

Star Energy Limited

**Directors' report and consolidated
financial statements**

Registered Number 3806814

31 December 2003



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

Principal activities

The principal activities of the group are that of crude oil exploration, development and production, provision of gas storage facilities, and electricity generation.

Business review

The group made a loss for the year of £1,243,000 (2002: profit of £628,000). The directors do not recommend the payment of a dividend on the ordinary shares. No dividend has been accrued on the preference shares.

On 6th March 2003 Star Energy HG Gas Storage Ltd was incorporated as a wholly owned subsidiary of Star Energy Limited. The company was incorporated during the year with the purpose of operating a gas storage facility at Humbly Grove, Hampshire.

Directors and directors' interests

The directors who held office during the year were as follows:

R Wessel
C Judd
MJ Horgan
MV Garland
CW Robinson
J Heathcote
A Fernando

The directors who held office at the end of the financial year had the following interests in the ordinary shares of group companies according to the register of directors' interests:

Director	Company	Class of share	Interest at start of year	Interest at end of year
Name				
R Wessel	Star Energy Limited	A ordinary shares	96.037	121,490
C Judd	Star Energy Limited	A ordinary shares	32.012	51,061
MJ Horgan	Star Energy Limited	A ordinary shares	32.012	51,061
MV Garland	Star Energy Limited	A ordinary shares	32.012	51,060
A Fernando	Star Energy Limited	A ordinary shares	-	51,061

None of the other directors who held office at the end of the financial year had any disclosable interest in the shares of group companies.

Charitable donations

During the year, the group made charitable contributions in the UK totalling £7,337 (2002: £5,000).

Directors' report *(continued)*

Purchase of own shares

In July 2001, the company established a trust fund, Star Energy Employee Benefit Trust, which had purchased 96,037 (33% of share capital as at 31 December 2001) ordinary 'A' shares of £1 each. The shares were purchased at nominal value using a loan from the company. In January 2003, an application was approved by the High Court to cancel this purchase. During 2002, the company made an additional loan to the trust of £223,000. In January 2003, the trust fund purchased 72,028 of the above shares (25% of share capital as at 31 December 2002) for £319,037. In July 2003 the trust purchased a further 7,205 (20% of share capital as at 31 December 2003) shares for £15,923. In December 2003 the total shareholding held by the trust of 79,233 (23% of share capital as at 31 December 2003) shares was transferred to the Directors of Star Energy Limited for £159,000 and the £160,000 balance of the loan due by the trust being written off by the company.

Auditors

In accordance with the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Colin Judd
Director

Kempson House
Canomile Street
London
EC3A 7AN

5 May 2004

Statement of 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 group and of the profit or loss for that year. 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 group 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



KPMG LLP

8 Salisbury Square

London

EC4Y 8BB

United Kingdom

Report of the independent auditors to the members of Star Energy Limited

We have audited the financial statements on pages 5 to 31.

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 auditor's 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

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 with the group is not disclosed.

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 group'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 affairs of the company and the group as at 31 December 2003 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP
KPMG LLP

Chartered Accountants

Registered Auditor

London

5 May 2004

Consolidated profit and loss account
for the year ended 31 December 2003

	<i>Note</i>	2003 £000	Restated 2002 £000
Turnover	1	20,949	19,999
Cost of sales		(10,283)	(10,149)
Depletion		(5,963)	(5,739)
		<hr/>	<hr/>
Gross profit		4,703	4,111
Administrative expenses		(2,771)	(1,942)
Other income		22	39
		<hr/>	<hr/>
Operating profit	3 & 21	1,954	2,208
Profit on disposal of fixed assets		-	9
		<hr/>	<hr/>
Profit on ordinary activities before interest		1,954	2,217
Other interest receivable and similar income	6	12	15
Interest payable and similar charges	7	(1,513)	(1,406)
		<hr/>	<hr/>
Profit on ordinary activities before taxation		453	826
Tax charge on profit on ordinary activities	8	(1,696)	(198)
		<hr/>	<hr/>
(Loss)/profit for the year		(1,243)	628
Undeclared dividends on non-equity shares	9	(1,335)	(1,157)
		<hr/>	<hr/>
Retained loss for the financial year	19	(2,578)	(529)
		<hr/> <hr/>	<hr/> <hr/>

The results for the year arose from continuing operations.

The notes on pages 10 to 31 form an integral part of these accounts.

Consolidated balance sheet
at 31 December 2003

	Note	2003		Restated 2002	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	10		43,195		42,713
Investments	11		-		-
			<hr/>		<hr/>
			43,195		42,713
Current assets					
Stocks	12	418		415	
Debtors	13	4,650		5,124	
Cash at bank and in hand	22	295		791	
		<hr/>		<hr/>	
Creditors: amounts falling due within one year	14	5,363 (11,581)		6,330 (4,811)	
		<hr/>		<hr/>	
Net current (liabilities) / assets			(6,218)		1,519
			<hr/>		<hr/>
Total assets less current liabilities			36,977		44,232
Creditors: amounts falling due after more than one year	15		(11,830)		(21,085)
Provisions for liabilities and charges	8&17		(6,020)		(4,823)
			<hr/>		<hr/>
Net assets			19,127		18,324
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	18		4,650		4,162
Share premium account	19		10,390		8,768
Profit and loss account	19		4,087		5,394
Shareholders' funds - equity		17,998		17,332	
- non equity		1,129		992	
		<hr/>		<hr/>	
			19,127		18,324
			<hr/>		<hr/>

These financial statements were approved by the board of directors on *5 May* 2004 and were signed on its behalf by:



Colin Judd
Director

The notes on pages 10 to 31 form an integral part of these accounts.

