

The Number 1 Account is in fact three separate accounts, but they are being looked at together. The accounts are a US Dollar instant access account, account number 51117721, a Euro instant account, account number 51117722 and a Sterling instant account, account number 51117711. All the accounts are in the name of LBA Systems Limited. LBA Systems Limited and how it fits in within the structure known as the Odessa Capital Trust is explained elsewhere.

These accounts are held with Standard Chartered Bank in Jersey. The accounts were in existence when the structure and particularly LBA Systems were being managed by Bachmann Trust Company Limited.

Each account has been reviewed and the transactions analysed. It is clear from the transactions that these accounts are more transactional in nature than the Number 2 Account, which as been reviewed separately.

51117721 US Dollar Instant Access Account.

The period of the review was from 3rd April 2002 to 17th June 2003

Debits:

This account has been reviewed by reconciling the entries on the bank statements provided against documentation that can be found in the correspondence files. It is clear from the correspondence that Investec Trust Group Limited (ITGL), who acts as the corporate directors of LBA Systems Limited, were faxed instruction to make payment or advised, again by fax, that funds will be deposited into the account.

With regards to instructions to make payments. The instructions were received from either LBA International (LBAS Int), LBA Systems Limited based in the United Kingdom (LBAS UK), LBA Systems Limited operated from Guernsey (LBAS CI) but registered in British Virgin Islands, Odessa Capital Trust (OCT) and Riverdell Limited (RL).

i | In the majority of cases no supporting documents were provided as to the purpose of the payments or what the payments were for. Furthermore it is clear that a number of payments related to the supply of firearms and other lethal weapons. In a number of cases no additional supporting documentation was provided, such as export licences, contracts or end user licences. |

It has been asserted that the supply of firearms and weapons was a one off activity and that there was a verbal agreement between the relationship manager Ian Burns and Andrew Macgill effectively the beneficial owner of the structure to this effect. However it is evident from the payments and transfer requests that the supply of firearms and weapons was an ongoing business and there appear to be at least two contracts. There is also evidence in other files that the supply of firearms has been a business activity since 1996.

Consultation fees have been passed to a Brian Mills of LBAS UK relating to contracts K19 and K20, from the documentation on file it appears that these were contracts to supply firearms and other weapons to the Commissioner of Kenyan Police.

Upon review the weapons supplied appears unusual for a police force. The weapons included hand grenades, 60mm mortars and 500 kilograms of C4 explosive. There is no evidence in the files that enquires were made as to whether contracts were in place and the part that LBAS CI were to take in the contracts. There was no evidence that LBAS CI were involved in the negotiation of any contracts. There is evidence that some of the firearms were purchased directly from Iran and shipped to Kenya via Amsterdam.

Not all transaction² related to the supply of firearms. Two transactions related the purchase of a Bentley motor vehicle. Four transactions related to the purchase of a property in Minsk Belarus. ^{to}

Credits:

There were twelve deposits made in to the account. Six of these deposits, totalling \$3.29 million, were deposited from a company called Sound Day Corporation. This company from documents on file is owned by R C Kamani. The corporate address of Sound Day Corporation is the same as LBA International in Daventry. It would appear that LBAS UK or LBAS CI would raise an invoice to Sound Day for the purchases made. These invoices were not raised by ITGL but third parties connected to LBAS UK and then faxed to LBAS CI. A total of \$4.453 Million was deposited over a twelve month period.

For a full breakdown of debits, credits and an analysis of the distributions see Appendix X.

Account operation:

How the account operated would be presumed that there was a contract to supply firearms between Sound Day Corporation and the Kenyan Police. Arms would be purchased via LBAS UK. LBAS UK would place orders with suppliers who would ship the arms to Kenya. The suppliers would invoice LBAS UK, although some invoices would be addressed to LBAS CI. This would be without the knowledge of the management of LBAS CI in Guernsey. LBAS UK would fax payment instructions to LBAS CI, the majority of which had no supporting documentation attached. LBAS CI would then make the payment to the supplier. Sound Day Corporation would invoice the Kenyan Police. It is assumed that LBAS UK or LBAS CI would invoice Sound Day Corporation and they would deposit funds into the account of LBAS CI.

For a chart explaining the above see Appendix X

51117722 Euro Instant Access Account.

The period of the review was from 9th September 2002 to 17th June 2003

The Euro account had a relatively small amount of activity put through it. Two transactions are believed to be related to the supply of ballistic vest to the Egyptian government. This is the original business that LBA systems and Andrew Macgill. See the extract of the LBA system web site.

The main distributions were made to Mr and Mrs Macgill. It is believed that these were for use in the purchase of the property in Minsk. In all cases a trust distribution checklist was completed. There was also a purchase of a motor vehicle.

Funds generally crediting the account came from internal transfers from other LBAS UK or LBAS CI accounts.

For a full breakdown of debits, credits and an analysis of the distributions see Appendix X.

51117711 Sterling Instant Access Account.

The period of the review was from 21st November 2001 to 30th June 2003

This account is much more transactional in nature. That is to say that the account was used for a number of activities. There was no one activity which dominated the account activity. These activities included the supply of ballistic vests, helmets and visors. The purchase of motor vehicles on behalf of Mr Macgill. Distributions to Guinness Flight Trustees, presumably for fees.

There was one transaction which directly related to the supply of bolt action rifles to the Kenyan Police and this supply was undertaken under the name of LBAS CI, from a UK company.

Deposits to the account were made by LBAS International, LBA Systems in the UK and Investec Bank Channel Islands Limited.

In summary:

- It is clear that the supply of arms is not a new business line or a one off activity. There is evidence that this activity dates back to 1996. There is no evidence that any verbal agreement between Ian Burns and Andrew Macgill was documented.
- It would appear that ITGL have been reactive in the management of LBAS CI and just responded to the request for payments, in accordance with Andrew Macgill's directions and instructions without any real questions being asked.
- A third party, i.e. Andrew Macgill, has been acting on behalf of LBAS CI without any authority to do so. Including the entering of contracts without the knowledge of the LBAS CI management.
- Firearms have been supplied from a country which ethically may be questionable to deal with.
- The request/ instructions have been authorised by Andrew Macgill who has no authority to make such requests or provide such instructions, particularly trust distributions.
- In a memo relating to contracts, the term "Baksheesh" has been mentioned. It is concerning that such terms have been used and what was the purpose of the increase of the supply price?
- No enquires have been made by ITGL as to the legality of the supply of arms. When requests were made to pay arms suppliers no evidentiary documentation was routinely requested such as contracts, export licences or end user licences. When such documents were requested it appears to satisfy enquires made by compliance or when the issue was raised. No enquires were ever made with the Guernsey authorities or with the UK DTI in relation to this activity. It would appear that total reliance was placed on the expertise of others. We need legal opinion as to whether there has been any breach of regulations or law.
- There are no agency agreements on file to explain the role of LBAS CI in these contracts or even any record on file that any verbal agreements were entered into.
- Serious concerns relating to the trading activity on this account were raised by Ollie Goddard, the account administrator and Doris Steer, the compliance officer in memos from October 2002 to December 2002. These issues were reported to Ian Burns. There is no evidence on file that these concerns, particularly in relation to arms/weapons trading activity by LBAS CI have to date not been resolved.
- * According to Ian Burns (memo dated 18th November 2002) there is an agency agreement under which LBAS UK had been negotiating as agents for LBAS CI for the purchase and sale of products including lethal weapons. The agreement is not evidenced in writing.
- There was no policy in place at the time relating to the purchase and sales of arms being prohibited. Further there was no procedures as to what documents should be obtained. There is still no policy in place with regards to prohibited business activities.