INTERIM REPORT

2006

CHEMRING GROUP PLC

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Contents

Statement by the Chairman

I am pleased to report that the Group has had an outstanding first half. On continuing operations, operating profit increased by 69% to £14.4 million (2005*: £8.5 million) and profit before tax increased by 64% to £11.8 million (2005*: £7.2 million).

Results for the half year to 30 April 2006

	2006 £m	2005* £m
Continuing operations:		
Revenue	**82.6**	48.0
Operating profit	**14.4**	8.5
Finance expense	**(2.6)**	(1.3)
Profit before tax	**11.8**	7.2
Basic earnings per share	**26.02p**	14.38p
Adjusted earnings per share**	**27.74p**	14.62p

Basic earnings per share increased by 81% to 26.02p (2005*: 14.38p). Adjusted earnings per share, which has been calculated to exclude the impact of non-cash settled share-based payments and amortisation on acquired intangibles, increased by 90% to 27.74p (2005*: 14.62p).

The Group generated positive operating cash flow from operations of £13.4 million, compared to an outflow of £2.0 million in the first half of 2005. The acquisitions in the period were partially funded by approximately £29.5 million of new debt, and hence net debt at the end of the first half increased to £75.4 million (2005*: £39.7 million).

Four acquisitions were completed during the period - Comet in Germany, Technical Ordnance in the US, and Leafield Engineering and Leafield Marine in the UK. They contributed £9.7 million of revenue and £1.2 million of operating profit to the Group in the first half. The integration of these businesses within our Energetics division, together with Nobel Energetics acquired in September 2005, is now well under way.

The conditional sale of the non-core McMurdo marine lights business for £2.85 million cash was announced on 30 May 2006. The sale should be completed on 30 June 2006.

The Board wishes to continue with its progressive dividend policy, whilst balancing the Group's debt/equity ratio and managing cash requirements to fund expansion, including small acquisitions. Accordingly, the directors have recommended an interim dividend of 4.80p per ordinary share (2005*: 3.20p), an increase of 50%. The interim dividend will be paid on 15 August 2006 to shareholders on the register at 28 July 2006.

Forward exchange currency contracts have been entered into to reduce the Group's exposure to depreciation of the US dollar against sterling.

As I reported in my last statement, the mediation with our former insurance broker, Willis, was unsuccessful. We therefore continue to prepare for full-scale litigation to recover the significant sums which we believe are due to us.

COUNTERMEASURES

The Group's Countermeasures division, which still commands more than 50% of the world market for expendable countermeasures, has continued its remarkable profit growth, with Kilgore quadrupling its profits, Alloy Surfaces up 51%, and Chemring Countermeasures up 32% over the first half of last year.

Demand for Alloy Surfaces' special material decoys is unabated, and sales volumes have increased by 72% compared with 2005. The extension to Alloy Surfaces' second facility was completed in early June 2006, and the completion of the new third facility is on target to enable production to commence in November 2006. Our production build-up has, to date, met all of the US Army production milestones.

For the first time since it was acquired by the Group in 2001, Kilgore generated a strong first half performance on the back of consistent volume manufacture. Production performance on its high volume decoys has improved significantly, and production rates of over 8,000 units a day are being achieved. A new large flare facility to supply additional flares to the US Air Force is being built, and production will commence in the second half of the year.

In the UK, Chemring Countermeasures had a solid performance, with a substantial increase in demand from the UK Ministry of Defence to support peacekeeping operations in Afghanistan. The company has also been successful in capturing several important NATO contracts for naval countermeasures.

The Department of Homeland Security (DHS) in the US, to which I have referred in previous reports, is now searching for alternative solutions to the laser systems initially selected as their preferred method of protecting commercial aircraft. Alloy Surfaces' special material decoys have been selected by several systems providers as an integral part of the alternative solutions which are now being presented to the DHS.

ENERGETICS

This division had a solid start to its first full year of operation, with each of the businesses in the division trading profitably. The majority of businesses met expectations, and any shortfalls which arose were purely attributable to timing issues, which are common with defence contracts, and will be recovered in the second half of the year.

PW Defence had an excellent start to 2006, with sales volumes up 41% compared with the first half of 2005, principally driven by the peacekeeping requirements of several countries, including the UK. Several large NATO contracts for battlefield simulation products were secured, and the start-up of low-cost manufacturing in Estonia was successfully completed.

Comet also had a very good start, with orders from the US Army for battlefield simulation products and from the French Army for its PEMBS

minefield clearance system. There is considerable interest in this system from other nations involved in peacekeeping operations for dealing with either deployed mines or Improvised Explosive Devices.

Two key development programmes completed major milestones in the last few months. Nobel Energetics completed the final development of the rocket motors for the NLAW anti-armour missile. Kilgore also completed the update of its marine location marker, with successful qualification trials from both F/A-18 and helicopter platforms, and full scale production will get underway in the second half of the year.

MARINE ELECTRONICS

In line with our stated strategy to divest the marine division, we announced the conditional sale of the McMurdo marine lights business for £2.85 million in May. I hope that, when I report to you next, I will be able to confirm that we have disposed of the residual marine electronics business at a satisfactory valuation.

BOARD OF DIRECTORS

In May, the Board was delighted to welcome the Rt Hon Lord Freeman as a non-executive director, completing, for the moment, the restructuring of the Board. Lord Freeman has a wealth of experience in Government, the defence industry, business and finance, and we consider ourselves fortunate to have secured his services. He will assume the Chairmanship of the Audit Committee in July.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

We have adopted International Financial Reporting Standards (IFRS) in the first half of 2006 and have consequently restated the prior period accounts. Full details of the restatements upon adoption of IFRS have been published in notes 8 and 9 with my statement today.

PENSIONS

In earlier reports, I have referred to the work being done by the Group to provide satisfactory, modern pension arrangements for its UK employees, and to eliminate any actual or theoretical gap which might exist between the asset and liability valuations of our defined benefit schemes. I repeat my previous assertions that any assessment of a deficit in the funding positions of these schemes, taking into consideration the additional contributions being made by the Group every year, would be minimal and not material in the context of the Group. The strength of the Group's covenant is recognised by virtue of the fact that we have been assessed at the lowest risk level by the Pension Protections Fund in collecting its levy this year.

