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Chemring Group PLC

Report and Accounts

Year Ended 30th September 1989

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Report and Accounts 1989

DIRECTORS & PROFESSIONAL ADVISERS

Directors
I. M. Fairfield CBE
Chairman

R. N. D. Langdon FCA
Deputy Chairman

B. P. Berlanny FCA
Financial Director

P. G. Billington FCIM
FInstSMM

D. R. Evans

S. L. Howlett BSc

V. A. Pheasant MBE

V. M. Prior FBIM

Prof L. Rotherham CBE DSc
FEng FRS

Secretary: S E F Vine FCIS

Professional Advisers
Auditors
Spicer & Oppenheim
Carlton House
Carlton Place
Southampton SO1 2DZ

Bankers
National Westminster
Bank PLC
130/132 Commercial Road
Portsmouth PO1 1ES

Kleinwort Benson Ltd
PO Box 560
20 Fenchurch Street
London EC3P 3DB

Registrars
Fenchurch Registrars Ltd
8-16 Earl Street
London EC2A 2DY

Solicitors
Slaughter and May
35 Basinghall Street
London EC2V 5DB

Thomas Eggar Verrall Bowles
East Pallant
Chichester PO19 1TS

Stockbrokers
Citicorp Scrimgeour
Vickers Ltd
Cottons Centre
Hays Lane
London SE1 2QT

Barclays de Zoete Wedd
Securities Ltd
Ebbgate House
2 Swan Lane
London EC4R 3TS

Robson Cotterell Ltd
Bourne Chambers
St Peters Road
Bournemouth BH1 2JX

Registered Office
Alchem Works
Fratton Trading Estate
Portsmouth, Hampshire
PO4 8SX, England
Telephone: (0705) 735457
Telex: 86242 ALCHEM G
Facsimile: (0705) 817509

NOTICE & AGENDA OF ANNUAL GENERAL MEETING

Notice is hereby given that the eighty-fourth Annual General Meeting of the shareholders will be held at 14.30 hours on Thursday 25th January 1990 at the registered office of the Company, Alchem Works, Fratton Trading Estate, Portsmouth PO4 8SX, for the purpose of transacting the ordinary business described at "1" to "6" below, and also, as special business, for the purpose of considering and (if thought fit) passing the resolution numbered "7" below as an Ordinary Resolution:—

1 To receive and adopt the balance sheet and accounts for the year ended 30th September 1989 together with the reports of the directors and auditors thereon.

2 To confirm the payment of an interim dividend of 8.25p per Ordinary 5p share on the 28th July 1989.

3 To approve the payment of a final dividend of 16.25p per Ordinary 5p share for the year ended 30th September 1989 to be paid on 26th January 1990.

4 To re-elect the following director who retires by rotation under the provisions of Article 104 of the Company's Articles of Association:—
Prof L. Rotherham.

5 To re-appoint the auditors and to authorise the directors to fix their remuneration.

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

Ordinary Resolution

7 That the share capital of the Company be increased from £675,000 to £750,000 by the creation of 1,500,000 new Ordinary Shares of 5p each.

By Order of the Board
S. E. F. Vine
Secretary

Alchem Works
Fratton Trading Estate
Portsmouth PO4 8SX England

13th December 1989

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 to vote instead of him.

2 A form of proxy for those entitled to vote is enclosed with this Notice and, to be valid, must be lodged with the Company not less than forty-eight hours before the time appointed for holding the meeting.

3 Preference and Preferred Ordinary shareholders are not entitled to attend or vote at the meeting.

4 Copies of contracts of service between the Company and certain of its directors will be available at the registered office from the date of this Notice until the date of the Annual General Meeting, and during the meeting.

STATEMENT BY THE CHAIRMAN
Ian M Fairfield CBE

REVIEW OF THE YEAR

Financial Statement — year ended 30.9.89

THE Group results for the year show further progress, sales at £28,882,000 have increased by 30.7% and pre-tax profit at £4,705,000 has increased by 10.5%. Exports at £11,131,000 have increased by 8.9% over the previous year despite problems associated with the continuing changes in the value of sterling related to other major currencies.

The proposed final dividend on the 5p Ordinary Shares is 16.25p per share which together with the Interim Dividend already paid makes a total for the year of 24.5p per share (last year 21.5p) and is covered 3.0 times (last year 3.2 times).

New products delivered in 1989 include the Sea Gnat MK214 for MOD UK and other NATO countries.

The recently developed Rapid Anti-personnel Minefield Breaching System (RAMBS) has undergone extensive trials and has been successfully evaluated at home and overseas and pilot production has commenced.

One of the many development contracts undertaken is an IR decoy that is compatible with the Sea Gnat launcher. This is now nearing completion and is expected to be in production during 1990.

REVIEW OF PRINCIPAL ACTIVITIES — UK OPERATIONS

Pains-Wessex Ltd (Salisbury)
Chief Executive — S L Howlett

Chemring Ltd (Portsmouth)
Chief Executive — D R Evans

Vacuum Reflex Ltd (Ipswich)
Chief Executive — B C Leveratt

CHEMRING Group is a world leader in the design and manufacture of RF (radio frequency chaff) and IR (infra red flares) expendable countermeasures, marine, military products, and pyrotechnic engineering including the important elements of reclamation and safe disposal of environmentally unfriendly materials The design concepts are highly sophisticated and the Group supports an intensive applied research and development facility to support the manufacturing units and directed at continuous improvement to product design, low cost manufacture and the development of new products.

OVERSEAS OPERATIONS

Pains-Wessex (Australia) Pty Ltd

PW(A) has increased its share of the marine leisure market, and further good progress has been made with the Australian Defence Department in the supply of stores mainly manufactured by Pains-Wessex Ltd UK.

CIRRA S.A.R.L. (France)

CIRRA is the main supplier to the French Government for chaff expendables and radar reflectors to their Meteorological authority. They have performed well and continue to meet the stringent quality and delivery performance demanded by the customers.

GROUP BOARD CHANGES

Mr Ken Cooke retired from the Group Board in April 1989 after having served 12 years — first as Sales Director and later as Chief Executive of Chemring Ltd. I am glad to be able to report that he remains a Director and Sales Consultant of Chemring Ltd.

In my report last year I made reference to a new board appointment of a Director of Business Development. A significant number of companies have been evaluated during the year which would either complement our existing business or provide diversification. None so far has met the stringent criteria we have set and the search continues. In addition effort is being directed in the search for new technologies capable of development into products for the Group to manufacture and sell in specialised market sectors.

FUTURE PROSPECTS

I announced last year that the Group Board had been enlarged and strengthened by the appointments of Mr Sydney Howlett, Mr David Evans and Mr Philip Billington. These appointments have proved to be most successful both in determining future Group policy and in directing the operating companies for which they are responsible towards a common Group objective.

