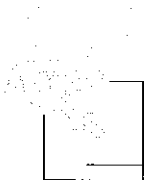


COMPANY NUMBER: 86662

CHEMRING GROUP PLC
FINANCIAL STATEMENTS 31 OCTOBER 2001





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SUMMARY FINANCIAL INFORMATION

	<i>Audited Year ended 31 Oct 2001 £000</i>	<i>Audited Year ended 31 Oct 2000 £000</i>	<i>Audited Year ended 31 Oct 1999 £000</i>
Turnover			
Defence			
Countermeasures – continuing operations	37,027	28,538	25,180
– acquired operations	14,325	–	–
	<u>51,352</u>	<u>28,538</u>	<u>25,180</u>
Military pyrotechnics	12,991	11,169	10,616
	<u>64,343</u>	<u>39,707</u>	<u>35,796</u>
Non-defence			
Marine safety – continuing operations	18,425	17,700	16,765
– acquired operations	931	–	–
	<u>19,356</u>	<u>17,700</u>	<u>16,765</u>
Wiring harnesses	9,594	7,608	7,197
Chemical coatings	1,952	2,154	2,324
	<u>30,902</u>	<u>27,462</u>	<u>26,286</u>
Continuing operations	79,989	67,169	62,082
Acquired operations	15,256	–	–
Discontinued operations	–	–	3,316
	<u>95,245</u>	<u>67,169</u>	<u>65,398</u>
Operating profit/(loss)			
Continuing operations	8,526	8,806	7,766
Acquired operations	3,445	–	–
Discontinued operations	–	–	(1,551)
	<u>11,971</u>	<u>8,806</u>	<u>6,215</u>
Profit before taxation	9,399	7,127	4,306
Dividend per ordinary share	6.70p	6.30p	5.50p
Basic earnings per ordinary share	27.96p	22.04p	14.49p
Earnings per ordinary share before profit on disposal	26.49p	22.04p	14.49p
Shareholders' funds	46,403	33,304	28,849

STATEMENT BY THE CHAIRMAN

In previous reports I have stated my confidence for the future growth of your Group. Despite a challenging year, considerable improvement in profitability was achieved, with profit before tax rising to £9.4 million and earnings per share rising to 27.96p, increases of 32% and 27% respectively on the previous year.

The Group acquired Kilgore in February 2001 and the business made a significant contribution to the results before the very unfortunate incident in April, which I referred to in my statement at the half year. Clearly, without this incident, growth would have been even better. Significant investment has been made in the reconstruction of facilities at Kilgore but full production will not resume until March of this year. The full implications of this are discussed later.

RESULTS

	2001	2000	%
	£000	£000	Increase
Operating profit	11,971	8,806	36
Profit before tax	9,399	7,127	32
Profit after tax	7,057	5,261	34
Earnings per share	27.96p	22.04p	27

The Group invested significant resources in research and development in the year, particularly in the areas of countermeasures and marine safety. Expenditure increased from £2.6 million to £5 million.

BUSINESS ACTIVITIES

Our international, market leading countermeasures business, consisting of Chemring Countermeasures, Alloy Surfaces and Kilgore, continued its exciting growth, with turnover increasing by 80% despite the incident at Kilgore. Had the incident at Kilgore not occurred, it is estimated that turnover would have increased further by approximately £7.5 million. Countermeasures now makes up more than 50% of the Group's activities, and the business has established a leading position in the US defence market.

The incident at Kilgore necessitated the suspension of operations at the facility. Production on non-decoy products recommenced in June and limited decoy manufacture recommenced in August. The reconstruction of facilities to enable full production of decoys is progressing well, with full facility completion expected in March of this year. Our evaluation of the impact of the incident showed a requirement for major new investment to rebuild the manufacturing plant in order to remove operators from the more sensitive areas of the operations, and to satisfy both the health and safety authorities and ourselves that we had minimised any risk areas in the manufacturing process.

The Group was obviously covered by insurance, both for damage to the facilities and for the loss of profits arising through business interruption. Initially our insurers indicated a wish to have all issues resolved and the claim settled by the end of September. Since 11 September, however, a significant change has taken place in the attitude of our insurers, and unfortunately negotiations to resolve our claim have not made the progress we initially anticipated. In preparing these financial statements, the Board has been conservative in recognising the level of compensation the Group is entitled to recover under its business interruption policy. The full claim for insurance is higher than that recognised in the accounts to date and the Board, with the support of its professional advisers, will pursue this actively, having resort if necessary to its legal options. Shareholders will recognise that, in such a delicate situation, I would not wish to comment further on the details of our claim at this stage.

Kilgore is an enormous opportunity for your Group. The Board has been very impressed with the manner in which our new US management has tackled its problems and retained the support of its customer base. With the consolidation of the Martin Electronics flare business which was acquired during the year, Kilgore now has an order book of \$47 million with sales, profits and opportunities significantly in excess of our initial projections twelve months ago.

Alloy Surfaces had an excellent year and has fully recovered from the production problems that it experienced towards the end of the last financial year. Planned manufacturing improvements impacted on its sales in the first half but the strong second half performance contributed to an annual sales increase of 19%. Throughout the year Alloy has concentrated on planning and expanding its capacity to meet its increasing order book and further opportunities for its specialised products.

Chemring Countermeasures, the UK business, had a disappointing year, with profits reduced from last year due to increased costs in meeting customer requirements on naval decoy business manufactured for certain NATO forces. The naval contracts were part of Chemring Countermeasures' drive to become an equivalent force in naval countermeasures to that which it exerts in the arena of airborne protection. With the research and development undertaken on these contracts the business now feels well positioned to secure further orders for NATO and other navies, and to assist Kilgore to break into the US naval market. Chemring Countermeasures' air decoy business is performing well with several new products entering service.

The unfortunate events of 11 September and the military action that followed inevitably give rise to assumptions that such actions would be "good" for our countermeasures business. To date, limited additional business has resulted, although there are increasing signs that a reappraisal of military requirements following 11 September, particularly in the United States, will be beneficial to our future prospects.

PW Defence, the Group's military pyrotechnics business, had an excellent year, with profits substantially up on the previous year. The consolidation of activities in Derby has had an enormously beneficial impact. PW Defence continues to work with other international manufacturers in a consolidating industry, and is actively supporting the UK MoD on SMART procurement initiatives.

The marine safety business had a tough year, with intense competition, particularly on pricing, in our pyrotechnics business. Although the electronics business grew by 9%, it was below our growth expectations.

Your Board is convinced that marine electronics will provide future growth, supported by research and development programmes bringing several new products to the market with one, our EPIRB GPS, having won the prestigious Marine Product of the Year Award for 2001. Although progress was made during 2001, the business is still searching for a more effective route to market in the US, particularly to service the leisure industry.

Our acquisition of Pirotécnia Oroquieta during the year will assist in recovering market share in pyrotechnics and will provide the benefits of lower cost manufacturing. The Group's marine safety business is now by far the largest in the legislated marine pyrotechnics market.

Kembrey Wiring Systems returned to profitability during the year, principally because of satisfactory commercial relationships being established for all our efforts on behalf of the Nimrod programme. The business has a sound order book and should progress further this year.

BALANCE SHEET AND CASH FLOW

At the year end the Group's indebtedness was higher than either anticipated or desirable. The acquisition of Kilgore for \$23 million, satisfied by the issue of 1.2 million ordinary shares at a value of \$5.2 million and \$17.8 million cash, obviously increased significantly our level of debt, but not beyond that deemed prudent and easily serviceable from our expanding earnings. However, during the year the interruption to business at Kilgore and the need to fund its rebuild programme, combined with the delayed receipts on naval countermeasures contracts, stretched our cash resources.

In October following increasing institutional demand for our equity and in anticipation of improving liquidity in our shares, the Company issued 1,196,080 ordinary shares, raising £3,962,000 cash net of expenses.

STATEMENT BY THE CHAIRMAN - continued

During the year the Group ended its joint banking relationship with the Royal Bank of Scotland and Bank of Scotland, and now banks primarily with the Bank of Scotland. The Board is pleased with the partnership and understanding that the Bank of Scotland is now providing.

The Board is very conscious that our borrowing is too high to be a permanent feature of the Group's total funding requirements, particularly when contemplating our growth projections. Resolution of the Kilgore insurance claim and collection of receipts on the naval countermeasures contracts would greatly assist in reducing debt.

INSURANCE

The Group experienced unprecedented increases in premiums on the annual renewal of its insurance covers at the end of October 2001. The increases are directly attributable to the severe hardening of the insurance market over the last year, particularly following the events of 11 September, and many businesses are facing similar increases. In order to contain costs as much as possible, the Group's captive insurance company, CHG Insurance Limited, is currently being utilised to self-insure an element of the Group's cover. If the market improves we will place this cover with external insurers. The Group will obviously be discussing the impact of the increased insurance costs with its major customers.

DIVIDENDS

An interim dividend of 2.45p (2000: 2.30p) was paid during the year. The directors recommend a final dividend of 4.25p (2000: 4.00p), an increase of 6% over the previous year. The directors, in making this recommendation, have taken account of the Group's current indebtedness and funding requirements.

EMPLOYEES

As promised in my last report, the Group has strengthened its management with the appointment on 1 November 2001 of Tim Hayter as a main Board director and Chief Operating Officer. His principal responsibilities will be the delivery of the Group's operating profit and cashflow. Elsewhere in the Group we have strengthened management, either to provide the strength required to match our ambitions, or to close perceived gaps. This is a continuing process.

As always, I would like to thank all our employees for their hard work during the year. This year I would like to convey particular thanks to our employees at Kilgore. The response by all those in that business to the issues that faced them this year has been commendable.

PROSPECTS

In the year the Group generated excellent profit and earnings growth. The current prospects for all our businesses indicate a continuation of this growth pattern. The Board remains confident that the Group, particularly with the exciting opportunities in the US, will deliver significant increases in shareholder value.



