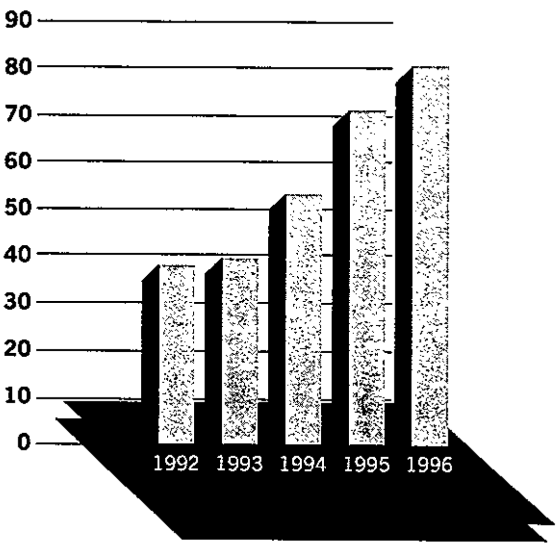
CONTENTS

86662.

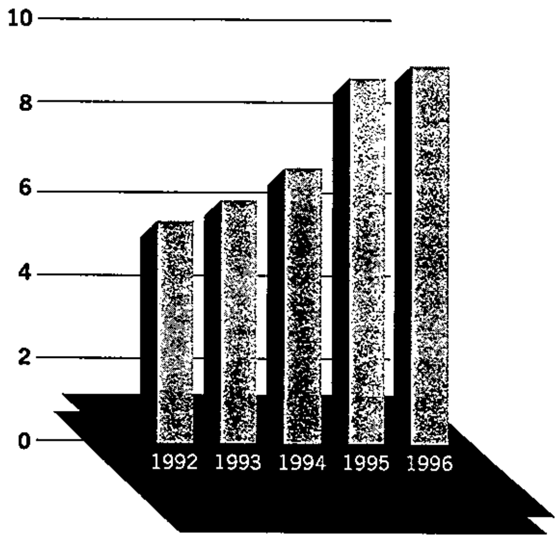
SUMMARY
OF FINANCIAL INFORMATION

	Continuing Operations 1996 £000	Continuing Operations 1995 £000
TURNOVER		
UK	33,468	34,124
Overseas	46,914	36,988
TOTAL	80,382	71,112
PROFIT		
Pre-tax profit before exceptional item	8,901	8,610
Pre-tax profit after exceptional item	8,107	8,610
EARNINGS PER 5P ORDINARY SHARE		
Fully diluted before exceptional item	24.5p	24.0p
Fully diluted after exceptional item	22.3p	24.0p
DIVIDENDS PER 5P ORDINARY SHARE	11.45p	10.90p
SHAREHOLDERS' FUNDS	23,227	21,507

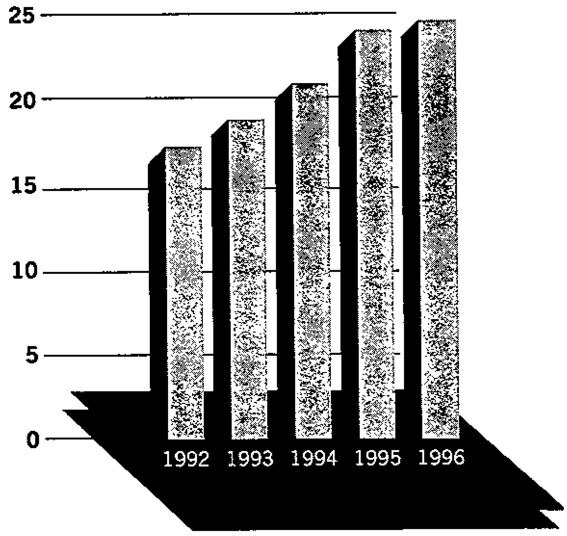
TURNOVER (£m)

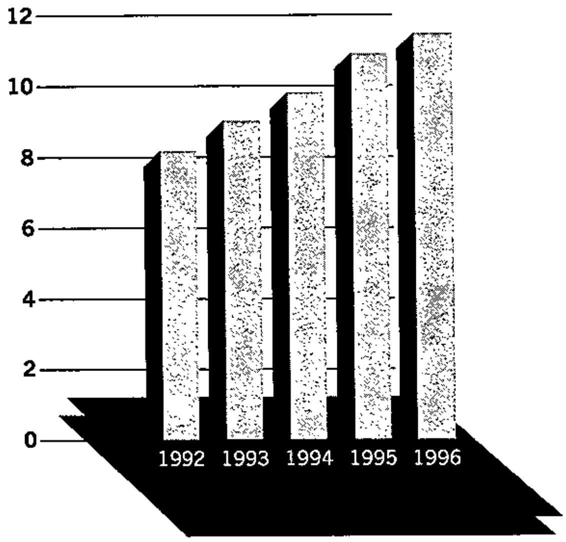


PRE-TAX PROFIT
BEFORE EXCEPTIONAL ITEM (£m)



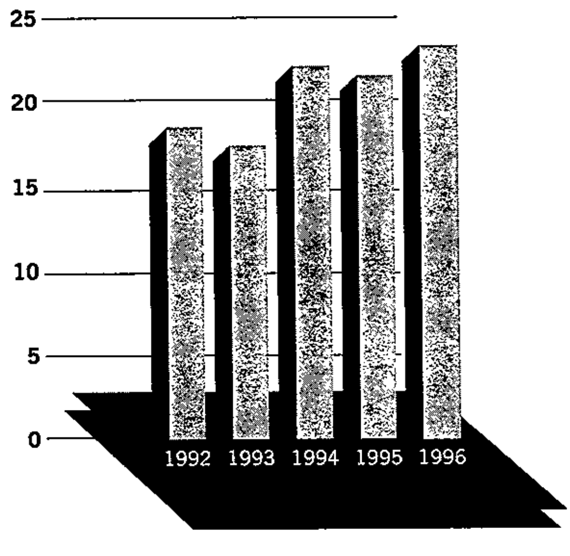
Fully Diluted
Earnings per
5p Ordinary Share
before Exceptional Item (p)





Dividends per
5p Ordinary Share (p)

Shareholders'
Funds (£m)



STATEMENT
BY THE CHAIRMAN

The Group Board. From left to right - Ray Gibbs, Philip Billington, David Evans, Iain Leighton, General Sir John Stibbon, Sir William Barlow, Michael Hanlon.

Review of the Year

The Group has grown both turnover and operating profit for the year. It has had to deal with particular challenges which have affected its results, but has been well served by the acquisitions and other corporate developments undertaken in recent years to broaden the range of the Group's activities. We have concentrated this year on consolidating our past acquisitions and on securing the synergistic benefits of integrating and reorganising various of the Group's activities and this programme will extend in to 1997. A significant capital expenditure programme has been required and we have spent £1.6m on land and buildings, including the purchase of the head lease on the McMurdo Limited site and £3.8m on plant and equipment. We have also absorbed exceptional costs of £794,000 in respect of reorganising a recent acquisition.

The highlights of our results are:

– turnover has increased by 13% to £80.38m

– operating profit before exceptional item has increased by 9% to £9.95m

– profit before tax and exceptional item has increased by 3% to £8.90m

– profit before tax but after exceptional item has fallen by 6% to £8.10m

Compared with fully diluted earnings per share of 24.0p in the year to 30 September 1995 (1994-20.9p), earnings per share before the exceptional item grew to 24.5p (22.3p after the exceptional item). Your directors are recommending a final dividend of 7.69p per Ordinary Share to make a full year total of 11.45p (last year-10.90p).

Part of the turnover increase is accounted for by full year contributions from businesses acquired the previous year. More significantly, within the overall figures, a fall in sales of chaff countermeasures due to difficult market conditions has been offset by the growth in sales of pyrotechnics and explosives. Sales have also increased in our other three areas of activity: marine, specialist technologies and specialist clothing.

Within countermeasures, the Infra Red operations in the UK and US have had a satisfactory year. The sales set back has been concentrated on the chaff operation at Portsmouth with a disproportionate effect on profitability. A number of customers have been forced to delay orders of chaff due to budgetary constraints. However, this has enabled us to accelerate our plans to amalgamate our UK countermeasures operations and from the beginning of 1997, these will be focused on the Salisbury site. While there are some costs involved in this exercise, these should be outweighed by future benefits. No exceptional charge is expected to arise from this relocation.

Our pyrotechnic and explosives businesses have enjoyed an excellent year, both domestically and overseas. This success has necessitated the relocation of the Australian operation to a new purpose built facility outside Melbourne. This should be completed mid year.

We have built up our marine business in recent years by acquisitions in Australia and New Zealand. We have been operating from two locations in New Zealand and now feel we can more efficiently concentrate our business on one site in Auckland.

Previous acquisitions in the UK, principally Nova and McMurdo, have now been successfully integrated at Portsmouth.

In acquiring Kembrey two years ago, we were principally interested in its marine electronics products subsidiary, McMurdo. We also believed its wiring systems subsidiary could be developed, by building on our relationships in the aerospace and defence markets. This has proved to be the case and we feel it appropriate to recognise the future potential of this business, and some of our other Portsmouth based activities through a new specialist technology division serving markets including, but extending beyond, the aerospace industry. This restructuring will be completed in the first half of 1997.

