

HARRISON SMITH (BATLEY) LIMITED

*A Member of the Contracting Group
of Scottish and Southern Energy plc*

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2006



HARRISON SMITH (BATLEY) LIMITED

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HARRISON SMITH (BATLEY) LIMITED

DIRECTORS' REPORT

The Directors of Harrison Smith (Batley) Limited present their Directors' report and financial statements for the year ended 31 May 2006.

Principal Activity

The Company's principal activity is as a plumbing and heating contractor.

Dividends

A dividend of £100,000 was paid during the year (2005: £40,000).

Business Review

Principal Risks and Uncertainties

The Directors acknowledge that they have responsibility for the Company's systems of internal control and risk management and for monitoring their effectiveness. The purposes of these systems are to manage, rather than eliminate, the risk of failure to achieve business objectives, to provide reasonable assurance as to the quality of management information and to maintain proper control over the income, expenditure, assets and liabilities of the Company.

No system of control can, however, provide absolute assurance against material misstatement or loss. Accordingly, the Directors have regard to what controls, in their judgement, are appropriate to the Company's business and to the relative costs and benefits of implementing specific controls.

The main financial risks that the Company could face have been considered by the Directors. The Company is reliant on obtaining regular profitable contracts for work and a keen focus is maintained on securing such contracts. The Company is also dependent on the continued availability of a suitably skilled workforce to carry out its operations. Good industrial relations, staff retention and effective recruitment play a key role in this area. Health and safety risks are taken very seriously and are managed by effective training, communication, procedures and monitoring.

Review of Development and Performance

On 9 February 2006 the Company's shares were all acquired by Southern Electric Contracting Limited, a member of the Scottish and Southern Energy plc group. Since the acquisition the Company has worked closely with Southern Electric Contracting Limited to secure joint mechanical and electrical contracts while also continuing with its core business. All new work secured after the acquisition is reported within the financial statements of Southern Electric Contracting Limited.

HARRISON SMITH (BATLEY) LIMITED

DIRECTORS' REPORT (continued)

Key Performance Indicators

Operating profit before interest and tax is considered to be the Company's most important indicator of performance.

	2006	2005
Turnover	£3,440,478	£4,316,194
Operating profit	£195,566 (5.7%)	£302,044 (7.0%)
Average number of employees	40	40

Directors and Directors' Interests

The Directors of the Company who served during the year are:-

Mr A J Pike (appointed 9 February 2006)
Mr T Payne (appointed 9 February 2006)
Mr C M Hillman (appointed 16 February 2006)
Mr B Harrison (resigned 9 February 2006)
Mr M A Smith (resigned 9 February 2006)
Mr P M Hinchliffe (resigned 9 February 2006)

The beneficial interests of the Directors in the Company are as follows:

	Ordinary shares of £1 each	
	31 May 2006 (No)	1 June 2005 (No)
Mr A J Pike	-	-
Mr T Payne	-	-
Mr C M Hillman	-	-
Mr B Harrison	-	15,304
Mr M A Smith	-	14,696
Mr P M Hinchliffe	-	-

The beneficial interests of the Directors and their families in the ordinary shares and share options of Scottish and Southern Energy plc are shown in note 9 of the financial statements.

Disabled Employees

It is the Company's policy to give full and fair consideration to every application for employment from disabled persons, bearing in mind the abilities and aptitudes of the applicants in relation to available vacancies.

HARRISON SMITH (BATLEY) LIMITED

DIRECTORS' REPORT (continued)

Policy on Payment to Creditors

It is the Company's policy to pay each creditor in line with the contract terms and conditions, subject to the terms and conditions being met by the supplier.

In accordance with Statutory Instrument 1997/571, the number of supplier days represented by trade creditors was calculated as 2 at 31 May 2006 (2005: 58).

Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

During the year, KPMG Audit Plc have acted as the Company's auditors and have indicated their willingness to continue as auditors.

