
CHG OVERSEAS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 OCTOBER 2010

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CHG OVERSEAS LIMITED

COMPANY INFORMATION

Directors	D J Price P A Rayner
Company secretary	S L Ellard
Company number	2731691
Registered office	Chemring House 1500 Parkway Whiteley Fareham Hampshire PO15 7AF
Auditors	Deloitte LLP Chartered Accountants and Statutory Auditors Reading Berkshire

CHG OVERSEAS LIMITED

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CHG OVERSEAS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 OCTOBER 2010

The directors present their report and the audited financial statements for the year ended 31 October 2010

PRINCIPAL ACTIVITY

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

GOING CONCERN

After making due enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Further details regarding the adoption of the going concern basis can be found in the consolidated financial statements of the parent company, Chemring Group PLC, which are publicly available.

BUSINESS REVIEW

The company has acted and will continue to act as a holding company for overseas subsidiaries for the foreseeable future. The company made a profit again in 2010 due to the financing facilities that the company has provided to its subsidiaries. This is expected to continue in the foreseeable future.

On 1 April 2010 the company acquired the entire share capital of Simmel Difesa S p A from Chemring Group PLC, the ultimate parent company, for a consideration of £134 million. On 19 April 2010 this was then sold to Chemring Luxembourg Holding SARL, a subsidiary of the company, along with the entire share capital of Chemring Defence Germany GmbH and Chemring Nobel A S, for consideration of £191 million, generating a profit on disposal of investments of £48.9 million.

RESULTS AND DIVIDENDS

The profit for the year, after tax, amounted to £70,170,000 (2009: £16,828,000).

An interim dividend of 133 pence per share was paid in the year (2009: £nil). The directors do not recommend the payment of a final dividend (2009: £nil).

DIRECTORS

The directors who served throughout the year and to date were:

D J Price
P A Rayner

PRINCIPAL RISKS AND UNCERTAINTIES

The company is a wholly owned subsidiary of Chemring Group PLC. The Chemring Group Board is responsible for the Group's systems of internal control and its risk management systems. The Chemring Group Board has constituted a Risk Management Committee, which meets quarterly, to review the key risks associated with the achievement of the annual budget and the five year plan for each business, the top five health and safety risks identified at each site, and the risk control procedures implemented. Brief details of the principal risks and uncertainties currently facing the company are set out below. Further details can be found in the consolidated financial statements of Chemring Group PLC.

CHG OVERSEAS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 OCTOBER 2010

Compliance and corruption risks

All Chemring Group companies are required to comply with the Group's Code of Business Principles. The company has also committed to adherence with the European Aerospace and Defence Association's Common Industry Standards on Anti-Corruption, and is currently reviewing all of its business processes, including arrangements with third party representatives, in order to achieve full compliance.

Financial risks

The company's financing arrangements are included within Chemring Group PLC's overall facilities. Details of the financial risks to which the Group, and therefore the company, is potentially exposed are set out in the consolidated financial statements of Chemring Group PLC.

PROVISION OF INFORMATION TO AUDITORS

Each of the persons who are directors at the time when this directors' report is approved has confirmed that

- so far as that director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information.

AUDITORS

The auditors, Deloitte LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the Board of Directors on 9 June 2011

Signed on behalf of the Board



S L Ellard
Secretary

CHG OVERSEAS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 OCTOBER 2010

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

CHG OVERSEAS LIMITED

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 2010, which comprise of the Profit and Loss Account, the Balance Sheet and the related Notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 October 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

CHG OVERSEAS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CHG OVERSEAS LIMITED

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Mark Mullins

Mark Mullins (Senior statutory auditor)
for and on behalf of
Deloitte LLP
Chartered Accountants and Statutory Auditors
Reading
Berkshire
Date *10 June* 2011

CHG OVERSEAS LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 OCTOBER 2010**

	Note	2010 £000	2009 £000
Administrative expenses		(46)	20
Other operating income	2	8,368	298
		<hr/>	<hr/>
OPERATING PROFIT	3	8,322	318
Profit on disposal of investments		48,863	-
Interest receivable and similar income	5	19,450	16,327
Interest payable and similar charges	6	(5,215)	(745)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		71,420	15,900
Tax on profit on ordinary activities	7	(1,250)	928
		<hr/>	<hr/>
PROFIT FOR THE FINANCIAL YEAR	13	70,170	16,828
		<hr/>	<hr/>