Company balance sheet
at 31 December 2003

	<i>Note</i>	2003	Restated
		£000	2002
		£000	£000
Fixed assets			
Tangible assets	<i>10</i>	234	289
Investments	<i>11</i>	11,130	11,129
		<hr/>	<hr/>
		11,364	11,418
Current assets			
Debtors	<i>13</i>	24,083	22,769
Cash at bank and in hand		9	306
		<hr/>	<hr/>
		24,092	23,075
Creditors: amounts falling due within one year	<i>14</i>	(12,759)	(4,362)
		<hr/>	<hr/>
Net current assets		11,333	18,713
		<hr/>	<hr/>
Total assets less current liabilities		22,697	30,131
		<hr/>	<hr/>
Creditors: amounts falling due after more than one year	<i>15</i>	(10,480)	(18,830)
		<hr/>	<hr/>
Net assets		12,217	11,301
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	<i>18</i>	4,650	4,162
Share premium account	<i>19</i>	10,390	8,768
Profit and loss account	<i>19</i>	(2,823)	(1,629)
		<hr/>	<hr/>
Shareholders' funds - equity		11,088	10,309
- non equity		1,129	992
		<hr/>	<hr/>
		12,217	11,301
		<hr/>	<hr/>

These financial statements were approved by the board of directors on *5 May* 2004 and were signed on its behalf by:



Colin Judd
Director

The notes on pages 10 to 31 form an integral part of these accounts.

Consolidated cash flow statement
for the year ended 31 December 2003

	<i>Note</i>	2003 £000	<i>Restated</i> 2002 £000
Cash flow from operating activities	<i>21</i>	8,257	9,152
Returns on investments and servicing of finance			
Interest received		12	15
Interest paid		(1,144)	(998)
Interest element of finance lease rental payments		(186)	(224)
Taxation		(718)	(224)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(6,610)	(7,838)
Disposal of tangible fixed assets		-	34
Acquisitions and disposals		-	-
Cash outflow before management of liquid resources and financing		(389)	(83)
Financing			
Issue of ordinary share capital		2,052	-
Debt due within one year		4,000	-
Debt due after more than one year:			
Secured loan		-	300
Repayment of debt		(5,306)	-
Capital element of finance lease rental payments		(851)	(777)
Decrease in cash in the year	<i>22</i>	(494)	(560)

The notes on pages 10 to 31 form an integral part of these accounts.

Consolidated Statement of total recognised gains and losses
for the year ended 31 December 2003

	2003 £000	2002 £000
(Loss)/Profit for the financial year	(1,243)	628
Total recognised gains and losses relating to the financial year	(1,243)	628
Prior year adjustment (as explained in notes 1 & 19)	-	
Total gains recognised since last annual report	(1,243)	

Reconciliations of movements in shareholders' funds
for the year ended 31 December 2003

	Group	Restated	Company	Restated
	2003 £000	2002 £000	2003 £000	2002 £000
Retained loss for the financial year	(2,578)	(529)	(2,529)	(1,222)
Add back undeclared dividends on non-equity shares (note 9)	1,335	1,157	1,335	1,157
Cancellation of purchases of 96,037 own shares (note 19)	96	-	-	-
Called up share capital (note 18)	2,110	-	2,110	-
Acquisition of 72,028 own shares (note 19)	(319)	-	-	-
Proceeds on disposal of 72,028 own shares (note 19)	159	-	-	-
Net addition to shareholders' funds	803	628	916	(65)
Opening shareholders' funds	18,324	17,696	11,301	11,366
Closing shareholders' funds	19,127	18,324	12,217	11,301

The notes on pages 10 to 31 form an integral part of these accounts.

Note: Opening shareholders' funds were previously £18,420,000 (Group) before including prior year adjustment of £96,000. Company reserves have not been affected.

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, and in accordance with Statement of Recommended Practice: Oil and Gas companies.

The financial statements have been prepared on a going concern basis, notwithstanding the losses incurred from operations and excess of short-term liabilities over current assets at the balance sheet date. This basis is considered by the Directors to be appropriate in view of the group's prospects following the reorganisation and funding as described in Note 26.

New accounting standards

UITF Abstract 38 Accounting for ESOP shares requires the assets and liabilities of the Group's ESOP trust to be recognised in the Group's financial statements where there is de facto control of those assets and liabilities. The company's own shares held by the ESOP trust should be deducted from shareholders' funds until they vest unconditionally with the employees or are disposed of. Prior to the adoption of UITF 38, the company's own shares held by ESOP trust were recognised as fixed assets investment on the balance sheet at the lower of cost and estimated net realisable value. The new standard is effective for periods ending on or after 22 June 2004, but the directors have decided to apply this standard in these financial statements. All primary statements and notes relating to the accounts have been restated accordingly.

Compliance with UITF 38 has reduced the 2003 Group investments by £159,000 (2002 - £319,000), reduced shareholders funds by £160,000 (2002 - £96,000) and increased Group cash by £9,000 (2002 - £223,000). The net profit for 2003 increased by £160,000 (2002 - unaffected). The investment was further reduced by the sale of the remaining shares to the directors. The ESOP trust did not hold any company own shares at 31 December 2003.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2003. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. A joint venture is an undertaking in which the group has a long-term interest and over which it exercises joint control. The group's share of the profits less losses of associates and of joint ventures is included in the consolidated profit and loss account and its interest in their net assets, other than goodwill, is included in investments in the consolidated balance sheet.

