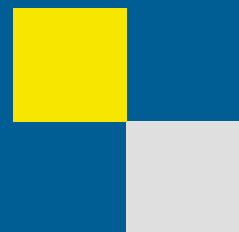


CHEMRING GROUP PLC



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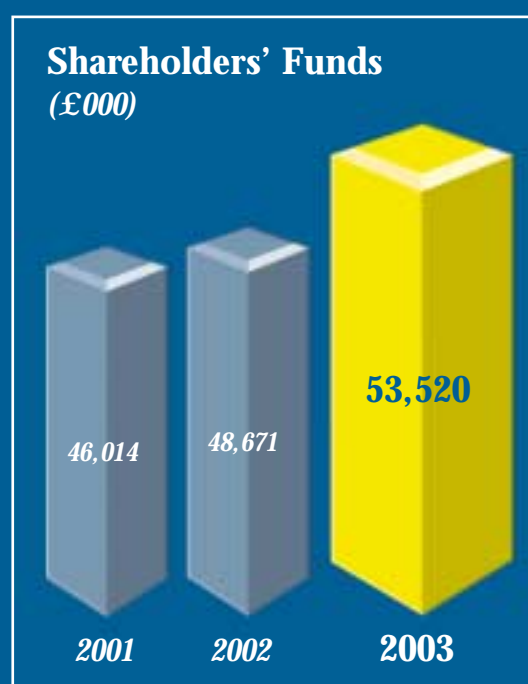
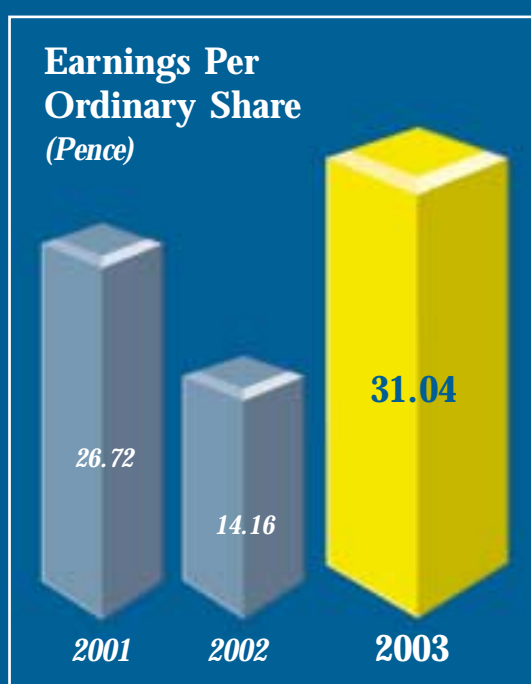
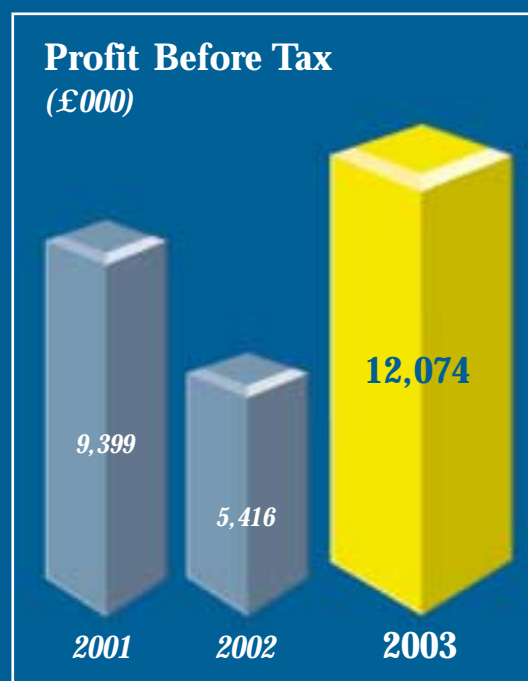
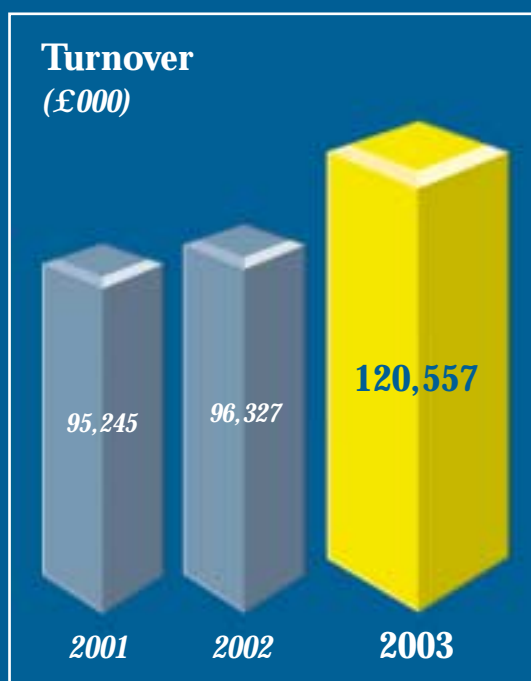
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Financial Highlights



Summary Financial Information

	2003 £000	2002 £000
Turnover		
Countermeasures	66,411	45,725
Military pyrotechnics	19,540	17,942
Marine safety and security	26,366	21,345
Continuing operations	112,317	85,012
Discontinued operations	8,240	11,315
	<u>120,557</u>	<u>96,327</u>
Operating profit/(loss)		
- Continuing	14,256	7,006
- Discontinued	(216)	684
	<u>14,040</u>	<u>7,690</u>
Profit before taxation		
- Continuing	11,693	4,874
- Discontinued	381	542
	<u>12,074</u>	<u>5,416</u>
Dividend per ordinary share	7.40p	6.70p
Basic earnings per ordinary share	31.04p	14.16p
Basic earnings per ordinary share - continuing	30.06p	12.75p
Diluted earnings per ordinary share	30.60p	14.11p
Net debt	38,681	47,277
Shareholders' funds	53,520	48,671

Statement by the Chairman

This has been a very successful year for the Group, principally due to significant growth in the sales and profitability of our three countermeasures businesses - Chemring Countermeasures, Alloy Surfaces and Kilgore. This excellent performance was achieved despite the fact that Kilgore's new production plant only resumed full production in the second half.

The substantial increase in earnings of over 100% returns us to the growth pattern achieved prior to the incident at Kilgore in April 2001.

Two non-core businesses, Chemical Coatings and Kembrey Wiring Systems, were sold in July 2003 and November 2003 respectively for a total consideration of £3.4 million after costs.

The reduction in the Group's net debt to £39 million represents satisfactory progress. We are still awaiting a substantial sum from the resolution of the Kilgore insurance claim, which is being pursued against Royal and Sun Alliance (RSA), to further reduce our net debt.

During the year a substantial amount of further work has been carried out to progress our claim against RSA. Our independent forensic accountant has arrived at his preliminary conclusions on the total quantum of the claim. His valuation is not materially different to the original total of our claim, to which I referred last year, and has received the full support of our insurance brokers, Willis. In addition, substantive discussions are at

Results	2003	2002
	£000	£000
Operating profit	14,040	2,131
Credit to operating profit relating to insurance claim	-	5,559
Total operating profit	14,040	7,690
Profit before tax	12,074	5,416
Profit after tax	8,496	3,811
Basic earnings per ordinary share	31.04p	14.16p

long last taking place between RSA and Willis to resolve the policy coverage issues which exist between them. It is hoped that this will soon lead to final negotiations in order to settle this matter. In light of these positive developments, we have reassessed our opinion on the sum recoverable under the policy. In the event that the matter is not settled within the next three months, the Board will concentrate on the litigation in Tennessee, which has been running in parallel to other events.

The Group has still not achieved satisfaction from the BBC regarding the totally unfounded and defamatory allegations made on the Radio 4 Today Programme in May 2002. The severe criticisms by Lord Hutton of the actions of the BBC, the Today Programme and its correspondent Andrew Gilligan, bear a striking resemblance to the Group's experience. We intend to continue to press for satisfaction from the BBC.

Business Activities

Alloy Surfaces maintained its strong growth pattern, which is expected to continue this year. Its product range is

in great demand within the US military, and the business is further expanding exports to certain permitted countries. Alloy Surfaces, in combination with Kilgore, is also now entering the US market for ship decoys. If all the interest currently being shown in Alloy Surfaces' products (even before taking account of possible commercial aircraft applications) were to translate into orders, it would necessitate the building of a further production plant.

Kilgore achieved full production in the second half, demonstrating its ability to achieve the levels of sales and profitability which we planned when we acquired the business. Kilgore has a very strong order book and an excellent performance is anticipated this year.

Chemring Countermeasures had an outstanding year, with the business growing substantially in both turnover and profit terms. The UK defence forces remain the business' largest customer but its excellent results have been achieved through the strength of its export business to all parts of the world.

Statement by the Chairman

- continued

Recently attention has turned to the protection of commercial aircraft, and your Group is heavily involved in research and development programmes designed to find solutions to this problem. This includes being part of one of the three consortia which have been selected in the US by the Department of Homeland Security to take the proposed solutions to a further stage. It is too early to predict what additional business could result from these developments.

PW Defence produced a solid performance, with increased sales to both the UK MoD and overseas countries.

Our marine business once again demonstrated excellent growth of over 50% in electronics, where sales reached £11.3 million. The marine pyrotechnics business maintained its market share and profitability in a static market. Although the overall growth in profits of our marine business was creditable, the combined effect of our robust policy on the write-off of development costs and difficult, highly-competitive market conditions meant that our internal expectations were not met.

Pains Wessex Australia had an excellent year, both in defence and marine, supporting the sale and distribution of other Group products plus its own indigenously manufactured items. Increased Australian defence spending, together with the appointment of Pains Wessex Australia as the in-country agent for our US countermeasures businesses, should ensure continuing solid profitability.

The Chemical Coatings division of Alloy Surfaces was successfully disposed of during the year for £1.5 million after costs, giving rise to an exceptional profit of £0.7 million. Kembrey Wiring Systems was disposed of in November 2003 for net asset value of £1.9 million.

Balance Sheet and Cash Flow

The Group returned to positive net cash flow in the year as Kilgore returned to profitability. Our debt is now at a more manageable level. However, the balance sheet will be further strengthened by the receipt of monies due from RSA.

Pensions

The Board has spent a considerable amount of time reviewing the Group's

pension schemes - a highly complex issue. It has decided to continue to provide and maintain its final salary schemes for UK employees, as it believes that this is an attractive employee benefit. The Group has, however, increased employee contributions in order to help meet the increased costs of providing the final salary schemes, which have been affected by, amongst other things, an increase in life expectancy. After consultation with its external advisers, the Group has also agreed to make additional contributions to the final salary pension schemes, which over the duration should ensure a matching of assets and liabilities.

Dividends

The Board recommends a final dividend of 4.85p per ordinary share, a 14% increase on the final dividend for





last year and a 10% increase on the total dividend. It is recognised that the dividend is now over four times covered by retained profits and upon resolution of the insurance claim the Group's dividend policy will be reviewed.

Employees

Last year I stated that I believed the Group would this year return to its strong earnings position of previous years. We would not have delivered this achievement without the effort of everyone in the Group, to whom the directors extend their thanks.

Prospects

I hope that next year I will be able to report to shareholders the strengthening of the balance sheet through the receipt of monies from RSA.

Last year I expressed my confidence in the growing demand for our countermeasures products. Our performance this year and current events in Iraq and Afghanistan have demonstrated clearly to the military

the essential part we play in defeating ground-based missiles. This is having the anticipated impact on our order book and enquiries for the future, particularly in the US.

Our military pyrotechnics business, our marine business and our Australian operation are expected to make further progress this year. This, together with the continuing expansion of our countermeasures business, should lead to another year of excellent growth for the Group.

K C Scobie - Chairman
2 February 2004

Review by the Chief Executive

Overview

An excellent year for the Group with all continuing operations increasing profitability, and the disposal of the remaining non-core operations completed. Defence turnover was up 35% to £86 million and the closing order book was at a similar level to provide a sound start for this year. Sales in the continuing marine safety and security business increased by 24%, supported by 50% growth in electronic products sales.

Kilgore resumed full operations in the second half. One and a half million decoys were produced at the new facility during the year. Kilgore

contributed £24 million to total countermeasures turnover during the year, which increased by 45% to £66.4 million.

Military pyrotechnics turnover increased by 9% to £19.5 million, assisted by increased pyrotechnic product sales at Kilgore.

Operational Review

Countermeasures:

Countermeasures turnover increased by 45% to £66.4 million

The excellent growth in the countermeasures business reflects our position as the worldwide market

leader in providing expendable decoys to protect valuable military platforms.

