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INTERNATIONAL MILITARY SERVICES LIMITED
AND SUBSIDIARIES

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1997



INTERNATIONAL MILITARY SERVICES LIMITED
AND SUBSIDIARIES

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INTERNATIONAL MILITARY SERVICES LIMITED
AND SUBSIDIARIES

REPORT OF THE DIRECTORS

REVIEW OF BUSINESS

Turnover for the year remained at a low level. There still exist contractual supply commitments for the long term or ongoing maintenance of defence and related equipment and the remaining resolution of certain other outstanding contractual matters. Once these obligations have been met in full, 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 profit after taxation for the year was £1,973,000 (1996 - £1,366,000). The directors do not propose the payment of a dividend for 1997 (1996 - 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 £50,135,000 (1996 - £48,162,000).

DIRECTORS

The directors during the year were as follows:

Sir Kenneth Macdonald Chairman
Mr N A D Sharvell

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.

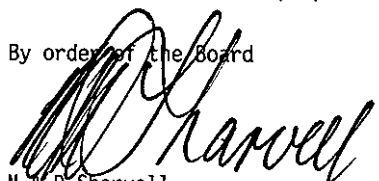
CHARITABLE DONATIONS

Charitable donations in the year amounted to Nil (1996 Nil).

AUDITORS

Price Waterhouse 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



N A D Sharvell
Secretary

Registered Office:
Glen House
Stag Place
London SW1E 5AG

15 April 1998

AUDITORS' REPORT TO THE SHAREHOLDERS OF
INTERNATIONAL MILITARY SERVICES LIMITED

We have audited the financial statements on pages 3 to 13 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

Respective responsibilities of directors and auditors

Under the Companies Act 1985, the directors are required to prepare accounts which give a true and fair view of the state of affairs of the Group as at the end of its financial year and of the profit or loss for the financial year. The directors are also responsible for ensuring that adequate accounting records are maintained and suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the accounts and applicable accounting standards have been followed.

The directors are also responsible to the Group for taking reasonable steps to safeguard the Group's assets and to prevent and detect fraud and other irregularities.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 affairs of the Company and the Group as at 31 December 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse
Chartered Accountants
and Registered Auditors
London.

15 April 1998

INTERNATIONAL MILITARY SERVICES LIMITED
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CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1997

	<u>Note</u>	Year ended 31 December <u>1997</u> £'000	Year ended 31 December <u>1996</u> £'000
TURNOVER		4	6
COST OF SALES		(12)	(17)
GROSS (LOSS)		(8)	(11)
Administration expenses		(729)	(833)
Other operating income	2	3,458	2,871
PROFIT ON CONTINUING ORDINARY ACTIVITIES BEFORE TAXATION	2	2,721	2,027
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	5	(748)	(661)
PROFIT FOR THE FINANCIAL YEAR		1,973	1,366
BALANCE BROUGHT FORWARD		28,162	26,796
BALANCE CARRIED FORWARD		30,135	28,162

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 a historic cost basis.

The notes on pages 6 to 13 form part of these Financial Statements.

INTERNATIONAL MILITARY SERVICES LIMITED
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET - 31 DECEMBER 1997

	<u>Note</u>	<u>31 December 1997</u>		<u>31 December 1996</u>	
		£'000	£'000	£'000	£'000
CURRENT ASSETS					
Debtors	8	12,012		8,387	
Investments	9	70,472		70,697	
Cash at bank and in hand		16		59	
		<u>82,500</u>		<u>79,143</u>	
CREDITORS (amounts falling due within one year)	10	(31,660)		(29,821)	
NET CURRENT ASSETS			50,840		49,322
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>50,840</u>		<u>49,322</u>
PROVISIONS FOR LIABILITIES AND CHARGES	12		705		1,160
CAPITAL AND RESERVES					
Called up share capital	13	20,000		20,000	
Profit and loss account		<u>30,135</u>		<u>28,162</u>	
Shareholders' funds	17		50,135		48,162
			<u>50,840</u>		<u>49,322</u>

DIRECTORS

Approved by the Board on 15 April 1998 and signed on its behalf by:
N A D Sharvell



The notes on pages 6 to 13 form part of these Financial Statements.