Current orders are healthy and order prospects for the future are considered to be good. Cash is available from internal funding to finance the development and marketing of new products.

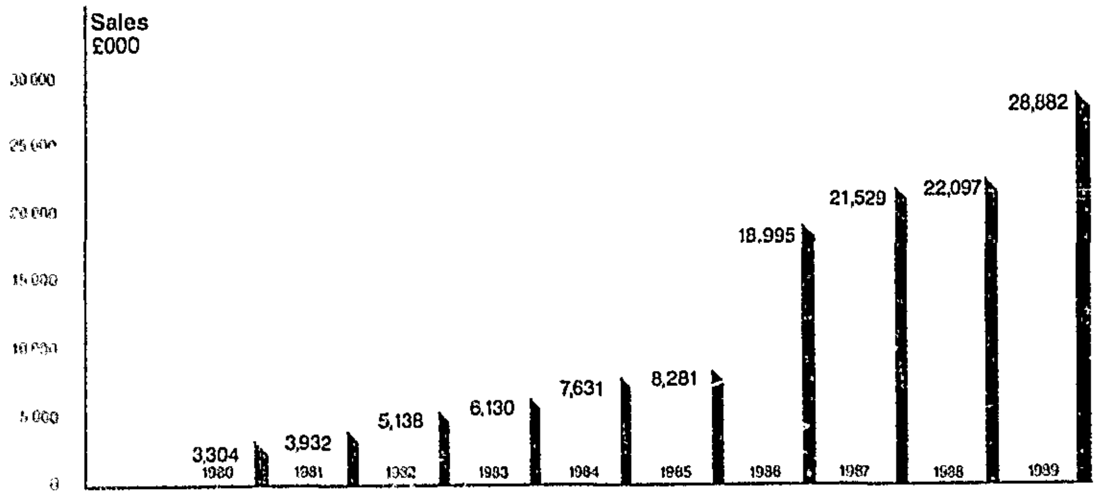
The present industrial climate at home and overseas does not lend itself to over optimistic forecasting but Chemring Group is well placed to take full advantage of such opportunities as will occur and your Directors are cautiously confident that the business and profit will continue to grow in the year ahead.

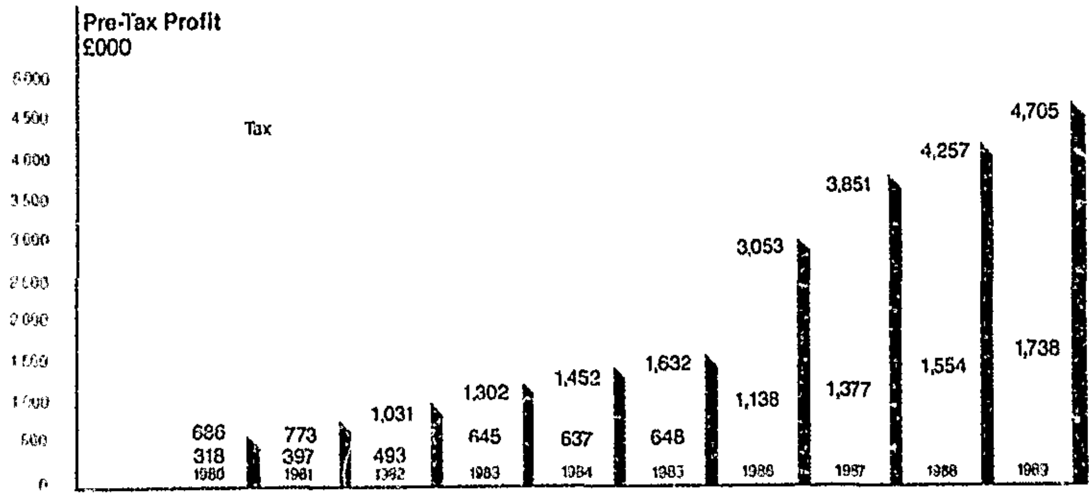
Management and employees at all levels throughout the Group Companies have continued to show their dedication throughout the year, for which I thank them.

Ian M Fairfield
13th December 1989

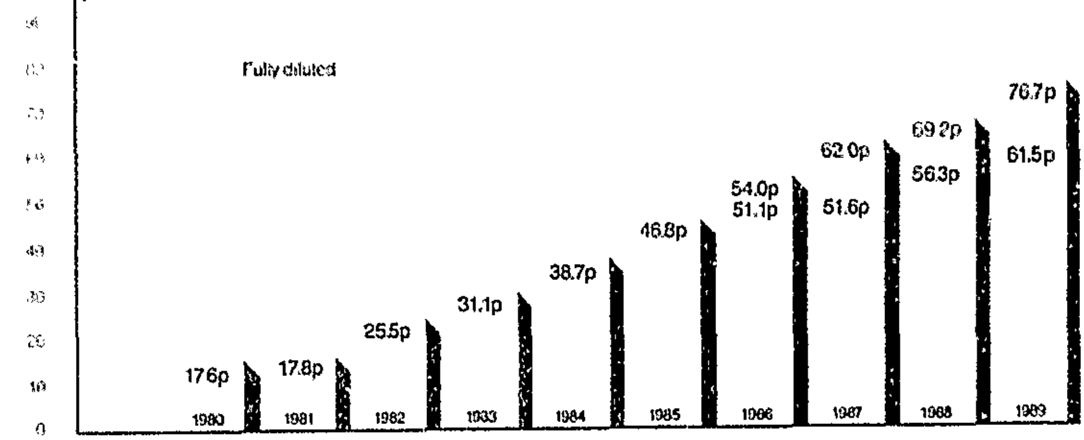
SUMMARY OF RESULTS FOR THE YEAR

	1989 £000
Sales	
UK	17,751
Export	11,131
Total	28,882
Profits	
Pre-Tax Profit	4,705
After-Tax Profit	2,967
Earnings per Share	
Nil dilution	76.7p
Fully diluted	61.5p
Dividends per Ordinary Share	24.5p
Shareholders Funds	15,023