All amounts relate to continuing operations

There were no recognised gains and losses for the current or the preceding financial years, other than those included in the profit and loss account

The notes on pages 8 to 16 form part of these financial statements

CHG OVERSEAS LIMITED
REGISTERED NUMBER 2731691

BALANCE SHEET
AS AT 31 OCTOBER 2010

	Note	£000	2010 £000	2009 £000
FIXED ASSETS				
Investments	8		811,698	424,113
CURRENT ASSETS				
Debtors amounts falling due after more than one year	9	196,640		185,411
Debtors amounts falling due within one year	9	112,251		3,136
Cash at bank		20,231		32,840
		<u>329,122</u>		<u>221,387</u>
CREDITORS				
Amounts falling due within one year	10	(116,662)		-
NET CURRENT ASSETS				
			<u>212,460</u>	<u>221,387</u>
TOTAL ASSETS LESS CURRENT LIABILITIES				
			<u>1,024,158</u>	<u>645,500</u>
CREDITORS				
Amounts falling due after more than one year	11		(97,627)	(100,085)
NET ASSETS				
			<u>926,531</u>	<u>545,415</u>
CAPITAL AND RESERVES				
Called up share capital	12		154,851	20,851
Share premium account	13		204,678	-
Profit and loss account	13		567,002	524,564
SHAREHOLDERS' FUNDS				
	14		<u>926,531</u>	<u>545,415</u>

The financial statements of CHG Overseas Limited were approved and authorised for issue by the Board of Directors on 9 June 2011

Signed on behalf of the Board


P A Rayner
Director

The notes on pages 8 to 16 form part of these financial statements

CHG OVERSEAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2010

1 ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

The company is itself a subsidiary company and is exempt from the requirement to prepare group accounts by virtue of section 400 of the Companies Act 2006. These financial statements therefore present information about the company as an individual undertaking and not about its group

1.2 Going concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts. For further information see the Directors' Report on page 1

1.3 Investments

Investments held as fixed assets are shown at cost less provision for any impairment

1.4 Current tax

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

1.5 Deferred tax

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 tax computations in periods different from those in which they are included in the financial statements

Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset or on unremitted earnings where there is no binding obligation to remit those earnings. 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 not discounted

1.6 Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities

1.7 Derivative financial instruments

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

CHG OVERSEAS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2010**

2 OTHER OPERATING INCOME

	2010	2009
	£000	£000
Foreign exchange difference - gain	8,368	298

3. OPERATING PROFIT

The operating profit is stated after crediting

	2010	2009
	£000	£000
Gain on foreign exchange	(8,368)	(298)

4 STAFF COSTS

The company has no employees other than the directors, who did not receive any remuneration (2009 £nil)

5 INTEREST RECEIVABLE

	2010	2009
	£000	£000
On amounts due from Group companies	19,450	16,327

6 INTEREST PAYABLE

	2010	2009
	£000	£000
On amounts due to Group undertakings	5,215	745

7 TAX

	2010	2009
	£000	£000
Analysis of tax charge/(credit) in the year		
UK corporation tax charge on profit for the year	1,250	-
Adjustments in respect of prior periods	-	(928)
Tax on profit on ordinary activities	1,250	(928)

CHG OVERSEAS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2010**

7. TAX (continued)**Factors affecting tax charge for the year**

The tax assessed for the year is lower (2009 lower) than the standard rate of corporation tax in the UK of 28% (2009 28%) The differences are explained below

	2010 £000	2009 £000
Profit on ordinary activities before tax	71,420	15,900
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009 28%)	19,998	4,452
Effects of		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	14	-
Utilisation of tax losses	-	(373)
Adjustments to tax charge in respect of prior periods	-	(928)
Non-taxable income	(13,569)	-
Group relief received for nil consideration	(5,193)	(4,079)
Current tax charge/(credit) for the year (see above)	1,250	(928)

Finance Act 2010

The Finance Act 2010, which was substantively enacted on 21 July 2010, provided for a reduction in the main rate of corporation tax from 28% to 27% effective from 1 April 2011

Subsequent to the balance sheet date, on 29 March 2011 under the Provisional Collection of Taxes Act, the corporation tax rate was reduced to 26% with effect from 1 April 2011. As this additional 1% amendment had not been enacted at the balance sheet date the benefit has not been reflected in the company's effective tax rate.

