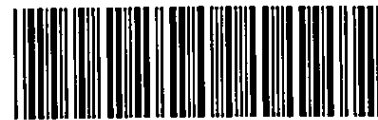


Star Energy Management Limited
Directors' report and financial
statements
Registered Number: 04286539
31 December 2006

TUESDAY



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2006

Principal activities

The principal activity of the Company is that of a holding company providing energy management services to its subsidiary companies

Business review and developments during the year

The Company, due to its size, has taken advantage of the exemption available under Section 234ZZB of the Companies Act 1985 not to present a Business Review in accordance with the Companies Act 1985 requirements

The Company made a loss for the year of £39,000 (2005 £503,000) No dividend is proposed for the year and the loss is transferred to reserves giving an accumulated surplus carried forward at 31 December 2006 of £11,234,000 (2005 £11,257,000)

Directors and directors' interests

The following directors held office during the year

R Wessel

C Judd

The interests and the rights to subscribe for shares in group companies of R Wessel, and C Judd are disclosed in the directors' report of the ultimate parent company Star Energy Group plc

None of the directors who held office at the 31 December 2006 had any disclosable interest in the shares of the Company

No rights to subscribe for shares in or debentures of the Company or any other group company were granted to the directors' immediate families, or exercised by them, during the financial period

Corporate governance

Star Energy Management Limited is committed to the highest level of integrity in all its business dealings and to maintaining a high standard of corporate governance

Directors' report *(continued)*

Limited liability of Company Officers

As permitted by the Companies Act 1985, the Company has purchased insurance cover for the directors and officers of the Company against liabilities in relation to the Company

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

In accordance with the Companies Act 1985, a resolution for the re-appointment of BDO Stoy Hayward 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
Camomile Street
London
EC3A 7AN
30 March 2007

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' report and financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice

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 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, 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 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 Company and to prevent and detect fraud and other irregularities.

Independent auditors' report to the shareholders of Star Energy Management Limited

We have audited the financial statements of Star Energy Management Limited for the year ended 31 December 2006 which comprise the Profit and loss account, the Statement of total recognised gains and losses, the Balance sheet, the Reconciliation of movement in shareholders funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK & 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 and whether the information given in the Directors' report is consistent with those financial statements. We also report to you if, in our opinion, 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 Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK & 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 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.

**Independent auditors' report to the shareholders of Star Energy Management Limited
(continued)**

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 ,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors report is consistent with the financial statements



BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
London
30 March 2007

Profit and loss account
for the year ended 31 December 2006

	<i>Note</i>	2006 £'000	2005 £'000
Administrative expenses		(209)	(657)
Other operating income		186	186
		<hr/>	<hr/>
Operating loss	2	(23)	(471)
 Interest receivable and similar income	 5	 3	 130
Interest payable and similar charges	6	(109)	(160)
		<hr/>	<hr/>
Loss on ordinary activities before taxation		(129)	(501)
Tax credit/ (charge) on loss on ordinary activities	7	90	(2)
		<hr/>	<hr/>
Retained loss for the financial year	16	(39)	(503)
		<hr/> <hr/>	<hr/> <hr/>

The above results derive from continuing operations of the Company

Statement of total recognised gains and losses
for the year ended 31 December 2006

	2006 £'000	2005 £'000
Retained loss for the financial year	(39)	(503)
Exchange differences on translation of oil and gas interests and related borrowings	-	269
	<hr/>	<hr/>
Total losses recognised since last annual report	(39)	(234)
	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 9 to 18 form an integral part of these financial statements

