

Registered number: 2983472

CHEMRING PRIME CONTRACTS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2016

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CHEMRING PRIME CONTRACTS LIMITED

COMPANY INFORMATION

Directors	S L Ellard M J Flowers A G Lewis
Company Secretary	S L Ellard
Registered number	2983472
Registered office	Roke Manor Old Salisbury Lane Romsey Hampshire United Kingdom SO51 0ZN
Independent auditor	Deloitte LLP Chartered Accountants and Statutory Auditor Reading United Kingdom

CHEMRING PRIME CONTRACTS LIMITED

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CHEMRING PRIME CONTRACTS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 OCTOBER 2016

Business review

Revenue for the year increased year-on-year from £9,643,000 to £12,957,000 as a result of increased demand from Middle Eastern customers. Operating profit for the year was £1,598,000 (2015: £978,000). Profit for the year, after tax, amounted to £1,598,000 (2015: £1,040,000).

Principal risks and uncertainties

The company is a wholly owned subsidiary of Chemring Group PLC. The Group Board is responsible for the Group's systems of internal control and its risk management systems. The 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 most significant 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.

Health and safety risks

Responsibility for the delivery of world class safety standards is an integral part of the operational management accountability. The company's management are therefore expected to operate with health and safety as a top priority and to ensure that the strength of the company's safety culture and the quality of its protective systems deliver operations where employees and visitors feel and are absolutely safe.

Future developments and possible defence budget cuts

Defence spending levels depend on a complex mix of political considerations, budgetary constraints and the requirement of the armed forces to address specific threats and perform certain missions. As such, defence spending may be subject to significant fluctuation from year to year. In recognition of the issues affecting NATO markets, business development activities are being focused more on non-NATO markets, where defence expenditure is forecast to grow. The future prospects for the company are therefore good. The company continues to closely monitor the position in all the key markets in which it operates.

Timing and value of orders

The majority of the company's contracts are of a relatively short duration and, with the exception of framework contracts with key customers, do not usually cover multi-year requirements. This means that an unmitigated delay in the receipt of key orders could affect earnings. Maximising order intake is therefore a key objective for the company.

Political risks

The company is active in several countries that are suffering from political, social and economic instability. The company's business in these countries may be adversely affected in a way that is material to its financial position and the results of its operations. The company strives to maintain relationships at all levels within the political structure of certain key countries, in order to ensure that it is aware of and can react to proposed changes, if and when they occur.

CHEMRING PRIME CONTRACTS LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 OCTOBER 2016

Compliance and corruption risks

The company operates under 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 company has also adopted the Group's Bribery Act Compliance Manual, incorporating anti-bribery policies and procedures.

Financial risks

The company uses financial instruments to manage financial risk wherever it is appropriate to do so. The main risk addressed by financial instruments is foreign exchange rate risk.

The company undertakes certain transactions denominated in foreign currencies, giving rise to exposures to exchange rate fluctuations.

The company's policy is to hedge transactional currency exposures through the use of forward foreign exchange contracts. The measurement and control of this risk is monitored on a Group-wide basis.

The company translates the results and net assets of overseas operations in accordance with the accounting policy set out in note 1. The translation risk on net assets is mitigated by the transfer of currencies between Group companies and the appropriate use of foreign currency borrowings.

Financial key performance indicators

The company uses one principal financial key performance indicator (KPI) to measure its performance. The principal KPI used is operating profit, as given above.

This report was approved by the Board of Directors on 24 February 2017.

Signed on behalf of the Board.



S L Ellard
Company Secretary

CHEMRING PRIME CONTRACTS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 OCTOBER 2016

The directors present their annual report and the audited financial statements for the year ended 31 October 2016.

Principal activity

The company's principal activity is the marketing and export sale of pyrotechnics and munitions. The directors are not aware, at the date of this report, of any likely changes in the company's activities in the forthcoming year.

Results and dividends

The profit for the year, after taxation, amounted to £1,598,000 (2015: £1,040,000).

The directors do not recommend the payment of a dividend (2015: £nil).