By order of the Board



Vincent Donnelly
Company Secretary
19 March 2007

HARRISON SMITH (BATLEY) LIMITED

Statement of Directors' Responsibilities in Respect of the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to 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 these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK 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 keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent Auditors' Report to the Members of Harrison Smith (Batley) Limited

We have audited the financial statements of Harrison Smith (Batley) Limited for the year ended 31 May 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As described in the Statement of Directors' Responsibilities on page 3, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 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 UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 May 2006 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit plc
Chartered Accountants
1 The Embankment
Neville Street
Leeds, LS1 4DW

19 March 2007

HARRISON SMITH (BATLEY) LIMITED**PROFIT AND LOSS ACCOUNT**

For the year ended 31 May 2006

	Notes	2006 £	2005 £
Turnover	2	3,440,478	4,316,194
Cost of sales		<u>(2,702,413)</u>	<u>(3,304,888)</u>
Gross profit		738,065	1,011,306
Distribution costs		<u>(106,010)</u>	<u>(131,916)</u>
Administrative expenses		<u>(436,489)</u>	<u>(577,346)</u>
Operating profit	3	195,566	302,044
Interest receivable	4	5,200	939
Interest payable and similar charges	5	<u>(2,448)</u>	<u>(2,529)</u>
Profit on ordinary activities before taxation		198,318	300,454
Tax on profit on ordinary activities	6	<u>(57,643)</u>	<u>(60,215)</u>
Profit for the financial year		<u>140,675</u>	<u>240,239</u>

The above results derive from continuing operations.

There are no recognised gains or losses for the year other than the retained profit as shown in note 16.

The accompanying notes are an integral part of this profit and loss account.

HARRISON SMITH (BATLEY) LIMITED**BALANCE SHEET**

At 31 May 2006

	Notes	2006 £	2005 £
Fixed assets			
Tangible fixed assets	10	-	49,633
Current assets			
Stocks	11	-	33,003
Debtors	12	709,646	1,162,579
Cash at bank and in hand		798,362	318,507
		1,508,008	1,514,089
Creditors: amounts falling due within one year	13	(947,198)	(1,056,416)
Net current assets		560,810	457,673
Total assets less current liabilities		560,810	507,306
Creditors: amounts falling due in greater than one year	14	(19,184)	(6,355)
Net assets		541,626	500,951
Capital and reserves			
Called-up share capital	15	30,000	30,000
Profit and loss account	16	511,626	470,951
Equity shareholders' funds	17	541,626	500,951

The financial statements on pages 7 to 17 were approved by the Board on 19 March 2007.



C Hillman
Director

The accompanying notes are an integral part of this balance sheet.

HARRISON SMITH (BATLEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 May 2006

1. Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

In these financial statements the following new standards have been adopted for the first time.

FRS21 "Events after the balance sheet date"

FRS21 superseded SSAP17. Under the new standard dividends payable at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements. This has resulted in no change to the previously reported net asset position of the Company.

The presentational requirements of FRS25 "Financial instruments presentation and disclosure"

FRS25 states that distributions to holders of equity instruments shall be debited directly to equity. The other requirements of FRS25 have no material effect on the Company.

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

(b) Turnover

Turnover comprises the value of work completed and agreed with the client during the year, exclusive of value added tax.

(c) Pension costs

The pension costs charged in the financial statements represent the contributions payable by the Company during the year in accordance with FRS 17. The Company also participates in a multi-employer defined benefit pension scheme. Contribution levels are set, for the scheme as a whole, in accordance with actuarial advice. The Company's contributions are affected by any scheme surplus or deficit, although the Company is unable to identify its share of the underlying assets and liabilities in the scheme. Therefore in accordance with the provisions of FRS 17, the Company accounts for pension contributions as if the scheme were a defined contribution scheme.

HARRISON SMITH (BATLEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 May 2006

1. Accounting Policies (continued)

(d) Leased assets

Assets held under finance leases are capitalised and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of finance charges allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

(e) Taxation

Corporation tax payable is provided on taxable profits at the current rate. Deferred taxation arises in respect of items where there is a timing difference between their treatment for accounting purposes and their treatment for taxation purposes. In accordance with FRS19, full provision without discounting is made for deferred taxation.

(f) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. The charge for depreciation is calculated to write off these assets on a straight line basis over their estimated useful lives to their estimated residual value. The lives of each major class of depreciable asset are as follows :

Motor vehicles	4 years
Fixtures, equipment and other plant and machinery	4 years

(g) Stocks

Stocks are valued at the lower of cost and net realisable value.