Balance sheet
at 31 December 2006

	<i>Note</i>	2006		2005	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	8		-		190
Investments	9		5,409		5,346
			<hr/>		<hr/>
			5,409		5,536
Current assets					
Debtors	10	9,989		9,638	
Cash at bank and in hand		3		9	
		<hr/>		<hr/>	
		9,992		9,647	
Creditors amounts falling due within one year	11	(2,509)		(2,197)	
		<hr/>		<hr/>	
Net current assets			7,483		7,450
			<hr/>		<hr/>
Total assets less current liabilities			12,892		12,986
			<hr/>		<hr/>
Creditors: amounts falling due after more than one year	12		(1,400)		(1,460)
			<hr/>		<hr/>
Provisions for liabilities and charges	14		-		(74)
			<hr/>		<hr/>
Net assets			11,492		11,452
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	15		150		150
Capital reserve account	16		108		45
Profit and loss account	16		11,234		11,257
			<hr/>		<hr/>
Shareholder's funds			11,492		11,452
			<hr/>		<hr/>

These financial statements were approved by the board of directors and authorised for issue on 30 March 2007 and were signed on its behalf by



Colin Judd
Director

The notes on pages 9 to 18 form an integral part of these financial statements

Reconciliation of movements in shareholder's funds
for the year ended 31 December 2006

	2006 £'000	2005 £'000
Loss for the financial year	(39)	(503)
Charge relating to share incentive plans	79	54
Exchange differences on translation of oil and gas interests and related borrowings	-	269
Redemption of ordinary shares	-	(300)
	<hr/>	<hr/>
Net increase/ (reduction) in shareholder's funds	40	(480)
Opening shareholder's funds	11,452	11,932
	<hr/>	<hr/>
Closing shareholder's funds	<u>11,492</u>	<u>11,452</u>

The notes on pages 9 to 18 form an integral part of these financial statements

Notes to 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 Company's financial statements

Basis of preparation

The financial statements have been prepared on an ongoing basis in accordance with applicable accounting standards and under the historical cost accounting rules

Under *FRS 1 Cash Flow Statements*, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that its ultimate parent undertaking includes the Company in its own published consolidated financial statements

The Company is exempt by virtue of Section 228 of the Companies Act 1985 from the requirement to prepare consolidated group financial statements. These financial statements therefore present information about the Company as an individual undertaking and not about its group.

As the Company is a wholly owned subsidiary of Star Energy Group plc which is incorporated in the UK, the Company has taken advantage of the exemption contained in *FRS 8 Related party disclosures* and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Star Energy Group plc, within which this Company is included, can be obtained from Norton Rose whose address is given in Note 20.

Tangible fixed assets

Tangible fixed assets are depreciated on a straight line basis so as to write off the cost less any estimated residual value of each asset evenly over its estimated useful life as follows:

Plant and machinery	-	5 to 10 years
Fixtures and fittings	-	4 to 10 years
Motor vehicles	-	4 years

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 date. Exchange gains or losses on translation are included in the profit and loss account.

Post-retirement benefits

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 amount charged against profits represents the contributions payable to the scheme in respect of the accounting year.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

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

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

Taxation

UK Corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. No charge or credit is given for group relief

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured at the weighted average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a nondiscounted basis

Share-based payments

In accordance with *FRS 20 'Share-based payment'*, the Company's proportion of the Group's economic cost of awarding shares and share options to employees is reflected by recording an expense in the profit and loss account equal to the fair value of the benefit awarded. The expense is recognised in the profit and loss account over the vesting period of the award

Notes to the financial statements (continued)

2 Operating loss

	2006 £'000	2005 £'000
<i>Loss on ordinary activities before taxation is stated after charging/(crediting):</i>		
Auditors' remuneration		
Audit - current	2	8
- previous	-	2
Fees paid to the auditor in respect of other services - previous auditors	-	1
Depreciation and other amounts written off tangible fixed assets	184	191
Operating lease charges - other	18	8
	<u> </u>	<u> </u>

3 Remuneration of directors

Remuneration paid to former directors

	2006 £'000	2005 £'000
Wages and salaries	-	124
Social security costs	-	26
Other pension costs	-	26
	<u> </u>	<u> </u>
	-	176
	<u> </u>	<u> </u>

No remuneration has been paid to the current directors of Star Energy Management Limited. The total remuneration paid to the current directors by Star Energy Group is disclosed in the Star Energy Group plc financial statements.