The Board has however been considering all aspects of the current pensions debate, including possible corporate governance implications, where we have concerns at the apparent contradictions which now exist between the various parties' responsibilities for pension schemes. The Board has a responsibility to ensure that the defined benefit schemes are properly funded, and following the adoption of IFRS, to manage the liability representing the deficit on the Group's balance sheet. We are in discussions with all interested parties to develop a satisfactory solution to this issue.

PROSPECTS

Your directors are very conscious of the current political-military scenario, not only in Iraq and Afghanistan but also in other disturbed areas of the world, and its potential impact on the growth of the Group. To the extent that anyone can predict world events, the Board takes soundings in the appropriate quarters on its judgment for future strategy and the anticipated rate of expansion of the Group. In our predominant niche of countermeasures, the Board is confident that our expansion will continue for several years, both in conventional magnesium-based decoys and in Alloy Surfaces' special material decoys. The commissioning of the extension to Alloy Surfaces' second facility earlier this month, and the opening of the third facility in November 2006, will provide the additional capacity to meet the current strong order book.

In our Energetics activities, we are convinced that there are significant opportunities for expansion, consolidation and rationalisation, with the resultant improvements in efficiency and global marketing capabilities. The second half will benefit from a full six months' contribution from Comet, Technical Ordnance and Leafield.

In recent reports I have predicted buoyant prospects for the Group, which the executive management have successfully delivered. I anticipate that the full year results will demonstrate further the Group's potential, our growing presence in the defence industry worldwide, and our ability to generate value for our shareholders.

K C Scobie
Chairman
27 June 2006

**All comparisons are for the half year to 30 April 2005 restated for IFRS.*

*** See note 5 of interim statement.*

Unaudited Consolidated Income Statement

for the half year to 30 April 2006

	Note	***Unaudited Half year to 30 April 2006 £000***	*Unaudited Half year to 30 April 2005 As restated £000*	*Unaudited Year to 31 Oct 2005 As restated £000*
Continuing operations				
Revenue	2	**82,584**	47,977	120,963
Operating profit	2	**14,351**	8,522	22,050
Share of results of associate		**–**	–	197
Finance expense		**(2,587)**	(1,329)	(2,964)
Profit before taxation		**11,764**	7,193	19,283
Tax	4	**(3,830)**	(2,295)	(5,724)
Profit after taxation for the period/year from continuing operations	2	**7,934**	4,898	13,559
Discontinued operations				
Loss after taxation for the period/year from discontinued operations	2	**(129)**	(720)	(4,790)
Profit after taxation for the period/year		**7,805**	4,178	8,769
Attributable to:				
Equity shareholders		**7,803**	4,172	8,756
Minority interests		**2**	6	13
Basic earnings per ordinary share	5	**26.02p**	14.38p	29.88p
Diluted earnings per ordinary share	5	**25.81p**	14.33p	29.75p
Dividend per ordinary share		**4.80p**	3.20p	10.50p

Consolidated Statement of Recognised Income and Expense

for the half year to 30 April 2006

	Unaudited Half year to 30 April 2006 £000	*Unaudited Half year to 30 April 2005 As restated £000*	*Unaudited Year to 31 Oct 2005 As restated £000*
Foreign currency translation differences on net investments	**(2,529)**	(2,708)	67
Actuarial gain/(loss) on retirement benefit scheme assets	**4,420**	(1,887)	(4,074)
Hedging reserve	**619**	–	–
Tax on items taken directly to equity	**(1,512)**	572	1,348
	998	(4,023)	(2,659)
Profit after taxation for the period/year attributable to equity shareholders	**7,803**	4,172	8,756
Total recognised income and expense	**8,801**	149	6,097

Unaudited Consolidated Balance Sheet

as at 30 April 2006

	Note	**Unaudited As at 30 April 2006 £000**	*Unaudited As at 30 April 2005 As restated £000*	*Unaudited As at 31 Oct 2005 As restated £000*
Non-current assets				
Intangible assets		**8,366**	–	2,929
Development costs		**676**	2,575	541
Goodwill		**69,305**	27,984	34,680
Property, plant and equipment		**56,632**	42,236	50,698
Investment in associate		**1,065**	1,073	1,068
Deferred tax asset		**6,432**	6,674	7,440
		142,476	80,542	97,356
Current assets				
Inventories		**37,518**	31,123	27,821
Trade and other receivables		**35,013**	29,927	27,168
Derivative financial instruments		**470**	–	–
Cash and cash equivalents		**10,023**	327	7,774
Assets classified as held for sale		**15,154**	–	14,646
		98,178	61,377	77,409
Current liabilities				
Loans		**(6,396)**	(4,388)	(1,957)
Obligations under finance leases		**(874)**	(915)	(925)
Bank overdrafts		**(7,456)**	(12,477)	(10,744)
Trade and other payables		**(35,570)**	(25,155)	(25,248)
Corporation tax		**(1,363)**	(1,932)	(1,150)
Liabilities classified as held for sale		**(1,813)**	–	(1,776)
		(53,472)	(44,867)	(41,800)
Non-current liabilities				
Loans		**(70,271)**	(21,519)	(46,320)
Obligations under finance leases		**(458)**	(733)	(602)
Other payables		**(209)**	(81)	(163)
Deferred tax liabilities		**(9,846)**	(5,288)	(8,958)
Long-term provisions		**-**	(170)	(170)
Preference shares		**(62)**	(62)	(62)
Retirement benefit obligations		**(16,762)**	(18,051)	(20,189)
		(97,608)	(45,904)	(76,464)
Net assets		**89,574**	51,148	56,501
Equity				
Share capital		**1,611**	1,455	1,459
Share premium account		**53,524**	26,940	27,274
Special capital reserve		**12,939**	12,939	12,939
Hedging reserve		**433**	–	–
Revaluation reserve		**1,640**	1,669	1,640
Retained earnings		**19,148**	7,875	12,912
Equity attributable to equity holders of the parent		**89,295**	50,878	56,224
Minority interest		**279**	270	277
Total equity	6	**89,574**	51,148	56,501