We are the pre-eminent provider of aircraft IR expendable decoys to the US Department of Defense. There is particularly strong US demand for our products to protect military aircraft from missile attack, in particular IR Man-Portable Air Defence Systems. These systems have been prevalent in the Iraq campaign, where there continue to be numerous attacks on both helicopters and fixed wing transport aircraft.

Recently there have been several initiatives on commercial aircraft protection. The most significant of these has originated from the Department of Homeland Security (DHS) in the US. Alloy Surfaces is included in the United Airlines team, which is one of the three consortia selected by the DHS to develop a system to protect commercial aircraft.

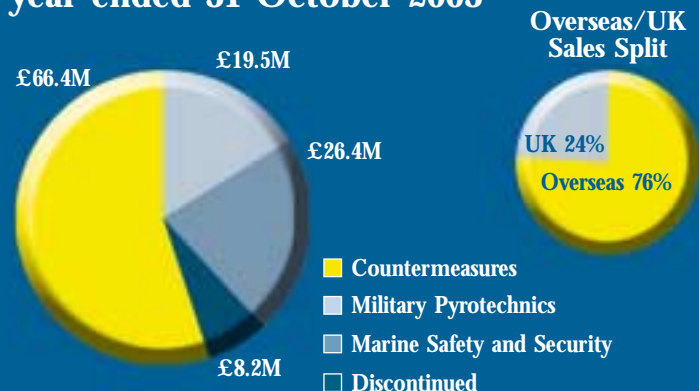
Decoy sales to the US military increased by 33% to £31 million during the year. These sales accounted for 47% of total countermeasures turnover.

Alloy Surfaces is benefiting from new programmes to improve helicopter protection and increased operational use of its decoys in pre-emptive mode, which denies missiles the ability to lock-on and hence attack the aircraft. Alloy Surfaces is making significant inroads into the international market with non-US sales increasing to 30% of total sales. Major sales were recorded in the UK, Australia, Canada and Japan. A joint US and

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

Countermeasures:	Chemring Countermeasures, Alloy Surfaces, Kilgore, Pains Wessex Australia
Military Pyrotechnics:	PW Defence, Kilgore, Pains Wessex Australia
Marine Safety and Security:	McMurdo Marine, ICS Electronics, McMurdo Pains Wessex, Oroquieta, Pains Wessex Australia

Turnover by Business Area for the year ended 31 October 2003



Italian Air Force test is scheduled to evaluate Alloy Surfaces' decoys for deployment on Italy's new C130J transport aircraft.

During the year Kilgore was awarded initial decoy production contracts for both of the new US fighter aircraft and development contracts for decoys for emerging multi-role platforms. Alloy Surfaces and Kilgore have also been selected to provide an improved decoy for the B52 bomber.

The Group has invested a total of £17.5 million in manufacturing facilities over the last three years at Kilgore and Alloy Surfaces in support of the US defence industrial base. Further investment will be made in production capacity at Alloy Surfaces in 2004 to meet the increasing demand for its products. Considerable resource has also been put into modelling and simulation to improve our technology and marketing capabilities, which demonstrates our ability to provide a systems solution to defeat advanced threats across all services. The intention is to read across elements of this research into the DHS requirements for commercial aircraft protection.

Our UK based business, Chemring Countermeasures, had an excellent year with increased exports contributing to a 32% increase in turnover. The UK business has a strong technical capability which is continually bringing new products to the market including the proprietary modular expendable blocks for enhanced helicopter protection and chaff and flare decoys for former Soviet Union platforms such as

MiG29 fighters and Mi-24 helicopters. Chemring Countermeasures' decoys are a front runner in protecting the A400M (formerly known as the Future Large Aircraft) on order for the air forces of Belgium, France, Germany, Italy, Spain, Turkey and the UK. The business has a strong ship decoy order book, including IR rounds for Australia and RF for Japan. Transfer of its ship decoy technology to our US subsidiaries is assisting penetration into the US naval markets, including US Foreign Military Sales.

In the US, Kilgore won its first export order for IR ship decoys, and is also supporting the US Navy on a future IR ship decoy requirement. Alloy Surfaces is supporting Northrop Grumman on a low cost modular EW system for the protection of a wide range of vehicles.

Our countermeasures activity has more than doubled over the last four years, and we continue to invest in research and development as well as production facilities to protect our prominent position as the market leader and pursue the many opportunities available to us.

Military Pyrotechnics

Military Pyrotechnics turnover in the year increased by 9% to £19.5 million

Our military pyrotechnics business is at the forefront of providing specialist military pyrotechnic products used in illumination, screening, signalling and training. Overseas sales were 67% of total military pyrotechnics turnover. Despite the financial pressures on governments' defence expenditure, there is continuing strong international demand for our products against a

background of political tensions which have increased awareness of the need for training.

Kilgore is increasing its activity in illumination and screening products for target and rescue applications. Kilgore is the main supplier to the US Navy of Mk58 pyrotechnic marine location markers. In addition to being used for anti-submarine warfare, the Mk58 marker is used for search and rescue operations, man-overboard markings, and for target practice at sea. Kilgore won an additional order from General Dynamics for smoke and screening products, and follow-on orders are expected. Kilgore is also a conduit into the US military market for the Group's UK based military vehicle decoy and screening products and technology, and is involved in supporting General Dynamics Land Systems on future military vehicle protection in the high profile US Army Future Combat Systems programme.

In June 2003, PW Defence secured a partnering agreement with the UK MoD covering the procurement and through-life management of the majority of the MoD's military pyrotechnic requirements. The agreement is a vehicle for taking forward a number of initiatives, including improvements in the supply chain, smart procurement and manufacturing, and full-life support.

Marine Safety and Security

Marine Safety and Security turnover in the year increased by 24% to £26.4 million

The Group is a leading supplier of

Review by the Chief Executive

- continued

legislated marine electronic and safety equipment worldwide for commercial and leisure markets. The marine safety and security business is made up of three product groups and an emerging systems business. The product groups are electronics, marine safety lights and pyrotechnics. The growth in the business is primarily driven by electronics products, where the range of products has increased to meet increased shipping related legislation and growth in recreational markets both on land and at sea. Sales of electronics products have doubled over the last three years, and grew by 50% in 2003; these now represent 43% of total marine sales. Despite the good growth overall, however, the profitability of electronics products was disappointing. We have now instigated cost saving initiatives and are focusing on increasing sales volumes to improve the profitability. Lights and pyrotechnics markets are stable, although there was increased demand from military customers in the year.

The Group has invested significantly in the development of new electronics products over the last three years to improve the product range and reduce manufacturing costs. This investment is written-off over three years.

Demand for our 406MHz EPIRBs and personal locating beacons (PLBs) is increasing due to a combination of the phasing out of 121.5MHz beacons, and increasing use of 406MHz PLBs for marine, land, government, utilities and aviation use. In the US the Federal Communications Commission permitted the use of PLBs nationwide other outdoor adventurers to use this life-saving product. With a unique integral GPS capability built into our PLB, we will be the prime supplier of products into this market area.

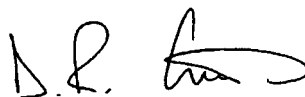
Sales of the newly developed commercial automatic identification system (AIS) transponder commenced in the fourth quarter. The AIS is an International Maritime Organisation legislated requirement for carriage of automatic identification systems capable of providing information automatically in the VHF maritime band about the ship to other ships and to coastal authorities.

US federal law requires a wide range of vessels around the US coastline to carry this equipment by the end of 2004. The overall market will exceed £100 million over the next two years and we are targeting to achieve an appreciable market share. Shore monitoring will also require the introduction of AIS base stations and

modification to existing maritime coast radio stations, which provides excellent opportunities for our emerging systems business, ICS Electronics.

Strategy

The Group's strategy is to focus on growing our niche businesses, where we are recognised international market leaders, by continuing to invest in research and development and manufacturing capability to enhance and protect our strong market presence. We will support this strategy with complementary acquisitions to increase our product range, services and technical competence as opportunities arise.



D R Evans - Chief Executive

2 February 2004

Review by the Finance Director

Operating Results

Turnover of the continuing operations was £112.3 million (2002: £85.0 million), an increase of 32%. Turnover of the discontinued operations was £8.2 million (2002: £11.3 million). Total Group turnover was £120.5 million (2002: £96.3 million), an increase of 25%.

Overheads are unchanged on last year at £15.8 million. Overheads of the discontinued operations accounted for approximately £1.5 million of the total in both years.

Net operating profits of the continuing operations were £14.3 million (2002: £7.0 million). Net operating margins of the continuing operations were 13% (2002: 8%). The discontinued operations produced an operating loss of £0.2 million in the year (2002: operating profit of £0.7 million).

Research and Development

Research and development expenditure totalled £4.7 million (2002: £4.6 million), an analysis of which is set out below. The Group's prudent policy is to write-off capitalised development costs over a three year period. Amortisation of development costs was £1.2 million (2002: £0.7 million).

Profits on Disposal

The Chemical Coatings division of Alloy Surfaces was sold in the year for £1.5 million after costs, giving rise to a profit on disposal of £0.7 million. This profit has been accounted for within discontinued operations.

The Group has reassessed the amounts recoverable in respect of the Kilgore insurance claim against RSA, and has increased the amount accrued in the Group's accounts by £1.1 million. Our total recoverable balance stands at £7.5 million (2002: £9.6 million). Legal costs of £0.5 million have been incurred during the year in connection with the claim, and these have been offset against the additional £1.1 million accrual. The balance of £0.6 million is accounted for as a net profit on disposal of assets which were destroyed in the April 2001 incident. This is summarised in the table below.

Interest

The interest charge for the year was £3.4 million (2002: £3.5 million). Interest was covered 4.1 times (2002: 2.2 times) by operating profit.

It is estimated that the Group incurred approximately £0.5 million (2002: £0.6 million) of interest during the year which would not have been incurred if the Kilgore insurance claim had been settled by RSA.

Taxation

The tax charge of £3.6 million (2002: £1.6 million) represents an effective rate of 30% (2002: 30%).

Tax losses at Kilgore were used to offset taxable profits at Alloy Surfaces and thereby reduce tax payments in the US.

It is anticipated that tax rates will rise to around 32% in the current financial year, due to the incidence of higher profits in the US.

Pensions

In accordance with FRS17 *Accounting for pension costs*, the Group has disclosed the additional information required in Note 9 of the financial statements. Under FRS17, the calculated deficit on the Group's two defined benefit pension schemes after tax was £9.9 million (2002: £9.4 million).

Actuarial valuations as at 6 April 2003 for both defined benefit schemes are in progress and will be finalised by the half year. Although the Chemring Group Staff Pension Scheme, which is by far the larger of the two, was in surplus at the last valuation, it is anticipated that both schemes will show deficits on the 2003 valuations. The Board has therefore taken action to increase its pension contributions with effect from

Research and Development	2003 £m	2002 £m
Customer funded research and development	1.9	1.4
Non-funded research and development	1.6	2.2
Capitalised development costs	1.2	1.0
Total research and development expenditure	4.7	4.6

Profits on Disposal	2003 £m	2002 £m
Material damage proceeds in excess of net book value of assets	1.1	1.7
Legal expenses incurred	(0.5)	(0.6)
Net profit on disposal	0.6	1.1

Review by the Finance Director

- continued

1 January 2004. Employers' contributions to the Staff Pension Scheme have been increased to 16% from 11.5%, and the Group has also agreed to pay an additional £15,000 per month to the Staff Pension Scheme and an additional £6,000 per month to the Executive Pension Scheme. The impact of these increased contributions over the current and future financial years is in the region of £0.5 million per annum. Employees' contributions to the Staff Pension Scheme have been increased from 6% to 8%, and 8% employees' contributions have been introduced for the Executive Pension Scheme.

The Board is also reviewing the cash flows associated with the pension schemes, and taking into account the increased contributions and the assumptions made in the cash flow model, the schemes should remain cash positive for each year over the next twenty years.

Shareholder Returns

Earnings per ordinary share were 31.04p (2002: 14.16p). Earnings per ordinary share of the continuing operations were 30.06p (2002: 12.75p).

The dividend per ordinary share of 7.40p (2002: 6.70p) is covered 4.2 times (2002: 2.1 times).

The total shareholder return for the Group over the five years to 31 October 2003 has outperformed the FTSE Small Cap Index for the same period by 209%.

Shareholders' funds at the year end were £53.5 million (2002: £48.7 million).

Cash Flow and Gearing

Operating cash flow was £18.1 million (2002: £10.1 million), representing a conversion rate from operating profit of 129% (2002: 131%). Operating cash flow was particularly strong in the second half of the year, with the predicted return to profitability of Kilgore being converted into cash flow. Working capital balances have broadly remained the same as last year, despite the substantial growth in the Group turnover.

Tangible fixed asset expenditure in the year was £5.4 million (2002: £13.1 million).

Net debt fell to £38.7 million (2002: £47.3 million). Gearing was 72% (2002: 97%).