K C SCOBIE - Chairman

22 January 2002

REVIEW BY THE CHIEF EXECUTIVE

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

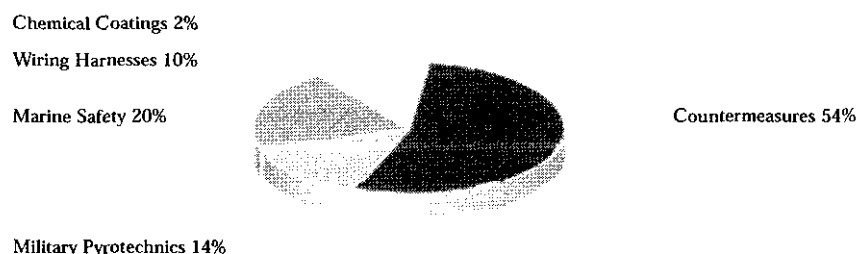
DEFENCE

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

NON-DEFENCE

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

TURNOVER BY BUSINESS AREA for the year ended 31 October 2001



DEFENCE BUSINESSES

It was a further year of good growth for our defence businesses, with turnover increasing by 62% to £64.3 million, representing 68% of total Group turnover. Turnover in the defence businesses has doubled over the last three years. The year ended with a healthy order book of £71 million, up £33 million (87%) on 2000.

Our strategy of increasing our presence in the important US market along with continuing investment in new products, has further strengthened our global market leading position in our niche markets for expendable countermeasures and military pyrotechnics.

• COUNTERMEASURES

Turnover increased by 80% to £51.4 million for the year, and the order book more than doubled over the year to £53 million.

The Group is recognised as an international market leader in the development and manufacture of expendable countermeasures to protect valuable military platforms, with production facilities in the US, the UK and Australia. Against the background of increasing use of military aircraft in supporting anti-terrorist activity, IR decoy flares play an important part in providing self-protection against IR man-portable air defence systems. We continue to develop new products to combat the emerging threats and explore new markets to maintain our leading position.

During the year the US acquisitions of Kilgore and the Martin Electronics flare business significantly enhanced the Group's position as the leading supplier of IR expendable decoys in the US, which is the largest single market for these products. 85% of the Group's countermeasures are now sold outside of the UK. However, the UK MoD remains an important customer, particularly as it is increasing its global peace keeping role.

Both US companies – Kilgore based in Toone, Tennessee, and Alloy Surfaces based in Chester Township, near Philadelphia, Pennsylvania – are well placed to benefit from recent increases in US DoD budgets. They have strong order books and their combined turnover is projected to account for almost 60% of the Group's total defence turnover in 2002.

Kilgore is the largest producer of magnesium based flares in the world and manufactures a wide range of flare products for current aircraft platforms. Kilgore supports the development of IR decoys for future aircraft such as the F22. The incident at Kilgore in April 2001 resulted in a review of all safety aspects on site. Investment in replacement production facilities of \$8 million is being made to automate flare production to provide a safe working environment in

support of future growth plans. Commissioning of the fully automated facilities is expected to be completed in March 2002, following which Kilgore will be, without doubt, the most advanced IR decoy manufacturing plant in the world. Kilgore enters the new financial year with planned sales almost fully covered by orders.

Demand continues to grow for Alloy Surfaces' proprietary special material decoys, particularly in a pre-emptive operational mode. Alloy's unique IR material features in several advanced IR expendable countermeasure programmes in the US. These include the Advanced Strategic and Tactical Expendables (ASTE) programme, where Alloy provides more than 50 of the flare variants. The US Army Advanced Infrared Countermeasure Munition (AIRCMM) programme's XM211 has achieved considerable test success protecting helicopter and C130 transports, and will be fielded on several new platforms in the coming years. Alloy's innovative BOL IR decoy is in service with the US Navy and the BOL dispenser has now been qualified on the F15. The US Air Force Air Combat Command completed an operational utility evaluation of the Raytheon/Alloy Surfaces COMET dispenser and countermeasure in 2001 for application on the A10 "tank busters" to demonstrate extended duration pre-emptive protection. A force development evaluation is planned for 2002 on the A10 and the C130, which if successful could lead to initial production orders in 2003.

Chemring Countermeasures ("CCM"), the UK business based in Salisbury, provides decoys worldwide for most aircraft and helicopter platforms and their defensive aids systems. CCM is also the developer of the chaff and flare decoys for the European Fighter Aircraft 2000 (Typhoon).

The number of platforms utilising CCM's proprietary MEB (Modular Expendable Block) is increasing and the UK MoD has placed its first production orders. The MEB incorporates both flare and chaff materials to increase operational effectiveness on both fixed wing aircraft and helicopters. As well as significantly improving operational capabilities, the MEB also confers significant savings in logistic costs to the user. A version of the IR MEB has been purchased for the Swiss Cougar programme and for operational use on the Italian Navy EH101 and SH3D helicopters. The RF MEB version has already entered service in numerous NATO and non-NATO countries on C130, F16 and various helicopters, including GKN Westland's WH64 Apache.

Over the last two years CCM has invested in developing a comprehensive range of MK36 naval decoys. The MK36 decoy launcher is standard in most NATO navies. CCM is the only company worldwide that can offer the full range of passive IR and RF decoys for the MK36 system. Deliveries on the first contract for the proprietary combined IR/RF Chimera decoy were completed in the year and the rounds performed well in recent customer naval exercises. The UK MoD TALOS IR round has met the required customer design performance and final deliveries will be made following UK MoD in-service safety clearance.

During the year difficulties were experienced with one naval decoy production contract, where there were problems with a safety and arming sub-assembly ("S&A"). The round is a US DoD design for the Seagnat Steering Group comprising the UK, Denmark and the US. The S&A was manufactured to the data pack but failed to function reliably. A modification has been proposed to the customer to enable final delivery of the contract in 2002.

This has been yet another good year for the Group's countermeasures business with both orders and sales reaching record highs. There are significant opportunities for further increases, particularly in the US. We have established a countermeasures marketing and technology group to oversee continuing investment across our countermeasures activities worldwide, and to ensure the Group is best placed to maintain its market position and capitalise on the increasing need to protect valuable military platforms.

• MILITARY PYROTECHNICS

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

Turnover in the year increased by 16% to £13 million, of which 73% was exported. At the year end the order book had increased by 36% to £17.6 million, which provided a good opening start to 2002.

In the domestic market the UK MoD continues to be an important customer. PW Defence is supporting the MoD with SMART procurement initiatives, which is assisting the MoD with its aim of reducing logistics costs and providing PW Defence with better visibility on long term requirements to assist future manufacturing strategy.

PW Defence has maintained its international market share and we continue to explore collaboration particularly in Europe, exploring closer working relationships with our industry participants, to position us for possible European-led defence procurement programmes. One such collaboration in 2001 involved Bück, (a Germany company, part of Rheinmetall), where co-operation between PW Defence and Bück on 66mm vehicle discharge grenades led to a significant order from the UK MoD and potential future export orders.

In 2001 manufacturing facilities at Draycott were updated to improve efficiency, and in 2002 research and development investment is planned to increase to enhance the company's product range.

The acquisition of Kilgore provides an opportunity to market PW Defence products in the US and for PW Defence to market Kilgore's products overseas. This relationship has existed on an arm's length basis for a number of years and the acquisition will enable the product range for both parties to grow.

NON-DEFENCE BUSINESSES

• MARINE SAFETY

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

Turnover increased by 9.6% to £19.4 million in the year, with electronic sales providing the growth, supporting our strategy to expand the electronics range against known legislation.

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

New electronics products are driving the growth of our marine safety business. Continuing development of 406MHz technology has provided a full year of sales for the award winning EPIRB with integral Global Positioning Systems (GPS). A Personal Locating Beacon (PLB) based on the same technology has just entered the market, and received an honourable mention at the METS exhibition awards in Amsterdam. Demand for the PLB arises in both the marine and non-marine markets to assist with locating individuals in distress. The PLB is the smallest, most technically advanced GPS based safety beacon in the world and makes use of combining two of the world's leading satellite systems to ensure that rescue services can be alerted with an accurate location, typically to within 30 metres in under three minutes. An electronic manoverboard product, worn as a watch, for use on oilrigs and for general leisure and workboat applications, was also successfully launched this year.

Additional 406MHz technology products currently in development, such as Emergency Location Transmitters (ELTs) for aviation use, will provide access to further new market areas as legislation is introduced. Sales are expected to increase significantly in these areas following Cospas-Sarsat announcements that satellite processing on 121.5 MHz and 243 MHz is to cease.

In support of new requirements for VHF radios incorporating Digital Selective Calling (DSC), an integrated radio was successfully launched at the recent London Boat show. Significant orders have already been received for this product, and sales are expected to increase sharply in the coming years as worldwide coastguard authorities cease their dedicated watch keeping services from 2005 onwards and switch over to DSC distress monitoring.

We have entered into a collaboration with a systems company to produce a Universal Automatic Identification System (UAIS) in support of legislation, both internationally from the IMO and from within the European Union. The IMO has introduced mandatory requirements for UAIS commencing in the summer of 2002 and the first peak demand is expected in 2003.

Sales of pyrotechnics into Europe continued to be affected by the weakness of the Euro in the first half. The acquisition in May 2001 of 51% of Pirotecnia Oroquieta, a lower cost producer of marine pyrotechnics based in Spain, assisted in the recovery of some market share in the second half. Further gains are anticipated in 2002. We are holding our market share on marine lights, although demand is not increasing.

With substantial investment in new premises and increased awareness of our world leading brands, McMurdo and Pains Wessex, we are set to increase our penetration of the expanding marine electronics market place.

REVIEW BY THE CHIEF EXECUTIVE – continued

• **WIRING HARNESSSES**

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

Turnover increased by 26% to £9.6 million in the year. The closing order book was up 53% to £13.6 million, providing good order cover for 2002 sales.

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

In October Kembrey completed the first set of 1,100 harnesses to enable BAE Systems to meet its "power on" date for the first Nimrod aircraft. Both the UK MoD and BAE Systems expressed their gratitude for Kembrey's efforts. A further two Nimrod harness sets are well advanced and another four sets are required in 2002.

An important order was received from Rolls-Royce for engine harnesses for the Tornado RB199 engine refit programme during the year.

GKN's restructuring of its manufacturing base has resulted in Kembrey entering into a new strategic alliance with GKN for the supply of wiring harnesses.

Kembrey's civil engine business has been marginally affected by the downturn in the aviation market. However, harnesses for military applications account for more than 50% of the order book and this is supporting further growth.

• **CHEMICAL COATINGS**

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



D R EVANS – Chief Executive

22 January 2002

REVIEW BY THE FINANCE DIRECTOR

OPERATING RESULTS

Group turnover for continuing operations grew by 19% to £79,989,000. Including the turnover from acquired operations of £15,256,000, total turnover was £95,245,000 (2000: £67,169,000).

