Contents

Summary Financial Information

for the year ended 31 October 1999

	Audited Year ended 31 Oct 1999 £000	Unaudited 6 month period ended 1 May 1999 £000	Audited 13 month period ended 31 Oct 1998 £000
Turnover: Continuing operations			
Defence			
Countermeasures	**25,180**	11,248	18,929
Military pyrotechnics and explosives	**10,616**	5,341	12,600
	35,796	16,589	31,529
Non-defence			
Marine safety	**16,765**	8,264	15,622
Wiring harnesses	**7,197**	3,153	7,772
Chemical coatings	**2,324**	1,291	2,741
	26,286	12,708	26,135
	62,082	29,297	57,664
Turnover: Discontinued operations	**3,316**	2,762	17,082
	65,398	32,059	74,746
Operating profit/(loss)			
Continuing operations	**7,766**	2,858	6,814
Discontinued operations	**(1,551)**	(769)	(790)
Profit before taxation	**4,306**	1,095	1,251
Dividend per ordinary share	**5.50p**	2.00p	5.00p
Basic earnings per ordinary share	**14.49p**	3.74p	3.52p
Diluted earnings per ordinary share on continuing operations	**19.02p**	6.40p	11.64p

Introduction

I am pleased to report that the Group has made a strong recovery following completion of the restructuring in 1998. Against a background of a successful year for Countermeasures and Marine Safety, a strong order book and exciting new opportunities for each of the businesses, the Group is set for a period of sustained growth.

Results

Group profit before taxation was £4,306,000 compared with £1,251,000 in the thirteen month period to 31 October 1998, and earnings per ordinary share increased to 14.49p compared with 3.52p in 1998.

For continuing operations, operating profit, after absorbing £295,000 of aborted bid costs, increased by 14% to £7,766,000 (previous period: £6,814,000) on turnover of £62,082,000, up 8%. Diluted earnings per ordinary share on continuing operations increased by 63% to 19.02p compared with 11.64p in 1998.

Net debt reduced by £1,891,000 to £20,681,000 and Group interest and finance costs reduced by 23% to £1,979,000.

We continue to invest significant resources in research and development and we are confident that this level of expenditure will support growth across the Group particularly in Countermeasures and Marine Safety.

Business Activities

Countermeasures is one of the world leaders in air and naval decoys, with the exciting growth in both the UK and the US continuing. The US operation increased its turnover by 77% in the year, as development programmes transitioned into production.

Military Pyrotechnics and Explosives disappointed in 1999 as orders were delayed by other UK priorities in support of the Kosovo conflict. These belated orders are now flowing through and, supported by export business, the current order book is strong. We are continually reviewing the business cost base and, consequently in November 1999, we decided to relocate the Military business to our Derby site. The savings arising from this will be seen in 2000 and more than outweigh the one-off costs of the relocation.

Marine Safety successfully launched several new products in 1999, including an award winning Emergency Positioning Indicating Radio Beacon (EPIRB) and an innovative Hydrostatic Release Unit (HRU), and this contributed to a doubling in its electronics business. Future growth in electronic products is expected as a result of increased commercial and leisure legislation.

Kembrey Wiring Systems secured an important five year contract with BAE Systems in support of its military aircraft production that will provide significant growth in 2000 and subsequent years. The infrastructure and organisation has been strengthened in support of this anticipated growth, although this necessary investment has increased overheads and constrained profits in 1999.

As referred to in my Interim Report, I felt that Chemring Plating Systems would benefit from being part of a specialist group supplying the printed circuit board industry and consequently this business was sold on 26 October 1999; its results are included under discontinued operations.

Dividends

An interim dividend for the year ended 31 October 1999 of 2.00p per ordinary share was paid on 27 August 1999. The directors recommend a final dividend of 3.50p per ordinary share, to be paid on 10 April 2000, making a total for the year of 5.50p per ordinary share, up 10% (previous period: 5.00p).

Board

Paul Rayner was appointed Finance Director on 20 August 1999, following the departure of Ray Gibbs. Paul's operational background is providing strong financial management to the Group in the next phase of its development.

Employees

The year has seen the Group make a strong recovery and I would like to thank all our employees for their support and hardwork.

Current Trading and Prospects

We have had considerable success in strategically positioning our continuing operations in their market places. Since the year end, significant new orders of £29 million have increased the order book to a record level of £59 million. Against this background, I believe the Group can look forward to a strong period of growth and a substantial improvement in shareholder value.

K C Scobie – Chairman
11 January 2000

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

Defence

Countermeasures:	Chemring Countermeasures, Alloy Surfaces, Pains Wessex Australia
Military Pyrotechnics and Explosives:	Pains Wessex, Pains Wessex Australia, Haley & Weller

Non-defence

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

Defence Businesses

The dynamic growth in Countermeasures continues, with overall turnover in defence activities of £35.8 million, up £4.3 million (14%) on the previous period's performance. The year ended with a healthy order book of £26 million, up £6 million on 1998; this has further increased to £48 million since the year end.

Military Pyrotechnics and Explosives turnover was down by £1.9 million (16%) on the previous period due to known requirements from the UK MoD being delayed due to other MoD priorities in support of the Kosovo conflict; these orders have now been received.

• Countermeasures

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

The Countermeasures business continues to strengthen its global position in this expanding market, with innovative new concepts moving from development into production, where we are providing world leading solutions.

A buoyant order book has supported the turnover increase of 33% to £25.2 million for the year. The order book increased by 16% over the year to £15.4 million and in the first two months of the new financial year this has further increased to £33 million.

For aircraft countermeasures, the Group is prime contractor to the UK MoD for its current range of infra red flares, and in the US, sole source supplier of two out of the family of four flares in the Advanced Strategic and Tactical Expendables (ASTE) programme. ASTE is a joint Air Force (USAF)/Navy (USN) effort to develop advanced infra red (IR) expendable solutions for use against evolving infra red threats for a variety of USAF/USN platforms.

Development of a new proprietary lower cost 55mm flare for Tornado aircraft is now complete and first production deliveries will be made in 2000. Tornado aircraft users include the UK, Germany, Italy and Saudi Arabia. The Group is also the developer of the chaff and flare decoys for the European Fighter Aircraft 2000 (Typhoon).

In the US, the investment made in 1998 in Alloy Surfaces' new facility in New Chester, Pennsylvania supported a 77% increase in turnover. Alloy Surfaces' unique infra red material features in all of the advanced infra red expendable countermeasure programmes in the US, which will ensure continued growth. Several new products have completed their development phase and transitioned into production this year, in particular the proprietary BOL IR decoy, for which a contract was received from the UK MoD during the year, and for which we expect USN orders in 2000.

Alloy Surfaces currently provides a special materials decoy for USN helicopters and has also developed a product for US Army helicopters, which will commence series production in 2001, when the Advanced Threat IR Countermeasures (ATIRCM), which combine missile warning with directable infra red countermeasures in a single package, enter service.

Development has been completed on the MEBs (Modular Expendable Blocks), which incorporate 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.

In naval countermeasures, we have made significant strides and there are exciting growth prospects. Development of the UK MoD MK36 130mm naval IR round is almost complete and production deliveries will commence in 2000. We have recently received a significant order from Denmark for our innovative combined MK36 compatible 130mm RF/IR round, with deliveries commencing in 2000. This will be the first of its kind and underlines the confidence which government organisations place on our innovative design, development and production capabilities. The MK36 decoy launcher is standard in most NATO navies and these two new products add to our portfolio of MK36 compatible products.

