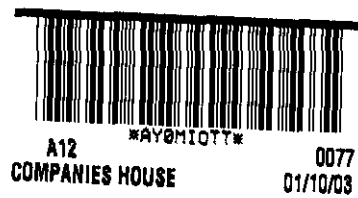


International Military Services Limited

(Registered Number: 924462)

Financial statements

For the year ended 31 December 2002



International Military Services Limited

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International Military Services Limited

Report of the directors for the year ended 31 December 2002

Review of business

The Company continues to have contractual supply commitments for the maintenance of defence and related equipment and is awaiting the resolution of certain 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.

The Company reached agreement with the Government of Iran, through a formal Consent Order, that payment of the Award will not be pursued until the outcome of the appeals process is known provided that a sum by way of security was paid into the UK High Court - this payment was made in December 2002.

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 £395,000 (2001: profit £572,000). The directors do not propose the payment of a dividend for 2002 (2001: 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 £54,895,000 (2001: £54,500,000)

Directors

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

Sir Kenneth Macdonald Chairman
Mr D G Jones
Mr N A D Sharvell (resigned 30 June 2002)
Mr C T Sandars (appointed 18 November 2002)

In accordance with the Company's Articles all 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 has 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

Report of the directors for the year ended 31 December 2002 (continued)

Charitable donations

Charitable donations in the year amounted to Nil (2001 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

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 27 February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

By order of the Board



D G Jones
Secretary

21 May 2003

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

Independent auditors' report to the members of International Military Services Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheets and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies'.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with the applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. 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.

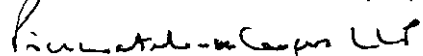
Basis of audit opinion

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 affairs of the Company and the Group at 31 December 2002 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
21 May 2003

1 Embankment Place
London
WC2N 6RH

International Military Services Limited

Consolidated profit and loss account for the year ended 31 December 2002

	Note	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Turnover		-	-
Cost of sales		(1)	(1)
Gross loss		<u>(1)</u>	<u>(1)</u>
Administrative expenses		(607)	(806)
Other operating income	3	1,153	1,601
Operating profit	3	<u>545</u>	<u>794</u>
Taxation on profit on ordinary activities	5	(150)	(222)
Profit for the financial year		<u>395</u>	<u>572</u>
Profit and loss account brought forward		34,500	33,928
Profit and loss account carried forward		<u><u>34,895</u></u>	<u><u>34,500</u></u>

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.

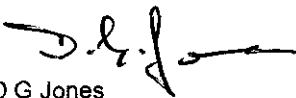
The notes on pages 7 to 14 form part of these financial statements.

International Military Services Limited

Consolidated balance sheet as at 31 December 2002

	Note	2002 £'000	2001 £'000
Fixed tangible assets	7	-	-
Current assets			
Debtors	8	408,819	365,020
Investments	9	29,380	67,926
Cash at bank and in hand		18	25
		<u>438,217</u>	<u>432,971</u>
Creditors - amounts falling due within one year	10	(388)	(940)
Net current assets		<u>437,829</u>	<u>432,031</u>
Total assets less current liabilities		437,829	432,031
Provisions for liabilities and charges	12	(382,934)	(377,531)
Net assets		<u>54,895</u>	<u>54,500</u>
Capital and reserves			
Called up share capital	13	20,000	20,000
Profit and loss account		34,895	34,500
Shareholders' funds	17	<u>54,895</u>	<u>54,500</u>

Approved by the Board on 21 May 2003 and signed on its behalf by:


D G Jones

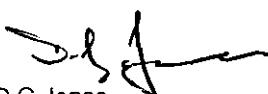
The notes on pages 7 to 14 form part of these financial statements

International Military Services Limited

Company balance sheet as at 31 December 2002

	Note	2002 £'000	2001 £'000
Fixed assets			
Tangible assets	7	-	-
Investments in subsidiary undertakings	14/9	-	20
		<u>-</u>	<u>20</u>
Current assets			
Debtors	8	410,371	367,013
Investments	9	29,380	67,926
Cash at bank and in hand		18	25
		<u>439,769</u>	<u>434,964</u>
Creditors - amounts falling due within one year	10	(387)	(971)
Net current assets		<u>439,382</u>	<u>433,993</u>
Total assets less current liabilities		439,382	434,013
Provisions for liabilities and charges	12	(384,486)	(379,524)
Net assets		<u>54,896</u>	<u>54,489</u>
Capital and reserves			
Called up share capital	13	20,000	20,000
Profit and loss account		34,896	34,489
Shareholders' funds	17	<u>54,896</u>	<u>54,489</u>

Approved by the Board on 21 May 2003 and signed on its behalf by:


D G Jones

The notes on pages 7 to 14 form part of these financial statements.