Where a group company is party to a joint arrangement which is not an entity, that company accounts directly for its part of the income and expenditure, assets, liabilities and cash flows. Such arrangements are reported in the consolidated financial statements on the same basis.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

Notes (continued)

1 Accounting policies (continued)

Goodwill and negative goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

On the subsequent disposal or termination of a business acquired since 1 January 2002, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

Investments

In the company's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at cost.

Decommissioning provision and asset

Licensees have an obligation to restore producing fields to a condition acceptable to the relevant authorities at the end of their commercial lives. Under *Financial Reporting Standard 12: Provisions, Contingent Liabilities and Contingent Assets* (FRS 12), the discounted present value of this future cost has been provided for and capitalised within the respective cost pool. The capitalised cost is amortised through the cost pool on a unit of production basis and the increase in the net present value of the future cost (the unwinding of the discount) is included within interest payable and other similar charges.

Tangible fixed assets

The group follows the full cost method of accounting for oil and gas operations. Under this method all expenditure in connection with the acquisition, exploration, appraisal and development of oil and gas assets, including interest payable, exchange differences incurred on borrowings in respect of development projects and direct overheads are capitalised and accumulated in full cost pools on a geographical basis.

The costs of undeveloped acreage and exploration assets are excluded from the capitalised cost pool to be depleted, pending determination of the recoverable reserves attributable to such assets. Any impairment in the value of the cost pool is charged through the profit and loss account as additional depletion where it is considered that a permanent impairment of the asset value has occurred.

Proceeds from the disposal of oil and gas assets are credited against the relevant pool. Any overall surplus arising in the cost pool is credited to the profit and loss account.

Depletion and depreciation

Capitalised expenditure within each separate cost pool is depleted on a unit of production basis. The depletion charge is based on estimates of proven and probable reserves.

Other tangible fixed assets are stated at historical cost or valuation, net of depreciation and any provision for impairment. Depreciation is calculated on all other tangible fixed assets, other than freehold land, on a straight-line basis at rates calculated to write off the cost or valuation of those assets, less estimated residual value, over its expected useful life of between 3 and 20 years.

Ceiling tests

Where there is an indication that the value of an oil and gas cost pool may be impaired, the net amount at which the pool is recorded is assessed for recoverability against the discounted future estimated net cash flows expected to be generated from the estimated remaining commercial reserves. This assessment is made on the basis of future oil

Notes (continued)

1 Accounting policies (continued)

and gas prices, exchange rates and cost levels as forecast at the balance sheet date. A provision is made, by way of an additional depreciation charge, where the carrying value of the pool exceeds the discounted future net cash flows to be derived from its estimated remaining commercial reserves.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction, or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet. Exchange gains or losses on translation are included in the profit and loss account except for those incurred on borrowings in respect of development projects, which are capitalised as part of the cost of the assets.

Post retirement benefits

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting year.

Employee share schemes

The financial statements of the Group include the assets and related liabilities of the Star Energy Limited Employees Benefits Trust. The directors have decided to adopt early the provisions of UITF 38 *Accounting for ESOP Trusts* in these financial statements. Under the requirements of UITF 38 the shares held by the ESOP are stated at cost and deducted from shareholders' funds. Amounts related to payments made and proceeds received in respect of purchases and sales of shares held by the ESOP are recorded as movements in the profit and loss reserve.

Stocks

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

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover is derived from sales of oil to third party customers and from electricity sales. All turnover is derived from UK based operations. Forward contracts are sometimes used by the company to hedge the price at which oil is sold. In such circumstances turnover is recorded at the actual hedged amount.

Leases

Operating leases and the corresponding rental charges are charged to the profit and loss account on a straight-line basis over the life of the lease.

Notes (continued)

1 Accounting policies (continued)

Assets under finance leases are included under tangible fixed assets at their capital value and depreciated over their useful lives. Lease payments consist of capital and finance charge elements, and the finance charge element is charged to the profit and loss account.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash), government securities and investments in money market managed funds.

2 Analysis of continuing operations

The total figures for continuing operations in 2003 include the following amounts relating to acquisitions: cost of sales £Nil (2002: £Nil) and net operating expenses £Nil (2002: £Nil).

3 Operating profit

	2003 £000	2002 £000
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration:		
Group (including company):		
Audit	97	75
Under provision in prior year	24	14
Fees paid to the auditor and its associates in respect of other services	81	-
Company only:		
Audit	43	5
Under provision in prior year	27	-
Fees paid to the auditor and its associates in respect of other services	62	-
Depletion, depreciation and other amounts written off tangible fixed assets:		
Oil and gas assets	5,963	5,739
Other fixed assets – owned	149	124
Other fixed assets – leased	9	34
Operating lease charges:		
Premises	84	78

In addition to the fees paid by the group to the auditor in respect of other services above, £63,000 of costs relating to advice have been capitalised in Star Energy HG Gas Storage Limited. These fees were for consultancy fees and have been capitalised in the same manner as other consultancy costs as an integral part of the gas storage project.