Foreign Exchange

The Group's principal foreign exchange exposure is to the US dollar. During the year sterling appreciated by 8% against the dollar, leading to reduced profits from the US on translation of the results into sterling. The impact on the Group's sales and profit before tax was approximately 3%.

Contracts have been entered into until the end of the current financial year to reduce the Group's exposure to further depreciation of the dollar against sterling.

Post Balance Sheet Event

On 8 November 2003, the entire issued share capital of Kembrey Wiring Systems Limited was sold for net asset value of £1.9 million. Cash consideration of £1.2 million was paid on completion and a further £0.2 million was paid in January 2004. The balance of the consideration of £0.5 million is payable in two instalments on the anniversary of

completion in November 2004 and November 2005. The net assets are subject to a post completion working capital adjustment with any surpluses or deficits to net assets being adjusted via the deferred consideration.

As a consequence of the disposal process, the Group agreed to pay £0.5 million to the Chemring Group Staff Pension Scheme. This cost will be accounted for in future results.

Facilities

The Group has agreed total facilities of £49 million with Bank of Scotland to provide funding and working capital for the UK businesses and Kilgore. In addition, facilities of £7.1 million are in place with Wilmington Trust and Pennsylvania Industrial Development Authority to provide funding for Alloy Surfaces, and facilities of £0.6 million in Australia provide funding for Pains Wessex Australia.

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

International Accounting Standards

The Group is monitoring the proposed move to International Accounting Standards from 2005 and is assessing the impact on its financial statements.



P A Rayner - Finance Director
2 February 2004

Directors and Professional Advisers

Non-Executive Chairman

Kenneth C Scobie

Joined the Group as Non-Executive Chairman in June 1997. Former Chairman of Allied Leisure plc and the Executive Board of the Scottish Rugby Union. Chairman and Chief Executive of a wide range of industrial companies since 1972.

Aged 65.

Executive Directors

David R Evans

Chief Executive

Joined the Group in 1987 as Managing Director of the Countermeasures business and appointed to the Board in 1988. Became Chief Executive in 1999. Managing Director of the Marconi torpedo business prior to joining the Group.

Aged 57.

Timothy W Hayter

Chief Operating Officer

Joined the Group in November 2001 as Chief Operating Officer.

Chartered Engineer. Formerly employed by Rolls-Royce plc and Dynacast International Limited.

Aged 44.

Paul A Rayner FCA

Finance Director

Joined the Group in June 1994 and acted as Finance Director to several Group companies before being appointed to the Board in August 1999. Formerly a Senior Audit Manager with Deloitte & Touche.

Aged 42.

Non-Executive Directors

Peter J Molony

Chief Executive of the Group from June 1997 to January 1999. Previous appointments include Finance Director of Scottish & Newcastle plc and Rolls-Royce plc.

Aged 66.

General Sir John Stibbon KCB OBE

Joined the Group as a non-executive director in December 1993.

Non-Executive Chairman of ITT Defence Limited.

Former Chief Royal Engineer.

Aged 69.

Secretary

Sarah Ellard ACIS

Professional Advisers

Auditors

Deloitte & Touche LLP

Solicitors

Ashurst, London

Seyfarth Shaw, Washington

Bankers

Bank of Scotland, Southampton

Stockbrokers

Investec Henderson Crosthwaite, London

Headquarters and Registered Office

1650 Parkway, Whiteley, Fareham

Hampshire PO15 7AH, England

Tel: +44 1489 881880

Fax: +44 1489 881123

Website: www.chemring.co.uk

Registration Number

86662

Registrars

Computershare Investor Services PLC

7th Floor, Jupiter House

Triton Court

14 Finsbury Square

London EC2A 1BR

Directors' Report

for the year ended 31 October 2003

Your directors present the financial statements of the Group for the year ended 31 October 2003.

Principal Activities

The principal activities of the Group are the design, manufacture and sale of countermeasures, military pyrotechnics, and marine safety and security products.

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 3 to 10.

Dividends

The directors recommend a final dividend of 4.85p per ordinary share, which together with the interim dividend of 2.55p per ordinary share paid in September 2003, gives a total for the year of 7.40p (2002: 6.70p).

Directors and their Interests

The present directors are shown on page 11.

Mr K C Scobie and General Sir John Stibbon will be retiring by rotation at the forthcoming Annual General Meeting and will be offering themselves for re-election. The details of their service contracts with the Company are set out in the Directors' Remuneration Report on pages 14 to 18.

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 2003.

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

Substantial Shareholders

At 2 February 2004 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>
Deutsche Bank AG	13.8
Standard Life Group	11.6
Prudential Corporation PLC	5.8
Legal & General Investment Management	4.3

Employees

The Group pursues a policy of employee communication through meetings (including team briefings and works councils) and in-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. Disabled persons in employment receive equal treatment to that afforded to other employees.

Environment

The Group recognises that environmental issues are of fundamental importance to a successful and responsible business strategy, and it is committed, through a process of continual improvement, to minimising the environmental impact of its operations. In line with this commitment, the Group's businesses are striving towards:

- designing and developing products which have the minimal environmental impact during their manufacture, use and subsequent disposal
- minimising energy usage and waste wherever practicable
- reusing or recycling materials wherever practicable
- purchasing goods and services from environmentally responsible suppliers
- monitoring progress on environmental matters using external and internal auditing.

Charitable and Political Donations

Charitable donations amounting to £3,650 (2002: £2,440) were made during the year. No political donations were made during the year (2002: £nil).

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.

Creditor days as at 31 October 2003 amounted to 78 days (2002: 61 days).

The Chemring 1998 Executive Share Option Scheme

On 5 February 2003, options were granted over 100,000 ordinary shares to senior employees of the Group. Additional information is set out in Note 23.

The Chemring Group PLC Share Based Incentive Scheme ("The ESOP")

No options were granted in the year to 31 October 2003. During the year options on 8,616 shares were exercised. Additional information is set out in Note 23.

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 share option scheme, 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 8 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 9 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, to ensure that the financial statements comply with the Companies Act 1985, 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 judgments and estimates, have been used in the preparation of the financial statements, and that applicable accounting standards have been followed.

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 2003.

Auditors

On 1 August 2003, Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Group's consent has been given to treat the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. Accordingly a resolution to re-appoint Deloitte & Touche LLP will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors on 2 February 2004.

Signed on behalf of the Board

S L Ellard - Secretary

Directors' Remuneration Report

for the year ended 31 October 2003

This report sets out the information required by the Directors' Remuneration Report Regulations 2002 ("the Regulations"). As required by the Regulations, the Directors' Remuneration Report will be submitted to shareholders for approval at the Annual General Meeting on 23 March 2004.

Unaudited Information

Remuneration Committee

The Remuneration 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. None of the Committee members has any personal financial interest in the matters reserved for the Committee, nor do they have any conflicts of interest arising from cross-directorships, and they are not involved in the day to day running of the Group's business.

The Committee met five times during the year. The Chief Executive attends meetings by invitation but is not present during any discussions relating to his own remuneration. During the year the Committee received advice on remuneration matters from New Bridge Street Consultants and Aon Consulting. The Committee also consults internally with the Chief Executive and the Company Secretary.

Remuneration Policy for Executive Directors

The Committee's policy is to provide executive remuneration packages which are competitive, but not excessive, by

reference to market rates, reflect the performance of the business against financial objectives, 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 the Group's financial performance; and
- (iii) awards of share options linked to the 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.

Basic Salaries and Benefits

The executive directors' basic salaries are reviewed annually by the Committee, and adjustments made as appropriate taking into account individual performance and comparable salary levels in manufacturing companies of a similar size and in other companies within the aerospace and defence sector. The Committee refers to published salary surveys and also reviews the remuneration information presented in the annual reports of companies in the reference group.

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

Annual Bonuses

The Company operates an annual performance-related bonus plan for the executive directors. Under this arrangement, bonuses are paid based upon the achievement of predetermined

targets for earnings per share and reductions in the Group's net indebtedness. The maximum bonus which can be earned is 45% of basic salary. Bonuses are non-pensionable.

The performance measures for the bonus plan are reviewed annually by the Committee. The bonus plan will continue to be based upon earnings per share and reduction of net debt in 2004.

Share Option Scheme

The Company operates an executive share option scheme (The Chemring 1998 Executive Share Option Scheme), under which both Inland Revenue approved and unapproved options may be granted. Participation in this scheme is extended to the executive directors and senior management of the Group. In determining whether to grant options to an individual and the number of options to be granted, the Committee takes into account their level of seniority within the organisation and the anticipated contribution by that individual to the long term performance of the Group.

In order to align the interests of participants in the scheme with those of the Company's shareholders, options can only be exercised under the scheme subject to a performance condition. All options granted to date have been issued subject to a performance condition which requires the growth in the Company's earnings per share to exceed RPI by 9% over a consecutive three year period prior to exercise. Options are normally exercisable between the third and tenth anniversary of their grant.

The Committee continues to believe that a performance condition linked to growth in earnings per share is an appropriate basis upon which to reward the executive directors for a measurable increase in the performance of the Group. However, taking into account current market practice and institutional shareholders' views on this subject, it is likely that a more demanding performance condition requiring increased growth in earnings per share will be applied to future option grants under the scheme.

Long Term Incentive Scheme

The Company previously operated a long term incentive scheme known as The Chemring Group PLC Share Based Incentive Scheme. This scheme is not being utilised for executive directors at present.

Performance Graph

The graph alongside shows a comparison of the Company's total shareholder return (TSR) over the last five financial years against a "broad equity market index", as required by the Regulations. The FTSE Small Cap Index has been selected by the Committee for this comparison because it provides the most appropriate measure of performance of listed companies of a similar size to the Company.

Pensions

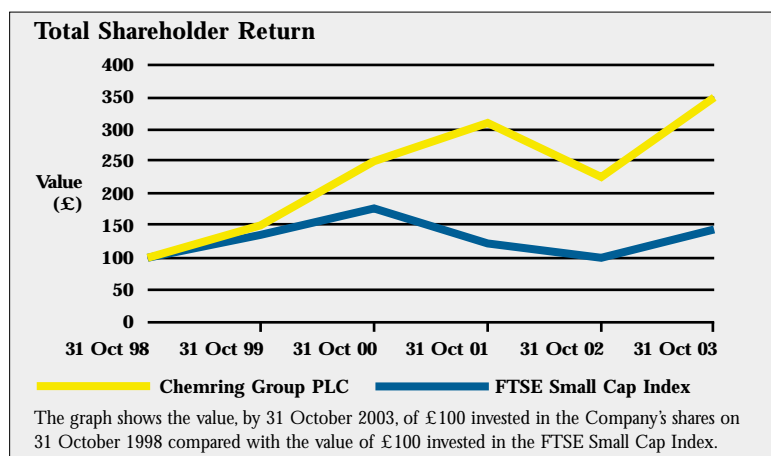
Mr Evans and Mr Rayner are members of the Chemring Group Executive Pension Scheme ("the Executive Scheme"). This is an approved final salary scheme providing, at retirement, a

pension of up to two-thirds of salary, subject to Inland Revenue limits. The Executive Scheme also provides life assurance cover, dependants' pensions and lump sum payments on death-in-service.

Mr Evans' benefits under the Executive Scheme accrue based on a pension of two-thirds final pensionable salary with no cash commutation, and a 50% spouse's pension, in respect of his membership of the scheme from 10 August 1987 to 5 April 1993. For service thereafter, his benefit accrual is based on a pension of 50% final pensionable salary plus 1.5 times final pensionable salary as cash, and a two-thirds spouse's pension. For service accrued from 1 February 2004 the spouse's pension reduces to 50%. Any excess of cash over the Inland Revenue permitted maximum is converted back to pension at the rate of £12 cash to

Mr Rayner's pension under the Executive Scheme accrues at 1/80th of final pensionable salary for each year of membership, and he also accrues a cash lump sum of 3/80ths of final pensionable salary for each year of membership. A two-thirds spouse's pension is payable in respect of service accrued to 31 January 2004, reducing to 50% for service accrued thereafter, and on death-in-service, Mr Rayner's dependants would receive a lump sum payment of two times basic salary and, in addition a spouse's pension would be payable, as calculated above. Mr Rayner is subject to the earnings cap in respect of his membership of the Executive Scheme.

All pensions in payment in respect of pensionable service accrued under the Executive Scheme after 6 April 1993 are increased by the lower of RPI or 5% per annum.



£1 pension. On death-in-service, Mr Evans' dependants would receive a lump sum payment of four times basic salary and, in addition a spouse's pension would be payable, as calculated above. Mr Evans has a normal retirement age of 60.

Prior to 1 October 2003, the Executive Scheme was non-contributory. With effect from that date, members have been required to make monthly contributions to the scheme at the rate of 6% of pensionable salary.

