

VECTOR GAS LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2002



Jeffreys Henry

**Finsgate
5-7 Cranwood Street
London
EC1V 9EE**

VECTOR GAS LIMITED

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VECTOR GAS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2002

The directors present their report and financial statements for the year ended 30 June 2002.

Principal activities and review of the business

The Company's principal activity is to purchase, market and sell natural gas to commercial and other end users and it is not anticipated that this will change in the near future.

After incurring substantial losses in the previous year, the Quantum Energy Group has gone through a period of consolidation. The Quantum Energy Group has recovered to breakeven for the year, and is now well placed to take advantage of opportunities that present themselves in the future.

Results and dividends

The results for the year are set out on page 4.

The directors do not recommend payment of an ordinary dividend.

Directors

The following directors have held office since 1 July 2001:

J.A. McIntosh

J.A. Spellman

G.D. Russell

C.J. Bretton

(Resigned 28 February 2002)

Directors' interests

The directors' interests in the shares of the company were as stated below:

	'A' Ordinary shares of £ 1 each	
	30 June 2002	1 July 2001
J.A. McIntosh	-	-
J.A. Spellman	-	-
G.D. Russell	-	-

	'B' Ordinary shares of £ 1 each	
	30 June 2002	1 July 2001
J.A. McIntosh	-	-
J.A. Spellman	-	-
G.D. Russell	-	-

J.A. McIntosh, C.J. Bretton and J.A. Spellman also served on the board of the holding company, Quantum Energy Group Limited. Their interests in the shares of that company are disclosed in that company's financial statements.

Creditor payment policy

The company's current policy concerning the payment of trade creditors is to:

- settle the terms of payment with suppliers when agreeing the terms of each transaction;
- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with the company's contractual and other legal obligations.

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Jeffreys Henry be reappointed as auditors of the company will be put to the Annual General Meeting.

VECTOR GAS LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2002

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the board



.....
J.A. McIntosh

Director

29th October 2002

VECTOR GAS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF VECTOR GAS LIMITED

We have audited the financial statements of Vector Gas Limited on pages 4 to 10 for the year ended 30 June 2002. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

Respective responsibilities of the directors and auditors

As described in the statement of directors' responsibilities on page 2 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 company 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Jeffreys Henry

Chartered Accountants
Registered Auditor

29 OCTOBER 2002

Finsgate, 5-7 Cranwood Street
London
EC1V 9EE

VECTOR GAS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2002

		2002 £	2001 £
	Notes		
Turnover	2	33,012,742	57,235,806
Cost of sales		(29,888,606)	(59,406,980)
Gross profit/(loss)		3,124,136	(2,171,174)
Administrative expenses		(2,935,420)	(2,391,820)
Operating profit/(loss)	3	188,716	(4,562,994)
Other interest receivable and similar income		3,706	68,350
Interest payable and similar charges	4	(246,087)	(500,958)
Loss on ordinary activities before taxation		(53,665)	(4,995,602)
Tax on loss on ordinary activities	5	-	(200)
Loss on ordinary activities after taxation	10	(53,665)	(4,995,802)

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

VECTOR GAS LIMITED

BALANCE SHEET AS AT 30 JUNE 2002

	Notes	2002 £	£	2001 £	£
Fixed assets					
Intangible assets	6		990,015		1,045,302
Current assets					
Debtors	7	8,455,471		10,406,577	
Cash at bank and in hand		194,528		1,493,726	
		<u>8,649,999</u>		<u>11,900,303</u>	
Creditors: amounts falling due within one year	8	<u>(13,554,740)</u>		<u>(16,806,666)</u>	
Net current liabilities			<u>(4,904,741)</u>		<u>(4,906,363)</u>
Total assets less current liabilities			<u>(3,914,726)</u>		<u>(3,861,061)</u>
Capital and reserves					
Called up share capital	9	2,700,000		2,700,000	
Profit and loss account	10	<u>(6,614,726)</u>		<u>(6,561,061)</u>	
Shareholders' funds - equity interests	11		<u>(3,914,726)</u>		<u>(3,861,061)</u>

The financial statements were approved by the Board on 29th October 2002



J.A. McIntosh
Director

VECTOR GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

The company has taken advantage of the exemption in Financial Reporting Standard No 1 from the requirement to produce a cash flow statement on the grounds that it is a subsidiary undertaking where 90 percent or more of the voting rights are controlled within the group.

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable accounting standards.

1.3 Turnover

Turnover, stated exclusive of value added tax, represents the sales value of gas supplied during the year. Turnover includes an estimate of gas supplied to customers between the date of the last meter reading and the year end. All turnover arises from continuing operations within the United Kingdom.

1.4 Goodwill

Acquired goodwill is written off in equal annual instalments over its estimated useful economic life.

1.5 Deferred taxation

The accounting policy in respect of deferred tax has been changed to reflect the requirements of FRS19 - Deferred tax. Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

The above amounts to a change in accounting policy. The previous policy was to provide deferred tax only to the extent that it was probable that liabilities would crystallise in the foreseeable future.

