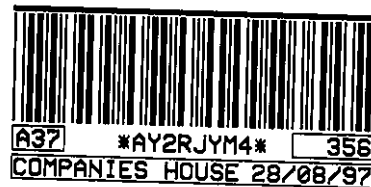


BABCOCK DEFENCE SYSTEMS LIMITED
(Formerly Mikemanda Ltd)

**DIRECTORS' REPORT AND
FINANCIAL STATEMENTS**

for the year ended 31 March 1997

Company number 1199791



BABCOCK DEFENCE SYSTEMS LIMITED

DIRECTORS AND ADVISORS

DIRECTORS

W A Cramond
W Meir
M S Easton

SECRETARY

J D T Greig

REGISTERED OFFICE

Badminton Court
Church Street
Amersham
Bucks HP7 ODD

AUDITORS

Binder Hamlyn
Chartered Accountants
20 Old Bailey
London EC4M 7BH

BABCOCK DEFENCE SYSTEMS LIMITED

DIRECTORS' REPORT for the year ended 31 March 1997

FINANCIAL STATEMENTS

The company changed its name from Mikemanda Ltd to Babcock Defence Systems Ltd on 6 August 1996.

The directors present their report and financial statements for the year ended 31 March 1997.

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the profit or loss 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 reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to 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.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the company is that of an investment holding company with a view to future trading.

RESULTS AND DIVIDENDS

The results for the year are set out in the profit and loss account on page 4. The directors do not recommend the payment of a dividend (1996: nil).

SUPPLIER PAYMENTS

The company policy on payment of trade creditors is to pay suppliers in accordance with contractual and other legal obligations. Trade creditors of Babcock Defence Systems Ltd are paid on average within 30 days of invoice date.

BABCOCK DEFENCE SYSTEMS LIMITED

DIRECTORS' REPORT for the year ended 31 March 1997

DIRECTORS

The members of the Board during the year and since the year end were:

EAS Porter	(resigned 31 January 1997)
P Rose	(resigned 31 January 1997)
W A Cramond	(appointed 31 January 1997)
M S Easton	(appointed 18 May 1997)
A J Marsh	(appointed 31 January 1997, resigned 1 July 1997)
W Meir	(appointed 31 January 1997)
A K Smith	(appointed 31 January 1997, resigned 18 May 1997)

No director has any beneficial interest in the company's own shares. At 31 March 1997 Mr EAS Porter was also a director of the ultimate parent company and his interests in the shares and share options of that company are disclosed in that company's accounts.

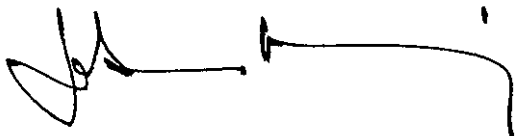
The interests of the other directors in the shares and share options of Babcock International Group PLC, the company's ultimate parent company, were as follows:

	Ordinary shares 31 March 1997	Share options 31 March 1997
W A Cramond	-	15,000
A J Marsh	-	127,000
P Rose	-	40,019
A K Smith	47,164	219,562
M S Easton	-	-

AUDITORS

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Binder Hamlyn be re-appointed as auditors of the company will be put to the Annual General Meeting.

This report was approved by the Board on 1 July 1997



J D T Greig
Secretary

BABCOCK DEFENCE SYSTEMS LIMITED

AUDITORS' REPORT
for the year ended 31 March 1997

AUDITORS' REPORT

to the shareholders of Babcock Defence Systems Ltd

We have audited the financial statements on pages 4 to 7 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

Respective responsibilities of directors and auditors

As described on page 1, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

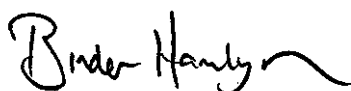
Basis of opinion

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 circumstances of the company, 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 as at 31 March 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Binder Hamlyn
Chartered Accountants and Registered Auditors
20 Old Bailey
London, EC4M 7BH

1 July 1997

BABCOCK DEFENCE SYSTEMS LIMITED**PROFIT AND LOSS ACCOUNT**
for the year ended 31 March 1997

	Notes	1997	1996
		£'000	£'000
Loan account forgiven	4	509	-
Retained Result		509	-

During the year there were no recognised gains and losses other than those dealt with in the profit and loss account. All of the above results derive from continuing activities.

BABCOCK DEFENCE SYSTEMS LIMITED**BALANCE SHEET
as at 31 March 1997**

	Notes	1997	1996
		£'000	£'000
FIXED ASSETS			
Investments	3	1	1
CREDITORS: amounts falling due within one year	4	-	(509)
Net assets / (liabilities)		1	(508)
CAPITAL AND RESERVES			
Share capital	5	-	-
Profit and loss account		1	(508)
Shareholders' funds - equity interests		1	(508)

The financial statements on pages 4 to 7 were approved by the Board on 1 July 1997

AJ Marsh

AJ Marsh
Director

BABCOCK DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards.

Investment income

Income from fixed asset investments is recorded on a receipts basis.

Fixed asset investments

Fixed asset investments are recorded at cost less provision for permanent diminution in value.

2 DIRECTORS' REMUNERATION

No director received remuneration in respect of his services to the company during the year under review (1996 : £nil).

3 FIXED ASSET INVESTMENTS

These comprise 9¾% Treasury Stock 2002 which is stated at cost. Market value at 31 March 1997 was £698 (1996: £684).

4	CREDITORS: amounts falling due within one year	1997 £'000	1996 £'000
	Amounts owed to fellow subsidiary undertakings	-	509

The amounts owed to fellow subsidiary undertakings were forgiven during the year as part of a group reorganisation.

BABCOCK DEFENCE SYSTEMS LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

5	SHARE CAPITAL	1997	1996
		£'000	£'000
	Issued, called up and fully paid		
	50 ordinary shares of £1 each	-	-
	Authorised		
	100,000 ordinary shares of £1 each	100	100
6	RECONCILIATION OF SHAREHOLDERS FUNDS	1997	1996
		£'000	£'000
	Profit for the financial year	509	-
	Opening shareholders funds	(508)	(508)
	Closing Shareholders Funds	1	(508)

7 ULTIMATE PARENT COMPANY

The company's ultimate parent company is Babcock International Group PLC, a company registered in England and Wales. Copies of the Babcock International Group PLC accounts are available to the public at the following address:

Company Secretary
Babcock International Group PLC
Badminton Court
Church Street
Amersham
Buckinghamshire
HP7 0DD