Directors' Remuneration Report

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This has been increased to 8% with effect from 1 February 2004.

Mr Hayter became a member of the Chemring Group Staff Pension Scheme ("the Staff Scheme") on 1 October 2003, although his benefits have been backdated to 1 November 2001, being the date of his appointment. The Staff Scheme is also an approved final salary scheme but is contracted out of the State Second Pension. Mr Hayter's benefits under the Staff Scheme accrue in an identical manner to that in which Mr Rayner accrues benefits under the Executive Scheme, as set out above. Mr Hayter is also subject to the earnings cap.

Prior to 1 February 2004, members were required to make monthly contributions to the Staff Scheme at the rate of 6% of pensionable salary. With effect from that date, this has been increased to 8%.

Both Mr Hayter and Mr Rayner have a normal retirement age of 65.

Service Contracts

Mr Evans has a service contract with the Company dated 10 December 1991, which is due to expire on his 60th birthday on 27 October 2006. The contract is terminable on two years' notice by the Company and on twelve months' notice by Mr Evans. The Committee believes that Mr Evans' notice period, which was agreed with him in 1994, remains appropriate and in line with the requirements of the Company,

particularly as Mr Evans' current service contract will expire in 2006 in any event.

Mr Hayter and Mr Rayner have rolling service contracts dated 12 December 2001 and 27 August 1999 respectively. These provide for termination by either party on twelve months' notice.

The executive directors' service contracts provide that the Company may make a payment in lieu of their contractual notice period but there are no other provisions relating to compensation on early termination.

Non-Executive Directors

Fees for the non-executive directors are determined annually by the Board. The fees payable to Mr Molony and General Sir John Stibbon were increased from £20,000 per annum to £25,000 per annum with effect from 1 October 2003.

The Company provides private medical insurance for General Sir John Stibbon and his spouse.

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

Mr Scobie has a rolling service 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, was

increased from £55,000 per annum for 50 days' service to £80,000 per annum with effect from 1 October 2003. Additional services are paid for at the rate of £1,000 per day.

The non-executive directors do not normally participate in the Company's bonus and 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 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 at least 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.

Audited Information

Directors' Emoluments

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

	<i>Salaries and fees</i>		<i>Cash bonuses</i>		<i>Taxable benefits</i>		<i>Total</i>	
	<i>2003 £000</i>	<i>2002 £000</i>	<i>2003 £000</i>	<i>2002 £000</i>	<i>2003 £000</i>	<i>2002 £000</i>	<i>2003 £000</i>	<i>2002 £000</i>
Executives								
D R Evans	175	175	20	-	24	18	219	193
T W Hayter	122	120	18	-	70	13	210	133
P A Rayner	112	107	16	-	16	13	144	120
Non-executives								
P J Molony	20	20	-	-	-	-	20	20
K C Scobie	57	56	-	-	-	-	57	56
J Stibbon	20	20	-	-	2	2	22	22
Total remuneration	506	498	54	-	112	46	672	544

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 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 16, in respect of which the Group had accrued £420,000 (2002: £268,000) as at 31 October 2003. £152,000 (2002: credit of £123,000) was charged to the profit and loss account during the year in respect of Mr Scobie's long term incentive scheme, reflecting the increase in the Group's share price during the period and the increase in the cash amount to be paid to Mr Scobie on exercise of his phantom options.

Mr Hayter received £58,000 in respect of relocation expenses during the year, which has been included within taxable benefits in the table above.

Directors' Share Interests

The interests of the directors in the ordinary shares of the Company at 1 November 2002 and 31 October 2003 are shown below.

All are beneficial holdings.

	<i>2003 Number</i>	<i>2002 Number</i>
D R Evans	85,997	89,997
T W Hayter	5,000	5,000
P J Molony	-	-
P A Rayner	11,500	11,500
K C Scobie	134,864	129,864
J Stibbon	-	-

No movements have taken place between 31 October 2003 and 2 February 2004.

In addition to the interests detailed above, by the 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 PLC Share Based Incentive Scheme.

Directors' Remuneration Report

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Share Options

The holdings by the executive directors of share options granted under The Chemring 1998 Executive Share Option Scheme at 1 November 2002 and 31 October 2003 are shown below.

	At 1 Nov 2002	Number of share options			At 31 Oct 2003	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	100,000	-	-	-	100,000	236	-	3 Feb 2003	2 Feb 2010
T W Hayter	54,000	-	-	-	54,000	380.5	-	23 Jan 2005	22 Jan 2012
P A Rayner	50,000	-	-	-	50,000	236	-	3 Feb 2003	2 Feb 2010

The market price of the Company's ordinary shares at 31 October 2003 was 378.5p. During the year, the ordinary shares traded within the range 218.5p to 433.5p.

Pensions

The following table sets out the pension benefits accrued by the executive directors during the year.

	Total accrued benefit at 31 Oct 2002		Transfer value of accrued benefit at 31 Oct 2002		Increase in accrued benefit during year before inflation		Total accrued benefit at 31 Oct 2003		Transfer value of accrued benefit at 31 Oct 2003		Increase in accrued benefit during year after inflation		Transfer value of increase in accrued benefit after inflation (less members' contri- butions)	Increase in transfer value during year (less members' contri- butions)
	Pension (£p.a.)	Cash (£)	Pension (£p.a.)	Cash (£)	Pension (£p.a.)	Cash (£)	Pension (£p.a.)	Cash (£)	Pension (£p.a.)	Cash (£)	Pension (£p.a.)	Cash (£)	(£)	(£)
D R Evans	81,476	108,804	1,340,996	5,653	7,174	87,129	115,978	1,495,990	3,039	4,345	53,181	154,066		
T W Hayter	-	-	-	2,475	7,425	2,475	7,425	18,954	2,475	7,425	14,031	14,031		
P A Rayner	9,519	28,556	107,397	2,134	6,403	11,653	34,959	134,976	1,887	5,660	8,696	27,084		

i) Transfer values represent liabilities of the applicable scheme, and do not represent sums paid to the individuals.

ii) Transfer values have been calculated on the basis of actuarial advice. During the year, the basis on which transfer values are calculated was updated. For consistency, all transfer values have been calculated on the new basis, based on financial conditions at the respective dates.

iii) As referred to previously, Mr Hayter only joined the Staff Pension Scheme on 1 October 2003 but his benefits have been backdated to 1 November 2001. The figures above represent his total accrued benefits.

Approval of the Directors' Remuneration Report

The Directors' Remuneration Report was approved by the Board on 2 February 2004.

Signed on behalf of the Board

K C Scobie - Chairman of the Remuneration Committee

Statement on Corporate Governance

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 three 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 judgment. 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 Directors' Remuneration Report on pages 14 to 18.

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. The Company's website (www.chemring.co.uk) also provides financial and business information on the Group.

All directors are available to take questions from shareholders or address any concerns at the AGM. At other times of the year, the directors 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 13.

Internal Control

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

The Board acknowledges its responsibility for the Group's systems of internal control and attaches considerable importance to these systems, which are designed to meet the Group's particular needs and identify those risks to which it is exposed. However, the systems can only provide reasonable, not absolute, assurance against material misstatement, loss or mismanagement of the Group's assets.

In carrying out its review of the effectiveness of the Group's systems of internal control, the Board has taken into consideration the following key features of the Group's risk management systems and control procedures which operated during the year:

Statement on Corporate Governance

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■ The Board assesses the key risks associated with achievement of the Group's business objectives as part of the annual strategic planning process. Out of this process, each business establishes a three year plan and annual budget, which are subject to approval by the Board. The performance of each business against budget and prior years is reviewed on a monthly basis at both operational level and by the Board. Achievement of strategic business objectives and the associated risks are monitored by the Board on an ongoing basis.

■ All businesses hold monthly operating meetings, which are attended by at least one main Board director, either in person or, in the case of the overseas companies, by video conference. In the case of the US businesses, formal Board meetings are held quarterly and these are attended by both main Board directors and external non-executive directors appointed in the US. The US non-executive directors are available to provide guidance and monitor governance in the US businesses throughout the year.

■ Each business is required to comply with the Group's accounting policy manual, which sets out formal procedures for incurring certain types of expenditure and making contractual commitments. Compliance with the accounting policy manual is reviewed by both the Audit Committee and the full Board.

■ The Board retains primary responsibility for acquisitions and disposals, and financing arrangements for the Group. Treasury management, IT strategy, insurance and significant legal matters are dealt with centrally from the Group head office, and the Board receives regular reports on each of these items. Reviews of the Group's pensions, insurance and risk management arrangements are carried out by external advisers on a regular basis.

■ A dedicated Group Health and Safety Manager, supported by a Group Health and Safety Management Committee, co-ordinates and controls the activities of each business in relation to health and safety, which is a key focus for the Board in view of the nature of the Group's operations. A sub-committee of the main Board has also been constituted to focus specifically on safety. External auditors carry out an annual review of the health and safety management systems at each of the Group's operations.

■ A Risk Management Committee co-ordinates and reports to the Board on the risk control procedures implemented by each business at an operational level.

The Board confirms that it has reviewed the effectiveness of the Group's systems of internal control and risk management which were in place during the financial year ended 31 October 2003, and it confirms that

systems of internal control and risk management compliant with the Combined Code and the Turnbull Guidance were in place throughout the year and have remained in place up to the date of approval of these financial statements. Notwithstanding this, the Board will continue to take steps to embed internal control and risk management further into the operations of the Group and to deal with any areas of improvement which come to the attention of management and the Board.

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 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).
- Mr Evans has a service contract with a notice period in excess of one year, details of which are disclosed in the Directors' Remuneration Report (B.1.7).

The directors have considered the requirements of the revised Combined Code, incorporating the recommendations made in the Higgs and Smith reports, and are taking steps to achieve compliance for the financial year ending 31 October 2004.

Going Concern

The directors have acknowledged the latest guidance on going concern and, after making appropriate enquiries, have formed a judgment 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 2 February 2004.

Signed on behalf of the Board

S L Ellard - Secretary

Independent Auditors' Report on the Financial Statements

for the year ended 31 October 2003

Independent Auditors' Report to the Members of Chemring Group PLC

We have audited the financial statements of Chemring Group PLC for the year ended 31 October 2003 which comprise the profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses and the related notes 1 to 29, together with the reconciliation of movements in shareholders' funds and the notes to the cash flow statement. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with

applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information specified by law regarding directors' remuneration 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 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's 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 Directors' Report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the Directors' Remuneration Report and 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 and the part of the Directors' Remuneration Report described as having been audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the 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 and the part of the Directors' Remuneration Report described as having been audited are free from material misstatement, whether caused

by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report described as having been audited.

Uncertainty relating to insurance claim

In forming our opinion, we have considered the adequacy of the disclosure made in Note 6 concerning the amounts recoverable and contributions to profit recognised under an insurance claim relating to a manufacturing incident at Kilgore Flares, a subsidiary undertaking of the Company, in April 2001, resulting in material damage and suspension of operations. The future settlement of this claim could result in a shortfall, or a surplus, when compared with the recorded debtor at 31 October 2003. It is not possible to quantify the effect, if any, of this uncertainty. Details of the circumstances relating to this uncertainty and the amount of the related debtor recorded at 31 October 2003 are disclosed in Note 6. Our opinion is not qualified in this respect.

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 2003 and of the profit of the Group for the year then ended, and the financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and
Registered Auditors
Southampton

2 February 2004

Independent Auditors' Report on the Financial Statements

for the year ended 31 October 2003

Independent Auditors' Report to the Members of Chemring Group PLC

We have audited the financial statements of Chemring Group PLC for the year ended 31 October 2003 which comprise the profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses and the related notes 1 to 29, together with the reconciliation of movements in shareholders' funds and the notes to the cash flow statement. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with

applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information specified by law regarding directors' remuneration 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 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's 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 Directors' Report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the Directors' Remuneration Report and 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 and the part of the Directors' Remuneration Report described as having been audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the 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 and the part of the Directors' Remuneration Report described as having been audited are free from material misstatement, whether caused

by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report described as having been audited.

Uncertainty relating to insurance claim

In forming our opinion, we have considered the adequacy of the disclosure made in Note 6 concerning the amounts recoverable and contributions to profit recognised under an insurance claim relating to a manufacturing incident at Kilgore Flares, a subsidiary undertaking of the Company, in April 2001, resulting in material damage and suspension of operations. The future settlement of this claim could result in a shortfall, or a surplus, when compared with the recorded debtor at 31 October 2003. It is not possible to quantify the effect, if any, of this uncertainty. Details of the circumstances relating to this uncertainty and the amount of the related debtor recorded at 31 October 2003 are disclosed in Note 6. Our opinion is not qualified in this respect.