4 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year was as follows

	Number of employees 2006	2005
Administrative	5	7
	<u> </u>	<u> </u>
	5	7
	<u> </u>	<u> </u>

The aggregate payroll costs of these persons were as follows

	2006 £'000	2005 £'000
Wages and salaries	150	186
Social security costs	15	32
Other pension costs	14	30
	<u> </u>	<u> </u>
	179	248
	<u> </u>	<u> </u>

5 Other interest receivable and similar income

	2006 £'000	2005 £'000
Bank interest receivable	-	130
Exchange rate difference	3	-
	<u>3</u>	<u>130</u>

6 Interest payable and similar charges

	2006 £'000	2005 £'000
On bank loans and overdrafts	98	130
Finance charges payable in respect of finance leases and hire purchase contracts	11	23
Exchange rate difference	-	7
	<u>109</u>	<u>160</u>

No interest was capitalised during the year

7 Taxation

Analysis of tax charge in year

	2006 £'000	2005 £'000
UK Corporation tax charge		
Current charge at tax rate of 50% (2005 30%)	14	1
	<u>14</u>	<u>1</u>
Deferred tax (credit)/ charge		
Origination/reversal of timing differences	(104)	1
	<u>(90)</u>	<u>1</u>
Tax (credit)/ charge on profit on ordinary activities	<u>(90)</u>	<u>2</u>

Notes to the financial statements (continued)

7 Taxation (continued)

Factors affecting the current tax charge for the current period

The assessed tax charge for the period is higher than the standard rate of Corporation tax of 30% (2005 30%) The differences are explained below

	2006 £'000	2005 £'000
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(129)	(501)
	<hr/>	<hr/>
Current tax at 30% (2005 30%)	38	151
<i>Effects of</i>		
Expenses not deductible for tax purposes	3	(1)
Capital allowances in excess of depreciation	(33)	(18)
Utilisation of tax losses	-	(77)
Rate difference	-	(39)
Deferred tax gains	-	(17)
Other	(22)	-
	<hr/>	<hr/>
Total current tax charge (see above)	(14)	(1)
	<hr/>	<hr/>

Factors that may affect future tax charges

The future tax charge is likely to be dependent on the generation of profits from oil and gas activities which will enable the Company to utilise brought forward tax losses

Deferred tax (asset)/ liability	2006 £'000	2005 £'000
At beginning of year	74	73
Profit and loss (credit)/ charge for the year	(104)	1
	<hr/>	<hr/>
At end of year	(30)	74
	<hr/>	<hr/>
	<hr/>	<hr/>
	2006 £'000	2005 £'000
Accelerated capital allowances	(75)	(97)
Deferred gains	-	69
Non trade deficit	-	102
Other timing difference	45	-
	<hr/>	<hr/>
	(30)	74
	<hr/>	<hr/>

Notes to the financial statements *(continued)*

8 Tangible fixed assets

	Plant & Machinery £'000	Motor Vehicles £'000	Office Equipment £'000	Total £'000
Cost				
At beginning of year	900	38	2	940
Disposal	-	(38)	-	(38)
At end of year	900	-	2	902
Depreciation				
At beginning of year	720	28	2	750
Charge for year	180	4	-	184
Disposal	-	(32)	-	(32)
At end of year	900	-	2	902
Net book value				
At 31 December 2006	-	-	-	-
At 31 December 2005	180	10	-	190

Included in the total net book value of plant and machinery is an amount of £nil (2005 £180,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £180,000 (2005 £180,000).