Unaudited Consolidated Cash Flow Statement

for the half year to 30 April 2006

	Note	***Unaudited Half year to 30 April 2006 £000***	*Unaudited Half year to 30 April 2005 As restated £000*	*Unaudited Year to 31 Oct 2005 As restated £000*
Cash flows from operating activities				
Cash generated from/(used in) operations		**13,397**	(1,956)	21,134
Tax paid		**(3,626)**	(2,856)	(7,612)
Net cash from operating activities		**9,771**	(4,812)	13,522
Cash flows from investing activities				
Dividends received from associate		**107**	–	108
Purchases of property, plant and equipment		**(4,882)**	(3,353)	(6,898)
Purchases of intangible assets		**(922)**	(320)	(1,063)
Proceeds on disposal of investment in subsidiary		**–**	242	242
Sales of property, plant and equipment		**–**	–	8
Acquisition of subsidiaries (net of cash acquired)	7	**(51,650)**	(503)	(22,009)
Net cash outflow from investing activities		**(57,347)**	(3,934)	(29,612)
Cash flows from financing activities				
Dividends paid		**–**	–	(2,726)
Interest paid		**(2,372)**	(1,321)	(3,239)
Repayments of obligations under finance leases		**(354)**	(538)	(965)
Proceeds on issue of shares		**26,402**	236	572
New bank loans raised		**29,549**	5,878	26,931
Net cash inflow from financing activities		**53,225**	4,255	20,573
Increase/(decrease) in cash and cash equivalents during the period/year		**5,649**	(4,491)	4,483
Cash and cash equivalents at start of period/year		**(2,970)**	(7,530)	(7,530)
Effect of foreign exchange rate changes		**(112)**	(129)	77
Cash and cash equivalents at end of period/year		**2,567**	(12,150)	(2,970)

Reconciliation of operating profit to net cash flow generated from/(used in) operating activities

Operating profit from continuing operations	**14,351**	8,522	22,050
Operating loss from discontinued operations	**(177)**	(1,028)	(5,557)
Adjustment for:			
Depreciation of property, plant and equipment	**3,006**	1,939	4,103
Amortisation of intangible assets	**659**	625	4,678
Loss on disposal of property, plant and equipment	**50**	47	8
Decrease in provisions	**(170)**	(456)	(456)
Operating cash flows before movements in working capital	**17,719**	9,649	24,826
Increase in inventories	**(2,860)**	(6,033)	(5,696)
Increase in trade and other receivables	**(2,469)**	(3,627)	(1,073)
Increase/(decrease) in trade and other payables	**1,007**	(1,945)	3,077
Cash generated from/(used in) operations	**13,397**	(1,956)	21,134

	Unaudited Half year to 30 April 2006 £000	*Unaudited Half year to 30 April 2005 As restated £000*	*Unaudited Year to 31 Oct 2005 As restated £000*
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash	**5,649**	(4,491)	4,483
Cash inflow from the increase in debt and lease financing	**(29,195)**	(5,340)	(25,967)
Change in net debt resulting from cash flows	**(23,546)**	(9,831)	(21,484)
New finance leases	**(202)**	–	(103)
Translation difference	**1,117**	219	(1,109)
Amortisation of debt finance costs	**(27)**	(85)	(70)
Movement in net debt in the period/year	**(22,658)**	(9,697)	(22,766)
Net debt at start of period/year	**(52,774)**	(30,008)	(30,008)
Net debt at end of period/year	**(75,432)**	(39,705)	(52,774)

Analysis of net debt

	As at 1 Nov 2005 £000	*Cash flow £000*	*Non-cash changes £000*	*Exchange movement £000*	***As at 30 April 2006 £000***
Cash at bank and in hand	7,774	2,361	–	(112)	**10,023**
Overdrafts	(10,744)	3,288	–	–	**(7,456)**
	(2,970)	5,649	–	(112)	**2,567**
Debt due within one year	(1,957)	2,538	(6,977)	–	**(6,396)**
Debt due after one year	(46,320)	(32,087)	6,950	1,186	**(70,271)**
Finance leases	(1,527)	354	(202)	43	**(1,332)**
	(52,774)	(23,546)	(229)	1,117	**(75,432)**

Independent Review Report

To Chemring Group PLC

Introduction
We have been instructed by the Company to review the financial information for the six months ended 30 April 2006 which comprises the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and associated notes, and the related notes 1 to 10. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities
The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

International Financial Reporting Standards
As disclosed in note 1, the next annual financial statements of the Group will be prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the EU. Accordingly, the interim report has been prepared in accordance with the recognition and measurement criteria of IFRS and the disclosure requirements of the Listing Rules. The accounting policies are consistent with those that the directors intend to use in the annual financial statements.

Review work performed
We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion
On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 April 2006.

Emphasis of matter – insurance claim
In arriving at our review conclusion, we have considered the adequacy of the disclosure made in note 3 concerning the amounts recognised under a claim against the Group's former insurance brokers concerning the insurance for Kilgore Flares Company LLC and their subsequent handling of an insurance claim. The future settlement of the claim against the brokers could result in a shortfall, or a surplus, when compared with the recorded debtor at 30 April 2006. It is not possible to quantify the effect, if any, of this uncertainty. Details of the circumstances relating to this uncertainty and the amount of the related debtor recorded at 30 April 2006 are disclosed in note 3.

DELOITTE & TOUCHE LLP
Chartered Accountants
Southampton

27 June 2006

Notes to the Interim Statement

1. ACCOUNTING POLICIES

Basis of preparation

Prior to 2006 the Group prepared its annual financial statements in accordance with UK Generally Accepted Accounting Practices (UK GAAP). For the interim accounts to 30 April 2006 and continuing, the Group is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). Accordingly these financial statements have been prepared in accordance with IFRS adopted for use in the European Union. These will be those IAS, IFRS and related Interpretations (Standing Interpretations Committee (SIC)/International Financial Reporting Interpretations Committee (IFRIC) interpretations), subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the International Accounting Standards Board (IASB) that have been endorsed by the European Commission (collectively referred to as IFRS). These are subject to ongoing review and endorsement by the European Commission or possible amendment by interpretive guidance from the IASB and the IFRIC and are therefore still subject to change. The restated information in this report will be updated for any changes which arise before 31 October 2006.

Moreover, under IFRS, only a complete set of financial statements comprising a balance sheet, income statement, statement of changes in equity, cash flow statement, together with comparative financial information and explanatory notes can provide a fair presentation of the Group's financial position, results of operations and cash flow. Accordingly, the financial information in this report cannot be described as compliant with IFRS but has been prepared in accordance with the policies expected to be in place at 31 October 2006.

