the scheme, acquired a contractual entitlement on his appointment to the grant of phantom options over 141,025 ordinary shares in the Company at a notional exercise price of 78p per share. On exercise of the phantom options three years after the date of grant, Mr Scobie will be entitled to a cash payment from the Company equivalent to the difference between the then current market value of the ordinary shares less the total exercise price. The scheme has a performance condition linked to growth in earnings per share, which must be greater than RPI for a three year period prior to exercise. It is not envisaged that any further awards will be made under this scheme.

#### SERVICE CONTRACTS

The service contracts of Mr Evans and Mr Rayner provide for termination by the Company on two years' and twelve months' notice respectively. The Remuneration Committee believes the respective notice periods to be appropriate and in line with the requirements of the Company.

#### NON-EXECUTIVE DIRECTORS

Mr Scobie has a contract with the Company terminable on twelve months' notice by either party. His remuneration under the contract, part of which is paid to his company for consultancy services, is £55,000 per annum for 50 days' service. Additional services are paid for at the rate of £1,000 per day.

Mr Molony and General Sir John Stibbon do not have service contracts with the Company.

On behalf of the Remuneration Committee

K C SCOBIE – Chairman of the Remuneration Committee

23 January 2001

This statement sets out how the Company has applied the fourteen principles of good governance set out in Part 1 of the Combined Code, and whether or not the Company has complied throughout its accounting period with the provisions set out in Part 2 of the Combined Code.

## APPLICATION OF THE PRINCIPLES OF THE COMBINED CODE

### THE BOARD OF DIRECTORS

The Board currently comprises two executive and three non-executive directors. The Board, which meets formally at least ten times a year, approves the Group's long-term goals and strategies and provides overall financial and organisational control. Matters specifically reserved to the Board include acquisitions and disposals, financing, major capital expenditure and approval of annual budgets.

All directors are entitled to take independent advice in furtherance of their duties at the Company's expense if the need should arise, and each director has full access to the advice and services of the Company Secretary. The Company meets the cost of appropriate training for directors and newly-appointed directors are provided with detailed information on their duties and responsibilities.

The Company separates the roles of Chairman and Chief Executive in accordance with the recommendations of the Combined Code. The Combined Code requires that the majority of non-executive directors should be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The Board believes that all three non-executive directors currently satisfy these requirements.

The non-executive directors perform an essential role in safeguarding shareholders' interests by monitoring the Group's performance and its executive management. In addition to participating in Board meetings, they are the members of the standing committees set up to deal with audit and the remuneration of executive directors and senior management. The Board is satisfied that the present balance of executive and non-executive influence which exists is appropriate for the Company, taking into account its size and status.

### DIRECTORS' REMUNERATION

Details of the Company's policy on directors' remuneration are set out in the Report of the Remuneration Committee on pages 15 to 19.

### RELATIONS WITH SHAREHOLDERS

The Company encourages dialogue with institutional shareholders through regular briefing meetings and formal presentations following the release of interim and annual results. Communication with private investors is achieved largely through the medium of the Interim Report and the Financial Statements. In addition, all directors are available to take questions or address any concerns at the AGM and at other times of the year, and can be contacted via the Company's head office.

### FINANCIAL REPORTING

The Statement of Directors' Responsibilities in respect of the financial statements and accounting records maintained by the Company is set out on page 14.

## INTERNAL CONTROL

The Combined Code has introduced a requirement that the directors review the effectiveness of the Group's system of internal control at least annually. This extends the existing requirements in respect of internal financial controls to cover all controls including operational controls, compliance and risk management.

In September 1999, the Turnbull Committee published its "Internal Control: Guidance for Directors on the Combined Code" (the "Turnbull Guidance"), and the Board has familiarised itself with the recommendations set out therein. However, the Group has adopted the transitional approach for the internal control aspects of the Combined Code as set out in the letter from the London Stock Exchange to listed companies dated 27 September 1997. For the year ended 31 October 2000 the Board continues to report on internal financial controls pursuant to the guidance issued by the Rutteman Working Group in 1994 and is not reporting on non-financial internal controls.

The Board confirms that it has established procedures necessary to implement the Turnbull Guidance and expects to comply fully for the year ending 31 October 2001.

## INTERNAL FINANCIAL CONTROL

The Board is responsible for establishing and maintaining the Group's systems of internal financial control. The internal financial control systems are designed to meet the particular needs of the company concerned and the risks to which it is exposed, and by their nature can provide only reasonable and not absolute assurance against material misstatement or loss.

The directors have established the following key procedures in order to maintain effective internal financial control:

- The preparation of comprehensive annual budgets and three year plans by subsidiary companies, which must be approved by the Board
- Monthly management accounts reporting by subsidiaries, a summary of which is circulated to the Board each month
- A Group accounting manual providing guidance and policy statements
- Continuous review of operations by executive directors
- Regular reporting by subsidiaries on treasury, legal and insurance matters
- A stringent approval process for capital expenditure requests.

The Board has reviewed the effectiveness of the system of internal financial control as it operated during the year, and has taken account of material developments which have taken place since 31 October 2000.

## AUDIT COMMITTEE AND AUDITORS

The Company has an established Audit Committee, of which all three non-executive directors are members. The Audit Committee meets at least twice a year and operates within formal written terms of reference. Meetings are attended by the external auditors and the Finance Director by invitation. The Audit Committee considers matters relating to the interim and annual results, and also reviews internal and external audit requirements. The Audit Committee has considered the need for a dedicated internal audit function and has concluded that this function is adequately covered by existing procedures and controls at the present time.

#### COMPLIANCE WITH THE PROVISIONS OF THE COMBINED CODE

The directors confirm that the Company has complied throughout the year with the provisions of the Combined Code, with the following exceptions (references to the relevant sections of the Combined Code are given in brackets):

- The Board has not yet nominated a non-executive director as the Senior Independent Director. This requirement will be kept under review (A.2.1).
- In view of its size, the Board considers that the appointment of new directors should be a matter for consideration by the Board as a whole and accordingly a Nominations Committee has not been established (A.5.1).
- Mr Scobie's appointment as Non-Executive Chairman is not for a specified term; however, he is subject to retirement by rotation (A.6.1).
- The Company's Articles of Association provide that at each AGM one-third of the directors shall retire by rotation and new directors should offer themselves for re-election at the next AGM following their appointment. This is not strictly in line with the provisions of the Combined Code which require that directors should stand for re-election at intervals of no more than three years. The directors consider that the current arrangements adequately reflect the spirit of the Combined Code and do not propose making any change in this respect (A.6.2).
- Mr Evans has a service contract with a notice period in excess of one year, details of which are disclosed in the Report of the Remuneration Committee (B.1.7.).
- The Company has not previously indicated the level of proxies lodged on each resolution at the AGM. This practice was adopted as from the AGM held on 2 March 2000 (C.2.1).
- As permitted by the transitional rules of the UK Listing Authority, the Company has reported on its internal financial controls pursuant to the guidance issued by the Rutteman Working Group in 1994 and has not reported on non-financial internal controls (D.2.1).