Going concern

As part of a regular assessment of the company's financial performance and position, the directors have prepared a detailed bottom-up budget and cashflow forecast for the period through to October 2017 and five year forecast to October 2021, being at least 12 months after the date of approval of the financial statements. The directors, having considered these forecasts, the risks and the associated mitigating actions, believe the company is well placed to manage its risks and have assessed that there is a reasonable expectation that adequate financial resources will continue to be available for the foreseeable future. The company has also obtained a letter of support from the parent company, Chemring Group PLC, confirming their continued financial support. Details regarding the adoption of the going concern basis for Chemring Group PLC can be found in the consolidated financial statements, which are publicly available. Thus, the directors continue to support the going concern basis in preparing the financial statements.

Directors

The directors who served during the year, unless otherwise stated, were:

S J Bowers (resigned 30 September 2016)
S L Ellard
M J Flowers

Mr A G Lewis was appointed as a director on 19 January 2017.

Future developments

The company continues to closely monitor the position in all the key markets in which it operates. Further details can be found in the strategic report on page 1.

Financial risks

The company uses financial instruments to manage financial risk wherever it is possible to do so. Further details can be found in the strategic report on page 2.

CHEMRING PRIME CONTRACTS LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 OCTOBER 2016**

Disclosure of information to auditor

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

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

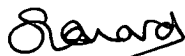
This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

Under section 487(2) of the Companies Act 2006, Deloitte LLP will be deemed to have been reappointed as auditor 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the Board of Directors on 24 February 2017.

Signed on behalf of the Board.



**S L Ellard
Company Secretary**

CHEMRING PRIME CONTRACTS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 OCTOBER 2016

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

Company law requires the directors to prepare audited financial statements for each financial year. Under that law the directors have elected to prepare the audited financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the audited 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 audited financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting 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;
- 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.

CHEMRING PRIME CONTRACTS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHEMRING PRIME CONTRACTS LIMITED

We have audited the financial statements of Chemring Prime Contracts Limited for the year ended 31 October 2016, which comprise of the income statement, the balance sheet and the statement of changes in equity and the related notes 1 to 14. 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), including FRS 101 "Reduced Disclosure Framework".

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 auditor

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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2016 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 matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report and the directors' report.

CHEMRING PRIME CONTRACTS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHEMRING PRIME CONTRACTS 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.



James Hunter ACA (Senior statutory auditor)
for and on behalf of

Deloitte LLP

Chartered Accountants and Statutory Auditor

Reading

United Kingdom

Date: *24 February* 2017

CHEMRING PRIME CONTRACTS LIMITED

**INCOME STATEMENT
FOR THE YEAR ENDED 31 OCTOBER 2016**

	Note	2016 £000	2015 £000
Revenue	2	12,957	9,643
Cost of sales		(9,944)	(7,548)
Gross profit		3,013	2,095
Administrative expenses		(1,415)	(1,117)
Profit before tax	3	1,598	978
Tax on profit on ordinary activities	6	-	62
Profit for the year		1,598	1,040

All results for the year derive from continuing operations.

There were no recognised gains and losses other than those included in the income statement, therefore no statement of other comprehensive income has been presented.

CHEMRING PRIME CONTRACTS LIMITED
REGISTERED NUMBER: 2983472

BALANCE SHEET
AS AT 31 OCTOBER 2016

	Note	2016 £000	2016 £000	2015 £000	2015 £000
Current assets					
Trade and other receivables	7	10,165		5,909	
Cash and cash equivalents		8,989		3,142	
Derivative financial instruments	10	28		217	
		<u>19,182</u>		<u>9,268</u>	
Trade and other payables	8	(14,512)		(5,900)	
Derivative financial instruments	10	(182)		(478)	
		<u></u>		<u></u>	
Net current assets			4,488		2,890
Net assets			<u>4,488</u>		<u>2,890</u>
Capital and reserves					
Called up share capital	11		1		1
Retained earnings			4,487		2,889
			<u>4,488</u>		<u>2,890</u>
Total shareholders' funds			<u>4,488</u>		<u>2,890</u>

The financial statements were approved and authorised for issue by the Board of Directors on
24 February 2017.

Signed on behalf of the Board.



M J Flowers

Director

The notes on pages 12 to 24 form part of these financial statements.

CHEMRING PRIME CONTRACTS LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 OCTOBER 2016**

	Share capital £000	Retained earnings £000	Total equity £000
At 1 November 2015	1	2,889	2,890
Comprehensive income for the year			
Profit for the year	-	1,598	1,598
Total comprehensive income for the year	-	1,598	1,598
At 31 October 2016	1	4,487	4,488

See note 11 for details on share capital.