Within specialist clothing, the Splashdown acquisition (extending our range into marine leisure wear) was the catalyst to focus the management of all the clothing activities at Wootton Bassett. Unfortunately, we have experienced significant one-off stock problems with the Splashdown product range and significant reorganisation costs which have given rise to the exceptional charge of £794,000.

Interest costs in 1996 doubled to £1.2m. In part this reflected the full year effect of acquisition associated debt incurred the previous year. During this year, the net borrowings increased by a further £4.2m. While continued growth in capital expenditure explained part of this increase, further cash was also absorbed in working capital associated with the growth in turnover. We are giving priority attention to the future level of our working capital needs.

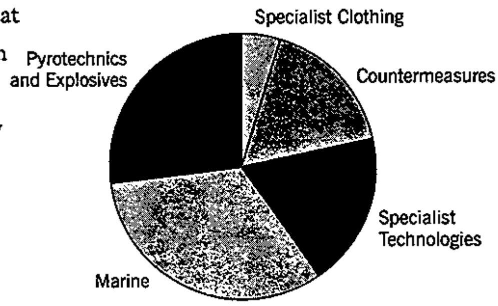
Our senior management team has been strengthened by the arrival in April of Ray Gibbs as the new Finance Director. We are also well served by employees at all levels throughout the Group and on behalf of the Board, I would like to thank them for their continued loyalty and dedication.

Significant change in the balance and extent of the Group's activities has been achieved in recent years and this has transformed our position and prospects. We have concentrated management attention in the last year on the integration of past acquisitions. This is a continuing agenda into 1997 to ensure we have a secure platform for future growth. The unprecedented low level of sales we are experiencing in chaff countermeasures continues to concern us and this, together with the steps involved in the relocation of this business, will have an influence on the results in the six months to March 1997. We are hopeful that these delays in defence procurement will resolve themselves during the second half of the year.

P. G. Billington

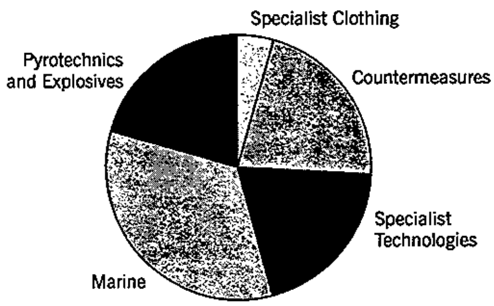
11 December 1996

1996 Business Areas by Turnover



Pyrotechnics and Explosives	£21.6m (26.9%)
Countermeasures	£13.5m (16.8%)
Marine	£26.2m (32.6%)
Specialist Technologies	£15.1m (18.8%)
Specialist Clothing	£4.0m (4.9%)

1995 Business Areas by Turnover



Pyrotechnics and Explosives	£14.5m (20.4%)
Countermeasures	£15.3m (21.5%)
Marine	£23.9m (33.7%)
Specialist Technologies	£14.2m (19.9%)
Specialist Clothing	£3.2m (4.5%)

REVIEW
BY THE GROUP MANAGING DIRECTOR

Overview

Chemring Group's activities are organised into five main business areas:

- Pyrotechnics and Explosives
- Countermeasures
- Marine
- Specialist Technologies
- Specialist Clothing

During the year we have achieved 13% increase in turnover and 27% in exports. 4.2% of this was the effect of a full year of Ronstan's sales. The Group continues to diversify into non defence activities as well as maintaining a niche position in its defence business. The turnover split is 38%/62% between military and civil.

Pyrotechnics and Explosives

The Group is a leading supplier to UK MoD and many countries worldwide for its range of specialist pyrotechnic and explosive products.

The business increased by 49% in the year and accounts for 26.9% of Group turnover.

Pains-Wessex continues to assist UK MoD with the redesign of its existing range of pyrotechnic products and benefited from increased UK MoD requirements in the year, successfully winning competitive tenders.

Export orders also increased, particularly from the Middle East, and the level of enquiries worldwide is encouraging for future orders.

Investment in extending our capability in specialist explosives has assisted in winning business in support of weapon system prime contractors, including a shaped charge assembly for SAAB of Sweden, and final assembly for an overseas prime contractor in support of a UK MoD contract.

Pains-Wessex (Australia) increased sales by 25% on last year's high, and moves to new facilities in 1997 to ensure it is equipped for the anticipated growth in Australian Government led indigenous manufacture.

Countermeasures

The Group is a world leader in the development and manufacture of expendable countermeasures to protect military platforms.

At £13.5m, the business accounts for 16.8% of Group turnover.

The Infra Red (IR) side of the business is thriving with Alloy Surfaces, our US subsidiary, doubling sales with its development of special materials transitioning into production contracts. The company was successful in winning several research and development contracts in support of future advanced decoys including a mixed IR/RF product. Production contracts for the BOL IR variant are anticipated in 1997.

Pains-Wessex investment in new concepts and cost reduction led to significant UK and export business, and it is well placed to participate in the next generation of UK MoD research and development contracts for decoys expected in early 1997.

Chemring Ltd's Radio Frequency (RF) chaff business has been disappointing, reducing 30% on last year, due to a slow down in chaff orders. The initial requirement of BOL packs for US Navy F14 aircraft has been satisfied and there will be a pause in orders until transition to other aircraft. Annual UK MoD requirement for training has reduced and known export naval chaff requirements are taking much longer than previously experienced to mature into orders.

Chemring is a niche player in the passive countermeasures market and the IR products are expected to perform strongly in 1997, whilst the RF products recovery is dependent on developed new product qualification on other platforms.

The naval chaff orders are forecast for 1997 and BOL orders will flow once the dispensers have been qualified on the USN F18s and USAF F15s. The Chaff Block is currently undergoing test in the USA on F16s and C130 transport aircraft which will lead to substantial orders in 1998.

Gynaecologist using Microsulis' microwave endometrial ablation system.

Chemring's pulse plating systems on a plating line.

Marine

The Group's marine business consists of a range of SOLAS (Safety of Life at Sea) regulated products and a range of leisure products which include buoyancy aids, clothing, rigging and deck fittings.

The marine business increased by 9.4% in the year and accounted for 32.6% of Group turnover.

The Group is a world leader for its range of marine safety products, which include pyrotechnics, emergency radio beacons, radar transponders, lights and reflectors.

Demand for pyrotechnics and lights was 32% up, helped by a replacement requirement for lights. Investment in reducing costs remains a priority, with new low cost manufacturing facilities for hand flares and man-over-board (MoB) operational this year. This will assist us with maintaining our legislated market share and increasing sales to the legislated leisure market, particularly in the USA.

The electronic beacons and transponders were helped in 1995 by new legislation which resulted in one off £2m sales of SART (Search and Rescue Transponder) which were not repeated this year. Since the acquisition of the electronics business from Kembrey plc in 1994, investment has gone into new products which are now entering the market. These include Personal Locator Beacons (PLBs) and Radar Target Enhancers (RTEs). Initial sales of PLBs were made in 1996 and the RTE will provide sales in 1997.

Marine turnover was assisted by a full year from the Ronstan acquisition. Since the acquisition, the priority has been to invest in Ronstan's sales and marketing along with upgrading the rigging and deck fittings product range to increase market share. Demand for their product range in the USA and also industrial and architectural rigging increased in the year.

Specialist Technologies

Specialist technologies business consists of connector and cable harness activity primarily supporting the aerospace, electronic data processing, telecommunications and automotive markets; Pulse Plating technology for electroplating; and medical microwave devices.

The business accounts for 18.8% of Group turnover.

Increased marketing of our cable harness expertise has considerably widened our customer base and the closing order book covers 1997 planned sales.

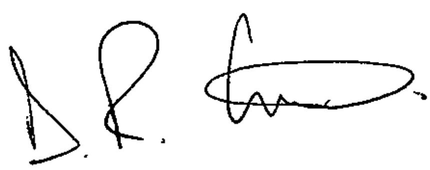
Pulse Plating continues to grow with major sales in the UK, Holland and the Far East. The innovative technology is widely accepted by the chemical suppliers, who see it as complimentary to increasing their sales. The product will be introduced to the USA in 1997 via Alloy Surfaces, our US subsidiary.

The medical microwave device is now fully developed and medical device approval was gained in August 1996, enabling active selling to commence in the UK. It is planned to commence US federal approval with a collaborative US partner in 1997.

In the USA, Alloy Surfaces' special chemicals for use in diffusion coating of engine components in the aerospace sector increased as a result of a rise in demand for aircraft engines.

Specialist Clothing

The specialist clothing business accounts for 4.9% of Group turnover and consists of Toggi's successful country wear brand; Vacuum Reflex's industrial and military range and Splashdown's leisure marine clothing brand.



D. R. Evans
11 December 1996

REVIEW BY THE FINANCE DIRECTOR

Operating Results

A summary of the operating results appears in the Chairman's Review of the Year. Turnover grew by £9.3m to £80.4m, an increase of 13%. Approximately £5m of the sales increase was contributed by a full year's trading of Ronstan and Splashdown. The effect of currency movements on turnover in the year was insignificant.

Gross margin has improved slightly from 35.9% to 36.4%. The rise in margin, coupled with sales growth has increased gross profit by £3.8m (14.7%).

