

COMPANY REGISTRATION NUMBER 2079614

H E GROUP LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
FOR
31 MAY 2004



A42
COMPANIES HOUSE

AMRDWBYU

0509
10/12/04

H E GROUP LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MAY 2004

CONTENTS	PAGES
<i>Statutory information</i>	1
Directors' report	2 to 3
Independent auditors' report to the shareholders	4 to 5
Group profit and loss account	6
Group balance sheet	7
Balance sheet	8
Group cash flow	9 to 11
Notes to the consolidated financial statements	12 to 26

H E GROUP LIMITED
STATUTORY INFORMATION

The board of directors	H R Edeleanu M F Wright P A Durey J Lloyd
Company secretary	D Edeleanu
Registered office	Whitewall Road Strood Rochester Kent ME2 4DZ
Accountants	Vantis McBrides Accountants • Business & Tax Advisers Nexus House 2 Cray Road Sidcup Kent DA14 5DA
Auditors	Audit Assure Chartered Accountants & Registered Auditors Nexus House 2 Cray Road Sidcup Kent DA14 5DA
Bankers	HSBC plc Sun Pier Medway Street Chatham Kent ME4 4DN
Solicitors	Ford Little 14 Park Road Sittingbourne Kent ME10 1DR

H E GROUP LIMITED
DIRECTORS' REPORT *(continued)*
YEAR ENDED 31 MAY 2004

The directors have pleasure in presenting their report and the consolidated financial statements of the group for the year ended 31 May 2004.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activity of the company during the year has been that of plant hire and plant sales.

The company's trading subsidiaries at the year end were HE Services (Plant Hire) Limited which hires plant and machinery and Masterhitch Europe Limited which sells and manufactures excavator quick hitches, buckets and wearparts.

The directors consider the year end financial position to be satisfactory. The group companies will continue to operate within the scope of their current activities for the foreseeable future.

RESULTS AND DIVIDENDS

The trading results for the year and the group's financial position at the end of the year are shown in the attached consolidated financial statements.

The directors have not recommended a dividend.

THE DIRECTORS AND THEIR INTERESTS

The directors who served the company during the year together with their beneficial interests in the shares of the company were as follows:

	Ordinary Shares of £1 each	
	At 31 May 2004	At 1 June 2003
H R Edeleanu	100	100
M F Wright	—	—
P A Durey	—	—
J Lloyd	—	—
	<u> </u>	<u> </u>

FIXED ASSETS

The directors consider that the market value of freehold land and buildings is in excess of the amount shown in the financial statements, but as these assets are used in the company's business and no disposals are envisaged, the excess is not quantified.

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group at the end of the year and of the group's profit or loss for the year then ended. In preparing those consolidated financial statements, the directors are required to:

select suitable accounting policies, as described on pages 12 to 14, and then apply them consistently;

H E GROUP LIMITED

DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 MAY 2004

make judgements and estimates that are reasonable and prudent; and

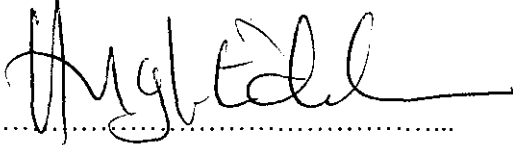
prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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

AUDITORS

On 30 April 2004 the audit practice of McBrides, merged with Audit Assure. A resolution to reappoint Audit Assure as the company's auditors will be proposed at the Annual General Meeting.

Signed on behalf of the directors



.....

Approved by the directors on 11/12/04.

H E GROUP LIMITED
INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
H E GROUP LIMITED
YEAR ENDED 31 MAY 2004

We have audited the consolidated financial statements on pages 6 to 26 which have been prepared under the historical cost convention and the accounting policies set out on pages 12 to 14.

This report is made solely to the company's shareholders, 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 shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the consolidated financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated 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 consolidated financial statements.