#### GOING CONCERN

The directors have acknowledged the latest guidance on going concern and, after making appropriate enquiries, have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Approved by the Board of Directors on 23 January 2001.

Signed on behalf of the Board

S L ELLARD – Secretary





## AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

for the year ended 31 October 2000

### AUDITORS' REPORT TO THE MEMBERS OF CHEMRING GROUP PLC

We have audited the financial statements on pages 25 to 48 which have been prepared under the accounting policies set out on pages 32 to 34.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report, including as described on page 14, preparation of the financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the UK Listing Authority, and by our profession's ethical guidance.

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

We review whether the corporate governance statement on pages 20 to 22 reflects the compliance with the seven provisions of the Combined Code specified for our review by the UK Listing Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

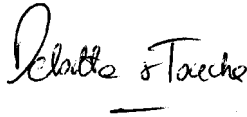
### BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 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 as at 31 October 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



DELOITTE & TOUCHE

Chartered Accountants and Registered Auditors

Southampton

23 January 2001

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 October 2000

Note	Year ended 31 Oct 2000		Year ended 31 Oct 1999	
	Total operations £000	Continuing operations £000	Discontinued operations £000	Total operations £000
2 Turnover	67,169	62,082	3,316	65,398
Cost of sales	(48,164)	(44,985)	(2,064)	(47,049)
Gross profit	19,005	17,097	1,252	18,349
Distribution costs	(2,693)	(2,648)	(149)	(2,797)
Administrative expenses	(7,506)	(6,683)	(2,654)	(9,337)
3 Operating profit/(loss)	8,806	7,766	(1,551)	6,215
Associated undertaking	30			70
Profit on ordinary activities before interest	8,836			6,285
7 Interest payable	(1,709)			(1,979)
Profit on ordinary activities before taxation	7,127			4,306
8 Tax on profit on ordinary activities	(1,866)			(871)
Profit on ordinary activities after taxation	5,261			3,435
9 Dividends	(1,511)			(1,308)
21 Retained profit	3,750			2,127
10 Basic earnings per ordinary share	22.04p			14.49p
10 Diluted earnings per ordinary share	21.19p			13.98p

## ADDITIONAL FINANCIAL PERFORMANCE STATEMENTS

for the year ended 31 October 2000

	<i>Year ended 31 Oct 2000 £000</i>	<i>Year ended 31 Oct 1999 £000</i>
<b>Statement of total recognised gains and losses</b>		
Profit on ordinary activities after taxation	5,261	3,435
Currency translation differences on foreign currency net investments	388	(118)
Total recognised gains and losses	<u>5,649</u>	<u>3,317</u>
<b>Reconciliation of movements in shareholders' funds</b>		
Profit on ordinary activities after taxation	5,261	3,435
Dividends	(1,511)	(1,308)
Retained profit	<u>3,750</u>	<u>2,127</u>
Other recognised profits/(losses)	388	(118)
Ordinary shares issued	11	1
Share premium arising	<u>306</u>	<u>24</u>
Net addition to shareholders' funds	<u>4,455</u>	<u>2,034</u>
Shareholders' funds at 1 November 1999	<u>28,849</u>	<u>26,815</u>
Shareholders' funds at 31 October 2000	<u>33,304</u>	<u>28,849</u>

## CONSOLIDATED BALANCE SHEET

as at 31 October 2000

Note	As at 31 Oct 2000		As at 31 Oct 1999	
	£000	£000	£000	£000
<b>Fixed assets</b>				
Intangible assets				
11 Development costs	1,002		549	
11 Goodwill	18,246		18,246	
		19,248		18,795
12 Tangible assets		19,199		17,219
13 Investments		883		880
		39,330		36,894
<b>Current assets</b>				
14 Stock	14,235		9,597	
15 Debtors	20,794		17,928	
Cash at bank and in hand	2,062		2,408	
	37,091		29,933	
16 Creditors due within one year	(25,760)		(20,449)	
<b>Net current assets</b>				
		11,331		9,484
<b>Total assets less current liabilities</b>				
		50,661		46,378
17 Creditors due after more than one year		(17,089)		(17,089)
19 Provisions for liabilities and charges		(268)		(440)
		33,304		28,849
<b>Capital and reserves</b>				
20 Called-up share capital		1,258		1,247
<b>Reserves</b>				
21 Share premium account	11,119		10,813	
21 Special capital reserve	12,939		12,939	
21 Revaluation reserve	2,554		2,590	
21 Revenue reserves	5,434		1,260	
		32,046		27,602
<b>Shareholders' funds</b>				
		33,304		28,849
<b>Attributable to equity shareholders</b>				
		33,242		28,787
<b>Attributable to non-equity shareholders</b>				
		62		62
		33,304		28,849

These financial statements were approved by the Board of Directors on 23 January 2001.

Signed on behalf of the Board

D R Evans

P A Rayner

## PARENT BALANCE SHEET

as at 31 October 2000

Note	As at 31 Oct 2000		As at 31 Oct 1999	
	£000	£000	£000	£000
<b>Fixed assets</b>				
12 Tangible assets		1,550		1,577
13 Investments		32,759		32,759
		<u>34,309</u>		<u>34,336</u>
<b>Current assets</b>				
15 Debtors	20,362		17,150	
Cash at bank and in hand	103		152	
	<u>20,465</u>		<u>17,302</u>	
16 Creditors due within one year	(13,441)		(13,397)	
<b>Net current assets</b>		<u>7,024</u>		<u>3,905</u>
<b>Total assets less current liabilities</b>		<u>41,333</u>		<u>38,241</u>
17 Creditors due after more than one year		(12,001)		(12,014)
		<u>29,332</u>		<u>26,227</u>
<b>Capital and reserves</b>				
20 Called-up share capital		1,258		1,247
<b>Reserves</b>				
21 Share premium account	11,119		10,813	
21 Special capital reserve	12,939		12,939	
21 Revenue reserves	<u>4,016</u>		<u>1,228</u>	
		<u>28,074</u>		<u>24,980</u>
<b>Shareholders' funds</b>		<u>29,332</u>		<u>26,227</u>
Attributable to equity shareholders		29,270		26,165
Attributable to non-equity shareholders		<u>62</u>		<u>62</u>
		<u>29,332</u>		<u>26,227</u>

These financial statements were approved by the Board of Directors on 23 January 2001.