CHEMRING PRIME CONTRACTS LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 OCTOBER 2015**

	Share capital £000	Retained earnings £000	Total equity £000
At 1 November 2014	1	1,849	1,850
Comprehensive income for the year			
Profit for the year	-	1,040	1,040
Total comprehensive income for the year	-	1,040	1,040
At 31 October 2015	1	2,889	2,890

The notes on pages 12 to 24 form part of these financial statements.

CHEMRING PRIME CONTRACTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2016

1. Accounting policies

1.1 Basis of preparation of financial statements

Chemring Prime Contracts Limited is a private limited company incorporated in the United Kingdom. Its registered office address is included on the company information page.

The company meets the definition of a qualifying entity under FRS 100 issued by the Financial Reporting Council. The financial statements have therefore been prepared under the historical cost convention and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101") and the Companies Act 2006.

Information on the impact of first-time adoption of FRS 101 is given in note 14.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies.

First time application of FRS 100 and FRS 101

In the current year the company has adopted FRS 100 and FRS 101. The company has also early adopted the amendments to FRS 101 which were issued in July 2015. In previous years the financial statements were prepared in accordance with previous UK GAAP. The date of transition to FRS 101 was 1 November 2014.

This change in the basis of preparation has not materially altered the recognition and measurement requirements previously applied in accordance with UK GAAP. Consequently the principal accounting policies are unchanged from the prior year. The change in basis of preparation has enabled the company to take advantage of all of the available disclosure exemptions permitted by FRS 101 in the financial statements, the most significant of which are summarised below. There have been no other material amendments to the disclosure requirements previously applied in accordance with UK GAAP.

The following principal accounting policies have been applied:

CHEMRING PRIME CONTRACTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2016

1. Accounting policies (continued)

1.2 Financial reporting standard 101 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraph 18A of IAS 24 Related Party Disclosures

1.3 Going concern

The directors continue to support the going concern basis in preparing the financial statements.

For further information see the directors' report on page 3.

1.4 Revenue recognition

Revenue comprises the net value of deliveries made, work completed or services rendered during the year. Revenue is recognised when title passes, or when the right to consideration, in exchange for performance, has been obtained. For bill and hold arrangements revenue is recognised when the risks and rewards are transferred to the customer, typically on formal acceptance. Long-term contracts continue to be accounted for in accordance with IAS 18, whereby income is recognised based on the rights to consideration over the course of the contract.

1.5 Deferred tax

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

CHEMRING PRIME CONTRACTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2016

1. Accounting policies (continued)

1.6 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.

1.7 Foreign currency

The financial statements are presented in the company's functional currency, pounds sterling, being the currency of the primary economic environment in which it operates.

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 income statement.

1.8 Financial instruments

Financial assets and liabilities are recognised in the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

1.9 Financial assets

Trade and other receivables

Trade and other receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits.

Loan receivables

Interest bearing intercompany loans are recorded at the nominal amount. Finance revenue is accounted for on an accruals basis in the income statement using the effective interest method and is added to the carrying amount of the instrument to the extent that it is not settled in the period in which it arises.

CHEMRING PRIME CONTRACTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2016

1. Accounting policies (continued)

1.10 Financial liabilities

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangement entered into.

Trade and other payables

Trade and other payables are not interest bearing and are stated at their nominal value.

Borrowings

Interest bearing loans and overdrafts are recorded at the proceeds received. Finance charges are accounted for on an accruals basis in the income statement using the effective interest method, and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Derivative financial instruments

The company enters into a variety of derivative financial instruments with its parent company to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts and cross currency swaps. Further details of derivative financial instruments are disclosed in note 10.

Derivatives are recognised at fair value on the date the derivative contract is entered into and are revalued to fair value at each balance sheet date. The resulting gain or loss is recognised in the income statement immediately.

1.11 Share-based payment compensation

Certain employees participate in equity settled share-based compensation schemes operated by the parent company, Chemring Group PLC.

For grants made under the Group's share-based compensation schemes, the fair value 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 estimate of the shares that will eventually vest.

For equity settled share-based grants, the total amount recognised is based on the fair value of the equity instrument measured at the date of the award is made, which is recharged from the parent company. At each balance sheet date the impact of any revision to vesting estimates is recognised in the profit and loss account over the vesting period.

