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**CHG OVERSEAS LIMITED**

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**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 OCTOBER 2011**

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**CHG OVERSEAS LIMITED**

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**COMPANY INFORMATION**

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<b>Directors</b>	S L Ellard (appointed 4 April 2012) D J Price P A Rayner
<b>Company secretary</b>	S L Ellard
<b>Company number</b>	2731691
<b>Registered office</b>	Chemring House 1500 Parkway Whiteley Fareham Hampshire PO15 7AF
<b>Auditors</b>	Deloitte LLP Chartered Accountants and Statutory Auditor Reading United Kingdom

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**CHG OVERSEAS LIMITED**

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## **CHG OVERSEAS LIMITED**

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### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 OCTOBER 2011**

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The directors present their report and the audited financial statements of CHG Overseas Limited for the year ended 31 October 2011

#### **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. The company has also obtained a letter of support from the parent company, Chemring Group PLC. Accordingly, the directors 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 for the foreseeable future, as a holding company for certain of Chemring Group PLC's overseas subsidiaries. In the previous year, the company transferred the entire share capital of Simmel Difesa S p A, Chemring Defence Germany GmbH and Chemring Nobel A S to Chemring Luxembourg Holding SARL, generating a profit on disposal of £48.9 million. The company made a loss in 2011 primarily due to a £6.6 million tax charge relating to the prior year. The company is expected to return to profitability in 2012.

#### **RESULTS AND DIVIDENDS**

The loss for the year, after tax, amounted to £290,000 (2010 profit £70,170,000).

An interim dividend of 96.7 pence per share was paid in the year (2010 133p). The directors do not recommend the payment of a final dividend (2010 final dividend £nil).

#### **DIRECTORS**

The directors who served throughout the year and to date are

D J Price  
P A Rayner

Mrs S L Ellard was also appointed as a director on 4 April 2012.

#### **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.

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**CHG OVERSEAS LIMITED**

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**DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 OCTOBER 2011**

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**Compliance and corruption risks**

All Chemring Group companies are required to comply with the Group's Global Code of Business Principles, which stipulates the standard of acceptable business conduct required by employees and third parties acting on the company's behalf. The Group has also adopted a Bribery Act Compliance Manual, incorporating anti-bribery policies and procedures which the company is required to adhere to.

**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 is a director 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 he/she ought to have taken as a director in order to make himself/herself 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.

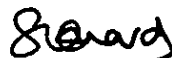
This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

**AUDITORS**

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

This report was approved by the Board of Directors on **27 July** 2012

Signed on behalf of the Board



**S L Ellard  
Secretary**

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**CHG OVERSEAS LIMITED**

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**DIRECTORS' RESPONSIBILITIES STATEMENT  
FOR THE YEAR ENDED 31 OCTOBER 2011**

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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.

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## **CHG OVERSEAS LIMITED**

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

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We have audited the financial statements of CHG Overseas Limited for the year ended 31 October 2011, which comprise of the Profit and Loss Account, the Balance Sheet and the related Notes 1 to 17. 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **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 2011 and of its loss 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 matters 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.

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**CHG OVERSEAS LIMITED**

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

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**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



**Andrew Bond ACA (Senior statutory auditor)**  
**for and on behalf of Deloitte LLP**  
**Chartered Accountants and Statutory Auditor**  
**Reading**  
**United Kingdom**  
Date. 30 July 2012



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CHG OVERSEAS LIMITED

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PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 OCTOBER 2011

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	Note	2011 £000	2010 £000
Administrative expenses		(2)	(46)
(Loss)/gain on foreign exchange		(728)	8,368
<b>OPERATING (LOSS)/PROFIT</b>	2	<b>(730)</b>	8,322
Profit on disposal of investments		-	48,863
Interest receivable and similar income	6	12,774	19,450
Interest payable and similar charges	7	(4,412)	(5,215)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAX</b>		<b>7,632</b>	71,420
Tax on profit on ordinary activities	8	(7,922)	(1,250)
<b>(LOSS)/PROFIT FOR THE FINANCIAL YEAR</b>	14	<b>(290)</b>	70,170

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 15 form part of these financial statements