Signed on behalf of the Board

D R Evans

P A Rayner

## CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 October 2000

Note	Year ended 31 Oct 2000		Year ended 31 Oct 1999	
	£000	£000	£000	£000
A Net cash inflow from operating activities		7,937		5,340
B Returns on investments and servicing of finance		(1,694)		(2,006)
Taxation		(881)		(495)
B Capital expenditure		(3,130)		(2,842)
B Acquisitions and disposals		–		2,813
Equity dividends paid		(1,380)		(1,186)
Cash inflow before use of liquid resources and financing		852		1,624
B Financing – issue of shares	317		25	
B – (decrease)/increase in debt	(884)		318	
		(567)		343
Increase in cash		285		1,967
Reconciliation of net cash flow to movement in net debt				
Increase in cash		285		1,967
Cash outflow/(inflow) from the (decrease)/increase in debt and lease financing		884		(318)
Change in net debt resulting from cash flows		1,169		1,649
New finance leases		(259)		–
Translation difference		(347)		49
Disposals		–		193
		563		1,891

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 October 2000

### A. RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	<i>Year ended 31 Oct 2000 £000</i>	<i>Year ended 31 Oct 1999 £000</i>
Operating profit	8,806	6,215
Amortisation charge	139	664
Depreciation charge	1,555	1,896
(Profit)/loss on sale of fixed assets	(68)	41
Increase in stocks	(4,638)	(13)
Increase in debtors	(3,517)	(3,241)
Increase/(decrease) in creditors	5,660	(222)
	<u>7,937</u>	<u>5,340</u>

### B. ANALYSIS OF CASH FLOWS

	<i>Year ended 31 Oct 2000 £000</i>	<i>Year ended 31 Oct 1999 £000</i>
<b>Returns on investments and servicing of finance</b>		
Interest paid	(1,710)	(2,024)
Preference dividend paid	(3)	(3)
Dividend from associate	19	21
	<u>(1,694)</u>	<u>(2,006)</u>
<b>Capital expenditure and financial investment</b>		
Purchase of intangible fixed assets	(585)	(621)
Purchase of tangible fixed assets	(2,687)	(2,700)
Sale of tangible fixed assets	142	479
	<u>(3,130)</u>	<u>(2,842)</u>
<b>Acquisitions and disposals</b>		
Disposals of subsidiary undertakings	-	3,019
Net cash disposed of with subsidiary undertakings	-	(206)
	<u>-</u>	<u>2,813</u>
<b>Financing</b>		
Issue of ordinary share capital	317	25
Capital elements of finance lease payments	(178)	(328)
Proceeds from sale and leaseback	-	145
Debt due beyond one year:		
- medium term loan overseas	(706)	501
	<u>(884)</u>	<u>318</u>
<b>Net cash (outflow)/inflow from financing</b>	<u>(567)</u>	<u>343</u>



## C. ANALYSIS OF NET DEBT

	<i>At</i> <i>1 Nov 1999</i> <i>£000</i>	<i>Cash flow</i> <i>£000</i>	<i>Other non-</i> <i>cash changes</i> <i>£000</i>	<i>Exchange</i> <i>movement</i> <i>£000</i>	<i>At</i> <i>31 Oct 2000</i> <i>£000</i>
Cash at bank and in hand	2,408	(688)	–	342	2,062
Overdrafts	(5,805)	973	–	–	(4,832)
	(3,397)	285	–	342	(2,770)
Debt due within one year	(44)	–	–	–	(44)
Debt due after one year	(16,906)	706	–	(689)	(16,889)
Finance leases	(334)	178	(259)	–	(415)
	(20,681)	1,169	(259)	(347)	(20,118)



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 October 2000

### 1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

#### Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of property.

#### Basis of consolidation

The financial statements consolidate those of the Parent with the Group's share of the results and post acquisition reserves of all its subsidiary and associated undertakings. All companies within the Group, including the associated undertaking, make up their financial statements to the same date. No profit and loss account is presented for the Parent as provided by section 230 of the Companies Act 1985.

#### Revenue recognition

Sales comprise the net value of deliveries made, work completed or services rendered during the year. Sales are recognised when title passes, or when production of goods has been completed in accordance with contract terms, inspection and quality procedures have been completed but goods await collection.

#### Intangible fixed assets

The purchased goodwill of the Group is regarded as having an indefinite useful economic life and in accordance with FRS10, is not amortised but is subject to annual tests for impairment. This represents a departure, for the purpose of giving a true and fair view, from the requirements of schedule 4:21 of the Companies Act 1985, which requires goodwill to be amortised. In the opinion of the Board, it is not possible to determine a finite useful economic life for goodwill arising, due to the inherent durability of the corporate profile in the countermeasures, military and marine industries, and the continued position of market leadership within these chosen business sectors. This is supported by the high profitability of these businesses. The complexities of the processes, technologies and regulatory barriers to entry support and corroborate this position. Since it is not possible to identify any finite useful economic life, it is not possible to quantify any amortisation which would be charged. In reviewing the carrying value of goodwill of the various businesses, the Board has considered the separate plans and cashflows of these businesses consistent with the requirements of FRS11, and is satisfied that these demonstrate that no impairment has occurred. Accordingly no charge for impairment is required.

Research, development, patent and licence costs are charged to the profit and loss account as incurred, except where a major project is undertaken and it is reasonably anticipated that costs will be recovered through future commercial activity. Such costs are written-off over the life of the project subject to a maximum of five years.

#### Tangible fixed assets

No depreciation is provided on freehold land. On other assets depreciation is provided at rates calculated to write down their cost or valuation to their estimated residual values by equal instalments over their estimated useful economic lives, which are considered to be:

- Freehold buildings – up to 50 years
- Leasehold buildings – the period of the lease
- Plant and equipment – up to 10 years

## 1. ACCOUNTING POLICIES – CONTINUED

### Fixed asset investments

Except as stated below, investments held as fixed assets are stated at cost less provision for impairment.

In the consolidated financial statements, shares in the associated undertaking are accounted for using the equity method of accounting. The consolidated profit and loss account includes the Group's share of the profit and attributable taxation of the associated undertaking. In the consolidated balance sheet, the shares in the associated undertaking are shown as the Group's share of net assets.

### Stock

Stocks are stated at the lower of cost and net realisable value. Raw materials are stated at their purchase price, while work in progress and finished goods comprise the cost of materials, labour and overheads applicable to the stage of production.

### Deferred taxation

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

### Special capital reserve

The special capital reserve was created as part of a capital reduction scheme involving the cancellation of the share premium account which was approved by the Court in 1986 and is in accordance with the requirements of the Companies Act 1985.

### Foreign currency

Transactions of the UK companies denominated in foreign currencies are translated into sterling at the rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

The financial statements of overseas subsidiary undertakings are translated into sterling at the closing rates of exchange and the difference arising from the translation of the opening net investment in subsidiary undertakings at the closing rate is taken directly to revenue reserves.

### Pensions

The Group operates defined benefit pension schemes which cover the majority of employees. The cost of providing pensions is estimated on the basis of independent actuarial advice and is charged to the profit and loss account over the expected service lives of the participating employees. The accounting policy follows the funding policy except where an actuarial valuation indicates a deficiency or surplus. Such deficiencies or surpluses are for funding purposes dealt with as advised by the actuary. For accounting purposes they are spread over the expected remaining service lives of the participating employees.