The Government has also indicated that it intends to enact future reductions in the main tax rate of 1% each year down to 23% by 1 April 2014. The future 1% main tax rate reductions are expected to have a similar impact on the company's financial statements as outlined above, subject to the impact of other developments in the company's tax position which may reduce the beneficial effect of this in the company's tax rate. As the further reductions in corporation tax rates in the UK have not been substantially enacted at the balance sheet date, this is considered a non-adjusting event in accordance with FRS21 and no adjustments have been made. The impact of any further reduction will be taken into account at subsequent reporting dates, once the change has been substantively enacted.

CHG OVERSEAS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2010**

8 FIXED ASSET INVESTMENTS

	Investments in subsidiary companies £000	Loans to subsidiaries £000	Total £000
Cost or valuation			
At 1 November 2009	422,385	1,728	424,113
Additions	529,722	-	529,722
Disposals	(142,137)	-	(142,137)
At 31 October 2010	<u>809,970</u>	<u>1,728</u>	<u>811,698</u>
Net book value			
At 31 October 2010	<u>809,970</u>	<u>1,728</u>	<u>811,698</u>
At 31 October 2009	<u>422,385</u>	<u>1,728</u>	<u>424,113</u>

CHG OVERSEAS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2010**

8 FIXED ASSET INVESTMENTS (continued)

Subsidiary undertakings

The following were subsidiary undertakings of the company

Name	Principal activity	Holding
Chemring North America Group, Inc	Intermediate holding company	100 %
Chemring North America Unlimited*	Intermediate holding company	100 %
Chemring Investments Ltd*	Investment company	100 %
CHG Group, Inc *	Intermediate holding company	100 %
Alloy Surfaces Company, Inc *	Countermeasures	100 %
Chemring Energetic Devices, Inc *	Munitions/Pyrotechnics	100 %
Chemring Military Products, Inc *	Munitions	100 %
Chemring Ordnance, Inc *	Munitions/Pyrotechnics	100 %
Hi-Shear Technology Corporation*	Pyrotechnics	100 %
Kilgore Flares Company LLC	Countermeasures	100 %
Non-Intrusive Inspection Technology, Inc *	Counter-IED	100 %
Technical Ordnance, Inc *	Munitions/Pyrotechnics	100 %
Titan Dynamics Systems, Inc *	Munitions/Pyrotechnics	100 %
Chemring Australia Pty Ltd	Countermeasures/Munitions/ Pyrotechnics/Counter-IED	100 %
Chemring Defence Germany GmbH*	Pyrotechnics/Counter-IED	100 %
Chemring Defence Spain S L	Pyrotechnics	100 %
Chemring Nobel AS*	Munitions	100 %
Chemring Fuze Technology S r l *	Munitions	100 %
Simmel Difesa S p A *	Pyrotechnics/Munitions/ Counter-IED	100 %
Chemring Luxembourg Holding SARL	Financing company	100 %
Chemring Luxembourg Finance SARL	Financing company	100 %
Chemring Finance Europe Ltd*	Financing company	100 %
Allied Technology LLC*	Intermediate holding company	100 %
CHG Flares, Inc *	Intermediate holding company	100 %
Chemring North America Administration, Inc *	Management services	100 %
ASC Realty LLC*	Property management	100 %
Technical Ordnance Realty LLC*	Property management	100 %

* Investments held by a subsidiary company

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

CHG OVERSEAS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2010**

9. DEBTORS

	2010 £000	2009 £000
Due after more than one year		
Amounts owed by Group undertakings	196,640	185,411
	<u>196,640</u>	<u>185,411</u>
Due within one year		
Amounts owed by Group undertakings	112,251	-
Group relief receivable	-	3,136
	<u>112,251</u>	<u>3,136</u>

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010 £000	2009 £000
Amounts owed to Group undertakings	116,389	-
Group relief payable	273	-
	<u>116,662</u>	<u>-</u>

11 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2010 £000	2009 £000
Amounts owed to Group undertakings	97,627	100,085
	<u>97,627</u>	<u>100,085</u>

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 variable interest rate per annum.