H E GROUP LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF H E GROUP LIMITED *(continued)*

YEAR ENDED 31 MAY 2004

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of the company's affairs and of the group as at 31 May 2004 and of the loss of the group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Audit Assure

AUDIT ASSURE
Chartered Accountants
& Registered Auditors

Nexus House
2 Cray Road
Sidcup
Kent
DA14 5DA

2 December 2004

H E GROUP LIMITED
GROUP PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 MAY 2004

	Note	2004 £	2003 £
GROUP TURNOVER	2	13,022,176	13,654,111
Cost of sales		9,178,771	9,468,271
GROSS PROFIT		3,843,405	4,185,840
Administrative expenses		3,247,797	3,385,335
Other operating income	3	(193,021)	(625,491)
OPERATING PROFIT	4	788,629	1,425,996
Profit on disposal of fixed assets	7	—	1,140,240
		788,629	2,566,236
Interest receivable		9,487	1,068
Interest payable and similar charges	8	(691,974)	(906,705)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		106,142	1,660,599
Tax on profit on ordinary activities	9	132,816	364,216
(LOSS)/RETAINED PROFIT FOR THE FINANCIAL YEAR	10	(26,674)	1,296,383

All of the activities of the group are classed as continuing.

The group has no recognised gains or losses other than the results for the year as set out above.

The company has taken advantage of section 230 of the Companies Act 1985 not to publish its own Profit and Loss Account.

The notes on pages 12 to 26 form part of these consolidated financial statements.


H E GROUP LIMITED

GROUP BALANCE SHEET

31 MAY 2004

	Note	2004 £	2003 £
FIXED ASSETS			
Tangible assets	11	20,825,628	24,159,912
CURRENT ASSETS			
Stocks	13	536,788	497,301
Debtors due within one year	14	3,895,444	4,018,945
Debtors due after one year	14	180,000	340,000
Cash at bank		178,493	94,369
		<u>4,790,725</u>	<u>4,950,615</u>
CREDITORS: Amounts falling due within one year	15	<u>10,242,043</u>	<u>11,575,261</u>
NET CURRENT LIABILITIES		(5,451,318)	(6,624,646)
TOTAL ASSETS LESS CURRENT LIABILITIES		15,374,310	17,535,266
CREDITORS: Amounts falling due after more than one year	16	<u>6,505,601</u>	<u>8,761,299</u>
		8,868,709	8,773,967
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	19	2,536,655	2,415,239
		<u>6,332,054</u>	<u>6,358,728</u>
CAPITAL AND RESERVES			
Called-up equity share capital	22	100	100
Profit and loss account	23	6,331,954	6,358,628
SHAREHOLDERS' FUNDS	24	<u>6,332,054</u>	<u>6,358,728</u>

These consolidated financial statements were approved by the directors on the 11/12/04 and are signed on their behalf by:



 (H R Edeleanu)

The notes on pages 12 to 26 form part of these consolidated financial statements.

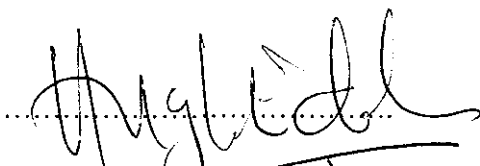
H E GROUP LIMITED

BALANCE SHEET

31 MAY 2004

	Note	2004 £	2003 £
FIXED ASSETS			
Tangible assets	11	20,734,585	24,012,879
Investments	12	12	12
		<u>20,734,597</u>	<u>24,012,891</u>
CURRENT ASSETS			
Stocks	13	—	6,000
Debtors due within one year	14	2,780,926	3,098,474
Debtors due after one year	14	180,000	340,000
Cash at bank		165,612	94,369
		<u>3,126,538</u>	<u>3,538,843</u>
CREDITORS: Amounts falling due within one year	15	<u>8,984,658</u>	<u>10,453,437</u>
NET CURRENT LIABILITIES		<u>(5,858,120)</u>	<u>(6,914,594)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>14,876,477</u>	<u>17,098,297</u>
CREDITORS: Amounts falling due after more than one year	16	<u>6,505,601</u>	<u>8,761,299</u>
		<u>8,370,876</u>	<u>8,336,998</u>
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	19	<u>2,536,655</u>	<u>2,415,239</u>
		<u>5,834,221</u>	<u>5,921,759</u>
CAPITAL AND RESERVES			
Called-up equity share capital	22	100	100
Profit and loss account	23	<u>5,834,121</u>	<u>5,921,659</u>
SHAREHOLDERS' FUNDS		<u>5,834,221</u>	<u>5,921,759</u>

These consolidated financial statements were approved by the directors on the 11/2/04..... and are signed on their behalf by:


(H R Edredani)

The notes on pages 12 to 26 form part of these consolidated financial statements.