**CHG OVERSEAS LIMITED**  
**REGISTERED NUMBER 2731691**

**BALANCE SHEET**  
**AS AT 31 OCTOBER 2011**

	Note	£000	2011 £000	£000	2010 £000
<b>FIXED ASSETS</b>					
Investments	9		836,625		811,698
<b>CURRENT ASSETS</b>					
Debtors amounts falling due after more than one year	10	332,219		196,640	
Debtors amounts falling due within one year	10	27,382		112,251	
Cash at bank		-		20,231	
			<u>359,601</u>	<u>329,122</u>	
<b>CREDITORS</b>					
Amounts falling due within one year	11	(29,589)		(116,662)	
<b>NET CURRENT ASSETS</b>					
			<u>330,012</u>		<u>212,460</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>					
			<u>1,166,637</u>		<u>1,024,158</u>
<b>CREDITORS</b>					
Amounts falling due after more than one year	12		(204,707)		(97,627)
<b>NET ASSETS</b>					
			<u>961,930</u>		<u>926,531</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	13		210,940		154,851
Share premium account	14		204,678		204,678
Profit and loss account	14		546,312		567,002
<b>SHAREHOLDERS' FUNDS</b>					
	15		<u>961,930</u>		<u>926,531</u>

The financial statements of CHG Overseas Limited were approved and authorised for issue by the Board of Directors on 27 July 2012

Signed on behalf of the Board

  
**P A Rayner**  
**Director**

The notes on pages 8 to 15 form part of these financial statements

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## CHG OVERSEAS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2011

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#### 1 ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

##### 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 Cash flow

The directors have taken advantage of the exemption in FRS 1 from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent company publishes a consolidated cash flow statement.

##### 1.3 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.

##### 1.4 Investments

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

##### 1.5 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.

##### 1.6 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.

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## CHG OVERSEAS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2011

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#### 1. ACCOUNTING POLICIES (continued)

##### 1.7 Foreign currency

Transactions denominated in foreign currencies are converted into sterling at the rate of exchange ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Translation differences are dealt with in the profit and loss account.

##### 1.8 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.

##### 1.9 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.

##### 1.10 Related party transactions

The company has taken advantage of the exemption from reporting related party transactions with other Group undertakings in accordance with the provisions of FRS 8.

#### 2. OPERATING (LOSS)/PROFIT

The operating (loss)/profit is stated after charging/(crediting)

	2011 £000	2010 £000
Loss/(gain) on foreign exchange	728	(8,368)

#### 3. AUDITORS' REMUNERATION

The auditors' remuneration for the audit of the company's annual accounts of £1,000 (2010: £1,000) is borne by Chemring Group PLC, the ultimate parent company.

#### 4. STAFF COSTS

The company has no employees other than the directors, who did not receive any remuneration (2010: £nil).

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**CHG OVERSEAS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 OCTOBER 2011**

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**5. DIRECTORS' REMUNERATION**

The emoluments of D J Price and P A Rayner are borne by Chemring Group PLC. Their services as directors of this company are considered insignificant in the context of their overall services to the Group and therefore no allocation of remuneration to this subsidiary is made. Details of their total remuneration are publicly available in the accounts of Chemring Group PLC. There are no other employees of the company.

**6 INTEREST RECEIVABLE**

	<b>2011 £000</b>	<b>2010 £000</b>
On amounts due from Group companies	<b>12,774</b>	<b>19,450</b>

**7 INTEREST PAYABLE**

	<b>2011 £000</b>	<b>2010 £000</b>
On amounts due to Group undertakings	<b>4,412</b>	<b>5,215</b>

**8. TAX**

	<b>2011 £000</b>	<b>2010 £000</b>
<b>Analysis of tax charge in the year</b>		
UK corporation tax charge on profit for the year	<b>8,195</b>	<b>1,250</b>
Adjustments in respect of prior periods	<b>(273)</b>	<b>-</b>
<b>Tax on profit on ordinary activities</b>	<b>7,922</b>	<b>1,250</b>

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CHG OVERSEAS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 OCTOBER 2011

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8. TAX (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2010 lower than) than the standard rate of corporation tax in the UK of 26.83% (2010 28%). The differences are explained below

	2011 £000	2010 £000
Profit on ordinary activities before tax	7,632	71,420
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.83% (2010 28%)	2,048	19,998
Effects of:		
Expenses not deductible for tax purposes	-	14
Non-taxable income	(182)	(13,569)
Adjustments in respect of prior periods	6,056	(5,193)
Current tax charge for the year (see above)	7,922	1,250

Finance Act 2011

The Finance Act 2011, which was substantively enacted on 5 July 2011, provided for a reduction in the main rate of UK corporation tax from 26% to 25% on 1 April 2012. This change has been reflected in the effective tax.