In addition to the fees paid to the auditor by the company in respect of other services, £17,000 of expenses originally recorded in 2002 have been credited in the company and transferred from Star Energy Limited to Star Energy HG Gas Storage Limited.

Notes (continued)

4 Remuneration of directors

	2003 £000	2002 £000
Directors' emoluments	587	480
Company contributions to pension schemes	34	28
Amount paid to former director	-	130
	<u>621</u>	<u>638</u>
Amount attributable to highest paid director:	2003 £000	2002 £000
Directors' emoluments	138	130
Company contributions to pension scheme	8	8
	Number of directors	
	2003	2002
Retirement benefits are accruing to the following number of directors under:		
Defined contribution pension scheme	5	5

In January 2003 the Star Energy Employee Benefit Trust purchased 72,028 ordinary 'A' shares of £1 each from a former director for £319,037 based on a negotiated settlement. The purchase was made using a loan from the company.

Acquisition of shares by the Directors are detailed in note 25 Related party disclosures.

5 Staff numbers and costs

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

	Number of employees 2003	2002
Technical	67	66
Administration	24	24
	<u>91</u>	<u>90</u>

Notes (continued)

5 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	2003 £000	2002 £000
Wages and salaries	3,200	2,955
Social security costs	354	314
Other pension costs	283	263
	<u>3,837</u>	<u>3,532</u>

6 Other interest receivable and similar income - Group

	2003 £000	2002 £000
Bank interest receivable	12	15
	<u>12</u>	<u>15</u>

7 Interest payable and similar charges - Group

	2003 £000	2002 £000
On bank loans and overdrafts	1,197	1,078
Exchange (gains)/losses on loans	(50)	(374)
Other exchange (gains)/losses	18	15
Finance charges payable in respect of finance leases and hire purchase contracts	186	224
On Corporation Tax due	-	44
Unwinding of discount and effect of change of timing of decommissioning (note 17)	162	419
	<u>1,513</u>	<u>1,406</u>

Notes (continued)

8 Taxation

Analysis of the Group tax charge/(credit) in period:

	2003 £000	£000	2002 £000	£000
UK corporation tax charge:				
Current charge at tax rate of 40% (2002: 37.1%)	163		-	
		163		-
Deferred tax charge:				
Origination/reversal of timing differences	1,439		198	
Adjustment in respect of previous years	94		-	
		1,533		198
Tax charge on profit on ordinary activities		1,696		198

Factors affecting the Group current tax charge for the current period

The current tax charge for the period is lower than the standard rate of corporation tax in the UK at 40% (2002: 37.1%). The differences are explained below:

	2003 £000	2002 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	453	826
Current tax at 40 % (2002: 37.1 %)	(181)	(307)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	(333)	(191)
Capital allowances in excess of depreciation (1)	143	1,777
Utilisation of tax losses	304	-
Losses generated	-	(1,227)
Supplementary loss utilised	128	-
Interest not allowed for supplementary charge	(130)	(117)
Rate differences	(94)	65
Total current tax charge (see above)	(163)	-

Note (1)

Due to significant non-qualifying capitalised costs the impact of capital allowances is reduced because of non-qualifying depreciation. This includes costs of £15,543,000 included in the East Midlands asset pool.

Factors that may affect Group future tax charges

The future tax charge will depend on a number of factors: the generation of profits from oil and gas activities which will utilise brought forward tax losses in Star Energy UK Onshore Limited; the mix of activities going forward as the tax rate will change due to the supplementary charge only affecting oil extraction activities; and the amount of non-qualifying expenditure incurred and amortised in the profit and loss account.

Notes (continued)

8 Taxation (continued)

Group deferred tax (liability)/ asset	2003 £000	2002 £000
At beginning of year	498	696
Profit and loss charge for the year	(1,533)	(198)
At end of year	(1,035)	498

Group deferred tax (liability)/ asset	2003 £000	2002 £000
Accelerated capital allowances	(6,861)	(5,664)
Trade losses – ring fence	2,741	3,220
Trade losses – non ring fence	207	90
Trade losses – Supplementary charge	863	993
Abandonment provision	1,994	1,817
Other	21	42
	(1,035)	498

At 31 December 2003 a deferred tax asset of £3,811,000 (2002: £4,303,000) arising in relation to brought forward trading losses has been recognised based on business projections of future profits.

At 31 December 2003 a deferred tax asset of £566,000 (2002: £566,000) arising in relation to brought forward capital losses has not been recognised in the balance sheet. This would be recognised if the realisation of capital gains could be foreseen for the purposes of FRS 19.

At 31 December 2003 a deferred tax asset of £351,000 (2002: £278,000) arising in relation to brought forward and current year excess management expenses in the parent company has not been recognised in the Group or Company balance sheets. This would be recognised if profits in the parent company could be foreseen for the purposes of FRS 19.

Company deferred tax asset	2003 £000	2002 £000
At beginning of year	7	10
Profit and loss credit for the year	(2)	(3)
At end of year	5	7

Notes (continued)

8 Taxation (continued)

Company deferred tax asset

	2003 £000	2002 £000
Accelerated capital allowances	-	(2)
Depreciation in excess of capital allowances	5	-
Short term timing differences	-	9
	<u>5</u>	<u>7</u>

9 Share finance costs

The directors do not propose the payment of a dividend on the ordinary shares in respect of the year ended 31 December 2003 (2002: £Nil).

