

HM Plant Limited

**Directors' report and financial
statements**

Registered number 1082975

31 December 2006

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Company information

Directors

JJ Jones (Chairman)
SF Howard (resigned 26 April 2007)
DA Hearne
AJ Raine
BJ Warren (resigned 26 April 2007)

Secretary

AJ Raine

Auditors

KPMG LLP
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

Registered Office

Monkton Business Park North
Hebburn
Tyne and Wear
NE31 2JZ

Solicitors

Addleshaw Goddard
Sovereign House
PO Box 8
Sovereign Street
Leeds
LS1 1HQ

Bankers

Barclays Bank plc
54 Lombard Street
London
EC3P 3AH

Directors' report

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

Principal activities

Heavy Construction Machinery Limited is the parent company of a group of companies engaged in the distribution of construction equipment, the distribution and servicing of diesel engines and transmissions and heavy haulage. The company's principal activity is that of a holding company.

Business review

Introduction to the Business Review

HM Plant Limited is at the forefront of capital equipment distribution in the United Kingdom and Eire. It has the exclusive importation and distribution rights for Hitachi Construction equipment who are well known globally. The company has a large customer base, which includes owner operators, private and public companies in the UK, and Eire. UK turnover during the year accounted for 91.7% of revenues (2005: 91.6%) and exports accounted for 8.3% of turnover (2005: 8.4%).

Objectives of the Company

The company's main objective is to be the best supplier of quality Construction Equipment in the UK and Eire.

Strategy

This is the second full year of trading since the relocation of the company's head office to a purpose built facility to improve the overall business performance. The key elements of this strategy have been to:

Focus on customer needs, service and delivery,

Improve operational efficiency reducing company operating costs by embracing new technology, and

Reduce assembly costs by re-engineering value added components while maintaining the overall product quality.

Performance

The year under review has proved to be a frustrating year with no growth in sales despite an increasing order book in the domestic market and the shortage of Hitachi Construction equipment due to worldwide demand.

During the year the company continued its strategy of investment in after sales support with a 25% increase in mobile field service engineers in the year.

The company's balance sheet also continues to strengthen, in particular the company's cash reserves. During the year the company generated over £9.2m of cash from operating activities. After paying almost £1.5m in corporation tax, just over £7m was converted into free cash. As a result of this the company is cash positive. This enables the company to use either cash or additional debt to finance its future growth plans.

Measurement

The company uses a number of financial and non-financial KPI's to measure performance and these are reported both at board level and to managers in monthly briefings. These KPI's include customer service level, complaints, production plan attainment, sales plan achievement and a number of health & safety, environmental and employee related KPI's. The board considers that the company has a very effective measurement and reporting system, consistent with its size and complexity.

As far as financial performance is concerned the key measurements used by the company are turnover and gross profit percentage, calculated as reported on the face of the profit and loss account. For the year under review, turnover was £103,660,000 (2005: £103,950,000) and the gross profit percentage was 11.4% (2005: 10.7%).

Directors' report *(continued)*

Business review *(continued)*

Risk and Uncertainties

The company operates in a very competitive market place where its customers are continually focused on value for money

The advanced Hitachi technology has enabled the equipment to increase productivity with reduced cost of ownership for the customer, thus ensuring a high demand for the product enabling the Company to increase it's market share within certain categories of the industry

Forward Looking Information

In the coming financial year the company expects it's like for like sales in the UK are expected to rise ahead of the market, due to the strong order book brought forward from 2006

The directors expect the company's markets to remain very competitive and that customers will continue to expect improvements in the cost of ownership of the capital equipment

The shift in emphasis with strategic development of the after sales market will assist the business to increase margins while ensuring the customer receives value for money

With the adoption of an ongoing cost reduction policy the directors are confident that these continuing changes will result in improvements in the trading results in the year 2007

Results and dividends

The profit for the year was £2,580,000 (2005 £2,904,000) A dividend of £3,364,000 (2005 £2,561,000) was paid during the year

The results of the company are set out on page 8

Financial instruments

The Company's financial instruments comprise of forward exchange contracts entered into in respect of purchases denominated in foreign currencies, together with cash, debtors and creditors Further information is detailed in notes 1 and 22

Political and charitable contributions

The company made no political contributions during the year Donations to UK charities amounted to £24,500 (2005 £29,000)