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

• Military Pyrotechnics and Explosives

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

Turnover in the year was down by £1.9 million (16%). At the year end the order book had increased by 70% to £10.6 million, and has further increased to £15.3 million in the first two months of the new financial year.

There is good visibility of UK MoD requirements over the next three years and the Group is well placed to maintain its market position. The relocation of the business to Derby and consolidation on one site will result in significant cost savings and will allow expansion in UK Countermeasures to take place at our Salisbury site.

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

We are increasing our international collaboration initiatives and in Europe, exploring closer working relationships with our competitors, to position us for possible European-led defence procurement programmes.

Non-defence Businesses

• Marine Safety

The Group is a market leader in providing legislated marine safety products to aid location and rescue, including pyrotechnics, electronic location beacons, location lights and VHF radio. Electronics sales more than doubled in the year to assist in increasing Marine Safety turnover to £16.8 million.

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 – all manufactured by the Group. Electronic products in support of the legislated Global Maritime Distress and Safety System (GMDSS) include 406 EPIRBs, SARTs and portable VHF radios.

New products, which have contributed to the growth this year, are 'all round' lights, VHF radios, a pyrotechnic HRU for electronic beacons and life rafts, and an award winning lower cost EPIRB, all of which provide a more competitive range of products. The emphasis has been on innovative low cost products, which have helped to generate sales and improve margins for the business and resulted in increased market share in 1999.

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

Development in 406 EPIRB technology and the integration of Global Positioning Systems (GPS) presents new market areas for our technology, including Personal Locating Beacons (PLB) for land use and Emergency Location Transmitters (ELT) for aviation use, as legislation is introduced in these areas.

- WIRING HARNESSES

Kembrey Wiring Systems is one of the largest UK manufacturers of high specification cable harnesses for the aerospace industry. It has an excellent reputation for supplying quality wiring systems to manufacturers of aircraft and aircraft engines. Major customers include Rolls-Royce, BMW and BAE Systems.

Of significance was the contract award received from BAE Systems to supply wiring harnesses for all its military aircraft. The contract is for an initial five year period. Significant investment in equipment, people and training was necessary in the year in support of gaining this important strategic partnership. This included the latest laser marking technology, computer aided design and improvements to the facilities. This investment is now complete and deliveries to BAE Systems have commenced.

- CHEMICAL COATINGS

Turnover for the year was £2.3 million compared with £2.7 million in 1998. Alloy Surfaces has a niche market in supplying special chemicals in 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
11 January 2000

OPERATING RESULTS

A summary of the operating results for the year ended 31 October 1999 appears in the Chairman's Statement. Continuing operations' gross profit grew by 11% to £17,097,000 on a turnover increase of 8%. This is the result of greater efficiencies and the introduction of new products. Gross margins increased to 27% (previous period : 26%).

Overheads in the continuing operations have been well controlled in the year with distribution costs being 4.3% of turnover (previous period: 5.1%) and administration expenses being 10.8% of turnover (previous period: 9.7%). Administration expenses in the year are stated after charging £295,000 relating to the aborted bid costs; discounting these costs, administration expenses would have been 10.3%. £2,801,000 was expended on research and development activities during the year.

Operating margins of the continuing operations improved to 12.5% from 11.8%.

The operating loss on discontinued operations relates primarily to Chemring Plating Systems, which was sold in October 1999.

There were no exceptional items during the year (previous period: £2,261,000).

INTEREST

The interest charge for the year was £1,979,000 (previous period: £2,582,000). Interest cover on profit generated by continuing operations is 3.9 times (previous period: 2.6 times).

TAXATION

The tax charge of £871,000 is an effective rate of 20%, which represents tax arising on overseas operations and a reduced charge on the UK operations, due the utilisation of brought forward tax losses in the UK. In future, it is anticipated that the tax rate will increase as losses are used up.

SHAREHOLDER RETURNS

Basic earnings per ordinary share increased to 14.49p (previous period: 3.52p).

Diluted earnings per ordinary share on continuing operations increased to 19.02p (previous period: 11.64p) up 63%.

Dividend per ordinary share of 5.50p (previous period: 5.00p) is covered 2.63 times (previous period: 0.7 times).

Post tax return on capital employed was 11.9%, a significant improvement on 3.1% for the previous period.

GOODWILL

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

CASH FLOW AND GEARING

Operating cash flow before capital expenditure was £5,834,000 (previous period: £7,297,000). Cash flow in relation to discontinued operations was poor and this impacted on the full year cash flows. Capital expenditure on tangible assets of £2,700,000 in support of continued growth was financed through cash flow and leasing during the year.

Growth in the Countermeasures and Marine Safety businesses increased the level of debtors at the year end. Post year end cash flow has exceeded expectations and further reductions in net debt are anticipated.

Proceeds from disposals have been used to reduce net debt which stood at £20,681,000 (previous period: £22,572,000) a reduction of 8%. Gearing is now 72% (previous period: 84%).

FUNDING AND GOING CONCERN

Total facilities of £22.8 million have been agreed with National Westminster Plc for all UK companies. In addition credit lines of £2 million have been agreed with various lenders to cater for plant and machinery purchases for the UK companies.

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

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

The Board has reviewed the latest guidance on going concern and considers the above facilities enable the Group to compile the financial statements on the going concern basis and enable it to continue in operational existence for the foreseeable future.

NEW ACCOUNTING DEVELOPMENTS

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

- FRS12 Provisions, contingent liabilities and contingent assets.
- FRS13 Derivatives and other financial instruments – disclosure.
- FRS14 Earnings per share.

YEAR 2000

The Group has not experienced any Year 2000 related issues and compliance costs have not added significantly to overheads.

THE EURO

The Group has traded in the new currency, particularly benefiting the Marine Safety business from the price transparencies that now exist within Europe.

P A RAYNER – Finance Director
11 January 2000

Directors and Professional Advisers

Non-executive Chairman

Kenneth C Scobie

Chairman: Allied Leisure plc

Executive Directors

David R Evans

Chief Executive

Paul A Rayner FCA

Finance Director

Non-executive Directors

Peter J Molony

Director: Allied Leisure plc

General Sir John Stibbon KCB OBE

Chairman: ITT Defence Ltd

Professional Advisers

Auditors

Deloitte & Touche, Southampton

Solicitors

Bond Pearce, Southampton

Bankers

National Westminster Bank Plc, Portsmouth

Stockbrokers

CSFB de Zoete & Bevan Ltd, London

Secretary

Sarah Ellard ACIS

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Directors' Report

for the year ended 31 October 1999

Your directors present the financial statements of the Group for the year ended 31 October 1999.

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

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

Dividends

The directors recommend a final dividend of 3.50p per ordinary share, which together with the interim dividend of 2.00p per ordinary share paid in August 1999, gives a total for the year of 5.50p (previous period: 5.00p).

Directors

The present directors are shown on page 11.

Mr R J Gibbs resigned as a director on 20 August 1999.

Mr P A Rayner was appointed as a director on 20 August 1999. He will be seeking re-appointment under Article 87.1 of the Company's Articles of Association at the forthcoming Annual General Meeting on 2 March 2000. Details of Mr Rayner's service contract with the Company are set out in the Report of the Remuneration Committee on page 19.

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

None of the directors had a beneficial interest in any contract of significance to which the Group was a party during the year to 31 October 1999.