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 2003 and of the profit of the Group for the year then ended, and the financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and
Registered Auditors
Southampton

2 February 2004

Consolidated Profit and Loss Account

for the year ended 31 October 2003

Note	Continuing operations £000	Discontinued operations £000	2003 Total operations £000	Continuing operations £000	Discontinued operations £000	2002 Total operations £000
2 Turnover	112,317	8,240	120,557	85,012	11,315	96,327
Analysis of operating profit/(loss):						
Kilgore						
- normal operations	2,180	-	2,180	(4,851)	-	(4,851)
6 - insurance claim	-	-	-	5,559	-	5,559
	2,180	-	2,180	708	-	708
Rest of Group	12,076	(216)	11,860	6,298	684	6,982
Operating profit/(loss)	14,256	(216)	14,040	7,006	684	7,690
4 Operating profit/(loss)	14,256	(216)	14,040	7,006	684	7,690
Associated undertaking						
5 Profit on disposal:	178	-	178	89	-	89
- insurance claim	565	-	565	1,123	-	1,123
- sale of division	-	724	724	-	-	-
Profit on ordinary activities before interest	14,999	508	15,507	8,218	684	8,902
10 Interest payable	(3,306)	(127)	(3,433)	(3,344)	(142)	(3,486)
Profit on ordinary activities before taxation	11,693	381	12,074	4,874	542	5,416
11 Tax on profit on ordinary activities	(3,465)	(113)	(3,578)	(1,444)	(161)	(1,605)
Profit on ordinary activities after taxation	8,228	268	8,496	3,430	381	3,811
Equity minority interest						
			23			29
Profit for the financial year			8,519			3,840
12 Dividends			(2,034)			(1,843)
24 Retained profit			6,485			1,997
13 Basic earnings per ordinary share			31.04p			14.16p
13 Basic earnings per ordinary share – continuing	30.06p			12.75p		
13 Diluted earnings per ordinary share			30.60p			14.11p

Additional Financial Performance Statements

for the year ended 31 October 2003

	<i>2003</i>	<i>2002</i>
	<i>£000</i>	<i>£000</i>
Statement of total recognised gains and losses		
Profit on ordinary activities after taxation	8,496	3,811
Currency translation differences on foreign currency net investments	(1,636)	(756)
	<hr/>	<hr/>
Total recognised gains and losses relating to the year	6,860	3,055
	<hr/>	<hr/>

Reconciliation of movements in shareholders' funds

Profit on ordinary activities after taxation	8,496	3,811
Equity minority interest	23	29
Dividends	(2,034)	(1,843)
	<hr/>	<hr/>
Retained profit	6,485	1,997
Other recognised losses	(1,636)	(756)
Ordinary shares issued	-	25
Share premium arising	-	1,391
	<hr/>	<hr/>
Net addition to shareholders' funds	4,849	2,657
Opening shareholders' funds	48,671	46,014
	<hr/>	<hr/>
Closing shareholders' funds	53,520	48,671
	<hr/>	<hr/>

The historical cost profit and loss for the year is not materially different to that shown on the previous page.

Consolidated Balance Sheet

as at 31 October 2003

		2003	2002
		£000	£000
	Note		
Fixed assets			
Intangible assets			
Development costs	14	2,996	3,002
Goodwill	14	28,442	28,343
		31,438	31,345
Tangible assets	15	42,879	42,746
Investments	16	1,063	972
		75,380	75,063
Current assets			
Stock	17	20,248	17,807
Debtors	18	36,346	32,636
Cash at bank and in hand		5,821	3,774
		62,415	54,217
Creditors due within one year	19	(57,675)	(49,288)
Net current assets		4,740	4,929
Total assets less current liabilities		80,120	79,992
Creditors due after more than one year	20	(21,489)	(29,375)
Provisions for liabilities and charges	22	(4,832)	(1,644)
Equity minority interest		(279)	(302)
		53,520	48,671
Capital and reserves			
Called-up share capital	23	1,434	1,434
Reserves			
Share premium account	24	20,726	20,726
Special capital reserve	24	12,939	12,939
Revaluation reserve	24	2,446	2,482
Revenue reserves	24	15,975	11,090
		52,086	47,237
Shareholders' funds		53,520	48,671
Attributable to equity shareholders		53,458	48,609
Attributable to non-equity shareholders		62	62
		53,520	48,671

These financial statements were approved by the Board of Directors on 2 February 2004.

Signed on behalf of the Board

D R Evans

P A Rayner

Parent Balance Sheet

as at 31 October 2003

		2003	2002
		£000	£000
	Note		
Fixed assets			
Tangible assets	15	932	986
Investments	16	37,018	39,584
		<u>37,950</u>	<u>40,570</u>
Current assets			
Debtors	18	55,071	54,824
Cash at bank and in hand		96	237
		<u>55,167</u>	<u>55,061</u>
Creditors due within one year	19	(41,075)	(34,355)
Net current assets		<u>14,092</u>	<u>20,706</u>
Total assets less current liabilities		52,042	61,276
Creditors due after more than one year	20	(15,559)	(22,491)
		<u>36,483</u>	<u>38,785</u>
Capital and reserves			
Called-up share capital	23	1,434	1,434
Reserves			
Share premium account	24	20,726	20,726
Special capital reserve	24	12,939	12,939
Revenue reserves	24	1,384	3,686
		<u>35,049</u>	<u>37,351</u>
Shareholders' funds		<u>36,483</u>	<u>38,785</u>
Attributable to equity shareholders		36,421	38,723
Attributable to non-equity shareholders		62	62
		<u>36,483</u>	<u>38,785</u>

These financial statements were approved by the Board of Directors on 2 February 2004.

Signed on behalf of the Board

D R Evans

P A Rayner

Consolidated Cash Flow Statement

for the year ended 31 October 2003

		2003	2002
		£000	£000
	Note		
Net cash inflow from operating activities	A	18,084	10,056
Returns on investments and servicing of finance	B	(3,420)	(2,899)
Taxation		(686)	671
Capital expenditure	B	(5,497)	(10,622)
Acquisitions and disposals	B	1,475	(145)
Equity dividends paid		(1,866)	(1,818)
Cash inflow/(outflow) before use of liquid resources and financing		8,090	(4,757)
Financing - issue of shares	B	-	54
- decrease in debt	B	(5,645)	(2,111)
		(5,645)	(2,057)
Increase/(decrease) in cash	C	2,445	(6,814)
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash		2,445	(6,814)
Cash outflow from the decrease in debt and lease financing		5,645	2,111
Change in net debt resulting from cash flows		8,090	(4,703)
New finance leases		(1,153)	(3,479)
Translation difference		1,964	1,212
New finance costs applied to loans		-	737
Amortisation of debt finance costs		(305)	(102)
Movement in net debt		8,596	(6,335)
Opening net debt		(47,277)	(40,942)
Closing net debt		(38,681)	(47,277)

Notes to the Consolidated Cash Flow Statement

for the year ended 31 October 2003

A. RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2003			2002		
	<i>Continuing operations</i>	<i>Discontinued operations</i>	<i>Total operations</i>	<i>Continuing operations</i>	<i>Discontinued operations</i>	<i>Total operations</i>
	£000	£000	£000	£000	£000	£000
Operating profit/(loss)	14,256	(216)	14,040	7,006	684	7,690
Amortisation charge	1,210	-	1,210	702	-	702
Depreciation charge	3,229	66	3,295	2,873	56	2,929
Loss on disposal of fixed assets	-	-	-	27	-	27
(Increase)/decrease in stock	(3,215)	375	(2,840)	338	176	514
(Increase)/decrease in debtors	(4,078)	325	(3,753)	(1,301)	463	(838)
Increase/(decrease) in creditors	6,107	25	6,132	314	(1,282)	(968)
	<u>17,509</u>	<u>575</u>	<u>18,084</u>	<u>9,959</u>	<u>97</u>	<u>10,056</u>

B. ANALYSIS OF CASH FLOWS

	£000	2003 £000	£000	2002 £000
Returns on investments and servicing of finance				
Interest paid		(3,516)		(2,907)
Preference dividend paid		(4)		(4)
Dividend from associate		100		12
Net cash outflow from returns on investments and servicing of finance		<u>(3,420)</u>		<u>(2,899)</u>
Capital expenditure and financial investment				
Purchase of intangible fixed assets		(1,208)		(990)
Purchase of tangible fixed assets		(4,289)		(9,632)
Net cash outflow from capital expenditure and financial investment		<u>(5,497)</u>		<u>(10,622)</u>
Acquisitions and disposals				
Acquisitions of subsidiary undertakings		-		(243)
Net cash acquired with subsidiary undertakings		-		98
Receipts from sale of division		1,475		-
Net cash inflow/(outflow) from acquisitions and disposals		<u>1,475</u>		<u>(145)</u>
Financing				
Issue of ordinary share capital		-		54
Capital elements of finance lease payments	(1,194)		(427)	
Debt due within one year:				
- bank loans	(4,451)		(1,684)	
		<u>(5,645)</u>		<u>(2,111)</u>
Net cash outflow from financing		<u>(5,645)</u>		<u>(2,057)</u>

Notes to the Consolidated Cash Flow Statement

- continued

C. ANALYSIS OF NET DEBT

	<i>At</i> <i>1 Nov 2002</i> <i>£000</i>	<i>Cash flow</i> <i>£000</i>	<i>Other</i> <i>non-cash</i> <i>changes</i> <i>£000</i>	<i>Exchange</i> <i>movement</i> <i>£000</i>	<i>At</i> <i>31 Oct 2003</i> <i>£000</i>
Cash at bank and in hand	3,774	2,182	-	(135)	5,821
Overdrafts	(17,345)	263	-	316	(16,766)
	<u>(13,571)</u>	<u>2,445</u>	<u>-</u>	<u>181</u>	<u>(10,945)</u>
Debt due within one year	(5,403)	4,451	(5,427)	119	(6,260)
Debt due after one year	(24,851)	-	5,122	1,664	(18,065)
Finance leases	(3,452)	1,194	(1,153)	-	(3,411)
	<u>(47,277)</u>	<u>8,090</u>	<u>(1,458)</u>	<u>1,964</u>	<u>(38,681)</u>

Other non-cash changes represent the movement of debt due after one year to within one year and the amortisation of debt finance costs.

Notes to the Financial Statements

for the year ended 31 October 2003

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable United Kingdom 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 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, and inspection and quality procedures have been completed but goods await collection. Long term contracts are accounted for in accordance with SSAP 9 (revised), whereby a prudent level of income is recognised based on the estimated percentage completion of contracts where the final outcome can be reasonably assessed.

Acquisitions

On the acquisition of a business, fair values are attributed to the Group's share of net separable assets. Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and capitalised in the balance sheet in the year of acquisition.

The results and cash flows relating to an acquired business are included in the consolidated profit and loss account and the consolidated cash flow statement from the date of acquisition.

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. 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 three years.

Notes to the Financial Statements

- continued

1. ACCOUNTING POLICIES - continued

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

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

Stock is 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 in full 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. Deferred taxation is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. Deferred tax assets and liabilities are discounted.

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.

Trading results of overseas subsidiary undertakings are translated into sterling at an average rate for the period and net assets are translated at the rate ruling at the balance sheet date. Exchange differences arising between average rate and closing rate and from the translation of the opening net investment in overseas companies and matched long term foreign currency borrowings are taken directly to reserves.

1. ACCOUNTING POLICIES - *continued*

Pensions

The Group operates defined benefit pension schemes which cover the majority of UK 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.

The Group also operates money purchase pension arrangements for overseas employees, the costs of which are charged to the profit and loss account as incurred.

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

	2003			2002		
	<i>Continuing</i>	<i>Discontinued</i>	<i>Total</i>	<i>Continuing</i>	<i>Discontinued</i>	<i>Total</i>
	<i>operations</i>	<i>operations</i>	<i>operations</i>	<i>operations</i>	<i>operations</i>	<i>operations</i>
	£000	£000	£000	£000	£000	£000
Turnover						
UK	22,292	6,337	28,629	23,257	8,242	31,499
USA	44,422	1,120	45,542	32,359	2,010	34,369
Australia	12,089	-	12,089	4,642	-	4,642
Europe	16,640	783	17,423	14,723	1,063	15,786
Rest of world	16,874	-	16,874	10,031	-	10,031
Total	112,317	8,240	120,557	85,012	11,315	96,327

An analysis of turnover by business area is given in the summary financial information on page 2 and forms part of these financial statements. 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.

The results of Kembrey Wiring Systems Limited (see Note 29) and Alloy Surfaces Chemical Coatings, a division of Alloy Surfaces Company, Inc. (see Note 27) are included within discontinued operations.