Distribution costs increased by £1.6m (31%), which is primarily due to the Ronstan operation, while normal administration costs rose by 11%.

Exceptional Costs

Exceptional costs of £0.8m were incurred in the reorganisation of the Clothing Division. No further reorganisation costs are expected for this division. Ongoing amalgamations and relocations are planned for the coming financial year, as explained in the Chairman's Statement. Overhead savings are anticipated to outweigh the associated costs.

Interest

The interest charge for the year has increased to £1.2m. Approximately £0.5m is in respect of the higher underlying debt arising from the 1995 acquisitions of Ronstan and Splashdown, coupled with their working capital needs.

The average interest rate paid on net borrowing during the year was 8.3%. Interest cover for the year was 7.7 times (last year-15.5 times).

Taxation

The tax charge for the year of almost £2.8m represents an effective rate of 34.4%. The rate remains above the statutory rate of 33% principally because of higher corporate rates in Australia and America. Prudently a full provision of £0.5m for deferred tax is maintained, excluding surpluses on property revaluations.

Shareholder Returns

As a result of the exceptional costs during the year, fully diluted earnings per share fell from 24.0p to 22.3p. On a pre-exceptional basis, earnings per share rose to 24.5p. Your directors have recommended that the final dividend be increased by 5% to 7.69p, giving a total for the year of 11.45p (last year-10.90p). This dividend is almost twice covered. Shareholders' funds have increased by £1.7m to £23.2m, after writing off £1.6m of goodwill in the year.

Accounting Policies

The accounting policies are set out on pages 24 and 25. The Group has adopted best practice in acquisition accounting and in this regard has applied FRS6 "Acquisitions and Mergers" and FRS7 "Fair Values in Acquisition Accounting" in accounting for the acquisition of Nicro and reassessing the fair values of acquisitions made in 1994/95.

One consequence of this, in the current year, has been that the reorganisation costs arising from the Splashdown acquisition have been charged to the Profit and Loss Account as an exceptional item, rather than to goodwill as was permissible under the previous accounting standard SSAP 22.

The Group continues to invest in the important area of research and development, spending £1.6m (last year-£1.4m). The businesses have been developing a number of products which are anticipated to generate revenues in the coming financial year. The accounting policy has been refined to capitalise related costs when products have been assessed as commercially viable. At 30 September 1996, £0.6m of development and patent costs have been capitalised as intangible assets.

An example of Ronstan's architectural rigging.

Funding and Treasury Management

On 29 July 1996 the Group agreed a £12m five year LIBOR loan with its principal bankers, National Westminster Bank. This debt has been capped at 6% to July 1997, following which a four year hedging arrangement will operate at a rate of 8%.

Total facilities of £25.25m for cash and bonding requirements have been agreed with the bank for all UK companies. Our overseas subsidiaries operate in credit, with any required funding met by Group. It is expected that internally generated funds will be sufficient to finance normal Group business activities in the coming financial year.

It is the Group's policy not to hedge translation exposure of the profit and loss account. However, for significant transactions denominated in a currency other than that of the particular Group company involved, the currency exposure is hedged by forward contracts. The Group policy is to take no speculative positions.

BR715 BMW Rolls-Royce engine with Kembrey's electrical harnesses.

Cash Flow

The Consolidated Cash Flow Statement and associated notes are shown on pages 22 and 23. The Group generated an increase of cash at the operating level of £2.5m. However, we are experiencing a bias of cash generation towards the second half of the year, which is consistent with the trading patterns over recent years.

Working Capital and Gearing

Sharp focus has been placed on working capital management, particularly as the operating cycle has produced a skewing of cash inflow towards the second half of the year. At 30 September 1996 stock and debtor levels were £2.9m (7.7%) above the previous year, although the increase is below the 13% growth in turnover recorded in the year. The Group gearing has risen in the year to 68.5% (last year-49%).

The balance sheet liquidity has been strengthened by the £12m five year loan taken out in July 1996. The Group has written off all goodwill (£27.4m) arising from acquisitions. Inclusion of goodwill in the balance sheet would reduce gearing levels to approximately 32%.

Future Investment

The Group is committed to a policy of investing in fixed assets to assist in improving our operating capabilities. Capital expenditure in the forthcoming year is likely to be at a similar level to 1995/96. The most significant investment is the relocation of Pains-Wessex (Australia) to a purpose built factory.

R. J. Gibbs
11 December 1996

DIRECTORS
AND PROFESSIONAL ADVISERS

LIFE PRESIDENT

Ian M. Fairfield CBE

EXECUTIVE DIRECTORS

Philip G. Billington FRSA FCIM
Chairman

David R. Evans
Managing Director

Raymond J. Gibbs BA(Hons) FCA
Finance Director

NON-EXECUTIVE DIRECTORS

Sir William Barlow FEng
Former Chairman: BICC plc
Director: Vodafone Group plc,
Waste Management International plc
Past President: Royal Academy of Engineering

Michael S. D. Hanlon AM (Australia)
Chairman: The Collie Trust
Director: Format Publishers Ltd,
DS Chemport (Australia) Pty Ltd,
Sacul Investments Pty Ltd

General Sir John Stibbon KCB OBE
Director: DESC Ltd, Chelworth Ltd,
ITT Defence Ltd
Other appointments: Chief Royal Engineer, Chairman of the Board of Governors of the Royal Star & Garter Home, Commissioner of the Duke of York's Royal Military School, Dover, and Chairman of the Gordon School Foundation

PROFESSIONAL ADVISERS

AUDITORS

Deloitte & Touche

SOLICITORS
Thomas Eggar Verrall Bowles
Seyfarth, Shaw, Fairweather & Geraldson (USA)

BANKERS

National Westminster Bank Plc

FINANCIAL ADVISERS

Lazard Brothers & Co., Limited

STOCKBROKERS

de Zoete & Bevan Ltd
Beeson Gregory Ltd

INSURANCE BROKERS

Alexander & Alexander (UK) Limited

PENSIONS

Friends Provident Life Office

PUBLIC RELATIONS

Christow Consultants Ltd

SECRETARY

Iain G. K. Leighton LLB

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Hampshire
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England
Tel +44 01489 881880
Fax +44 01489 881123

REGISTRARS

The Royal Bank of Scotland plc
Registrars' Department
PO Box 633
5/10 Great Tower Street
London
EC3R 5ER

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 1996

Your directors present the financial statements of the Group for the year ended 30 September 1996.

Principal Activities

The principal activities of the Group are the design and manufacture of a range of electronic, engineering and chemical products for use in the military, marine and aerospace fields; and the manufacture and supply of lifejackets, protective clothing and outdoor leisurewear.

Profit and Dividends

	1996 £000	1995 £000
Attributable profit	**5,322**	5,627
Dividends		
Preference	**(3)**	(3)
Ordinary	**(2,701)**	(2,559)
Retained profit for the year	**2,618**	3,065

Review of the Year

A review of the year can be found in the Chairman's Statement, the Group Managing Director's Review and the Finance Director's Review.

Employees

The Group pursues a policy of employee communication through meetings (including team briefings and works councils), house magazines and the Chemring Review 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.

Directors

The present directors are shown on page 10.

Mr B. P. Berlanny retired as a director of the Company on 4 April 1996.

Mr R. J. Gibbs was appointed as a director on 15 April 1996. He will be seeking re-election under Article 115 at the forthcoming Annual General Meeting on 6 February 1997.

General Sir John Stibbon will be retiring by rotation at the forthcoming Annual General Meeting and will be offering himself for re-election. He does not have a service contract with the Company.

None of the directors had a beneficial interest in any contract of significance to which the Group was a party during the year to 30 September 1996.

Information required as to directors' shareholdings is set out in Note 5.

Charitable Donations

Charitable donations amounting to £15,000 were made during the year.

The Chemring Group Share Option Scheme

No options were granted in the year to 30 September 1996. During the same period options over 87,000 shares were exercised. No options lapsed.

Additional information is set out in Note 20.

The Chemring Group Sharesave Scheme

Options were granted over 58,668 5p Ordinary Shares on 11 July 1996 to directors and other employees of the Group.

Options were exercised over 5,038 shares in the year to 30 September 1996. Options lapsed over 39,165 shares in the same period.

Additional information is set out in Note 20.

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

On 26 February 1996, options were granted over 48,498 5p Ordinary Shares, which are currently held by the Trustee of the ESOP.

Substantial Shareholdings

At 11 November 1996 the following interests in the ordinary share capital of the Company exceeding 3% had been notified to the Company:

Name	% Interest
M & G Group PLC	13.63
Deutsche Morgan Grenfell Group plc	10.53
Prudential Corporation plc	8.43
AMP Asset Management plc	6.30
Norwich Union Life Insurance Society B a/c	3.70
General Accident Executor and Trustee Company Limited	3.28

Directors' Report

FOR THE YEAR ENDED 30 SEPTEMBER 1996 *continued*

Share Capital

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

Section 89 of the Act requires that an allotment of shares for cash may not be made unless the shares are first offered to existing shareholders on a pre-emptive basis in accordance with the terms of the Act.

