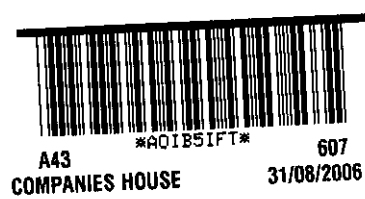


Company Registration No. 2731691

**CHG OVERSEAS LIMITED**

**Financial Statements 2005**



**FINANCIAL STATEMENTS 2005**

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**FINANCIAL STATEMENTS 2005**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

D J Price  
P A Rayner

**SECRETARY**

S L Ellard

**REGISTERED OFFICE**

1650 Parkway  
Whiteley  
Fareham  
Hampshire  
PO15 7AH

**BANKERS**

Bank of Scotland  
Southampton

**AUDITORS**

Deloitte & Touche LLP  
Chartered Accountants  
Southampton

## CHG OVERSEAS LIMITED

### DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 October 2005.

### PRINCIPAL ACTIVITY

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 propose a final dividend of £750 per ordinary share (2004: £nil).

### DIRECTORS AND THEIR INTERESTS

The present membership of the Board is set out on page 1. Dr D J Price was appointed as a director on 4 April 2005 and Mr D R Evans resigned as a director on 4 April 2005. Mr P A Rayner served as a director throughout the year.

Dr D J Price 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 LLP as auditors will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors on 29th August 2006.

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, maintain the system of internal controls, 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.

**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 2005 which comprise the profit and loss account, the balance sheet and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

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

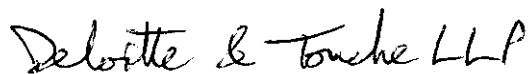
**Basis of audit opinion**

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Deloitte & Touche LLP**

**Chartered Accountants and Registered Auditors  
Southampton**

29 August 2006

**CHG OVERSEAS LIMITED**

**PROFIT AND LOSS ACCOUNT**  
**For the year ended 31 October 2005**

	Note	Continuing operations 2005 £'000	Continuing operations 2004 £'000
Foreign exchange gains/(losses)		780	(2,499)
Income from shares in Group undertakings		2,324	713
Interest receivable and similar income	4	1,422	1,426
Interest payable and similar charges	5	(1,491)	(1,491)
<b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	3	3,035	(1,851)
Tax on profit/(loss) on ordinary activities	6	(129)	769
<b>PROFIT/(LOSS) FOR THE FINANCIAL YEAR</b>		2,906	(1,082)
Dividend	7	(750)	-
<b>RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR</b>	14	2,156	(1,082)

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

CHG OVERSEAS LIMITED

**BALANCE SHEET**  
As at 31 October 2005

	Note	£'000	2005 £'000	2004 £'000
<b>FIXED ASSETS</b>				
Investments	8		5,401	5,401
<b>CURRENT ASSETS</b>				
Debtors due within one year	9	756	769	
Debtors due after one year	9	18,426	21,677	
Cash at bank and in hand		3,830	1,010	
		<hr/>	<hr/>	
		23,012	23,456	
<b>CREDITORS</b>				
Amounts falling due within one year	10	(914)	(35)	
		<hr/>	<hr/>	
<b>NET CURRENT ASSETS</b>			22,098	23,421
			<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			27,499	28,822
<b>CREDITORS</b>				
Amounts falling due after more than one year	11		(26,937)	(30,416)
			<hr/>	<hr/>
			562	(1,594)
			<hr/>	<hr/>
<b>CAPITAL AND RESERVES</b>				
Called up share capital	12		1	1
Profit and loss account	14		561	(1,595)
			<hr/>	<hr/>
<b>EQUITY SHAREHOLDERS' FUNDS/(DEFICIT)</b>	13		562	(1,594)
			<hr/>	<hr/>

These financial statements were approved by the Board of Directors on 29th August 2006.

Signed on behalf of the Board

  
P A Kayner  
Director



**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 October 2005**

**1. ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with applicable United Kingdom 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 provision for permanent impairment.

**Current 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 taxation**

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and laws. Timing differences arise 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. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are discounted.

**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.

**2. DIRECTORS' EMOLUMENTS AND INTERESTS**

None of the directors received any emoluments from the company during the year (2004: £nil). The directors are employees of the parent company, Chemring Group PLC, and their emoluments are dealt with in that company's accounts.

**Interests**

None of the directors held any beneficial interest in the shares of the company in the current and prior year. Details of interests in the shares and share options of the parent company are given in the directors' report.

The company had no employees during the current or prior years.