Notes to the Financial Statements

- continued

3. COST OF SALES, GROSS PROFIT AND OTHER OPERATING EXPENSES

	2003			2002		
	<i>Continuing operations</i>	<i>Discontinued operations</i>	<i>Total operations</i>	<i>Continuing operations</i>	<i>Discontinued operations</i>	<i>Total operations</i>
	£000	£000	£000	£000	£000	£000
Cost of sales - normal	83,807	6,870	90,677	69,205	9,155	78,360
- insurance claim (see Note 6)	-	-	-	(5,559)	-	(5,559)
	83,807	6,870	90,677	63,646	9,155	72,801
Gross profit	28,510	1,370	29,880	21,366	2,160	23,526
Distribution costs	3,112	-	3,112	3,126	51	3,177
Administrative expenses	11,142	1,586	12,728	11,234	1,425	12,659
Other operating expenses (net)	14,254	1,586	15,840	14,360	1,476	15,836

4. OPERATING PROFIT/(LOSS)

	2003	2002
	£000	£000
Operating profit/(loss) is stated after charging:		
Depreciation - owned assets	2,685	2,658
- leased assets	610	271
Amortisation - intangible assets	1,210	702
Operating lease rentals - land and buildings	440	644
- plant and equipment	1,138	1,077

During the year £4,742,000 (2002: £4,550,000) of research and development costs were incurred by the Group, of which £1,208,000 (2002: £990,000) was capitalised (see Note 14).

	2003	2002
	£000	£000
Auditors' remuneration		
Statutory audit services:		
Group audit	130	130
Subsidiary company audits	29	29
Further assurance services:		
Accounts preparation and advice	11	11
Tax services:		
Tax compliance	106	107
Tax advisory	84	79
Other non-audit services:		
Corporate finance	18	153
	378	509

5. PROFIT ON DISPOSAL

Insurance claim

A profit on disposal of £565,000 arose from the allocation of material damage insurance proceeds in excess of historic net book value of assets of £1,077,000, less legal and professional fees incurred of £512,000. As no tax arises in respect of the disposal of the related asset, the tax effect is limited to a credit of £174,000 in respect of the costs incurred. For further details see Note 6.

Sale of business division

On 11 July 2003 the Group sold the business and net assets of Alloy Surfaces Chemical Coatings, a division of Alloy Surfaces Company, Inc.. A profit on disposal of £724,000 arose on the sale of the business, being the excess of the net consideration over net assets disposed of. For further details see Note 27.

6. INSURANCE CLAIM

Following the manufacturing incident at Kilgore Flares Company LLC on 18 April 2001, resulting in material damage and suspension of operations, the Group lodged a claim with its insurers for property damage and business interruption. Legal proceedings in respect of this claim were filed in a Tennessee Court in March 2002 for an additional £11,000,000 over and above the £3,200,000 which had been received from insurers at that time. Alongside the legal process, negotiations with the Group's insurers have continued throughout the year ended 31 October 2003.

At 31 October 2003, the Board has made a further estimate of the additional proceeds which it believes that Kilgore is entitled to receive under the insurance policy, after taking advice from its professional advisers, of which £1,077,000 (2002:£7,300,000) has been recognised in these financial statements. Of this, £nil (2002: £5,559,000) has been credited to cost of sales with the balance, net of legal and professional costs of £512,000 (2002:£618,000), being allocated as material damage proceeds. As the material damage related to fixed assets, the surplus of £565,000 (2002:£1,123,000) has been accounted for as a profit on disposal, in accordance with FRS15, and included separately in the profit and loss account. For further details see Note 5.

At 31 October 2003, payments totalling £5,700,000 (2002:£3,200,000) had been received from the Group's insurers.

The balance of the claim that had not been recovered from the insurers at the year end was £7,486,000 (2002:£9,633,000) which has been included within other debtors. Foreign exchange movements of £724,000 have been recognised through the statement of total recognised gains and losses in these financial statements, due to the claim being denominated in US dollars.

7. EMPLOYEES

The average number employed by the Group within each category of persons was:

	<i>2003</i>	<i>2002</i>
	<i>Number</i>	<i>Number</i>
Production	1,423	1,334
Sales and administration	218	241
	1,641	1,575
The costs incurred in respect of these employees were:	<i>£000</i>	<i>£000</i>
Wages and salaries	33,707	30,098
Social Security costs	3,965	4,692
Other pension costs	1,815	1,444
	39,487	36,234

Notes to the Financial Statements

- continued

8. 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 Directors' Remuneration Report on pages 14 to 18, and that information which is described as having been audited forms part of these audited financial statements.

9. PENSIONS

Pension arrangements

The pension cost figures used in these financial statements comply with the current accounting standard SSAP 24 *Accounting for pension costs*. A new accounting standard, FRS17 *Retirement benefits*, has been issued and transitional requirements continue to apply.

Within the UK the Group operates two defined benefit schemes, the Chemring Group Staff Pension Scheme (the "Staff Scheme") and the Chemring Group Executive Pension Scheme (the "Executive Scheme"), as detailed below. The overseas arrangements are all defined contribution schemes. The assets of the schemes are held in separate trustee administered funds.

Regular pension costs - SSAP 24

The total pension costs for the Group for the year ended 31 October 2003 were £1,815,000 (2002: £1,444,000). Disclosures given relate to the Group as the pension assets and liabilities of the Parent cannot be separately identified.

The costs of the defined benefit schemes are assessed in accordance with the advice of a qualified actuary using the attained age method. Contributions to the schemes are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group.

The last actuarial valuation of the Staff Scheme was carried out as at 6 April 2000. The main assumptions used by the actuary in carrying out this valuation were as follows: return on investments of 7.5% per annum pre-retirement and 5.5% to 6% per annum post-retirement; increase in salaries of 5% per annum; and increase in pension accrued after 6 April 1993 of 3% per annum.

At the date of the last actuarial valuation, the market value of the assets of the Staff Scheme was £22,472,000, which was sufficient to cover 101% of the benefits that had accrued to members. Following the valuation, it was agreed that the Group would pay contributions at the rate of 10.5% of pensionable salaries, increasing to 11% with effect from 1 April 2002 and 11.5% with effect from 1 April 2003. Members pay contributions at the rate of 6% of pensionable salaries. With effect from 1 January 2004, the Group has increased its contributions to 16% plus an additional monthly contribution of £15,000. Members' contributions have been increased to 8% of pensionable salary with effect from 1 February 2004.

A new actuarial valuation of the Staff Scheme as at 6 April 2003 is currently in progress but has not yet been finalised.

The last actuarial valuation of the Executive Scheme was carried out as at 6 April 2001. The main assumptions used by the actuary in carrying out this valuation were as follows: return on investments of 7% per annum pre-retirement and 5% per annum post-retirement; increase in salaries of 4.75% per annum; and increase in pension accrued after 6 April 1993 of 2.5% per annum.

9. PENSIONS – *continued*

At the date of the last actuarial valuation, the market value of the assets of the Executive Scheme was £2,797,000, which was sufficient to cover 63% of the benefits that had accrued to members. Following the valuation, it was agreed that the Group would pay increased contributions at the rate of 32% of pensionable salaries, together with additional payments of £14,000 per month. With effect from 1 October 2003, members have been required to make contributions at the rate of 6% of pensionable salary. With effect from 1 January 2004, the Group increased the additional payments it makes to the Executive Scheme from £14,000 to £20,000 per month. The Executive Scheme is closed to new entrants. The Group's contribution rate over the average remaining service lives of the members of the Executive Scheme takes account of the deficit disclosed by the valuation.

A new actuarial valuation of the Executive Scheme as at 6 April 2003 is also currently in progress but has not yet been finalised.

Included within other debtors (see Note 18) is £263,000 (2002: £237,000) in respect of pension contributions to defined benefit schemes, being the difference between amounts recognised as costs and amounts paid or funded directly.

As required by SSAP 24, the figures included in the financial statements in respect of the Group's pension schemes are based on actuarial valuations carried out as at 6 April 2000 and 6 April 2001. These do not take into account any impact of the fall in stock market values since these dates. Any such impact will be reflected in the next valuations as at 6 April 2003, based upon which subsequent pension costs will be determined until the adoption of FRS17.

FRS17 disclosures

Under the transitional arrangements of FRS17, the Group is required to disclose the following information about the schemes and the figures that would have been shown in the Group balance sheet if FRS17 applied in full today.

Provisional numbers in respect of full actuarial valuations for the Staff Scheme and the Executive Scheme as at 6 April 2003 have been prepared and updated to 31 October 2003 by a qualified actuary, using the projected unit valuation method.

The total assets and liabilities of the Staff Scheme and the Executive Scheme updated to 31 October 2003 in accordance with FRS17, along with the expected rates of return on assets were as follows:

	<i>Long term rate of return expected</i>	<i>2003 Value £000</i>	<i>Long term rate of return expected</i>	<i>2002 Value £000</i>
Equities	7.1%	12,395	6.7%	10,938
Bonds	5.1%	7,195	4.7%	7,230
Other assets	5.1%	731	4.7%	113
		<hr/>		<hr/>
Total market value of assets		20,321		18,281
Present value of scheme liabilities		(34,450)		(31,748)
		<hr/>		<hr/>
Deficit in schemes		(14,129)		(13,467)
Related deferred tax		4,239		4,040
Net pension liability		(9,890)		(9,427)

If the FRS17 net deficit in respect of the two schemes of £9,890,000 at 31 October 2003 (2002: £9,427,000) had been accounted for as a liability of the Group at that date, the balance on the Group's profit and loss reserve at that date would have been reduced from £15,975,000 to £6,085,000 (2002: £11,090,000 to £1,663,000).

Notes to the Financial Statements

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9. PENSIONS - continued

The figures shown above were calculated on the basis of the following assumptions:

	2003	2002
Discount rate	6.1%	6.1%
Rate of increase in salaries	3.9-4.9%	3.4-4.4%
Rate of increase in deferred pensions	2.9-5.0%	2.4-5.0%
Rate of increase in pensions in payment (where applicable)	2.9%	2.4%
Inflation assumption	2.9%	2.4%

Analysis of movement in the deficit in the schemes during the year:

	2003	2002
	£000	£000
Opening deficit in the schemes	(13,467)	(9,137)
Current service cost	(802)	(785)
Contributions	1,030	889
Other finance costs	(851)	(468)
Actuarial losses	(39)	(3,966)
Closing deficit in the schemes	<u>(14,129)</u>	<u>(13,467)</u>

Amounts that would have been included within the financial statements for the year ended 31 October 2003 had FRS17 been applied are as follows:

	2003	2002
	£000	£000
Amounts included within operating profit:		
Current service cost	<u>802</u>	<u>785</u>

	2003	2002
	£000	£000
Amounts included as other finance costs:		
Expected return on scheme assets	1,093	1,341
Discount on scheme liabilities	<u>(1,944)</u>	<u>(1,809)</u>
Net charge	<u>(851)</u>	<u>(468)</u>

Amounts that would have been included within the statement of total recognised gains and losses for the year ended 31 October 2003 had FRS17 been applied are shown below, expressed in monetary amounts and as a percentage of:

- (i) scheme assets at the balance sheet date;
- (ii) present value of the scheme liabilities at the balance sheet date.