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

Employees

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

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

Charitable and Political Donations

Charitable donations amounting to £250 were made during the year. No political donations were made during the year.

Substantial Shareholdings

At 10 January 2000 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:

Name	*%* *Interest*
Prudential Corporation plc	29.3
(including M&G Group PLC)	14.5
Lazards Asset Management	3.8
Norwich Union plc	3.8

The Chemring Group Share Option Scheme

No options were granted in the year to 31 October 1999. During the year options on 8,000 shares were exercised and options on 16,248 shares lapsed. Additional information is set out in Note 20.

The Chemring 1998 Executive Share Option Scheme

No options were granted in the year to 31 October 1999. During the year options on 10,000 shares were exercised and options on 10,000 shares lapsed. Additional information is set out in Note 20.

The Chemring Group Sharesave Scheme

No options were granted in the year to 31 October 1999. During the year options on 78,658 shares lapsed. No options were exercised during the year. Additional information is set out in Note 20.

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

No options were granted in the year to 31 October 1999. During the year options on 4,747 shares were exercised and options on 1,579 shares lapsed.

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.

ARTICLES OF ASSOCIATION

Your Board will seek shareholder approval to changes to the Articles of Association of the Company at the forthcoming Annual General Meeting on 2 March 2000. Further details can be found in the explanatory circular to shareholders being sent out with these financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

POLICY ON PAYMENT OF SUPPLIERS

It is the policy of the Group that each of the Group companies should agree appropriate terms and conditions for its transactions with suppliers. These will range from standard written terms to individually negotiated contracts. Payments are then made in accordance with these terms and conditions, provided that the supplier has accorded with them. Creditor days as at 31 October 1999 amounted to 69 days (previous period: 63 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 1999.

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 11 January 2000.

Signed on behalf of the Board

S L ELLARD – Secretary

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

DIRECTORS' EMOLUMENTS

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

	Salaries and fees		*Cash bonuses paid*		*Deferred bonuses*		*Compensation for loss of office*		*Taxable benefits*		*Total*	
	Year ended 31 Oct 1999 £000	*13 month period ended 31 Oct 1998 £000*	***Year ended 31 Oct 1999 £000***	*13 month period ended 31 Oct 1998 £000*	***Year ended 31 Oct 1999 £000***	*13 month period ended 31 Oct 1998 £000*	***Year ended 31 Oct 1999 £000***	*13 month period ended 31 Oct 1998 £000*	***Year ended 31 Oct 1999 £000***	*13 month period ended 31 Oct 1998 £000*	***Year ended 31 Oct 1999 £000***	*13 month period ended 31 Oct 1998 £000*
Executives												
D R Evans	**153**	144	**25**	20	**–**	73	**–**	–	**16**	11	**194**	248
R J Gibbs												
(resigned 20 Aug 1999)	**82**	110	**–**	20	**–**	55	**142**	–	**8**	9	**232**	194
P A Rayner												
(appointed 20 Aug 1999)	**12**	–	**2**	–	**–**	–	**–**	–	**1**	–	**15**	–
Non-executives												
M S D Hanlon												
(resigned 5 Mar 1998)	**–**	14	**–**	–	**–**	–	**–**	–	**–**	–	**–**	14
P J Molony	**42**	147	**25**	–	**–**	–	**–**	–	**–**	–	**67**	147
K C Scobie	**56**	59	**–**	–	**–**	–	**–**	–	**–**	–	**56**	59
J Stibbon	**25**	20	**–**	–	**–**	–	**–**	–	**1**	1	**26**	21
Total remuneration	**370**	494	**52**	40	**–**	128	**142**	–	**26**	21	**590**	683

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 Hanlon's remuneration for the previous period included additional fees paid in respect of services rendered in overseeing the management of the Group's Australasian businesses. Mr Molony's remuneration includes payment for his services as Chief Executive up to 31 January 1999.

Mr Scobie's remuneration includes payments to his company, K C Scobie Limited, in respect of his consultancy services. In addition to the remuneration shown above, Mr Scobie has a long term incentive scheme, details of which are given on page 18, in respect of which the Group had accrued £149,000 as at 31 October 1999.

A cash bonus of £25,000 was paid to Mr Evans in recognition of his efforts in improving the performance of the Group in the year, and a cash bonus of £2,000 was paid to Mr Rayner for the period from 20 August 1999 to 31 October 1999.

The deferred bonus of £73,342 declared payable to Mr Evans during the previous period is payable in April 2001.
The deferred bonus of £55,000 declared payable to Mr Gibbs during the previous period was paid upon his resignation as a director.

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 year ended 31 October 1999 and the thirteen month period ended 31 October 1998 are shown below. Mr Gibbs became a deferred member of the scheme on 20 August 1999.

	Year ended 31 Oct 1999 £000	*13 month period ended 31 Oct 1998 £000*
D R Evans	**41**	39
R J Gibbs	**21**	28
P A Rayner	**3**	–
	65	67

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

	Increase in accrued benefit (excluding inflation)		*Transfer value of increase in accrued benefit (excluding inflation)*
	Pension	*Cash sum*	
D R Evans	£10,694 pa	£32,082	£153,801
R J Gibbs (1 Nov 1998 – 20 Aug 1999)	£950 pa	£2,850	£9,264
P A Rayner (20 Aug 1999 – 31 Oct 1999)	£155 pa	£465	£1,137

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 Company also operated a Funded Unapproved Retirement Benefits Scheme (FURBS) in respect of Mr Gibbs to provide additional pension benefits on earnings in excess of the statutory cap (currently £90,600). Contributions of £1,638 (previous period: £2,468) were made to the FURBS by the Company during the year.

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 1998, or date of appointment if later, and 31 October 1999 are shown below. All are beneficial holdings.

	1999 Number	*1998 Number*
D R Evans	**20,644**	20,644
P J Molony	**–**	–
P A Rayner	**1,000**	1,000
K C Scobie	**100,000**	100,000
J Stibbon	**–**	–

No movements have taken place between 31 October 1999 and 11 January 2000.

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

Share Options

The holdings by the directors of options over ordinary shares in the Company at 1 November 1998, or date of appointment if later, and 31 October 1999 are shown below.

		Number of share options								
		At 1 Nov 1998 or date of appointment	*Granted during the year*	*Lapsed during the year*	*Exercised during the year*	*At 31 Oct 1999*	*Exercise price (p)*	*Market price at date of exercise (p)*	*Date from which exercisable*	*Expiry date*
D R Evans										
Sharesave Scheme		2,500	–	2,500	–	–	276	–	1 May 1999	31 Oct 1999
		1,938	–	1,938	–	–	356	–	1 Sept 2001	28 Feb 2002
ESOP	B	3,472	–	–	–	3,472	0	–	5 Apr 1995	5 Apr 2002
	A	6,944	–	–	–	6,944	330	–	5 Apr 1998[1]	5 Apr 2005
	B	3,085	–	–	–	3,085	0	–	26 Feb 1996	26 Feb 2003
	C	6,170	–	–	–	6,170	0	–	26 Feb 1999[2]	26 Feb 2003
1998 Executive Scheme		191,182	–	–	–	191,182	139.5	–	6 Apr 2001	5 Apr 2008
P A Rayner										
Sharesave Scheme		1,138	–	–	–	1,138	303	–	1 Aug 2000	31 Jan 2001
1998 Executive Scheme		30,000	–	–	–	30,000	139.5	–	6 Apr 2001	5 Apr 2008

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

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

The market price of the ordinary shares at 31 October 1999 was 172p. During the year, the ordinary shares traded within the range 91p to 204p.