There was increased spend on research and development across the Group during the year. This, together with the impact of the high material content on naval countermeasures contracts, reduced gross profit margins for the continuing operations to 24% (2000: 28%).

The gross profit for the acquired operations of £5,457,000 includes a credit to cost of sales for business interruption insurance proceeds. The accounting for business interruption is such that credits are taken to cost of sales rather than turnover, hence the gross profit margins are higher than would normally be expected at 36%. On a proforma basis gross profit margins would have been in the region of 24%, on additional turnover of approximately £7.5 million.

Total overheads, representing 13% of turnover (2000: 15%), were well controlled, with increases principally due to the acquired businesses.

Net operating margin was 13% (2000: 13%).

RESEARCH AND DEVELOPMENT

During the year research and development expenditure of £5,038,000 (2000: £2,622,000) was incurred, of which £1,373,000 (2000: £1,180,000) was funded by customers and £2,238,000 (2000: £585,000) was capitalised.

PROFIT ON DISPOSAL

A £369,000 profit on disposal of one of the Group's freehold properties was made in the year.

INTEREST

The interest charge for the year was £2,984,000 (2000: £1,709,000). Interest cover on operating profits was 4 times (2000: 5.2 times). Interest was higher than anticipated due to increased working capital and delays in the receipt of insurance proceeds following the incident at Kilgore.

TAXATION

The tax charge of £2,342,000 (2000: £1,866,000) is based on an effective rate of 25% (2000: 26%). The underlying tax rate is arrived at as follows:

	<i>Profit</i>	<i>Tax</i>	<i>Tax rate</i>
	<i>£000</i>	<i>£000</i>	<i>%</i>
Profit before tax and gain on disposal	9,030	2,342	26
Gain on disposal	369	—	—
Profit before tax	<u>9,399</u>	<u>2,342</u>	<u>25</u>

The gain on disposal is free of tax due to the utilisation of brought forward capital losses. The tax on the profit before the gain on disposal has also been reduced by brought forward losses. It is anticipated the tax rate will increase to around 30% next year.

REVIEW BY THE FINANCE DIRECTOR - continued

SHAREHOLDER RETURNS

Earnings per ordinary share were 27.96p (2000: 22.04p), an increase of 27%. Earnings per ordinary share before profit on disposal increased by 20% to 26.49p (2000: 22.04p).

The dividend per ordinary share of 6.70p (2000: 6.30p) is covered 3.85 times (2000: 3.48 times).

Post tax return on capital employed was 15.2% (2000: 15.8%).

Shareholders' funds at the year end were £46,403,000 (2000: £33,304,000).

GOODWILL

Goodwill arising on the acquisitions made in the year is as follows:

	£000
Kilgore Flares Company LLC	5,477
Martin Electronics flare business	478
Pirotécnia Oroquieta S.L.	588
Total additions	<u>6,543</u>

The Board has carried out an annual impairment test on the Group's total goodwill of £24,789,000 that has demonstrated that no amortisation is necessary on the constituent parts of the goodwill balance.

CASH FLOW AND GEARING

Operating cash flow was £4,134,000 (2000: £7,937,000). Working capital balances have risen during the year in support of our naval countermeasures programmes, and at the year end £5.6 million of contract receivables were outstanding. The naval countermeasures are undergoing final acceptance testing. Additionally, outstanding insurance receipts compounded the increase in working capital.

Total capital expenditure in the year was as follows:

	2001	2000
	£000	£000
Fixed assets additions	7,457	2,687
Development costs additions	2,238	585
Proceeds from asset sales	(1,647)	(142)
Trade investment purchase	10	—
	<u>8,058</u>	<u>3,130</u>

Of the total spend on fixed assets, £3.2 million was incurred by Kilgore as part of the investment in its facilities. Further capital spend of £2.2 million has been invested by Kilgore in the first quarter of the current financial year to complete the overall reconstruction. The development costs have been capitalised by our countermeasures and marine safety businesses. The proceeds on sale relate to the disposal of one of the Group's freehold properties.

On 26 October 2001, the Group placed 1,196,080 ordinary shares, equivalent to 4.65% of the share capital of the Company at that time, raising £3,962,000 net of expenses. These funds are being used to provide additional resources to the Group.

Net debt stood at £40,942,000 at the year end (2000: £20,118,000). Gearing was 88% (2000: 60%).

FACILITIES

The Group has agreed total facilities of £51 million with the Bank of Scotland to provide funding and working capital for the UK businesses and Kilgore. In addition, facilities of \$11 million are in place with Wilmington Trust and Pennsylvania Industrial Development Authority to provide funding for Alloy Surfaces, and facilities of A\$1.4 million in Australia provide funding for Pains Wessex Australia.

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

PENSIONS

In accordance with FRS17 – Accounting for Pension Costs, the Group has disclosed the additional information required in Note 7 to the accounts, but in accordance with the FRS, no provision has been made. Under FRS17, the calculated deficit on the Group's two defined benefit pension schemes was £6,396,000 at 31 October 2001. This compares with the combined deficit on the two schemes of around £500,000 at the dates of their last formal actuarial valuations.

The apparent deterioration of the funding position on the two schemes, as suggested by the FRS17 valuation, is attributable to the fall in equity markets last year and the lower average discount rate applied to scheme liabilities under FRS17 compared to that used in normal actuarial valuations.



P A RAYNER – Finance Director

22 January 2002

DIRECTORS AND PROFESSIONAL ADVISERS

NON-EXECUTIVE CHAIRMAN

Kenneth C Scobie

EXECUTIVE DIRECTORS

David R Evans

Chief Executive

Timothy W Hayter

Chief Operating Officer

Paul A Rayner FCA

Finance Director

NON-EXECUTIVE DIRECTORS

Peter J Molony

General Sir John Stibbon KCB OBE

Chairman: ITT Defence Ltd

PROFESSIONAL ADVISERS

AUDITORS

Deloitte & Touche, Southampton

SOLICITORS

Ashurst Morris Crisp, London

Bond Pearce, Southampton

BANKERS

Bank of Scotland, Southampton

STOCKBROKERS

Investec Henderson Crosthwaite Ltd, London

SECRETARY

Sarah Ellard ACIS

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86662

REGISTRARS

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7th Floor, Jupiter House

Triton Court

14 Finsbury Square

London EC2A 1BR

DIRECTORS' REPORT

for the year ended 31 October 2001

Your directors present the financial statements of the Group for the year ended 31 October 2001.

PRINCIPAL ACTIVITIES

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

REVIEW OF THE YEAR AND RESULTS

A review of the year can be found in the Chairman's Statement, the Chief Executive's Review and the Finance Director's Review on pages 4 to 13.

DIVIDENDS

The directors recommend a final dividend of 4.25p per ordinary share, which together with the interim dividend of 2.45p per ordinary share paid in August 2001, gives a total for the year of 6.70p (2000: 6.30p).

DIRECTORS

The present directors are shown on page 14.

Mr T W Hayter was appointed as a director on 1 November 2001. He will be seeking re-appointment under Article 87.1 of the Company's Articles of Association at the forthcoming Annual General Meeting on 7 March 2002. Mr Hayter's service contract with the Company is terminable on twelve months' notice by either party.

Mr P J Molony 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 31 October 2001.

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

EMPLOYEES

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

The Group employs disabled persons wherever circumstances permit, and full and fair consideration is given to applications for employment by disabled persons having regard to their particular aptitudes and disabilities. Disabled persons in employment receive equal treatment to that afforded to other employees.

DIRECTORS' REPORT - continued

CHARITABLE AND POLITICAL DONATIONS

Charitable donations amounting to £5,723 were made during the year. No political donations were made during the year.

SUBSTANTIAL SHAREHOLDINGS

At 21 January 2002 the following interests in the ordinary share capital of the Company exceeding 3% had been notified to the Company under the provisions of section 198 of the Companies Act 1985:

<i>Name</i>	<i>% Interest</i>
Deutsche Bank AG	16.4
Prudential Corporation plc	10.6
Artemis UK Smaller Companies Fund	3.6

THE CHEMRING GROUP SHARE OPTION SCHEME

No options were granted in the year to 31 October 2001. During the year options on 32,000 shares were exercised and options over 4,000 shares lapsed. Additional information is set out in Note 21.

THE CHEMRING 1998 EXECUTIVE SHARE OPTION SCHEME

No options were granted in the year to 31 October 2001. During the year options on 580,358 shares were exercised. Additional information is set out in Note 21.

THE CHEMRING GROUP SHARESAVE SCHEME

No options were granted in the year to 31 October 2001. During the year options on 1,138 shares were exercised and options on 2,866 shares lapsed. Additional information is set out in Note 21.

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

No options were granted in the year to 31 October 2001. During the year options on 23,125 shares were exercised and options on 6,944 shares lapsed. 6,944 shares were gifted by the Trustee of the ESOP during the year. Additional information is set out in Note 21.

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.

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 judgments and estimates, have been used in the preparation of the financial statements, and that applicable accounting standards have been followed.

POLICY ON PAYMENT OF SUPPLIERS

It is the policy of the Group that each of the Group companies should agree appropriate terms and conditions for its transactions with suppliers. These will range from standard written terms to individually negotiated contracts. Payments are then made in accordance with these terms and conditions, provided that the supplier has accorded with them. Creditor days as at 31 October 2001 amounted to 67 days (2000: 79 days).

CLOSE COMPANY PROVISIONS

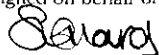
As far as the directors are aware, the close company provisions of the Taxes Acts do not apply to the Group nor has there been any change in that respect since 31 October 2001.

AUDITORS

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

Approved by the Board of Directors on 22 January 2002.