Convertible capital bonds were converted into capital on 29 April 2009 at par, £18,450,000. These bonds were 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 was not exercised, then bonds would have been redeemed on 6 February 2031 at par value. The bonds attracted an interest rate of 8.25% per annum.

All amounts are due after more than one year.

During the year the company, and certain other Chemring Group PLC subsidiaries, had given a full guarantee and debenture to Lloyds Banking Group to secure the Group borrowing facility. The security was over the assets of certain Group subsidiary companies. On 14 January 2011 the Group refinanced its bank facilities and this guarantee and debenture was released. Further details are available in the Group accounts which are publicly available.

CHG OVERSEAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2010

12 SHARE CAPITAL

	2010 £000	2009 £000
Allotted, called up and fully paid		
154,851,100 (2009 20,851,000) ordinary shares of £1 each	154,851	20,851

During 2009, the ultimate parent company, Chemring Group PLC converted £18,450,000 convertible capital bonds at par into 18,450,000 £1 ordinary shares

On 1 April 2010, the ultimate parent company, Chemring Group PLC, converted a £134,000,000 intercompany payable due from the company into 134,000,000 £1 ordinary shares

On 31 July 2010, the ultimate parent company, Chemring Group PLC, made a capital contribution of £204,678,453 15 in exchange for 100 £1 ordinary shares, resulting in the creation of a share premium of £204,678,353 15

13 RESERVES

	Share premium account £000	Profit and loss account £000
At 1 November 2009		524,564
Profit for the financial year		70,170
Dividends equity capital		(27,732)
Premium on capital contribution during the year	204,678	
At 31 October 2010	204,678	567,002

14 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2010 £000	2009 £000
Opening shareholders' funds	545,415	510,137
Profit for the financial year	70,170	16,828
Dividends (see Note 15)	(27,732)	-
Shares issued during the year	134,000	18,450
Capital contribution	204,678	-
Closing shareholders' funds	926,531	545,415

CHG OVERSEAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2010

15 DIVIDENDS

	2010 £000	2009 £000
Ordinary		
Interim dividends of 58p per share paid on 29 January 2010 and 75p per share paid on 30 April 2010 (2009 £nil per share)	27,732	-
Total dividends	27,732	-

The dividend paid on 30 April 2010 was declared on 31 March 2010, prior to the debt for equity swap with Chemring Group PLC on 1 April 2010. Therefore the dividend payment was calculated on the basis of 20,851,000 ordinary £1 shares in issue at the date of the dividend being declared.

16 DERIVATIVES NOT INCLUDED AT FAIR VALUE

The company has derivatives which are not included at fair value in the accounts

	Principal £000	Principal Local currency '000	Fair value 2010 £000	Fair value 2009 £000
Forward foreign exchange contract GBP/USD	118,671	180,000	1,636	-
Forward foreign exchange contract GBP/EUR	33,137	38,085	3	-
Total	151,808		1,639	-

The company entered into foreign exchange swaps in order to minimise the foreign exchange risks associated with the foreign currency denominated receivables.

17 ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

In the opinion of the directors, the company's ultimate parent company and controlling party is Chemring Group PLC, a company incorporated in England and Wales. Copies of the Group financial statements of Chemring Group PLC are available at the Chemring Group website (www.chemring.co.uk) or by contacting the registered office which is listed on the Company Information page at the start of these accounts. Chemring Group PLC is the largest and smallest group of which the company is a member and for which consolidated accounts are prepared.

CHG OVERSEAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2010

18. POST BALANCE SHEET EVENTS

On 14 January 2011 the parent company, Chemring Group PLC, completed a refinancing of its bank facilities with a syndicate of five banks, replacing the previous arrangement with Lloyds Banking Group. The new Group facilities total £230 million, which is an increase of £55 million on the previous facilities. The guarantee and debenture to Lloyds Banking Group given by the company, and certain other Chemring Group PLC subsidiaries, used to secure the borrowing facility (see Note 11) has now been cancelled and the new facilities are unsecured.