**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 2005**

**4. INTEREST RECEIVABLE AND SIMILAR INCOME**

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Intercompany interest received	1,422	1,426
	<hr/>	<hr/>

**5. INTEREST PAYABLE AND SIMILAR CHARGES**

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Interest payable on amounts owed to Group undertakings	1,491	1,491
	<hr/>	<hr/>

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

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Tax is based on the profit/(loss) for the year and comprises:		
UK corporation tax	826	(464)
Double tax relief	(697)	(305)
	<hr/>	<hr/>
Current tax charge/(credit) for the year	129	(769)
	<hr/>	<hr/>

A deferred tax asset of £587,000 (2004: £587,000) has not been recognised in respect of capital losses as it is uncertain when these will be utilised against taxable gains. The asset would be recovered if future gains arise on the sale of chargeable assets.

The tax assessed for the year differs from that resulting from applying the standard rate of corporation tax in the United Kingdom of 30% (2004: 30%) for the reasons set out in the following reconciliation:

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Profit/(loss) on ordinary activities before taxation	3,035	(1,851)
	<hr/>	<hr/>
Tax on profit/(loss) on ordinary activities at standard rate	911	(555)
<b>Factors affecting charge:</b>		
Foreign tax credit	(697)	(214)
Losses utilised	(85)	-
	<hr/>	<hr/>
Current tax charge/(credit) for the year	129	(769)
	<hr/>	<hr/>

**7. DIVIDEND**

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Dividend on ordinary shares of £1 each:		
Final proposed £750 (2004: £nil) per share	750	-
	<hr/>	<hr/>

# CHG OVERSEAS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 October 2005

### 8. INVESTMENTS

	Investments in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
<b>Cost</b>			
At 1 November 2004 and 31 October 2005	2,237	3,734	5,971
<b>Provisions</b>			
At 1 November 2004 and 31 October 2005	220	350	570
<b>Net Book Value</b>			
At 31 October 2005 and 31 October 2004	2,017	3,384	5,401

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%
Pirotécnia Oroquieta, S.L	Spain	Manufacture of Pyrotechnics	51%

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 Chemring Group PLC, a 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 2005**

**9. DEBTORS**

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Corporation tax recoverable	756	769
Amounts owed by Group undertakings	18,426	21,677
	<hr/>	<hr/>
	19,182	22,446
	<hr/>	<hr/>

Amounts owed by Group undertakings are due after more than one year.

**10. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Group relief payable	129	-
Amount owed to Group undertakings	35	35
Dividends	750	-
	<hr/>	<hr/>
	914	35
	<hr/>	<hr/>

The company, and other Chemring Group PLC subsidiaries, has given a full guarantee and debenture to Bank of Scotland to secure the Group borrowing facility. Details of the Group borrowing facilities are available in the Group accounts which are publicly available. The security is over the assets of all Group subsidiary companies.

**11. CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Convertible capital bonds	18,070	18,070
Amount owed to Group undertakings	8,867	12,346
	<hr/>	<hr/>
	26,937	30,416
	<hr/>	<hr/>

Amounts owed to Group undertakings are unsecured and repayable after more than one year. There are no applicable repayment terms. Interest is attracted at a rate of 8.25% per annum.

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. The bonds attract interest at a rate of 8.25% per annum.

All amounts are due after more than one year.

# CHG OVERSEAS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 October 2005

### 12. CALLED UP SHARE CAPITAL

	2005 £'000	2004 £'000
Authorised, allotted and fully paid 1,000 ordinary shares of £1 each	1	1

### 13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS/(DEFICIT)

	2005 £'000	2004 £'000
Retained profit/(loss) for the financial year	2,156	(1,082)
Opening shareholders' deficit	(1,594)	(512)
Closing shareholders' funds/(deficit)	562	(1,594)

### 14. PROFIT AND LOSS ACCOUNT

	£'000
Balance at 1 November 2004	(1,595)
Retained profit for the year	2,156
Balance at 31 October 2005	561

### 15. CASH FLOW STATEMENT

The company is a wholly owned subsidiary undertaking and consequently no cash flow statement has been prepared.

### 16. ULTIMATE PARENT COMPANY

In the opinion of the directors, the company's ultimate parent company and controlling party is Chemring Group PLC, a company incorporated in England. Copies of the Group financial statements of Chemring Group PLC are available from Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ. Chemring Group PLC is both the largest and the smallest group of which the company is a member and for which consolidated accounts are prepared.

### 17. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption conferred within FRS8 Paragraph 3c, 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.