In accordance with general practice, to ensure that small issues of shares can be made without the necessity of convening a general meeting, your Board proposes that advantage be taken of the provisions of section 95 of the Act to disapply the Act's pre-emptive requirements. Accordingly, a Special Resolution (set out as resolution 7 in the Notice of Meeting) will be proposed which, if passed, will have the effect of granting the directors the power to allot not more than 5% of the present issued ordinary share capital free of the requirements of section 89 of the Act.

No issue of these shares will be made which would effectively alter the control of the Company without prior approval of the shareholders in general meeting.

Policy on Payment of Suppliers

It is the policy of the Group that each of the trading subsidiaries should agree appropriate terms and conditions for its transactions with suppliers. These will range from standard written terms to individually negotiated contracts. Payments are then made in accordance with these terms and conditions, provided that the supplier has complied with them.

The Cadbury Committee Code of Best Practice

The Group continues to follow and meet the standards of The Cadbury Committee Code of Best Practice.

Internal Financial Control

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

The operating environment and key procedures which the directors have established with a view to providing effective internal financial control are as follows:

- All subsidiary businesses submit monthly management accounts which compare performance with budget and the previous year. These accounts are supplemented by reports from the appropriate operations' directors.
- Each year the Board approves the annual budget and rolling three year strategic plan. Performance is monitored and relevant action taken throughout the year through the monthly reporting to the Board of actual performance and variances from budget. Updated forecasts together with information on the key risk areas are also presented to the Board six times a year.
- The Board receives regular reports on treasury, pensions, legal and insurance matters. All of these areas are subject to clearly defined policies and procedures.
- Executive directors continuously assess business risk in conjunction with operating management. Wherever possible steps are taken to mitigate these risks.
- All expenditure is regulated by a budgetary process and authorisation levels. For capital expenditure beyond specific levels, detailed written proposals and justifications must be submitted to the Board.
- All subsidiary companies have been empowered by the Board, with appropriate responsibility and authority to manage the business. This includes the maintenance of internal financial controls at each operating company.

- In the UK at least one and frequently two or more, Group executive directors attend the monthly subsidiary operating meetings. A video conference facility for the overseas subsidiaries has been established to perform the same function.

- The Group has recently introduced a formal system of internal audit, an objective of which is to ensure adherence to the controls stipulated by the Group. A report on internal audit matters has been made directly to the Audit Committee.

The Board has reviewed the effectiveness of the system of internal financial control as it operated during the year.

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 30 September 1996.

Auditors

On 1 February 1996, the auditors changed the name under which they practise to Deloitte & Touche. A resolution to re-appoint Deloitte & Touche as auditors will be proposed at the Annual General Meeting.

Approved by the Board of Directors on 11 December 1996.

Signed on behalf of the Board

I. Leighton

I. G. K. Leighton
Secretary

REPORT OF THE REMUNERATION COMMITTEE

FOR THE YEAR ENDED 30 SEPTEMBER 1996

The Remuneration Committee comprises the three non-executive directors and is chaired by Sir William Barlow. It determines the remuneration packages of the executive directors, taking into account current market practice and the individual contribution of each executive director. During the year, the Committee commissioned a review by independent consultants, which confirmed that the executive directors' remuneration is set at an appropriate level.

COMPLIANCE

Following publication of the Report of the Study Group on Directors' Remuneration chaired by Sir Richard Greenbury ("the Greenbury Report"), and incorporation of its recommendations into the London Stock Exchange Listing Rules, the Committee has taken steps to ensure that the Company complies with Section A of the Best Practice Provisions annexed to the Listing Rules. The Committee has also given full consideration to Section B of the Best Practice Provisions in determining its remuneration policy.

DIRECTORS' EMOLUMENTS

The emoluments of all the directors who served during the year are shown in Note 5 to the financial statements.

PENSIONS

Each of the executive directors is a member of The Chemring Group Executive Pension Scheme. This is a non-contributory scheme, to which the Company makes contributions at the rate advised by the scheme actuary. Contributions paid by the Company in respect of each of the executive directors for the year ended 30 September 1996 are shown in Note 5 to the financial statements.

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

Share options are not pensionable. Bonus payments are pensionable, in accordance with the practice for all employees in the Group, except in the event that a bonus payment is deferred to enable an executive to participate in the Chemring ESOP (see below).

The Company has established a Funded Unapproved Retirement Benefit Scheme (FURBS) in respect of Mr R. J. Gibbs to provide additional pension benefits on earnings in excess of the statutory cap (currently £82,200).

DIRECTORS' SHARE INTERESTS AND SHARE OPTIONS

The interests of the directors in the ordinary shares and share options of the Company are set out in Note 5.

The executive directors currently hold options under three share option schemes.

The Chemring Group Share Option Scheme, known as "the Executive Scheme", is approved by the Inland Revenue under Schedule 9 of the Income and Corporation Taxes Act 1988. No options have been granted under the Executive Scheme since 1992 and it is unlikely that this Scheme will be used again in the future.

The Chemring Group Sharesave Scheme ("the Sharesave Scheme"), an approved all-employee savings-related scheme, was established in 1994. Options have been granted annually under this Scheme since its inception and all three executive directors now participate in the Scheme.

The Company also operates The Chemring Group Share Based Incentive Scheme, known as "the ESOP". This is the Scheme currently favoured by the Remuneration Committee for rewarding the executive directors with a long term incentive. Essentially, executives are invited to participate in the Scheme, on the recommendation of the Remuneration Committee, by deferring between 35% and 100% of their annual profit-related bonus. In consideration of deferring this amount, the executive is granted an immediately exercisable, nil cost option over a quantity of ordinary shares in the Company. The number of options granted is calculated by dividing the amount of deferred bonus by the then current market price of the ordinary shares. At the same time, the executive is also conditionally granted further nil cost "matching" options of twice this number of options. Providing the executive remains with the Company for three years, he may exercise half of the matching options. The remaining half of the matching options may only be exercised by the executive after completing five years' service. All options are granted over issued shares held by the Trustee of an ESOP established by the Company.

The non-executive directors do not participate in the Company's share option schemes.

SERVICE CONTRACTS

The service contracts of Mr P. G. Billington and Mr D. R. Evans provide for termination of the contract by the Company on two years' notice. This was reduced from a three year notice period in 1994. Mr R. J. Gibbs' contract may be terminated by the Company on twelve months' notice. The Remuneration Committee believes the respective notice periods to be appropriate and in line with the requirements of the Company.

NON-EXECUTIVE DIRECTORS

Fees for the non-executive directors are determined annually by the Board. Non-executive directors do not have service contracts.

ON BEHALF OF THE REMUNERATION COMMITTEE

SIR WILLIAM BARLOW
Chairman of the Remuneration Committee
11 December 1996

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

Signed on behalf of the Board

I. Leighton

I. G. K. Leighton
Secretary
11 December 1996

CORPORATE GOVERNANCE

The Cadbury Committee's report on the financial aspects of corporate governance contained a Code of Best Practice. Your directors have reviewed the Group's practices and in their opinion the business is conducted in accordance with the Code's currently applicable recommendations. In particular, the directors have acknowledged the latest guidance on going concern and have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

The appointment of directors is a formal process involving all members of the Board. The Board comprises three executive and three non-executive directors.

The Board, which meets formally at least six times a year, approves the Group's long-term goals and strategies and provides overall financial and organisational control. It delegates responsibility for the Group's operations to the Executive Chairman who, together with the Managing Director and other directors, implements Board policy and develops and manages the Group's business to meet its financial objectives and standards of quality and service.

The non-executive directors perform an essential role in safeguarding investors' interests by monitoring the Group's performance and its executive management. In addition to participating in Board meetings, they are members of the standing committees set up to deal with audit, remuneration and senior executive appointments.

Signed on behalf of the Board

I. Leighton

I. G. K. Leighton
Secretary
11 December 1996

AUDITORS' REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 1996

TO CHEMRING GROUP PLC ON CORPORATE GOVERNANCE MATTERS

In addition to, and separate from our audit of the financial statements, we have reviewed the directors' statement on page 15 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed. We have also reviewed the statement of compliance with Section A of the Best Practice Provisions on remuneration committees and the Report of the Remuneration Committee to the shareholders set out on page 14 to the extent that they provide the disclosures specified by the Listing Rules and Best Practice Provisions annexed to the rules. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

Basis of Opinion

We carried out our review in accordance with Bulletin 1995/1 "Disclosures relating to corporate governance" issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not express any opinion on the effectiveness of either the Company's system of financial control or its corporate governance procedures or on the appropriateness of the bases used in determining directors' remuneration or on the ability of the Company to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control on pages 12 and 13 and going concern on page 15, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 15 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review. Also on this basis, in our opinion the directors' statement of compliance with section A of the Best Practice Provisions on remuneration committees and the Report of the Remuneration Committee appropriately provide the disclosures specified by the Listing Rules and the Best Practice Provisions and are not inconsistent with the information of which we have become aware from our audit work on the financial statements.

Deloitte & Touche

Deloitte & Touche

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and
Registered Auditors
Southampton
11 December 1996

AUDITORS' REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 1996

TO THE MEMBERS OF CHEMRING GROUP PLC ON THE FINANCIAL STATEMENTS

We have audited the financial statements on pages 18 to 39 which have been prepared under the accounting policies set out on pages 24 and 25.