	2003	2002
	£000 %	£000 %
Difference between actual and expected return		
on scheme assets (i)	455 2.2	(4,333) (23.7)
Experience gains and losses arising on scheme liabilities (ii)	2,517 7.3	(217) (0.7)
Effects of changes in assumptions underlying the present value		
of the scheme liabilities (ii)	<u>(3,011)</u> (8.7)	584 1.8
Total actuarial losses	<u>(39)</u> (0.1)	<u>(3,966)</u> (12.5)

10. INTEREST PAYABLE

	2003			2002		
	<i>Continuing</i>	<i>Discontinued</i>	<i>Total</i>	<i>Continuing</i>	<i>Discontinued</i>	<i>Total</i>
	<i>operations</i>	<i>operations</i>	<i>operations</i>	<i>operations</i>	<i>operations</i>	<i>operations</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Bank overdraft interest	914	127	1,041	972	142	1,114
Loan stock interest (see Note 19)	2	-	2	2	-	2
Medium term loan interest	1,809	-	1,809	2,052	-	2,052
Finance lease interest	276	-	276	216	-	216
Amortisation of debt finance costs	305	-	305	102	-	102
	3,306	127	3,344	3,344	142	3,486

11. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2003	2002
	<i>£000</i>	<i>£000</i>
Corporation tax:		
Corporation tax charge for the year	1,876	298
Overseas taxation	569	2,362
Over provision in prior years	(388)	(680)
Total current tax	2,057	1,980
Deferred tax:		
Timing differences – current year	1,759	(951)
(Over)/under provision in prior years	(293)	547
Total deferred tax	1,466	(404)
Associate's tax	55	29
Tax on profit on ordinary activities	3,578	1,605

The standard rate of current tax for the year is 30%. The tax charge for the year is 30% for the reasons set out in the following reconciliation:

	2003	2002
	<i>£000</i>	<i>£000</i>
Profit on ordinary activities before taxation	12,074	5,416
Tax on profit on ordinary activities at standard rate	3,622	1,625
Factors affecting charge:		
Income not deductible for tax	199	(624)
Prior year adjustments	(388)	(680)
Overseas profits taxed at rates higher than the standard rate	383	784
Deferred tax movements	(1,759)	875
Total current year tax charge	2,057	1,980

Notes to the Financial Statements

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12. DIVIDENDS

	2003 £000	2002 £000
Dividends on cumulative preference shares of £1 each		
Paid 30 April 2003 3.50p (2002: 3.50p)	2	2
Paid 31 October 2003 3.50p (2002: 3.50p)	2	2
	<u>4</u>	<u>4</u>
Dividends on ordinary shares of 5p each		
Interim paid 26 September 2003 2.55p (2002: 2.45p)	700	673
Final proposed 4.85p (2002: 4.25p)	1,330	1,166
	<u>2,030</u>	<u>1,839</u>
Total dividends	<u>2,034</u>	<u>1,843</u>

13. EARNINGS PER ORDINARY SHARE

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

	2003			2002		
	<i>Earnings</i>	<i>Ordinary shares Number</i>	<i>EPS</i>		<i>Ordinary shares Number</i>	<i>EPS</i>
	£000	000s	Pence	£000	000s	Pence
Basic	8,515	27,436	31.04	3,836	27,098	14.16
Additional shares issuable other than at fair value in respect of options outstanding	-	391	(0.44)	-	88	(0.05)
Diluted	<u>8,515</u>	<u>27,827</u>	<u>30.60</u>	<u>3,836</u>	<u>27,186</u>	<u>14.11</u>

Earnings comprise profit for the financial year after deducting preference dividends of £4,000 (2002: £4,000). Ordinary shares are calculated by reference to the average number of shares in issue in the year.

Reconciliation from basic earnings per share to basic earnings per share – continuing:

	2003			2002		
	<i>Earnings</i>	<i>Ordinary shares Number</i>	<i>EPS</i>	<i>Earnings</i>	<i>Ordinary shares Number</i>	<i>EPS</i>
	£000	000s	Pence	£000	000s	Pence
Basic	8,515	27,436	31.04	3,836	27,098	14.16
Profit on ordinary activities after taxation – discontinued operations	(268)	-	(0.98)	(381)	-	(1.41)
Basic - continuing	<u>8,247</u>	<u>27,436</u>	<u>30.06</u>	<u>3,455</u>	<u>27,098</u>	<u>12.75</u>

14. INTANGIBLE FIXED ASSETS

GROUP

	<i>Development costs £000</i>	<i>Goodwill £000</i>	<i>Total £000</i>
Cost			
At 1 November 2002	5,216	28,343	33,559
Additions	1,208	-	1,208
Disposals	(203)	-	(203)
Foreign exchange movements	(37)	-	(37)
Adjustment in respect of prior years (see Note 26)	-	99	99
At 31 October 2003	<u>6,184</u>	<u>28,442</u>	<u>34,626</u>
Amortisation			
At 1 November 2002	2,214	-	2,214
Charge for the year	1,210	-	1,210
Disposals	(203)	-	(203)
Foreign exchange movements	(33)	-	(33)
At 31 October 2003	<u>3,188</u>	<u>-</u>	<u>3,188</u>
Net book value			
At 31 October 2003	<u>2,996</u>	<u>28,442</u>	<u>31,438</u>
At 31 October 2002	<u>3,002</u>	<u>28,343</u>	<u>31,345</u>

The movements to goodwill arose on the adjustment of the fair value of net assets and deferred consideration payable on prior year acquisitions. For further details of acquisitions see Note 26.

15. TANGIBLE FIXED ASSETS

(A) GROUP

	<i>Land and buildings £000</i>	<i>Plant and equipment £000</i>	<i>Total £000</i>
Cost or valuation			
At 1 November 2002	19,781	35,570	55,351
Additions	958	4,484	5,442
Disposals	-	(220)	(220)
Foreign exchange movements	(495)	(1,617)	(2,112)
At 31 October 2003	<u>20,244</u>	<u>38,217</u>	<u>58,461</u>
Depreciation			
At 1 November 2002	1,342	11,263	12,605
Charge for the year	364	2,931	3,295
Disposals	-	(127)	(127)
Foreign exchange movements	(19)	(172)	(191)
At 31 October 2003	<u>1,687</u>	<u>13,895</u>	<u>15,582</u>
Net book value			
At 31 October 2003	<u>18,557</u>	<u>24,322</u>	<u>42,879</u>
At 31 October 2002	<u>18,439</u>	<u>24,307</u>	<u>42,746</u>

Included within additions for the year is own work capitalised of £nil (2002: £2,807,000) relating to the reconstruction of the production facility at Kilgore Flares Company LLC.

Notes to the Financial Statements

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15. TANGIBLE FIXED ASSETS - continued

(B) PARENT

	<i>Land and buildings £000</i>	<i>Plant and equipment £000</i>	<i>Total £000</i>
Cost			
At 1 November 2002	1,168	534	1,702
Additions	-	7	7
At 31 October 2003	<u>1,168</u>	<u>541</u>	<u>1,709</u>
Depreciation			
At 1 November 2002	237	479	716
Charge for the year	34	27	61
At 31 October 2003	<u>271</u>	<u>506</u>	<u>777</u>
Net book value			
At 31 October 2003	<u>897</u>	<u>35</u>	<u>932</u>
At 31 October 2002	<u>931</u>	<u>55</u>	<u>986</u>

(C) LAND AND BUILDINGS

	<i>Group</i>		<i>Parent</i>	
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Land and buildings comprise:				
Freehold	19,076	18,613	-	-
Long leasehold	<u>1,168</u>	<u>1,168</u>	<u>1,168</u>	<u>1,168</u>
	<u>20,244</u>	<u>19,781</u>	<u>1,168</u>	<u>1,168</u>
Land and buildings are stated at cost or value:				
30 September 1997 - depreciated replacement cost	5,820	5,820	-	-
At cost	<u>14,424</u>	<u>13,961</u>	<u>1,168</u>	<u>1,168</u>
	<u>20,244</u>	<u>19,781</u>	<u>1,168</u>	<u>1,168</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 requirements 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:

	<i>Group</i>		<i>Parent</i>	
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost	18,147	17,684	1,168	1,168
Accumulated depreciation	<u>(2,036)</u>	<u>(1,727)</u>	<u>(274)</u>	<u>(237)</u>
Historical cost value	<u>16,111</u>	<u>15,957</u>	<u>894</u>	<u>931</u>

All other tangible fixed assets are stated at historical cost. Included in plant and equipment are assets of net book value £4,170,000 (2002: £3,627,000) held under finance leases.

15. TANGIBLE FIXED ASSETS - *continued*

(D) FUTURE CAPITAL EXPENDITURE

	<i>Group</i>		<i>Parent</i>	
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Contracted for but not provided for	<u>444</u>	<u>310</u>	<u>-</u>	<u>-</u>

16. FIXED ASSET INVESTMENTS

(A) GROUP

	<i>Trade investments</i>	<i>Associated undertaking share of net assets</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 November 2002	10	962	972
Retained profit of associated undertaking	-	123	123
Dividend received	-	(100)	(100)
Foreign exchange movements	-	68	68
At 31 October 2003	<u>10</u>	<u>1,053</u>	<u>1,063</u>

(B) PARENT

	<i>Shares in subsidiary undertakings</i>	<i>Shares in associated undertaking</i>	<i>Loans to subsidiary undertakings</i>	<i>Trade investments</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost					
At 1 November 2002	34,647	13	6,250	10	40,920
Additions	<u>34</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34</u>
At 31 October 2003	<u>34,681</u>	<u>13</u>	<u>6,250</u>	<u>10</u>	<u>40,954</u>
Provision for impairment					
At 1 November 2002	1,336	-	-	-	1,336
Provided in the year	<u>2,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,600</u>
At 31 October 2003	<u>3,936</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,936</u>
Net book value					
At 31 October 2003	<u>30,745</u>	<u>13</u>	<u>6,250</u>	<u>10</u>	<u>37,018</u>
At 31 October 2002	<u>33,311</u>	<u>13</u>	<u>6,250</u>	<u>10</u>	<u>39,584</u>

Notes to the Financial Statements

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16. FIXED ASSET INVESTMENTS - continued

(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.

Subsidiary undertakings	Country of incorporation	% of issued ordinary share capital controlled by Chemring Group PLC	Activity
Pains Wessex Ltd	England	100	Countermeasures and pyrotechnics
PW Defence Ltd	England	100	Pyrotechnics
McMurdo Ltd	England	100	Marine safety and electronics
Kembrey Wiring Systems Ltd	England	100	Wiring harnesses
I.C.S. Electronics Ltd	England	100	Marine electronics
Alloy Surfaces Company, Inc.	Delaware, USA	100	Countermeasures and chemical coatings
Kilgore Flares Company LLC	Delaware, USA	100	Countermeasures and pyrotechnics
Pains Wessex Australia Pty Ltd	Australia	100	Countermeasures and pyrotechnics
Pirotécnia Oroquieta S.L.	Spain	51	Marine pyrotechnics
Associated undertaking			
CIRRA S.A.	France	49	Countermeasures

The chemical coatings division of Alloy Surfaces Company, Inc. was sold by the Group on 11 July 2003 (see Note 27).

The entire issued share capital of Kembrey Wiring Systems Limited was disposed of by the Group on 8 November 2003 (see Note 29).

17. STOCK

	Group	
	2003	2002
	£000	£000
Raw materials	8,346	9,017
Work in progress	7,079	6,017
Finished goods	4,823	2,773
	20,248	17,807

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

18. DEBTORS

	<i>Group</i>		<i>Parent</i>	
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Trade debtors	25,063	19,692	56	7
Amounts owed by subsidiary undertakings	-	-	52,194	52,388
Group relief recoverable	-	-	1,823	1,238
Advance corporation tax recoverable	170	467	-	-
Other debtors	10,056	11,489	918	1,097
Prepayments and accrued income	1,057	988	80	94
	36,346	32,636	55,071	54,824

Included within other debtors are amounts recoverable under an insurance claim relating to an incident at Kilgore Flares Company LLC (see Note 6) and amounts held in respect of own shares of £174,000 (2002: £264,000).

All amounts shown above are due within one year.

19. CREDITORS DUE WITHIN ONE YEAR

	<i>Group</i>		<i>Parent</i>	
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Bank overdrafts (see Note 20)	16,766	17,345	19,261	18,073
Bank loans (see Note 20)	6,220	5,363	5,246	4,365
Loan stock – unsecured (see Note 20)	40	40	40	40
Trade creditors	19,256	12,293	498	279
Amounts owed to subsidiary undertakings	-	-	12,819	9,046
Other creditors	4,648	3,563	630	-
Obligations under finance leases (see Note 20)	1,305	928	-	-
Corporation tax payable	1,257	974	302	-
Overseas tax payable	1,029	2,684	-	-
Other taxation and Social Security	979	1,538	21	-
Accruals and deferred income	4,845	3,394	928	1,386
Proposed dividends	1,330	1,166	1,330	1,166
	57,675	49,288	41,075	34,355

Loan stock is repayable on three months' notice from holders and attracts interest at 1% below 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 Bank of Scotland are secured by a full debenture over the assets of the UK businesses and Kilgore Flares Company LLC, and are also subject to cross guarantees between all UK subsidiaries. Finance lease obligations are secured on the related assets.

Notes to the Financial Statements

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20. CREDITORS DUE AFTER MORE THAN ONE YEAR

	<i>Group</i>		<i>Parent</i>	
	2003	2002	2003	2002
	£000	£000	£000	£000
Medium term loan - UK	14,850	20,491	14,241	20,491
- overseas	3,215	4,360	-	-
Obligations under finance leases	2,106	2,524	-	-
Other creditors	1,318	2,000	1,318	2,000
	21,489	29,375	15,559	22,491

The average interest rate applicable to the UK medium term loan is 4.7% (2002: 6.5%) and the average rate for the overseas medium term loan is 4.9% (2002: 5.1%) per annum. The overseas medium term loan is secured on the assets of certain of the overseas businesses. Finance lease obligations attract interest rates of between 2% and 3% above base rate. Obligations under finance leases falling due within one to two years included above total £1,345,000.