## 1. ACCOUNTING POLICIES – CONTINUED

### Leased assets

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over the shorter of the estimated useful economic life and the lease term. Future instalments under such leases, net of finance charges, are included in creditors. The finance element of the instalments is charged to the profit and loss account at a constant rate of charge on the remaining balance of the obligation.

All other leases are operating leases and the rental charges are taken to the profit and loss account on a straight line basis over the life of the lease.

## 2. ANALYSIS OF TURNOVER, PROFIT AND NET ASSETS

	<i>Year ended 31 Oct 2000</i>	<i>Continuing operations £000</i>	<i>Discontinued operations £000</i>	<i>Year ended 31 Oct 1999 Total operations £000</i>
<b>Turnover</b>				
UK	20,182	27,315	141	27,456
Overseas	46,987	34,767	3,175	37,942
<b>Total</b>	<b>67,169</b>	<b>62,082</b>	<b>3,316</b>	<b>65,398</b>

An analysis of turnover by business area is given on page 3. An analysis of profit and net assets has not been given since in the opinion of the directors this would be seriously prejudicial to the commercial interests of the Group.

## 3. OPERATING PROFIT

	<i>Year ended 31 Oct 2000 £000</i>	<i>Year ended 31 Oct 1999 £000</i>
Operating profit is stated after charging:		
Depreciation – owned assets	1,415	1,849
– leased assets	140	47
Amortisation – intangible assets	139	664
Operating lease rentals – land and buildings	33	74
– plant and equipment	832	466
Auditors' remuneration	90	100
Aborted bid costs	–	295

During the year £179,000 (1999: £120,000) was paid to the auditors for non-audit work.

During the year £2,622,000 (1999: £2,801,000) of research and development costs were incurred by the Group.

#### 4. EMPLOYEES

	<i>Year ended 31 Oct 2000 Number</i>	<i>Year ended 31 Oct 1999 Number</i>
The average number employed by the Group within each category of persons was:		
Production	946	779
Sales and administration	235	250
	<u>1,181</u>	<u>1,029</u>
The costs incurred in respect of these employees were:	<i>£000</i>	<i>£000</i>
Wages and salaries	19,912	17,851
Social Security costs	2,161	1,600
Other pension costs	969	1,077
	<u>23,042</u>	<u>20,528</u>

#### 5. DIRECTORS' EMOLUMENTS

Disclosures on directors' remuneration, share options, long term incentive schemes, pension contributions and pension entitlements required by the Companies Act 1985 and those specified for audit by the UK Listing Authority are set out in the Report of the Remuneration Committee on pages 15 to 19 and form part of these audited financial statements.

#### 6. PENSION COSTS

The total pension costs for the Group were £969,000 (1999: £1,077,000).

The pension costs relating to the defined benefit schemes are assessed in accordance with the advice of a qualified actuary using the attained age method.

The latest actuarial assessment of The Chemring Group Staff Pension Scheme ("Staff Scheme") was carried out as at 6 April 1997. The significant assumptions relating to the rate of return on investments and the rates of increases in salaries and pensions are as follows:

- Return on investments 9% per annum
- Average salaries increasing by 7% per annum
- For pension accrued after 6 April 1993, pension increases at the lower of RPI and 5% per annum in excess of GMP.

The latest actuarial assessment of The Chemring Group Executive Pension Scheme ("Executive Scheme") was carried out as at 6 April 1998. The significant assumptions relating to the rate of return on investments and the rates of increases in salaries and pensions are as follows:

- Return on investments 8% per annum
- Average salaries increasing by 6% per annum
- For pension accrued after 6 April 1993, pension increases at the lower of RPI and 5% per annum.

At the dates of the latest actuarial valuations, the market value of the assets of the Staff Scheme was £8,936,000 and the market value of the assets of the Executive Scheme was £1,834,000. The value of the assets of the Staff Scheme was sufficient to cover the benefits which had accrued to members. The value of the assets of the Executive Scheme was insufficient to cover the benefits which had accrued to members by 22% and, as advised by the actuary, steps have already been taken, and will continue, to address this issue over a period of time.

## 7. INTEREST PAYABLE

	<i>Year ended 31 Oct 2000 £000</i>	<i>Year ended 31 Oct 1999 £000</i>
Bank overdraft interest	571	792
Loan stock interest (see Note 16)	2	3
Medium term loan interest	1,004	1,073
Finance lease interest	132	111
	<u>1,709</u>	<u>1,979</u>

## 8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	<i>Year ended 31 Oct 2000 £000</i>	<i>Year ended 31 Oct 1999 £000</i>
Tax is based on the profit for the year and comprises:		
Corporation tax at 30% (1999: 30-31%)	1,349	503
Overseas taxation	426	715
Deferred taxation	168	–
Over-provision for earlier years:		
Corporation tax	(85)	(379)
	<u>1,858</u>	<u>839</u>
Tax attributable to associated undertaking	8	32
	<u>1,866</u>	<u>871</u>

The tax charge for the year is disproportionately low due to the use of brought forward losses which were not reflected as assets in the financial statements.

## 9. DIVIDENDS

	<i>Year ended 31 Oct 2000 £000</i>	<i>Year ended 31 Oct 1999 £000</i>
<b>Dividends on cumulative preference shares of £1 each</b>		
Paid 30 April 2000 2.62p (1999: 2.45p)	2	2
Paid 31 October 2000 3.50p (1999: 2.45p)	2	1
	<u>4</u>	<u>3</u>
<b>Dividends on ordinary shares of 5p each</b>		
Interim paid 16 August 2000 2.30p (1999: 2.00p)	550	475
Final proposed 4.00p (1999: 3.50p)	957	830
	<u>1,507</u>	<u>1,305</u>
<b>Total dividends</b>	<u>1,511</u>	<u>1,308</u>

## 10. EARNINGS PER ORDINARY SHARE

The earnings and shares used in the calculation are as follows:

	<i>Year ended</i> 31 Oct 2000			<i>Year ended</i> 31 Oct 1999		
	<i>Ordinary shares</i>			<i>Ordinary shares</i>		
	<i>Earnings</i>	<i>Number</i>	<i>EPS</i>	<i>Earnings</i>	<i>Number</i>	<i>EPS</i>
	<i>£000</i>	<i>000s</i>	<i>Pence</i>	<i>£000</i>	<i>000s</i>	<i>Pence</i>
<b>Basic</b>	5,257	23,853	22.04	3,432	23,689	14.49
Additional shares issuable other than at fair value in respect of options outstanding	–	953	(0.85)	–	853	(0.51)
<b>Diluted</b>	<u>5,257</u>	<u>24,806</u>	<u>21.19</u>	<u>3,432</u>	<u>24,542</u>	<u>13.98</u>

Earnings are stated after deducting preference dividends of £4,000 (1999: £3,000).

