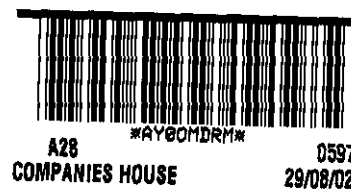


Company Registration No. 2731691

CHG OVERSEAS LIMITED

Financial Statements 2001



FINANCIAL STATEMENTS 2001

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	3
Independent auditors' report	4
Profit and loss account	5
Balance sheet	6
Notes to the financial statements	7

FINANCIAL STATEMENTS 2001

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D R Evans
P A Rayner

SECRETARY

S L Ellard

REGISTERED OFFICE

1650 Parkway
Whiteley
Fareham
Hampshire
PO15 7AH

BANKERS

Bank of Scotland

SOLICITORS

Bond Pearce

AUDITORS

Deloitte & Touche
Chartered Accountants

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 October 2001.

PRINCIPAL ACTIVITIES

The company's principal activity is to act as the holding company for overseas subsidiaries. CHG Overseas Limited is a wholly owned subsidiary undertaking of Chemring Group PLC.

REVIEW OF THE YEAR AND FUTURE PROSPECTS

The company has and will continue to act as an overseas holding company for the foreseeable future.

RESULTS AND DIVIDENDS

The results for the year are given on page 5. The directors do not recommend the payment of a dividend (2000 - £Nil).

DIRECTORS AND THEIR INTERESTS

The present membership of the Board is set out on page 1. Both directors served throughout the year.

Mr D R Evans and Mr P A Rayner are both directors of Chemring Group PLC. Their interests in the shares and share options of the parent company and their remuneration are dealt with in that company's accounts.

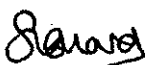
The directors have no interests in the shares of any other companies within the Chemring Group.

AUDITORS

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

Approved by the Board of Directors on 21 Aug 2002

Signed on behalf of the Board



S L Ellard
Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

Signed on behalf of the Board



S L Ellard

Secretary

21 Aug 2002

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS
OF CHG OVERSEAS LIMITED**

We have audited the financial statements of CHG Overseas Limited for the year ended 31 October 2001 which comprise the profit and loss account, the balance sheet and the related notes 1 to 15. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

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

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

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of opinion

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

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

Opinion

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

Deloitte Touche

27 August 2002

Deloitte & Touche

**Chartered Accountants and
Registered Auditors
Southampton**

CHG OVERSEAS LIMITED**PROFIT AND LOSS ACCOUNT**
For the year ended 31 October 2001

	Note	Continuing Operations 2001 £'000	Continuing Operations 2000 £'000
Income from shares in group undertakings		179	-
Interest receivable	4	1,384	279
Interest payable and similar charges	5	(1,330)	(340)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	3	233	(61)
Tax on profit/(loss) on ordinary activities	6	-	174
PROFIT FOR THE FINANCIAL YEAR	13	233	113

No statement of total recognised gains and losses has been included as there are no recognised gains and losses other than the profit for the current and preceding financial years.

CHG OVERSEAS LIMITED

BALANCE SHEET
As at 31 October 2001

	Note	£'000	2001 £'000	£'000	2000 £'000
FIXED ASSETS					
Investments	7		4,411		4,411
CURRENT ASSETS					
Debtors	8	18,773		474	
Cash at bank		283		57	
		19,056		531	
CREDITORS -					
Amounts falling due within one year	9	(318)		(3)	
NET CURRENT ASSETS			18,738		528
TOTAL ASSETS LESS CURRENT LIABILITIES			23,149		4,939
CREDITORS -					
Amounts falling due after more than one year	10		(22,689)		(4,712)
			460		227
CAPITAL AND RESERVES					
Called up share capital	11		1		1
Profit and loss account	13		459		226
TOTAL EQUITY SHAREHOLDERS' FUNDS	12		460		227

These financial statements were approved by the Board of Directors on 21 Aug 2002.

Signed on behalf of the Board

P A Rayner
Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2001

1. ACCOUNTING POLICIES

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

Accounting convention

The financial statements are prepared under the historical cost convention.

Investments

Investments are stated at cost less provisions for permanent impairment.

Deferred Taxation

Deferred taxation is provided on timing differences arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future, calculated at rates at which it is estimated that tax will arise.

Foreign currency

Transactions of the company 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. The translation differences are dealt with in the profit and loss account.

Going concern

The financial statements have been prepared on a going concern basis. The directors believe that it is appropriate to use the going concern basis as a result of the support provided by the parent company.

