



CHEMRING GROUP PLC • INTERIM REPORT 2000



All the Group's businesses performed well in the first half. Our continuing investment in new products and activity related to cost reductions has had a significant impact on improving the Group's performance. The order book stands at £59 million, up 62% since the start of the year and with the opportunities that this brings, I am confident of future growth.

#### RESULTS FOR THE 26 WEEKS ENDED 28 APRIL 2000

Profit before taxation trebled to £3,223,000, from £1,095,000 in the first half of last year.

Total operating profit doubled to £4,011,000, from £2,089,000 in the first half of last year.

The tax rate is estimated at 26% (1999: 19%).

Earnings per ordinary share increased to 10.02p, up 168% (1999: 3.74p).

In spite of growth in working capital to support anticipated increased activity in the second half, operating cash inflow was £3,309,000 (1999: £2,059,000).

Interest costs of £788,000 (1999: £994,000) were covered by operating profit 5.09 times (1999: 2.10 times).

Net debt reduced to £20,856,000 (1999: £21,125,000) representing gearing of 67% (1999: 77%).

#### DIVIDEND

The directors have declared an interim dividend of 2.30p per ordinary share (1999: 2.00p), up 15%, payable on 16 August 2000 to holders on the register at 11 August 2000.

#### BUSINESS PERFORMANCE

##### • DEFENCE BUSINESSES

The defence order book is now £49 million, an increase of 89% from the start of the year.

The Countermeasures business performed well in the first half. In the UK several new products entered the production phase, including two naval rounds – the UK MoD MK 36 130mm IR round and the innovative combined 130mm RF/IR round. Deliveries commence this year. Substantial ongoing orders for Tornado BOZ chaff have been received from a European NATO customer. Operational and clearance trials, both in Europe and elsewhere in the world, for our airborne Modular Expendable Block decoy systems have gone very well, with the products now being specified on several significant helicopter programmes.

In the US, Alloy Surfaces received initial production orders for flares developed in support of the Advanced Strategic and Tactical Expendables programme, where the products will be in service with both US Air Force and Navy tactical aircraft. The decoy order from the US Navy, announced recently, will provide good sales growth in the second half. The US BOL IR decoy has completed its operational acceptance for the US Navy F14 Tom Cat and initial production orders have been received. Qualification tests for the BOL IR decoy on the US Air Force F15 are ongoing.

Our overall integrated support and technology expertise within our Countermeasures business, coupled with our manufacturing capabilities, will ensure that we are well placed to benefit from any industry restructuring in this market sector.

In March 2000 we completed the planned relocation of the Military Pyrotechnics business into our Derby site. This

constrained first half sales, however, the move has reduced the cost base and these cost savings, along with a strong order book, will provide good growth in the second half.

Current international order opportunities are good, helped by increasing oil prices in the Middle East. Demand for vehicle discharge smoke grenades is particularly high, and we have received significant export orders for these products.

Because of our strength in the UK in both Countermeasures and Military Pyrotechnics, we are in industry partnership discussions with the UK Ministry of Defence in support of the smart procurement initiative and improved logistics support. We believe that the rest of NATO in Europe will follow the UK lead in this initiative.

##### • NON-DEFENCE BUSINESSES

The Marine business is an international market leader in providing legislated marine safety products to both commercial and recreational markets to aid location and rescue. Our extensive range of products includes pyrotechnics, marine electronics and location lights.

Sales of marine electronic products, in particular the award-winning 406 EPIRB, were strong, and the Group benefited from the higher margins that this new cost-reduced product attracted. We continue to focus on developing innovative low cost products and in January 2000 a new 406 EPIRB with integrated GPS was launched. This product has been designed to further enhance the lifesaving capabilities of conventional beacons to improve the speed of alert and increase accuracy, typically to within 100 metres.

In addition, a new Manoverboard (MOB) lifebuoy self-activating signal was introduced in April 2000. The MOB features a proprietary lighting system that far exceeds the legislated requirements for light output.

There is excellent growth opportunity for electronic products in support of legislated Global Maritime Distress and Safety Systems, where digital technology and automatic monitoring by shore stations will significantly improve safety at sea.

