

**International Military Services Limited
and Subsidiaries
(Registered Number: 924462)**

Financial statements

for the year ended 31 December 2000



International Military Services Limited and Subsidiaries

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International Military Services Limited and Subsidiaries

Report of the directors for the year ended 31 December 2000

Review of business

The Company continues to have contractual supply commitments for the maintenance of defence and related equipment and the resolution of certain other outstanding contractual matters.

On 2 May 2001, an award of damages plus interest was made against the Company in connection with a contractual dispute with the Government of Iran. The Company has instigated setting aside proceedings in the Netherlands in relation to this award.

The directors consider that there are reasonable grounds for believing that the setting aside proceedings will be successful. However, in accordance with FRS 12 "Provisions and Contingent Liabilities", the directors have included in the attached financial statements a provision for the maximum amount which would be required to be paid to settle the matter in accordance with the award, should their appeal be unsuccessful.

Once the above issues have been resolved, the intention is to liquidate the Company. Full provision for the costs directly associated with the Company's final closure is reflected in the attached financial statements, which are no longer prepared on a going concern basis.

Details of the Group's results are set out in the attached financial statements. The Group result after taxation for the year was a profit of £895,000 (1999: profit £1,042,000). The directors do not propose the payment of a dividend for 2000 (1999: nil).

The state of affairs of the Group is set out in the attached consolidated balance sheet and related notes, showing capital and reserves of £53,928,000 (1999: £53,033,000).

Directors

The directors during the year and to the date of this report were as follows:

Sir Kenneth Macdonald Chairman
Mr N A D Sharvell
Mr D G Jones (appointed 14 March 2001)

In accordance with the Company's Articles all of the directors retire from office at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

No director has any beneficial interest in the share capital of the Company or of any other company within the Group.

None of the directors had any beneficial interest, other than in the ordinary course of business, in any contract to which the Company was party during the year.

Creditor payment terms

The Company settles creditor invoices as they fall due based on the terms of the invoice.

International Military Services Limited and Subsidiaries

Report of the directors for the year ended 31 December 2000 (continued)

Charitable donations

Charitable donations in the year amounted to Nil (1999: nil).

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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 those financial statements, the directors are required to:-


- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are both reasonable and prudent.
- State whether applicable 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 proper accounting records that 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 1985. 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.

Auditors

PricewaterhouseCoopers have expressed their willingness to be re-appointed as auditors and a resolution for their re-appointment will be proposed at the Annual General Meeting.

By order of the Board


D G Jones
Secretary

13 March 2002

Registered Office:
King's Scholars House
230 Vauxhall Bridge Road
London SW1V 1AU

International Military Services Limited and Subsidiaries

Auditors' report to the shareholders for the year ended 31 December 2000

We have audited the financial statements on pages 4 to 13 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 to 8.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on pages 1 and 2 the financial statements, in accordance with the applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

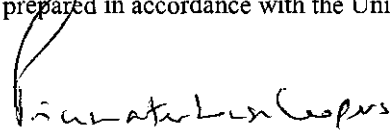
Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company and the group at 31 December 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the United Kingdom Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
13 March 2002

1 Embankment Place
London
WC2N 6RH

International Military Services Limited and Subsidiaries

Consolidated profit and loss account for the year ended 31 December 2000

		Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
	<i>Note</i>		
Turnover		-	1
Cost of sales		(1)	(2)
Gross (loss)/profit		(1)	(1)
Administrative expenses		(593)	(532)
Other operating income	3	1,856	1,868
Operating profit and profit on ordinary activities before taxation	3	1,262	1,335
Taxation on profit on ordinary activities	5	(367)	(293)
Profit for the financial year		895	1,042
Profit and loss account brought forward		33,033	31,991
Profit and loss account carried forward		33,928	33,033

There were no recognised gains and losses other than the profit for the year in both the current and previous year.

There is no difference between the result for the period stated above and the result on an historical cost basis.

The notes on pages 7 to 13 form part of these financial statements.