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, as detailed above. The options were issued subject to a performance condition which provides that options may not normally be exercised unless the growth in the Company's earnings per share at least matches the growth in RPI over a consecutive three year period by 9% (ie 3% per annum); for the purposes of the options granted on 6 April 1998, the Remuneration Committee has set the base earnings per share figure at 10.0p for the financial year ended 30 September 1997. Participation in the 1998 Executive Scheme is extended to senior management of the Group, who were also awarded options on 6 April 1998. 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 Share Based Incentive Scheme, known as "the ESOP". Historically, executives have been invited to participate in the scheme, on the recommendation of the Remuneration Committee, by deferring between 35% and 100% of their annual profit-related bonus. In consideration of deferring this amount, the executive is granted an immediately exercisable, nil cost option over a quantity of ordinary shares in the Company. The number of options granted is calculated by dividing the amount of deferred bonus by the then current market price of the ordinary shares. At the same time, the executive is also conditionally granted further nil cost "matching" options of twice this number of options. Providing the executive remains with the Company for three years, he may exercise half of the matching options. The remaining half of the matching options may only be exercised by the executive after completing five years' service. All options are granted over issued shares held by the Trustee of an ESOP established by the Company. No new options have been granted under the ESOP since 13 January 1997.

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

Service Contracts

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

Non-executive Directors

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

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

On behalf of the Remuneration Committee

K C Scobie – Chairman of the Remuneration Committee
11 January 2000

In June 1998, the Stock Exchange published its Principles of Good Governance and Code of Best Practice ("the Combined Code"), which consolidated the work of the Cadbury, Greenbury and Hampel Committees on corporate governance. Your directors are required to make a statement on how the fourteen principles of good governance set out in Part 1 of the Combined Code have been applied and whether or not the Company has complied throughout its accounting period with the provisions set out in Part 2 of the Combined Code.

APPLICATION OF THE PRINCIPLES OF THE COMBINED CODE

THE BOARD OF DIRECTORS

The Board currently comprises two executive and three non-executive directors. The Board, which meets formally nine 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 and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The Board believes that all three non-executive directors currently satisfy these requirements.
The non-executive directors perform an essential role in safeguarding shareholders' interests by monitoring the performance of the Group and its executive management. In addition to participating in Board meetings, they are the members of the standing committees set up to deal with audit and the remuneration of executive directors and senior management. The Board is satisfied that the present balance of executive and non-executive influence which exists is appropriate for the Company, taking into account its size and status.

DIRECTORS' REMUNERATION

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

RELATIONS WITH SHAREHOLDERS

The Company encourages dialogue with institutional shareholders through regular briefing meetings and formal presentations following the release of interim and annual results. Communication with private investors is achieved largely through the medium of the interim report and the financial statements. In addition, all directors are available to take questions or address any concerns at the AGM, and at other times of the year, 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 14.

Internal Control

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

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

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

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

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.

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-appointment at the next AGM following their appointment. This is not strictly in line with the provisions of the Combined Code which require that directors should stand for re-election at intervals of no more than three years. The directors consider that the current arrangements adequately reflect the spirit of the Combined Code and do not propose making any change in this respect (A.6.2).
- Mr Evans has a service contract with a notice period in excess of one year, details of which are disclosed in the Report of the Remuneration Committee (B.1.7.).
- The Company has not previously indicated the level of proxies lodged on each resolution at the AGM. This practice will be adopted in the future (C.2.1).
- In future, the Company will circulate the Notice of the AGM and related papers to shareholders at least 20 working days before the meeting; this deadline has not always been met in the past (C.2.4).
- As permitted by the Stock Exchange, the Company has reported on its internal financial controls pursuant to the guidance issued by the Rutteman Working Group in 1994 and has not reported on non-financial internal controls (D.2.1).

GOING CONCERN

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

Approved by the Board of Directors on 11 January 2000.

Signed on behalf of the Board

S L ELLARD – Secretary

Auditors' Report on the Financial Statements

for the year ended 31 October 1999

Auditors' Report to the Members of Chemring Group plc

We have audited the financial statements on pages 25 to 47 which have been prepared under the accounting policies set out on pages 32 and 33. We have also audited the information which is specified by the London Stock Exchange to be audited and the detailed information disclosed in respect of the directors' remuneration, share options and pension entitlements set out in the Report of the Remuneration Committee on pages 15 to 19.

Respective Responsibilities of Directors and Auditors

As described on page 14, the directors are responsible for preparing the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

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

We review whether the statement on pages 20 to 22 reflects the compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the corporate governance procedures or the Group's internal controls.

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

Basis of Opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall 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 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
Southampton
11 January 2000

Consolidated Profit and Loss Account

for the year ended 31 October 1999

Note		Continuing operations £000	Discontinued operations £000	Year ended 31 Oct 1999 Total operations £000	Continuing operations £000	Discontinued operations £000	13 month period ended 31 Oct 1998 Total operations £000
2	Turnover	62,082	3,316	65,398	57,664	17,082	74,746
	Cost of sales	(44,985)	(2,064)	(47,049)	(42,313)	(11,635)	(53,948)
	Gross profit	17,097	1,252	18,349	15,351	5,447	20,798
	Distribution costs	(2,648)	(149)	(2,797)	(2,953)	(2,417)	(5,370)
	Administrative expenses	(6,683)	(2,654)	(9,337)	(5,584)	(3,820)	(9,404)
3	Operating profit/(loss)	7,766	(1,551)	6,215	6,814	(790)	6,024
	Associated undertaking			70			70
	Exceptional items						
3	Loss on disposal of discontinued operations			–			(2,261)
	Profit on ordinary activities before interest			6,285			3,833
7	Interest payable			(1,979)			(2,582)
	Profit on ordinary activities before taxation			4,306			1,251
8	Tax on profit on ordinary activities			(871)			(413)
	Profit on ordinary activities after taxation			3,435			838
9	Dividends			(1,308)			(1,189)
21	Retained profit/(loss) for the year/period			2,127			(351)
10	Basic earnings per ordinary share			14.49p			3.52p
10	Diluted earnings per ordinary share			13.98p			3.37p
10	Diluted earnings per ordinary share on continuing operations			19.02p			11.64p

Additional Financial Performance Statements

for the year ended 31 October 1999

	Year ended 31 Oct 1999 £000	*13 month period ended 31 Oct 1998 £000*
Statement of total recognised gains and losses		
Profit on ordinary activities after taxation	3,435	838
Currency translation differences on foreign currency net investments	(118)	(1,009)
Decrease in revaluation reserve	–	(209)
Total recognised gains and losses for the year/period	3,317	(380)

	Year ended 31 Oct 1999 £000	*13 month period ended 31 Oct 1998 £000*
Reconciliation of movements in shareholders' funds		
Profit on ordinary activities after taxation	**3,435**	838
Dividends	**(1,308)**	(1,189)
Retained profit/(loss) for the year/period	**2,127**	(351)
Other recognised losses	**(118)**	(1,218)
Ordinary shares issued	**1**	–
Share premium arising	**24**	18
Net addition/(reduction) to shareholders' funds	**2,034**	(1,551)
Shareholders' funds at 1 November 1998	**26,815**	28,366
Shareholders' funds at 31 October 1999	**28,849**	26,815

