

HUNTING BRAE LIMITED

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004**

Registered No: 2489301



HUNTING BRAE LIMITED

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2004.

ACTIVITIES

The Company's activity has continued to be the management of contracts with the UK Ministry of Defence and with other parties connected with contractual work for the Ministry of Defence. Until 31 March 2000, the company held a Term Contract with the Ministry of Defence for the management of the Atomic Weapons Establishment.

RESULTS AND DIVIDENDS

The results and financial position of the Company are set out in the attached financial statements.

An interim dividend of £6,700,000 was paid during the year (2003 : £Nil). The Directors do not recommend the payment of a final dividend (2003 : £Nil).

The retained loss for the year of £6,914,000 (2003 : loss £232,000) has been transferred to reserves.

DIRECTORS

The Directors of the Company who served during the year were as follows:

D. Harris
J.W. Mactaggart
G.A. Wells
K. Russell
G.L. Johnson
D.L. Clark
T. Pryor (resigned 24 March 2005)

No Directors had a material interest in any contract of significance to which the Company was a party.

The interests of D.L. Clark in the shares of Hunting PLC, the ultimate parent undertaking, are disclosed in the 2004 annual report and accounts of that company.

G.A. Wells holds 6,875 ordinary shares in Hunting PLC (2003 : 6,875). The remaining Directors had no interests in the share capital of Hunting PLC other than as noted below.

On 9 March 2005, Hunting PLC share options were granted at 236p per ordinary share to Directors as follows:

Number of options

D.L. Clark	94,915
J.W. Mactaggart	40,678

The following Director holds options to subscribe for ordinary shares pursuant to the rules of Hunting PLC's 2001 executive share option schemes:

	Subscription price p	Option period expires in	Options at 31 December 2004	Granted in the year	Options at 31 December 2003
J.W. Mactaggart	125.00	2014	76,800	76,800	-

HUNTING BRAE LIMITED

DIRECTORS' REPORT (continued)

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 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;
- 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 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.

CHARITABLE AND POLITICAL DONATIONS

The Company made no charitable or political donations in 2004 (2003 : Nil).

AUDITORS

PricewaterhouseCoopers LLP have indicated their willingness to continue in office as auditors. A resolution to reappoint them as auditors to the Company will be proposed at the Annual General Meeting.

By Order of the Board



D.L. Clark
Director

17 August 2005

HUNTING BRAE LIMITED

AUDITORS' REPORT

TO THE MEMBERS OF HUNTING BRAE LIMITED

We have audited the financial statements on pages 4 to 10 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with 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.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' report.

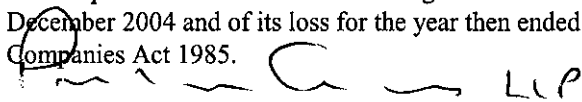
Basis of audit opinion

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 state of the Company's affairs at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

17 August 2005

HUNTING BRAE LIMITED**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2004**

	<u>Notes</u>	<u>2004</u> £'000	<u>2003</u> £'000
Administrative expenses		(487)	(649)
Interest receivable	5	404	595
Interest payable	6	<u>(18)</u>	<u>-</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	2	(101)	(54)
Tax on loss on ordinary activities	7	<u>(113)</u>	<u>(178)</u>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(214)	(232)
Dividends	8	<u>(6,700)</u>	<u>-</u>
RETAINED LOSS FOR THE YEAR	13	<u>(6,914)</u>	<u>(232)</u>

The Company has no recognised gains or losses other than the loss for the year.

The notes on pages 7 to 10 form part of these financial statements.

HUNTING BRAE LIMITED**BALANCE SHEET
AT 31 DECEMBER 2004**

	<u>Notes</u>	<u>2004</u> £'000	<u>2003</u> £'000
CURRENT ASSETS			
Debtors	10	16,636	23,284
Cash at bank and short term investments		<u>3,055</u>	<u>10,618</u>
		19,691	33,902
CREDITORS: amounts falling due within one year	11	<u>(5,315)</u>	<u>(12,612)</u>
NET ASSETS		<u>14,376</u>	<u>21,290</u>
CAPITAL AND RESERVES			
Called up share capital	12	11,000	11,000
Profit and loss account	13	<u>3,376</u>	<u>10,290</u>
EQUITY SHAREHOLDERS' FUNDS	14	<u>14,376</u>	<u>21,290</u>

Approved by the Board on 17 August 2005.



D.L. Clark
Director

The notes on pages 7 to 10 form part of these accounts.

HUNTING BRAE LIMITED**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004**

	<u>2004</u> £'000	<u>2003</u> £'000
Loss on ordinary activities before interest	(487)	(649)
Decrease in debtors	6,648	8,670
Decrease in creditors	<u>(7,232)</u>	<u>(203)</u>
Net cash (outflow) inflow from operating activities	(1,071)	7,818
Returns on investments and servicing of finance		
Interest received	404	595
Interest paid	(18)	-
Taxation paid	(178)	(146)
Equity dividends paid	<u>(6,700)</u>	<u>-</u>
(Decrease) increase in net cash	<u>(7,563)</u>	<u>8,267</u>

HUNTING BRAE LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004

1. ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards.

(b) Going concern

In the opinion of the directors, the company has sufficient reserves and cash balances to meet liabilities as they fall due and accordingly these accounts have been prepared on a going concern basis.

2. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	<u>2004</u> £'000	<u>2003</u> £'000
Loss on ordinary activities before taxation is stated after charging:		
Auditors' remuneration:		
Audit	-	2
Non-audit services	8	3
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Auditors' remuneration has been dealt with in the financial statements of Hunting PLC, the Company's ultimate parent undertaking.

3. EMPLOYEES

The Company had no employees during the year (2003 : Nil).

4. DIRECTORS' REMUNERATION

The Directors received no emoluments in respect of their services to the Company during the year (2003: £Nil).

5. INTEREST RECEIVABLE

	<u>2004</u> £'000	<u>2003</u> £'000
Bank interest	220	411
Interest receivable from group companies	184	184
	<hr/>	<hr/>
	404	595
	<hr/>	<hr/>

6. INTEREST PAYABLE

	<u>2004</u> £'000	<u>2003</u> £'000
Other interest	18	-
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HUNTING BRAE LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

7. TAX ON LOSS ON ORDINARY ACTIVITIES

	<u>2004</u> £'000	<u>2003</u> £'000
Corporation tax at 30 % (2003: 30%)	116	178
Adjustment in respect of prior years	<u>(3)</u>	<u>-</u>
	<u>113</u>	<u>178</u>

The current tax charge for the year exceeds the UK standard rate for corporation tax of 30% for the reasons set out below:

	<u>2004</u> £'000	<u>2003</u> £'000
Loss on ordinary activities before tax	<u>(101)</u>	<u>(54)</u>
Taxation at the standard UK corporation tax rate of 30%	(30)	(16)
Losses for which no relief is available	146	194
Adjustment in respect of prior years	<u>(3)</u>	<u>-</u>
Current tax charge	<u>113</u>	<u>178</u>

8. DIVIDENDS

An ordinary dividend of £6.7m was paid on 19 May 2004 (2003 : £Nil).

9. DEFERRED TAXATION

The Company had no deferred tax provided or unprovided at 31 December 2004 and 31 December 2003.

10. DEBTORS

	<u>2004</u> £'000	<u>2003</u> £'000
Amounts owed by shareholders – interest free	12,410	19,110
Amounts owed by shareholders – interest bearing	4,140	4,140
Other debtors	<u>86</u>	<u>34</u>
	<u>16,636</u>	<u>23,284</u>

Of the £12.4m (2003 : £19.11m) amounts owed by shareholders – interest free, £10.55m (2003 : £17.25m) is repayable on demand, is interest free and is supported by bank guarantees.

The amount of £4.14m (2003 : £4.14m) owed by shareholders – interest bearing, is repayable on demand and is interest bearing at a fixed rate of 6% per annum.

HUNTING BRAE LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

11. CREDITORS: amounts falling due within one year

	<u>2004</u> £'000	<u>2003</u> £'000
Other creditors	121	7
Corporation tax	116	181
Accruals and deferred income	<u>5,078</u>	<u>12,424</u>
	<u>5,315</u>	<u>12,612</u>

12. SHARE CAPITAL

The authorised, issued and fully paid up share capital of the Company is as follows:

	<u>2004</u> £'000	<u>2003</u> £'000
5,610,000 'A' Ordinary Shares of £1	5,610	5,610
3,410,000 'B' Ordinary Shares of £1	3,410	3,410
1,980,000 'C' Ordinary Shares of £1	<u>1,980</u>	<u>1,980</u>
Allotted and fully paid	<u>11,000</u>	<u>11,000</u>

Each share type has the same winding up and dividend rights attributable to it. Each 'A' share holds six votes at meetings, with each 'B' and each 'C' share holding two.

13. PROFIT AND LOSS ACCOUNT

	<u>2004</u> £'000	<u>2003</u> £'000
At 1 January	10,290	10,522
Retained loss for the year	<u>(6,914)</u>	<u>(232)</u>
At 31 December	<u>3,376</u>	<u>10,290</u>

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>2004</u> £'000	<u>2003</u> £'000
Loss for the financial year	(214)	(232)
Dividends	<u>(6,700)</u>	<u>-</u>
Retained loss	(6,914)	(232)
Opening shareholders' funds	<u>21,290</u>	<u>21,522</u>
Closing shareholders' funds	<u>14,376</u>	<u>21,290</u>

HUNTING BRAE LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

15. RELATED PARTY TRANSACTIONS

Amounts owed by shareholders – interest free, comprise £7.8m (2003 : £12.7m) owed by Hunting PLC, £1.9m (2003 : £1.9m) owed by Kellogg Brown and Root Limited and £2.7m (2003 : £4.5m) owed by A.E.A. Technology Limited.

Amounts owed by shareholders – interest bearing, comprise £3.1m (2003 : £3.1m) owed by Hunting PLC on which £0.2m (2003 : £0.2m) interest was earned during the year and £1.1m (2003 : £1.1m) owed by A.E.A. Technology Limited on which £0.1m (2003 : £0.1m) interest was earned during the year. The interest bearing advances carry a fixed rate of interest of 6% per annum.

On 31 December 2004, the loans to Hunting PLC noted above were assigned to Hunting PLC by Hunting Defence Limited.

16. POST BALANCE SHEET EVENT

On 30 June 2005 the Company declared an interim dividend for 2005 of £7.5m.

17. PRINCIPAL SHAREHOLDER

The principal shareholder of the Company is Hunting Defence Limited, which holds 51 percent of the issued share capital and is registered in England and Wales. The ultimate holding company of Hunting Defence Limited is Hunting PLC, a company which is also registered in England and Wales. Copies of the group accounts of Hunting PLC can be obtained from 3 Cockspur Street, London SW1Y 5BQ.