(h) Long term contracts

Amounts recoverable on long term contracts, which are included in debtors, are stated on the net sales value of the work done after provision for contingencies and anticipated future losses on contracts, less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account.

(i) Cash flow statement

The Company's ultimate parent company produces a cash flow statement in accordance with Financial Reporting Standard 1 (Revised 1996). Accordingly the Company, which is a wholly owned subsidiary, is not required to produce a cash flow statement.

HARRISON SMITH (BATLEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 May 2006

1. Accounting Policies (continued)

(j) Related Party Transactions

As a subsidiary undertaking of Scottish and Southern Energy plc, the Company has taken advantage of the exemption in Financial Reporting Standard 8 "Related party disclosures" not to disclose transactions with other members of the group headed by Scottish and Southern Energy plc.

(k) Dividends on Shares Presented within Shareholders' Funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

2. Turnover

The Company's turnover arose mainly from plumbing and heating work in the United Kingdom.

3. Operating Profit

Operating profit is stated after charging/(crediting):

	2006	2005
	£	£
Depreciation of tangible assets	19,644	27,878
(Profit) / loss on disposal of tangible assets	(5,011)	-
Loss on disposal of intangible assets	-	116
Operating lease rentals	42,430	675
Auditors' remuneration	6,085	4,500

4. Interest Receivable

	2006	2005
	£	£
Bank interest	5,200	939

5. Interest Payable and Similar Charges

	2006	2005
	£	£
Bank interest	633	1,253
Hire purchase interest	1,300	708
Other interest	515	568
	2,448	2,529

HARRISON SMITH (BATLEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 May 2006

6. Taxation

	2006 £	2005 £
UK taxation on profit for the year:		
Corporation tax at 30% (2005: 19%)	76,775	60,215
Corporation tax (over)/under provided in previous years	-	(1,003)
	<u>76,775</u>	<u>59,212</u>
Deferred taxation	(19,132)	1,003
Taxation charge for the year	<u>57,643</u>	<u>60,215</u>

Factors affecting the tax charge for the year:

The current tax charge for the period is higher (2005: lower) than the standard rate of corporation tax in the UK of 30% (2005: 30%). The differences are explained below.

Current tax reconciliation

Profit on ordinary activities before tax	<u>198,318</u>	<u>300,454</u>
Taxation charge based on profit before tax at 30%	59,495	90,136
Effects of:		
(Over)/under provided in previous years – corporation tax	-	(1,003)
Expenses not deductible for tax purposes	14,480	2,207
Depreciation for period greater than capital allowances	4,303	602
Accounting profit on disposal of fixed assets	(1,503)	-
Small companies relief	-	(32,730)
Total current tax charge	<u>76,775</u>	<u>59,212</u>

7. Dividends

	2006 £	2005 £
Interim dividend paid in respect of the current year	<u>100,000</u>	<u>40,000</u>

8. Employees

	2006 £	2005 £
Total employee costs during the year:		
Wages and salaries	1,005,093	1,335,058
Social security costs	70,043	107,607
Other pension costs (see note 19)	34,012	46,548
	<u>1,109,148</u>	<u>1,489,213</u>

The average monthly number of employees was 40 (2005: 40).

HARRISON SMITH (BATLEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 May 2006

9. Directors' Remuneration and Interests

The total Directors' emoluments for the year were £170,998 (2005: £263,833) of which £65,704 (2005: £102,968) was payable to the highest paid Director.

The number of Directors who were members of money purchase pension schemes was 3 (2005: 3), and the number who were members of defined benefit pension schemes was nil (2005: nil).

The beneficial interests of the Executive Directors and their families in the ordinary shares and share options of Scottish and Southern Energy plc were :-

	31 May 2006	
	Shares (No)	Options (No)
Mr A J Pike	1,026	10,330
Mr T Payne	198	3,350
Mr C M Hillman	967	2,736
Mr B Harrison	-	-
Mr M A Smith	-	-
Mr P M Hinchliffe	-	-

10. Tangible Fixed Assets

	Total £
Cost	
At 1 June 2005	185,998
Additions	67,813
Disposals	(48,681)
Transfers out	(205,130)
At 31 May 2006	-
Depreciation	
At 1 June 2005	136,365
Charge for the year	19,644
Disposals	(36,115)
Transfers out	(119,894)
At 31 May 2006	-
Net book value	
At 31 May 2006	-
At 31 May 2005	49,633