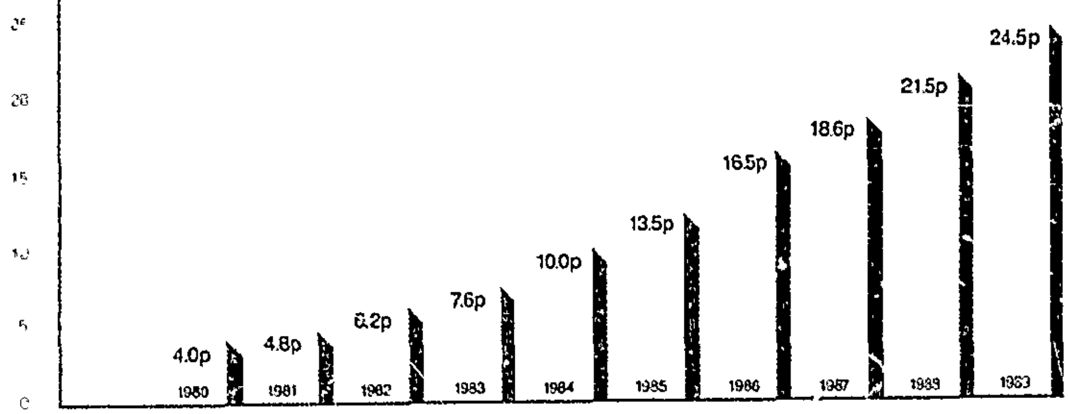




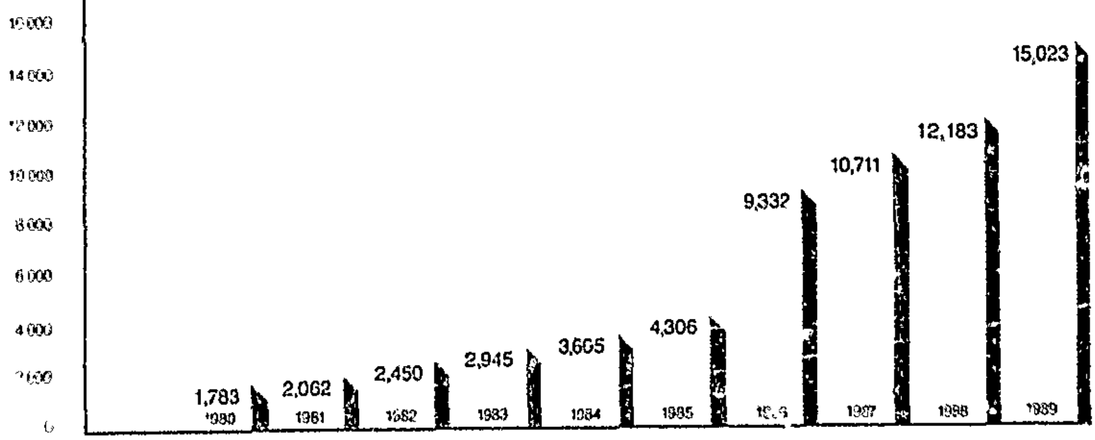
Earnings per Ordinary 5p Share
pence



Dividends per Ordinary 5p Share
pence



Shareholders Funds
£000



DIRECTORS' REPORT
for the year ended 30th September 1989

Your directors present the accounts of the Group for the year ended 30th September 1989

Principal Activities
The principal activities of the Group are the design and manufacture of Electronic and Pyrotechnic Countermeasures and Decoys, Marine and Military Distress Signals and Safety Equipment, Protective Clothing and Lifejackets.

Profits and Dividends	1989	1988
	£000	£000
Attributable Profit	2,935	[illegible]
Dividend Total (see Note 6)	1,263	[illegible]
Retained profit for the year	1,672	[illegible]

Review of the Year
A review of the year can be found in the Chairman's Statement on page 4.

Disabled Persons
The Group employs disabled persons wherever circumstances permit.

Directors
The present directors of the Company are shown on page 2. Mr C. K. Cooke retired as a director on 14th April 1989.
None of the directors had a beneficial interest in any contract of significance to which the Group was party during the year to 30th September 1989.
Information required as to directors' shareholdings is set out in note 28 on page 24.
No directors proposed for re-election have unexpired service agreements.

The Chemring Group Share Option Scheme
Options were granted on 83,700 5p Ordinary shares on 16th March 1989 to thirty-nine directors and other employees. No options have been exercised in the period to 30th September 1989.

Substantial Shareholdings
At 13th November 1989 the only shareholdings notified as exceeding 5% of the Ordinary Share Capital of the Company were those held by:—
Prudential Pensions Ltd - 290,300 Shares
W.G.T.C. Nominees Ltd - 541,500 Shares.

Close Company Provisions
As far as the directors are aware, the close company provisions of the Taxes Acts do not apply to the Company nor has there been any change in that respect since 30th September 1989

Auditors
Spicer & Oppenheim have indicated their willingness to continue in office as auditors and a resolution for their re-appointment will be proposed at the Annual General Meeting.

Increase in Share Capital
As shareholders will be aware, holders of Convertible Redeemable Preference Shares have the right to convert those shares into Ordinary Shares from the year 1987 to the year 2000, in accordance with the Company's Articles of Association. In order to ensure that the Company has available all the unissued Ordinary Shares that might be needed if all Convertible Redeemable Preference Shares were redeemed together and to satisfy all options issued and which may be issued under the Chemring Group Share Option Scheme your Board has decided having taken legal advice, that the prudent course would be to increase the Company's authorised share capital. Accordingly, a resolution is to be proposed at the Annual General Meeting to be held on Thursday 25th January 1990 to increase that authorised share capital by the creation of 1,500,000 new Ordinary Shares of 5p each. No issue of these shares will be made which would effectively alter the control of the Company without prior approval of its shareholders in general meeting.

By Order of the Board
S. E. F. Vine
Secretary

13th December 1989

FINANCIAL STATEMENTS

for the year ended 30th September 1989

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 30th September 1989

	Note	1989 £000	1989 £000	1988 £000	1988 £000
Sales	1 & 2		28,882		22,097
Cost of Sales			(20,624)		(14,969)
Gross Profit			8,258		7,128
Distribution costs		(1,709)		(1,538)	
Administrative expenses		(1,424)		(1,268)	
Research and Technical expenses		(970)		(605)	
			(4,103)		(3,411)
Operating profit			4,155		3,717
Income from Related Companies	3	195		132	
Interest receivable and other income	4	355		408	
			550		540
Pre-tax profit	2		4,705		4,257
Taxation	5		(1,738)		(1,554)
After tax profit					
In Chemring Group PLC		2,681		2,159	
In Subsidiary Companies		178		159	
In Related Companies		108		65	
			2,967		2,703
Minority Interest			(32)		(25)
Profit for the financial year attributable to the Members of Chemring Group PLC			2,935		2,678
Dividends	6		(1,263)		(1,180)
Retained profit for the year			1,672		1,498
Earnings per Ordinary Share Nil Dilution	7		76.7p		63.2p
Earnings per Ordinary Share Fully Diluted	7		61.5p		56.3p

The notes on pages 14 to 24 form an integral part of these accounts.
The movement on reserves is set out in note 22 of the accounts.