Consolidated Balance Sheet

as at 31 October 1999

Note		As at 31 Oct 1999 £000	As at 31 Oct 1999 £000	As at 31 Oct 1998 £000	As at 31 Oct 1998 £000
	Fixed assets				
	Intangible assets				
11	Development costs	549		608	
11	Goodwill	18,246		18,246	
			18,795		18,854
12	Tangible assets		17,219		18,549
13	Investments		880		863
			36,894		38,266
	Current assets				
14	Stock	9,597		10,920	
15	Debtors	17,928		14,487	
	Cash at bank and in hand	2,408		2,162	
		29,933		27,569	
16	Creditors due within one year	(20,449)		(21,556)	
	Net current assets		9,484		6,013
	Total assets less current liabilities		46,378		44,279
17	Creditors due after more than one year		(17,089)		(16,964)
19	Provisions for liabilities and charges		(440)		(500)
			28,849		26,815
	Capital and reserves				
20	Called-up share capital		1,247		1,246
	Reserves				
21	Share premium account	10,813		10,789	
21	Special capital reserve	12,939		12,939	
21	Revaluation reserve	2,590		2,626	
21	Revenue reserves	1,260		(785)	
			27,602		25,569
	Shareholders' funds		28,849		26,815
	Attributable to equity shareholders		28,787		26,753
	Attributable to non-equity shareholders		62		62
			28,849		26,815

These financial statements were approved by the Board of Directors on 11 January 2000.

Signed on behalf of the Board

D R Evans

P A Rayner

Parent Balance Sheet

as at 31 October 1999

Note		As at 31 Oct 1999 £000	As at 31 Oct 1999 £000	As at 31 Oct 1998 £000	As at 31 Oct 1998 £000
	Fixed assets				
12	Tangible assets		**1,577**		1,899
13	Investments		**32,759**		27,817
			34,336		29,716
	Current assets				
15	Debtors	**17,150**		18,678	
	Cash at bank and in hand	**152**		2	
		17,302		18,680	
16	Creditors due within one year	**(13,397)**		(9,637)	
	Net current assets		**3,905**		9,043
	Total assets less current liabilities		**38,241**		38,759
17	Creditors due after more than one year		**(12,014)**		(12,012)
			26,227		26,747
	Capital and reserves				
20	Called-up share capital		**1,247**		1,246
	Reserves				
21	Share premium account	**10,813**		10,789	
21	Special capital reserve	**12,939**		12,939	
21	Revenue reserves	**1,228**		1,773	
			24,980		25,501
	Shareholders' funds		**26,227**		26,747
	Attributable to equity shareholders		**26,165**		26,685
	Attributable to non-equity shareholders		**62**		62
			26,227		26,747

These financial statements were approved by the Board of Directors on 11 January 2000.

Signed on behalf of the Board

D R Evans

P A Rayner

Consolidated Cash Flow Statement

for the year ended 31 October 1999

Note		Year ended 31 Oct 1999 £000	Year ended 31 Oct 1999 £000	13 month period ended 31 Oct 1998 £000	13 month period ended 31 Oct 1998 £000
A	Net cash inflow from operating activities		5,834		7,297
	Fundamental reorganisation of operations		(494)		(1,788)
			5,340		5,509
B	Returns on investments and servicing of finance		(2,006)		(2,312)
	Taxation		(495)		(165)
B	Capital expenditure		(2,842)		(4,251)
B, D	Acquisitions and disposals		2,813		401
	Equity dividends paid		(1,186)		(712)
	Cash inflow/(outflow) before use of liquid resources and financing		1,624		(1,530)
B	Financing – issue of shares	25		18	
B	– increase in debt	318		2,846	
			343		2,864
	Increase in cash in the year/period		1,967		1,334

Reconciliation of net cash flow to movement in net debt

	Year ended 31 Oct 1999 £000	13 month period ended 31 Oct 1998 £000
Increase in cash in the year/period	1,967	1,334
Cash inflow from the increase in debt and lease financing	(318)	(2,846)
Change in net debt resulting from cash flows	1,649	(1,512)
Translation difference	49	(69)
Disposals	193	8
Finance leases	–	(378)
	1,891	(1,951)

Notes to the Consolidated Cash Flow Statement

for the year ended 31 October 1999

A. Reconciliation of Operating Profit to Net Cash Flow from Operating Activities

	Year ended 31 Oct 1999 £000	*13 month period ended 31 Oct 1998 £000*
Operating profit	**6,215**	6,024
Amortisation charge	**664**	140
Depreciation charge	**1,896**	2,212
Loss on sale of fixed assets	**41**	409
(Increase)/decrease in stocks	**(13)**	1,715
(Increase)/decrease in debtors	**(3,241)**	809
Increase/(decrease) in creditors	**272**	(4,012)
	5,834	7,297

B. Analysis of Cash Flows

	£000	***Year ended 31 Oct 1999 £000***	*£000*	*13 month period ended 31 Oct 1998 £000*
Returns on investments and servicing of finance				
Interest paid	**(2,024)**		(2,328)	
Preference dividend paid	**(3)**		(3)	
Dividend from associate	**21**		19	
Net cash outflow from returns on investments and servicing of finance		**(2,006)**		(2,312)
Capital expenditure and financial investment				
Purchase of intangible fixed assets	**(621)**		(505)	
Purchase of tangible fixed assets	**(2,700)**		(4,663)	
Sale of tangible fixed assets	**479**		917	
Net cash outflow from capital expenditure and financial investment		**(2,842)**		(4,251)
Acquisitions and disposals				
Disposals of subsidiary undertakings		**3,019**		577
Net cash disposed of with subsidiary undertakings		**(206)**		(176)
Net cash inflow from acquisitions and disposals		**2,813**		401
Financing				
Issue of ordinary share capital		**25**		18
Debt due within one year:				
– repayment of loan stock	**–**		(599)	
Capital elements of finance lease payments	**(328)**		(960)	
New finance leases	**145**		–	
Debt due beyond one year:				
– medium term loan overseas	**501**		4,405	
		318		2,846
Net cash inflow from financing		**343**		2,864

C. Analysis of Net Debt

	At 1 Nov 1998 £000	*Cash flow £000*	*Disposal £000*	*Exchange movement £000*	***At 31 Oct 1999 £000***
Cash at bank and in hand	2,162	403	(206)	49	**2,408**
Overdrafts	(7,369)	1,564	–	–	**(5,805)**
	(5,207)	1,967	(206)	49	**(3,397)**
Debt due within one year	(44)	–	–	–	**(44)**
Debt due after one year	(16,405)	(501)	–	–	**(16,906)**
Finance leases	(916)	183	399	–	**(334)**
	(22,572)	1,649	193	49	**(20,681)**

D. Disposal of Subsidiary Undertakings

	Year ended 31 Oct 1999 £000
Tangible fixed assets	**2,023**
Stock	**1,336**
Debtors	**1,600**
Creditors	**(1,464)**
Loans and finance leases	**(399)**
	3,096
Loss on disposal	**(54)**
	3,042
Net assets disposed of	**3,248**
Less cash at bank and in hand	**(206)**
	3,042
Satisfied by:	
Cash	**2,813**
Deferred consideration	**229**
	3,042

1. Accounting Policies

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

Accounting convention

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

Basis of consolidation

The financial statements consolidate those of the Parent with the Group's share of the results and post acquisition reserves of all its subsidiary undertakings. 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.

