Beta Central Profits Limited

Annual report and accounts

for the year ended 31 December 2008

Registered number: 6297913

Directors' report

For the year ended 31 December 2008

The directors present their Annual Report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 2008.

Principal activity

The principal activity of the company is to hold and manage an investment in Northern Gas Networks Holdings Limited ("NGNH").

Business review

The company was incorporated on 29 June 2007.

As shown in the profit and loss account the company has made a profit of £18,292,000 (2007 - £9,523,000) in the year. The balance sheet shows the company's net asset position at the year end is consistent with the prior period.

On 3 November 2008 the company borrowed £112.6m from its parent company Kentson Limited (10.55% interest bearing loan) and used these funds to acquire the entire issued share capital of Goldia Limited, a group company which held a 15.2% shareholding in NGNH.

On 4 November 2008 the company issued £50.0m of loan notes to Kentson Limited and used these funds to repay the existing bank loan. On 12 December 2008 a further £112.6m of loan notes were issued to Kentson Limited in settlement of the interest bearing loan and the resulting £162.6m of loan notes were listed on the Channel Islands Stock Exchange.

On 15 December 2008 the company acquired the 15.2% shareholding in NGNH held by Goldia Limited for a consideration of £112.6m resulting in the company increasing its total shareholding in NGNH to 35.1%.

The company is managed by Hongkong Electric Holdings Limited as part of the overall group. For this reason, the company's directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of Hongkong Electric Holdings Limited is discussed in that company's Annual Report which does not form part of this report.

Principal risks and uncertainties

The company is financed by listed loan notes. The risks and uncertainties of the company reflect those associated with these loan notes as discussed below.

Future outlook

The directors expect the company to make a profit in the forthcoming year.

Financial risk management objectives and policies

The company's financial instruments comprise listed loan notes and cash.

The main qualitative and quantitative risk arising from the company's financial instruments is liquidity risk as summarised below along with policies established by the Board to manage that risk.

Liquidity risk

The company's external debt comprises listed loan notes. The associated liquidity risk is currently mitigated as they do not mature until 2013. It is planned that the loan notes will be replaced by facilities before the existing loan notes mature.

Dividends

An interim dividend of 3.1p per share was declared and paid on 23 June 2008 and a final dividend of 25.1p per share was declared and paid on 31 December 2008 making a total of 28.2p per share (2007 – 14.9p) for the year.

Going Concern

The company has £162.6m of listed loan notes issued which mature in 2013. Cash flow projections, which include dividends receivable, show that the company will be able to meet its financial obligations as they fall due. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue operations for the foreseeable future. Accordingly, they adopt the going concern basis in preparing the Annual Report and accounts.

Directors

The directors, who served throughout the year were as follows:

N D McGee
C Tsai
K S Tso

Auditors

Each of the directors at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

The directors will place a resolution before the annual general meeting to reappoint Deloitte LLP as auditors for the ensuing year.

3 More London Riverside
London
SE1 2AQ

By order of the Board,

Director
N D McGEE
22 MAY 2009

Directors' responsibilities

The directors are responsible for preparing the Annual Report and accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare accounts for each financial year. Under that law the directors have elected to prepare the accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The accounts 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 year. In preparing these accounts, 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 UK Accounting Standards have been followed; and
- prepare the accounts 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 the accounts 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.

Independent auditors' report

To the Members of Beta Central Profits Limited

We have audited the accounts of Beta Central Profits Limited for the year ended 31 December 2008 which comprise the profit and loss account, the balance sheet, the statement of accounting policies and the related notes 1 to 14. These accounts 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

The directors' responsibilities for preparing the Annual Report and accounts 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 accounts 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 accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the accounts.

In addition we 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 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 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

Independent auditors' report (continued)

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 accounts 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 accounts.

Opinion

In our opinion:

- the accounts 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 2008 and of its profit for the year then ended;
- the accounts have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the accounts.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
Leeds
4 June 2009

Profit and loss account

For the year ended 31 December 2008

	Notes	Year ended 31 December 2008 £'000	Six month period ended 31 December 2007 £'000
Administrative expenses		(126)	(11)
Operating loss		(126)	(11)
Finance charges (net)	1	(5,239)	(502)
Income from associate undertaking	13	22,176	9,950
Profit on ordinary activities before taxation	2	16,811	9,437
Tax on profit on ordinary activities	3	1,481	86
Profit for the financial year		18,292	9,523

The above results arise from continuing operations.