Dividends on non-equity share capital

	2003 £000	2002 £000
Undeclared Cumulative Preference share appropriation including interest	1,335	1,157
	<u>1,335</u>	<u>1,157</u>

No dividend on the above Preference shares has been declared. The cumulative arrears including interest of £499,000 (2002: £218,000) at 31 December are as follows:

	2003 £000	2002 £000
Cumulative Preference shares (see note 18)	4,337	3,002
	<u>4,337</u>	<u>3,002</u>

Notes (continued)

10 Tangible fixed assets

Group	East Midlands asset pool £000	UK Onshore asset pool £000	Gas Storage assets £000	Other fixed assets £000	Total £000
Cost					
At beginning of year	32,294	57,866	-	1,309	91,469
Transfers	-	(239)	286	(47)	-
Additions	2,333	388	3,596	418	6,735
Disposals and credits to cost pool	(7)	(125)	-	(20)	(152)
Reassessment of abandonment liabilities	-	-	-	-	-
At end of year	34,620	57,890	3,882	1,660	98,052
Depreciation					
At beginning of year	7,919	40,380	-	457	48,756
Charge for year	3,296	2,618	-	207	6,121
Disposals	-	-	-	(20)	(20)
At end of year	11,215	42,998	-	644	54,857
Net book value					
At 31 December 2003	23,405	14,892	3,882	1,016	43,195
At 31 December 2002	24,375	17,486	-	852	42,713

Included within the net book value of UK Onshore asset pool is £2,184,000 (2002: £2,777,000) relating to gas turbines, and within East Midlands asset pool is £4,355,000 (2002: £4,942,000) relating to plant and machinery.

Included in amounts capitalised within gas storage assets above is £63,000 relating to fees paid to auditors in respect of non-audit services. These fees were for consultancy fees and have been capitalised in the same manner as other consultancy costs as an integral part of the gas storage project.

Disposals and credits to the UK Onshore cost pool in 2003 include £125,000 (2002: £Nil) of insurance receipts in relation to costs previously capitalised.

£239,000 of transfers from UK Onshore asset pool and £47,000 from Other fixed assets to Gas Storage assets in 2003 are in respect of Gas Storage costs, recorded in Star Energy UK Onshore Limited and Star Energy Limited as at 31 December 2002. Additions to Gas Storage assets in 2003 include £2,914,000 in respect of Star Energy HG Gas Storage Limited and £682,000 in respect of Star Energy (East Midlands) Limited.

Included within the net book value of other fixed assets is £324,000 (2002: £312,000) relating to land and buildings, £179,000 (2002: £177,000) relating to motor vehicles, £211,000 (2002: £313,000) relating to fixtures, fittings, tools and equipments, and £302,000 (2002: £50,000) relating to assets in the course of construction. Also included within other fixed assets is an amount of £15,257 (2002: £15,257) which relates to freehold land on which no depreciation has been charged in 2003.

Additions to other fixed assets in 2003 include £235,000 in respect of the wind power project at Star Energy (East Midlands) Limited.

Included in the total net book value of fixed assets is £2,412,718 (2002: £3,064,203) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £621,396 (2002: £525,856).

Included in the cost of tangible fixed assets is £42,745 (2002: £48,438) in respect of capitalised interest cost.

Notes (continued)

10 Tangible fixed assets (continued)

As at the year end, further ceiling tests were performed in accordance with *FRS 11: 'Impairment of Fixed Assets and Goodwill'*. The results indicate that there has been no impairment and that the carrying value of fixed assets is appropriate. The assumptions made by the directors in performing the tests were:

	2003	2002
Oil price	\$25 per bbl to 2007, inflated thereafter	\$20-25 per bbl
Electricity price	£19.55 per MWhr	£16.76-20 per MWhr
Exchange rate	\$/£1.65-\$/£1.85	\$/£1.60
Inflation rate	3.5%	3%
Discount rate	10%	10%

Company	Other fixed assets £000
<i>Cost</i>	
At beginning of year	445
Transfers	(47)
Additions	90
At end of year	488
<i>Depreciation</i>	
At beginning of year	156
Charge for year	98
At end of year	254
<i>Net book value</i>	
At 31 December 2003	234
At 31 December 2002	289

Included within the net book value of other fixed assets is £28,000 (2002: £25,000) relating to land and buildings, £154,000 (2002: £222,000) relating to fixtures, fittings, tools and equipments, and £67,000 (2002: £50,000) relating to assets in the course of construction.

Notes (continued)

11 Fixed assets investments

Company	Shares in group undertaking £000
Cost	
At beginning of year	11,129
Additions	1
At end of year	11,130

The principal undertakings in which the group's and the company's interest at the year end is more than 20% are as follows (these undertakings are held directly by the Company and are included on consolidation):

	Country of incorporation	Principal activity	Class and percentage of shares held
<i>Subsidiary undertakings</i>			
Star Energy UK Onshore Limited	United Kingdom	Oil and gas exploration, development and production, and electricity generation	100% of ordinary of 5p each
Star Energy (East Midlands) Limited	United Kingdom	Oil and gas exploration, development and production, and electricity generation	100% of ordinary of £1
Star Energy HG Gas Storage Limited	United Kingdom	Gas storage services	100% of ordinary of £1
Star Energy Employee Benefits Trust	Jersey	Holding shares for Star Energy Employee Benefits scheme	*

* Star Energy Limited controls 100% of assets, liabilities and capital reserve.