An analysis of the Group's borrowings and the maturity profile of these borrowings is as follows:

	<i>Group</i>	
	2003	2002
	£000	£000
Bank overdraft	16,766	17,345
UK medium term loans	11,644	14,002
- sterling denominated		
- US dollar denominated	7,841	10,854
Overseas medium term loans	4,188	4,803
- US dollar denominated		
- Australian dollar denominated	612	555
Obligations under finance leases	1,693	1,087
- sterling denominated		
- US dollar denominated	1,718	2,365
Unsecured loan stock	40	40
	44,502	51,051
Creditors falling due within:		
One year	24,331	23,676
One to two years	7,077	6,176
Two to five years	12,118	19,362
After five years	976	1,837
	44,502	51,051

21. 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 FRS13 *Derivatives and other financial instruments: Disclosures*, 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 US dollars and are subject to fixed rates of interest through an amortising LIBOR swap and floating rates of interest linked to Bank of Scotland base rate to provide flexibility. The overseas borrowings are denominated in local currency and are predominantly subject to fixed rates of interest.

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 20.

The total undrawn committed borrowing facilities at the financial year end amounted to £8,291,000 (2002: £5,273,000).

Notes to the Financial Statements

- continued

21. 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

	2003			2002		
	<i>Floating rate</i>	<i>Fixed rate</i>	<i>Total</i>	<i>Floating rate</i>	<i>Fixed rate</i>	<i>Total</i>
	£000	£000	£000	£000	£000	£000
Sterling	8,019	-	8,019	4,957	-	4,957
US dollar	3,649	-	3,649	2,837	-	2,837
Australian dollar	676	-	676	219	-	219
Other currencies	592	-	592	679	-	679
	<u>12,936</u>	<u>-</u>	<u>12,936</u>	<u>8,692</u>	<u>-</u>	<u>8,692</u>
Offset in the UK			(7,115)			(4,918)
			<u>5,821</u>			<u>3,774</u>
Disclosed as:						
Cash at bank and in hand			<u>5,821</u>			<u>3,774</u>

Financial assets held in the UK enjoy a right of interest offset against overdraft balances. Overseas financial assets have a weighted average interest rate of 2%.

II) FINANCIAL LIABILITIES

	2003			2002		
	<i>Floating rate</i>	<i>Fixed rate</i>	<i>Total</i>	<i>Floating rate</i>	<i>Fixed rate</i>	<i>Total</i>
	£000	£000	£000	£000	£000	£000
Sterling	(26,268)	(9,834)	(36,102)	(28,123)	(11,634)	(39,757)
US dollar	(2,873)	(12,030)	(14,903)	(10,854)	(4,803)	(15,657)
Australian dollar	-	(612)	(612)	-	(555)	(555)
	<u>(29,141)</u>	<u>(22,476)</u>	<u>(51,617)</u>	<u>(38,977)</u>	<u>(16,992)</u>	<u>(55,969)</u>
Offset in the UK			7,115			4,918
			<u>(44,502)</u>			<u>(51,051)</u>
Disclosed as:						
Bank loans and overdrafts			(22,986)			(22,708)
Medium term loan			(13,265)			(20,491)
- UK			(4,800)			(4,360)
- overseas			(1,693)			(1,087)
Obligations under finance leases			(1,718)			(2,365)
- UK			(40)			(40)
- overseas			(1,678)			(2,325)
Loan stock			(40)			(40)
			<u>(44,502)</u>			<u>(51,051)</u>

A right of offset exists for currency amounts held within the UK by Bank of Scotland. These are used to offset the interest charged on the UK overdraft which bears interest at 1.75% 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 2003 was 6.6% (2002: 7.0%) and the weighted average period of funding was four years (2002: five years).

The Group has an amortising interest rate swap, from floating to fixed rate, that expires in 2005 at a rate of 7.42%, but otherwise had no derivative financial instruments outstanding at 31 October 2003. The opinion of the Board is that the fair value of the Group's financial liabilities after taking account of the interest rate swap is £509,000 (2002: £847,000) higher than the book value. The Board has no intention of realising this liability. The fair value of the financial assets is their book value.

22. PROVISIONS FOR LIABILITIES AND CHARGES

(A) MOVEMENT IN THE YEAR - GROUP

	<i>Deferred taxation £000</i>	<i>Other provision £000</i>	<i>Total £000</i>
At 1 November 2002	989	655	1,644
Provided in the year	1,466	-	1,466
Utilised in the year	-	(266)	(266)
Transfer from current tax	2,052	-	2,052
Foreign exchange movements	(64)	-	(64)
At 31 October 2003	<u>4,443</u>	<u>389</u>	<u>4,832</u>

The other provision is held in respect of commitments to warranty claims and other reserves, and is expected to be utilised within one to four years.

(B) DEFERRED TAX PROVISION AT YEAR END

Deferred tax provided in the financial statements is as follows:

	<i>Group</i>		<i>Parent</i>	
	<i>2003 £000</i>	<i>2002 £000</i>	<i>2003 £000</i>	<i>2002 £000</i>
Capital allowances in excess of depreciation	4,755	1,950	23	(1)
Other timing differences	287	(650)	234	124
Discount	(599)	(311)	(257)	(123)
	<u>4,443</u>	<u>989</u>	<u>-</u>	<u>-</u>

23. CALLED-UP SHARE CAPITAL

	<i>2003 £000</i>	<i>2002 £000</i>
Authorised		
62,500 7% cumulative preference shares of £1 each	62	62
30,000,000 ordinary shares of 5p each	<u>1,500</u>	<u>1,500</u>
	<u>1,562</u>	<u>1,562</u>
Issued, allotted and fully paid		
62,500 7% cumulative preference shares of £1 each	62	62
27,435,972 (2002: 27,435,972) ordinary shares of 5p each	<u>1,372</u>	<u>1,372</u>
	<u>1,434</u>	<u>1,434</u>

The 7% cumulative preference shares confer no rights to vote, except on certain specified matters.

Notes to the Financial Statements

- continued

23. CALLED-UP SHARE CAPITAL - continued

Share options

The following options to subscribe for ordinary shares granted under various share option schemes were outstanding at 31 October 2003.

(A) 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	10,824	1.395	6 Apr 2001 - 5 Apr 2008
3 Feb 2000	280,000	2.36	3 Feb 2003 - 2 Feb 2010
23 Jan 2002	54,000	3.805	23 Jan 2005 - 22 Jan 2012
5 Feb 2003	100,000	2.885	5 Feb 2006 - 4 Feb 2013

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

<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>
13 Jan 1997	1,064	-	13 Jan 1997 - 13 Jan 2004
13 Jan 1997	2,128	-	13 Jan 2000 ¹ - 13 Jan 2004

¹From 13 January 2000 - 12 January 2002, only 50% of the option could be exercised; thereafter 100% of the option could be exercised.

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

24. RESERVES

(A) GROUP

	<i>Share premium account £000</i>	<i>Special capital reserve £000</i>	<i>Revaluation reserve £000</i>	<i>Revenue reserves £000</i>	<i>Total £000</i>
At 1 November 2002	20,726	12,939	2,482	11,090	47,237
Retained profit	-	-	-	6,485	6,485
Loss arising from foreign exchange translations	-	-	-	(1,636)	(1,636)
Transfer between reserves	-	-	(36)	36	-
At 31 October 2003	<u>20,726</u>	<u>12,939</u>	<u>2,446</u>	<u>15,975</u>	<u>52,086</u>

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

Included within revenue reserves is £1,040,000 of retained profits (2002: £949,000) relating to the associated undertaking.

(B) PARENT

	<i>Share premium account £000</i>	<i>Special capital reserve £000</i>	<i>Revenue reserves £000</i>	<i>Total £000</i>
At 1 November 2002	20,726	12,939	3,686	37,351
Retained loss	-	-	(2,816)	(2,816)
Foreign exchange differences	-	-	514	514
At 31 October 2003	<u>20,726</u>	<u>12,939</u>	<u>1,384</u>	<u>35,049</u>

The share premium account and special capital reserve are not distributable. A loss after taxation of £5,071,000 (2002: £446,000) was recognised in the year by the parent company.

25. OBLIGATIONS UNDER NON-CANCELLABLE OPERATING LEASES

	<i>Group</i> <i>2003</i>		<i>Group</i> <i>2002</i>	
	<i>Land and buildings</i>	<i>Plant and equipment</i>	<i>Land and buildings</i>	<i>Plant and equipment</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Within one year	-	651	3	679
Two to five years	58	991	383	1,406
More than five years	263	-	268	-
	<u>321</u>	<u>1,642</u>	<u>654</u>	<u>2,085</u>

26. ACQUISITIONS

2001/02 Acquisitions

The financial statements for the year ended 31 October 2002 did not disclose that fair values were provisional but in accordance with FRS7 *Fair values in acquisition accounting*, fair values and goodwill in respect of acquisitions made in the previous financial year have now been adjusted as follows:

I.C.S. Electronics Limited

The fair value of the net assets acquired has been revised from £244,000 to £45,000. This is due to a reduction in the value of stock acquired of £52,000 and an increase in liabilities acquired of £147,000. In addition, the fair value of the deferred contingent consideration has been reduced by £100,000. Goodwill is now calculated to be £3,252,000.

27. SALE OF BUSINESS DIVISION

Alloy Surfaces Company, Inc. Chemical Coatings Division

On 11 July 2003 the Group sold the business and net assets of Alloy Surfaces Chemical Coatings, a division of Alloy Surfaces Company, Inc.. Profit after tax for the division for the period from 1 November 2002 to 10 July 2003 was £34,000. Profit after tax for the division for the financial year ended 31 October 2002 was £190,000.

Net assets disposed of and the related sale proceeds were as follows:

	<i>£000</i>
Fixed assets	93
Stock	347
Debtors	311
	<u>751</u>
Consideration:	
Cash	<u>1,475</u>
Profit on disposal	<u>724</u>

Notes to the Financial Statements

- continued

28. CONTINGENT LIABILITIES

The Group's captive insurance company CHG Insurance Limited, based in Guernsey, has provided the following insurance cover for the Group since 31 October 2001:

- the first £2.5 million of material damage and business interruption cover, subject to a maximum liability of £3.5 million in any one year;
- the first £1 million of public and products liability insurance for the Group's products which are exported to the US.

Additional cover in respect of these risks is placed with external insurers.

29. POST BALANCE SHEET EVENT

The Group disposed of the entire issued share capital of Kembrey Wiring Systems Limited on 8 November 2003. An analysis of the assets disposed of is shown below:

	£000
Fixed assets	104
Stock	1,041
Debtors	1,907
Cash	3
Creditors	(1,155)
	<u>1,900</u>
Consideration:	
Cash	1,215
Deferred consideration	685
	<u>1,900</u>

Cash consideration of £1,200,000 was paid on completion, with a further £200,000 paid in January 2004. The balance of the consideration of £500,000 is payable in two equal instalments in November 2004 and November 2005.

As a consequence of the disposal, the Group agreed to pay £465,000 to the Chemring Group Staff Pension Scheme, with £125,000 paid in November 2003, £170,000 payable on 8 November 2004 and £170,000 payable on 8 November 2005. In accordance with FRS3 *Reporting Financial Performance* these amounts have not been recognised in the year ended 31 October 2003 and will be recognised in future results.

Notice and Agenda of Annual General Meeting

Notice is hereby given that the ninety-eighth Annual General Meeting of the shareholders will be held at 14.30 hours on Tuesday 23 March 2004 at The Solent Hotel, Rookery Avenue, Whiteley, Fareham, Hampshire PO15 7AJ for the purpose of transacting the ordinary business referred to at "1" to "6" below and also, as special business, for the purpose of considering and (if thought fit) passing the resolutions numbered "7" and "8" below as ordinary resolutions and the resolution numbered "9" below as a special resolution.

1. To receive and adopt the financial statements for the year ended 31 October 2003 together with the reports of the directors and auditors thereon.
2. To approve the payment of a final dividend of 4.85p per ordinary share for the year ended 31 October 2003 to be paid on 9 June 2004 to shareholders on the register at the close of business on 14 May 2004.
3. To approve the Directors' Remuneration Report for the year ended 31 October 2003.
4. 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.
5. To re-elect General Sir John Stibbon who retires by rotation under the provisions of Article 92.1 of the Company's Articles of Association.
6. To re-appoint the auditors and to authorise the directors to fix their remuneration.

Ordinary Resolutions

7. THAT the Company's authorised share capital be and is hereby increased by £150,000 from £1,562,500 to £1,712,500 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.
8. 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 £128,201 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

9. THAT subject to resolution 8 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 £68,589 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 2005 (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

1650 Parkway
Whiteley
Fareham
Hampshire
PO15 7AH
2 February 2004

Notice and Agenda of Annual General Meeting

- continued

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.

Photographs:

Offshore Challenges Trimaran

Photo: Andrea Francolini
DPPI/Offshore Challenges.

Ellen MacArthur Vendee Globe finish

Photo: Th Martinez

Other Photography

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CHEMRING GROUP PLC

1650 Parkway, Whiteley, Fareham, Hampshire PO15 7AH, England

Telephone +44 1489 881880 Facsimile +44 1489 881123