## 11. INTANGIBLE FIXED ASSETS

### Group

	<i>Development costs</i>	<i>Goodwill</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Cost</b>			
At 1 November 1999	1,487	18,246	19,733
Foreign exchange movements	55	–	55
Additions	585	–	585
Disposals	(103)	–	(103)
At 31 October 2000	<u>2,024</u>	<u>18,246</u>	<u>20,270</u>
<b>Amortisation</b>			
At 1 November 1999	938	–	938
Foreign exchange movements	48	–	48
Charge for the year	139	–	139
Disposals	(103)	–	(103)
At 31 October 2000	<u>1,022</u>	<u>–</u>	<u>1,022</u>
<b>Net book value</b>			
At 31 October 2000	<u>1,002</u>	<u>18,246</u>	<u>19,248</u>
At 31 October 1999	<u>549</u>	<u>18,246</u>	<u>18,795</u>

Goodwill arose on the acquisition of parts of the countermeasures, marine and military businesses.

## 12. TANGIBLE FIXED ASSETS

### (a) Group

	<i>Land and buildings £000</i>	<i>Plant and equipment £000</i>	<i>Total £000</i>
<b>Cost or valuation</b>			
At 1 November 1999	12,592	18,008	30,600
Foreign exchange movements	506	356	862
Additions	384	2,562	2,946
Disposals	–	(727)	(727)
At 31 October 2000	13,482	20,199	33,681
<b>Depreciation</b>			
At 1 November 1999	1,483	11,898	13,381
Foreign exchange movements	16	183	199
Charge for the year	150	1,405	1,555
Disposals	–	(653)	(653)
At 31 October 2000	1,649	12,833	14,482
<b>Net book value</b>			
At 31 October 2000	11,833	7,366	19,199
At 31 October 1999	11,109	6,110	17,219
<b>(b) Parent</b>			
<b>Cost or valuation</b>			
At 1 November 1999	2,598	482	3,080
Additions	20	10	30
Disposals	–	(12)	(12)
At 31 October 2000	2,618	480	3,098
<b>Depreciation</b>			
At 1 November 1999	1,117	386	1,503
Charge for the year	9	41	50
Disposals	–	(5)	(5)
At 31 October 2000	1,126	422	1,548
<b>Net book value</b>			
At 31 October 2000	1,492	58	1,550
At 31 October 1999	1,481	96	1,577



## 12. TANGIBLE FIXED ASSETS – CONTINUED

### (c) Land and buildings

	Group		Parent	
	<i>As at</i>	<i>As at</i>	<i>As at</i>	<i>As at</i>
	<i>31 Oct 2000</i>	<i>31 Oct 1999</i>	<i>31 Oct 2000</i>	<i>31 Oct 1999</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Land and buildings comprise:				
Freehold	9,188	8,836	1,985	1,985
Long leasehold	4,294	3,756	633	613
	<u>13,482</u>	<u>12,592</u>	<u>2,618</u>	<u>2,598</u>
Land and buildings are stated at cost or value:				
30 September 1997 – depreciated replacement cost	5,820	5,820	–	–
– open market	2,618	2,598	2,618	2,598
At cost	5,044	4,174	–	–
	<u>13,482</u>	<u>12,592</u>	<u>2,618</u>	<u>2,598</u>

The 1997 land and buildings valuation was carried out by Chestertons, Chartered Surveyors, on the UK properties, on a depreciated replacement cost for the two pyrotechnic sites, and on open market value for the remainder. The effect of the revaluation is to increase annual depreciation by £36,000. In accordance with the transitional provisions of FRS15, this valuation has not been updated.

If stated under historical cost principles the comparable amounts for the total of land and buildings would be:

Cost	11,385	10,495	2,618	2,598
Accumulated depreciation	(2,090)	(1,976)	(1,666)	(1,657)
Historical cost value	<u>9,295</u>	<u>8,519</u>	<u>952</u>	<u>941</u>

All other tangible fixed assets are stated at historical cost. Included in plant and equipment are assets of net book value £409,000 (1999: £274,000) held under finance leases.

### (d) Future capital expenditure

Contracted for but not provided for	<u>102</u>	<u>22</u>	<u>–</u>	<u>–</u>
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### 13. FIXED ASSET INVESTMENTS

#### (a) Group

	<i>Associated undertaking share of net assets £000</i>
At 1 November 1999	880
Retained profit of associated undertaking	22
Dividend received	(19)
At 31 October 2000	<u>883</u>

#### (b) Parent

	<i>Shares in subsidiary undertakings £000</i>	<i>Shares in associated undertaking £000</i>	<i>Loans to subsidiary undertakings £000</i>	<i>Total £000</i>
<b>Cost</b>				
At 1 November 1999 and 31 October 2000	<u>27,832</u>	<u>13</u>	<u>6,250</u>	<u>34,095</u>
<b>Provision for impairment</b>				
At 1 November 1999 and 31 October 2000	<u>1,336</u>	<u>–</u>	<u>–</u>	<u>1,336</u>
<b>Net book value</b>				
At 31 October 2000 and 31 October 1999	<u>26,496</u>	<u>13</u>	<u>6,250</u>	<u>32,759</u>

#### (c) Subsidiary and associated undertakings

The subsidiary and associated undertakings which, in the opinion of the directors, affected the results of the Group are shown below. At 31 October 2000, Chemring Group PLC controlled 100% of the issued ordinary share capital of all its subsidiary undertakings and 49% of the issued ordinary share capital of the associated undertaking.

<i>Subsidiary undertakings</i>	<i>Country of incorporation</i>	<i>Activity</i>
Pains Wessex Ltd	England	Countermeasures and pyrotechnics
PW Defence Ltd (formerly Haley and Weller Ltd)	England	Pyrotechnics
McMurdo Ltd	England	Marine safety and electronics
Kembrey Wiring Systems Ltd	England	Wiring harnesses
Alloy Surfaces Company, Inc.	Delaware, USA	Countermeasures and chemical coatings
Pains Wessex Australia Pty Ltd	Australia	Countermeasures and pyrotechnics
Pains Wessex Safety Systems Inc.	Delaware, USA	Marine safety and electronics
<i>Associated undertaking</i>		
CIRRA S.A.	France	Countermeasures

#### 14. STOCK

	Group	
	<i>As at</i> 31 Oct 2000 £000	<i>As at</i> 31 Oct 1999 £000
Raw materials	8,078	5,640
Work in progress	4,931	3,219
Finished goods	1,226	738
	<u>14,235</u>	<u>9,597</u>

There are no significant differences between the replacement costs and the stock values shown above.

#### 15. DEBTORS

	Group		Parent	
	<i>As at</i> 31 Oct 2000 £000	<i>As at</i> 31 Oct 1999 £000	<i>As at</i> 31 Oct 2000 £000	<i>As at</i> 31 Oct 1999 £000
Trade debtors	17,416	14,617	–	3
Amounts owed by subsidiary undertakings	–	–	17,819	15,360
Corporation tax recoverable	–	18	236	438
Group relief receivable	–	–	–	376
Other debtors	2,745	2,398	2,018	877
Prepayments and accrued income	633	895	289	96
	<u>20,794</u>	<u>17,928</u>	<u>20,362</u>	<u>17,150</u>

Included within other debtors is recoverable advance corporation tax of £691,000 (1999: £1,324,000) and £237,000 (1999: £230,000) in respect of pension contributions to defined benefit schemes, being the difference between amounts recognised as costs and amounts funded or paid directly.

