

# **Defence Systems Eurasia Limited**

**(Registered Number: 3341262)**

**Annual Report And Financial Statements**

**Year Ended 31 December 2005**



# **Defence Systems Eurasia Limited**

## **Directors' Report For The Year Ended 31 December 2005**

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2005. These are the first set of financial statements prepared under International Financial Reporting Standards (IFRS). Details of the impact of adopting IFRS are given in note 1 to the financial statements.

### **Principal Activity**

The principal activity of the company continued to be the provision of protective security services, weapons reduction and mine clearance, management and administration services to fellow group companies and third party customers.

The company was incorporated in England and Wales, and its registered office is Egginton House, 25-28 Buckingham Gate, London SW1E 6LD.

The Company has one overseas branch, based in Croatia.

### **Review of the Business and Future Developments**

The company continues to seek additional work in Russia and the CIS and also to support the rest of the Group's activities in this region.

### **Results and Dividends**

The company made a loss for the year of \$446,889 (2004: \$429,578) which will be deducted from reserves. The directors do not recommend the payment of a dividend (2004: \$nil).

### **Directors and Their Interests**

The directors who held office during the year and up to the date of signing these accounts were as follows:

J Hoffman (resigned 14 July 2006)

D J Seaton

N A Philp

C D Beese

M Brabin (appointed 14 July 2006)

None of the directors who held office at the end of the financial year had any interest in the shares of the company at 31 December 2005 and 1 January 2005 that are required to be disclosed under Schedule 7 of the Companies Act 1985.

The interests of the directors in the shares and share options of ArmorGroup International plc, the ultimate parent company, are shown in the annual report of that company.

# **Defence Systems Eurasia Limited**

## **Directors' Report For The Year Ended 31 December 2005 (Continued)**

### **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 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 confirm they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping 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.

### **Liquidity risk**

The company's liquidity risk is primarily attributable to balances due to and from group undertakings. The company is part of the ArmorGroup International plc group of companies which actively maintains a mixture of long-term and short-term debt finance that is designed to ensure that the group has sufficient available funds for its operations.

### **Interest rate cash flow risk**

The company has both interest bearing assets and interest bearing liabilities. Interest bearing assets and liabilities include cash balances and certain balances due to and from group undertakings, which earn and bear interest at floating rates. The company does not use interest rate derivatives. However, the ArmorGroup International plc group of companies may from time to time use interest rate derivatives to manage the group's exposure to interest rate fluctuations.

### **Currency risk**

The company's strategy to minimise foreign exchange risk is to draw all significant borrowings in the company's functional currency of US\$ and hold bank accounts in US\$. The company, in general, does not consider it necessary to enter into foreign currency or forward contracts.

### **Going concern**

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the ultimate parent company ArmorGroup International plc. The directors have received confirmation that ArmorGroup International plc intends to support the company for at least one year after these financial statements are signed.

# **Defence Systems Eurasia Limited**

## **Directors' Report For The Year Ended 31 December 2005 (Continued)**

### **Auditors**

The Auditors, PricewaterhouseCoopers LLP, have expressed their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By Order of the Board



D J Seaton  
Director

30 October 2006

## **Independent Auditors' Report to the Members of Defence Systems Eurasia Limited**

We have audited the financial statements of Defence Systems Eurasia Limited for the year ended 31 December 2005 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Change in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 International Standards on Auditing (UK and Ireland). 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 whether the financial statements have been 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

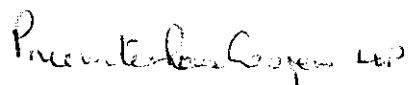
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments 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, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2005 and of its loss and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Accountants  
West London