International Military Services Limited

Notes to the financial statements for the year ended 31 December 2002

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. The company has adopted Financial Reporting Standard 19 "Deferred Tax" this year. The deferred tax liability recognised in 2001 would not be any different under the revised accounting policy in 2002. The financial statements 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 cost 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

Notes to the financial statements for the year ended 31 December 2002 (continued)

1. Accounting policies (continued)

Foreign currencies

Foreign currency transactions are translated into sterling at the rate ruling when they take place, except for transactions 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

The company has adopted the incremental liability approach ("full provision basis") for recognising deferred tax from 1 January 2002.

Deferred tax is recognised in respect of timing differences that have originated but not reversed by the balance sheet date, but only when transactions or events that result in a right to pay less tax or an obligation to pay more tax in the future have occurred at the balance sheet date. The likelihood of these rights or obligations arising is based on the estimated probabilities of future events occurring. Deferred tax is measured on a non-discounted basis.

Tangible assets

All tangible assets are depreciated in full.

Leases

Rentals under operating leases are charged to the profit and loss account as incurred over the lease term.

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 2002. The Company reached agreement with the Government of Iran, through a formal Consent Order, that payment of the Award will not be pursued until the outcome of the appeals process is known provided that a sum by way of security was paid into the UK High Court. This payment was made in December 2002.

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 will result in a corresponding increase in the payment by the Company's shareholder and sub-contractor.

International Military Services Limited

Notes to financial statements for the year ended 31 December 2002 (continued)

3. Operating profit and profit on ordinary activities before taxation

	2002 £'000	2001 £'000
Profit on ordinary activities before taxation is stated after charging:		
Wages and salaries	41	102
Social security costs	3	9
Operating lease rentals - land and buildings	79	45
- plant and machinery	1	1
Other operating income comprises:		
Interest income on other investments and deposits	1,152	1,574
Other income	1	27
Fees paid to auditors comprise:		
Audit fees	9	9
Non-audit fees	29	91

Audit fees for International Military Services Limited (the Company) were £9,000 (2001: £8,500).

4. Emoluments of directors

The emoluments of the directors were as follows:

	2002 £'000	2001 £'000
Fees as directors	22	86
Emoluments for management services	19	16
Aggregate emoluments	<u>41</u>	<u>102</u>

International Military Services Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

5. Taxation on profit on ordinary activities

	2002 £'000	2001 £'000
Corporation tax on the profit for the year:		
Current at 30% (2001: 30%)	145	220
Deferred (note 12)	0	2
	<u>145</u>	<u>222</u>
Prior year adjustment	5	-
	<u>150</u>	<u>222</u>

The tax for the period is lower (2001: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2001 £'000	2001 £'000
Profit on ordinary activities before tax	545	794
Profit on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	164	238
Permanent Differences	8	1
Prior year adjustment	5	0
Small companies marginal relief	(26)	(17)
	<u>150</u>	<u>222</u>

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 £407,000 (2001: profit of £572,000).

7. Tangible assets

All tangible assets, cost £32,000 (2001: £32,000) are depreciated in full. The net realisable value at 31 December 2002 and 31 December 2001 was nil.

There was no capital expenditure authorised and contracted but not provided for at 31 December 2002 (2001: nil).

International Military Services Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

8. Debtors

	Group		Company	
	31 December 2002	31 December 2001	31 December 2002	31 December 2001
	£'000	£'000	£'000	£'000
Amounts owed by Group undertakings	-	-	1,552	1,993
Interest receivable	114	61	114	61
Other debtors	408,668	364,948	408,668	364,948
Prepayments and accrued income	37	11	37	11
	<u>408,819</u>	<u>365,020</u>	<u>410,371</u>	<u>367,013</u>

Other debtors comprise amounts recoverable from the company's sub-contractor and shareholder and amounts paid into the UK High Court as a security deposit against the company's potential liabilities 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 and corresponding provision for the liability (see note 12) will reduce. Amounts already recovered from the subcontractor and shareholder will become repayable. In the event that the company is unsuccessful in setting aside the award then the security deposit will be used in settlement of the company's liability (see note 12).