Post balance sheet events

During 2002 the former joint venture between Hitachi and Fiat-Hitachi ceased HM Plant Limited was the UK dealer for Fiat-Hitachi machines Fiat-Kobelco subsequently claimed breach of contract by HM Plant Limited The case reached the High Court in December 2003 and Fiat-Kobelco were ordered to settle HM Plant's legal costs Fiat-Kobelco sought arbitration in their claim for damages

Before the date of approval of these financial statements this issue has been determined in favour of HM Plant Limited resulting in a net post year end receipt of £961,000 In accordance with FRS 12 'Provisions, contingent liabilities and contingent assets' this income will be recognised in the 2007 financial statements

Directors' report *(continued)*

Post balance sheet events *(continued)*

Also, as a result of an agreement between the company and the directors, the receipt of the above amount results in bonuses payable to directors totalling £673,000. These bonuses will also be recognised in the 2007 financial statements.

On 20 April 2007, Hitachi Confirmation Machinery Europe Limited acquired the remaining 70% shareholding in Heavy Construction Machinery Limited, previously the company's ultimate parent undertaking.

Directors and their interests

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

JJ Jones (Chairman)
SF Howard (resigned 26 April 2007)
DA Hearne
AJ Raine
BJ Warren (resigned 26 April 2007)

No director had any interest in the share capital of the company at either the beginning or end of the year.

Messrs JJ Jones, SF Howard and DA Hearne are directors of the ultimate parent company, Heavy Construction Machinery Limited, and their interests in the shares and loan notes of group companies are disclosed in that company's financial statements. AJ Raine and BJ Warren are not directors of the ultimate parent company and they both held 19,622 £0.01 ordinary shares in Heavy Construction Machinery Limited at both the beginning and end of the year.

All of the directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report. The Company provided qualifying third party indemnity provisions to certain directors of group companies during the financial year and at the date of this report.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that 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.

Auditors

Following the change in ownership which occurred on 20 April 2007 (note 20) a resolution for the appointment of Ernst & Young LLP is to be proposed at the forthcoming Annual General Meeting.

By order of the board



AJ Raine
Director

Monkton Business Park North
Hebburn
Tyne & Wear
NE31 2JZ

30 August 2007

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable 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 that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a 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

Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
United Kingdom

Independent auditors report to the members of HM Plant Limited

We have audited the financial statements of HM Plant Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Note of Consolidated Historical Cost Profits and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 5.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

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 audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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 members of HM Plant Limited (*continued*)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of the profit for the year then ended,
- 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

KPMG LLP

KPMG LLP

Chartered Accountants

Registered Auditor

30 August 2007

Profit and loss account
for the year ended 31 December 2006

	<i>Note</i>	2006 £000	2005 £000
Turnover	2	103,660	103,950
Cost of sales		(91,841)	(92,806)
		<hr/>	<hr/>
Gross profit		11,819	11,144
Administrative expenses		(5,940)	(5,027)
Distribution costs		(2,131)	(2,043)
		<hr/>	<hr/>
Operating profit		3,748	4,074
Profit on sale of tangible fixed assets		-	163
Interest receivable and similar income	5	250	190
Interest payable and similar charges	6	(60)	(30)
		<hr/>	<hr/>
Profit on ordinary activities before taxation	3	3,938	4,397
Tax on profit on ordinary activities	7	(1,358)	(1,493)
		<hr/>	<hr/>
Profit for the financial year	16	2,580	2,904
		<hr/> <hr/>	<hr/> <hr/>

There were no recognised gains or losses for either financial year other than those included above
All results arose from continuing activities

Note of historical cost profits and losses
for the year ended 31 December 2006

	2006 £000	2005 £000
Reported profit on ordinary activities before taxation	3,938	4,397
Difference between a historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	(1)	1
Realisation of property revaluation gains of previous years	-	65
	<hr/>	<hr/>
Historical cost profit on ordinary activities before taxation	3,937	4,463
	<hr/>	<hr/>
Historical cost profit for the year retained after taxation	2,579	2,970
	<hr/> <hr/>	<hr/> <hr/>

Balance sheet
at 31 December 2006

	<i>Note</i>	2006	2005
		£000	£000
Fixed assets			
Tangible assets	9	4,321	4,378
Current assets			
Stocks	10	8,797	9,372
Debtors	11	16,365	17,678
Cash at bank and in hand		8,678	3,195
		<u>33,840</u>	<u>30,245</u>
Creditors amounts falling due within one year	12	<u>(35,705)</u>	<u>(31,381)</u>
Net current liabilities		(1,865)	(1,136)
Total assets less current liabilities		<u>2,456</u>	<u>3,242</u>
Provisions for liabilities and charges	13	(160)	(162)
Net assets		<u>2,296</u>	<u>3,080</u>
Capital and reserves			
Called up share capital	14	1,350	1,350
Revaluation reserve	15	46	45
Profit and loss account	15	900	1,685
Shareholders' funds	16	<u>2,296</u>	<u>3,080</u>