30 October 2006

# **Defence Systems Eurasia Limited**

## **Notes To The Financial Statements - 31 December 2005**

### **Income statement for the year ended 31 December 2005**

	<i>Note</i>	<b>2005 US\$</b>	<b>2004 US\$</b>
<b>Turnover</b>	<b>2</b>	<b>1,114,427</b>	<b>1,011,563</b>
<b>Cost of sales</b>		<b>(981,072)</b>	<b>(698,137)</b>
<b>Gross profit</b>		<b>133,355</b>	<b>313,426</b>
<b>Administrative expenses</b>		<b>(577,198)</b>	<b>(743,024)</b>
<b>Operating loss</b>	<b>3</b>	<b>(443,843)</b>	<b>(429,598)</b>
<b>Interest receivable</b>	<b>4</b>	<b>15</b>	<b>20</b>
<b>Loss before tax</b>		<b>(443,828)</b>	<b>(429,578)</b>
<b>Taxation</b>	<b>7</b>	<b>(3,061)</b>	<b>-</b>
<b>Loss for the year</b>		<b>(446,889)</b>	<b>(429,578)</b>

All results derive from the continuing activities of the company.

The notes on pages 9 to 23 form part of these financial statements.

# Defence Systems Eurasia Limited

## Notes To The Financial Statements - 31 December 2005

### Balance sheet as at 31 December 2005

	Note	2005 US\$	2004 US\$
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	135	458
Investments in subsidiaries	9	341	341
		476	799
<b>Current assets</b>			
Trade and other receivables	10	260,907	2,289,846
Cash and cash equivalents		47,654	89,435
		308,561	2,379,281
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings	12	-	(50)
Trade and other payables	11	(1,932,830)	(3,556,934)
		(1,932,830)	(3,556,984)
<b>Net current liabilities</b>		(1,624,269)	(1,177,703)
<b>Net liabilities</b>		(1,623,793)	(1,176,904)
<b>Shareholders' equity</b>			
Share capital	14	3	3
Retained earnings		(1,623,796)	(1,176,907)
<b>Total shareholders' deficit</b>		(1,623,793)	(1,176,904)

The financial statements on pages 5 to 23 were approved by the board on 30 October 2006 and signed on its behalf by



D J Seaton  
Director

The notes on pages 9 to 23 form part of these financial statements.

# Defence Systems Eurasia Limited

## Notes To The Financial Statements - 31 December 2005

### Cash flow statement for the year ended 31 December 2005

	<i>Note</i>	2005 US\$	2004 US\$
<b>Cash flows from operating activities</b>			
Cash (outflow)/inflow from operations	<b>15</b>	(38,723)	77,013
Interest received		15	20
Tax paid		(3,023)	(38)
Net cash (outflow)/inflow from operating activities		(41,731)	76,995
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(41,731)</b>	<b>76,995</b>
Cash and cash equivalents at beginning of year		89,385	12,390
<b>Cash and cash equivalents at end of year</b>	<b>15</b>	<b>47,654</b>	<b>89,385</b>



# **Defence Systems Eurasia Limited**

## **Notes To The Financial Statements - 31 December 2005**

### **Statement of changes in shareholders' equity for the year ended 31 December 2005**

	<b>Share capital US\$</b>	<b>Retained earnings US\$</b>	<b>Total US\$</b>
<b>At 1 January 2004</b>	<b>3</b>	<b>(747,329)</b>	<b>(747,326)</b>
Loss for the year	-	(429,578)	(429,578)
<b>At 31 December 2004</b>	<b>3</b>	<b>(1,176,907)</b>	<b>(1,176,904)</b>
Loss for the year	-	(446,889)	(446,889)
<b>At 31 December 2005</b>	<b>3</b>	<b>(1,623,796)</b>	<b>(1,623,793)</b>

# **Defence Systems Eurasia Limited**

## **Notes To The Financial Statements - 31 December 2005**

### **1 Accounting Policies**

#### **Basis of preparation**

These statements have been prepared in accordance with International Reporting Standards and IFRIC interpretations endorsed by the European Union (EU) and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historic cost convention on a going concern basis. A summary of the more important company accounting policies is set out below.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

#### **First time adoption of International Financial Reporting Standards (IFRS)**

This is the first year that Defence Systems Eurasia Limited has produced financial statements under IFRS. IFRS 1 "First time adoption of International Financial Reporting Standards" sets out the requirements for companies preparing financial statements under IFRS for the first time and requires the accounting policies to be applied retrospectively. IFRS 1 contains the option to take advantage of certain exemptions to the retrospective application. The Company has applied the following optional exemption:

#### **IAS 32 and IAS 39**

Comparative information for IAS 32 "Financial instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" is not restated for 2004. The provisions of the two standards were adopted from 1 January 2005 and comparative information for 2004 will be presented on the existing UK GAAP basis.