Signed on behalf of the Board


S L ELLARD - Secretary

REPORT OF THE REMUNERATION COMMITTEE

for the year ended 31 October 2001

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

REMUNERATION POLICY

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

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

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

DIRECTORS' EMOLUMENTS

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

	Salaries and fees		Cash bonuses		Taxable benefits		Total	
	Year ended 31 Oct 2001 £000	Year ended 31 Oct 2000 £000	Year ended 31 Oct 2001 £000	Year ended 31 Oct 2000 £000	Year ended 31 Oct 2001 £000	Year ended 31 Oct 2000 £000	Year ended 31 Oct 2001 £000	Year ended 31 Oct 2000 £000
Executives								
D R Evans	175	171	20	–	18	17	213	188
P A Rayner	89	79	10	–	12	11	111	90
Non-executives								
P J Molony	20	20	–	–	–	–	20	20
K C Scobie	56	56	–	–	–	–	56	56
J Stibbon	20	20	–	–	1	1	21	21
Total remuneration	360	346	30	–	31	29	421	375

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

Mr Scobie's remuneration includes payments to his company, K C Scobie Limited, in respect of his consultancy services. In addition to the remuneration shown above, Mr Scobie has a long term incentive scheme, details of which are given on page 21, in respect of which the Group had accrued £391,000 as at 31 October 2001.

The cash bonuses referred to in the table above were paid to Mr Evans and Mr Rayner in recognition of their individual performance and that of the Group during the year ended 31 October 2001. In addition, Mr Evans received a payment of £73,000 during the year in respect of the deferred bonus declared payable to him in April 1998.

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

PENSIONS

Mr Evans and Mr Rayner are members of The Chemring Group Executive Pension Scheme. This is a non-contributory scheme, to which the Company makes contributions at the rate advised by the scheme actuary. Contributions paid by the Company in respect of the directors for the years ended 31 October 2001 and 31 October 2000 respectively are shown below.

	<i>Year ended 31 Oct 2001 £000</i>	<i>Year ended 31 Oct 2000 £000</i>
D R Evans	47	46
P A Rayner	24	20
	<u>71</u>	<u>66</u>

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

	<i>Increase in accrued benefit (excluding inflation)</i>		<i>Transfer value of increase in accrued benefit (excluding inflation)</i>
	<i>Pension</i>	<i>Cash sum</i>	
D R Evans	£8,804 pa	£642	£112,112
P A Rayner	£2,080 pa	£6,240	£13,757

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

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

DIRECTORS' SHARE INTERESTS

The interests of the directors in the ordinary shares of the Company at 1 November 2000 and 31 October 2001 are shown below. All are beneficial holdings.

	<i>2001 Number</i>	<i>2000 Number</i>
D R Evans	88,997	20,644
P J Molony	-	-
P A Rayner	11,000	2,500
K C Scobie	125,500	100,000
J Stibbon	-	-

No movements have taken place between 31 October 2001 and 22 January 2002. Mr Hayter has no interests in the ordinary shares of the Company save as referred to in the paragraph below.

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

REPORT OF THE REMUNERATION COMMITTEE – continued

SHARE OPTIONS

The holdings by the directors of options over ordinary shares in the Company at 1 November 2000 and 31 October 2001 are shown below.

		Number of share options					Market	Date		
		At 1 Nov 2000	Granted during the year	Lapsed during the year	Exercised during the year	At 31 Oct 2001	Exercise price (p)	price at date of exercise (p)	from which exercisable	Expiry date
D R Evans										
ESOP	B	3,472	-	-	3,472 ¹	-	0	291.5	5 Apr 1995	5 Apr 2002
	A	6,944	-	6,944 ³	-	-	330	-	5 Apr 1998 ¹	5 Apr 2005
	B	3,085	-	-	3,085	-	0	291.5	26 Feb 1996	26 Feb 2003
	C	6,170	-	-	6,170	-	0	291.5	26 Feb 1999 ²	26 Feb 2003
1998 Executive Scheme		191,182	-	-	191,182	-	139.5	291.5	6 Apr 2001	5 Apr 2008
		100,000	-	-	-	100,000	236	-	3 Feb 2003	2 Feb 2010
P A Rayner										
Sharesave Scheme		1,138	-	-	1,138	-	303	301.5	1 Aug 2000	31 Jan 2001
1998 Executive Scheme		30,000	-	-	30,000	-	139.5	291.5	6 Apr 2001	5 Apr 2008
		50,000	-	-	-	50,000	236	-	3 Feb 2003	2 Feb 2010

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

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

³The exercise by Mr Evans of 3,472 "B" options granted to him under the ESOP involved the release of 6,944 "A" options granted on the same day and the gift of 6,944 ordinary shares by the Trustee of the ESOP, in accordance with the rules of the scheme.

The market price of the ordinary shares at 31 October 2001 was 355p. During the year, the ordinary shares traded within the range 285p to 393½p.

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

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

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

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

SERVICE CONTRACTS

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

NON-EXECUTIVE DIRECTORS

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

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

On behalf of the Remuneration Committee

K C SCOBIE - Chairman of the Remuneration Committee

22 January 2002

STATEMENT ON CORPORATE GOVERNANCE

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

APPLICATION OF THE PRINCIPLES OF THE COMBINED CODE

THE BOARD OF DIRECTORS

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

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

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

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

DIRECTORS' REMUNERATION

Details of the Company's policy on directors' remuneration are set out in the Report of the Remuneration Committee on pages 18 to 21.

RELATIONS WITH SHAREHOLDERS

The Company encourages dialogue with institutional shareholders through regular briefing meetings and formal presentations following the release of interim and annual results. Communication with private investors is achieved largely through the medium of the Interim Report and the Financial Statements. The Company's website (www.chemring.co.uk) also provides financial and business information on the Group.

All directors are available to take questions from shareholders or address any concerns at the AGM. At other times of the year, the directors can be contacted via the Company's head office.

FINANCIAL REPORTING

The statement of directors' responsibilities in respect of the financial statements and accounting records maintained by the Company is set out on page 17.

INTERNAL CONTROL

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

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

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

- The Board assesses the key risks associated with achievement of the Group's business objectives as part of the annual strategic planning process. Out of this process, each business establishes a three year plan and annual budget, which are subject to approval by the Board. The performance of each business against budget and prior years is reviewed on a monthly basis at both operational level and by the Board. Achievement of strategic business objectives and the associated risks are monitored by the Board on an ongoing basis.
- All businesses hold monthly operating meetings, which are attended by at least one main Board director, either in person or, in the case of the overseas companies, by video conference. In the case of the US businesses, formal Board meetings are held quarterly and these are attended by both main Board directors and external non-executive directors appointed in the US. The US non-executive directors are available to provide guidance and monitor governance in the US businesses throughout the year.
- Each business is required to comply with the Group's accounting manual, which sets out formal procedures for incurring certain types of expenditure and making contractual commitments. Compliance with the accounting manual is reviewed by both the Audit Committee and the full Board.
- The Board retains primary responsibility for acquisitions and disposals, and financing arrangements for the Group. Treasury management, IT strategy, insurance and significant legal matters are dealt with centrally from the Group head office, and the Board receives regular reports on each of these items. Reviews of the Group's pensions, insurance and risk management arrangements are carried out by external advisers on a regular basis.
- A Group Health and Safety Management Committee co-ordinates and controls the activities of each business in relation to health and safety, which is a key focus for the Board in view of the nature of the Group's operations. External auditors carry out an annual review of the health and safety management systems at each of the Group's operations.
- A Risk Management Committee has been established to co-ordinate and report to the Board on the risk control procedures implemented by each business at an operational level.

STATEMENT ON CORPORATE GOVERNANCE - continued

The Board confirms that it has reviewed the effectiveness of the Group's systems of internal control and risk management which were in place during the financial year ended 31 October 2001, and it confirms that systems compliant with the Combined Code and the Turnbull Guidance were in place throughout the year and have remained in place up to the date of approval of these financial statements. Notwithstanding this, the Board intends to take steps to embed internal control and risk management further into the operations of the Group and to deal with any areas of improvement which come to the attention of management and the Board.

AUDIT COMMITTEE AND AUDITORS

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

COMPLIANCE WITH THE PROVISIONS OF THE COMBINED CODE

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

- The Board has not yet nominated a non-executive director as the Senior Independent Director. This requirement will be kept under review (A.2.1).
- In view of its size, the Board considers that the appointment of new directors should be a matter for consideration by the Board as a whole and accordingly a Nominations Committee has not been established (A.5.1).
- Mr Scobie's appointment as Non-Executive Chairman is not for a specified term; however, he is subject to retirement by rotation (A.6.1).
- The Company's Articles of Association provide that at each AGM one-third of the directors shall retire by rotation and new directors should offer themselves for re-election at the next AGM following their appointment. This is not strictly in line with the provisions of the Combined Code which require that directors should stand for re-election at intervals of no more than three years. The directors consider that the current arrangements adequately reflect the spirit of the Combined Code and do not propose making any change in this respect (A.6.2).
- Mr Evans has a service contract with a notice period in excess of one year, details of which are disclosed in the Report of the Remuneration Committee (B.1.7).

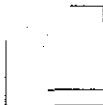
GOING CONCERN

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

Approved by the Board of Directors on 22 January 2002.

Signed on behalf of the Board

S L ELLARD – Secretary



INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

for the year ended 31 October 2001

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CHEMRING GROUP PLC

We have audited the financial statements of Chemring Group PLC for the year ended 31 October 2001 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses and the related notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority.