Respective Responsibilities of Directors and Auditors

As described on page 15 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 September 1996 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Deloitte & Touche

Deloitte & Touche
Chartered Accountants and
Registered Auditors
Southampton
11 December 1996

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30 SEPTEMBER 1996

	Note	1996		1995	
		£000	£000	£000	£000
Turnover – continuing operations	2		80,382		71,112
Cost of sales			(51,114)		(45,607)
Gross Profit			29,268		25,505
Distribution costs			(6,926)		(5,269)
Administrative expenses – normal operations		(12,397)		(11,141)	
– exceptional item	7	(794)		–	
			(13,191)		(11,141)
Operating Profit – normal operations	3		9,945		9,095
– exceptional item			(794)		–
			9,151		9,095
Associated undertaking		166		108	
Interest payable	8	(1,210)		(593)	
			(1,044)		(485)
Profit on ordinary activities before taxation			8,107		8,610
Tax on profit on ordinary activities	9		(2,785)		(2,983)
Profit on ordinary activities after taxation			5,322		5,627
Dividends	10		(2,704)		(2,562)
Retained profit for the year	21		2,618		3,065
Earnings per Ordinary Share	11		22.6p		24.2p
Earnings per Ordinary Share Fully Diluted before exceptional item	11		24.5p		24.0p
Earnings per Ordinary Share Fully Diluted after exceptional item	11		22.3p		24.0p

ADDITIONAL
FINANCIAL PERFORMANCE STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 1996

	1996	1995
	£000	£000
Statement of total recognised gains and losses		
Profit on ordinary activities after taxation	**5,322**	5,627
Currency translation differences on foreign currency net investments	**534**	71
Total recognised gains and losses for the year	**5,856**	5,698

	1996	1995
Reconciliation of movements in shareholders' funds		
Profit on ordinary activities after taxation	**5,322**	5,627
Dividends	**(2,704)**	(2,562)
Retained profit for the year	**2,618**	3,065
Other recognised profits for the year	**534**	71
Goodwill written off in the year	**(1,604)**	(5,235)
Ordinary shares issued in the year	**4**	29
Share premium arising in the year	**168**	1,487
Net addition/(reduction) to shareholders' funds	**1,720**	(583)
Shareholders' funds at 1 October 1995	**21,507**	22,090
Shareholders' funds at 30 September 1996	**23,227**	21,507

Historical cost profits and losses
There are no material adjustments required to restate profits to historical cost; hence no statement has been prepared.

CONSOLIDATED
BALANCE SHEET
AS AT 30 SEPTEMBER 1996

	Note	1996		1995	
		£000	£000	£000	£000
Fixed Assets					
Intangible assets	12		610		–
Tangible assets	13		19,882		17,706
Investments	14		808		736
			21,300		18,442
Current Assets					
Stocks	15	16,241		15,458	
Debtors	16	24,041		21,876	
Cash at bank and in hand		4,572		936	
		44,854		38,270	
Creditors – Amounts falling due within one year	17	(28,780)		(33,614)	
Net Current Assets			16,074		4,656
Total Assets Less Current Liabilities			37,374		23,098
Creditors – Amounts falling due after more than one year	18		(13,598)		(850)
Provisions for Liabilities and Charges	19		(549)		(741)
			23,227		21,507
Capital and Reserves					
Called up share capital	20		1,243		1,239
Reserves					
Share premium account	21	10,698		10,530	
Revaluation reserve	21	1,596		1,618	
Revenue reserves	21	9,690		8,120	
			21,984		20,268
Shareholders' Funds			23,227		21,507
Attributable to equity shareholders			23,165		21,445
Attributable to non-equity shareholders			62		62
			23,227		21,507

These financial statements were approved by the Board of Directors on 11 December 1996
Signed on behalf of the Board

P. G. BILLINGTON

R. J. GIBBS

PARENT BALANCE SHEET

AS AT 30 SEPTEMBER 1996

	Note	1996 £000	1996 £000	1995 £000	1995 £000
Fixed Assets					
Tangible assets	13		1,401		1,460
Investments	14		25,921		34,336
			27,322		35,796
Current Assets					
Debtors	16	32,061		20,135	
Cash at bank and in hand		7		242	
		32,068		20,377	
Creditors – Amounts falling due within one year	17	(10,407)		(16,497)	
Net Current Assets			21,661		3,880
Total Assets Less Current Liabilities			48,983		39,676
Creditors – Amounts falling due after more than one year	18		(12,000)		-
			36,983		39,676
Capital and Reserves					
Called up share capital	20		1,243		1,239
Reserves					
Share premium account	21	10,698		10,530	
Special capital reserve	21	12,939		12,939	
Revenue reserves	21	12,103		14,968	
			35,740		38,437
Shareholders' Funds			36,983		39,676
Attributable to equity shareholders			36,921		39,61[illegible]
Attributable to non-equity shareholders			62		62
			36,983		39,676

These financial statements were approved by the Board of Directors on 11 December 1996

Signed on behalf of the Board

P. G. BILLINGTON

R. J. GIBBS

CONSOLIDATED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 1996

	Note	1996		1995	
		£000	£000	£000	£000
Net cash inflow from operating activities	A		7,395		4,858
Returns on investments and servicing of finance					
Interest paid		(1,210)		(577)	
Dividends paid		(2,611)		(2,356)	
Net cash outflow from returns on investments and servicing of finance			(3,821)		(2,933)
Taxation					
UK corporation tax paid		(1,824)		(1,853)	
Overseas tax paid		(295)		(271)	
Total tax paid			(2,119)		(2,124)
Net cash inflow/(outflow) before investing activities			1,455		(199)
Investing activities					
Purchase of tangible fixed assets		(6,073)		(4,635)	
Disposal of tangible fixed assets		286		250	
Proceeds from current assets held for disposal		-		622	
Acquisition of businesses	B, C	(625)		(6,169)	
Net cash outflow from investing activities			(6,412)		(9,932)
Net cash outflow before financing			(4,957)		(10,131)
Financing					
Issue of ordinary shares		172		339	
New borrowings		12,000		-	
Inception of new finance leases		602		-	
Repayment of loan stock		(9)		-	
Capital element of finance lease payments		(79)		(44)	
Net cash inflow from financing			12,686		295
Increase/(decrease) in cash and cash equivalents	D, E		7,729		(9,836)

NOTES
TO CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 1996

	1996	1995
A. Reconciliation of operating profit to net cash flow from operating activities	**£000**	£000
Operating profit	**9,151**	9,095
Depreciation	**2,481**	2,282
(Profit)/loss on sale of fixed assets	**(24)**	27
Increase in stocks	**(361)**	(2,283)
Increase in debtors	**(1,842)**	(4,471)
(Decrease)/increase in creditors	**(2,010)**	208
Net cash inflow from operating activities	**7,395**	4,858

	1996	1995
B. Acquisition of businesses		
Net assets acquired:		
Tangible fixed assets	–	3,120
Stocks	**178**	2,148
Debtors	–	506
Bank overdrafts	–	(182)
Creditors	–	(3,661)
	178	1,931
Goodwill	**447**	5,235
	625	7,166
Satisfied by:		
Cash	**625**	5,987
Shares	–	1,177
Loan stock	–	2
	625	7,166

	1996	1995
C. Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of businesses		
Cash consideration	**625**	5,987
Cash and cash equivalents acquired	–	182
Net outflow of cash and cash equivalents in respect of the acquisition of businesses	**625**	6,169

	1996	1995
D. Analysis of changes in cash and cash equivalents during the year		
Balance at 1 October 1995	**(10,549)**	(713)
Net cash inflow/(outflow)	**7,729**	(9,836)
Balance at 30 September 1996	**(2,820)**	(10,549)

E. Analysis of cash and cash equivalents as shown in the consolidated balance sheet	**1996**	1995	**Change**
	£000	£000	**£000**
Cash at bank and in hand	**4,572**	936	**3,636**
Short term loans and overdrafts	**(7,392)**	(11,485)	**4,093**
	(2,820)	(10,549)	**7,729**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 1996

1. Accounting Policies

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

Accounting Convention

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

Basis of Consolidation

The financial statements consolidate those of the Parent with the Group's share of the results and post acquisition reserves of all its subsidiary undertakings, except those held for disposal. All companies within the Group, including the associated undertaking, make up their financial statements to the same date. No Profit and Loss Account is presented for the Parent as provided by section 230 of the Companies Act 1985. Goodwill arising on consolidation is written off to the Special Capital Reserve and Group Revenue Reserves.

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.

Intangible Fixed Assets

Research, development, patent and licence costs are charged to the Profit and Loss Account as incurred, except where a major project is undertaken and it is reasonably anticipated that costs will be recovered through future commercial activity. Such costs are written off over the life of the project subject to a maximum of five years. This policy has been amended during the year as set out in Note 12.

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 20 years

Fixed Asset Investments

Except as stated below, investments held as fixed assets are stated at cost less provision for permanent diminution in value.

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.

Stocks

Stocks consist of raw materials, work in progress and finished goods. Valuation is at the lower of cost and net realisable value. The cost of raw materials is their purchase price. Work in progress and finished goods comprise the cost of materials, labour and overheads applicable to the stage of production.