Comparative data for 2005 has been restated to conform to the new accounting policies and where appropriate these new policies reflect the exemptions from restating certain financial information as permitted under IFRS1 *First Time Adoption of International Financial Reporting Standards.* Note 8 "Explanation of Transition to IFRS" details the exemptions taken by the Group.

The unaudited consolidated income statement for each of the six month periods and the unaudited consolidated balance sheet as at 30 April 2006 do not amount to full accounts within the meaning of section 240 of the Companies Act 1985 and have not been delivered to the Registrar of Companies. The interim report was approved by the Board of Directors on 27 June 2006.

The unaudited comparative figures for the twelve months to 31 October 2005 have been prepared under IFRS. They do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The unqualified audited accounts for the twelve months ended 31 October 2005, under previous UK GAAP, have been filed with the Registrar of Companies and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

Basis of accounting

The interim statement has been prepared in accordance with IFRS for the first time. The disclosures required by IFRS1 concerning the transition from previously reported UK GAAP to IFRS are given in notes 8 and 9.

Accounting convention

The financial statements are prepared under the historical cost convention, except for the revaluation of certain properties and financial instruments.

Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiaries. A subsidiary is an entity over which the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired are consolidated from the date on which control passes to the Group and the results of disposed subsidiaries are consolidated up to the date on which control passes from the Group.

All companies within the Group make up their financial statements to the same date. All intra group transactions, balances, income and expenses are eliminated on consolidation.

Operating profit

Operating profit is stated before the share of results of the associate and before investment income and finance expense. Operating profit excludes the results of discontinued operations.

Notes to the Interim Statement

- continued

1. ACCOUNTING POLICIES - *continued*

Revenue recognition

Sales comprise the fair value of the consideration received or receivable for deliveries made, work completed or services rendered during the year, net of discounts, VAT and other sales related taxes. Sales are recognised when title passes, or when the right to consideration, in exchange for performance, has been completed. For bill and hold arrangements revenue is recognised when the risks and rewards are transferred to the customer, typically on formal acceptance. An appropriate proportion of total long term contract value, based on the fair value of work performed, is included in revenue and an appropriate level of profit is taken based on the percentage completion method when the final outcome can be reliably assessed. Provision is made in full for foreseeable losses as soon as they are identified.

Acquisitions

On acquisition of a subsidiary the cost is measured as the fair value of the consideration given plus any directly attributable costs. The assets, liabilities and contingent liabilities of a subsidiary that meet the IFRS3 *Business Combinations* recognition criteria are measured at the fair value at the date of acquisition. Where cost exceeds fair value of the net assets acquired the difference is recorded as goodwill.

Where the fair value of the net assets exceeds the cost, the difference is recorded directly in the income statement. The accounting policies of subsidiaries are changed where necessary to be consistent with those of the Group.

Intangible assets

The purchased goodwill of the Group is regarded as having an indefinite useful economic life and, in accordance with IAS36 *Impairment of Assets,* is not amortised but is subject to annual tests for impairment. In reviewing the carrying value of goodwill of the various businesses, the Board has considered the separate plans and cash flows of these businesses consistent with the requirements of IAS36, and is satisfied that these demonstrate that no impairment has occurred. Goodwill arising on acquisition before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Costs incurred in development where the related expenditure is separately identifiable, measurable and management are satisfied as to the ultimate technical and commercial viability of the project, and that it is probable that the asset will generate future economic benefits, are recognised as an intangible asset and amortised on a straight-line basis over typically three years from the date that commercial production commences. Development costs not meeting the criteria for capitalisation are expensed as incurred.

Patent and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

For acquisitions after 1 November 2004 the Group recognises separately from goodwill intangible assets that are separable or arise from contractual or other legal rights and whose fair value can be measured reliably. These intangible assets have finite lives and are amortised on a straight-line basis over those lives, typically seven years.

Property, plant and equipment

Other than revalued land and buildings, property, plant and equipment are held at cost less accumulated depreciation and any recognised impairment loss. No depreciation is provided on freehold land. On other assets depreciation is provided at rates calculated to write down their cost or valuation to their estimated residual values by equal instalments over their estimated useful economic lives, which are considered to be:

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

Impairment of non-current assets

Assets that have indefinite lives are tested for impairment annually. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever changes in circumstances indicate that the carrying value may not be recoverable. To the extent that the carrying value exceeds the recoverable amount an impairment loss is recorded for the difference as an expense in the income statement. The recoverable amount used for impairment testing is the higher of the value in use and its fair value less costs of disposal. For the purpose of impairment testing assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Non-current assets held for sale
Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. These items are so classified if their carrying amount will be recovered through a sale transaction rather than through continuing use.

Inventories
Inventories are recorded at the lower of cost and net realisable value. Cost represents materials, direct labour, other direct costs and related production overheads and is determined using the first-in first-out (FIFO) method. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

Provision is made for slow moving, obsolete and defective items where appropriate.

Taxation
Current tax, including UK corporation tax and foreign tax, is provided for at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. In principle deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply to the period in which the asset is realised or the liability settled. Deferred tax is charged or credited to the income statement except where it relates to items charged or credited direct to equity, in which case the deferred tax is also credited or charged to equity.

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 currencies
The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options which are accounted for as derivative financial instruments (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period.

Derivative financial instruments
The Group's activities expose it primarily to the financial risks of interest rate and foreign currency transactions, and it uses derivative financial instruments to hedge its exposure to these transactional risks. The Group uses interest rate swap contracts and foreign exchange forward contracts to reduce these exposures and does not use derivative financial instruments for speculative purposes.

Notes to the Interim Statement
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1. ACCOUNTING POLICIES - *continued*

As IAS32 and IAS39 are only applied from 1 November 2005, as permitted, the comparative information to 31 October 2005 for derivative financial instruments is presented under UK GAAP FRS13. Under UK GAAP, changes in the fair value of forward foreign exchange contracts were recognised through the income statement. However, the difference between fair value and book value of the Group's interest rate swaps was not recognised.

From 1 November 2005, under IFRS derivative financial instruments are recognised at fair value at the date the derivative contract is entered into and are revalued at fair value at each balance sheet date. The method by which any gain or loss is recognised depends on whether the instrument is designated a hedging instrument or not. To be designated as a hedging instrument the instrument must be documented as such at inception and must be assessed at inception and on an ongoing basis to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Hedge accounting principles are used for interest rate swaps and net investment hedges where movements in fair value are held in equity until such time as the underlying amounts of the contract mature. At maturity the amounts held in equity will be recycled to the income statement. Changes in fair value of any ineffective portion of net investment hedges and interest rate swaps are recognised in the income statement immediately.