The Government indicated in the Budget on 21 March 2012 that it intends to enact a further reduction in the UK corporation tax rate of 1% down to 24% effective from 1 April 2012 and a further 1% reduction from 1 April 2013. These changes are expected to be enacted in the Finance Bill 2012. Legislation will also be introduced in the Finance Bill 2013 to reduce the rate to 22% for the year commencing 1 April 2014.

As these rate changes have not been substantively enacted at the balance sheet date, they are considered non-adjusting events in accordance with FRS 21 and no adjustments have been made. The impact on the financial statements in future periods is not expected to be material.

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**CHG OVERSEAS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 OCTOBER 2011**

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**9. FIXED ASSET INVESTMENTS**

	<b>Investments in subsidiary companies £000</b>
<b>Cost or valuation</b>	
At 1 November 2010	811,698
Additions	24,927
At 31 October 2011	<u>836,625</u>
<b>Net book value</b>	
At 31 October 2011	<u>836,625</u>
At 31 October 2010	<u>811,698</u>

**Subsidiary undertakings**

The following are trading subsidiary undertakings of the company

<b>Name</b>	<b>Principal activity</b>	<b>Holding</b>
Alloy Surfaces Company, Inc *	Countermeasures	100 %
Chemring Detection Systems, Inc *	Counter-IED	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 %
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 %
Simmel Difesa S p A *	Pyrotechnics/Munitions/ Counter-IED	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

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CHG OVERSEAS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 OCTOBER 2011

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10. DEBTORS

	2011 £000	2010 £000
<b>Due after more than one year</b>		
Amounts owed by Group undertakings	<u>332,219</u>	<u>196,640</u>
<b>Due within one year</b>		
Amounts owed by Group undertakings	<u>27,382</u>	<u>112,251</u>

11. CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 £000	2010 £000
Bank loans and overdrafts	14,167	-
Amounts owed to Group undertakings	13,556	116,389
Group relief payable	1,866	273
	<u>29,589</u>	<u>116,662</u>

12. CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2011 £000	2010 £000
Amounts owed to Group undertakings	<u>204,707</u>	<u>97,627</u>

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

All amounts are due after more than one year.

In January 2011, the Group refinanced its bank facilities with a syndicate of five banks. The new Group facilities, which are unsecured, extend the terms of the facilities from April 2012 to April 2015. The Group's revolving credit facility provides access to committed lending and bond line support. Further details are available in the accounts of Chemring Group PLC, which are publicly available.



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**CHG OVERSEAS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 OCTOBER 2011**

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**13. SHARE CAPITAL**

	2011 £000	2010 £000
<b>Allotted, called up and fully paid</b>		
210,939,845 (2010 154,851,100) ordinary shares of £1 each	<b>210,940</b>	154,851

On 1 July 2011, the ultimate parent company, Chemring Group PLC, subscribed for 56,088,745 additional £1 ordinary shares

**14. RESERVES**

	Share premium account £000	Profit and loss account £000
At 1 November 2010	204,678	567,002
Loss for the financial year	-	(290)
Dividends	-	(20,400)
At 31 October 2011	<b>204,678</b>	<b>546,312</b>

**15. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

	2011 £000	2010 £000
Opening shareholders' funds	926,531	545,415
(Loss)/profit for financial year	(290)	70,170
Dividends (see Note 16)	(20,400)	(27,732)
Shares issued during the year	56,089	134,000
Share premium on share issues	-	204,678
Closing shareholders' funds	<b>961,930</b>	926,531

**16. DIVIDENDS**

	2011 £000	2010 £000
<b>Ordinary</b>		
Interim dividend of 96 7p per share paid on 31 October 2011 (2010 133p per share)	<b>20,400</b>	27,732

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## CHG OVERSEAS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2011

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#### 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](http://www.chemring.co.uk)) or by contacting the registered office, the address of 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.