# 16. CREDITORS DUE WITHIN ONE YEAR

	Group		Parent	
	As at 31 Oct 2000 £000	As at 31 Oct 1999 £000	As at 31 Oct 2000 £000	As at 31 Oct 1999 £000
Bank loans and overdrafts	4,832	5,805	4,497	5,547
Loan stock (unsecured)	44	44	44	44
Trade creditors	12,189	8,610	298	191
Amounts owed to subsidiary undertakings	–	–	5,601	5,612
Other creditors	3,818	1,567	–	130
Obligations under finance leases	215	151	13	15
Corporation tax	1,410	765	1,052	119
Other taxation and Social Security	611	570	–	76
Accruals and deferred income	1,684	2,107	979	833
Proposed dividends	957	830	957	830
	<u>25,760</u>	<u>20,449</u>	<u>13,441</u>	<u>13,397</u>

Loan stock is repayable on three months' notice from holders and attracts interest at 1% below National Westminster Bank Plc base rate. The loan stock is held by certain vendor shareholders of Kembrey Limited (formerly Kembrey Plc), acquired in August 1994, and is guaranteed by National Westminster Bank Plc.

Bank loans and overdrafts held with National Westminster Bank Plc are secured by a full debenture over the assets of the UK businesses and are also subject to cross guarantees between all UK subsidiaries.

# 17. CREDITORS DUE AFTER MORE THAN ONE YEAR

	Group		Parent	
	As at 31 Oct 2000 £000	As at 31 Oct 1999 £000	As at 31 Oct 2000 £000	As at 31 Oct 1999 £000
Medium term loan – UK	12,000	12,000	12,000	12,000
– overseas	4,889	4,906	–	–
Obligations under finance leases	200	183	1	14
	<u>17,089</u>	<u>17,089</u>	<u>12,001</u>	<u>12,014</u>

The interest rate applicable to the UK medium term loan is 8.17% and the average rate for the overseas medium term loan is 5.2% per annum. The overseas medium term loan is secured on the assets of the overseas businesses.

Finance lease obligations attract interest rates of between 2% and 3% above National Westminster Bank Plc base rate.

The maturity of the above obligations is as follows:

	Group	
	As at 31 Oct 2000 £000	As at 31 Oct 1999 £000
Creditors falling due within:		
One to two years	1,227	665
Two to five years	14,128	14,920
After five years	1,734	1,504
	<u>17,089</u>	<u>17,089</u>

## 18. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group's financial instruments comprise borrowings, cash and various non-derivative financial instruments such as trade debtors and trade creditors. As permitted by Financial Reporting Standard 13 – Derivatives and other financial instruments: Disclosures ("FRS13"), short-term debtors and creditors have been excluded from all FRS13 disclosures.

The Group uses financial instruments to manage financial and commercial risk wherever it is appropriate to do so.

The main risks arising from the financial instruments of the Group are interest risk, foreign exchange risk and liquidity risk. The Group's policies in respect of the management of these risks, which remained unchanged throughout the year, were as follows:

**Interest risk:** The Group finances its operations through a mixture of retained profits, bank borrowings and leasing lines of credit. The UK borrowings are denominated in sterling and are subject to floating rates of interest linked to National Westminster Bank Plc base rate to provide flexibility. The UK medium term loan is subject to an interest rate swap which mitigates major interest rate fluctuations.

**Foreign exchange risk:** Foreign exchange risk can be subdivided into two components, transactional risk and profit translation risk:

Transactional risk – The Group policy is for subsidiaries to maximise the use of hedging against transactional currency exposures against the currency in which their results are measured. The measurement and control of this risk is closely monitored on a Group-wide basis.

Profit translation risk – The Group translates overseas profits and net assets in accordance with the accounting policy in Note 1. The translation risk on net assets is controlled by the transfer of currencies between Group companies. Any remaining translation differences are dealt with through the Group's statement of total recognised gains and losses.

**Liquidity risk:** Details of the maturity profiles of the Group's funding can be found in Note 17.

The total undrawn committed borrowing facilities at the financial year end amounted to £6,200,000 (1999: £2,511,000).

# 18. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS – CONTINUED

The interest rate risk profile of the Group's financial assets and liabilities is as follows:

(i) Financial assets	As at 31 Oct 2000			As at 31 Oct 1999		
	Floating rate £000	Fixed rate £000	Total £000	Floating rate £000	Fixed rate £000	Total £000
Sterling	215	–	215	–	–	–
US Dollar	1,693	–	1,693	2,925	–	2,925
Australian Dollar	696	–	696	132	–	132
Other currencies	80	–	80	57	–	57
	<u>2,684</u>	<u>–</u>	<u>2,684</u>	<u>3,114</u>	<u>–</u>	<u>3,114</u>
Disclosed as:						
Offset in the UK	(622)			(706)		
Cash at bank and in hand	<u>2,062</u>			<u>2,408</u>		
(ii) Financial liabilities	As at 31 Oct 2000			As at 31 Oct 1999		
	Floating rate £000	Fixed rate £000	Total £000	Floating rate £000	Fixed rate £000	Total £000
Sterling	(5,454)	(12,407)	(17,861)	(6,511)	(12,326)	(18,837)
US Dollar	–	(4,387)	(4,387)	–	(4,417)	(4,417)
Australian Dollar	–	(554)	(554)	–	(541)	(541)
Other currencies	–	–	–	–	–	–
	<u>(5,454)</u>	<u>(17,348)</u>	<u>(22,802)</u>	<u>(6,511)</u>	<u>(17,284)</u>	<u>(23,795)</u>
Disclosed as:						
Offset in the UK	622			706		
Overdraft	<u>(4,832)</u>			<u>(5,805)</u>		

A right of offset exists for currency amounts held within the UK by National Westminster Bank Plc. These are used to offset the interest charged on the floating rate financial liabilities which bear interest at 1% above LIBOR. Cash at bank and in hand consists primarily of overseas funds which are used as short-term intra-group financing as well as an internal exchange rate hedge.

The weighted average interest rate of fixed rate financial liabilities at 31 October 2000 was 8% (1999: 8%) and the weighted average period of funding was 4 years (1999: 4 years).

The Group uses an interest rate swap which expires in 2005, but otherwise had no derivative financial instruments outstanding at 31 October 2000 and in all cases, in the opinion of the Board the fair value of the Group's financial assets and liabilities is equal to the book value.