Where derivatives do not meet the criteria for hedge accounting the changes in fair value are immediately recognised in the income statement. The Group does not apply hedge accounting to the foreign currency forward contracts to mitigate against currency fluctuations. Accordingly gains and losses arising from measuring the contracts at fair value are recognised immediately in the income statement.

Embedded derivatives that are not closely related to the host contract are treated as separate derivatives with unrealised gains and losses reported in the income statement.

Retirement benefit costs
Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and presented in the statement of recognised income and expense (SORIE).

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

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 property, plant and equipment 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 income statement 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 income statement on a straight-line basis over the life of the lease.

Share-based compensation
The Group operates equity settled and cash settled share-based compensation schemes.

For grants made under the Group's share-based compensation schemes the liability is remeasured at each balance sheet date with changes in the fair value recognised in the income statement on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The valuation of the options utilises a methodology based on the Black-Scholes model.

For equity settled share-based grants the total amount recognised is based on the fair value of the equity instrument measured at the date the award is made. At each balance sheet date the impact of any revision to vesting estimates is recognised in the income statement over the vesting period. Proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium.

For cash settled share-based grants the total amount recognised is based on the fair value of the liability incurred. The fair value of the liability is remeasured at each balance sheet date with changes in the fair value recognised in the income statement for the period.

2. SEGMENTAL ANALYSIS

A segmental analysis of revenue and profit is set out below:

	Unaudited Half year to 30 April 2006	*Unaudited Half year to 30 April 2005 As restated*	*Unaudited Year to 31 Oct 2005 As restated*
Continuing operations:	***£000***	*£000*	*£000*
Revenue			
Countermeasures	**55,588**	34,050	90,768
Energetics	**26,996**	13,927	30,195
Total	**82,584**	47,977	120,963
Operating profit			
Countermeasures	**15,610**	9,608	24,508
Energetics	**2,337**	163	2,031
Non-cash settled share-based payments	**(433)**	(101)	(477)
Amortisation of acquired intangibles	**(332)**	-	(71)
Unallocated head office costs	**(2,831)**	(1,148)	(3,941)
Total	**14,351**	8,522	22,050
Share of results of associate	**-**	-	197
Finance expense	**(2,587)**	(1,329)	(2,964)
Profit before tax	**11,764**	7,193	19,283
Tax	**(3,830)**	(2,295)	(5,724)
Profit after tax	**7,934**	4,898	13,559

	Unaudited Half year to 30 April 2006	*Unaudited Half year to 30 April 2005 As restated*	*Unaudited Year to 31 Oct 2005 As restated*
Discontinued operations:	***£000***	*£000*	*£000*
Revenue	**5,104**	6,344	11,495
Operating loss before impairment of goodwill	**(177)**	(1,028)	(2,557)
Impairment of goodwill	**-**	-	(3,000)
Loss before tax	**(177)**	(1,028)	(5,557)
Tax	**48**	308	767
Loss after tax	**(129)**	(720)	(4,790)

The Marine Lights and Electronics business became a discontinued business on 31 October 2005. The results for the year ended 31 October 2005 include an impairment charge of £3,000,000 to write down the value of the business to its recoverable amount. The net amount included on the balance sheet as assets held for sale at 30 April 2006 is £13,341,000 (31 October 2005: £12,870,000).

On 30 May 2006, the Group announced the conditional sale of its McMurdo marine lights business (which forms part of the above discontinued business) to Daniamant Limited for a cash consideration of £2,850,000. The sale should be completed on 30 June 2006.

Notes to the Interim Statement

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3. INSURANCE CLAIM

The Group is pursuing a claim against its former insurance brokers, concerning the insurance cover for Kilgore Flares Company LLC and the broker's subsequent handling of a claim, following a manufacturing incident at Kilgore Flares Company LLC on 18 April 2001.

At 31 October 2005 a balance of £2,796,000 was recognised within other debtors. This outstanding balance has been reduced by £84,000, to £2,712,000 at 30 April 2006, as a result of exchange rate movement against the US dollar. All further legal and professional costs incurred in the half year to 30 April 2006 have been recognised in the income statement.

4. TAXATION

The estimated tax rate for the Group for the year ending 31 October 2006 is 33% (2005: 32%).

5. EARNINGS PER SHARE

Earnings per share are based on the average number of shares in issue of 29,990,590 (2005: 29,013,854) and profit on ordinary activities after taxation and minority interests of £7,803,000 (2005: £4,172,000). Diluted earnings per share has been calculated using a diluted average number of shares in issue of 30,233,031 (2005: 29,119,379) and profit on ordinary activities after taxation and minority interests of £7,803,000 (2005: £4,172,000).

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

			2006			*2005*
		Ordinary shares			*Ordinary shares*	
	Earnings £000	***Number 000s***	***EPS Pence***	*Earnings £000*	*Number 000s*	*EPS Pence*
Basic	**7,803**	**29,991**	**26.02**	4,172	29,014	14.38
Additional shares issuable other than at fair value in respect of options outstanding	**-**	**242**	**(0.21)**	-	105	(0.05)
Diluted	**7,803**	**30,233**	**25.81**	4,172	29,119	14.33

Reconciliation from basic earnings per share to adjusted earnings per share:

Adjusted earnings has been defined as earnings before amortisation of intangible assets arising on acquisition and the impact of non-cash settled share-based payments. The directors consider this measure of earnings allows a more meaningful comparison of earnings trends.