H E GROUP LIMITED

GROUP CASH FLOW

YEAR ENDED 31 MAY 2004

	2004 £	2003 £
NET CASH INFLOW FROM OPERATING ACTIVITIES	5,093,896	4,851,910
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	9,487	1,068
Interest paid	(78,058)	(151,440)
Interest element of hire purchase	(613,916)	(755,265)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(682,487)	(905,637)
TAXATION	–	(15,245)
CAPITAL EXPENDITURE		
Payments to acquire tangible fixed assets	(182,421)	(1,005,455)
Receipts from sale of fixed assets	5,423,072	6,094,326
NET CASH INFLOW FROM CAPITAL EXPENDITURE	5,240,651	5,088,871
CASH INFLOW BEFORE FINANCING	9,652,060	9,019,899
FINANCING		
(Repayment) of bank loans	(70,691)	(74,820)
Capital element of hire purchase	(9,286,925)	(8,912,421)
Net outflow from other long-term creditors	–	(171,470)
NET CASH OUTFLOW FROM FINANCING	(9,357,616)	(9,158,711)
INCREASE/(DECREASE) IN CASH	294,444	(138,812)

The notes on pages 12 to 26 form part of these consolidated financial statements.

H E GROUP LIMITED
GROUP CASH FLOW *(continued)*
YEAR ENDED 31 MAY 2004

RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2004	2003
	£	£
Operating profit	788,629	1,425,996
Depreciation	3,832,435	4,138,502
Increase in stocks	(39,487)	(34,315)
Decrease in debtors	283,501	157,090
Increase/(decrease) in creditors	228,818	(835,363)
Net cash inflow from operating activities	<u>5,093,896</u>	<u>4,851,910</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2004	2003
	£	£
Increase/(decrease) in cash in the period	294,444	(138,812)
Net cash outflow from bank loans	70,691	74,820
Cash outflow in respect of hire purchase	9,286,925	8,912,421
Net cash outflow from other long-term creditors	—	171,470
Change in net debt resulting from cash flows	<u>9,652,060</u>	<u>9,019,899</u>
New hire purchase	(5,738,802)	(8,663,045)
Movement in net debt in the period	<u>3,913,258</u>	<u>356,854</u>
Net debt at 1 June 2003	<u>(17,386,712)</u>	<u>(17,743,566)</u>
Net debt at 31 May 2004	<u>(13,473,454)</u>	<u>(17,386,712)</u>

The notes on pages 12 to 26 form part of these consolidated financial statements.

H E GROUP LIMITED
GROUP CASH FLOW *(continued)*
YEAR ENDED 31 MAY 2004

ANALYSIS OF CHANGES IN NET DEBT

	At 1 Jun 2003 £	Cash flows £	Other changes £	At 31 May 2004 £
Net cash:				
Cash in hand and at bank	94,369	84,124	—	178,493
Overdrafts	(210,320)	210,320	—	—
	<u>(115,951)</u>	<u>294,444</u>	<u>—</u>	<u>178,493</u>
Debt:				
Debt due within 1 year	(69,122)	(2,368)	—	(71,490)
Debt due after 1 year	(445,123)	73,059	—	(372,064)
Hire purchase agreements	(16,756,516)	9,286,925	(5,738,802)	(13,208,393)
	<u>(17,270,761)</u>	<u>9,357,616</u>	<u>(5,738,802)</u>	<u>(13,651,947)</u>
Net debt	<u>(17,386,712)</u>	<u>9,652,060</u>	<u>(5,738,802)</u>	<u>(13,473,454)</u>

The notes on pages 12 to 26 form part of these consolidated financial statements.

H E GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MAY 2004

1. ACCOUNTING POLICIES

Basis of accounting

The consolidated financial statements have been prepared under the historical cost convention.