## 19. PROVISIONS FOR LIABILITIES AND CHARGES

	<i>Deferred taxation £000</i>	<i>Other provision £000</i>	<i>Total £000</i>
<i>(a) Movement in the year – Group</i>			
At 1 November 1999	–	440	440
Provided in the year	168	–	168
Utilised in the year	–	(190)	(190)
Released in the year	–	(150)	(150)
At 31 October 2000	<u>168</u>	<u>100</u>	<u>268</u>

The other provision is held in respect of commitments to fund dilapidation claims in respect of certain Group leasehold properties.

### *(b) Provisions at year end*

As explained in Note 1, provision has been made for deferred taxation where liability to corporation tax may arise in the foreseeable future. The source of the balance on the deferred taxation account and the amounts involved if deferred taxation had been provided in full are as follows:

#### *Group*

	<i>Full provision</i>		<i>Dealt with in the financial statements</i>	
	<i>As at 31 Oct 2000 £000</i>	<i>As at 31 Oct 1999 £000</i>	<i>As at 31 Oct 2000 £000</i>	<i>As at 31 Oct 1999 £000</i>
Capital allowances in excess of depreciation	446	204	168	–
Other timing differences and losses carried forward	(1,050)	(698)	–	–
Surplus on revaluation of property	<u>772</u>	<u>784</u>	<u>–</u>	<u>–</u>
	<u>168</u>	<u>290</u>	<u>168</u>	<u>–</u>

#### *Parent*

	<i>Full provision</i>	
	<i>As at 31 Oct 2000 £000</i>	<i>As at 31 Oct 1999 £000</i>
Capital allowances in excess of depreciation	(53)	(52)
Other timing differences and losses carried forward	<u>(191)</u>	<u>(315)</u>
	<u>(244)</u>	<u>(367)</u>

The above asset is not reflected in the financial statements of the Parent Company.

## 20. CALLED-UP SHARE CAPITAL

	<i>As at</i> <b>31 Oct 2000</b> <b>£000</b>	<i>As at</i> <b>31 Oct 1999</b> <b>£000</b>
<b>Authorised</b>		
62,500 7% cumulative preference shares of £1 each	62	62
27,000,000 (1999: 27,000,000) ordinary shares of 5p each	1,350	1,350
	<u>1,412</u>	<u>1,412</u>
<b>Issued, allotted and fully paid</b>		
62,500 7% cumulative preference shares of £1 each	62	62
23,921,646 (1999: 23,701,876) ordinary shares of 5p each	1,196	1,185
	<u>1,258</u>	<u>1,247</u>

The 7% cumulative preference shares confer no rights to vote, except on certain specified matters. At the 2000 AGM the coupon rate on the cumulative preference shares was increased from 4.9% to 7% to reflect the abolition of Advance Corporation Tax.

During the year, 219,770 5p ordinary shares were issued for a total consideration of £317,547.

### Share options

The following options to subscribe for ordinary shares granted under various share option schemes were outstanding at 31 October 2000.

#### (a) The Chemring Group Share Option Scheme

<i>Date of grant</i>	<i>Number of ordinary shares under option</i>	<i>Exercise price per share £</i>	<i>Dates between which options may be exercised</i>
22 Aug 1991	18,000	1.365	22 Aug 1994 – 21 Aug 2001
20 Jul 1992	24,000	2.10	20 Jul 1995 – 19 Jul 2002

The number of options granted under this scheme has been adjusted, with the prior approval of the Inland Revenue, to reflect the Capitalisation Issue approved on 29 January 1993.

#### (b) The Chemring 1998 Executive Share Option Scheme

<i>Date of grant</i>	<i>Number of ordinary shares under option</i>	<i>Exercise price per share £</i>	<i>Dates between which options may be exercised</i>
6 Apr 1998	621,182	1.395	6 Apr 2001 – 5 Apr 2008
3 Feb 2000	280,000	2.36	3 Feb 2003 – 2 Feb 2010



## 20. CALLED-UP SHARE CAPITAL – CONTINUED

### (c) The Chemring Group Sharesave Scheme

<i>Date of grant</i>	<i>Number of ordinary shares under option</i>	<i>Exercise price per share £</i>	<i>Dates between which options may be exercised</i>
6 Jul 1995	4,004	3.03	1 Aug 2000 – 31 Jan 2001
11 Jul 1996	6,587	3.56	1 Sep 2001 – 2 Feb 2002

### (d) The Chemring Group PLC Share Based Incentive Scheme

<i>Date of grant</i>	<i>Number of ordinary shares under option</i>	<i>Exercise price per share £</i>	<i>Dates between which options may be exercised</i>
5 April 1995	5,139	0	5 Apr 1995 – 5 Apr 2002
5 April 1995	10,278	3.30	5 Apr 1998 <sup>1</sup> – 5 Apr 2005
26 Feb 1996	6,683	0	26 Feb 1996 – 26 Feb 2003
26 Feb 1996	13,366	0	26 Feb 1999 <sup>2</sup> – 26 Feb 2003
13 Jan 1997	3,936	0	13 Jan 1997 – 13 Feb 2004
13 Jan 1997	7,872	0	13 Jan 2000 <sup>3</sup> – 13 Jan 2004

<sup>1</sup> From 5 April 1998 – 4 April 2000, only 50% of the option may be exercised; thereafter 100% of the option may be exercised.

<sup>2</sup> From 26 February 1999 – 25 February 2001, only 50% of the option may be exercised; thereafter 100% of the option may be exercised.

<sup>3</sup> From 13 January 2000 – 12 January 2002, only 50% of the option may be exercised; thereafter 100% of the option may be exercised.

The shares under option in this scheme have been purchased in the market and are held by the Trustees of the ESOP.

## 21. RESERVES

### (a) Group

	Share premium account £000	Special capital reserve £000	Revaluation reserve £000	Revenue reserves £000	Total £000
At 1 November 1999	10,813	12,939	2,590	1,260	27,602
Arising on issue of shares	306	–	–	–	306
Transfer between reserves	–	–	(36)	36	–
Retained profit	–	–	–	3,750	3,750
Profit arising from foreign exchange fluctuations	–	–	–	388	388
At 31 October 2000	11,119	12,939	2,554	5,434	32,046

The share premium account, special capital reserve and the revaluation reserve are not distributable.

Included within revenue reserves is £870,000 of retained profits (1999: £867,000) relating to the associated undertaking.

### (b) Parent

	Share premium account £000	Special capital reserve £000	Revenue reserves £000	Total £000
At 1 November 1999	10,813	12,939	1,228	24,980
Arising on issue of shares	306	–	–	306
Profit after taxation	–	–	4,299	4,299
Dividends	–	–	(1,511)	(1,511)
At 31 October 2000	11,119	12,939	4,016	28,074

The share premium account and special capital reserve are not distributable.