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

There are no recognised gains or losses in the year other than the profit for the year.

Balance sheet

31 December 2008

	Notes	2008	2007
		£'000	£'000
Fixed asset investments	5	238,475	113,763
Current assets			
Debtors – due within one year	6	750	535
Cash at bank and in hand		13	10
		763	545
Creditors: Amounts falling due within one year	7	(12,550)	(50,512)
Net current liabilities		(11,787)	(49,967)
Total assets less current liabilities		226,688	63,796
Creditors: Amounts falling due after more than one year	8	(162,600)	-
Net Assets		64,088	63,796
Capital and reserves			
Called-up share capital	10	63,773	63,773
Profit and loss account	11	315	23
Shareholders' funds	12	64,088	63,796

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

The accounts were approved by the Board of Directors and authorised for issue on 22nd May 2009 and signed on its behalf by:

Director

N D McGEE

Statement of accounting policies

31 December 2008

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding period.

Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

The company is exempt from the requirements of FRS1 (revised) "Cash flow statements" to present a cash flow statement as it is a wholly owned subsidiary of Hongkong Electric Holdings Limited, which prepares consolidated accounts which are publicly available.

The company is not required to prepare group accounts as it is a wholly owned subsidiary of Hongkong Electric Holdings Limited which prepares consolidated accounts that are publicly available.

Going concern

The Directors' report includes a note on page 2 stating that the directors consider the business to be a going concern at the time of the approval of the Annual Report and accounts.

Fixed asset investments

Fixed asset investments are shown at cost less provision for impairment.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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.

Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting year and reduced by payments made in the year.

1 Finance charges (net)

	Year ended 31 December 2008 £'000	Six month period ended 31 December 2007 £'000
Interest payable and similar charges:		
- Loan notes	1,489	-
- Intercompany loans	1,269	-
- Bank loans	2,481	502
	5,239	502

2 Profit on ordinary activities before taxation

The directors did not receive any remuneration in relation to their services to the company during the current year or prior period. The fees payable to the company's auditors for the audit of the company's annual accounts was £3,000 (2007 - £3,000). There are no employees other than the directors.

3 Tax on profit on ordinary activities

The tax credit comprises:

	Year ended 31 December 2008 £'000	Six month period ended 31 December 2007 £'000
Current tax		
UK corporation tax	(1,499)	(86)
Adjustments in respect of prior period	18	-
Total tax on profit on ordinary activities	(1,481)	(86)

3 Tax on profit on ordinary activities (continued)

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows.

	Year ended 31 December 2008 £'000	Six month period ended 31 December 2007 £'000
Profit on ordinary activities before tax	16,811	9,437
Tax on profit on ordinary activities at standard UK corporation tax rate of 28% (2007 – 30%)	4,707	2,831
Effects of:		
Income not taxable	(6,209)	(2,985)
Unrecoverable tax losses	31	68
Adjustment in respect of prior period	18	-
Change in standard UK corporation tax rate	(28)	-
Current tax credit for the year	(1,481)	(86)

The company earns its profits in the UK. Therefore the tax rate used for tax on profit on ordinary activities is the standard rate for UK corporation tax, currently 28% (2007 – 30%).

4 Dividends paid on equity shares

	Year ended 31 December 2008 £'000	Six month period ended 31 December 2007 £'000
Equity shares		
- interim dividend paid of 3.1p (2007 – 14.9p) per ordinary share	2,000	9,500
- final dividend paid of 25.1p (2007 - nil) per ordinary share	16,000	-
	18,000	9,500

5 Fixed asset investments

	2008 £'000	2007 £'000
Subsidiary undertaking (cost and net book value)	12,113	-
Associate (cost and net book value)	226,362	-
Other investment (cost and net book value)	-	113,763
	238,475	113,763

5 Fixed asset investments (continued)

The subsidiary undertaking is a 100% holding in the ordinary share capital of Goldia Limited, a company incorporated in the British Virgin Islands which is non-trading and was acquired for £12.1m on 3 November 2008.

The associate is a 35.1% holding in the ordinary share capital of NGNH, a group whose principal activity is the distribution of gas through the North of England network, which is incorporated in England and Wales. This was classed as an other investment at 31 December 2007 prior to the company's acquisition of a further 15.2% of NGNH from Goldia Limited on 15 December 2008 for £112.6m which increased the total shareholding in NGNH to 35.1%.