CONSOLIDATED BALANCE SHEET

30th September 1989

	Note	1989 £000	1989 £000	1988 £000	1988 £000
Fixed Assets					
Tangible assets	8		6,031		4,669
Investments	9		657		320
			6,688		4,989
Current Assets					
Stocks	10	5,297		6,220	
Debtors	11	8,069		4,963	
Investments	12	3,497		2,915	
Cash at bank and in hand		83		241	
		16,946		14,339	
Creditors					
— falling due within one year	13	(8,078)		(5,980)	
Net Current Assets			8,868		8,359
Total Assets Less Current Liabilities			15,556		13,348
Creditors					
— *falling due after more than one year*	14		(108)		(595)
Provisions for Liabilities and Charges	15		(295)		(434)
			15,153		12,319
Capital and Reserves					
Called up Share Capital	18		600		638
Reserves					
Share premium account	19	39		1	
Special capital reserve	20	3,543		3,549	
Revaluation reserve	21	1,618		481	
Revenue reserves	22	9,223		7,514	
Total Reserves	23		14,423		11,545
Shareholders' Funds			15,023		12,183
Minority Interests			130		136
			15,153		12,319

Approved by the Board of Directors, 13th December 1989

I. M. Fairfield

B. P. Berlanny

Chemring Group PLC

SOURCE AND APPLICATION OF FUNDS

for the year ended 30th September 1989

	1989		1988	
	£000	£000	£000	£000
Source of Funds				
Pre-tax profit		4,705		4,257
Adjustments for items not involving the movement of funds:				
Depreciation		622		640
Profit on disposal of fixed assets		(37)		(62)
Profits retained in Related Companies		(108)		(53)
Total generated from Operations		5,182		4,782
Application of Funds				
Dividends paid	1,192		1,118	
Tax paid	1,186		1,359	
Purchase of fixed assets less disposals	810		715	
Increase in fixed asset investments	200		—	
		3,388		3,192
Increase in Working Capital				
(Decrease)/Increase in stocks	(923)		2,569	
Increase/(Decrease) in debtors	3,106		(384)	
(Increase) in creditors — excluding taxation and proposed dividends	(551)		(495)	
		1,632		1,690
		5,020		4,882
Increase/(Decrease) in net Liquid Funds		162		(100)
		5,182		4,782

The notes on pages 14 to 24 form an integral part of these accounts.

BALANCE SHEET — CHEMRING GROUP PLC

30th September 1989

	Note	1989 £000	1989 £000	1988 £000	1988 £000
Fixed Assets					
Tangible assets	8		484		563
Investments	9		14,146		13,967
			14,630		14,530
Current Assets					
Stocks	10	138		92	
Debtors	11	5,876		5,002	
Investments	12	3,497		2,915	
Cash at bank and in hand		26		40	
		9,537		8,049	
Creditors					
— falling due within one year	13	(2,344)		(1,953)	
Net Current Assets			7,193		6,096
Total Assets Less Current Liabilities			21,823		20,626
Creditors					
— falling due after more than one year	14		—		(221)
Provisions for Liabilities and Charges	15		(21)		(21)
			21,802		20,384
Capital and Reserves					
Called up Share Capital	18		600		638
Reserves					
Share premium account	19	39		1	
Special capital reserve	20	12,939		12,939	
Revaluation reserve	21	465		465	
Revenue reserves	22	7,759		6,341	
Total Reserves	23		21,202		19,746
Shareholders' Funds			21,802		20,384

Approved by the Board of Directors, 13th December 1989

I. M. Fairfield

B. P. Berlanny

NOTES TO THE ACCOUNTS

for the year ended 30th September 1989

1. *Accounting Policies*

Convention

These financial statements have been prepared in accordance with the historical cost convention modified to incorporate the revaluation of property. The principal accounting policies which the directors have adopted within that convention are set out below.

Basis of Consolidation

The Group accounts consolidate the accounts of the Company with the Group's share of the results and post acquisition reserves of its Subsidiaries and Related Companies.

All Companies within the Group, including the Related Companies, make up their accounts to the same date. No Profit and Loss Account is presented for the Company as provided by S.228(7) of the Companies Act 1985.

Goodwill on Consolidation

Goodwill is the amount by which the purchase consideration for shares in Subsidiaries exceeded the fair value to the Group of the net assets acquired. Goodwill arising on the acquisition of Subsidiary Companies has been written off against the special capital reserve created on the cancellation of the share premium account.

Sales and Profit

Sales represent the amount charged for goods and services to customers.

The Group business includes the regular supply of products as part of overall programmes spanning a number of accounting periods. Therefore the directors consider that sales and profits should be recognised by reference to the overall programmes rather than the individual deliveries. A proportion of the sale proceeds and of profit estimated to be appropriate to the progress of the overall programmes is accordingly recognised in each year, certain elements of payments received to date being treated as deferred income.

Deferred Taxation

Provision has been made, at the current rate of 35%, for the liability to corporation tax which may arise in the foreseeable future from the allocation of items to different periods for taxation and for accounting purposes. These items principally comprise capital allowances in excess of depreciation and short term timing differences.

Depreciation

Depreciation is provided on tangible fixed assets at rates calculated to write down their cost or valuation to their estimated residual values by equal annual instalments over the period of their estimated useful economic lives, which are considered to be:

Freehold buildings — up to 50 years
Leasehold property — the period of the lease
Plant and equipment — up to 20 years
No depreciation is provided on freehold land.

Stocks and Work in Progress

Stocks and work in progress consist of raw materials, work in process of manufacture and finished stocks not invoiced. The valuation is at the lower of cost or net realisable value. The cost of raw materials is their purchase price. Work in progress and finished stocks comprise the cost of materials, labour and overheads applicable to the stage of production.

Research and Technical Costs

Research and technical costs are charged against profits when incurred with the exception of fixed assets which are written off over their estimated useful lives.

Warranty Provisions

Provisions are made for estimated liabilities on any products still under warranty.

NOTES TO THE ACCOUNTS
for the year ended 30th September 1989

1. **Accounting Policies — continued**

Foreign Currency

Transactions in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. These exchange differences are dealt with through the Profit and Loss Account.

Assets and liabilities together with the undistributed profits of the Related Companies are translated into sterling at the rate of exchange ruling at the balance sheet date. Differences arising from such translations are dealt with through reserves.

Leased Assets

Where the Company 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 its estimated useful life and the lease term. Future instalments under such leases, net of finance charges, are included in creditors. Rentals payable are apportioned between the finance element, which is charged to the Profit and Loss Account as interest, and the capital element, which reduces the outstanding obligation for future instalments.

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.

Pensions

The Group operates both defined benefit and defined contribution schemes.

Defined Benefit Scheme — The defined benefit funded pension scheme covers the majority of its 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.

Defined Contribution Scheme — The costs of the defined contribution funded pension scheme are charged to the Profit and Loss Account over the expected service lives of participating employees.