Intangible fixed assets

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

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

Tangible fixed assets

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

Freehold buildings – up to 50 years
Leasehold buildings – the period of the lease
Plant and equipment – up to 20 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.

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

Pensions

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

Leased assets

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

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

2. ANALYSIS OF TURNOVER, PROFIT AND NET ASSETS

	Continuing operations £000	**Discontinued operations £000**	**Year ended 31 Oct 1999 Total operations £000**	*Continuing operations £000*	*Discontinued operations £000*	*13 month period ended 31 Oct 1998 Total operations £000*
Turnover						
UK	**27,315**	**141**	**27,456**	23,524	5,265	28,789
Overseas	**34,767**	**3,175**	**37,942**	34,140	11,817	45,957
Total	**62,082**	**3,316**	**65,398**	57,664	17,082	74,746

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

3. OPERATING PROFIT/(LOSS)

	Year ended 31 Oct 1999 £000	*13 month period ended 31 Oct 1998 £000*
Operating profit/(loss) is stated after charging:		
Depreciation – owned assets	**1,849**	2,004
– leased assets	**47**	208
Amortisation – intangible assets	**664**	140
Operating lease rentals – land and buildings	**74**	472
– plant and equipment	**466**	289
Auditors' remuneration	**100**	134
Research and development	**2,801**	3,171
Aborted bid costs	**295**	–

During the year £120,000 (previous period: £98,000) was paid to the auditors for non-audit work.
In 1998, an exceptional loss on the disposal of discontinued operations of £2,261,000 was charged after operating profit. Full details of this charge can be found in the 1998 financial statements.

4. EMPLOYEES

	Year ended 31 Oct 1999 Number	*13 month period ended 31 Oct 1998 Number*
The average number employed by the Group within each category of persons was:		
Production	**779**	876
Sales and administration	**250**	278
	1,029	1,154

The costs incurred in respect of these employees were:	**£000**	*£000*
Wages and salaries	**15,824**	17,414
Social Security costs	**1,600**	1,499
Other pension costs	**1,077**	1,000
	18,501	19,913

5. Directors' Emoluments

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

6. Pension Costs

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

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

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

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

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

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

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

All assets and liabilities of The Kembrey Group Pension Fund were transferred to The Chemring Group Staff Pension Scheme on 29 October 1999.

7. INTEREST PAYABLE

	Year ended 31 Oct 1999 £000	13 month period ended 31 Oct 1998 £000
Bank overdraft interest	792	1,209
Loan stock interest (see Note 16)	3	53
Medium term loan interest	1,073	1,084
Finance lease interest	111	236
	1,979	2,582

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 Oct 1999 £000	13 month period ended 31 Oct 1998 £000
Tax is based on the profit for the year/period and comprises:		
Corporation tax at 30%-31% (previous period: 31%)	503	67
Overseas taxation	715	315
Over-provision for earlier years:		
Corporation tax	(379)	–
	839	382
Tax attributable to associated undertaking	32	31
	871	413

The tax charge for the year is disproportionately low principally due to the release of prior period over-provisions and the use of brought forward losses which were not reflected as assets in the financial statements.

9. DIVIDENDS

	Year ended 31 Oct 1999 £000	13 month period ended 31 Oct 1998 £000
Dividends on cumulative preference shares of £1 each		
Paid 30 April 1999 2.45p (previous period: 2.45p)	2	2
Paid 31 October 1999 2.45p (previous period: 2.45p)	1	1
	3	3
Dividends on ordinary shares of 5p each		
Interim paid 27 August 1999 2.00p (previous period: 2.00p)	475	475
Final proposed 3.50p (previous period: 3.00p)	830	711
	1,305	1,186
Total dividends	1,308	1,189

10. Earnings per Ordinary Share

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

			Year ended 31 Oct 1999			*13 month period ended 31 Oct 1998*
	Earnings £000	**Ordinary shares Number 000s**	**EPS Pence**	*Earnings £000*	*Ordinary shares Number 000s*	*EPS Pence*
Basic	**3,432**	**23,689**	**14.49**	834	23,675	3.52
Additional shares issuable other than at fair value in respect of options outstanding	**–**	**853**	**(0.51)**	–	1,041	(0.15)
Diluted	**3,432**	**24,542**	**13.98**	834	24,716	3.37
Add back (net of tax at the average effective rate):						
Exceptional items	**–**	**–**	**–**	1,514	–	6.13
Discontinued operations	**1,237**	**–**	**5.04**	529	–	2.14
Diluted earnings per ordinary share on continuing operations	**4,669**	**24,542**	**19.02**	2,877	24,716	11.64

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

11. Intangible Fixed Assets

Group

	Goodwill £000	*Development costs £000*	*Total £000*
Cost			
At 1 November 1998	18,246	884	19,130
Foreign exchange movements	–	7	7
Additions	–	621	621
Transfers to tangible fixed assets	–	(25)	(25)
At 31 October 1999	18,246	1,487	19,733
Amortisation			
At 1 November 1998	–	276	276
Foreign exchange movements	–	6	6
Charge for the year	–	664	664
Transfers to tangible fixed assets	–	(8)	(8)
At 31 October 1999	–	938	938
Net book value			
At 31 October 1999	18,246	549	18,795
At 31 October 1998	18,246	608	18,854

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

12. TANGIBLE FIXED ASSETS

(a) Group

	Land and buildings £000	Plant and equipment £000	Total £000
Cost or valuation			
At 1 November 1998	13,304	19,323	32,627
Foreign exchange movements	286	208	494
Additions	279	2,421	2,700
Transfers from intangible fixed assets	–	25	25
Disposals of subsidiaries	(687)	(3,169)	(3,856)
Disposals	(590)	(800)	(1,390)
At 31 October 1999	12,592	18,008	30,600
Depreciation			
At 1 November 1998	1,715	12,363	14,078
Foreign exchange movements	2	100	102
Charge for the year	329	1,567	1,896
Transfers from intangible fixed assets	–	8	8
Disposals of subsidiaries	(323)	(1,510)	(1,833)
Disposals	(240)	(630)	(870)
At 31 October 1999	1,483	11,898	13,381
Net book value			
At 31 October 1999	11,109	6,110	17,219
At 31 October 1998	11,589	6,960	18,549

(b) Parent

	Land and buildings £000	Plant and equipment £000	Total £000
Cost or valuation			
At 1 November 1998	3,064	416	3,480
Additions	–	80	80
Disposals	(466)	(14)	(480)
At 31 October 1999	2,598	482	3,080
Depreciation			
At 1 November 1998	1,218	363	1,581
Charge for the year	35	35	70
Disposals	(136)	(12)	(148)
At 31 October 1999	1,117	386	1,503
Net book value			
At 31 October 1999	1,481	96	1,577
At 31 October 1998	1,846	53	1,899

12. Tangible Fixed Assets – continued

(c) Land and buildings

	Group		Parent	
	As at	As at	**As at**	As at
	31 Oct 1999	31 Oct 1998	**31 Oct 1999**	31 Oct 1998
	£000	£000	**£000**	£000
Land and buildings comprise:				
Freehold	**8,836**	9,035	**1,985**	1,985
Long leasehold	**3,756**	4,269	**613**	1,079
	12,592	13,304	**2,598**	3,064
Land and buildings are stated at cost or value:				
30 September 1997 – depreciated replacement cost	**5,820**	5,820	**–**	–
– open market	**2,598**	2,611	**2,598**	2,611
At cost	**4,174**	4,873	**–**	453
	12,592	13,304	**2,598**	3,064

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.