2. DIRECTORS' EMOLUMENTS AND INTERESTS

No directors received any emoluments from the company during the year (2000-£nil). With the exception of the directors and the company secretary, there were no other persons employed by the company during the year (2000-£nil).

Mr D R Evans and Mr P A Rayner are both directors of the parent company and their emoluments are dealt with in that company's financial statements.

3. PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

The auditors' remuneration is borne by Chemring Group PLC, the ultimate parent company.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 October 2001

4. INTEREST RECEIVABLE

	2001 £'000	2000 £'000
Intercompany interest received	1,212	243
Other interest receivable and similar income	172	36
	<u>1,384</u>	<u>279</u>

5. INTEREST PAYABLE

	2001 £'000	2000 £'000
Interest payable on amounts owed to group undertakings	1,330	340
	<u>1,330</u>	<u>340</u>

6. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	2001 £'000	2000 £'000
Tax is based on the profit/(loss) for the year and comprises:		
UK corporation tax	70	-
Double tax relief	(70)	-
Group relief	-	(107)
Underprovision for earlier years	-	(67)
	<u>-</u>	<u>(174)</u>

The tax charge for the year is disproportionately low due to the utilisation of losses brought forward not previously recognised in the accounts.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 October 2001

7. INVESTMENTS

	Investments in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
Cost			
At 1 November 2000 and 31 October 2001	2,237	2,744	4,981
Provisions			
At 1 November 2000 and 31 October 2001	220	350	570
Net Book Value			
At 31 October 2000 and 31 October 2001	2,017	2,394	4,411

Principal Subsidiary Undertakings	Country of Incorporation	Principal Activity	Percentage of nominal value of issued ordinary shares
Alloy Surfaces Company, Inc.	United States of America	Manufacture of Countermeasures	100%
CHG Flares Inc.	United States of America	Holding company	100%
CHG Group Inc.	United States of America	Holding company	100%
Kilgore Flares Company LLC	United States of America	Manufacture of Countermeasures	100%
McMurdo Pains Wessex, Inc.	United States of America	Distribution of Marine Products	100%
Pains Wessex Australia Pty Ltd	Australia	Manufacture of Pyrotechnics	100%

In the opinion of the directors, the value of the company's interests in its subsidiary undertakings is not less than the amount at which they are stated in the balance sheet.

Group accounts are not prepared since the company is a wholly owned subsidiary of another company incorporated in England. Consequently these accounts present information about the company as an entity rather than its Group.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 October 2001

8. DEBTORS

	2001 £'000	2000 £'000
Amounts owed by Group undertakings	18,668	367
Group relief receivable	105	107
	<u>18,773</u>	<u>474</u>

All amounts are due within one year.

9. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £'000	2000 £'000
Amount owed to Group undertakings	-	3
Amount owed to parent company	318	-
	<u>318</u>	<u>3</u>

The company has given a guarantee and debenture to Bank of Scotland to secure the Group borrowing facility.

10. CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2001 £'000	2000 £'000
Convertible capital bonds	16,706	-
Amount owed to Group undertakings	5,983	4,712
	<u>22,689</u>	<u>4,712</u>

Amounts owed to group undertakings are unsecured and repayable after more than one year.

Convertible capital bonds with a par value of £18,450,000 have been issued to the company's ultimate parent undertaking. These bonds are convertible at the option of the holder, in whole or in part, into 18,450,000 ordinary shares of £1 each at any time until 6 February 2031. If the conversion option is not exercised the bonds will be redeemed on 6 February 2031 at par value.

CHG OVERSEAS LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
For the year ended 31 October 2001**11. CALLED UP SHARE CAPITAL**

	2001	2000
	£'000	£'000
Authorised, allotted and fully paid 1,000 ordinary shares of £1 each	1	1

12. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001	2000
	£'000	£'000
Profit for the financial year	233	113
Increase in shareholders' funds	233	113
Opening shareholders' funds	227	114
Closing shareholders' funds	460	227

13. PROFIT AND LOSS ACCOUNT

	£'000
Balance at 1 November 2000	226
Profit for the year	233
Balance at 31 October 2001	459

14. ULTIMATE PARENT COMPANY

In the opinion of the directors, the company's ultimate parent company is Chemring Group PLC, a company registered in England. Copies of the group financial statements of Chemring Group PLC are available from Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ.

15. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption conferred within FRS 8, not to disclose transactions with other group companies, as it is a wholly owned subsidiary of Chemring Group PLC, whose financial statements are publicly available.