A description of the effects of the transition from UK GAAP to IFRS together with a reconciliation between the financial statements previously prepared under UK GAAP and IFRS equivalents are set out in note 20.

#### **a) Going Concern**

The financial statements show net liabilities. However, the directors believe it is appropriate for the financial statements to be prepared on the going concern basis as the ultimate parent undertaking, ArmorGroup International plc, has informed the company that it is its intention to provide the company with sufficient funds for the foreseeable future and for at least the next 12 months from the date that these financial statements were approved, to enable the company to meet its liabilities as they fall due.

# Defence Systems Eurasia Limited

## Notes To The Financial Statements - 31 December 2005 (continued)

### 1 Accounting Policies (Continued)

#### b) Revenue recognition

Revenue represents the amounts (excluding value added tax and other sales taxes) derived from the provision of services to third party customers and fellow group undertakings, plus recharges of other contract expenses including insurance, equipment, travel and out-of-pocket expenses at cost or cost plus a handling fee.

Revenue is recognised as services are provided in accordance with the terms of each contract on a contract-by-contract basis over the term of the contract.

#### c) Foreign currency translation

##### *Functional and presentational currency*

Transactions included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in United States Dollars ("US\$") which is the Company's functional and presentation currency. At 31 December 2005 the closing exchange rate to sterling was £1/US\$1.720 (31 December 2004: £1/US\$1.926) and the average exchange rate to sterling for the year ended 31 December 2005 was £1/US\$1.818 (31 December 2004: £1/US\$1.831).

##### *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange differences on loan relationships between subsidiary undertakings are recognised in the income statement.

#### d) Property, plant and equipment

Property, plant and equipment is stated at purchase cost together with any incidental expenses of acquisition less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset, on a straight-line basis, over its expected useful economic life as follows:

Office equipment	33.3% per annum
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Assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of assets are included in the income statement and are determined by comparing proceeds with carrying amount.

# **Defence Systems Eurasia Limited**

## **Notes To The Financial Statements - 31 December 2005 (continued)**

### **1 Accounting Policies (Continued)**

#### **e) Investments in subsidiary undertakings**

Investments in subsidiary undertakings are carried in the Company's balance sheet at cost less any provision for impairment in value in accordance with IAS 27 "Consolidated and Separate Financial Statements".

Any impairment losses are charged to the income statement.

#### **f) Trade receivables**

Trade receivables are stated at nominal value less any provision for irrecoverable amounts. Trade receivables are first assessed individually for impairment, or collectively where the receivables are not significant. Where there is no objective evidence of impairment for an individual receivable, it is included in a group of receivables with similar credit risk characteristics and these are collectively assessed for impairment. Movements in the provision for doubtful trade receivables are recorded in the income statement.

#### **g) Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

#### **h) Taxation including deferred taxation**

Current income tax is recognised as an income and expense in the income statement for the year, except to the extent that the tax arises from a transaction or event that is recognised directly in equity, either in the same or a different accounting period.

Current tax assets and liabilities are measured at the amount expected to be paid to, or recovered from, the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

# Defence Systems Eurasia Limited

## Notes To The Financial Statements - 31 December 2005 (continued)

### 1 Accounting Policies (Continued)

#### i) Employee benefit costs

##### *Pensions*

The company participates in the group defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge profits represents the contributions payable by the company to the fund.

##### *Holiday Pay*

Paid holidays are regarded as an employee benefit and as such are charged to the income statement as the benefits are earned. An accrual is made at the balance sheet to reflect the fair value of holidays earned but not yet taken.

#### j) Consolidation

In accordance with S228 of the Companies Act 1985 the company is exempt from the obligation to prepare and deliver group financial statements as it is included in the consolidated financial statements of ArmorGroup International plc which are publicly available. Accordingly, these financial statements present information about the company as an individual entity and not as a group.

#### k) Related party disclosures

On adoption of IAS 24 "Related Party Disclosure," all transactions and balances with related parties require disclosure in the financial statements. Under UK GAAP, the company was exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions (but not balances) with entities that are part of the ArmorGroup International plc group or investors of the ArmorGroup International plc group.