1.12 Judgements in applying accounting policies and key sources of estimation uncertainty

When applying the company's accounting policies, management must make assumptions and estimates concerning the future that affect the carrying amounts of assets and liabilities at the balance sheet date and the amounts of revenue and expenses recognised during the year. Such assumptions and estimates are based upon factors including historical experience, the observance of trends in the industries in which the company operates, and information available from the company's customers and other external sources.

There are no critical accounting judgements, estimates and assumptions that are likely to affect the current or future financial years.

CHEMRING PRIME CONTRACTS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2016**

2. Revenue

All revenue arose from sales made to foreign countries. An analysis of this export revenue is not presented as, in the opinion of the directors, this information would be seriously prejudicial to the commercial interests of the company.

All revenue originates from one class of business, being the sale of pyrotechnics and munitions.

3. Operating profit

The operating profit is stated after charging:

	2016	2015
	£000	£000
Exchange differences	784	754
	=====	=====

During the year, no director received any emoluments (2015 - £nil).

4. Auditors' remuneration

The company paid the following amounts to its auditors in respect of the audit of the financial statements:

	2016	2015
	£000	£000
Fees payable to the company's auditor and its associates for the audit of the company's annual financial statements	3	3
	=====	=====

CHEMRING PRIME CONTRACTS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2016**

5. Staff costs

Staff costs were as follows:

	2016	2015
	£000	£000
Wages and salaries	247	226
Social security costs	32	39
	279	265

The average monthly number of employees during the year was as follows:

	2016	2015
	No.	No.
Employees	2	2

6. Taxation

	2016	2015
	£000	£000
Deferred tax		
Origination and reversal of timing differences	-	(62)
Total deferred tax	-	(62)
Taxation on profit on ordinary activities	-	(62)

CHEMRING PRIME CONTRACTS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2016**

6. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2015 - lower than) the standard rate of corporation tax in the UK of 20% (2015 - 20.4%). The differences are explained below:

	2016 £000	2015 £000
Profit on ordinary activities before tax	1,598	978
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20.4%)	320	180
Effects of:		
Non-deductible expenses	-	1
Group relief	(320)	(244)
Rate difference on deferred tax	-	1
Total tax charge for the year	-	(62)

Finance (No. 2) Act 2015 and the Finance Act 2016

The Finance (No.2) Act 2015 and the Finance Act 2016, which provided for reductions in the main rate of UK corporation tax from 20% to 19% effective from 1 April 2017 and to 17% effective from 1 April 2020, were substantively enacted on 26 October 2015 and 19 September 2016 respectively.

7. Trade and other receivables

	2016 £000	2015 £000
Trade receivables	148	-
Amounts owed by Group undertakings	9,321	5,683
Other receivables	631	-
Prepayments and accrued income	2	163
Deferred taxation	63	63
Derivative financial instruments	28	217
	10,193	6,126

The amounts owed by Group undertakings are unsecured and no interest is charged on these amounts.

CHEMRING PRIME CONTRACTS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2016**

8. Trade and other payables

	2016	2015
	£000	£000
Trade payables	10,071	5,418
Amounts owed to Group undertakings	41	41
Other payables	4,400	441
Derivative financial instruments	182	478
	<u>14,694</u>	<u>6,378</u>

9. Deferred taxation

	2016	2015
	£000	£000
At beginning of year	63	1
Charged to the income statement	-	62
At end of year	<u>63</u>	<u>63</u>

The deferred tax asset is made up as follows:

	2016	2015
	£000	£000
Accelerated capital allowances	1	1
Short term timing difference	62	62
	<u>63</u>	<u>63</u>

CHEMRING PRIME CONTRACTS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2016**

10. Financial instruments

The profile of the company's financial instruments is as follows:

	2016 £000	2015 £000
Financial assets		
Cash at bank and in hand	8,989	3,142
Trade receivables	148	-
Other receivables	631	-
Derivative financial instruments	28	217
	9,796	3,359
	2016 £000	2015 £000
Financial liabilities		
Trade payables	10,071	5,418
Other payables	4,400	441
Derivative financial instruments	182	478
	14,653	6,337

Forward foreign exchange contracts

The company has forward foreign exchange contracts with fair values of £182,000 liability (2015: £478,000 liability) and £28,000 asset (2015: £217,000 asset). The net value of these derivative financial instruments is a liability of £154,000 (2015: £261,000 liability).