Basis of consolidation

The consolidated accounts incorporate the accounts of the company and the group undertakings. These are adjusted, where appropriate, to conform to group accounting policies. The accounts have been consolidated using the merger method of accounting as the group emerged from a reconstruction whereby the ultimate shareholding and control of each entity was not changed as a result.

As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group accounts by virtue of section 230 of the Companies Act 1985.

Turnover

The turnover shown in the group profit and loss account represents amounts invoiced during the year, exclusive of Value Added Tax.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Freehold improvements	2% straight line basis
Plant & machinery	17.5% written down value
Fixtures & Fittings	25% written down value
Motor Vehicles	30% written down value

Freehold buildings are not depreciated because the estimated lives of the buildings are deemed to be so long and the estimated residual values so high that any charge for depreciation is not considered material.

An impairment review is carried out annually and full provision is made in the accounts for any impairment.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Cost is determined on a first-in first-out basis.

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MAY 2004

1. ACCOUNTING POLICIES *(continued)*

Work in progress

Work in progress is valued on the basis of direct costs plus overheads plus attributable profits based on normal level of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the group profit and loss account on a straight line basis.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Pension costs

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the group profit and loss account.

Deferred taxation

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.

In respect of property disposals, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets.

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MAY 2004

1. ACCOUNTING POLICIES *(continued)*

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Investments

Investments in subsidiaries are included in the parent company balance sheet at cost less amounts written off.

Invoice Discounting

The company has arrangements for invoice discounting its debts. In line with Financial Reporting Standard No 5, the separate presentation method is adopted.

Government Grants

Government grants on capital expenditure are credited to a deferral account and are released to revenue over the expected useful life of the relevant asset by equal annual instalments. Grants of a revenue nature are credited to income in the period to which they relate.

2. TURNOVER

The turnover for the year was derived from the company's principal activity.

The geographical and class analysis of turnover is not disclosed as the markets in which the company operates are extremely competitive. The directors therefore consider disclosure would seriously prejudice the company's dealings in those areas.

3. OTHER OPERATING INCOME

	2004 £	2003 £
Rent receivable	<u>193,021</u>	<u>625,491</u>

4. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	2004 £	2003 £
Depreciation of owned fixed assets	350,951	358,988
Depreciation of assets held under hire purchase agreements	3,481,484	3,779,514
Auditors' remuneration		
- as auditors	13,000	13,000
- for other services	—	46,108
Operating leases - plant	493,787	616,979
Sale/disposal of assets	<u>(277,725)</u>	<u>(407,890)</u>

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MAY 2004

5. PARTICULARS OF EMPLOYEES

The average number of staff employed by the group during the financial year amounted to:

	2004	2003
	No	No
Number of production staff	125	134
Number of administrative staff	84	79
Number of management staff	7	6
	<u>216</u>	<u>219</u>

The aggregate payroll costs of the above were:

	2004	2003
	£	£
Wages and salaries	4,312,970	4,582,471
Social security costs	347,703	361,787
Other pension costs	8,833	9,427
	<u>4,669,506</u>	<u>4,953,685</u>

6. DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were:

	2004	2003
	£	£
Emoluments receivable	206,252	306,907
Value of company pension contributions to money purchase schemes	8,833	9,427
	<u>215,085</u>	<u>316,334</u>

Emoluments of highest paid director:

	2004	2003
	£	£
Total emoluments (excluding pension contributions)	<u>70,000</u>	<u>130,180</u>

The number of directors who accrued benefits under company pension schemes was as follows:

	2004	2003
	No	No
Money purchase schemes	<u>3</u>	<u>3</u>

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MAY 2004

7. PROFIT ON DISPOSAL OF FIXED ASSETS

	2004 £	2003 £
Profit on disposal of fixed assets	—	1,140,240

The above profit represents an exceptional gain on the sale of one of the company's freehold properties.