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

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

We read the directors' report and other information contained in the Annual Report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 October 2001 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



DELOITTE & TOUCHE

Chartered Accountants and Registered Auditors

Southampton

22 January 2002

NOTES

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 October 2001

Note	Continuing operations £000	Acquired operations £000	Year ended 31 Oct 2001	Year ended 31 Oct 2000
			Total operations £000	Total operations £000
2 Turnover	79,989	15,256	95,245	67,169
Cost of sales	(61,004)	(9,799)	(70,803)	(48,164)
Gross profit	18,985	5,457	24,442	19,005
Distribution costs	(2,798)	(410)	(3,208)	(2,693)
Administrative expenses	(7,661)	(1,602)	(9,263)	(7,506)
3 Operating profit	8,526	3,445	11,971	8,806
4 Profit on disposal			369	-
Associated undertaking			43	30
Profit on ordinary activities before interest			12,383	8,836
8 Interest payable			(2,984)	(1,709)
Profit on ordinary activities before taxation			9,399	7,127
9 Tax on profit on ordinary activities			(2,342)	(1,866)
Profit on ordinary activities after taxation			7,057	5,261
Equity minority interest			(25)	-
Profit for the financial year			7,032	5,261
10 Dividends			(1,831)	(1,511)
22 Retained profit			5,201	3,750
11 Basic earnings per ordinary share			27.96p	22.04p
11 Earnings per ordinary share before profit on disposal			26.49p	22.04p
11 Diluted earnings per ordinary share			27.85p	21.19p

ADDITIONAL FINANCIAL PERFORMANCE STATEMENTS

for the year ended 31 October 2001

	<i>Year ended 31 Oct 2001 £000</i>	<i>Year ended 31 Oct 2000 £000</i>
Statement of total recognised gains and losses		
Profit on ordinary activities after taxation	7,057	5,261
Currency translation differences on foreign currency net investments	(469)	388
Total recognised gains and losses	<u>6,588</u>	<u>5,649</u>
 Reconciliation of movements in shareholders' funds		
Profit on ordinary activities after taxation	7,057	5,261
Equity minority interest	(25)	-
Dividends	(1,831)	(1,511)
Retained profit	<u>5,201</u>	<u>3,750</u>
Other recognised (losses)/profits	(469)	388
Ordinary shares issued	151	11
Share premium arising	<u>8,216</u>	<u>306</u>
Net addition to shareholders' funds	<u>13,099</u>	<u>4,455</u>
Opening shareholders' funds	<u>33,304</u>	<u>28,849</u>
Closing shareholders' funds	<u>46,403</u>	<u>33,304</u>

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

CONSOLIDATED BALANCE SHEET

as at 31 October 2001

Note	As at 31 Oct 2001		As at 31 Oct 2000	
	£000	£000	£000	£000
Fixed assets				
Intangible assets				
12 Development costs	2,690		1,002	
12 Goodwill	24,789		18,246	
		27,479		19,248
13 Tangible assets		33,901		19,199
14 Investments		924		883
		62,304		39,330
Current assets				
15 Stock	18,231		14,235	
16 Debtors	30,494		20,794	
Cash at bank and in hand	2,418		2,062	
	51,143		37,091	
17 Creditors due within one year	(33,910)		(25,760)	
Net current assets		17,233		11,331
Total assets less current liabilities		79,537		50,661
18 Creditors due after more than one year		(32,097)		(17,089)
20 Provisions for liabilities and charges		(706)		(268)
Equity minority interest		(331)		-
		46,403		33,304
Capital and reserves				
21 Called-up share capital		1,409		1,258
Reserves				
22 Share premium account	19,335		11,119	
22 Special capital reserve	12,939		12,939	
22 Revaluation reserve	2,518		2,554	
22 Revenue reserves	10,202		5,434	
		44,994		32,046
Shareholders' funds		46,403		33,304
Attributable to equity shareholders		46,341		33,242
Attributable to non-equity shareholders		62		62
		46,403		33,304

These financial statements were approved by the Board of Directors on 22 January 2002.

Signed on behalf of the Board

D R Evans

P A Rayner

PARENT BALANCE SHEET

as at 31 October 2001

Note	As at 31 Oct 2001		As at 31 Oct 2000	
	£000	£000	£000	£000
Fixed assets				
13 Tangible assets		1,014		1,550
14 Investments		33,675		32,759
		<u>34,689</u>		<u>34,309</u>
Current assets				
16 Debtors	46,321		20,362	
Cash at bank and in hand	541		103	
	<u>46,862</u>		<u>20,465</u>	
17 Creditors due within one year	(16,022)		(13,441)	
Net current assets		<u>30,840</u>		<u>7,024</u>
Total assets less current liabilities		<u>65,529</u>		<u>41,333</u>
18 Creditors due after more than one year		(26,448)		(12,001)
		<u>39,081</u>		<u>29,332</u>
Capital and reserves				
21 Called-up share capital		1,409		1,258
Reserves				
22 Share premium account	19,335		11,119	
22 Special capital reserve	12,939		12,939	
22 Revenue reserves	<u>5,398</u>		<u>4,016</u>	
		<u>37,672</u>		<u>28,074</u>
Shareholders' funds		<u>39,081</u>		<u>29,332</u>
Attributable to equity shareholders		39,019		29,270
Attributable to non-equity shareholders		62		62
		<u>39,081</u>		<u>29,332</u>

These financial statements were approved by the Board of Directors on 22 January 2002.

Signed on behalf of the Board

D R Evans

P A Rayner

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 October 2001

Note	Year ended 31 Oct 2001		Year ended 31 Oct 2000	
	£000	£000	£000	£000
A Net cash inflow from operating activities		4,134		7,937
B Returns on investments and servicing of finance		(3,077)		(1,694)
Taxation		(1,522)		(881)
B Capital expenditure		(8,058)		(3,130)
B Acquisitions		(15,401)		-
Equity dividends paid		(1,640)		(1,380)
Cash (outflow)/inflow before use of liquid resources and financing		(25,564)		852
B Financing – issue of shares	4,833		317	
B – increase/(decrease) in debt	16,896		(884)	
		21,729		(567)
C (Decrease)/increase in cash		(3,835)		285
Reconciliation of net cash flow to movement in net debt				
(Decrease)/increase in cash		(3,835)		285
Cash (inflow)/outflow from the increase/(decrease) in debt and lease financing		(16,896)		884
Change in net debt resulting from cash flows		(20,731)		1,169
New finance leases		(115)		(259)
Translation difference		22		(347)
Movement in net debt		(20,824)		563
Opening net debt		(20,118)		(20,681)
Closing net debt		(40,942)		(20,118)

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 October 2001

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

	Year ended 31 Oct 2001 £000	Year ended 31 Oct 2000 £000
Operating profit	11,971	8,806
Amortisation charge	550	139
Depreciation charge	2,286	1,555
Profit on sale of fixed assets	–	(68)
Decrease/(increase) in stocks	929	(4,638)
Increase in debtors	(6,906)	(3,517)
(Decrease)/increase in creditors	(4,696)	5,660
	<u>4,134</u>	<u>7,937</u>

B. ANALYSIS OF CASH FLOWS

	Year ended 31 Oct 2001 £000	Year ended 31 Oct 2000 £000
Returns on investments and servicing of finance		
Interest paid	(3,074)	(1,710)
Preference dividend paid	(3)	(3)
Dividend from associate	–	19
Net cash outflow from returns on investments and servicing of finance	<u>(3,077)</u>	<u>(1,694)</u>
Capital expenditure and financial investment		
Purchase of intangible fixed assets	(2,238)	(585)
Purchase of tangible fixed assets	(7,457)	(2,687)
Purchase of trade investments	(10)	–
Sale of tangible fixed assets	1,647	142
Net cash outflow from capital expenditure and financial investment	<u>(8,058)</u>	<u>(3,130)</u>
Acquisitions		
Acquisitions of subsidiary undertakings	(14,645)	–
Net cash acquired with subsidiary undertakings	32	–
Acquisition of business	(788)	–
Net cash outflow from acquisitions	<u>(15,401)</u>	<u>–</u>
Financing		
Issue of ordinary share capital	4,833	317
Capital elements of finance lease payments	(130)	(178)
Debt due beyond one year:		
– bank loans	15,030	(706)
Debt due within one year:		
– loan stock	(4)	–
– bank loans	2,000	–
	<u>16,896</u>	<u>(884)</u>
Net cash inflow/(outflow) from financing	<u>21,729</u>	<u>(567)</u>

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT - continued

C. ANALYSIS OF NET DEBT

	<i>At</i> <i>1 Nov 2000</i> <i>£000</i>	<i>Cash flow</i> <i>£000</i>	<i>Other non-</i> <i>cash changes</i> <i>£000</i>	<i>Exchange</i> <i>movement</i> <i>£000</i>	<i>At</i> <i>31 Oct 2001</i> <i>£000</i>
Cash at bank and in hand	2,062	471	-	(115)	2,418
Overdrafts	(4,832)	(4,306)	-	-	(9,138)
	(2,770)	(3,835)	-	(115)	(6,720)
Debt due within one year	(44)	(1,996)	-	-	(2,040)
Debt due after one year	(16,889)	(15,030)	-	137	(31,782)
Finance leases	(415)	130	(115)	-	(400)
	<u>(20,118)</u>	<u>(20,731)</u>	<u>(115)</u>	<u>22</u>	<u>(40,942)</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 October 2001

1. ACCOUNTING POLICIES

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

Accounting convention

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

Basis of consolidation

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

Revenue recognition

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

Long term contracts are accounted for in accordance with SSAP 9 (revised), whereby a prudent level of income is recognised based on the estimated percentage completion of contracts where the final outcome can be reasonably assessed. This has been applied to certain major countermeasures contracts which have been in production in the year, in order to give a more accurate representation of the results of the Group. The effect of adopting this policy on the comparative figures at 31 October 2000 is not significant. Accordingly no restatement of the comparative figures has been made.

Acquisitions

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

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

Intangible fixed assets

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

NOTES TO THE FINANCIAL STATEMENTS – continued

1. ACCOUNTING POLICIES – CONTINUED

Intangible fixed assets – continued

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

Tangible fixed assets

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

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

Fixed asset investments

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

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

Stock

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

Deferred taxation

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

Special capital reserve

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

Foreign currency

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

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

1. ACCOUNTING POLICIES – CONTINUED

Pensions

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

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

Leased assets

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

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

2. ANALYSIS OF TURNOVER, PROFIT AND NET ASSETS

			<i>Year ended 31 Oct 2001</i>	<i>Year ended 31 Oct 2000</i>
	<i>Continuing operations £000</i>	<i>Acquired operations £000</i>	<i>Total operations £000</i>	<i>Total operations £000</i>
Turnover				
UK	22,886	–	22,886	20,182
Overseas	57,103	15,256	72,359	46,987
Total	79,989	15,256	95,245	67,169

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

NOTES TO THE FINANCIAL STATEMENTS - continued

3. OPERATING PROFIT

	<i>Year ended 31 Oct 2001 £000</i>	<i>Year ended 31 Oct 2000 £000</i>
Operating profit is stated after charging:		
Depreciation – owned assets	2,181	1,415
– leased assets	105	140
Amortisation – intangible assets	550	139
Operating lease rentals – land and buildings	496	33
– plant and equipment	1,060	832
Auditors' remuneration – Group	116	85
– Parent	5	5

During the year £346,000 (2000: £179,000) was paid to the auditors for non-audit work, including £294,000 (2000: £82,000) in respect of acquisitions.

During the year £5,038,000 (2000: £2,622,000) of research and development costs were incurred by the Group, of which £2,238,000 (2000: £585,000) was capitalised (see Note 12).

4. PROFIT ON DISPOSAL

A gain of £369,000 was made on the disposal of a freehold property during the year.