### 2 Segmental reporting

Turnover is attributable to the activity as set out in the report of the directors and is derived in the following segments:

	2005 US\$	2004 US\$
Eastern Europe	689,524	551,413
Asia	424,903	460,150
	<hr/> 1,114,427	<hr/> 1,011,563

# Defence Systems Eurasia Limited

## Notes To The Financial Statements - 31 December 2005 (continued)

### 3 Operating loss

	2005 US\$	2004 US\$
The following items have been included in arriving at operating loss:		
Employee costs (Note 6)	783,516	553,139
Foreign exchange (gain) / loss	(11,150)	436
Depreciation on property, plant and equipment – owned assets	323	323
Profit on disposal of property, plant and equipment	-	(3,008)

Auditors' remuneration in respect of audit services for the years ended 31 December 2005 and 2004 was borne by a fellow group company.

During the year ended 31 December 2005, fellow group companies have recharged administrative expenses of \$131,765 (2004: \$363,210) to the company.

### 4 Interest receivable

	2005 US\$'000	2004 US\$'000
Bank interest	15	20

### 5 Key management compensation

Key management comprise the executive directors.

None of the directors received remuneration in respect of their services as directors of the company (2004: \$nil).

None of the directors (2004: none) are accruing retirement benefits under defined benefit pension schemes or money purchase pension schemes in respect of their services as directors of the company.

# Defence Systems Eurasia Limited

## Notes To The Financial Statements - 31 December 2005 (continued)

### 6 Employee Information

The average monthly number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	2005 Number	2004 Number
Management and administration	3	4
Security services	3	3
	6	7

The aggregate payroll costs of these persons were as follows:

	2005 US\$	2004 US\$
Wages and salaries	783,516	545,025
Social security costs	-	8,114
	783,516	553,139

### 7 Taxation

	2005 US\$	2004 US\$
Foreign current tax		
Adjustment in respect of prior periods	3,061	-
	3,061	-

The total income tax assessed for the current year is higher (2004: higher) than the standard rate of income tax in the UK (30%) for the reasons set out in the following reconciliation:

	2005 US\$	2004 US\$
Loss before income tax	(443,828)	(429,578)
Loss multiplied by standard rate of income tax in the UK of 30% (2004: 30%)	(133,148)	(128,873)
<b>Factors affecting income tax expense for the year:</b>		
Expenses not deductible for tax purposes	(20,882)	(15,216)
Group relief surrendered for nil consideration	173,445	124,603
Other timing differences	(19,415)	19,486
Adjustment in respect of prior periods	3,061	-
<b>Total taxation</b>	<b>3,061</b>	<b>-</b>

# Defence Systems Eurasia Limited

## Notes To The Financial Statements - 31 December 2005 (continued)

### 7 Taxation (Continued)

The company has no liability for deferred taxation as at 31 December 2005 (2004: \$nil).

The potential amount of deferred taxation for all timing differences is as follows:

	2005 US\$	2004 US\$
Taxation losses carried forward	200,143	347,572
Other timing differences	396	19,506
Unprovided deferred tax asset	200,539	367,078

The directors consider that it is unlikely that there will be sufficient taxable profits in the future such as to realise the deferred tax asset, and therefore the asset has not been recognised in these financial statements.

### 8 Property, plant and equipment

	Office equipment 2005 US\$	2004 US\$
<b>Cost</b>		
At 1 January and 31 December	970	970
<b>Accumulated depreciation</b>		
At 1 January	512	189
Charge for the year	323	323
At 31 December	835	512
<b>Net book value</b>		
At 31 December	135	458
At 1 January	458	781



# Defence Systems Eurasia Limited

## Notes To The Financial Statements - 31 December 2005 (continued)

### 9 Fixed Assets Investments

	Ordinary shares in subsidiary undertakings US\$
<b>Cost</b>	
At 1 January 2004 and 31 December 2004 and 2005	31,461
<b>Provision for impairment</b>	
At 1 January 2004 and 31 December 2004 and 2005	(31,120)
<b>Net Book Value</b>	
<b>As at 31 December 2004 and 31 December 2005</b>	<b>341</b>