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2. **Analysis of Sales and Profit**

	1989 £000	1988 £000
Sales		
UK	17,751	11,879
Export	11,131	10,218
Total	28,882	22,097
Profit	4,705	4,257

A further analysis of sales and profit has not been given since, in the opinion of the directors, this would be prejudicial to the commercial interests of the company.

NOTES TO THE ACCOUNTS
for the year ended 30th September 1989

3. Operating Profit

	1989 £000	1988 £000
Operating profit is arrived at after charging:		
Directors' emoluments (Note 25)	401	278
Depreciation	622	[illegible]
Hire of plant and machinery	78	61
Finance leases	7	[illegible]
Auditors' remuneration	47	31

Included in depreciation is depreciation on leased assets of £8,000 (last year £33,000).

4. Interest Receivable and Other Income

	1989	1988
Interest on bank deposits	271	224
Interest on certificates of tax deposits	24	97
Other income	60	87
	355	408

5. Taxation

	1989	1988
Taxation is based on the profit for the year and comprises:		
Corporation tax at 35% on taxable profit	1,545	1,403
Overseas taxation	106	115
Double taxation relief	(25)	(14)
Deferred taxation	(59)	(31)
Under provision for earlier years:		
Corporation tax	84	4
Deferred taxation	—	10
	1,651	1,487
Related Companies	87	67
	1,738	1,554

6. Dividends

		1989	1988
Preference dividends on 52,500 4.9% Preference Shares of £1.00 each			
Paid 30th April 1989	2.45p per Share	2	2
Paid 31st October 1989	2.45p per Share	1	1
		3	3
Preferred Ordinary dividends on 7,418,021 Preferred Ordinary Shares of 5p each			
Paid 30th April 1989	[illegible] per Share	223	251
Paid 31st October 1989	[illegible] per Share	222	251
		445	502
Ordinary dividends on 3,325,652 Ordinary Shares of 5p each			
Interim paid 28th July 1989	8.25p per Share (last year — 7.5p)	274	235
Final proposed	16.25p per Share (last year — 14.0p)	541	440
		815	675
Total Dividends		1,263	1,160

NOTES TO THE ACCOUNTS
for the year ended 30th September 1989

7. **Earnings per Ordinary Share**

Earnings per Ordinary Share, nil dilution, are calculated on the attributable profit for the Financial Year of £2,487,000 (last year £2,173,000) after deducting Preference and Preferred Ordinary dividends of £448,000 (last year £505,000) and on 3,240,909 shares in issue on average during the year (last year 3,142,043).

Earnings per Ordinary Share, fully diluted, are based on 4,797,264 shares on average in issue and convertible (last year 4,752,195), allowing for the full exercise of outstanding share options, and attributable profit of £2,950,000 (last year £2,675,000) after deducting preference dividends and adding interest deemed to be earned on 2.5% Consolidated Stock on the proceeds of such share issue to the earnings.

8. **Tangible Assets**

	Land and Buildings £000	Plant and Equipment £000	Total £000
Cost or valuation			
Chemring Group PLC			
At 1st October 1988	450	762	1,212
Additions	—	9	9
Disposals	—	(29)	(29)
At 30th September 1989	450	742	1,192
Subsidiary Companies			
At 1st October 1988	2,162	5,160	7,322
Additions	143	670	813
Disposals	—	(70)	(70)
Revaluation	584	—	584
Chemring Group PLC and Subsidiaries At 30th September 1989	3,339	6,502	9,841
Depreciation			
Chemring Group PLC			
At 1st October 1988	29	[illegible]	[illegible]
Charge for the year	7	[illegible]	[illegible]
On disposals	—	(29)	[illegible]
At 30th September 1989	36	672	[illegible]
Subsidiary Companies			
At 1st October 1988	507	2,709	3,216
Charge for the year	59	475	534
On disposals	—	(95)	(95)
Revaluation	(553)	—	(553)
Chemring Group PLC and Subsidiaries At 30th September 1989	49	3,76[illegible]	3,810
Balance sheet values			
At 30th September 1989			
Chemring Group PLC	414	70	484
Subsidiary Companies	2,876	2,671	5,547
	3,290	2,741	6,031
At 30th September 1988			
Chemring Group PLC	421	142	563
Subsidiary Companies	1,655	2,451	4,106
	2,076	2,593	4,669

NOTES TO THE ACCOUNTS

for the year ended 30th September 1989

8. Tangible Assets — continued

	Chemring Group PLC		Chemring Group PLC and Subsidiaries	
	1989	1988	1989	1988
	£000	£000	£000	£000
Land and Buildings				
Land and buildings comprise:				
Freehold	—	—	2,889	2,162
Long leasehold	450	450	450	450
	450	450	3,339	2,612
Land and buildings at cost or valuation are stated				
At open market valuation on				
30th September 1984	450	450	450	450
30th September 1987	—	—	48	48
1st March 1989	—	—	1,137	—
At cost	—	—	1,704	2,114
	450	450	3,339	2,612
If stated under historical cost principles the comparable amounts for the total of land and buildings would be:				
Cost	90	90	2,269	2,220
Accumulated depreciation	(30)	(29)	(635)	(604)
Historical cost value	60	61	1,634	1,616

All other tangible fixed assets are stated at historical cost.

Leased Assets

Included in plant and equipment are assets of balance sheet value £47,000 (last year £56,000) held under finance leases.

Future Capital Expenditure				
Contracted for but not provided for			219	71
Authorised by directors but not contracted for			128	6
			347	77

The freehold land and buildings is stated at open market valuation which was carried out on 1st March 1989 by a firm of consultant surveyors on the basis of full vacant possession with existing use.

NOTES TO THE ACCOUNTS
for the year ended 30th September 1989

9. Fixed Asset Investments

Group

	Related Companies Share of Net Assets	
	1989 £000	1988 £000
At 1st October 1988	320	288
Surplus/(Deficit) arising from foreign exchange fluctuations	35	(21)
Acquired during the year	194	—
Retained profit of the Related Companies	108	53
At 30th September 1989	657	320

The fixed asset investments acquired during the year exclude goodwill of £6,000.