Notes (continued)

12 Stock

	2003 £000	2002 £000
Oil stock	281	415
Drilling materials	137	-
	<u>418</u>	<u>415</u>

13 Debtors

	Group 2003 £000	2002 £000	Company 2003 £000	2002 £000
Trade debtors	1,923	2,041	-	-
Deferred tax assets	-	498	5	7
Other debtors	1,031	1,054	16	13
Amounts owed by group undertakings	-	-	23,644	22,319
Called up share capital unpaid	30	-	30	-
Share premium unpaid	37	-	37	-
Amounts owed by related parties (Note 25)	151	-	-	-
Prepayments and accrued income	1,478	1,531	351	430
	<u>4,650</u>	<u>5,124</u>	<u>24,083</u>	<u>22,769</u>

Included in other debtors are amounts due from Joint Ventures totalling £464,000 (2002: £595,000) in respect of VAT, time-writing and short term financing.

Amount of debtors falling due after more than one year: £Nil (2002: £Nil).

Included in called up share capital and share premium unpaid is £28,000 and £34,000 respectively owed by Directors to the Group. Please refer to Note 25 for further details.

Included in amounts owed by related parties is £151,000 owed by Directors to the Employee Benefit Trust in respect of shares acquired by Directors. Please refer to Note 25 for further detail.

Notes (continued)

14 Creditors: amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Bank loans and overdrafts	7,102	-	7,100	-
Obligations under finance leases and HP contracts	907	853	2	-
Trade creditors	2,463	1,729	699	308
Other creditors	108	123	-	-
Taxation and social security	150	121	76	59
UK Corporation tax	163	718	-	-
Accruals and deferred income	688	1,267	433	203
Amount owed to group undertakings	-	-	4,449	3,792
	<u>11,581</u>	<u>4,811</u>	<u>12,759</u>	<u>4,362</u>

Bank loans comprise £2,994,000 payable to CIBC and Bank of Scotland and £4,093,000 payable to ABN Amro and Bank of Scotland due under term loan and short-term mezzanine facilities respectively. It is intended that these loans, including the long-term element of the term loan be repaid from funds to be raised by Star Energy Group plc through an initial public offering and AIM listing in May 2004.

15 Creditors: amounts falling due after more than one year

	Group		Company	
	2003	Restated 2002	2003	Restated 2002
	£000	£000	£000	£000
Bank loans (secured)	10,480	18,830	10,480	18,830
Obligations under finance leases and HP contracts	1,350	2,255	-	-
	<u>11,830</u>	<u>21,085</u>	<u>10,480</u>	<u>18,830</u>

Analysis of debt:

	Group		Company	
	2003	Restated 2002	2003	Restated 2002
	£000	£000	£000	£000
Debt can be analysed as falling due:				
Within one year or on demand	8,005	853	7,100	-
Between one and two years	3,950	905	2,994	-
Between two and five years	7,879	20,180	7,486	18,830
In five years or more	-	-	-	-
	<u>19,834</u>	<u>21,938</u>	<u>17,580</u>	<u>18,830</u>

Security is given for all debt falling due within one year and after more than one year. There are fixed and floating charges over the assets of the Group, with mortgages over the shares of the subsidiaries, and cross guarantees between all three companies.

Notes (continued)

16 Obligations under finance leases and hire purchase contracts

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Amounts payable:				
Within one year	907	853	2	-
In second to fifth years inclusive	1,350	2,255	-	-
In more than five years	-	-	-	-
	<u>2,257</u>	<u>3,108</u>	<u>2</u>	<u>-</u>

17 Provisions for liabilities and charges

Decommissioning provision	2003	2002
Group	£000	£000
At beginning of year	4,823	3,948
Charge for the year:		
Unwinding of discount	(47)	419
Additional amounts provided	-	456
Effect of change in timing of abandonment	209	-
	<u>4,985</u>	<u>4,823</u>
At end of year	4,985	4,823
Deferred tax provision (see Note 8)	1,035	-
	<u>6,020</u>	<u>4,823</u>

Provision has been made for the discounted future cost of restoring producing fields to a condition acceptable to the relevant authorities.

Notes (continued)

18 Called up share capital

	2003 £	2002 £
Authorised		
Equity: 416,189 A ordinary shares of £1 each	416,189	288,110
3,745,704 B redeemable preferred ordinary shares of £1 each	3,745,704	2,881,098
Non equity: 14,015,867 Redeemable preference shares of 10p each	1,401,587	992,378
	<hr/>	<hr/>
	5,563,480	4,161,586
	<hr/>	<hr/>
Authorised and issued		
Equity: 288,110 A ordinary shares of £1 each	288,110	288,110
Issue of 64,034 A ordinary shares £1 each	64,034	-
	<hr/>	<hr/>
Closing balance of 352,144 A ordinary shares	352,144	288,110
	<hr/>	<hr/>
2,881,098 B redeemable preferred ordinary shares of £1 each	2,881,098	2,881,098
Issue of 288,202 B redeemable preferred Ordinary shares	288,202	-
	<hr/>	<hr/>
Closing balance of 3,169,300 B redeemable preferred Ordinary shares	3,169,300	2,881,098
	<hr/>	<hr/>
Non equity: 9,992,378 Redeemable preference shares of 10p each	992,378	992,378
Issue of non equity: 1,364,029 Redeemable preference shares of 10p each	136,403	-
	<hr/>	<hr/>
Closing balance of non equity: 11,287,809 Redeemable preference shares of 10p each	1,128,781	992,378
	<hr/>	<hr/>
	4,650,225	4,161,586
	<hr/>	<hr/>
Allotted, called up and unpaid		
Equity: A ordinary shares of £1 each	30,426	-
B redeemable preferred ordinary shares of £1 each	-	-
Non equity: Redeemable preference shares of 10p each	-	-
	<hr/>	<hr/>
	30,426	-
	<hr/>	<hr/>
Allotted, called up and fully paid		
Equity: A ordinary shares of £1 each	321,718	288,110
B redeemable preferred ordinary shares of £1 each	3,169,300	2,881,098
Non equity: Redeemable preference shares of 10p each	1,128,781	992,378
	<hr/>	<hr/>
	4,619,799	4,161,586
	<hr/>	<hr/>