At 31 December 2005 the principal subsidiary undertakings of the company were as follows:

Subsidiary undertakings	Principal Activity	% ordinary shares held	Country of incorporation
Defence Systems Eurasia Limited Ukraine	Security services	100	Ukraine
Defence Systems Eurasia Limited Kazakhstan	Security services	100	Kazakhstan
Armor Group Eurasia LLC	Security services	100	Azerbaijan
Armor Group Eurasia Zao	Security services	100	Russia

In the opinion of the directors the investments in, and amounts due from, the company's subsidiary undertakings are worth at least the amounts at which they are stated in the balance sheet.

### 10 Trade and other receivables

	2005 US\$	2004 US\$
Trade receivables	19,804	66,050
Less provision for impairment of receivables	(201)	(43,768)
Trade receivables - net	19,603	22,282
Amounts owed by group undertakings	216,864	2,261,975
Other debtors	24,440	5,589
	<b>260,907</b>	<b>2,289,846</b>

Amounts owed by group undertakings are unsecured and are repayable on demand.

# Defence Systems Eurasia Limited

## Notes To The Financial Statements - 31 December 2005 (continued)

### 11 Trade and other payables

	2005 US\$	2004 US\$
Amounts owed to fellow subsidiary undertakings	1,884,326	3,514,547
Accruals and deferred income	48,504	42,387
	<u>1,932,830</u>	<u>3,556,934</u>

Amounts owed to group undertakings are unsecured and are repayable on demand.

### 12 Financial liabilities - Borrowings

	2005 US\$	2004 US\$
Bank overdrafts	-	50

# Defence Systems Eurasia Limited

## Notes To The Financial Statements - 31 December 2005 (continued)

### 13 Financial instruments

IAS 32 'Financial Instruments: Presentation and Disclosure' and IAS 39 'Financial Instruments: Recognition and Measurement' were adopted by the Company with effect from 1 January 2005.

Financial instruments disclosures were not required for this company under UK GAAP for the year ended 31 December 2004 and therefore no comparatives are included below.

#### 2005 – IFRS disclosures

##### Currency and interest rate risk disclosures

The currency and interest rate risk profile of the Company's net assets at 31 December 2005 was as follows:

##### Financial assets

Currency	Cash at bank and in hand US\$	Trade receivables less provision US\$	Amounts owed by group undertakings US\$	Other receivables and accrued income US\$	Total US\$
US dollars					
- floating	20,337	-	216,864	-	237,201
- non interest earning	1,883	19,603	-	24,440	45,926
Rouble					
- non interest earning	15,143	-	-	-	15,143
UK Sterling					
- floating	9,941	-	-	-	9,941
Croatian HRK					
- floating	350	-	-	-	350
	<b>47,654</b>	<b>19,603</b>	<b>216,864</b>	<b>24,440</b>	<b>260,907</b>

##### Financial liabilities

Currency	Amounts due to fellow subsidiary undertakings	Accruals US\$	Total US\$
US dollars			
- floating	1,884,326	-	1,884,326
- no interest paid	-	48,504	48,504

##### Fair values of financial assets and financial liabilities

The fair values of the Group's financial assets and financial liabilities at 31 December 2005 were not materially different from their book values.

# Defence Systems Eurasia Limited

## Notes To The Financial Statements - 31 December 2005 (continued)

### 14 Called Up Share Capital

	2005 US\$	2004 US\$
<b>Authorised:</b>		
1,000 ordinary shares of £1 each	1,630	1,630
<b>Allotted, called up and fully paid:</b>		
2 ordinary shares of £1 each at 1 January and 31 December	3	3

### 15 Reconciliation of loss after tax to net cash (outflow)/inflow from operating activities

	2005 US\$	2004 US\$
<b>Loss after tax</b>	<b>(446,889)</b>	<b>(429,578)</b>
Adjustments for:		
Interest receivable	(15)	(20)
Taxation	3,061	-
Depreciation	323	323
	<b>(443,520)</b>	<b>(424,275)</b>
<i>Changes in working capital</i>		
Decrease in trade and other receivables	2,028,939	141,044
(Decrease)/increase in payables	(1,624,142)	360,244
<b>Cash (outflow)/inflow from operations</b>	<b>(38,723)</b>	<b>77,013</b>