Deferred Taxation

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

1. Accounting Policies – *continued*

Foreign Currency

Transactions of the UK companies denominated in foreign currencies are translated into sterling at the rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the Profit and Loss Account.

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

Pensions

The Group operates both defined benefit and defined contribution pension schemes.

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

Defined Contribution Schemes – The costs of the defined contribution schemes are charged to the Profit and Loss Account as they are 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

	Continuing Operations 1996 £000	Continuing Operations 1995 £000
Turnover		
UK	33,468	34,124
Overseas	46,914	36,988
Total	80,382	71,112

On 1 November 1995, Chemring Group PLC acquired the trade and net assets of Nicro Corp. This business was combined with Ronstan International Inc. and it is not possible to separate the acquired business' turnover or costs since acquisition.

An analysis of turnover by business area is given in the Chairman's Statement. An analysis of profit and net assets has not been given since in the opinion of the directors this would be prejudicial to the commercial interests of the Group.

NOTES
TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 1996

3. Operating Profit

Operating Profit is arrived at after charging:			1996	1995
			£000	£000
Depreciation	–	owned assets	**2,383**	2,247
	–	leased assets	**98**	35
Operating lease rentals	–	land and buildings	**486**	398
	–	plant and equipment	**361**	285
Auditors' remuneration			**122**	132

During the year £61,000 (last year – £168,000) was paid to the auditors for non-audit work, of which £nil (last year – £135,000) related to acquisition investigations.

4. Employees

The average number employed by the Group within each category of persons was:	Number	Number
Production	**1,040**	1,036
Sales and administration	**355**	305
	1,395	1,341

The costs incurred in respect of these employees were:	**£000**	£000
Wages and salaries	**21,020**	17,679
Social Security costs	**1,223**	1,561
Other pension costs	**1,122**	549
	23,365	19,789

5. Directors' Emoluments and Interests

(a) Emoluments

Emoluments of the directors were as follows:		
Remuneration	**549**	538

The emoluments, excluding pension contributions, of directors were as follows:		
Chairman and highest paid director	**175**	176

Other directors were remunerated as follows:	**Number**	Number
£5,001 – £10,000	**–**	one
£10,001 – £15,000	**–**	three
£15,001 – £20,000	**three**	–
£20,001 – £25,000	**–**	one
£30,001 – £35,000	**one**	–
£40,001 – £45,000	**one**	–
£70,001 – £75,000	**–**	one
£135,001 – £140,000	**one**	–
£140,001 – £145,000	**–**	one

5. Directors' Emoluments and Interests – *continued*

(a) Emoluments – *continued*

	Salaries and Fees		Profit-Related Bonus		Taxable Benefits		Total	
	1996	1995	**1996**	1995	**1996**	1995	**1996**	1995
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000
Executives								
P G Billington	**160**	140	**–**	28	**15**	8	**175**	176
B P Berlanny (resigned 04.04.96)	**29**	55	**–**	11	**3**	5	**32**	71
D R Evans	**127**	114	**–**	23	**10**	7	**137**	144
R J Gibbs (appointed 15.04.96)	**41**	–	**–**	–	**3**	–	**44**	–
V A Pheasant (resigned 03.02.95)	**–**	16	**–**	3	**–**	2	**–**	21
Non-Executives								
Sir William Barlow	**20**	13	**–**	–	**–**	–	**20**	13
M S D Hanlon	**20**	13	**–**	–	**–**	–	**20**	13
R N D Langdon (resigned 01.02.95)	**–**	6	**–**	–	**–**	–	**–**	6
General Sir John Stibbon	**20**	13	**–**	–	**–**	–	**20**	13
Total Remuneration	**417**	370	**–**	65	**31**	22	**448**	457

Amounts shown above in the Salary and Fees column relate to basic salary in the case of executive directors and fees in the case of non-executive directors.

The Company operates a profit-related bonus scheme, in which all the executive directors participate. Payment of a bonus under the scheme, which is based on a percentage of basic salary capped at a maximum of 40%, is dependent upon the Group achieving a certain target profit level. Challenging targets are set annually by the Remuneration Committee.

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

Contributions paid by the Company in respect of the executive directors' pensions for the years ended 30 September 1996 and 30 September 1995 are shown below.

	1996	1995
	£000	£000
P G Billington	**45**	35
B P Berlanny	**10**	14
D R Evans	**36**	28
R J Gibbs	**10**	–
V A Pheasant	**–**	4
	101	81

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 1996

5. Directors' Emoluments and Interests – *continued*

(b) Interests

The interests of the directors in the ordinary shares of the Company at 1 October 1995, or date of appointment if later, and 30 September 1996 are shown below. All are beneficial holdings.

	1996 Number	1995 Number
P G Billington	**15,000**	22,000
D R Evans	**14,644**	4,144
R J Gibbs	**1,320**	–
Sir William Barlow	**30,800**	30,800
M S D Hanlon	**4,000**	4,000
General Sir John Stibbon	**–**	–

On 8 October 1996, Mr M S D Hanlon purchased an additional 6,000 ordinary shares and on 11 December 1996, Mr P G Billington purchased an additional 14,000 ordinary shares. No other movements have taken place between 30 September 1996 and 11 December 1996.

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 ESOP.

The holdings by the directors of options over ordinary shares in the Company at 1 October 1995, or date of appointment if later, and 30 September 1996 are shown below.

		Number of share options						
	At 01.10.95 or date of appointment	Granted during the year	Exercised during the year	At 30.09.96	Exercise price (p)	Market price at date of exercise(p)	Date from which exercisable	Expiry date
P G Billington								
Executive Scheme[1]	36,000	–	–	36,000	840[2]	–	20.07.95	19.07.02
Sharesave Scheme	2,500	–	–	2,500	276	–	01.05.99	31.10.99
	3,415	–	–	3,415	303	–	01.08.00	31.01.01
ESOP B	6,250	–	–	6,250	0	–	05.04.95	05.04.02
A	12,500	–	–	12,500	330	–	05.04.98[3]	05.04.05
B	–	3,856	–	3,856	0	–	26.02.96	26.02.03
C	–	7,712	–	7,712	0	–	26.02.99[4]	26.02.03
D R Evans								
Executive Scheme[1]	16,000	–	16,000	–	546[2]	398	–	–
	24,000	–	24,000	–	840[2]	398	–	–
Sharesave Scheme	2,500	–	–	2,500	276	–	01.05.99	31.10.99
	–	1,938	–	1,938	356	–	01.09.01	28.02.02
ESOP B	3,472	–	–	3,472	0	–	05.04.95	05.04.02
A	6,944	–	–	6,944	0	–	05.04.98[3]	05.04.05
B	–	3,085	–	3,085	0	–	26.02.96	26.02.03
C	–	6,170	–	6,170	0	–	26.02.99[4]	26.02.03
R J Gibbs								
Sharesave Scheme	–	4,845	–	4,845	356	–	01.09.01	28.02.02

[1]The number of options under the Executive Scheme has been adjusted, with the prior apporval of the Inland Revenue, to reflect the Capitalisation Issue approved on 29 January 1993.
[2]Exercise price is in respect of 4 ordinary shares.
[3]From 05.04.98 – 04.04.00, only 50% of the option may be exercised; thereafter 100% of the option may be exercised; provided, in both cases, that the B option granted on the same day has not already been exercised.
[4]From 26.02.99 – 25.02.01, only 50% of the option may be exercised; thereafter 100% of the option may be exercised; provided, in both cases, that the B option granted on the same day has not already been exercised.

6. Pension Costs

The total pension costs for the Group were £1,122,000 (last year – £549,000).

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

The latest actuarial assessments of the Chemring Group Executive Pension Scheme ("Executive Scheme") and the Chemring Group Staff Pension Scheme ("Staff Scheme") were carried out as at 6 April 1995. The significant assumptions relating to the rate of return on investments and the rates of increases in salaries and pensions are as follows:

Return on investments 9.0% per annum
Average salaries increasing by 6.0% per annum (Executive Scheme)
Average salaries increasing by 7.0% per annum (Staff Scheme)
For pension accrued after 06.04.93, pension increases at the lower of RPI and 5% per annum in excess of GMP

At the date of the latest actuarial valuations the market value of the assets of the schemes was £6,319,000 and the value of the assets was sufficient to cover the benefits which had accrued to members.

The latest actuarial assessment of the Kembrey Group Pension Fund was carried out as at 1 May 1994. The significant assumptions are as follows:

Return on investments 9.0% per annum
Average salaries increasing by 8.0% per annum
Pension increases 3.0% per annum in excess of GMP

At the date of the actuarial valuation the market value of the assets of the scheme was £5,166,000 and the value of the assets was sufficient to cover the benefits which had accrued to members.

The latest actuarial assessment of the McMurdo Pension Scheme was also carried out as at 1 May 1994. The significant assumptions are as follows:

Return on investments 10.0% per annum
Average salaries increasing by 8.5% per annum
Pension increases 3.0% per annum on GMP only

At the date of the actuarial valuation the market value of the assets of the scheme was £1,299,000. This was insufficient to cover the benefits which had accrued to members and accordingly £150,000 was paid to augment the assets of the scheme during the last financial year.

The pension costs relating to the defined contribution schemes were £59,000 (last year – £10,000) of which £1,000 (last year – £1,000) was payable to the funds at 30 September 1996 and is included in creditors.