			2006			*2005*
		Ordinary shares			*Ordinary shares*	
	Earnings £000	***Number 000s***	***EPS Pence***	*Earnings £000*	*Number 000s*	*EPS Pence*
Basic	**7,803**	**29,991**	**26.02**	4,172	29,014	14.38
Amortisation of acquired intangibles (after tax)	**224**	**-**	**0.75**	-	-	-
IFRS 2 – non-cash settled share-based payments (after tax)	**292**	**-**	**0.97**	69	-	0.24
Adjusted	**8,319**	**29,991**	**27.74**	4,241	29,014	14.62

6. RECONCILIATION OF CHANGES IN EQUITY

	Unaudited Half year to 30 April 2006	*Unaudited Half year to 30 April 2005 As restated*	*Unaudited Year to 31 Oct 2005 As restated*
	£000	*£000*	*£000*
Profit on ordinary activities after taxation for the period/year	**7,805**	4,178	8,769
Equity minority interest	**(2)**	(6)	(13)
Dividends	**(2,130)**	(1,797)	(2,730)
Retained profit for the period/year	**5,673**	2,375	6,026
Other recognised gains/(losses)	**998**	(4,023)	(2,659)
Ordinary shares issued	**152**	6	10
Share premium arising	**26,250**	230	564
Net addition to/(reduction from) shareholders' funds	**33,073**	(1,412)	3,941
Opening shareholders' funds	**56,501**	52,560	52,560
Closing shareholders' funds	**89,574**	51,148	56,501

7. ACQUISITIONS

On 30 November 2005 the Group acquired the entire share capital of Comet GmbH for a cash consideration of £6,600,000, subject to a working capital adjustment.

On 1 February 2006 the Group acquired the entire share capital of Leafield Engineering Limited and Leafield Marine Limited for a combined cash consideration of £4,370,000, subject to a working capital adjustment and the assumption of £570,000 of bank overdrafts.

On 13 March 2006 the Group completed the acquisition of the entire capital stock of Technical Ordnance Inc. for a cash consideration of $70,000,000 (approximately £40,500,000), subject to a working capital adjustment.

A summary of the assets acquired and consideration paid in respect of these four acquisitions is set out below:

	£000
Intangible assets	6,071
Property, plant and equipment	4,892
Working capital	7,049
Cash	1,363
Deferred tax	(710)
	18,665
Goodwill	36,283
	54,948
Consideration:	
Cash	53,013
Cash payable in future periods	1,935
	54,948

Cash payable in future periods relates to working capital adjustments and is payable within twelve months.

Notes to the Interim Statement

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7. ACQUISITIONS *- continued*

At 30 April 2006 the estimated fair values of assets and liabilities are provisional and will be updated as necessary within the twelve month period following the acquisitions.

Summary of cash flows:

	£000
Cash paid	(53,013)
Cash acquired	1,363
Net cash outflow	(51,650)

The above acquisitions were funded by additional medium term loans and by the issue of 2,900,000 new ordinary shares.

8. EXPLANATION OF TRANSITION TO IFRS

IFRS1 – First Time Adoption of International Financial Reporting Standards
The Group has applied IFRS1 *First Time Adoption of International Financial Reporting Standards* as a starting point for reporting under IFRS. The Group's date of transition to IFRS is 1 November 2004 and comparative information has been restated to reflect the Group's adoption of IFRS except where otherwise required or permitted by IFRS1.

IFRS1 requires an entity to comply with each IFRS and IAS effective at the reporting date for its first financial statements prepared under IFRS. As a general rule IFRS1 requires such standards to be applied retrospectively to determine the IFRS opening balance sheet at the date of transition, 1 November 2004. IFRS1 provides a number of optional exemptions to this general principle. The most significant of these are set out below, together with a description, in each case, of the exemption adopted by the Group.

IFRS3 – Business Combinations
As permitted the Group has elected not to restate business combinations occurring before the date of transition on 1 November 2004.

IFRS2 – Share-Based Payments
The Group has elected to take advantage of the exemptions allowed in IFRS1 regarding IFRS2 *Share-Based Payments* for share-based payments granted on or before 7 November 2002. This means that only equity instruments granted after 7 November 2002 that vest after the effective date of IFRS2 on 1 January 2005 have been valued.

IAS19 – Employee Benefits
Under IAS19 accounting for defined benefit plans retrospectively is expected to be particularly onerous or impractical. The Group has therefore elected to utilise the optional exemption under IFRS1 allowing non-retrospective application of the actuarial gains and losses approach to valuation of the defined benefit plans. The initial recognition of the defined benefit schemes' deficits is recorded on the face of the Group balance sheet as at 1 November 2004 (date of transition).

IAS21 – The Effects of Changes in Foreign Exchange Rates
The Group has elected to take advantage of the exemption in IFRS1 regarding translation differences. Accordingly the Group has not separately disclosed the amount of cumulative translation differences for its overseas operations included within retained earnings at 1 November 2004.

IAS16 – Property, Plant and Equipment
A first time adopter may elect to measure individual items of property, plant and equipment at fair value or a revalued amount as deemed cost at the date of transition to IFRS. No adjustments have been made in this respect for the purposes of transition. Property, plant and equipment have continued to be reported on the basis of depreciated historical cost, as under UK GAAP.

IAS32 – Financial Instruments: Disclosure and Presentation and IAS39 – Financial Instruments: Recognition and Measurement
As permitted by IFRS1, the Group adopted IAS32 *Financial Instruments: Disclosure and Presentation* and IAS39 *Financial Instruments: Recognition and Measurement,* prospectively from 1 November 2005. Therefore until 31 October 2005, the Group continued to account for financial instruments in accordance with UK GAAP, and hence the comparative financial statements exclude the impact of these standards.

9. DETAIL ON IFRS CHANGES IMPACTING PUBLISHED RESULTS

Significant changes to previously reported UK GAAP figures have been made in the following areas to comply with IFRS:

A) IFRS3 - Business Combinations
Under IFRS3 there is a specific requirement to recognise separately indentifiable intangible assets that meet the IFRS3 criteria including acquired order back log, customer relationships and technology assets at fair value on acquisition and to amortise these over an appropriate period. This reduces the amount of residual goodwill recognised.

As stated above, under IFRS1 business combinations prior to the date of transition are not required to be restated. The adjustment is therefore limited to the five acquisitions completed since 1 November 2004. Specific intangible assets with a fair value of £8,769,000 were identified out of a total UK GAAP goodwill addition of £56,371,000. As at 31 October 2005 specific intangibles, net of amortisation, of £2,929,000 were identified from acquisitions at that date. A further £5,437,000, net of amortisation, was added in the six months to 30 April 2006.

Total amortisation of £403,000 has been charged since the date of transition, of which £71,000 was in the period to 31 October 2005 and £332,000 in the period to 30 April 2006.