Cash and bank overdrafts include the following for the purposes of the cash flow statement:

	2005 US\$	2004 US\$
Cash and cash equivalents	47,654	89,435
Bank overdrafts (note 12)	-	(50)
	<b>47,654</b>	<b>89,385</b>

# Defence Systems Eurasia Limited

## Notes To The Financial Statements - 31 December 2005 (continued)

### 16 Reconciliation of net cash flow to movement in net debt

	2005 US\$	2004 US\$
(Decrease)/increase in cash in the period	(41,731)	76,995
Changes in net debt resulting from cash flows	(41,731)	76,995
Movement in net debt in the period	(41,731)	76,995
Net cash at the beginning of the period	89,385	12,390
<b>Net cash at the end of the period</b>	<b>47,654</b>	<b>89,385</b>

### 17 Related party disclosures

#### Transactions with directors and senior management

#### Key management compensation

Key management compensation is disclosed in Note 5.

#### Transactions with fellow subsidiaries

On 1 January 2005, ArmorGroup International plc and its group subsidiary companies entered into a master group netting, assignment and financing deed. Under the terms of this deed, all subsidiaries are required to regularly assign their net debts to a fellow group company, ArmorGroup Finance Management Limited.

During the year, the following transactions arose with fellow group companies:

#### Sales of services

Sales of services comprise management and administration services provided to other group companies.

	2005 US\$	2004 US\$
Fellow subsidiaries	1,409,849	3,855,117

#### Purchases of services

	2005 US\$	2004 US\$
Fellow subsidiaries	2,069,947	4,212,912

# Defence Systems Eurasia Limited

## Notes To The Financial Statements - 31 December 2005 (continued)

### 17 Related party disclosures (continued)

At the year-end, the following related party balances existed between the Company and fellow subsidiary undertakings:

	2005 US\$	2004 US\$
<b>Receivables from related parties</b>		
Amounts due from fellow subsidiaries	216,864	2,261,975
<b>Payables from related parties</b>		
Amounts due to fellow subsidiaries	1,884,326	3,514,547

### 18 Contingent liabilities

At 31 December 2005 and 2004 the Company and certain subsidiaries were party to a multicurrency revolving facility bank agreement totaling US\$15,000,000. Under this agreement, the Company's ultimate parent undertaking, ArmorGroup International plc, has guaranteed the amounts drawn down by Defence Systems Eurasia Limited and certain subsidiaries. The maximum contingent liability of the Company under this agreement at 31 December 2005 was US\$524,000 (2004: US\$620,000) representing guarantees provided by the bank.

Subsequent to the balance sheet date, on 15 March 2006, the Group's multicurrency revolving facility and asset financing facility were extended to a total facility of US\$30,000,000 comprising a multicurrency revolving facility of US\$18,000,000 and an asset financing facility of US\$12,000,000.

At 31 December 2005 and 2004 the Company was party to a composite accounting agreement such that the bank has a right of offset between credit balances and all overdrawn balances of those Group undertakings with similar arrangements. In addition, the Company has guaranteed the bank overdrafts of certain Group companies. At 31 December 2005, the maximum contingent liability of the Company under this guarantee was US\$913,000 (2004: US\$498,000).

### 19 Ultimate Parent Undertaking

The company's immediate parent undertaking is ArmorGroup (Worldwide) Limited, a company incorporated in England and Wales.

The ultimate parent undertaking and controlling party is ArmorGroup International plc, a company incorporated in England and Wales, which is the parent undertaking of the smallest and largest group to consolidate these financial statements.

Copies of these financial statements are publicly available and can be obtained from The Secretary, ArmorGroup International plc, Egginton House, 25-28 Buckingham Gate, London SW1E 6LD.