CHEMRING PRIME CONTRACTS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2016**

10. Financial instruments (continued)

The following table details the fair value of derivative financial instrument liabilities recognised in the balance sheet:

	2016 £000	2015 £000
Included in current assets	28	217
Included in current liabilities	(182)	(478)
Forward foreign exchange contracts	(154)	(261)

The gain on the movement in fair value of the derivative financial instruments recognised in the income statement is £262,000 (2015: £213,000 loss).

Fair value hierarchy

At 31 October 2016, all derivatives were held at level 3 (2015: level 3). There were no transfers between level 1 and 2 during the current or prior year, and no transfers to or from the fair value reserve during the financial year.

11. Share capital

	2016 £000	2015 £000
Shares classified as equity		
Authorised, allotted, called up and fully paid		
1,000 ordinary shares of £1 each	1	1

CHEMRING PRIME CONTRACTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2016

12. Share-based payments

The company participates in share-based compensation arrangements in the form of the Chemring Group Performance Share Plan ("PSP"), which provides incentives to the Group's senior management and other eligible employees, the cost of which is recharged to the company. Under the PSP, conditional awards of ordinary shares are made at nil cost to employees. Awards ordinarily vest on the third anniversary of the award date, subject to satisfaction of a performance condition. The scheme commenced in March 2006.

The company has applied a discount to the share-based awards, to reflect the anticipated achievement of the stipulated targets for each PSP award, based on the predicted figures within the Group's strategic plan as well as the expected number of leavers over the life of the PSP awards.

The PSP awards made in the year ended 31 October 2016 contained performance conditions based partially on earnings per share (EPS) growth targets and partially on total shareholder return (TSR) ratios.

	2016 No.	2015 No.
Number of conditional shares:		
Outstanding at the beginning of the year	40,622	20,043
Awarded	31,247	20,579
Adjustment relating to rights issue	10,177	-
Lapsed	-	-
Outstanding at the end of the year	82,046	40,622

The company recognised a total charge of £22,000 (2015: £5,800) relating to equity-settled share-based payment transactions in the year.

Details of the valuation of the PSP can be found in the accounts of Chemring Group PLC.

13. 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 Group website (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 financial statements. Chemring Group PLC is the largest and smallest group of which the company is a member and for which consolidated financial statements are prepared.

CHEMRING PRIME CONTRACTS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2016**

14. First time adoption of FRS 101

The company transitioned to FRS 101 from previously extant UK GAAP as at 1 November 2014. The impact of the transition to FRS 101 is as follows:

		As previously stated 1 November 2014 £000	Effect of transition 1 November 2014 £000	FRS 101 (as restated) 1 November 2014 £000	As previously stated 31 October 2015 £000	Effect of transition 31 October 2015 £000	FRS 101 (as restated) 31 October 2015 £000
	Note						
Current assets	1	2,229	48	2,277	8,989	279	9,268
Trade and other payables	1	(331)	(96)	(427)	(5,900)	(478)	(6,378)
Net current assets		1,898	(48)	1,850	3,089	(199)	2,890
Total assets less current liabilities		1,898	(48)	1,850	3,089	(199)	2,890
Net assets	1	1,898	(48)	1,850	3,089	(199)	2,890
Capital and reserves		1,898	(48)	1,850	3,089	(199)	2,890

CHEMRING PRIME CONTRACTS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2016**

14. First time adoption of FRS 101 (continued)

		As previously stated 31 October 2015 £000	Effect of transition 31 October 2015 £000	FRS 101 (as restated) 31 October 2015 £000
Revenue		9,643	-	9,643
Cost of sales		(7,548)	-	(7,548)
		<hr/>	<hr/>	<hr/>
		2,095	-	2,095
Administrative expenses	1	(904)	(213)	(1,117)
		<hr/>	<hr/>	<hr/>
Operating profit		1,191	(213)	978
Taxation	1	-	62	62
		<hr/>	<hr/>	<hr/>
Profit on ordinary activities after taxation and for the financial year		1,191	(151)	1,040
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Explanation of changes to previously reported profit and equity:

1 Recognition of derivative financial instruments

The fair value of the company's derivative financial instruments (fair value liabilities at 31 October 2015: £261,000; 1 November 2014: fair value liabilities £48,000) is recognised under FRS 101, and was not recognised under old UK GAAP. Their recognition at fair value is determined from the present value of expected future cash flows, compared to prevailing market rates, discounted at a risk adjusted discount rate.