Company

	Group Companies Shares at Cost £000	Related Companies Shares at Cost £000	Loan Stock £000	Total £000
Cost and net book value				
At 1st October 1988	13,954	13	—	13,967
Additions	—	85	94	179
At 30th September 1989	13,954	98	94	14,146

Subsidiary and Related Companies

	Percentage of Nominal Value of Issued Ordinary Shares held by Chemring Group PLC
Subsidiary Companies:	
Chemring Ltd	100%
Vacuum Reflex Ltd	100%
Pains-Wessex Ltd	100%
Pains-Wessex (Australia) Pty Ltd — 88,466 Shares of A$1.00 each	63.19%
Related Companies:	
CIRRA S.A.R.L. (incorporated in France) — 5,390 Shares of F Fr. 100 each	49%
Sécurélec S.A. (incorporated in France) — 100% owned by CIRRA S.A.R.L.	49%
Safety & Protection Holdings Pty Ltd (incorporated in Australia) — 180,000 Shares of A$1.00 each	30.90%

Other Investments

Guinard Oil Services S.A. (incorporated in France)
— 10,000 Convertible Loan Stock of F Fr. 100 each

10. Stocks

	Chemring Group PLC		Chemring Group PLC and Subsidiaries	
	1989 £000	1988 £000	1989 £000	1988 £000
Raw materials	76	41	1,737	2,617
Work in progress	6	5	2,215	1,832
Finished goods stock	56	46	1,345	1,771
	138	92	5,297	6,220

NOTES TO THE ACCOUNTS
for the year ended 30th September 1989

11. Debtors

	Chemring Group PLC 1989 £000	Chemring Group PLC 1988 £000	Chemring Group PLC and Subsidiaries 1989 £000	Chemring Group PLC and Subsidiaries 1988 £000
Trade debtors	1,875	1,285	7,491	[illegible]
Amounts owed by Group Companies	3,715	3,378	—	—
Amounts owed by Related Companies	93	157	93	157
Other debtors	12	28	87	154
Pre-payments and accrued income	181	244	398	433
	5,876	5,002	8,069	4,963

Included in amounts owed by Related Companies is £nil (last year £80,000) due after more than one year.

12. Current Asset Investments

	Chemring Group PLC 1989 £000	Chemring Group PLC 1988 £000	Chemring Group PLC and Subsidiaries 1989 £000	Chemring Group PLC and Subsidiaries 1988 £000
Short term deposits	3,361	2,003	3,361	2,003
Other investments	136	912	136	912
	3,497	2,915	3,497	2,915

13. Creditors — Amounts falling due within one year

	Chemring Group PLC 1989 £000	Chemring Group PLC 1988 £000	Chemring Group PLC and Subsidiaries 1989 £000	Chemring Group PLC and Subsidiaries 1988 £000
Trade creditors	195	80	2,524	2,339
Amounts owed to Group Companies	30	—	—	—
Other creditors	26	11	201	125
Corporation tax	356	612	2,770	1,549
Other taxation and National Insurance	160	174	624	295
Accruals and deferred income	531	230	737	783
Proposed dividends	764	693	764	693
Bank overdrafts	282	153	458	196
	2,344	1,953	8,078	5,980

14. Creditors — Amounts falling due after more than one year

	Chemring Group PLC 1989 £000	Chemring Group PLC 1988 £000	Chemring Group PLC and Subsidiaries 1989 £000	Chemring Group PLC and Subsidiaries 1988 £000
Corporation tax due 9th February 1990	—	—	—	32
Corporation tax due 21st October 1990	—	221	33	505
Obligations under finance leases	—	—	75	58
	—	221	108	595

The repayments under finance leases fall due:

	Chemring Group PLC 1989 £000	Chemring Group PLC 1988 £000	Chemring Group PLC and Subsidiaries 1989 £000	Chemring Group PLC and Subsidiaries 1988 £000
Between 1st October 1990 and 30th September 1994	—	—	72	46
After 1st October 1994	—	—	3	12
	—	—	75	58

NOTES TO THE ACCOUNTS
for the year ended 30th September 1989

15. *Provisions for Liabilities and Charges*

	Chemring Group PLC 1989 £000	Chemring Group PLC 1988 £000	Chemring Group PLC and Subsidiaries 1989 £000	Chemring Group PLC and Subsidiaries 1988 £000
Deferred taxation (note 16)	21	21	265	364
Other provisions (note 17)	—	—	30	70
	21	21	295	434

16. Deferred Taxation

Movement in year

At 1st October 1988	74	89	673	694
Prior year adjustment	—	6	—	10
Credit for the year	(47)	(21)	(62)	(31)
	27	74	611	673
Recoverable advance corporation tax	(6)	(53)	(346)	(309)
At 30th September 1989	21	21	265	364

Provisions at year end

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

	Full Provision		Of which dealt with in the Accounts	
Group				
Capital allowances in excess of depreciation	591	635	591	635
Other timing differences	20	38	20	38
Surplus on revaluation of property	594	199	—	—
	1,205	872	611	673
Advance corporation tax	(346)	(309)	(346)	(309)
	859	563	265	364
Company				
Capital allowances in excess of depreciation	(19)	(5)	(19)	(5)
Other timing differences	46	79	46	79
Surplus on revaluation of property	135	135	—	—
	162	209	27	74
Advance corporation tax	(6)	(53)	(6)	(53)
	156	156	21	21

17. Other Provisions

	Chemring Group PLC		Chemring Group PLC and Subsidiaries	
At 1st October 1988	—	—	70	93
Credit for the year	—	—	(40)	(23)
At 30th September 1989	—	—	30	70
Warranty provisions	—	—	30	70

NOTES TO THE ACCOUNTS

for the year ended 30th September 1989

18. Share Capital

	1989 £000	1988 £000
Authorised		
62,500 4.9% Cumulative Preference Shares of £1 each	62	62
8,392,788 Convertible Cumulative Redeemable Preferred Ordinary Shares of 5p each	420	420
3,857,212 Ordinary Shares of 5p each	193	193
	675	675
Called Up		
62,500 4.9% Cumulative Preference Shares of £1 each	62	62
7,418,021 Convertible Cumulative Redeemable Preferred Ordinary Shares of 5p each	372	419
3,325,652 Ordinary Shares of 5p each	166	157
	600	638

On 20th March 1989 holders of 954,767 Convertible Cumulative Redeemable Preferred Ordinary Shares converted their holdings into 183,609 Ordinary Shares.

Each Preferred Ordinary Share is convertible into fully paid Ordinary Shares on the basis of 5 Ordinary Shares for every 26 Preferred Ordinary Shares so converted.

The Preferred Ordinary Shares will be convertible at the option of the holder in the month of February in each of the years 1990 to 2000 inclusive. The Company shall have the right to redeem the whole or part of the Preferred Ordinary Shares at any time after the year 2000 at the issue price together with arrears of dividend.

Options have been granted on 83,700 Ordinary 5p shares total nominal value £4,185. The options may be exercised between 16th March 1992 and 15th March 1999 at a subscription price of £6.68 per share.