Notes (continued)

18 Called up share capital (continued)

Each A ordinary share and each B redeemable preferred ordinary share entitles the holder of the share to one vote at a general meeting of the company's members.

The holders of redeemable preference shares are entitled to a fixed cumulative preferential dividend of 10p per share per annum, payable subject to sufficient distributable profits being available, plus 10% interest on dividends unpaid. For the period during which the shares have been in issue this year, the Cumulative Preference share dividend appropriation is £1,335,000 (2002: £1,157,000).

The shares will be redeemed by the company on the earliest of:

- i) any date on which and at the time immediately before, a listing becomes effective; and
- ii) any date on which and at the time immediately before, a "Sale" is unconditionally completed. "Sale" meaning - the unconditional sale, disposal or transfer of a controlling interest of the whole of the issued share capital of the company.

The shares will be redeemed at par value plus any dividends accrued but unpaid as at redemption.

If by 13 October 2004 neither a Listing nor a Sale has occurred, the Redeemable Preference shares will be divided into ten tranches and each tranche will be redeemed every 180 days, starting 180 days after 13 October 2004.

Total consideration received for the shares allotted in the year was £2,110,000, of which £2,043,000 was received in the year and £67,000 of this was outstanding at the year end. (see Note 25)

19 Share premium and reserves

Group	Share premium account £000	Profit and loss account £000
At beginning of year – as previously reported	-	5.490
Prior year adjustment – Acquisition of 96,037 own shares by Employee Benefit Trust	-	(96)
	<hr/>	<hr/>
At beginning of year – as restated	8.768	5.394
Loss retained for the year for equity shareholders	-	(2,578)
	<hr/>	<hr/>
Add back undeclared dividends on non-equity shares (note 9)	-	1.335
Cancellation of acquisition of 96,037 £1 own shares by Employees Benefits Trust	-	96
Acquisition of 72,028 £1 class 'A' own shares by Employees Benefits Trust	-	(319)
Proceeds on disposal of 72,028 £1 class 'A' own shares by Employee Benefits Trust to the directors part paid to £0.11 per share	-	159
Issue of 288,202 £1 class 'B' ordinary shares fully paid	348	-
Issue of 1,364,029 £0.10 redeemable preference shares fully paid	1,229	-
Issue of 32,012 £1 class 'A' ordinary shares fully paid	8	-
Issue of 32,022 £1 class 'A' ordinary shares part paid £0.11 per share	37	-
	<hr/>	<hr/>
At end of year	10,390	4,087
	<hr/>	<hr/>

Notes (continued)

19 Share premium and reserves (continued)

Company	Share premium account £000	Profit and loss account £000
At beginning of year	8,768	(1,629)
Loss retained for the year for equity shareholders	-	(2,529)
Add back undeclared dividends on non-equity shares	-	1,335
Issue of 288,202 £1 class 'B' own shares	348	-
Issue of 1,364,029 £0.10 redeemable preference shares	1,229	-
Issue of 32,012 £1 class 'A' own shares	8	-
Issue of 32,022 £1 class 'A' own shares	37	-
	<hr/>	<hr/>
At end of year	10,390	(2,823)
	<hr/>	<hr/>

On 4 October 2001 96,037 "A" ordinary £1 shares were acquired from a former director by the Star Energy Employee Benefit Trust at nominal value. On 14 January 2003 the purchase was cancelled by the High Court, and on 24 January 2003 the Star Energy Employee Benefit Trust purchased 72,028 of the above "A" ordinary shares for the total consideration of £319,000 from the same former director.

The Star Energy Employee Benefits Trust incurred a loss of £160,000 on disposal of 72,028 fully paid £1 "A" ordinary shares to the Directors. The shares were acquired by the Star Energy Employee Benefits Trust on 24 January 2003 at £4.43 per share from a former director under the terms of a negotiated settlement (Note 4) and sold to the Directors at fair value of £2.21 on 24 December 2003 on a part paid basis. A receivable of £151,000 from the Directors is recorded by the Star Energy Employee Benefits Trust as at 31 December 2003 in respect of the above sale of shares (Note 25). This represents deferred consideration which is secured by the Star Energy Employee Benefits Trustee with Deeds of Charge executed by the share purchasers in favour of the Trustee.

The Directors obtained legal advice that the transaction is not in breach of the Companies Act regarding loans to Directors.

Notes (continued)

20 Pension scheme

The group operates a defined contribution pension scheme. The pension cost charge for the year ended 31 December 2003 represents contributions payable by the group to pension funds and amounted to £ 282,222 (2002: £263,343).