These financial statements were approved by the board of directors on 30 August 2007 and were signed on its behalf by



AJ Raine
Director

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 company'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 modified to include the revaluation of certain fixed assets. The company has applied the transitional rules contained in FRS15 *Tangible fixed assets* to retain previous valuations as the basis on which certain of these assets are held.

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. The company is exempt by virtue of Section 228 of the Companies Act 1985 from the requirement to prepare group financial statements.

Under FRS 1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own consolidated financial statements.

As the company is a wholly owned subsidiary of Heavy Construction Machinery Limited, the company has taken advantage of the exemption contained in FRS 8 and has not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Heavy Construction Machinery Limited, within which the company is included, can be obtained from the registered office.

Fixed assets and depreciation

No depreciation is provided on freehold land. Depreciation is provided on all other tangible fixed assets, at rates calculated to write off the cost or valuation, less the estimated residual value, of each asset over its expected useful life as follows:

Freehold buildings	-	66 years straight line
Short leasehold buildings	-	The remaining term of the lease straight line
Plant and equipment	-	3 to 10 years straight line
Fixtures and fittings	-	10 years straight line
Motor vehicles	-	4 years straight line
Computers	-	5 years straight line

Stocks

Stocks are stated at the lower of cost and net realisable value. Costs include all direct costs incurred in bringing the stocks to their present location and condition, including where appropriate, a proportion of directly attributable overheads. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

Notes (continued)

1 Accounting policies (continued)

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

Pension costs

The company contributes to the Heavy Machinery Group group personal pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme

Foreign exchange

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 contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on transaction are included in the profit and loss account

Leases and hire purchase

Assets held under finance leases are capitalised at their fair value on the inception of the agreement and depreciated over their estimated useful lives. The capital element of future payments is included under creditors. Interest is calculated and charged on a reducing balance basis

Rentals under operating leases are charged to the profit and loss account in equal amounts over the lease term

Dividends on shares presented within shareholders' funds

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

Classification of financial instruments issued by the Company

Financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions

- a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company, and
- b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds

Notes (continued)

2 Turnover

Turnover represents the amount derived from the provision of goods and services relating to the distribution and marketing of construction equipment during the year, stated net of value added tax. Income is recognised at the point of despatch for machines.

An analysis of turnover by geographical market is given below

	2006 £000	2005 £000
United Kingdom	95,114	95,257
Other European Countries	8,370	8,569
Other	176	124
	<u>103,660</u>	<u>103,950</u>

3 Notes to the profit and loss account

	2006 £000	2005 £000
<i>Profit on ordinary activities before taxation is stated after charging/(crediting)</i>		
Depreciation on owned assets	170	180
Operating lease charges - land and buildings	234	208
- other*	435	417
Gains on foreign exchange	(115)	(228)
	<u> </u>	<u> </u>
<i>Auditors remuneration</i>		
Audit of these financial statements	44	46
Valuation services	25	-
	<u> </u>	<u> </u>

Amounts receivable by the company's auditor in respect of services to the company and its associates, other than the audit of the company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the company's parent, Heavy Construction Machinery Limited.

* This amount includes £389,000 charged via a management charge from Heavy Machinery Group Subsidiary Limited.

Notes (continued)

4 Staff numbers, staff costs and directors' emoluments

	Number of employees	
	2006	2005
Average number employed		
Office and management	80	79
Assembly	57	58
	<u>137</u>	<u>137</u>
	2006	2005
	£000	£000
Staff costs		
Wages and salaries	3,391	3,207
Social security costs	414	405
Other pension costs (note 18)	53	47
	<u>3,858</u>	<u>3,659</u>

The Chairman and the other directors were paid by Heavy Machinery Group Holdings Limited for their services to the group as a whole. It is not practicable to apportion their remuneration between the companies of which they are directors.