6 Debtors - due within one year

	2008 £'000	2007 £'000
Amounts owed by group undertakings	-	493
Amounts owed by associate undertakings	750	-
Amounts owed by investment undertakings	-	42
	750	535

7 Creditors: Amounts falling due within one year

	2008 £'000	2007 £'000
Bank loan	-	50,000
Amounts owed to group undertakings	12,502	-
Accruals and deferred income	48	512
	12,550	50,512

8 Creditors: Amounts falling due after more than one year

	2008 £'000	2007 £'000
Listed loan notes	162,600	-
	162,600	-

The loan notes list on the Channel Islands Stock Exchange carry fixed interest at 10.55% per annum paid annually on 31 December and mature on 4 November 2013.

9 Derivatives and other financial instruments

The Directors' report provides an explanation of the role that financial instruments have had during the year in creating or changing the risks the company faces in its activities. The explanation summarises the objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year.

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in Financial Reporting Standard 13 "Derivatives and other financial instruments: Disclosures" (FRS 13). Certain financial assets such as investments in subsidiary undertakings are excluded from the scope of these disclosures.

As permitted by FRS 13, short term debtors and creditors have been excluded from the disclosures. The directors believe that the fair values are not materially different from the balance sheet values.

Interest rate profile

The company has no financial assets other than sterling cash deposits of £13,000 (2007 - £10,000) which are part of the financing arrangements of the company. The sterling cash deposits comprise monies held in bank accounts.

The interest rate profile of the company's financial liabilities at 31 December was as follows:

	Fixed rate 2008 £'000	Fixed rate 2007 £'000	Weighted average interest rate 2008 %	Weighted average interest rate 2007 %	Weighted average period for which rate is fixed 2008 Years	Weighted average period for which rate is fixed 2007 Years
Bank loan	-	50,000	-	6.54	-	0.1
Loan notes	162,600	-	10.55	-	4.8	-
Total	162,600	50,000				

Maturity of financial liabilities

The maturity profile of the company's financial liabilities at 31 December was as follows:

	2008 £'000	2007 £'000
In one year or less	-	50,000
In more than two years but not more than five years	162,600	-
	162,600	50,000

Borrowing facilities

The company had no undrawn committed borrowing facilities at either the current year end or the prior period end.

Fair values

The directors believe that the fair values of all financial instruments are not materially different from the balance sheet values.

10 Called-up share capital

	2008 £'000	2007 £'000
Authorised		
65,000,000 ordinary shares of £1 each	65,000	65,000
	65,000	65,000
Allotted, called-up and fully paid		
63,772,525 ordinary shares of £1 each	63,773	63,773
	63,773	63,773

11 Reserves

	Profit and loss account £'000
At 1 January 2008	23
Profit for the financial year	18,292
Dividends paid on equity shares	(18,000)
At 31 December 2008	315

12 Reconciliation of movements in equity shareholders' funds

	Year ended 31 December 2008 £'000	Six month period ended 31 December 2007 £'000
Profit for the financial year	18,292	9,523
Dividends paid on equity shares	(18,000)	(9,500)
New shares issued	-	63,773
Net movement in shareholders' funds	292	63,796
Opening shareholders' funds	63,796	-
Closing shareholders' funds	64,088	63,796

13 Related party transactions

The company received paid dividend income of £22.2m (2007 - £10.0m) from NGNH. The company paid dividends of £18.0m (2007 - £9.5m) to its immediate parent company Kentson Limited (see note 4 for details).

The company was charged and settled interest of £1.3m (2007 - £nil) with Kentson Limited on an intercompany loan which was established and repaid in full during 2008. The company received £3.0m (2007 - £nil) from Kentson Limited to settle bank loan interest. At 31 December 2008 the company held listed loan notes of £162.6m (2007 - £nil) with Kentson Limited bearing annual interest of 10.55%. The charge in the year on these listed loan notes was £1.5m (2007 - £nil) all of which was settled.

Kentson paid legal and audit fees of £80,000 (2007 - £nil) on behalf of the company in the year. During the year Northern Gas Networks Limited, a subsidiary of NGNH, paid legal expenses on behalf of the company worth £nil (2007 - £8,000).

14 Ultimate controlling party

Kentson Limited is the immediate parent company.

Hongkong Electric Holdings Limited is the ultimate parent company and the largest and smallest group of which the company is a member and for which group accounts are drawn up. Copies of the accounts are available from the registered address of this company as shown in the Directors' report.