5. EMPLOYEES

	<i>Year ended 31 Oct 2001 Number</i>	<i>Year ended 31 Oct 2000 Number</i>
The average number employed by the Group within each category of persons was:		
Production	1,277	946
Sales and administration	264	235
	<u>1,541</u>	<u>1,181</u>

	<i>£000</i>	<i>£000</i>
The costs incurred in respect of these employees were:		
Wages and salaries	24,734	19,912
Social Security costs	3,586	2,161
Other pension costs	1,170	969
	<u>29,490</u>	<u>23,042</u>

6. DIRECTORS' EMOLUMENTS

Disclosures on directors' remuneration, share options, long term incentive schemes, pension contributions and pension entitlements required by the Companies Act 1985 and those specified for audit by the UK Listing Authority are set out in the Report of the Remuneration Committee on pages 18 to 21 and form part of these audited financial statements.

7. PENSIONS

Within the UK the Group operates two defined benefit schemes, the Chemring Group Staff Pension Scheme (the "Staff Scheme") and the Chemring Group Executive Pension Scheme (the "Executive Scheme"), as detailed below. The overseas arrangements are all defined contribution schemes.

Regular pension costs – SSAP 24

The total pension costs for the Group were £1,170,000 (2000: £969,000). Disclosures given relate to the Group as the pension assets and liabilities of the Parent cannot be separately identified.

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

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

At the date of the last actuarial valuation, the market value of the assets of the Staff Scheme was £22,472,000, which was sufficient to cover 101% of the benefits that had accrued to members. Following the valuation, it was agreed that the Group would pay contributions at the rate of 10.5% of pensionable salaries, increasing to 11% with effect from 1 April 2002. Members pay contributions at the rate of 6% of pensionable salaries.

The last actuarial valuation of the Executive Scheme was carried out as at 6 April 1998. A new valuation as at 6 April 2001 is being prepared. The main assumptions used by the actuary in carrying out the valuation as at 6 April 1998 were as follows: return on investments of 8% per annum; increase in salaries of 6% per annum; and increase in pension accrued after 6 April 1993 of 3.5% per annum.

At the date of the last actuarial valuation, the market value of the assets of the Executive Scheme was £1,834,000, which was sufficient to cover 78% of the benefits that had accrued to members. Contributions are currently paid by the Group at the rate of 27% of pensionable salaries but are expected to increase following completion of the 2001 valuation. The Executive Scheme is closed to new entrants.

Included within other debtors (see Note 16) is £237,000 (2000: £237,000) in respect of pension contributions to defined benefit schemes, being the difference between amounts recognised as costs and amounts paid or funded directly.

NOTES TO THE FINANCIAL STATEMENTS – continued

7. PENSIONS – CONTINUED

FRS17 disclosures

In accordance with Financial Reporting Standard 17 – Retirement Benefits ("FRS17"), the last actuarial valuations for the Staff Scheme and the Executive Scheme were updated to 31 October 2001 by a qualified independent actuary, using the projected unit valuation method.

The main assumptions used by the actuary for the update to the valuations at 31 October 2001 were as follows: inflation of 2.4% per annum; increase in salaries of 3.4% to 4.4% per annum; increase in pension accrued after 6 April 1993 of 2.4% per annum; increase in deferred pensions of 2.4% to 5% per annum; and discount rate for scheme liabilities of 6% per annum.

The total assets and liabilities of the Staff Scheme and the Executive Scheme updated to 31 October 2001 in accordance with FRS17, along with the expected rates of return on assets were as follows:

	<i>As at 31 Oct 2001 £000</i>	<i>Rate of return</i>
Equities	11,588	7%
Bonds	6,618	5%
Managed fund units	2,598	7%
Other (with profit) assets	49	7%
Total value of assets	20,853	
Present value of scheme liabilities	(29,990)	
Deficit	(9,137)	
Related deferred tax	2,741	
Net pension liability	(6,396)	

If the FRS17 net deficit in respect of the two schemes of £6,396,000 at 31 October 2001 had been accounted for as a liability of the Group at that date, the balance on the Group's profit and loss reserve at that date would have been reduced from £10,202,000 to £3,806,000 and the prepayment of £237,000 referred to above would be removed.

8. INTEREST PAYABLE

	<i>Year ended 31 Oct 2001 £000</i>	<i>Year ended 31 Oct 2000 £000</i>
Bank overdraft interest	984	571
Loan stock interest (see Note 17)	2	2
Medium term loan interest	1,872	1,004
Finance lease interest	126	132
	<u>2,984</u>	<u>1,709</u>

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

	<i>Year ended 31 Oct 2001</i>	<i>Year ended 31 Oct 2000</i>
	<i>£000</i>	<i>£000</i>
Tax is based on the profit for the year and comprises:		
UK corporation tax at 30% (2000: 30%)	593	1,349
Overseas taxation	1,285	426
Deferred taxation	438	168
Under/(over) provision for earlier years:		
UK corporation tax	14	(85)
	<u>2,330</u>	<u>1,858</u>
Tax attributable to associated undertaking	12	8
	<u>2,342</u>	<u>1,866</u>

The tax charge for the year is disproportionately low due to the use of brought forward losses which were not reflected as assets in the financial statements. In addition, the profit on disposal is not subject to tax due to the utilisation of brought forward capital losses.

10. DIVIDENDS

	<i>Year ended 31 Oct 2001</i>	<i>Year ended 31 Oct 2000</i>
	<i>£000</i>	<i>£000</i>
Dividends on cumulative preference shares of £1 each		
Paid 30 April 2001 3.50p (2000: 2.62p)	2	2
Paid 31 October 2001 3.50p (2000: 3.50p)	2	2
	<u>4</u>	<u>4</u>
Dividends on ordinary shares of 5p each		
Interim paid 15 August 2001 2.45p (2000: 2.30p)	629	550
Final proposed 4.25p (2000: 4.00p)	1,145	957
Under provided in previous year	53	-
	<u>1,827</u>	<u>1,507</u>
Total dividends	<u>1,831</u>	<u>1,511</u>

The under provision for dividend arose due to the issue of shares ranking for dividend after the last financial year end.

NOTES TO THE FINANCIAL STATEMENTS - continued

11. EARNINGS PER ORDINARY SHARE

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

	Year ended 31 Oct 2001			Year ended 31 Oct 2000		
	Ordinary shares			Ordinary shares		
	Earnings	Number	EPS	Earnings	Number	EPS
	£000	000s	Pence	£000	000s	Pence
Basic	7,028	25,140	27.96	5,257	23,853	22.04
Profit on disposal	(369)	-	(1.47)	-	-	-
Adjusted before profit on disposal	6,659	25,140	26.49	5,257	23,853	22.04
	Ordinary shares			Ordinary shares		
	Earnings	Number	EPS	Earnings	Number	EPS
	£000	000s	Pence	£000	000s	Pence
Basic	7,028	25,140	27.96	5,257	23,853	22.04
Additional shares issuable other than at fair value in respect of options outstanding	-	98	(0.11)	-	953	(0.85)
Diluted	7,028	25,238	27.85	5,257	24,806	21.19

Earnings are stated after deducting preference dividends of £4,000 (2000: £4,000) and equity minority interests of £25,000 (2000: £nil). Ordinary shares are calculated by reference to the average number of shares in issue in the year. An analysis of the movement in ordinary shares during the year is shown in Note 21.

12. INTANGIBLE FIXED ASSETS

Group

	Development		
	costs	Goodwill	Total
	£000	£000	£000
Cost			
At 1 November 2000	2,024	18,246	20,270
Foreign exchange movements	(6)	-	(6)
Additions	2,238	6,543	8,781
At 31 October 2001	4,256	24,789	29,045
Amortisation			
At 1 November 2000	1,022	-	1,022
Foreign exchange movements	(6)	-	(6)
Charge for the year	550	-	550
At 31 October 2001	1,566	-	1,566
Net book value			
At 31 October 2001	2,690	24,789	27,479
At 31 October 2000	1,002	18,246	19,248

Goodwill arose on the acquisition of parts of the countermeasures, marine and military businesses. For further details of acquisitions see Note 24.

13. TANGIBLE FIXED ASSETS

(a) Group

	<i>Land and buildings £000</i>	<i>Plant and equipment £000</i>	<i>Total £000</i>
Cost or valuation			
At 1 November 2000	13,482	20,199	33,681
Foreign exchange movements	(130)	(68)	(198)
Subsidiaries acquired	5,657	5,417	11,074
Additions	813	6,759	7,572
Disposals	(2,010)	(245)	(2,255)
At 31 October 2001	<u>17,812</u>	<u>32,062</u>	<u>49,874</u>
Depreciation			
At 1 November 2000	1,649	12,833	14,482
Foreign exchange movements	(16)	(54)	(70)
Subsidiaries acquired	–	252	252
Charge for the year	359	1,927	2,286
Disposals	(960)	(17)	(977)
At 31 October 2001	<u>1,032</u>	<u>14,941</u>	<u>15,973</u>
Net book value			
At 31 October 2001	<u>16,780</u>	<u>17,121</u>	<u>33,901</u>
At 31 October 2000	<u>11,833</u>	<u>7,366</u>	<u>19,199</u>
(b) Parent			
Cost			
At 1 November 2000	2,618	480	3,098
Additions	535	11	546
Disposals	(1,985)	–	(1,985)
At 31 October 2001	<u>1,168</u>	<u>491</u>	<u>1,659</u>
Depreciation			
At 1 November 2000	1,126	422	1,548
Charge for the year	9	23	32
Disposals	(935)	–	(935)
At 31 October 2001	<u>200</u>	<u>445</u>	<u>645</u>
Net book value			
At 31 October 2001	<u>968</u>	<u>46</u>	<u>1,014</u>
At 31 October 2000	<u>1,492</u>	<u>58</u>	<u>1,550</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

13. TANGIBLE FIXED ASSETS - CONTINUED

(c) Land and buildings

	Group		Parent	
	As at	As at	As at	As at
	31 Oct 2001	31 Oct 2000	31 Oct 2001	31 Oct 2000
	£000	£000	£000	£000
Land and buildings comprise:				
Freehold	16,644	12,849	-	1,985
Long leasehold	1,168	633	1,168	633
	<u>17,812</u>	<u>13,482</u>	<u>1,168</u>	<u>2,618</u>
Land and buildings are stated at cost or value:				
30 September 1997 - depreciated replacement cost	5,820	5,820	-	-
At cost	11,992	7,662	1,168	2,618
	<u>17,812</u>	<u>13,482</u>	<u>1,168</u>	<u>2,618</u>

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

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

	Group		Parent	
	As at	As at	As at	As at
	31 Oct 2001	31 Oct 2000	31 Oct 2001	31 Oct 2000
	£000	£000	£000	£000
Cost	15,715	11,385	1,168	2,618
Accumulated depreciation	(1,453)	(2,090)	(740)	(1,666)
Historical cost value	<u>14,262</u>	<u>9,295</u>	<u>428</u>	<u>952</u>

All other tangible fixed assets are stated at historical cost. Included in plant and equipment are assets of net book value £419,000 (2000: £409,000) held under finance leases.