## 22. OBLIGATIONS UNDER NON-CANCELLABLE OPERATING LEASES

	Group	
	Land and buildings £000	Plant and equipment £000
Within one year	–	151
Two to five years	335	712
	335	863

## 23. POST BALANCE SHEET EVENT

On 23 January 2001 the Group announced that it had signed a binding agreement to acquire Alliant Kilgore Flares Company LLC for a consideration of US\$23 million. The acquisition is anticipated to be completed in early February 2001.

## NOTICE AND AGENDA OF ANNUAL GENERAL MEETING

Notice is hereby given that the ninety-fifth Annual General Meeting of the shareholders will be held at 14.30 hours on Thursday 8 March 2001 at The Solent Hotel, Rookery Avenue, Whiteley, Fareham, Hampshire PO15 7AJ for the purpose of transacting the ordinary business referred to at "1" to "4" below and also, as special business, for the purpose of considering and (if thought fit) passing the resolutions numbered "5" and "6" below as ordinary resolutions and the resolution numbered "7" below as a special resolution.

1. To receive and adopt the financial statements for the year ended 31 October 2000 together with the reports of the directors and auditors thereon.
2. To approve the payment of a final dividend of 4.00p per ordinary share for the year ended 31 October 2000 to be paid on 10 April 2001 to shareholders on the register at the close of business on 16 March 2001.
3. To re-elect Mr K C Scobie who retires by rotation under the provisions of Article 92.1 of the Company's Articles of Association.
4. To re-appoint the auditors and to authorise the directors to fix their remuneration.

### ORDINARY RESOLUTIONS

5. THAT the Company's authorised share capital be and is hereby increased by £150,000 from £1,350,000 to £1,500,000 by the creation of 3,000,000 new ordinary shares of 5p each, to rank *pari passu* with the existing ordinary shares of 5p each.
6. THAT the Board be and it is hereby generally and unconditionally authorised pursuant to and in accordance with section 80 of the Companies Act 1985 ('the Act') to exercise all the powers of the Company to allot and to make offers or agreements to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £153,917 as at the date hereof provided that this authority shall expire at the commencement of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may before the expiry of this authority make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

#### SPECIAL RESOLUTION

7. THAT subject to resolution 6 being passed and pursuant to and in accordance with the authority thereby granted, the Board be and it is hereby empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94 of the Act) pursuant to such authority as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal value of £59,804 and shall expire at the commencement of the next Annual General Meeting of the Company after the passing of this resolution or on 31 May 2002 (whichever is the earlier) 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 Board may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By Order of the Board

S L ELLARD – Secretary

1645 Parkway  
Whiteley  
Fareham  
Hampshire  
PO15 7AH

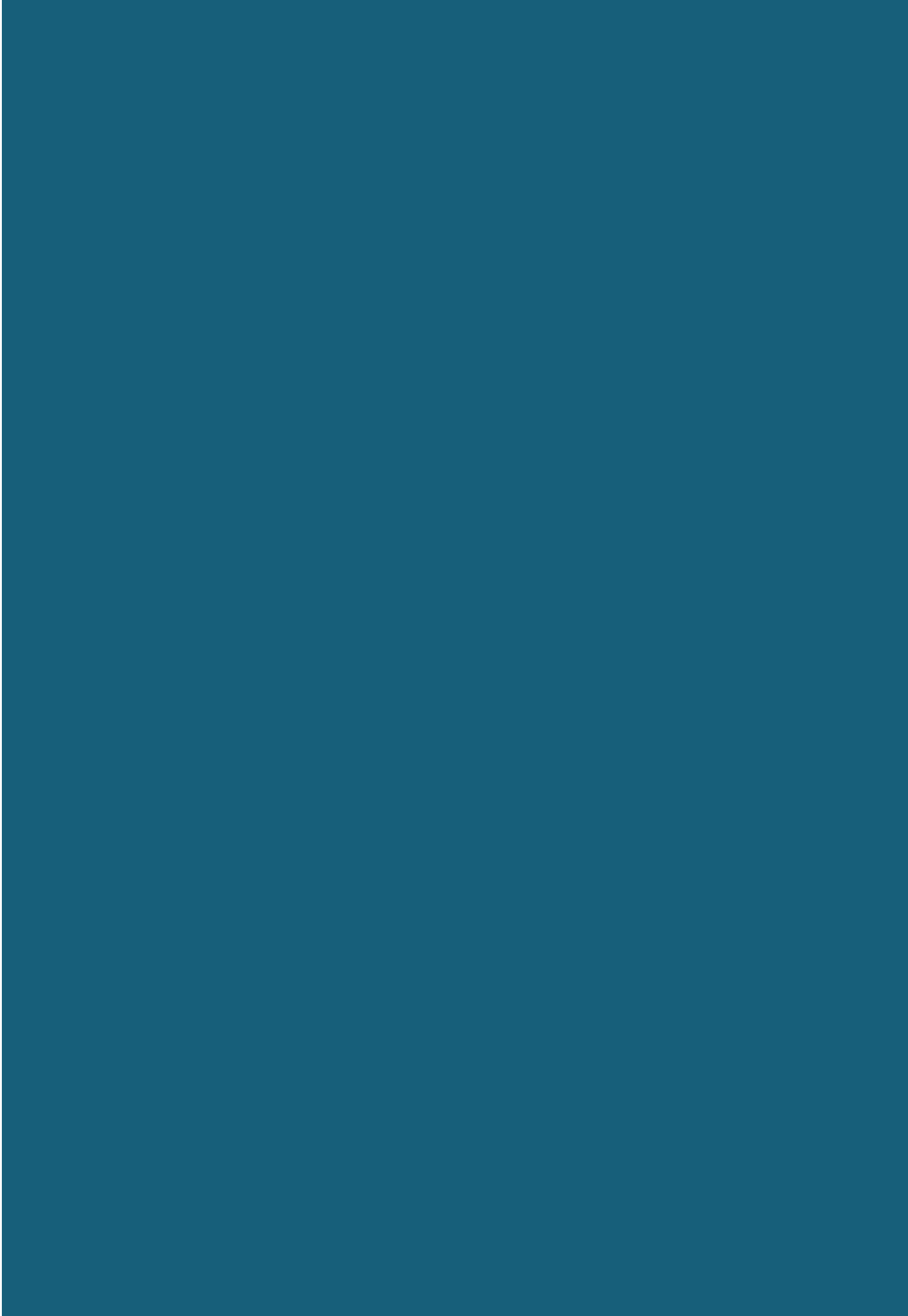
23 January 2001

#### NOTES

1. A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies (who need not be members of the Company) to attend and (on a poll) vote instead of him.
2. Preference shareholders are not entitled to attend and vote at the meeting.
3. A form of proxy for those entitled to vote is enclosed with this notice and to be valid, must be lodged with the Company's Registrars not less than forty-eight hours before the time appointed for holding the meeting.
4. Copies of service contracts between the Company and certain of its directors are available for inspection at the registered office during normal business hours on each business day, and will be available for inspection at the place of the Annual General Meeting from 14.15 hours until the close of the meeting.









CHEMRING GROUP PLC

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