B) IFRS2 - Share-Based Payments
Under IFRS2 charges are required for all share-based remuneration schemes. These charges reflect the fair value of the shares at the date of the grant. The operating profit charge for the year to 31 October 2005 for all relevant schemes under this standard was £477,000, with an additional operating profit charge for the six months to 30 April 2006 of £433,000. The opening IFRS balance sheet net assets are reduced by £76,000. Net assets at 31 October 2005 are reduced by £328,000 and by a further £357,000 to 30 April 2006.

C) IAS19 - Employee Benefits and Retirement Benefit Schemes
Under IAS19 there is a requirement to recognise the monetary value of employee benefits accruing to employees but not yet settled; typically holiday pay. There is a requirement to present the value of the liability for employee benefits to be paid in the future for services provided up to the reporting date. A review of employee benefits across the Group identified an opening balance sheet adjustment of £518,000. A charge of £256,000 arose in the period ended 30 April 2006 (April 2005: £222,000).

Under UK GAAP the Group accounted for defined benefit pension schemes in accordance with SSAP24, with disclosure as required under FRS17. Under IAS19 there is a requirement to value defined benefit scheme assets at bid price rather than mid market price, and to disclose the retirement benefit asset/obligation on the face of the balance sheet, with movement in the valuation of actuarial gains and losses through the statement of recognised income and expenditure (SORIE). At the date of transition, 1 November 2004, the initial increase in non-current liabilities is £16,115,000, with a corresponding deferred tax asset of £4,835,000 reported in non-current assets. In addition, the previous SSAP24 prepayment of £252,000 has been reversed. The impact at 30 April 2006 is to show an increase in non-current liabilities, due to retirement benefit obligations of £16,762,000 (April 2005: £18,051,000). The charge to the income statement under IAS19 for retirement benefits includes three components, a service cost, the expected return on pension scheme assets and the unwinding cost of interest on the pension scheme liabilities.

D) IAS10 - Events after the Balance Sheet Date
There is a requirement under IFRS to only recognise the liability for dividends that have been proposed and approved at the balance sheet date.

E) IAS21 - The Effects of Changes in Foreign Exchange Rates
Under IAS21 all foreign currency transactions and balances must be converted to the reporting entity currency at the rate applicable on the last day of the reporting period, i.e. at the spot rate. UK GAAP permitted the use of an applicable forward currency contract rate instead of the spot rate.

F) IAS12 - Income Tax
Under UK GAAP deferred tax liabilities were discounted; under IFRS discounting is not permitted. The impact as at 1 November 2004 was to increase deferred tax liabilities by £824,000. The tax in the income statement for the year ended 31 October 2005 is £61,000 higher than it would have been under UK GAAP.

Under UK GAAP deferred tax liabilities on revaluation reserves were not provided for unless the Group entered into a binding contract to sell the revalued assets. Under IAS12 deferred tax must be provided for. The impact is to increase deferred tax liabilities as at 1 November 2004 by £1,081,000. The Group has available capital losses to offset against any potential gain arising on these assets. The impact as at 1 November 2004 is to recognise a deferred tax asset of £1,081,000. Netting-off of assets and liabilities is not permitted under IAS12.

The reconciliation of equity at 1 November 2004 (date of transition to IFRS) and at 31 October 2005 (date of last UK GAAP financial statements) and the reconciliation of profit for the year ended 31 October 2005, as required by IFRS1, are given overleaf.

Notes to the Interim Statement

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9. DETAIL ON IFRS CHANGES IMPACTING PUBLISHED RESULTS *- continued*

The reconciliation of equity at 30 April 2005 and the reconciliation of profit for the six months ended 30 April 2005 have also been included below to enable a comparison of the 2006 interim figures with the corresponding period of the previous financial year.

References to UK GAAP for the periods ended 30 April 2005 and 31 October 2005 are to the Group's policies as applied in its financial statements for the year ended 31 October 2005.

Reconciliation of equity at 1 November 2004 (date of transition to IFRS)

	Note	UK GAAP £000	Unaudited Effect of transition to IFRS £000	IFRS £000
Non-current assets				
Development costs		2,841	-	2,841
Goodwill		27,984	-	27,984
Tangible assets		41,810	-	41,810
Investment in associate		1,073	-	1,073
Deferred tax asset	B,C,F	-	6,004	6,004
Total non-current assets		73,708	6,004	79,712
Current assets				
Inventories		25,090	-	25,090
Trade and other receivables	C	27,036	(252)	26,784
Cash and cash equivalents		9,933	-	9,933
Total current assets		62,059	(252)	61,807
Current liabilities				
Loans		(3,070)	-	(3,070)
Obligations under finance leases		(1,234)	-	(1,234)
Bank overdrafts		(17,463)	-	(17,463)
Trade and other payables	B,C,D,E	(25,208)	1,269	(23,939)
Corporation tax		(2,940)	-	(2,940)
		(49,915)	1,269	(48,646)
Non-current liabilities				
Loans		(17,055)	-	(17,055)
Obligations under finance leases		(1,119)	-	(1,119)
Other payables	B	-	(68)	(68)
Deferred tax liabilities	C,E,F	(3,431)	(1,837)	(5,268)
Long-term provisions		(626)	-	(626)
Preference shares		(62)	-	(62)
Retirement benefit obligations	C	-	(16,115)	(16,115)
		(22,293)	(18,020)	(40,313)
Net assets		63,559	(10,999)	52,560
Equity				
Share capital		1,449	-	1,449
Share premium account		26,710	-	26,710
Special capital reserve		12,939	-	12,939
Revaluation reserve	F	2,410	(723)	1,687
Retained earnings		19,787	(10,276)	9,511
Equity attributable to equity holders of the parent		63,295	(10,999)	52,296
Equity attributable to minority interests		264	-	264
Total equity		63,559	(10,999)	52,560

Reconciliation of equity at 31 October 2005 (date of last UK GAAP Financial Statements)