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19. Share Premium Account

	Chemring Group PLC 1989 £000	Chemring Group PLC 1988 £000	Chemring Group PLC and Subsidiaries 1989 £000	Chemring Group PLC and Subsidiaries 1988 £000
At 1st October 1988	1	1	1	1
Arising on issue of 183,609 Ordinary Shares following redemption of 954,767 Convertible Cumulative Redeemable Preferred Ordinary Shares on 20th March 1989	38	—	38	—
At 30th September 1989	39	1	39	1

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20. Special Capital Reserve

	Chemring Group PLC 1989 £000	Chemring Group PLC 1988 £000	Chemring Group PLC and Subsidiaries 1989 £000	Chemring Group PLC and Subsidiaries 1988 £000
At 1st October 1988	12,939	12,939	3,549	3,549
Goodwill arising on the acquisition of investments in Subsidiary and Related Companies	—	—	(6)	—
At 30th September 1989	12,939	12,939	3,543	3,549

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. At 30th September 1989 the reserve is regarded as non distributable.

NOTES TO THE ACCOUNTS
for the year ended 30th September 1989

21. Revaluation Reserve

	Chemring Group PLC 1989 £000	Chemring Group PLC 1988 £000	Chemring Group PLC and Subsidiaries 1989 £000	Chemring Group PLC and Subsidiaries 1988 £000
At 1st October 1988	465	465	481	481
Arising in the year	—	—	1,137	—
At 30th September 1989	465	465	1,618	481

The revaluation reserve represents surpluses that have arisen on the revaluation of the Group's properties.

22. Revenue Reserves

	Chemring Group PLC 1989 £000	Chemring Group PLC 1988 £000	Chemring Group PLC and Subsidiaries 1989 £000	Chemring Group PLC and Subsidiaries 1988 £000
At 1st October 1988	6,341	5,341	7,514	6,042
Surplus/(Deficit) arising from foreign exchange rate fluctuations	—	—	37	(26)
Retained profit for the year	1,418	1,000	1,672	1,498
At 30th September 1989	7,759	6,341	9,223	7,514
Retained in Group Companies	7,759	6,341	8,758	7,207
Retained in Related Companies	—	—	465	307
	7,759	6,341	9,223	7,514

23. Total Reserves

	Chemring Group PLC 1989 £000	Chemring Group PLC 1988 £000	Chemring Group PLC and Subsidiaries 1989 £000	Chemring Group PLC and Subsidiaries 1988 £000
Not available for distribution				
Share Premium Account	39	1	39	1
Special Capital Reserve	12,939	12,939	3,543	3,549
Revaluation Reserve	465	465	1,618	481
	13,443	13,405	5,200	4,031
Available for distribution	7,759	6,341	9,223	7,514
	21,202	19,746	14,423	11,545

24. Employees

The average number employed by the Group within each category of persons was:	Number	Number
Production	479	446
Sales and distribution	27	25
Administration	158	152
	664	623

The costs incurred in respect of these employees were:	£000	£000
Wages and salaries	6,485	5,532
National Insurance costs	505	439
Other pension costs	227	208
	7,217	6,179

NOTES TO THE ACCOUNTS
for the year ended 30th September 1989

25. Directors' Emoluments

	1989 £000	1988 £000
Emoluments of directors of the Holding Company included in staff costs were as follows:		
Management remuneration	401	273
The emoluments, excluding pension contributions of directors, were as follows:		
Chairman and highest paid director	69	64

Other directors were remunerated as follows:	Number	Number
nil — £5,000	one	three
£5,001 — £10,000	one	one
£10,001 — £15,000	one	one
£15,001 — £20,000	nil	one
£25,001 — £30,000	nil	two
£30,001 — £35,000	two	nil
£35,001 — £40,000	one	nil
£40,001 — £45,000	two	nil
£60,001 — £65,000	one	one

26. Contingent Liabilities

The Group has, in the normal course of trading, provided indemnities to its Bankers in the sum of £886,000 (last year £833,000). No valuable security has been provided in respect of these indemnities.

27. Obligations under non cancellable operating leases

	£000	£000
Within one year	104	85
Two to five years	79	106
	183	191

28. Directors' Interests

The directors and their interests in the Company's shares at 30th September 1988 and 30th September 1989 are set out below. All are beneficial holdings. No movements have taken place between 30th September 1989 and 13th December 1989.

	Preference		Preferred Ordinary		Ordinary		Ordinary Share Options	
	1989	1988	1989	1988	1989	1988	1989	1988
I. M. Fairfield	7,274	7,274	19,608	19,608	4,902	4,902	—	—
B. P. Berlanny	—	—	1,000	—	1,000	1,000	4,000	—
P. G. Billington	—	—	—	—	1,400	1,400	4,000	—
D. R. Evans	—	—	—	—	—	—	4,000	—
S. L. Howlett	—	—	—	—	200	200	4,500	—
R. N. D. Langdon	—	—	—	—	1,000	1,000	—	—
V. A. Pheasant	—	—	—	—	—	—	3,000	—
V. M. Prior	—	—	—	—	800	800	3,000	—
Prof L. Rotherham	—	—	—	—	—	—	—	—

REPORT OF THE AUDITORS TO THE MEMBERS OF CHEMRING GROUP PLC

We have audited the financial statements on pages 10 to 24 in accordance with Auditing Standards.

In our opinion the financial statements give, so far as concerns members of the Company, a true and fair view of the state of affairs of the Company and the Group at 30th September 1989 and of the profit and source and application of funds of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Spicer & Oppenheim

Carlton House
Carlton Place
Southampton
13th December 1989

Spicer & Oppenheim
Chartered Accountants

FINANCIAL CALENDAR

Shareholders' Dividends

Ordinary Shares

Final Dividend — Year to 30th September 1989	26th January 1990
Interim Dividend — Year to 30th September 1990	27th July 1990

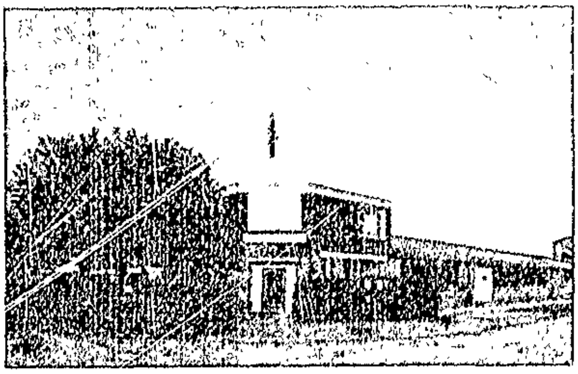
Preference and Preferred Ordinary Shares

Half year's dividend	30th April 1990
Half year's dividend	31st October 1990

Reports to Shareholders

Half year to 31st March 1990	13th June 1990
Year to 30th September 1990 — Preliminary Results	12th December 1990
— Report & Accounts for the year	January 1991

OPERATING COMPANIES LOCATIONS & ACTIVITIES



Chemring Limited

Alchem Works
Fratton Trading Estate
Portsmouth
Hampshire PO4 8SX, England
Tel (0705) 735457
Telex 86242 ALCHEM G
Fax (0705) 817509

Activities
Electronic Countermeasures and Decoys.
Radar Reflecting and Screening Materials.
Project Management and Systems Evaluation.
Automatic Machined Parts.