If stated under historical cost principles the comparable amounts for the total of land and buildings would be:				
Cost	**10,495**	11,207	**2,598**	3,064
Accumulated depreciation	**(1,976)**	(2,493)	**(1,657)**	(1,758)
Historical cost value	**8,519**	8,714	**941**	1,306

All other tangible fixed assets are stated at historical cost. Included in plant and equipment are assets of net book value £274,000 (previous period: £679,000) held under finance leases.

(d) Future capital expenditure

Contracted for but not provided for	**22**	206	**–**	–
Authorised but not contracted for	**712**	–	**–**	–

13. Fixed Asset Investments

(a) Group

	Associated undertaking share of net assets £000
Cost and net book value	
At 1 November 1998	863
Retained profit of associated undertaking	38
Dividend received	(21)
At 31 October 1999	880

(b) Parent

	Shares in subsidiary undertakings £000	*Shares in associated undertaking £000*	*Loans to subsidiary undertakings £000*	*Total £000*
Cost				
At 1 November 1998	22,818	13	6,250	29,081
Group transfers	5,014	–	–	5,014
At 31 October 1999	27,832	13	6,250	34,095
Provision for impairment				
At 1 November 1998	1,264	–	–	1,264
Provision made in the year	72	–	–	72
At 31 October 1999	1,336	–	–	1,336
Net book value				
At 31 October 1999	26,496	13	6,250	32,759
At 31 October 1998	21,554	13	6,250	27,817

13. Fixed Asset Investments – continued

(c) Subsidiary and associated undertakings

The subsidiary and associated undertakings which, in the opinion of the directors, affected the results of the Group are shown below. At 31 October 1999, Chemring Group PLC controlled 100% of the issued ordinary share capital of all its subsidiary undertakings and 49% of the issued ordinary share capital of the associated undertaking.

Subsidiary undertakings	*Country of incorporation*	*Activity*
Pains Wessex Ltd	England	Countermeasures and pyrotechnics
Haley and Weller Ltd	England	Pyrotechnics
Chemring Ltd	England	Chemical plating systems (discontinued)
McMurdo Ltd	England	Marine safety and electronics
Kembrey Wiring Systems Ltd	England	Wiring harnesses
Alloy Surfaces Company, Inc.	Delaware, USA	Countermeasures and chemical coatings
Pains Wessex Australia Pty Ltd	Australia	Countermeasures and pyrotechnics
Pains Wessex Safety Systems Inc.	Delaware, USA	Marine safety and electronics
Associated undertaking		
CIRRA S.A.	France	Countermeasures

14. Stock

	Group	
	As at 31 Oct 1999 £000	*As at 31 Oct 1998 £000*
Raw materials	**5,640**	4,849
Work in progress	**3,219**	3,636
Finished goods	**738**	2,435
	9,597	10,920

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

15. Debtors

	Group		*Parent*	
	As at 31 Oct 1999 £000	*As at 31 Oct 1998 £000*	***As at 31 Oct 1999 £000***	*As at 31 Oct 1998 £000*
Trade debtors	**14,617**	11,911	**3**	52
Amounts owed by subsidiary undertakings	**–**	–	**15,360**	18,036
Corporation tax recoverable	**18**	–	**438**	–
Group relief receivable	**–**	–	**376**	–
Other debtors	**2,398**	1,860	**877**	552
Assets for resale	**–**	250	**–**	–
Prepayments and accrued income	**895**	466	**96**	38
	17,928	14,487	**17,150**	18,678

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

16. Creditors Due Within One Year

	Group		Parent	
	As at 31 Oct 1999 £000	*As at 31 Oct 1998 £000*	**As at 31 Oct 1999 £000**	*As at 31 Oct 1998 £000*
Bank loans and overdrafts	**5,805**	7,369	**5,547**	7,543
Loan stock (unsecured)	**44**	44	**44**	44
Trade creditors	**8,610**	8,203	**191**	187
Amounts owed to subsidiary undertakings	**–**	–	**5,612**	414
Other creditors	**1,567**	1,460	**130**	–
Obligations under finance leases	**151**	417	**15**	8
Corporation tax	**765**	413	**119**	128
Other taxation and Social Security	**570**	449	**76**	66
Accruals and deferred income	**2,107**	2,490	**833**	536
Proposed dividends	**830**	711	**830**	711
	20,449	21,556	**13,397**	9,637

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

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

17. Creditors Due After More Than One Year

	Group		Parent	
	As at 31 Oct 1999 £000	*As at 31 Oct 1998 £000*	**As at 31 Oct 1999 £000**	*As at 31 Oct 1998 £000*
Medium term loan – UK	**12,000**	12,000	**12,000**	12,000
– overseas	**4,906**	4,405	**–**	–
Obligations under finance leases	**183**	499	**14**	12
Other creditors	**–**	60	**–**	–
	17,089	16,964	**12,014**	12,012

The interest rate applicable to the UK medium term loan is 9.35% and the average rate for the overseas medium term loan is 5.2% per annum. The overseas medium term loan is secured on the assets of the overseas businesses.

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

The maturity of the above obligations is as follows:-

	Group	
	As at 31 Oct 1999 £000	*As at 31 Oct 1998 £000*
Creditors falling due within:		
One to two years	**665**	636
Two to five years	**14,920**	14,565
After five years	**1,504**	1,763
	17,089	16,964

18. Derivatives and Other Financial Instruments

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

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

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

Interest risk:	The Group finances its operations through a mixture of retained profits, bank borrowings and leasing lines of credit. The UK borrowings are denominated in sterling and are subject to floating rates of interest linked to National Westminster Bank Plc base rate to provide flexibility. The UK medium term loan is subject to an interest rate swap which mitigates major interest rate fluctuations.
Foreign exchange risk:	Foreign exchange risk can be subdivided into two components, transactional risk and profit translation risk:-
	Transactional risk – The Group policy is for subsidiaries to maximise the use of hedging against transactional currency exposures against the currency in which their results are measured. The measurement and control of this risk is closely monitored on a Group-wide basis.
	Profit translation risk – The Group translates overseas profits and net assets in accordance with the accounting policy in Note 1. The translation risk on net assets is controlled by the transfer of currencies between Group companies. Any remaining translation differences are dealt with through the Group's statement of total recognised gains and losses.
Liquidity risk:	Details of the maturity profiles of the Group's funding can be found in Note 17.

The total undrawn committed borrowing facilities at the financial year end amounted to £2,511,000.

18. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS – CONTINUED

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

	Financial assets			*Financial liabilities*		
	Floating rate £000	Fixed rate £000	Total £000	Floating rate £000	Fixed rate £000	Total £000
Sterling	–	–	–	(6,511)	(12,326)	(18,837)
US Dollar	2,925	–	2,925	–	(4,417)	(4,417)
Australian Dollar	132	–	132	–	(541)	(541)
Other currencies	57	–	57	–	–	–
	3,114	–	3,114	(6,511)	(17,284)	(23,795)
Disclosed as:						
Offset in the UK	(706)			706		
Cash at bank and in hand	2,408		Overdraft	(5,805)		

A right of offset exists for currency amounts held within the UK by National Westminster Bank Plc. These are used to offset the interest charged on the floating rate financial liabilities which bear interest at 1.5% 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 1999 was 8% and the weighted average period of funding was four years.