5 Interest receivable and similar income

	2006	2005
	£000	£000
Bank interest receivable	<u>250</u>	<u>190</u>

6 Interest payable and similar charges

	2006	2005
	£000	£000
Interest on late payment of corporation tax	<u>60</u>	<u>30</u>

Notes (continued)

7 Taxation

	2006		2005
	£000	£000	£000
UK corporation tax			
UK corporation tax at 30% (2005 30%)	1,310		1,390
Adjustments in respect of prior periods	50		12
	<hr/>		<hr/>
Total current tax charge		1,360	1,402
Deferred tax (see note 13)			
Origination of timing differences	(46)		91
Adjustments in respect of prior periods	44		-
	<hr/>		<hr/>
Total deferred tax		(2)	91
		<hr/>	<hr/>
Tax on profit on ordinary activities		1,358	1,493
		<hr/>	<hr/>

Factors affecting the tax charge for the current year

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

	2006	2005
	£000	£000
Current tax reconciliation		
Profit on ordinary activities before tax	3,938	4,397
	<hr/>	<hr/>
Current tax at 30% (2005 30%)	1,181	1,319
Effects of		
Expenses not deductible for tax purposes	168	134
Gains rolled over on disposal of properties	-	(17)
Capital allowances in excess of depreciation	(39)	(46)
Adjustments to tax charge in respect of previous periods	50	12
	<hr/>	<hr/>
Total current tax charge (see above)	1,360	1,402
	<hr/>	<hr/>

Factors affecting the future tax charge

It has been announced that the corporation tax rate applicable to the company is expected to change from 30% to 28% from 1 April 2008. The deferred tax assets have been calculated at 30% in accordance with FRS 19. Any timing differences which reverse before 1 April 2008 will be charged/relieved at 30% and any timing differences which exist at 1 April 2008 will reverse at 28%.

8 Dividends

	2006	2005
	£000	£000
Dividends paid on ordinary shares during year	3,364	2,561
	<hr/>	<hr/>

Notes (continued)

9 Tangible fixed assets

	Freehold land and buildings £000	Short leasehold properties £000	Plant and equipment £000	Fixtures and fittings £000	Motor vehicles £000	Computer equipment £000	Total £000
Cost or valuation							
At 1 January 2006	3,677	25	1,393	784	87	397	6,363
Additions	90	9	4	-	10	-	113
At 31 December 2006	3,767	34	1,397	784	97	397	6,476
Depreciation							
At 1 January 2006	56	4	1,000	618	84	223	1,985
Charge for the year	43	2	50	24	4	47	170
At 31 December 2006	99	6	1,050	642	88	270	2,155
Net book value							
At 31 December 2006	3,668	28	347	142	9	127	4,321
At 31 December 2005	3,621	21	393	166	3	174	4,378

The following information relates to tangible fixed assets carried on the basis of revaluations in accordance with FRS 15 Tangible Fixed Assets

	2006 £000	2005 £000
Land and buildings		
At 1999 valuation	220	220
Aggregation depreciation thereon	(9)	(8)
Net book value	211	212
Historical cost of revalued assets	187	187
Aggregate depreciation based on historical cost	(22)	(20)
Historical cost net book value	165	167

The company's freehold land and buildings were valued at open market value on an existing use basis by independent valuers Edward Rushton Son & Kenyon Limited, International Valuers and Surveyors on 29 November 1999 in accordance with RICS Statement of Asset Valuation Practice and Guidance Notes. The transitional provisions of FRS 15 *Tangible fixed assets* have been followed and the valuations have therefore not been updated. Other tangible fixed assets, including additions subsequent to the revaluation of land and buildings, are included at cost.

Notes (continued)

10 Stocks

	2006 £000	2005 £000
Work in progress	225	87
Finished goods and goods for resale	8,572	9,285
	<u>8,797</u>	<u>9,372</u>

11 Debtors

	2006 £000	2005 £000
Trade debtors	7,080	6,692
Amounts owed by group undertakings	8,727	10,383
Other debtors	256	80
Prepayments and accrued income	302	523
	<u>16,365</u>	<u>17,678</u>

12 Creditors' amounts falling due within one year

	2006 £000	2005 £000
Trade creditors	29,590	25,539
Amounts owed to group undertakings	2,843	3,020
Corporation tax	756	925
Other taxes and social security	822	739
Other creditors	554	761
Accruals and deferred income	1,140	397
	<u>35,705</u>	<u>31,381</u>

Notes (continued)

13 Provisions for liabilities and charges

	Deferred tax £000
At beginning of year	162
Credited to the profit and loss for the year	(2)
	<hr/>
At end of year	160
	<hr/>