HARRISON SMITH (BATLEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 May 2006

10. Tangible Fixed Assets (continued)

Included above are assets held under finance leases or hire purchase contracts as follows:

	Motor vehicles £
Net book values	
At 31 May 2006	-
At 31 May 2005	17,647
Depreciation charge for the year	
31 May 2006	10,968
31 May 2005	7,805

11. Stocks

	2006	2005
	£	£
Raw materials	-	33,003

12. Debtors

	2006	2005
	£	£
Trade debtors	372,444	382,796
Amounts recoverable on long term contracts	317,211	716,724
Other debtors	19,991	63,059
	709,646	1,162,579

13. Creditors – amounts falling due within one year

	2006	2005
	£	£
Net obligations under hire purchase contracts	16,262	4,806
Trade creditors	659,785	745,932
Other taxes and social security	222,194	223,301
Other creditors	48,957	82,377
	947,198	1,056,416

HARRISON SMITH (BATLEY) LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended 31 May 2006

14. Creditors – amounts falling due after more than one year

	2006 £	2005 £
Net obligations under hire purchase contracts	<u>19,184</u>	<u>6,355</u>
Net obligations under hire purchase contracts		
Repayable within one year	18,036	5,073
Repayable between one and five years	<u>21,710</u>	<u>6,620</u>
	39,746	11,693
Finance charges and interest allocated to future periods	<u>(4,300)</u>	<u>(532)</u>
	35,446	11,161
Included in liabilities due within one year	<u>(16,262)</u>	<u>(4,806)</u>
	<u>19,184</u>	<u>6,355</u>

15. Called up Share Capital

	2006 £	2005 £
Authorised:		
100,000 ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
Allotted, called up and fully paid:		
30,000 ordinary shares of £1 each	<u>30,000</u>	<u>30,000</u>

16. Profit and Loss Account

	Profit and loss account £
At 1 June 2005	470,951
Profit for the financial year	140,675
Dividends paid in the year	<u>(100,000)</u>
At 31 May 2006	<u>511,626</u>

HARRISON SMITH (BATLEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 May 2006

17. Reconciliation of Movement in Shareholders' Funds

	2006 £	2005 £
Profit for the financial year	140,675	240,239
Dividends on shares classified in shareholders' funds	(100,000)	(40,000)
Net addition to shareholders' funds	40,675	200,239
Opening shareholders' funds	500,951	300,712
Closing shareholders' funds	541,626	500,951

18. Operating Lease Commitments

Annual commitments under non-cancellable operating leases relating wholly to land and buildings are as follows :-	2006 £	2005 £
Expiry date within one year	-	-
Expiry date between two and five years	-	900
Expiry date greater than five years	-	-
	-	900

19. Pensions Commitments

The Company operates a 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 represents contributions payable by the Company to the fund and amounted to £34,012 (2005: £50,682). Contributions totalling £nil (2005: £7,482) were payable to the fund at the year end and are included in creditors.

As explained in note 1, the Company participates in a defined benefit pension scheme providing benefits based on an average final pensionable salary. The scheme is a funded scheme, with the assets of the scheme held separately from those of the Company. The assets are invested by investment managers on behalf of the trustees of the pension scheme.

The scheme is an industry scheme, providing benefits for employees of a number of companies and the assets are not segregated between the different employers. As such, it is not possible to estimate the pension obligations for which each individual Company is responsible, and the pension costs detailed in the financial statements are the contributions actually paid into the scheme over the accounting period.

20. Related Party Transactions

During the year the Company paid rent of £24,000 (2005: £24,000) to HS Properties, a partnership owned by Brian Harrison and Alan Smith who were both Directors of the Company for 8 months of the year. This amount was in respect of property rent for the Company's premises.

HARRISON SMITH (BATLEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 May 2006

21. Ultimate Parent Company

The immediate parent company is Southern Electric Contracting Limited, a company registered in England. The ultimate parent company is Scottish and Southern Energy plc, a company registered in Scotland. Copies of the group financial statements of Scottish and Southern Energy plc may be obtained from :-

The Director of Corporate Communications
Scottish and Southern Energy plc
Inveralmond House
200 Dunkeld Road
PERTH
PH1 3AQ.