Contributions amounting to £Nil (2002: £Nil) were prepaid at 31 December 2003 and are included in debtors.

21 Reconciliation of operating profit to operating cash flows

	2003 £000	2002 £000
Operating profit	1,954	2,208
Depreciation, amortisation and impairment charges	6,121	5,896
Foreign exchange	93	93
Increase in stocks	(3)	(116)
(Increase)/decrease in debtors	(123)	267
Increase in creditors	215	804
	<hr/>	<hr/>
Net cash inflow from operating activities	8,257	9,152
	<hr/>	<hr/>

Notes (continued)

22 Analysis of net debt

	At beginning of year £000	Cash flow £000	Other non cash changes £000	Exchange movement £000	At end of year £000
Cash in hand and at bank	791	(478)	-	(18)	295
Overdrafts/ bank loans	-	(16)	-	-	(16)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	791	(494)	-	(18)	279
Debt due within one year	-	(4,000)	(3,086)	-	(7,086)
Debt due after one year	(18,829)	5,306	2,993	50	(10,480)
Obligations under finance leases and HP contracts	(3,108)	851	-	-	(2,257)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	(21,146)	1,663	(93)	32	(19,544)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Interest is accruing at 5% compounded on the ABN Mezzanine loan. This is to be paid upon repayment of the loan.

During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £Nil as at 31 December 2003 (2002: £90,000).

Reconciliation of net cash flow to movement in net debt:

	2003 £000	Restated 2002 £000
Decrease in cash in the year	(494)	(560)
Cash outflow from decrease in debt financing	2,157	477
	<hr/>	<hr/>
Change in net debt resulting from cash flows	1,663	(83)
New finance leases	-	(90)
Translation difference	32	355
5% compounding interest	(93)	-
	<hr/>	<hr/>
Movement in net debt in the period	1,602	182
Net debt at the start of the year	(21,146)	(21,328)
	<hr/>	<hr/>
Net debt at the end of the year	(19,544)	(21,146)
	<hr/>	<hr/>

Notes (continued)

23 Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows:

	2003 £000	2002 £000
	Land and buildings	Land and buildings
Operating leases which expire:		
Within one year	-	-
In the second to fifth years inclusive	98	83
After more than five years	-	-
Total operating lease commitments	98	83

24 Capital commitments and contingent liabilities

Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Contracted	180	10	97	-

25 Related party disclosures

The company is controlled by European Acquisition Capital Limited ("EAC"), which owns the majority of the voting rights in the company.

The results of the company are not consolidated with any other company.

On 4 October 2001 96,037 "A" ordinary £1 shares were acquired from a former director by the Star Energy Employee Benefit Trust at nominal value. On 14 January 2003 the purchase was cancelled by the High Court, and on 24 January 2003 the Star Energy Employee Benefit Trust purchased 72,028 of the above "A" ordinary shares for the total consideration of £319,000 from the same former director, as part of a negotiated settlement.

On 14 January 2003 A. Fernando purchased 32,012 £1 "A" ordinary shares at £1.25 which were fully paid.

On 18 July 2003 as part of a proposal for bank funding of the Group's existing business and the development of the Humbly Grove Gas Storage project, additional share capital in Star Energy Limited was taken up by Morley Fund Managers, comprising 288,202 £1 "B" ordinary shares for which £2.21 was paid per share, and £1,364,029 of £0.10 redeemable preference shares for which £1 was paid per share. In addition 32,022 £1 "A" ordinary shares were issued and allocated to the "A" ordinary shareholders in proportion to the existing shareholding. Accordingly, the Directors subscribed to 22,415, the Star Energy Employee Benefits Trust to 7,205 and a former director to 2,402 shares at £2.21 on a part-paid basis.

On 24 December 2003 the 72,028 fully paid £1 ordinary "A" shares and 7,205 partly paid £1 ordinary "A" shares held by the Star Energy Employee Benefit Trust were transferred to the Directors of Star Energy Limited, in equal tranches, on a part-paid basis.

The total amount outstanding from the Directors as at 31 December 2003 is £213,000, of which £28,000 is in respect of Called Up Share Capital unpaid and £34,000 in respect of Share Premium unpaid and £151,000 is owed to the Star Energy Employees Benefits Trust (Note 13).

Notes *(continued)*

26 Post balance sheet event

On 5 May 2004, a Reorganisation Agreement was entered into with the purpose of interposing a new holding company to hold the entire issued share capital of Star Energy Limited.

In accordance with the Reorganisation Agreement, 4,829,182 new bonus redeemable preference shares were issued at an issue price of £1 on 5 May 2004 to the value of the dividends and interest in arrears, in respect of the redeemable preference shares in Star Energy. The bonus share issue was made from Star Energy Limited's share premium account. Additionally, 500,000 redeemable preference shares were issued with an issue price of 10p to EAC.

All the shares of Star Energy Limited were then transferred to the new holding company, Star Energy Group plc, in a share for share exchange.

On 5 May 2004, a new senior corporate secured credit facility agreement was signed between ABN AMRO acting as an agent and Star Energy Group plc (the ultimate parent undertaking of Star Energy Limited from 4 May 2004), Star Energy Limited, Star Energy UK Onshore Limited, Star Energy (East Midlands) Limited and Star Energy HG Gas Storage Limited acting as guarantors. Under the facility agreement a term loan facility was provided for a total amount of £57.5 million with half yearly repayments starting on 30 June 2006.