The Wiring Harness business has benefited from the BAE Systems Military Aircraft strategic partnership, where it is currently supporting the Hawk and Tornado mid-life update aircraft programmes. Work on the initial wiring harnesses for the Nimrod and Eurofighter programmes will also commence towards the end of this calendar year. We have recently signed a three-year supply agreement with Rolls-Royce to support them on a range of aero engine harnesses.

#### FUTURE

Order prospects are encouraging for all business activities and this will provide sales growth across the Group. The ongoing policy of investment in new products, combined with cost reductions, is reflected clearly in the first half performance and is expected to continue.

Our strong strategic position within our respective markets and high order book gives me confidence that the Group's exciting growth is set to continue.

**K C SCOBIE – Chairman**  
13 June 2000

## UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the 26 weeks to 28 April 2000

Audited		Unaudited	Unaudited
Year to		26 weeks to	26 weeks to
31 Oct 1999		28 April 2000	1 May 1999
£000		£000	£000
	<b>Turnover</b>		
62,082	Continuing operations	29,540	29,297
3,316	Discontinued operations	-	2,762
<u>65,398</u>		<u>29,540</u>	<u>32,059</u>
	<b>Operating profit/(loss)</b>		
7,766	Continuing operations	4,011	2,858
(1,551)	Discontinued operations	-	(769)
6,215	<b>Total operating profit</b>	4,011	2,089
70	Associated undertaking	-	-
6,285	<b>Profit on ordinary activities before interest</b>	4,011	2,089
(1,979)	Interest payable	(788)	(994)
4,306	<b>Profit on ordinary activities before taxation</b>	3,223	1,095
(871)	Tax on profit on ordinary activities	(838)	(210)
3,435	<b>Profit on ordinary activities after taxation</b>	2,385	885
(1,308)	Dividends	(550)	(473)
2,127	<b>Retained profit</b>	1,835	412
14.49p	<b>Basic earnings per ordinary share</b>	10.02p	3.74p
13.98p	<b>Diluted earnings per ordinary share</b>	9.73p	3.74p
5.50p	<b>Net dividend per ordinary share</b>	2.30p	2.00p

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Audited		Unaudited	Unaudited
Year to		26 weeks to	26 weeks to
31 Oct 1999		28 April 2000	1 May 1999
£000		£000	£000
3,435	Profit on ordinary activities after taxation	2,385	885
(118)	Currency translation differences on foreign currency net investments	260	361
<u>3,317</u>		<u>2,645</u>	<u>1,246</u>

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Audited		Unaudited	Unaudited
Year to		26 weeks to	26 weeks to
31 Oct 1999		28 April 2000	1 May 1999
£000		£000	£000
3,435	Profit on ordinary activities after taxation	2,385	885
(1,308)	Dividends	(550)	(473)
2,127		1,835	412
1	Ordinary shares issued	11	-
24	Share premium arising	268	-
(118)	Other recognised gains/(losses)	260	361
<u>2,034</u>		<u>2,374</u>	<u>773</u>

## UNAUDITED CONSOLIDATED BALANCE SHEET

as at 28 April 2000

Audited		Unaudited	Unaudited
As at		As at	As at
31 Oct 1999		28 April 2000	1 May 1999
£000		£000	£000
	<b>Fixed assets</b>		
18,795	Intangible assets	18,894	18,892
17,219	Tangible assets	17,845	16,960
880	Investments	880	863
36,894		37,619	36,715
	<b>Current assets</b>		
9,597	Stock	12,976	10,971
17,928	Debtors	17,237	15,383
2,408	Cash at bank and in hand	1,509	1,616
29,933		31,722	27,970
	<b>Creditors due within one year</b>		
5,805	Bank loans and overdraft	4,964	5,831
44	Loan stock	44	44
14,600	Other	15,333	13,953
20,449		20,341	19,828
9,484	<b>Net current assets</b>	11,381	8,142
46,378	<b>Total assets less current liabilities</b>	49,000	44,857
(17,089)	Creditors due after more than one year	(17,337)	(16,769)
(440)	Provisions for liabilities and charges	(440)	(500)
28,849		31,223	27,588
	<b>Capital and reserves</b>		
1,247	Called up share capital	1,258	1,246
27,602	Reserves	29,965	26,342
28,849	<b>Shareholders' funds</b>	31,223	27,588

## UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

for the 26 weeks to 28 April 2000

Audited		Unaudited	Unaudited
Year to		26 weeks to	26 weeks to
31 Oct 1999		28 April 2000	1 May 1999
£000		£000	£000
5,834	<b>Net cash inflow from operating activities</b>	<b>3,309</b>	2,059
(494)	Fundamental reorganisation of operations	-	(494)
5,340		<b>3,309</b>	1,565
(2,006)	Returns on investments and servicing of finance	<b>(951)</b>	(1,027)
(495)	Taxation	<b>(592)</b>	(346)
(2,842)	Capital expenditure	<b>(1,384)</b>	(1,179)
2,813	Acquisitions and disposals	-	2,843
(1,186)	Equity dividends paid	<b>(836)</b>	(710)
1,624	<b>Cash (outflow)/inflow before use of liquid resources and financing</b>	<b>(454)</b>	1,146
25	Financing – issue of shares	<b>279</b>	-
318	– (decrease)/increase in debt	-	(55)
1,967	<b>(Decrease)/increase in cash</b>	<b>(175)</b>	1,091

## INDEPENDENT REVIEW REPORT BY THE AUDITORS

To Chemring Group PLC

### Introduction

We have been instructed by the Company to review the financial information for the 26 weeks ended 28 April 2000, and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

### Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The Listing Rules of the UK Listing Authority require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

### Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

### Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the 26 weeks ended 28 April 2000.

DELOITTE & TOUCHE, Chartered Accountants, 13 June 2000  
Mountbatten House, 1 Grosvenor Square, Southampton, Hampshire SO15 2BZ

## NOTES TO THE INTERIM STATEMENT

### 1. SEGMENTAL ANALYSIS OF TURNOVER

Audited Year to 31 Oct 1999 £000		Unaudited 26 weeks to 28 April 2000 £000	Unaudited 26 weeks to 1 May 1999 £000
	<b>Defence</b>		
25,180	Countermeasures	11,311	11,248
10,616	Military pyrotechnics and explosives	4,535	5,341
<u>35,796</u>		<u>15,846</u>	<u>16,589</u>
	<b>Non-defence</b>		
16,765	Marine safety	8,522	8,264
7,197	Wiring harnesses	3,968	3,153
2,324	Chemical coatings	1,204	1,291
<u>26,286</u>		<u>13,694</u>	<u>12,708</u>
62,082	<b>Continuing operations</b>	29,540	29,297
3,316	<b>Discontinued operations</b>	-	2,762
<u>65,398</u>		<u>29,540</u>	<u>32,059</u>

### 2. OPERATING PROFIT/(LOSS)

Audited Year to 31 Oct 1999 £000		Unaudited 26 weeks to 28 April 2000 £000	Unaudited 26 weeks to 1 May 1999 £000
	<b>Turnover</b>		
62,082	Continuing operations	29,540	29,297
3,316	Discontinued operations	-	2,762
<u>65,398</u>		<u>29,540</u>	<u>32,059</u>
	<b>Gross profit</b>		
17,097	Continuing operations	9,043	8,098
1,252	Discontinued operations	-	785
<u>18,349</u>		<u>9,043</u>	<u>8,883</u>
	<b>Net operating expenses</b>		
(9,331)	Continuing operations	(5,032)	(5,240)
(2,803)	Discontinued operations	-	(1,554)
<u>(12,134)</u>		<u>(5,032)</u>	<u>(6,794)</u>
	<b>Operating profit/(loss)</b>		
7,766	Continuing operations	4,011	2,858
(1,551)	Discontinued operations	-	(769)
<u>6,215</u>		<u>4,011</u>	<u>2,089</u>

### 3. 1999 RESULTS

The figures for the year to 31 October 1999 are abridged from the Group's full Financial Statements for that period which carry an unqualified Auditors' Report and have been filed with the Registrar of Companies.

### 4. CORPORATE WEBSITE

Further information on the Group and its activities can be found on the corporate website at [www.chemring.co.uk](http://www.chemring.co.uk).



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