(d) Future capital expenditure

	Group		Parent	
	As at	As at	As at	As at
	31 Oct 2001	31 Oct 2000	31 Oct 2001	31 Oct 2000
	£000	£000	£000	£000
Contracted for but not provided for	<u>2,279</u>	<u>102</u>	<u>-</u>	<u>-</u>

14. FIXED ASSET INVESTMENTS

(a) Group

	Trade investments £000	Associated undertaking share of net assets £000	Total £000
At 1 November 2000	-	883	883
Retained profit of associated undertaking	-	31	31
Additions	10	-	10
At 31 October 2001	10	914	924

(b) Parent

	Shares in subsidiary undertakings £000	Shares in associated undertaking £000	Loans to subsidiary undertakings £000	Trade investments £000	Total £000
Cost					
At 1 November 2000	27,832	13	6,250	-	34,095
Additions	906	-	-	10	916
At 31 October 2001	28,738	13	6,250	10	35,011
Provision for impairment					
At 1 November 2000 and 31 October 2001	1,336	-	-	-	1,336
Net book value					
At 31 October 2001	27,402	13	6,250	10	33,675
At 31 October 2000	26,496	13	6,250	-	32,759

(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.

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

NOTES TO THE FINANCIAL STATEMENTS - continued

15. STOCK

	Group	
	As at 31 Oct 2001 £000	As at 31 Oct 2000 £000
Raw materials	9,026	8,078
Work in progress	5,602	4,931
Finished goods	3,603	1,226
	<u>18,231</u>	<u>14,235</u>

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

16. DEBTORS

	Group		Parent	
	As at 31 Oct 2001 £000	As at 31 Oct 2000 £000	As at 31 Oct 2001 £000	As at 31 Oct 2000 £000
Trade debtors	18,279	17,416	4	-
Amounts recoverable on contracts	5,563	-	-	-
Amounts owed by subsidiary undertakings	-	-	43,315	17,819
Group relief recoverable	-	-	1,256	236
Advance corporation tax recoverable	691	691	691	691
Other debtors	5,316	2,054	843	1,327
Prepayments and accrued income	645	633	212	289
	<u>30,494</u>	<u>20,794</u>	<u>46,321</u>	<u>20,362</u>

Included within other debtors are amounts recoverable under an insurance claim relating to an incident at Kilgore Flares Company LLC (see Note 25).

17. CREDITORS DUE WITHIN ONE YEAR

	Group		Parent	
	As at	As at	As at	As at
	31 Oct 2001	31 Oct 2000	31 Oct 2001	31 Oct 2000
	£000	£000	£000	£000
Bank overdrafts (see Note 18)	9,138	4,832	5,880	4,497
Bank loans (see Note 18)	2,000	-	2,000	-
Loan stock (unsecured)	40	44	40	44
Trade creditors	12,509	12,189	201	298
Amounts owed to subsidiary undertakings	-	-	5,985	5,601
Other creditors	4,247	3,818	-	-
Obligations under finance leases (see Note 18)	185	215	4	13
Corporation tax	1,852	1,410	-	1,052
Other taxation and Social Security	659	611	-	-
Accruals and deferred income	2,135	1,684	767	979
Proposed dividends	1,145	957	1,145	957
	<u>33,910</u>	<u>25,760</u>	<u>16,022</u>	<u>13,441</u>

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

Bank loans and overdrafts held with Bank of Scotland are secured by a full debenture over the assets of the UK businesses and Kilgore Flares Company LLC, and are also subject to cross guarantees between all subsidiaries. Finance lease obligations are secured on the related assets.

18. CREDITORS DUE AFTER MORE THAN ONE YEAR

	Group		Parent	
	As at	As at	As at	As at
	31 Oct 2001	31 Oct 2000	31 Oct 2001	31 Oct 2000
	£000	£000	£000	£000
Medium term loan - UK	26,348	12,000	26,348	12,000
- overseas	5,434	4,889	-	-
Obligations under finance leases	215	200	-	1
Other creditors	100	-	100	-
	<u>32,097</u>	<u>17,089</u>	<u>26,448</u>	<u>12,001</u>

The average interest rate applicable to the UK medium term loan is 8.0% (2000: 8.2%) and the average rate for the overseas medium term loan is 5.8% (2000: 5.8%) per annum. The overseas medium term loan is secured on the assets of certain of the overseas businesses. Finance lease obligations attract interest rates of between 2% and 3% above base rate.

NOTES TO THE FINANCIAL STATEMENTS - continued

18. CREDITORS DUE AFTER MORE THAN ONE YEAR - CONTINUED

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

	Group	
	As at 31 Oct 2001 £000	As at 31 Oct 2000 £000
Bank overdraft	9,138	4,832
UK medium term loans		
- sterling denominated	15,250	12,000
- US dollar denominated	13,098	-
Overseas medium term loans		
- US dollar denominated	5,018	4,387
- Australian dollar denominated	416	502
Obligations under finance leases	400	415
Unsecured loan stock	40	44
	<u>43,360</u>	<u>22,180</u>
Creditors falling due within:		
One year	11,363	5,091
One to two years	6,753	1,227
Two to five years	23,546	14,128
After five years	1,698	1,734
	<u>43,360</u>	<u>22,180</u>

19. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

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

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

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

Interest risk: The Group finances its operations through a mixture of retained profits, bank borrowings and leasing lines of credit. The UK borrowings are denominated in sterling and US dollars, and are subject to fixed rates of interest through an amortising LIBOR swap and floating rates of interest linked to Bank of Scotland base rate to provide flexibility. The overseas borrowings are denominated in local currency and are predominantly subject to fixed rates of interest.

19. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS – CONTINUED

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

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

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

Liquidity risk: Details of the maturity profile of the Group's funding can be found in Note 18.

The total undrawn committed borrowing facilities at the financial year end amounted to £9,704,000 (2000: £6,200,000).

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

(i) Financial assets

	As at 31 Oct 2001			As at 31 Oct 2000		
	Floating rate £000	Fixed rate £000	Total £000	Floating rate £000	Fixed rate £000	Total £000
Sterling	3,436	–	3,436	215	–	215
US dollar	2,416	–	2,416	1,693	–	1,693
Australian dollar	127	–	127	696	–	696
Other currencies	405	–	405	80	–	80
	<u>6,384</u>	<u>–</u>	<u>6,384</u>	<u>2,684</u>	<u>–</u>	<u>2,684</u>
Offset in the UK			(3,966)			(622)
			<u>2,418</u>			<u>2,062</u>
Disclosed as:						
Cash at bank and in hand			<u>2,418</u>			<u>2,062</u>

NOTES TO THE FINANCIAL STATEMENTS – continued

19. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS – CONTINUED

(ii) Financial liabilities

	As at 31 Oct 2001			As at 31 Oct 2000		
	Floating rate £000	Fixed rate £000	Total £000	Floating rate £000	Fixed rate £000	Total £000
Sterling	(17,354)	(12,413)	(29,767)	(5,454)	(12,407)	(17,861)
US dollar	(12,098)	(5,018)	(17,116)	–	(4,387)	(4,387)
Australian dollar	–	(443)	(443)	–	(554)	(554)
	<u>(29,452)</u>	<u>(17,874)</u>	<u>(47,326)</u>	<u>(5,454)</u>	<u>(17,348)</u>	<u>(22,802)</u>
Offset in the UK		3,966				622
		<u>(43,360)</u>				<u>(22,180)</u>
Disclosed as:						
Bank loans and overdrafts		(11,138)				(4,832)
Medium term loan – UK		(26,348)				(12,000)
– overseas		(5,434)				(4,889)
Obligations under finance leases		(400)				(415)
Loan stock		(40)				(44)
		<u>(43,360)</u>				<u>(22,180)</u>

A right of offset exists for currency amounts held within the UK by Bank of Scotland. These are used to offset the interest charged on the UK overdraft which bears interest at 1.75% above LIBOR. Cash at bank and in hand consists primarily of overseas funds which are used as short term intra-group financing as well as an internal exchange rate hedge.

The weighted average interest rate of fixed rate financial liabilities at 31 October 2001 was 7% (2000: 7%) and the weighted average period of funding was six years (2000: four years).

The Group has an amortising interest rate swap that expires in 2005 at a rate of 7.42%, but otherwise had no derivative financial instruments outstanding at 31 October 2001. The opinion of the Board is that the fair value of the Group's financial liabilities after taking account of the interest rate swap is £891,000 (2000: £632,000) higher than the book value. The Board has no intention of realising this liability. The fair value of the financial assets is their book value.