The elements of the deferred tax liability are as follows

	2006 £000	2005 £000
Difference between accumulated depreciation and capital allowances	164	153
Other timing differences	(4)	9
	<hr/>	<hr/>
Deferred tax liability	160	162
	<hr/>	<hr/>

A deferred tax liability of £558,443 (2005 £558,443) in respect of rolled over gains of £1,861,478 (2005 £1,861,478) has not been recognised

14 Share capital

	2006 £000	2005 £000
<i>Authorised</i>		
1,350,000 ordinary shares of £1	1,350	1,350
	<hr/>	<hr/>
<i>Called up, allotted and fully paid</i>		
1,350,000 ordinary shares of £1	1,350	1,350
	<hr/>	<hr/>

15 Reserves

	Revaluation reserve £000	Profit and loss account £000
At beginning of year	45	1,685
Profit for the financial year	-	2,580
Dividends on shares classified in shareholders' funds	-	(3,364)
Transfers	1	(1)
	<hr/>	<hr/>
At end of year	46	900
	<hr/>	<hr/>

Notes (continued)

16 Reconciliation of movements in shareholders' funds

	2006 £000	2005 £000
Profit for the financial year	2,580	2,904
Dividends	(3,364)	(2,561)
	<hr/>	<hr/>
Net (reduction)/addition to shareholders' funds	(784)	343
Opening shareholders' funds	3,080	2,737
	<hr/>	<hr/>
Closing shareholders' funds	2,296	3,080
	<hr/>	<hr/>

17 Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows

	2006		2005	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Annual commitments under leases expiring				
Within one year	-	6	15	1
Between two to five years	128	19	117	24
Over five years	116	-	116	-
	<hr/>	<hr/>	<hr/>	<hr/>
	244	25	248	25
	<hr/>	<hr/>	<hr/>	<hr/>

18 Pension scheme

Defined Contribution Plan

The company does not operate its own independent pension fund but operates a group personal pension scheme open to all employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £53,124 (2005 £47,041). Contributions totalling £14,630 (2005 £5,835) were payable to the fund at the year end and are included in creditors.

Notes (continued)

19 Contingent liabilities

An unlimited bank guarantee exists between the company and its group members. The net amount outstanding at the end of the year was £nil (2005 £nil).

UFJ Bank (Holland) N V has granted letters of credit on the Group's behalf in respect of imported purchases, to the value of JPY111,834,295. The bank has also undertaken on the Group's behalf, acceptances of JPY193,175,554.

The group has a one year rolling facility of £5,200,000 with UFJ Bank Netherland N V that is repayable on demand. There are no fixed repayment terms and the facility is guaranteed by Hitachi Construction Machinery (Europe) N V until 30 April 2011. Interest is payable at a rate of LIBOR plus 0.5% per annum.

20 Post balance sheet events

During 2002 the former joint venture between Hitachi and Fiat-Hitachi ceased. HM Plant Limited was the UK dealer for Fiat-Hitachi machines. Fiat-Kobelco subsequently claimed breach of contract by HM Plant Limited. The case reached the High Court in December 2003 and Fiat-Kobelco were ordered to settle HM Plant's legal costs. Fiat-Kobelco sought arbitration in their claim for damages.

Before the date of approval of these financial statements this issue has been determined in favour of HM Plant Limited resulting in a net post year end receipt of £961,000. In accordance with FRS 12 'Provisions, contingent liabilities and contingent assets' this income will be recognised in the 2007 financial statements.

Also, as a result of an agreement between the company and the directors, the receipt of the above amount results in bonuses payable to directors totalling £673,000. These bonuses will also be recognised in the 2007 financial statements.

On 20 April 2007, Hitachi Confirmation Machinery Europe Limited acquired the remaining 70% shareholding in Heavy Construction Machinery Limited, previously the company's ultimate parent undertaking.

21 Ultimate parent company and controlling interest

The ultimate parent undertaking at the end of the year is Heavy Construction Machinery Limited.

The only group in which the results of the Group are consolidated is that headed by Heavy Construction Machinery Limited. Copies of the group financial statements are available from the company secretary, Heavy Construction Machinery Limited, Unit 5, Monkton Business Park North, Hebburn, Tyne & Wear, NE31 2JZ.

22 Fair value of assets and liabilities

The Company has derivative financial instruments, being forward exchange contracts as at 31 December 2006 with an estimated fair value of £33,000 (2005 £nil).

The contracts cover purchases denominated in Euro of €4,760,000 and in Japanese Yen of JPY60,000,000, and expire over the period 18 January 2007 to 17 May 2007.