9. Investments

	Group		Company	
	31 December 2002	31 December 2001	31 December 2002	31 December 2001
	£'000	£'000	£'000	£'000
Short term deposits with local authorities and public utilities	26,500	27,695	26,500	27,695
Other short term deposits	2,880	40,231	2,880	40,231
	<u>29,380</u>	<u>67,926</u>	<u>29,380</u>	<u>67,926</u>

No listed securities were held at 31 December 2002 and 31 December 2001.

During 2002 a number of subsidiary undertakings held by the holding company were disposed. These companies were struck off and were effectively dormant non-trading companies that had not contributed to the consolidated results for the prior 2 years.

Subsidiary Name	Date of Disposal	Profit/(loss) recognised on disposal £'000
Millbank Technical Services (Ordnance) Ltd	01.10.2002	11
Millbank Overseas Services Ltd	01.10.2002	-
IMS (Saudi Arabia) Ltd	01.10.2002	-
Millbank Technical Services Ltd	08.10.2002	-
IMS Manpower Resources Ltd	19.11.2002	1
IMS (India) Ltd	19.11.2002	-
		<u>12</u>

International Military Services Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

10. Creditors: amounts falling due within one year

	Group		Company	
	31 December 2002 £'000	31 December 2001 £'000	31 December 2002 £'000	31 December 2001 £'000
Trade creditors	70	109	69	108
Amounts owed to Group undertakings	-	-	-	32
Corporation tax	145	591	145	591
Accruals & deferred income	171	238	171	238
Social Security and payroll taxation balances	2	2	2	2
	<u>388</u>	<u>940</u>	<u>387</u>	<u>971</u>

11. Operating lease commitments

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

	31 December 2002		31 December 2001	
	Land and Buildings £'000	Plant and Machinery £'000	Land and Buildings £'000	Plant and Machinery £'000
Within one year	-	-	-	-
Between two and five years	-	1	-	1
Over five years	82	-	82	-

12. Provision for liabilities and charges

	Group		Company	
	31 December 2002 £'000	31 December 2001 £'000	31 December 2002 £'000	31 December 2001 £'000
Deferred taxation (see below)	6	6	6	6
Provisions relating to contracts	382,843	377,440	382,843	377,440
Provision for closure costs	85	85	85	85
Provisions against amounts due from and liabilities of subsidiary undertakings	-	-	1,552	1,993
	<u>382,934</u>	<u>377,531</u>	<u>384,486</u>	<u>379,524</u>

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.

International Military Services Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

Movements on provisions:

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Provisions brought forward	377,531	369,293	379,524	371,286
Provision relating to contracts (note 2)	5,403	8,236	5,403	8,236
Set off provision against amount due from subsidiary Company	-	-	(441)	-
Deferred tax provision included in tax charge for year (note 5)	-	2	-	2
Provisions carried forward	<u>382,934</u>	<u>377,531</u>	<u>384,486</u>	<u>379,524</u>

Deferred taxation:

	Group and Company	
	2002 £'000	2001 £'000
Contract profits	8	8
Tangible assets	(2)	(2)
	<u>6</u>	<u>6</u>

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% (2001: 30%)

13. Called up share capital

	Group and Company	
	2002 £'000	2001 £'000
Authorised, allotted and fully paid: Ordinary shares of £1 each	<u>20,000</u>	<u>20,000</u>

14. Subsidiary undertakings

The Company owns all the ordinary share capital of the following subsidiary undertaking:

IMS (Iran) Limited

The subsidiary undertaking is incorporated in England and is 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 2002 the Group had an average of 3 employees (2001: 3). At 31 December 2002 the Group had 3 employees (2001: 3) based in the UK.

International Military Services Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

17. Reconciliation of movements in shareholders' funds

	Group		Company	
	31 December 2002 £'000	31 December 2001 £'000	31 December 2002 £'000	31 December 2001 £'000
Profit for the financial year	395	572	407	572
Opening shareholders' funds	54,500	53,928	54,489	53,917
Closing shareholders' funds	54,895	54,500	54,896	54,489