The Group uses an interest rate swap which expires in 2001, but otherwise had no derivative financial instruments outstanding at 31 October 1999 and in all cases, in the opinion of the Board the fair value of the Group's financial assets and liabilities is equal to the book value.

19. Provisions for Liabilities and Charges

	Other provisions £000
(a) Movement in the year – Group	
At 1 November 1998	500
Utilised in the year	(60)
At 31 October 1999	440

The current 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	*Full provision*		*Dealt with in the financial statements*	
	As at 31 Oct 1999 £000	*As at 31 Oct 1998 £000*	***As at 31 Oct 1999 £000***	*As at 31 Oct 1998 £000*
Capital allowances in excess of depreciation	**204**	31	**–**	–
Other timing differences and losses carried forward	**(698)**	(754)	**–**	–
Surplus on revaluation of property	**784**	825	**–**	–
	290	102	**–**	–

Parent	*Full provision £000*
Capital allowances in excess of depreciation	(52)
Other timing differences and losses carried forward	(315)
	(367)

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

20. Called-up Share Capital

	As at 31 Oct 1999 £000	As at 31 Oct 1998 £000
Authorised		
62,500 4.9% cumulative preference shares of £1 each	**62**	62
27,000,000 (previous period: 27,000,000) ordinary shares of 5p each	**1,350**	1,350
	1,412	1,412
Issued, allotted and fully paid		
62,500 4.9% cumulative preference shares of £1 each	**62**	62
23,701,876 (previous period: 23,683,876) ordinary shares of 5p each	**1,185**	1,184
	1,247	1,246

The 4.9% cumulative preference shares confer no rights to vote, except on certain specified matters.

During the year, 18,000 5p ordinary shares were issued for a total consideration of £25,000.

Share options

(a) The Chemring Group Share Option Scheme

Share options have been granted as follows:

Date of grant	*Number of options granted*	*Nominal value* £	*Number of options lapsed*	*Number of options exercised*	*Aggregate exercise price for 4 shares* £	*Dates between which options may be exercised*
16 Mar 1989	334,800	16,740	56,248	278,552	6.68	16 Mar 1992 – 15 Mar 1999
25 Jan 1990	18,000	900	8,000	10,000	5.73	25 Jan 1993 – 24 Jan 2000
22 Aug 1991	387,600	19,380	68,400	290,800	5.46	22 Aug 1994 – 21 Aug 2001
20 Jul 1992	194,400	9,720	89,400	65,000	8.40	20 Jul 1995 – 19 Jul 2002

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

(b) The Chemring 1998 Executive Share Option Scheme

Share options have been granted as follows:

Date of grant	*Number of options granted*	*Nominal value* £	*Number of options lapsed*	*Number of options exercised*	*Exercise price per share* £	*Dates between which options may be exercised*
6 Apr 1998	844,552	42,228	10,000	10,000	1.395	6 Apr 2001 – 5 Apr 2008

20. Called-up Share Capital – continued

(c) The Chemring Group Sharesave Scheme

Share options have been granted as follows:

Date of grant	Number of options granted	Nominal value £	Number of options lapsed	Number of options exercised	Exercise price per share £	Dates between which options may be exercised
25 Mar 1994	140,300	7,015	136,748	3,552	2.76	1 May 1999 – 31 Oct 1999
6 Jul 1995	114,682	5,734	95,144	2,587	3.03	1 Aug 2000 – 31 Jan 2001
11 Jul 1996	24,541	1,227	24,432	–	3.56	1 Sept 1999 – 28 Feb 2000
11 Jul 1996	34,127	1,706	25,894	–	3.56	1 Sept 2001 – 28 Feb 2002

21. Reserves

(a) Group

	Share premium account £000	Special capital reserve £000	Revaluation reserve £000	Revenue reserves £000	Total £000
At 1 November 1998	10,789	12,939	2,626	(785)	25,569
Share premium arising in the year	24	–	–	–	24
Transfer between reserves	–	–	(36)	36	–
Retained profit for the year	–	–	–	2,127	2,127
Loss arising from foreign exchange fluctuations	–	–	–	(118)	(118)
At 31 October 1999	10,813	12,939	2,590	1,260	27,602

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

Included within revenue reserves is £867,000 of retained profits (previous period: £850,000) relating to the associated undertaking.

(b) Parent

	Share premium account £000	Special capital reserve £000	Revenue reserves £000	Total £000
At 1 November 1998	10,789	12,939	1,773	25,501
Share premium arising in the year	24	–	–	24
Profit after taxation	–	–	763	763
Dividends	–	–	(1,308)	(1,308)
At 31 October 1999	10,813	12,939	1,228	24,980

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

22. Obligations Under Non-cancellable Operating Leases

	Group	
	Land and buildings £000	Plant and equipment £000
Within one year	–	269
Two to five years	33	589
	33	858

Notice is hereby given that the ninety fourth Annual General Meeting of the shareholders will be held at 14.30 hours on Thursday 2 March 2000 at The Posthouse Fareham Hotel, Cartwright Drive, Titchfield, Fareham, Hampshire PO15 5RJ 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 resolutions numbered “7” and “8” below as special resolutions.

1. To receive and adopt the financial statements for the year ended 31 October 1999 together with the reports of the directors and auditors thereon.

2. To approve the payment of a final dividend of 3.50p per ordinary share for the year ended 31 October 1999 to be paid on 10 April 2000 to shareholders on the register at the close of business on 17 March 2000.

3. To re-appoint Mr P A Rayner, who retires under the provisions of Article 87.1 of the Company’s Articles of Association.

4. To re-elect General Sir John Stibbon, who retires by rotation under the provisions of Article 92.1 of the Company’s Articles of Association.

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 £164,906 as at the date hereof provided that this authority shall expire at the commencement of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may before the expiry of this authority make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

Special Resolutions

7. THAT subject to resolution 6 being passed and pursuant to and in accordance with the authority thereby granted, the Board be and it is hereby empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94 of the Act) pursuant to such authority as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal value of £59,254 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 2001 (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.

8. THAT the Articles of Association of the Company ("the Articles") shall be amended as follows:

(i) by replacing and inserting a new Article 5.1 to read as follows:

"5.1 The authorised share capital of the Company at 2 March 2000 is £1,412,500, divided into 62,500 7 per cent. Cumulative Preference Shares of £1 each ("Cumulative Preference Shares") and 27,000,000 Ordinary Shares of 5p each ("Ordinary Shares")";

(ii) by replacing and inserting a new Article 5.2(a) to read as follows:

"5.2 The respective rights attaching to the Cumulative Preference Shares shall be as follows:-

(a) As regards income. The Cumulative Preference Shares shall be entitled in priority to any payment of dividend on any other class of shares to a fixed cumulative preferential dividend at the rate of 7 per cent. per annum, such dividend to be paid, if and so far as in the opinion of the Directors the profits of the Company justify such payment, half-yearly on the thirtieth day of April and the thirty-first day of October in every year in respect of the half-years ending on the thirty-first day of March and the thirtieth day of September. Subject to the above and any special rights which may be attached to any class of shares hereafter issued, the profits of the Company available for dividend and resolved to be distributed shall be distributed among the holders of the Ordinary Shares rateably according to the amounts paid up on such shares."

By Order of the Board

S L ELLARD – Secretary

1645 Parkway
Whiteley
Fareham
Hampshire
PO15 7AH

11 January 2000

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. Both ordinary and preference shareholders are 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.

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