7. Exceptional Item

	1996 £000	1995 £000
Reorganisation of clothing division	794	–

NOTES
TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 1996

8. INTEREST PAYABLE

	1996	1995
	£000	£000
Loan stock interest	32	35
Loan interest	84	–
Bank overdraft interest	1,017	558
Finance lease interest	77	–
	1,210	593

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

Tax is based on the profit for the year and comprises:		
Corporation tax	2,163	2,622
Overseas taxation	374	295
Deferred taxation	187	139
Under/(over) provision for earlier years:		
Corporation tax	(10)	–
Deferred taxation	3	(114)
	2,717	2,942
Tax attributable to associated undertaking	68	41
	2,785	2,983

10. DIVIDENDS

Dividends on Preference Shares of £1.00 each		
Paid 30 April 1996 2.45p (last year – 2.45p)	2	2
Paid 31 October 1995 2.45p (last year – 2.45p)	1	1
	3	3
Dividends on Ordinary Shares of 5p each		
Interim paid 31 July 1996 3.76p (last year – 3.58p)	886	832
Final proposed 7.69p (last year – 7.32p)	1,815	1,722
Under provision for earlier year	–	5
	2,701	2,559
Total Dividends	2,704	2,562

11. Earnings per Ordinary Share

Earnings per Ordinary Share are based on 23,571,863 shares (last year – 23,194,086) on average in issue during the year, and attributable profit of £5,319,000 (last year – £5,624,000) after deducting Preference dividends of £3,000 (last year – £3,000).

Earnings per Ordinary Share, fully diluted, before exceptional item are based on 24,174,640 shares (last year – 23,749,286) on average in issue and convertible, allowing for the full exercise of outstanding share options, and attributable profit of £5,915,000 (last year – £5,692,000) after deducting Preference dividends and adding interest deemed to be earned on 2.5% Consolidated Stock on the proceeds of such share issues to the earnings. Earnings per Ordinary Share, fully diluted, after exceptional item are calculated in exactly the same manner but using attributable profit of £5,393,000 (last year – £5,692,000).

Fully diluted Earnings per Ordinary Share, before and after exceptional item, have been calculated in addition to the disclosures required by SSAP 3 as amended by FRS3 since, in the opinion of the directors, this will allow shareholders to identify the results of the normal trading operations of the Group.

	1996 p/share	1995 p/share
Earnings per Ordinary Share basic	22.6	24.2
Adjustment to Earnings per Ordinary Share fully diluted	(0.3)	(0.2)
Adjustment for exceptional item	2.2	–
Earnings per Ordinary Share fully diluted before exceptional item	24.5	24.0

12. Intangible Fixed Assets

Group	Patents and Licences £000	Development Costs £000	Total £000
Cost			
Additions	250	379	629
At 30 September 1996	250	379	629
Amortisation			
Charge for the year	19	–	19
At 30 September 1996	19	–	19
Net Book Value			
At 30 September 1996	231	379	610

As explained in the Finance Director's Review, the accounting policy for research, development, patent and licence costs has been amended during the year to permit the capitalisation of such costs in circumstances where the related products are assessed as commercially viable. The impact of this change in the current year is set out above; it was not material in the prior year.

NOTES
TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 1996

13. TANGIBLE FIXED ASSETS

(a) Group

	Land and Buildings £000	Plant and Equipment £000	Total £000
Cost or Valuation			
At 1 October 1995	10,588	24,849	35,437
Additions	1,645	3,799	5,444
Transfer of assets held for resale	(464)	(593)	(1,057)
Disposals	(217)	(792)	(1,009)
Foreign exchange movements	68	125	193
At 30 September 1996	11,620	27,388	39,008
Depreciation			
At 1 October 1995	1,726	16,005	17,731
Charge for the year	170	2,292	2,462
Transfer of assets held for resale	(164)	(349)	(513)
Disposals	(47)	(510)	(557)
Foreign exchange movements	2	1	3
At 30 September 1996	1,687	17,439	19,126
Net Book Value			
At 30 September 1996	9,933	9,949	19,882
At 30 September 1995	8,862	8,844	17,706

(b) Parent

	Land and Buildings £000	Plant and Equipment £000	Total £000
Cost or Valuation			
At 1 October 1995	1,259	449	1,708
Additions	6	78	84
Disposals	(23)	–	(23)
At 30 September 1996	1,242	527	1,769
Depreciation			
At 1 October 1995	13	235	248
Charge for the year	23	98	121
Disposals	(1)	–	(1)
At 30 September 1996	35	333	368
Net Book Value			
At 30 September 1996	1,207	194	1,401
At 30 September 1995	1,246	214	1,460

13. Tangible Fixed Assets – *continued*

(c) Land and Buildings

	Group		Parent	
	1996	1995	1996	1995
	£000	£000	£000	£000
Land and buildings comprise:				
Freehold	8,910	8,910	1,242	1,237
Long leasehold	2,471	1,439	–	22
Short leasehold	239	239	–	–
	11,620	10,588	1,242	1,259
Land and buildings are stated at open market valuation for existing use on:				
30 September 1984	450	450	–	–
30 September 1987	48	48	–	–
1 March 1989	1,137	1,137	–	–
At cost	9,985	8,953	1,242	1,259
	11,620	10,588	1,242	1,259
If stated under historical cost principles the comparable amounts for the total of land and buildings would be:				
Cost	10,395	9,333	1,242	1,259
Accumulated depreciation	(2,058)	(2,086)	(35)	(13)
Historical cost value	8,337	7,247	1,207	1,246

All other tangible fixed assets are stated at historical cost.

Included in plant and equipment are assets of net book value £1,024,000 (last year – £428,000) held under finance leases.

(d) Future Capital Expenditure

Contracted for but not provided for	350	223	–	–
Authorised by directors but not contracted for	1,100	330	–	–
	1,450	553	–	–

NOTES
TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 1996

14. FIXED ASSET INVESTMENTS

(a) Group

	Associated Undertaking Share of Net Assets £000	Other Investments £000	Total £000
Cost			
At 1 October 1995	710	110	820
Retained profit of associated undertaking	98	–	98
Redemption of loan stock	–	(26)	(26)
At 30 September 1996	808	84	892
Permanent diminution in value			
At 1 October 1995 and at 30 September 1996	–	84	84
Net Book Value			
At 30 September 1996	808	–	808
At 30 September 1995	710	26	736

(b) Parent

	Loans to Subsidiary Undertakings £000	Shares in Subsidiary Undertakings £000	Shares in Associated Undertaking £000	Other Investments £000	Total £000
Cost					
At 1 October 1995	9,461	24,836	13	110	34,420
Additional cost of investment	–	1,072	–	–	1,072
Transfer to other group companies	(9,461)	–	–	–	(9,461)
Redemption of loan stock	–	–	–	(26)	(26)
At 30 September 1996	–	25,908	13	84	26,005
Permanent diminution in value					
At 1 October 1995 and at 30 September 1996	–	–	–	84	84
Net Book Value					
At 30 September 1996	–	25,908	13	–	25,921
At 30 September 1995	9,461	24,836	13	26	34,336

14. 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. Chemring Group PLC controls 100% of the issued Ordinary Share Capital of all its Subsidiary Undertakings and 49% of the issued Ordinary Share Capital of the Associated Undertaking.

Subsidiary Undertakings:	**Country of Incorporation**	**Activity**
Pains-Wessex Ltd	England	Pyrotechnics
Haley and Weller Ltd	England	Pyrotechnics
Chemring Ltd	England	Countermeasures
McMurdo Ltd	England	Marine safety & electronics
Kembrey Wiring Systems Ltd	England	Electronics
Octavius Hunt Ltd	England	Pyrotechnics
CHG Design Ltd	England	Clothing
Splashdown Ltd	England	Clothing
Toggi Ltd	England	Clothing
Vacuum Reflex Ltd	England	Clothing
Microsulis Ltd	England	Medical devices
Alloy Surfaces Company, Inc.	Delaware, USA	Pyrotechnics
Pains-Wessex (Australia) Pty Ltd	Australia	Pyrotechnics
Ronstan International Pty Ltd	Australia	Marine equipment
Ronstan International Inc.	Delaware, USA	Marine equipment
Hutchwilco Ltd	New Zealand	Marine equipment
Associated Undertaking:		
CIRRA S.A.R.L.	France	Countermeasures

Following the acquisition of Ronstan and Lewin & Warner Limited (trading as Splashdown) in 1995, further adjustments have been made to the provisional fair values of the assets and liabilities acquired which (after a tax credit of £382,000) has generated further goodwill of £1,157,000.

The business and assets of Nicro Corp. were acquired on 1 November 1995 for £625,000. Fair value adjustments for stock and tooling were made generating goodwill of £447,000.

15. Stocks

	Group	
	1996	1995
	£000	£000
Raw materials	**6,173**	6,907
Work in progress	**4,234**	3,395
Finished goods	**5,834**	5,156
	16,241	15,458

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

NOTES
TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 1996

16. Debtors

	Group		Parent	
	1996	1995	**1996**	1995
	£000	£000	**£000**	£000
Trade debtors	**19,711**	18,717	**6**	12
Amounts owed by subsidiary undertakings	**–**	–	**31,120**	18,795
Other debtors	**2,693**	2,095	**517**	1,263
Prepayments and accrued income	**1,637**	1,064	**418**	65
	24,041	21,876	**32,061**	20,135

Included within other debtors is Advance Corporation Tax of £454,000 (last year – £431,000) which is recoverable after more than one year.