20. PROVISIONS FOR LIABILITIES AND CHARGES

	<i>Deferred taxation £000</i>	<i>Other provision £000</i>	<i>Total £000</i>
(a) Movement in the year - Group			
At 1 November 2000	168	100	268
Provided in the year	438	–	438
At 31 October 2001	606	100	706

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

(b) Provisions at year end

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

Group

	<i>Full provision</i>		<i>Dealt with in the financial statements</i>	
	<i>As at</i>	<i>As at</i>	<i>As at</i>	<i>As at</i>
	<i>31 Oct 2001</i>	<i>31 Oct 2000</i>	<i>31 Oct 2001</i>	<i>31 Oct 2000</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Capital allowances in excess of depreciation	1,662	446	1,266	168
Other timing differences and losses carried forward	(2,752)	(2,462)	(660)	–
Surplus on revaluation of property	773	773	–	–
	<u>(317)</u>	<u>(1,243)</u>	<u>606</u>	<u>168</u>

Parent

	<i>Full provision</i>	
	<i>As at</i>	<i>As at</i>
	<i>31 Oct 2001</i>	<i>31 Oct 2000</i>
	<i>£000</i>	<i>£000</i>
Capital allowances in excess of depreciation	(31)	(53)
Other timing differences and losses carried forward	(37)	(191)
	<u>(68)</u>	<u>(244)</u>

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

NOTES TO THE FINANCIAL STATEMENTS - continued

21. CALLED-UP SHARE CAPITAL

	<i>As at</i> <i>31 Oct 2001</i>	<i>As at</i> <i>31 Oct 2000</i>
	<i>£000</i>	<i>£000</i>
Authorised		
62,500 7% cumulative preference shares of £1 each	62	62
30,000,000 (2000: 27,000,000) ordinary shares of 5p each	1,500	1,350
	<u>1,562</u>	<u>1,412</u>
Issued, allotted and fully paid		
62,500 7% cumulative preference shares of £1 each	62	62
26,931,222 (2000: 23,921,646) ordinary shares of 5p each	1,347	1,196
	<u>1,409</u>	<u>1,258</u>

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

During the year, 3,009,576 ordinary shares were issued as detailed below:

	<i>Number</i>	<i>Consideration</i> <i>£000</i>
Acquisition (see Note 24)	1,200,000	3,534
Share options exercised	613,496	871
Share placing (see below)	1,196,080	3,962
	<u>3,009,576</u>	<u>8,367</u>

1,196,080 ordinary shares were issued on 26 October 2001 in respect of the placing, for a net consideration after costs of £3,962,000.

Share options

The following options to subscribe for ordinary shares granted under various share option schemes were outstanding at 31 October 2001.

(a) The Chemring Group Share Option Scheme

<i>Date</i> <i>of grant</i>	<i>Number of ordinary</i> <i>shares under option</i>	<i>Exercise price</i> <i>per share</i> <i>£</i>	<i>Dates between which</i> <i>options may be exercised</i>
20 Jul 1992	6,000	2.10	20 Jul 1995 – 19 Jul 2002

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

(b) The Chemring 1998 Executive Share Option Scheme

<i>Date</i> <i>of grant</i>	<i>Number of ordinary</i> <i>shares under option</i>	<i>Exercise price</i> <i>per share</i> <i>£</i>	<i>Dates between which</i> <i>options may be exercised</i>
6 Apr 1998	40,824	1.395	6 Apr 2001 – 5 Apr 2008
3 Feb 2000	280,000	2.36	3 Feb 2003 – 2 Feb 2010

21. CALLED-UP SHARE CAPITAL – CONTINUED

(c) The Chemring Group Sharesave Scheme

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

(d) The Chemring Group PLC Share Based Incentive Scheme

<i>Date of grant</i>	<i>Number of ordinary shares under option</i>	<i>Exercise price per share £</i>	<i>Dates between which options may be exercised</i>
26 Feb 1996	1,799	0	26 Feb 1996 – 26 Feb 2003
26 Feb 1996	3,598	0	26 Feb 1999 ¹ – 26 Feb 2003
13 Jan 1997	3,936	0	13 Jan 1997 – 13 Feb 2004
13 Jan 1997	7,872	0	13 Jan 2000 ² – 13 Jan 2004

¹ From 26 February 1999 – 25 February 2001, only 50% of the option could be exercised; thereafter 100% of the option could be exercised.

² From 13 January 2000 – 12 January 2002, only 50% of the option could be exercised; thereafter 100% of the option could be exercised.

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

22. RESERVES

(a) Group

	<i>Share premium account £000</i>	<i>Special capital reserve £000</i>	<i>Revaluation reserve £000</i>	<i>Revenue reserves £000</i>	<i>Total £000</i>
At 1 November 2000	11,119	12,939	2,554	5,434	32,046
Arising on issue of shares	8,216	–	–	–	8,216
Transfer between reserves	–	–	(36)	36	–
Retained profit	–	–	–	5,201	5,201
Loss arising from foreign exchange fluctuations	–	–	–	(469)	(469)
At 31 October 2001	<u>19,335</u>	<u>12,939</u>	<u>2,518</u>	<u>10,202</u>	<u>44,994</u>

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

Included within revenue reserves is £901,000 of retained profits (2000: £870,000) relating to the associated undertaking.

(b) Parent

	<i>Share premium account £000</i>	<i>Special capital reserve £000</i>	<i>Revenue reserves £000</i>	<i>Total £000</i>
At 1 November 2000	11,119	12,939	4,016	28,074
Arising on issue of shares	8,216	–	–	8,216
Profit after taxation	–	–	3,213	3,213
Dividends	–	–	(1,831)	(1,831)
At 31 October 2001	<u>19,335</u>	<u>12,939</u>	<u>5,398</u>	<u>37,672</u>

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

NOTES TO THE FINANCIAL STATEMENTS - continued

23. OBLIGATIONS UNDER NON-CANCELLABLE OPERATING LEASES

	<i>Group</i>	
	<i>Land and buildings</i>	<i>Plant and equipment</i>
	<i>£000</i>	<i>£000</i>
Within one year	32	256
Two to five years	330	657
More than five years	268	-
	<u>630</u>	<u>913</u>

24. ACQUISITIONS

The Group acquired all of the issued membership units of Kilgore Flares Company LLC on 5 February 2001. An analysis of the assets acquired is shown below:

	<i>Book value</i>	<i>Alignment of accounting policies</i>	<i>Fair value adjustments</i>	<i>Fair value</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Tangible fixed assets	4,909	(203)	5,490	10,196
Stock	7,159	(1,132)	(2,233)	3,794
Debtors	2,727	(320)	(121)	2,286
Cash	2	-	-	2
Creditors	(3,892)	-	(440)	(4,332)
Total net assets acquired	<u>10,905</u>	<u>(1,655)</u>	<u>2,696</u>	<u>11,946</u>
Goodwill				<u>5,477</u>
				<u>17,423</u>
Consideration:				
Share capital issued (see Note 21)				3,534
Cash				<u>13,889</u>
				<u>17,423</u>

The unaudited results after taxation of Kilgore Flares Company LLC for the periods prior to acquisition were:

	<i>Profits after taxation</i>
	<i>£000</i>
1 April 2000 to date of acquisition	(1,030)
Preceding financial year to 31 March 2000	<u>(1,100)</u>

24. ACQUISITIONS – CONTINUED

The Group acquired 51% of the issued share capital of Pirotécnia Oroquieta S.L. on 5 May 2001. An analysis of the assets acquired is shown below:

	<i>Book value £000</i>	<i>Fair value adjustments £000</i>	<i>Fair value £000</i>
Tangible fixed assets	213	–	213
Stock	246	–	246
Debtors	555	(50)	505
Cash	30	–	30
Creditors	(370)	–	(370)
Total net assets	674	(50)	624
51% acquired			318
Goodwill			588
			<u>906</u>
Consideration:			
Cash			756
Cash payable in future years			150
			<u>906</u>

The deferred consideration is payable upon achievement of future performance targets.

Kilgore Flares Company LLC acquired the decoy flare manufacturing business of Martin Electronics Inc. on 5 October 2001. An analysis of the assets acquired is shown below:

	<i>Book value £000</i>	<i>Fair value adjustments £000</i>	<i>Fair value £000</i>
Tangible fixed assets	413	–	413
Stock	885	–	885
Creditors	(720)	(268)	(988)
Total net assets acquired	578	(268)	310
Goodwill			478
			<u>788</u>
Consideration:			
Cash			<u>788</u>

The subsidiary undertakings acquired during the year contributed £2,404,000 to the Group's net operating cash flows, utilised £3,801,000 of capital expenditure and financial investment, paid interest of £1,007,000 and paid taxation of £8,000.

NOTES TO THE FINANCIAL STATEMENTS - continued

25. INSURANCE CLAIM

On 18 April 2001 there was a manufacturing incident at Kilgore Flares Company LLC resulting, regrettably, in a loss of life. Throughout the rest of the calendar year significant investment in the plant has taken place and manufacturing operations are recommencing.

The Group has lodged a claim with its insurers in respect of property damage and business interruption. At the year end the Board has made a prudent estimate of what it believes it is entitled to receive under its policy.

At the year end \$3.8 million had been received from the insurers. The balance of the amount recognised in the year end accounts but not yet recovered from insurers is included in other debtors. Further payments of \$1 million have been received since the year end. Additional payments are expected to be received as negotiations with the Group's insurers continue.

26. CONTINGENT LIABILITIES

The Group's insurance covers fell due for renewal on 31 October 2001. Due to the extremely difficult conditions prevailing in the insurance market at that time, it was necessary to resurrect the Group's captive insurance company, CHG Insurance Limited, based in Guernsey. With effect from 31 October 2001, CHG Insurance Limited will provide the first £2.5 million of material damage and business interruption cover for the Group's businesses. The maximum liability of CHG Insurance Limited for this cover is £3.5 million for the year to 31 October 2002. Additional cover is placed with external insurers.

CHG Insurance Limited will also provide the first £1 million of cover in respect of public and products liability insurance for the Group's products which are exported to the US. Additional cover in respect of this risk is also placed with external insurers.

NOTICE AND AGENDA OF ANNUAL GENERAL MEETING

Notice is hereby given that the ninety-sixth Annual General Meeting of the shareholders will be held at 14.30 hours on Thursday 7 March 2002 at The Solent Hotel, Rookery Avenue, Whiteley, Fareham, Hampshire PO15 7AJ for the purpose of transacting the ordinary business referred to 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" below as a special resolution.

1. To receive and adopt the financial statements for the year ended 31 October 2001 together with the reports of the directors and auditors thereon.
2. To approve the payment of a final dividend of 4.25p per ordinary share for the year ended 31 October 2001 to be paid on 10 April 2002 to shareholders on the register at the close of business on 15 March 2002.
3. To re-appoint Mr T W Hayter who retires under the provisions of Article 87.1 of the Company's Articles of Association.
4. To re-elect Mr P J Molony who retires by rotation under the provisions of Article 92.1 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 £153,438 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 £67,328 and shall expire at the commencement of the next Annual General Meeting of the Company after the passing of this resolution or on 31 May 2003 (whichever is the earlier) save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By Order of the Board

S L ELLARD - Secretary

1645 Parkway
Whiteley
Fareham
Hampshire
PO15 7AH

22 January 2002

NOTICE AND AGENDA OF ANNUAL GENERAL MEETING – continued

NOTES

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