INTERNATIONAL MILITARY SERVICES LIMITED
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COMPANY BALANCE SHEET - 31 DECEMBER 1997

	<u>Note</u>	<u>31 December 1997</u>		<u>31 December 1996</u>	
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Investments in subsidiary undertakings	14		20		20
			<u>20</u>		<u>20</u>
CURRENT ASSETS					
Debtors	8	14,005		10,380	
Investments	9	70,472		70,697	
Cash at bank and in hand		16		59	
		<u>84,493</u>		<u>81,136</u>	
CREDITORS (amounts falling due within one year)	10	(31,691)		(29,852)	
NET CURRENT ASSETS			<u>52,802</u>		<u>51,284</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>52,822</u>		<u>51,304</u>
PROVISIONS FOR LIABILITIES AND CHARGES	12		2,698		3,153
CAPITAL AND RESERVES					
Called up share capital	13	20,000		20,000	
Profit and loss account		<u>30,124</u>		<u>28,151</u>	
			<u>50,124</u>		<u>48,151</u>
			<u>52,822</u>		<u>51,304</u>

DIRECTORS

Approved by the Board on 15 April 1998 and signed on its behalf by:
N A D Sharvell



The notes on pages 6 to 13 form part of these Financial Statements.

INTERNATIONAL MILITARY SERVICES LIMITED
AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997

1. ACCOUNTING POLICIES

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

(1) 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.) Provisions have not been made for ongoing administration costs as these will be funded by future interest income.

(2) 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.

(3) Turnover

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

(4) 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.

(5) Administration expenses

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

(6) 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.

(7) 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
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(8) 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.

(9) 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.

(10) Tangible assets

All tangible assets are depreciated in full.

INTERNATIONAL MILITARY SERVICES LIMITED
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 (CONTINUED)

2. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year ended 31 December <u>1997</u> £'000	Year ended 31 December <u>1996</u> £'000
Profit on ordinary activities before taxation is stated after charging:		
Wages and salaries	36	39
Social Security costs	1	1
Operating lease rentals - land and buildings	37	40
- plant and machinery	1	1
	<hr/>	<hr/>
Other operating income comprises:		
Interest income on other investments and deposits	2,747	2,618
Release of provision	440	-
Other income	271	253
	<hr/>	<hr/>
	3,458	2,871
	<hr/>	<hr/>
Fees paid to auditors comprise:		
Audit fees	9	9
Non-audit fees	1,093	792

Audit fees for International Military Services Limited (the Company) were £8,500 (1996 - £8,500)

3. LIABILITIES AND PROVISIONS RELATING TO CONTRACTS WITH THE GOVERNMENT OF IRAN

In late 1978 and early 1979 a number of contracts with the Government of Iran were terminated or suspended. Notwithstanding that the settlement of some of the relevant contracts are incomplete, it is believed that the amounts provided in respect of these contracts, which were established in previous periods, should cover all reasonably anticipated losses and claims.

INTERNATIONAL MILITARY SERVICES LIMITED
AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 (CONTINUED)

4. EMOLUMENTS OF DIRECTORS

	Year ended 31 December <u>1997</u> £'000	Year ended 31 December <u>1996</u> £'000
The emoluments of the directors were as follows:		
Fees as directors	14	14
Emoluments for management services	22	25
	<hr/>	<hr/>
Aggregate emoluments	36	39
	<hr/>	<hr/>

5. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December <u>1997</u> £'000	Year ended 31 December <u>1996</u> £'000
Corporation tax on the profit for the year:		
Current at 31% (1996 - 33%)	758	750
Deferred (Note 12)	(1)	(72)
	<hr/>	<hr/>
	757	678
Prior year adjustment	(9)	(17)
	<hr/>	<hr/>
	748	661
	<hr/>	<hr/>

6. PROFIT AND LOSS ACCOUNT

International Military Services Limited has not presented its own profit and loss account as permitted by Section 228(7) of the Companies Act 1985. The amount of the consolidated profit for the year dealt with in the accounts of the holding company was £1,973,000 (1996 - £1,366,000).

7. TANGIBLE ASSETS

All tangible assets, cost £47,000, are depreciated in full. The net realisable value at 31 December 1997 and 31 December 1996 was nil.

There was no capital expenditure authorised and contracted but not provided for at 31 December 1997 (1996 nil).