17. Creditors – Amounts falling due within one year

Loan stock (unsecured)	**679**	688	**679**	688
Bank loans and overdrafts	**7,392**	11,485	**7,530**	12,779
Trade creditors	**9,531**	9,941	**141**	53
Amounts owed to subsidiary undertakings	**–**	–	**18**	80
Other creditors	**2,244**	3,744	**231**	–
Obligations under finance leases	**246**	120	**–**	–
Corporation tax	**2,470**	2,062	**(421)**	657
Other taxation and Social Security	**1,606**	846	**49**	47
Accruals and deferred income	**2,797**	3,006	**365**	471
Proposed dividends	**1,815**	1,722	**1,815**	1,722
	28,780	33,614	**10,407**	16,497

Loan stock is repayable with 3 months' notice and attracts interest at 1% below National Westminster Bank Plc base rate. Bank loans and overdrafts are secured on the book debts of the Group.

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

Bank loans	**12,000**	–	**12,000**	–
Obligations under finance leases	**797**	400	**–**	–
Other creditors	**801**	450	**–**	–
	13,598	850	**12,000**	–

All the above creditors fall due between 1 October 1997 and 30 September 2001. Finance lease obligations attract interest rates of between 2% and 3% above National Westminster Bank Plc base rate.

19. Provisions for Liabilities and Charges

Deferred Taxation

(a) Movement in the year – Group

	1996	1995
	£000	£000
At 1 October 1995	**741**	716
Charge for the year	**187**	139
Under/(over) provision for earlier years	**3**	(114)
Deferred tax asset	**(382)**	–
At 30 September 1996	**549**	741

The deferred tax asset arises from fair value provisions made in the year and has been credited against goodwill written off.

19. Provisions for Liabilities and Charges – *continued*

(b) Provisions at year end

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

Group	Full Provision		Dealt with in the Financial Statements	
	1996	1995	**1996**	1995
	£000	£000	**£000**	£000
Capital allowances in excess of depreciation	**931**	821	**931**	821
Other timing differences	**(382)**	(80)	**(382)**	(80)
Surplus on revaluation of property	**505**	505	**–**	–
	1,054	1,246	**549**	741

Parent	Full Provision
	£000
Capital allowances in excess of depreciation	19
Other timing differences	76
	95

None of the above full provisions is reflected in the financial statements of the Parent Company.

20. Called up Share Capital

	1996	1995
	£000	£000
Authorised		
62,500 4.9% Cumulative Preference shares of £1 each	**62**	62
27,000,000 (last year – 27,000,000) Ordinary Shares of 5p each	**1,350**	1,350
	1,412	1,412
Issued, Allotted and Fully Paid		
62,500 4.9% Cumulative Preference Shares of £1 each	**62**	62
23,621,868 (last year – 23,529,830) Ordinary Shares of 5p each	**1,181**	1,177
	1,243	1,239

The 4% Cumulative Preference Shares confer no rights to vote.

During the year, 92,038 5p Ordinary Shares were issued for a total consideration of £172,095.

NOTES
TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 1996

20. CALLED UP SHARE CAPITAL – *continued*

Share Options

(a) The Chemring Group Share Option Scheme
Share options have been granted as follows:

Date of Grant	Number of Options Granted	Nominal Value £	Number of Options Lapsed	Number of Options Exercised	Exercise Price for 4 Shares £	Dates between which Options may be exercised
16 March 1989	334,800	16,740	40,000	278,552	6.68	16.03.92-15.03.99
25 January 1990	18,000	900	8,000	10,000	5.73	25.01.93-24.01.00
22 August 1991	387,600	19,380	42,400	233,600	5.46	22.08.94-21.08.01
20 July 1992	194,400	9,720	24,400	53,000	8.40	20.07.95-19.07.02

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

(b) The Chemring Group Sharesave Scheme
Share options have been granted as follows:

Date of Grant	Number of Options Granted	Nominal Value £	Number of Options Lapsed	Number of Options Exercised	Exercise Price per Share £	Dates between which Options may normally be exercised
25 March 1994	140,300	7,015	46,373	3,552	2.76	01.05.99-31.10.99
6 July 1995	114,682	5,734	23,190	1,779	3.03	01.08.00-31.01.01
11 July 1996	24,541	1,227	164	–	3.56	01.09.99-28.02.00
11 July 1996	34,127	1,706	775	–	3.56	01.09.01-28.02.02

21. RESERVES

(a) Group

	Share Premium Account £000	Revaluation Reserve £000	Revenue Reserves £000	Total £000
At 1 October 1995	10,530	1,618	8,120	20,268
Share premium arising in the year	168	–	–	168
Transfer between reserves	–	(22)	22	–
Retained profit for the year	–	–	2,618	2,618
Goodwill arising in the year	–	–	(1,604)	(1,604)
Profit arising from foreign exchange fluctuations	–	–	534	534
At 30 September 1996	10,698	1,596	9,690	21,984

Of the above reserves the following are non distributable:

	1996 £000	1995 £000
Share Premium Account	**10,698**	10,530
Revaluation Reserve	**1,596**	1,618
	12,294	12,148

Included within Revenue Reserves is £795,000 of retained profits (last year – £697,000) relating to the associated undertaking.

21. Reserves – *continued*

A summary of goodwill written off to reserves is detailed below.

	Special Capital Reserve	Revenue Reserves	Total
	£000	£000	£000
At 1 October 1995	12,939	12,894	25,833
Arising in the year	–	1,604	1,604
At 30 September 1996	12,939	14,498	27,437

(b) Parent

	Share Premium Account	Special Capital Reserve	Revenue Reserves	Total
	£000	£000	£000	£000
At 1 October 1995	10,530	12,939	14,968	38,437
Share premium arising in the year	168	–	–	168
Retained loss for the year	–	–	(2,865)	(2,865)
At 30 September 1996	10,698	12,939	12,103	35,740

Of the above reserves the following are non distributable:

	1996	1995
	£000	£000
Share Premium Account	**10,698**	10,530
Special Capital Reserve	**12,939**	12,939
	23,637	23,469

22. Obligations under Non-Cancellable Operating Leases

	Group	
	Land and Buildings	Plant and Equipment
	£000	£000
Within one year	175	92
Two to five years	336	498
Over five years	65	1
	576	591

NOTICE
AND AGENDA OF ANNUAL GENERAL MEETING

Notice is hereby given that the ninety first Annual General Meeting of the shareholders will be held at 14.30 hours on Thursday 6 February 1997 at the registered office of the Company, 1480 Parkway, Whiteley, Fareham, Hampshire PO15 7AF, for the purpose of transacting the ordinary business described at "1" to "5" below and also, as special business, for the purpose of considering and (if thought fit) passing the resolution numbered "6" below as an Ordinary Resolution and the resolution numbered "7" as a Special Resolution.

1. To receive and adopt the financial statements for the year ended 30 September 1996 together with the reports of the directors and auditors thereon.

2. To approve the payment of a final dividend of 7.69p per 5p Ordinary Share for the year ended 30 September 1996 to be paid on 14 February 1997 to shareholders on the Register at the close of business on 14 January 1997.

3. To re-elect Mr R. J. Gibbs who retires under the provisions of Article 115 of the Company's Articles of Association.

4. To re-elect General Sir John Stibbon who retires by rotation under the provisions of Article 109 of the Company's Articles of Association.

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

ORDINARY RESOLUTION

6. That the Board be and it is hereby generally and unconditionally authorised pursuant to and in accordance with section 80 of the Companies Act 1985 ('the Act') to exercise all the powers of the Company to allot and to make offers or agreements to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £168,906 as at the date hereof provided that this authority shall expire at the commencement of the next Annual General Meeting of the Company after the passing of this Resolution save that the Company may before the expiry of this authority make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

SPECIAL RESOLUTION

7. That subject to Resolution 6 being passed and pursuant to and in accordance with the authority thereby granted, the Board be and it is hereby empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94 of the Act) pursuant to such authority as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal value of £59,054 and shall expire at the commencement of the next Annual General Meeting of the Company after the passing of this Resolution or on 30 April 1998 (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

I. Leighton

I. G. ~~K.~~ Leighton
Secretary

1480 Parkway
Whiteley
Fareham
Hampshire
PO15 7AF

11 December 1996

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 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's Registrars not less than forty-eight hours before the time appointed for holding the meeting.

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

4. Copies of contracts of service 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.

FINANCIAL CALENDAR

Shareholders' Dividends

Ordinary Shares	
Final Dividend – Year to 30 September 1996	14 February 1997
Interim Dividend – Year to 30 September 1997	31 July 1997
Preference Shares	
Half year's dividend	30 April 1997
Half year's dividend	31 October 1997

Reports to Shareholders

Half year to 31 March 1997	11 June 1997
Year to 30 September 1997 – Preliminary Results	10 December 1997
Financial Statements for the year	January 1998

CHEMRING GROUP PLC

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