9 Fixed asset investments

	2006 £'000	2005 £'000
Shares in subsidiary undertakings		
Cost		
At beginning of year	5,346	4,934
Additions	63	45
Exchange rate adjustments	-	367
At end of year	5,409	5,346

Notes to the financial statements

9 Fixed asset investments (*continued*)

	Country of incorporation	Principal activity	Class and percentage of shares held
Subsidiary undertakings			
<i>Held directly:</i>			
Star Energy Oil Limited	United Kingdom	Investment holding company	100% of ordinary of 1 pence each
<i>Held by intermediate subsidiary</i>			
Star Energy Oil Limited	United Kingdom	Investment holding company	100% of ordinary of 10 pence each
Star Energy Oil and Gas Limited	United Kingdom	Oil and gas development and Production	100% of ordinary of £1 each
Star Energy Oil UK Limited	United Kingdom	Oil and gas development and Production	100% of ordinary of £1 each

10 Debtors falling due within one year

	2006 £'000	2005 £'000
Other debtors	1	81
Amounts owed by related undertakings	9,954	9,549
Deferred tax asset	30	-
Prepayments and accrued income	4	8
	<u>9,989</u>	<u>9,638</u>

11 Creditors: amounts falling due within one year

	2006 £'000	2005 £'000
Obligations under finance leases and hire purchase contracts	60	171
Trade creditors	2	-
Amounts owed to group undertakings	2,428	1,734
Corporation tax	3	2
Taxation and social security	5	4
Accruals and deferred income	11	286
	<u>2,509</u>	<u>2,197</u>

Notes to the financial statements *(continued)*

12 Creditors: amounts falling due after more than one year

	2006 £'000	2005 £'000
Obligations under finance leases and hire purchase contracts	-	60
Amounts owed to group undertakings	1,400	1,400
	<hr/> 1,400	<hr/> 1,460
	<hr/>	<hr/>
Analysis of debt:		
Debt can be analysed as falling due		
Within one year or on demand	60	171
Between one and two years	-	60
Between two and five years	-	-
In five years or more	1,400	1,400
	<hr/> 1,460	<hr/> 1,631
	<hr/>	<hr/>

The bank loans as at 31 December 2006 and 31 December 2005 were secured by a fixed and floating charge over the assets of the company and its subsidiaries and bore interest at commercial rates

13 Obligations under finance leases and hire purchase contracts

	2006 £'000	2005 £'000
Amounts payable		
Within one year	60	171
In first to second years inclusive	-	60
	<hr/> 60	<hr/> 231
	<hr/>	<hr/>

Notes to the financial statements

14 Provisions for liabilities and charges

	2006 £'000	2005 £'000
Deferred tax provision (Note 7)	-	74
	<hr/>	<hr/>
	-	74
	<hr/>	<hr/>

15 Called up share capital

	2006 £'000	2005 £'000
<i>Authorised</i>		
Equity 150,000 (2005 150,000) Ordinary shares of 10p each	150	150
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
Equity 150,000 (2005 150,000) Ordinary shares of 10p each	150	150
	<hr/>	<hr/>

16 Reserves

	Capital reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2006	45	11,257	11,302
Result for the year	-	(39)	(39)
Charges relating to share based payments	63	16	79
	<hr/>	<hr/>	<hr/>
At 31 December 2006	108	11,234	11,342
	<hr/>	<hr/>	<hr/>

Notes to the financial statements *(continued)*

17 Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows

	2006 £'000 Other Leases	2005 £'000 Other Leases
Operating leases which expire		
Within one year	12	15
In the second to fifth years inclusive	12	14
Total operating lease commitments	24	29

18 Pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the year ended 31 December 2006 represents contributions payable by the Company to the fund and amounted to £14,000 (2005 £35,000).

There were no outstanding or prepaid contributions at either the beginning or the end of the financial year (2005 nil). December 2005 contributions were not paid until Jan 2006 in line with OPRA regulations.

19 Contingent liability

The Company is part of a cross group guarantee relating to loans held by its parent company which at the 31 December 2006 totalled £77,028,000 (2005 £72,928,000). These guarantees are considered to be insurance contracts.

20 Parent company and ultimate controlling party

The immediate parent company and ultimate controlling party is Star Energy Group plc, which is incorporated in England and Wales.

The largest group in which the results of the Company are consolidated is that headed by Star Energy Group plc. The consolidated accounts of the group are available to the public from the registered office.

The registered office of Star Energy Group plc is

Norton Rose
Kempson House
Camomile Street
London
EC3A 7AN