INTERNATIONAL MILITARY SERVICES LIMITED
AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 (CONTINUED)

8. DEBTORS

	GROUP		COMPANY	
	31 December 1997	31 December 1996	31 December 1997	31 December 1996
	£'000	£'000	£'000	£'000
Trade debtors	3	3	3	3
Amounts owed by group undertakings	-	-	1,993	1,993
Interest receivable	289	235	289	235
Other debtors	11,693	8,117	11,693	8,117
Prepayments and accrued income	27	32	27	32
	<u>12,012</u>	<u>8,387</u>	<u>14,005</u>	<u>10,380</u>

9. INVESTMENTS

	GROUP		COMPANY	
	31 December 1997	31 December 1996	31 December 1997	31 December 1996
	£'000	£'000	£'000	£'000
Short term deposits with Local Authorities and Public Utilities	37,830	39,150	37,830	39,150
Other short term deposits	32,642	31,547	32,642	31,547
	<u>70,472</u>	<u>70,697</u>	<u>70,472</u>	<u>70,697</u>

No listed securities were held at 31 December 1997 and 31 December 1996.

INTERNATIONAL MILITARY SERVICES LIMITED
AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 (CONTINUED)

10. CREDITORS

	GROUP		COMPANY	
	31 December 1997	31 December 1996	31 December 1997	31 December 1996
	£'000	£'000	£'000	£'000
Trade creditors	451	480	450	479
Other creditors	29,517	27,717	29,517	27,717
Amounts owed to group undertakings	-	-	32	32
Corporation tax	1,111	1,101	1,111	1,101
Accruals and deferred income	565	509	565	509
Social Security and payroll taxation balances	3	1	3	1
	<u>31,647</u>	<u>29,808</u>	<u>31,678</u>	<u>29,839</u>
Amounts received in advance under contracts	13	13	13	13
	<u>31,660</u>	<u>29,821</u>	<u>31,691</u>	<u>29,852</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 1997		31 December 1996	
	Land and buildings	Plant and machinery	Land and buildings	Plant and machinery
	£'000	£'000	£'000	£'000
Within one year	-	-	12	2
Between two and five years	46	2	-	-
	<u>46</u>	<u>2</u>	<u>12</u>	<u>2</u>

INTERNATIONAL MILITARY SERVICES LIMITED
AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 (CONTINUED)

12. PROVISIONS FOR LIABILITIES AND CHARGES

	GROUP		COMPANY	
	31 December 1997	31 December 1996	31 December 1997	31 December 1996
	£'000	£'000	£'000	£'000
Deferred taxation (see below)	1	1	1	1
Provisions relating to contracts	631	1,085	631	1,085
Provision for closure costs	73	74	73	74
Provisions against amounts due from and liabilities of subsidiary undertakings	-	-	1,993	1,993
	<u>705</u>	<u>1,160</u>	<u>2,698</u>	<u>3,153</u>

Movements on provisions:

	GROUP	
	31 December 1997	31 December 1996
	£'000	£'000
Provisions brought forward	1,160	1,237
Release of provisions to profit on ordinary activities before taxation	(1)	(5)
Deferred tax provision release included in tax charge for year (Note 5)	(1)	(72)
Contract provision released	(453)	-
Provisions carried forward	<u>705</u>	<u>1,160</u>

Deferred taxation:

	GROUP and COMPANY	
	31 December 1997	31 December 1996
	£'000	£'000
Contract profits	9	9
Tangible assets	(8)	(8)
	<u>1</u>	<u>1</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 31% (1996 - 33%)

INTERNATIONAL MILITARY SERVICES LIMITED
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 (CONTINUED)

13. CALLED UP SHARE CAPITAL

	GROUP and COMPANY	
	31 December 1997	31 December 1996
Authorised, allotted and fully paid: Ordinary shares of £1 each	£20,000,000	£20,000,000

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 1997 the group had an average of 2 employees (1996 - 2). At 31 December 1997 the group had 2 employees (1996 - 2) based in the UK.

17. Reconciliation of Movements in Shareholders' Funds.

	31 December 1997 £'000	31 December 1996 £'000
Profit for the financial year	1,973	1,366
Increase in Shareholders' Funds for the year	1,973	1,366
Opening Shareholders' Funds	48,162	46,796
Closing Shareholders' Funds	50,135	48,162