International Military Services Limited and Subsidiaries

Consolidated balance sheet as at 31 December 2000

	<i>Note</i>	2000 £'000	1999 £'000
Fixed tangible assets	7	-	-
Current assets			
Debtors	8	357,126	22,930
Investments	9	66,541	65,113
Cash at bank and in hand		20	99
		423,687	88,142
Creditors – amounts falling due within one year	10	(466)	(24,399)
Net current assets		423,221	53,743
Total assets less current liabilities		423,221	53,743
Provisions for liabilities and charges	12	(369,293)	(710)
Net assets		53,928	53,033
Capital and reserves			
Called up share capital	13	20,000	20,000
Profit and loss account		33,928	33,033
Shareholders' funds	17	53,928	53,033

Approved by the Board on 13 March 2002 and signed on its behalf by:



D G Jones

The notes on pages 7 to 13 form part of these financial statements.

International Military Services Limited and Subsidiaries

Company balance sheet as at 31 December 2000

	<i>Note</i>	2000 £'000	1999 £'000
Fixed assets			
Tangible assets	7	-	-
Investments in subsidiary undertakings	14	20	20
		20	20
Current assets			
Debtors	8	359,119	24,923
Investments	9	66,541	65,113
Cash at bank and in hand		20	99
		425,680	90,135
Creditors – amounts falling due within one year	10	(497)	(34,430)
Net current assets		425,183	55,705
Total assets less current liabilities		425,203	55,725
Provisions for liabilities and charges	12	(371,286)	(2,703)
Net assets		53,917	53,022
Capital and reserves			
Called up share capital	13	20,000	20,000
Profit and loss account		33,917	33,022
Shareholders' funds	17	53,917	53,022

Approved by the Board on 13 March 2002 and signed on its behalf by:



D G Jones

The notes on pages 7 to 13 form part of these financial statements.

International Military Services Limited and Subsidiaries

Notes to the financial statements for the year ended 31 December 2000

1 Accounting policies

The principal accounting policies adopted by the Group are as follows:

Accounting convention

The financial statements have been prepared in accordance with the historical cost convention and in accordance with applicable accounting standards. They have not been prepared on a going concern basis as the decision has been taken to cease trading. Provisions have been made for one-off closure costs, and professional fees in winding up the Company. (See note 12). Provision has not been made for future operating costs as these will be met out of income on investments.

Profit on long term contracts

Profit is taken on each long term contract as a proportion, based on the degree of performance in terms of turnover, of the latest estimate of the profit on completion. Profits relating to price variation claims are recognised in the same period as the related base price turnover. The profit estimates are based on the best information at the time the financial statements are prepared but necessarily involve considerable forecasting of future events. Full provision is made for anticipated future losses.

Turnover

Turnover represents the contract value, estimated where necessary, of goods and services supplied and fees chargeable during the period.

Cost of sales

"Cost of sales" represents all direct contract related costs, including distribution, together with the direct costs associated with staff responsible for operating contracts. Distribution costs, which mainly comprise freight charges, are all directly associated with particular contracts and are recovered as part of the contract sales prices. Accordingly, these costs are regarded as a cost of sales.

Administrative expenses

"Administrative expenses" represent all indirect overheads, including corporate management, accounting, legal, secretarial and office services functions and the costs of premises.

Other operating income

"Other operating income" includes interest receivable and similar income and exchange gains and losses. These are recognised in the period in which they arise.

Amounts received in advance under contracts

Receipts from customers under the terms of contracts but in advance of contract performance are regarded as current items since in the normal course of business they will be settled by contract performance and not repayment.

International Military Services Limited and Subsidiaries

Notes to the financial statements for the year ended 31 December 2000 (continued)

1 Accounting policies (continued)

Foreign currencies

Foreign currency transactions are translated into sterling at the rate ruling when they take place, except for transaction subject to currency hedging arrangements which are accounted for at the rates implicit in the related hedge transactions. Assets and liabilities, except for amounts matched by, or forming part of, hedging arrangements are accounted for at the exchange rate ruling at the balance sheet date and resulting differences are recognised in the profit and loss account.