	Note	UK GAAP £000	Unaudited Effect of transition to IFRS £000	IFRS £000
Non-current assets				
Intangible assets	A	–	2,929	2,929
Development costs		541	–	541
Goodwill	A	35,058	(378)	34,680
Tangible assets		50,698	–	50,698
Investment in associate		1,068	–	1,068
Deferred tax assets	B,C,F	–	7,440	7,440
Total non-current assets		87,365	9,991	97,356
Current assets				
Inventories		27,821	–	27,821
Trade and other receivables	C,E	27,450	(282)	27,168
Cash and cash equivalents		7,774	–	7,774
Assets classified as held for sale		14,646	–	14,646
Total current assets		77,691	(282)	77,409
Current liabilities				
Loans		(1,957)	–	(1,957)
Obligations under finance leases		(925)	–	(925)
Bank overdrafts		(10,744)	–	(10,744)
Trade and other payables	B,C,D,E	(26,474)	1,226	(25,248)
Corporation tax		(1,150)	–	(1,150)
Liabilities classified as held for sale		(1,776)	–	(1,776)
		(43,026)	1,226	(41,800)
Non-current liabilities				
Loans		(46,320)	–	(46,320)
Obligations under finance leases		(602)	–	(602)
Other payables	B	–	(163)	(163)
Deferred tax liabilities	A,C,E,F	(4,457)	(4,501)	(8,958)
Long-term provisions		(170)	–	(170)
Preference shares		(62)	–	(62)
Retirement benefit obligations	C	–	(20,189)	(20,189)
		(51,611)	(24,853)	(76,464)
Net assets		70,419	(13,918)	56,501
Equity				
Share capital		1,459	–	1,459
Share premium account		27,274	–	27,274
Special capital reserve		12,939	–	12,939
Revaluation reserve		2,374	(734)	1,640
Retained earnings	F	26,096	(13,184)	12,912
Equity attributable to equity holders of the parent		70,142	(13,918)	56,224
Equity attributable to minority interests		277	–	277
Total equity		70,419	(13,918)	56,501

Notes to the Interim Statement

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9. DETAIL ON IFRS CHANGES IMPACTING PUBLISHED RESULTS *- continued*

Reconciliation of profit for the year ended 31 October 2005

Continuing operations:	*UK GAAP* *£000*	*Unaudited Effect of transition to IFRS* *£000*	*IFRS* *£000*
Revenue	120,963	-	120,963
Operating profit	22,623	(573)	22,050
Share of results of associate	197	-	197
Finance expense	(2,964)	-	(2,964)
Profit before taxation	19,856	(573)	19,283
Tax	(5,778)	54	(5,724)
Profit for the year from continuing operations	14,078	(519)	13,559
Discontinued operations:			
Loss for the year from discontinued operations	(4,790)	-	(4,790)
Profit for the year	9,288	(519)	8,769

Analysis of movement due to IFRS

	Note	*Operating profit* *£000*	*Profit before tax* *£000*	*Profit/(loss) for the period* *£000*
UK GAAP		22,623	19,856	14,078
Amortisation of acquired intangible assets	**A**	(71)	(71)	(71)
Share-based payments	**B**	(477)	(477)	(382)
Retirement benefit scheme fair value adjustment	**C**	17	17	12
Translation of foreign currency transactions	**E**	(48)	(48)	(34)
Accrued employee benefit adjustment	**C**	6	6	6
Income tax adjustment	**F**	-	-	(50)
		(573)	(573)	(519)
IFRS		22,050	19,283	13,559

Reconciliation of equity at 30 April 2005 (six month comparative figures)

	Note	UK GAAP £000	Unaudited Effect of transition to IFRS £000	IFRS £000
Non-current assets				
Development costs		2,575	–	2,575
Goodwill		27,984	–	27,984
Tangible assets		42,236	–	42,236
Investment in associate		1,073	–	1,073
Deferred tax assets	B,C,F	–	6,674	6,674
Total non-current assets		73,868	6,674	80,542
Current assets				
Inventories		31,123	–	31,123
Trade and other receivables	C,E	30,114	(187)	29,927
Cash and cash equivalents		327	–	327
Total current assets		61,564	(187)	61,377
Current liabilities				
Loans		(4,388)	–	(4,388)
Obligations under finance leases		(915)	–	(915)
Bank overdrafts		(12,477)	–	(12,477)
Trade and other payables	B,C,D,E	(25,250)	95	(25,155)
Corporation tax		(1,932)	–	(1,932)
		(44,962)	95	(44,867)
Non-current liabilities				
Loans		(21,519)	–	(21,519)
Obligations under finance leases		(733)	–	(733)
Other payables	B	–	(81)	(81)
Deferred tax liabilities	C,E,F	(3,431)	(1,857)	(5,288)
Long-term provisions		(170)	–	(170)
Preference shares		(62)	–	(62)
Retirement benefit obligations	C	–	(18,051)	(18,051)
		(25,915)	(19,989)	(45,904)
Net assets		64,555	(13,407)	51,148
Equity				
Share capital		1,455	–	1,455
Share premium account		26,940	–	26,940
Special capital reserve		12,939	–	12,939
Revaluation reserve	F	2,392	(723)	1,669
Retained earnings		20,559	(12,684)	7,875
Equity attributable to equity holders of the parent		64,285	(13,407)	50,878
Equity attributable to minority interests		270	–	270
Total equity		64,555	(13,407)	51,148

Notes to the Interim Statement

- continued

9. DETAIL ON IFRS CHANGES IMPACTING PUBLISHED RESULTS *- continued*

Reconciliation of profit for period ended 30 April 2005 (six month comparative figures)

Continuing operations:	*UK GAAP £000*	*Unaudited Effect of transition to IFRS £000*	*IFRS £000*
Revenue	47,977	-	47,977
Operating profit	8,829	(307)	8,522
Finance expense	(1,329)	-	(1,329)
Profit before taxation	7,500	(307)	7,193
Tax	(2,379)	84	(2,295)
Profit for the period from continuing operations	5,121	(223)	4,898
Discontinued operations:			
Loss for the period from discontinued operations	(720)	-	(720)
Profit for the period	4,401	(223)	4,178

Analysis of movement due to IFRS

	Note	*Operating profit £000*	*Profit before tax £000*	*Unaudited Profit/(loss) for the period £000*
UK GAAP		8,829	7,500	4,401
Share-based payments	**B**	(101)	(101)	(79)
Retirement benefit scheme fair value adjustment	**C**	(40)	(40)	(28)
Translation of foreign currency transactions	**E**	56	56	39
Accrued employee benefit adjustment	**C**	(222)	(222)	(155)
		(307)	(307)	(223)
IFRS		8,522	7,193	4,178

10. CORPORATE WEBSITE

Further information on the Group and its activities can be found on the corporate website at www.chemring.co.uk.

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