# Defence Systems Eurasia Limited

## Notes To The Financial Statements - 31 December 2005 (continued)

### 20 Reconciliation of profit and net assets under UK GAAP to IFRS

Defence Systems Eurasia Limited reported under UK GAAP in its previously published financial statements for the year ended 31 December 2004. The analysis below shows a reconciliation of profit and net assets, as reported under UK GAAP as at 31 December 2004 to the revised profit and net assets under IFRS as reported in these financial statements. In addition, there is a reconciliation of net assets under UK GAAP to IFRS at the transition date for Defence Systems Eurasia Limited, being 1 January 2004.

#### Reconciliation of profit before tax for year ended 31 December 2004

	US\$
Profit before tax reported under UK GAAP	(408,521)
Employee benefits – holiday pay accrual	(21,057)
<b>Profit before tax reported under IFRS</b>	<b>(429,578)</b>

#### Reconciliation of net assets / equity at 1 January 2004

The transition from UK GAAP to IFRS did not result in any changes to the net liabilities as at 1 January 2004 as presented under UK GAAP. Therefore a restatement under IFRS was not required.

#### Reconciliation of balance sheet at 31 December 2004

	UK GAAP US\$	Effect of transition to IFRS US\$	IFRS US\$
<b>Non-current assets</b>			
Property, plant and equipment	458	-	458
Investments	341	-	341
	799	-	799
<b>Current assets</b>			
Trade and other receivables	2,289,846	-	2,289,846
Cash and cash equivalents	89,435	-	89,435
	2,379,281	-	2,379,281
<b>Current liabilities</b>			
Borrowings	(50)	-	(50)
Trade and other payables	(3,535,877)	(21,057)	(3,556,934)
	(3,535,927)	(21,057)	(3,556,984)
<b>Net current liabilities</b>	<b>(1,156,646)</b>	<b>(21,057)</b>	<b>(1,177,703)</b>
<b>Net liabilities</b>	<b>(1,155,847)</b>	<b>(21,057)</b>	<b>(1,176,904)</b>
<b>Capital and reserves</b>			
Called up share capital	3		3
Retained earnings	(1,155,850)	(21,057)	(1,176,907)
<b>Total equity shareholders' deficit</b>	<b>(1,155,847)</b>	<b>(21,057)</b>	<b>(1,176,904)</b>

# Defence Systems Eurasia Limited

## Notes To The Financial Statements - 31 December 2005 (continued)

### 20 Reconciliation of profit and net assets under UK GAAP to IFRS (Continued)

#### Reconciliation of income statement for year ended 31 December 2004

	UK GAAP US\$	Effect of transition to IFRS US\$	IFRS US\$
Turnover	1,011,563	-	1,011,563
Cost of sales	(677,080)	(21,057)	(698,137)
<b>Gross profit</b>	<b>334,483</b>	<b>(21,057)</b>	<b>313,426</b>
Administrative expenses	(743,024)	-	(743,024)
<b>Operating loss</b>	<b>(408,541)</b>	<b>(21,057)</b>	<b>(429,598)</b>
Interest receivable and similar income	20	-	20
<b>Loss before tax</b>	<b>(408,521)</b>	<b>(21,057)</b>	<b>(429,578)</b>
Income tax expense	-	-	-
<b>Loss for the year</b>	<b>(408,521)</b>	<b>(21,057)</b>	<b>(429,578)</b>

#### Explanatory notes

The notes below explain the effect that the transition from UK GAAP to IFRS has had on the previously published financial information.

##### a. Employee benefits

Under UK GAAP no accrual was made by the Company for holiday pay.

IAS 19 "Employee Benefits" requires the expected cost of compensated short-term absences (e.g. holidays) to be recognised when the employee rendered the service that increases their entitlement. As a result, an accrual should be made for holidays earned but not taken.

The effect of adopting IAS 19 is to reduce operating profit, profit after tax and net assets for the year ended 31 December 2004 by US\$21,057.

##### b. Cash flow statement

On adoption of IAS 7 "Cash Flow Statements", the Company is required to prepare a full cash flow statement. Under UK GAAP, the Company was able to take advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (Revised 1996).

##### c. Related party disclosures

On adoption of IAS 24 "Related party disclosures," all transactions and balances with related parties require disclosure in the financial statements. Under UK GAAP, the company was exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions (but not balances) with entities that are part of the ArmorGroup International plc group or investors of the ArmorGroup International plc group.