Deferred taxation

Deferred taxation is provided to allow for the effect of income and expenditure, including depreciation, recognised for taxation purposes in periods different from those used for accounting purposes, except to the extent that no actual liability is expected to occur within the foreseeable future. Corporation tax is not assessed on the results of contracts until they are completed and deferred taxation has been provided on the profit recognised for accounting purposes on uncompleted contracts. Deferred taxation is provided at the corporation tax rates which are expected to be applicable to the years in which the timing differences are expected to reverse.

Tangible assets

All tangible assets are depreciated in full.

Cash flow statement

The Group has claimed exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (Revised 1996) as it qualifies as a small company under the criteria of Section 246 of the Companies Act 1985.

2 Liabilities and provisions relating to contracts with the Government of Iran

On 2 May 2001, an award of damages plus interest was made against the Company in connection with a contractual dispute with the Government of Iran. The Company has instigated setting aside proceedings in the Netherlands in relation to this award.

The directors consider that there are reasonable grounds for believing that the setting aside proceedings will be successful. However, in accordance with FRS 12 "Provisions and Contingent Liabilities", the directors have included in the attached financial statements a provision for the maximum amount which would be required to be paid to settle the matter in accordance with the award, should their appeal be unsuccessful (see notes 8 and 12). This provision includes interest calculated up to 31 December 2000. Any future costs in connection with the dispute will be met out of the Company's future resources, including funds obtained from the Company's shareholder and sub-contractor. An increase in the amount required to settle the award in excess of the provision made will result in a corresponding increase in the payment by the Company's shareholder and sub-contractor.

International Military Services Limited and Subsidiaries

Notes to the financial statements for the year ended 31 December 2000 (continued)

3	Operating profit and profit on ordinary activities before taxation	2000 £'000	1999 £'000
	Profit on ordinary activities before taxation is stated after charging:		
	Wages and salaries	49	50
	Social security costs	1	1
	Operating lease rentals - land and buildings	46	46
	- plant and machinery	2	2
	Other operating income comprises:		
	Interest income on other investments and deposits	1,856	1,865
	Other income	-	3
		1,856	1,868
	Fees paid to auditors comprise:		
	Audit fees	9	8
	Non-audit fees	19	1,339

Audit fees for International Military Services Limited (the Company) were £8,500 (1999: £8,000).

4 Emoluments of directors

The emoluments of the directors were as follows:

	2000 £'000	1999 £'000
Fees as directors	16	16
Emoluments for management services	33	34
Aggregate emoluments	49	50

International Military Services Limited and Subsidiaries

Notes to the financial statements for the year ended 31 December 2000 (continued)

5 Taxation on profit on ordinary activities

	2000 £'000	1999 £'000
Corporation tax on the profit for the year:		
Current at 30% (1999: 30%)	371	405
Deferred (note 12)	-	1
	371	406
Prior year adjustment	(4)	(113)
	367	293

6 Profit and loss account

International Military Services Limited has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. The amount of the consolidated result for the year dealt with in the accounts of the holding company was a profit of £895,000 (1999: profit £1,042,000).

7 Tangible assets

All tangible assets, cost £32,000 (1999: £32,000) are depreciated in full. The net realisable value at 31 December 2000 and 31 December 1999 was nil.

There was no capital expenditure authorised and contracted but not provided for at 31 December 2000 (1999: nil).

8 Debtors

	Group		Company	
	31 December 2000 £'000	31 December 1999 £'000	31 December 2000 £'000	31 December 1999 £'000
Trade debtors	-	4	-	4
Amounts owed by group undertakings	-	-	1,993	1,993
Interest receivable	152	160	152	160
Other debtors	356,950	22,745	356,950	22,745
Prepayments and accrued income	24	21	24	21
	357,126	22,930	359,119	24,923

Other debtors comprise amounts recoverable from the company's sub-contractor and shareholder in relation to the disputed contracts (see note 2). In the event that the award against the company is set aside or reduced, the receivable will correspondingly reduce.