The adoption of the standard has not required a prior period adjustment. If the new policy had been in place in the previous period no liability would have been recognised as the conditions for recognition would not have been satisfied.

2 Turnover

The total turnover of the company for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

3	Operating profit/(loss)	2002	2001
		£	£
	Operating profit/(loss) is stated after charging:		
	Amortisation of intangible assets	55,287	48,930
	Auditors' remuneration	8,000	9,000
4	Interest payable	2002	2001
		£	£
	On bank loans and overdrafts	246,087	500,958

VECTOR GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2002

5	Taxation	2002 £	2001 £
	Domestic current year tax		
	Adjustment for prior years	-	200
	Current tax charge	<u>-</u>	<u>200</u>
	Factors affecting the tax charge for the year		
	Loss on ordinary activities before taxation	<u>(53,665)</u>	<u>(4,995,602)</u>
	Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2001 : 0.00%)	<u>(16,100)</u>	<u>-</u>
	Effects of:		
	Non deductible expenses	58,626	-
	Depreciation	16,586	-
	Tax losses utilised	(59,112)	-
	Adjustments to previous periods	-	200
		<u>16,100</u>	<u>200</u>
	Current tax charge	<u>-</u>	<u>200</u>

The company has estimated losses of £ 5,300,827 (2001 : £ 5,494,000) available for carry forward against future trading profits.

On the basis of these financial statements no provision has been made for corporation tax.

6	Intangible fixed assets	Goodwill £
	Cost	
	At 1 July 2001 & at 30 June 2002	<u>1,105,740</u>
	Amortisation	
	At 1 July 2001	60,438
	Charge for the year	55,287
	At 30 June 2002	<u>115,725</u>
	Net book value	
	At 30 June 2002	<u>990,015</u>
	At 30 June 2001	<u>1,045,302</u>

VECTOR GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2002

7 Debtors	2002 £	2001 £
Trade debtors	1,829,105	4,682,450
Amounts owed by parent and fellow subsidiary undertakings	5,500,136	1,644,146
Corporation tax	8,586	8,586
Other debtors	62,649	35,342
Prepayments and accrued income	1,054,995	4,036,053
	<u>8,455,471</u>	<u>10,406,577</u>

Included in other debtors is £10,000 held by Transco as Energy Balancing Security. These funds attract interest at the Barclays Business Premium Rate.

8 Creditors: amounts falling due within one year	2002 £	2001 £
Bank loans and overdrafts	211,862	4,996,004
Trade creditors	1,026,638	1,256,122
Amounts owed to parent and fellow subsidiary undertakings	9,891,325	5,238,264
Taxes and social security costs	-	1,019,426
Accruals and deferred income	2,424,915	4,296,850
	<u>13,554,740</u>	<u>16,806,666</u>

Included in bank loans and overdrafts is £52,379 which is secured on the group's trade debtors.

Included within accruals is a provision of £146,744 made during the year in respect of an agreed early termination of a sales contract, to be paid between November 2001 and October 2002. The directors consider that the true and fair override should be implemented because if the amount was disclosed under provisions, in accordance with FRS 12, the group's current liabilities would not be fairly represented.

VECTOR GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2002

9	Share capital	2002 £	2001 £
	Authorised		
	1,350,000 'A' Ordinary shares of £ 1 each	1,350,000	1,350,000
	1,350,000 'B' Ordinary shares of £ 1 each	1,350,000	1,350,000
		<u>2,700,000</u>	<u>2,700,000</u>
	Allotted, called up and fully paid		
	1,350,000 'A' Ordinary shares of £ 1 each	1,350,000	1,350,000
	1,350,000 'B' Ordinary shares of £ 1 each	1,350,000	1,350,000
		<u>2,700,000</u>	<u>2,700,000</u>

Class A and B shares are the same in all respects.

10 Statement of movements on profit and loss account

	Profit and loss account £
Balance at 1 July 2001	(6,561,061)
Retained loss for the year	(53,665)
Balance at 30 June 2002	<u>(6,614,726)</u>

11 Reconciliation of movements in shareholders' funds

	2002 £	2001 £
Loss for the financial year	(53,665)	(4,995,802)
Opening shareholders' funds	(3,861,061)	1,134,741
Closing shareholders' funds	<u>(3,914,726)</u>	<u>(3,861,061)</u>

12 Employees

Number of employees

There were no employees during the year apart from the directors.

13 Control

The holding company is Quantum Energy Distribution Limited, a company registered in England and Wales. Quantum Energy Group Limited, the parent company of Quantum Energy Distribution Limited, prepares group financial statements, copies of which can be obtained from The Exchange, 1 Brent Cross Gardens, London, NW4 3RJ. Barings European Fund (GP) LP, is the ultimate controlling party owning over 50% of the ordinary share capital of Quantum Energy Group Limited.

VECTOR GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2002

14 Related party transactions

The company has taken advantage of the exemption in Financial Reporting Standard Number 8 from the requirement to disclose transactions with group companies on the grounds that consolidated financial statements are prepared by the ultimate parent company.