Quality NATO AQAP-1

Directors
I. M. Fairfield CBE *Chairman**
D. R. Evans *Chief Executive*
B. P. Bellamy FCA
D. G. Betts
B. Butters CPhys MInstP BSc
C. K. Cooke*
D. R. Nash BSc CEng FIEE*
V. A. Pheasant MBE
I. D. Pollicott BSc
S. E. F. Vine FCIS *Company Secretary*

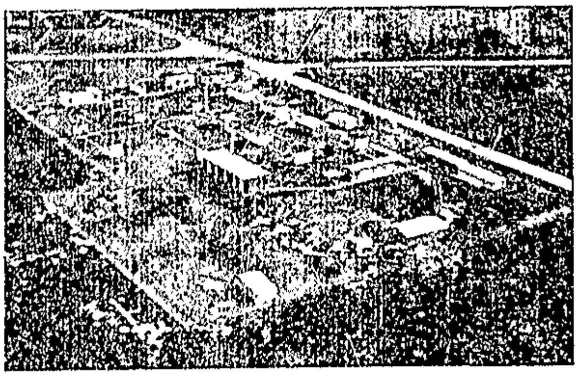
Pains-Wessex Limited

High Post
Salisbury
Wiltshire SP4 6AS, England
Tel. (0722) 411611
Telex 47486 PW SCH G
Fax (0722) 412121

Activities
Pyrotechnic Engineering.
Development and Manufacture of IR Flares and Decoys HE Filling.
Marine and Military Distress Signals and Safety at Sea Equipment.

Quality NATO AQAP-1

Directors
I. M. Fairfield CBE *Chairman**
S. L. Howlett BSc *Chief Executive*
N. D. Bevan
P. G. Billington FCIM FInstSMM
P. T. R. Cutler
P. A. Greenwood
V. A. Pheasant MBE
F. R. S. Taylor BSc
S. E. F. Vine FCIS *Company Secretary*



Pains-Wessex (Australia) Pty Ltd (63.19%)

467 Riversdale Road
Camberwell
Victoria 3124, Australia
Tel. (010 61 3) 813 3377
Telex FLARES AA39181
Fax (010 61 3) 813 2993

Activities
Marine and Military Pyrotechnics.
Firework Display Presentations.

Directors
A. G. Mitchell BCom FASA CPA *Chairman**
C. H. Tegner *Managing Director*
I. M. Fairfield CBE*
S. L. Howlett BSc*

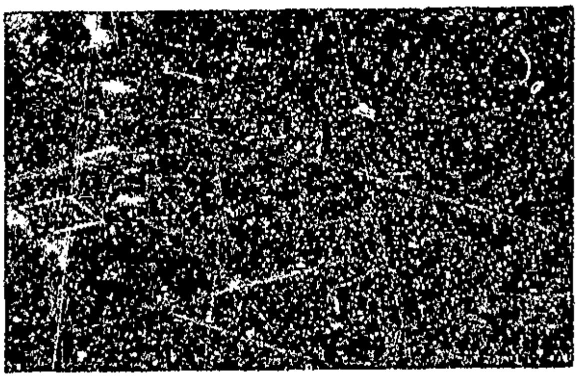
Vacuum Reflex Limited

Barrack Square
Martlesham Industrial Estate
Ipswich
Suffolk IP5 7RF, England
Tel. (0473) 62-080
Fax (0473) 622371

Activities
Cold Store and other Protective Clothing.
Fireshield 2000 Personnel Flash and Fire Protection System.
Marine Survival Clothing and Lifejackets.

Quality NATO AQAP-4
DHSS Approved
BS 5750 Approved

Directors
P. G. Billington FCIM FInstSMM *Chairman*
B. C. Leveratt *Chief Executive*
B. P. Bertanny FCA
A. R. Crisp
S. E. F. Vine FCIS *Company Secretary*



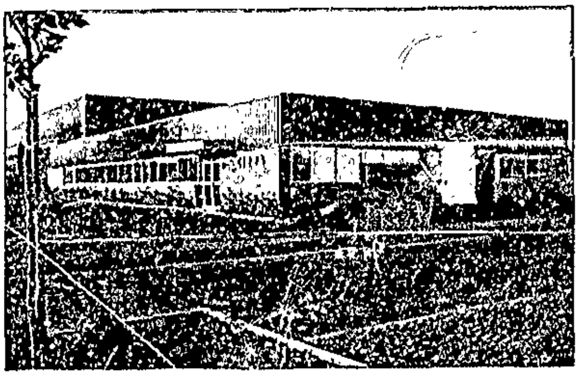
CIRRA S.A.R.L. (49%)

285 Rue Hélène Boucher
78530 Buc, Paris, France
Tel (010 33 13) 956 50 09
Telex SOCVI 200479 F
Fax (010 33 13) 956 29 81

Activities
Electronic Countermeasures and Decoys.
Radar Reflectors.

Quality RAQ 3

Directors
P. Guinard *(French) Gérant*
J. Barraillier *(French) Chief Executive and Company Secretary*
R. Bares *(French)*
I. M. Fairfield CBE*

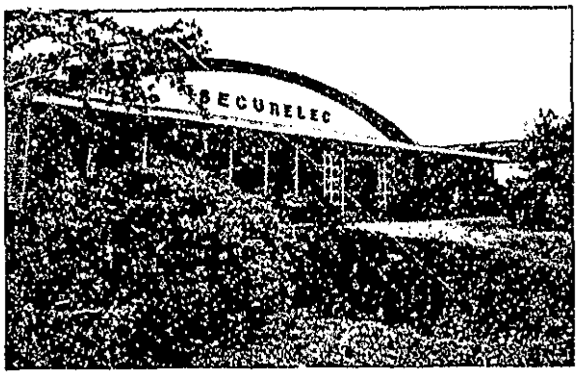


Sécurélec S.A. (49%)

Zone Industrielle
Route d'Oignies
62710 Courrières, France
Tel. (010 33 21) 20 09 77
Telex CCI LENS NO 120562 Specify Pour Sécurélec Courrières
Fax No (010 33 21) 75 55 38

Activities
Special Purpose Wire Wound Transformers.

Directors
S. Gambier *(French) Président*
Mm. Boulet *(French)*
P. Guinard *(French)*
P. A. Guinard *(French)*
J. Barraillier *(French)*



Non Executive