International Military Services Limited and Subsidiaries

Notes to the financial statements for the year ended 31 December 2000 (continued)

9 Investments

	Group		Company	
	31 December 2000 £'000	31 December 1999 £'000	31 December 2000 £'000	31 December 1999 £'000
Short term deposits with local authorities and public utilities	28,160	28,700	28,160	28,700
Other short term deposits	38,381	36,413	38,381	36,413
	66,541	65,113	66,541	65,113

No listed securities were held at 31 December 2000 and 31 December 1999.

10 Creditors: amounts falling due within one year

	Group		Company	
	31 December 2000 £'000	31 December 1999 £'000	31 December 2000 £'000	31 December 1999 £'000
Trade creditors	23	148	22	147
Other creditors	-	33,469	-	33,469
Amounts owed to group undertakings	-	-	32	32
Corporation tax	367	405	367	405
Accruals and deferred income	75	376	75	376
Social Security and payroll taxation balances	1	1	1	1
	466	34,399	497	34,430

11 Operating lease commitments

Annual commitments under non-cancellable operating leases, analysed over the periods in which they expire, were as follows:

	31 December 2000		31 December 1999	
	Land and Buildings £'000	Plant and machinery £'000	Land and Buildings £'000	Plant and machinery £'000
Within one year	46	2	-	2
Between two and five years	-	-	46	-
	46	2	46	2

International Military Services Limited and Subsidiaries

Notes to the financial statements for the year ended 31 December 2000 (continued)

12 Provisions for liabilities and charges

	Group		Company	
	31 December 2000	31 December 1999	31 December 2000	31 December 1999
	£'000	£'000	£'000	£'000
Deferred taxation (see below)	4	4	4	4
Provisions relating to contracts	369,204	621	369,204	621
Provision for closure costs	85	85	85	85
Provisions against amounts due from and liabilities of subsidiary undertakings	-	-	1,993	1,993
	369,293	710	371,286	2,703

Information relating to the contract provisions is given in note 2. The timing of settlement will depend upon the resolution of the setting aside proceedings in the Netherlands.

Movements on provisions:

	Group		Company	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
Provisions brought forward	710	699	2,703	2,692
Amount charged to profit on ordinary activities before taxation	-	10	-	9
Reclassified from short term creditors	35,466	-	35,466	-
Provision relating to contracts (note 2)	333,117	-	333,117	-
Deferred tax provision included in tax charge for year (note 5)	-	1	-	2
Provisions carried forward	369,293	710	371,286	2,703

Deferred taxation:

	Group and company	
	2000	1999
	£'000	£'000
Contract profits	8	8
Tangible assets	(4)	(4)
	4	4

Provision for deferred taxation for the Group represents estimated future tax on all items of income and expenditure which are recognised for tax purposes in periods different from those used for accounting purposes at the tax rate of 30% (1999: 30%).

International Military Services Limited and Subsidiaries

Notes to the financial statements for the year ended 31 December 2000 (continued)

13 Called up share capital

	Group and company	
	2000	1999
	£'000	£'000
Authorised, allotted and fully paid:		
Ordinary shares of £1 each	20,000	20,000

14 Subsidiary undertakings

The company owns all the ordinary share capital of the following subsidiary undertakings:

IMS (India) Limited
 IMS (Iran) Limited
 IMS (Saudi Arabia) Limited
 Millbank Overseas Services Limited
 Millbank Technical Services Limited
 Millbank Technical Services Ordnance Limited
 IMS Manpower Resources Limited

All subsidiary undertakings are incorporated in England and are now dormant.

15 Ownership of share capital

The share capital is beneficially owned by the Secretary of State for Defence.

16 Employees

During the year ended 31 December 2000 the Group had an average of 2 employees (1999: 2). At 31 December 2000 the Group had 2 employees (1999: 2) based in the UK.

17 Reconciliation of movements in shareholders' funds

	Group		Company	
	31 December	31 December	31 December	31 December
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
Profit for the financial year	895	1,042	895	1,042
Opening shareholders' funds	53,033	51,991	53,022	51,980
Closing shareholders' funds	53,928	53,033	53,917	53,022