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2004 £	2003 £
Interest payable on bank borrowing	256	15,782
Finance charges	613,916	755,265
Other similar charges payable	77,802	135,658
	<u>691,974</u>	<u>906,705</u>

9. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of charge in the year

	2004 £	2003 £
Current tax:		
UK Corporation tax based on the results for the year at 30% (2003 - 30%)	11,400	—
(Over)/under provision in prior year	—	7,925
Total current tax	<u>11,400</u>	<u>7,925</u>
Deferred tax:		
Origination and reversal of timing differences	121,416	356,291
Tax on profit on ordinary activities	<u>132,816</u>	<u>364,216</u>

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MAY 2004

9. TAXATION ON ORDINARY ACTIVITIES *(continued)*

(b) Factors affecting current tax charge

The current tax charge for the year is lower than the tax on ordinary activities assessed at the standard rate of corporation tax in the UK of 30% (2003 - 30%) for the following reasons:-

	2004 £	2003 £
Profit on ordinary activities before taxation	106,142	1,660,599
Profit/(loss) on ordinary activities at 30%	31,842	497,840
Disallowable items re depreciation and profit on disposals	1,079,918	777,112
Capital allowances claimed	(1,191,988)	(1,463,500)
Disallowable expenditure	4,321	20,087
Losses carried back	93,907	(4,013)
Capital gains tax arising	-	172,079
Capital items expensed	-	1,595
Starting rate relief	-	(1,200)
Corporation tax under/over provision	-	7,925
Other adjustments	(6,600)	-
Total current tax (note 9(a))	11,400	7,925

(c) Factors that may affect future tax charges

Based on current capital investment plans, the company expects to continue to be able to claim capital allowances in excess of depreciation in future years at a similar rate to the current year. This is due to the continued capital investment plans which are continually on going.

10. LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The loss attributable to shareholders amounted to £(87,538) (2003: £1,131,198 profit) and the net assets at 31 May 2004 amounted to £5,834,221 (2003: £5,921,759).

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MAY 2004

11. TANGIBLE FIXED ASSETS

Group	Freehold Property £	Plant & Machinery £	Fixtures & Fittings £	Motor Vehicles £	Total £
COST					
At 1 June 2003	1,457,834	30,412,382	512,292	171,747	32,554,255
Additions	—	5,895,922	25,301	—	5,921,223
Disposals	—	(9,597,356)	(1,924)	(25,750)	(9,625,030)
At 31 May 2004	<u>1,457,834</u>	<u>26,710,948</u>	<u>535,669</u>	<u>145,997</u>	<u>28,850,448</u>
DEPRECIATION					
At 1 June 2003	5,952	8,036,877	304,435	47,079	8,394,343
Charge for the year	702	3,740,443	61,166	30,124	3,832,435
On disposals	—	(4,198,604)	(1,423)	(1,931)	(4,201,958)
At 31 May 2004	<u>6,654</u>	<u>7,578,716</u>	<u>364,178</u>	<u>75,272</u>	<u>8,024,820</u>
NET BOOK VALUE					
At 31 May 2004	<u>1,451,180</u>	<u>19,132,232</u>	<u>171,491</u>	<u>70,725</u>	<u>20,825,628</u>
At 31 May 2003	<u>1,451,882</u>	<u>22,375,505</u>	<u>207,857</u>	<u>124,668</u>	<u>24,159,912</u>

Hire purchase agreements

Included within the net book value of £20,825,628 is £18,027,486 (2003 - £20,853,028) relating to assets held under hire purchase agreements. The depreciation charged to the consolidated financial statements in the year in respect of such assets amounted to £3,481,484 (2003 - £3,779,514).

Company	Freehold Property £	Plant & Machinery £	Fixtures & Fittings £	Motor Vehicles £	Total £
COST					
At 1 June 2003	1,457,834	29,914,931	484,433	169,247	32,026,445
Additions	—	5,895,922	25,301	—	5,921,223
Disposals	—	(9,597,356)	(1,924)	(25,750)	(9,625,030)
At 31 May 2004	<u>1,457,834</u>	<u>26,213,497</u>	<u>507,810</u>	<u>143,497</u>	<u>28,322,638</u>
DEPRECIATION					
At 1 June 2003	5,952	7,678,358	283,370	45,886	8,013,566
Charge for the year	702	3,686,413	59,467	29,863	3,776,445
On disposals	—	(4,198,604)	(1,423)	(1,931)	(4,201,958)
At 31 May 2004	<u>6,654</u>	<u>7,166,167</u>	<u>341,414</u>	<u>73,818</u>	<u>7,588,053</u>
NET BOOK VALUE					
At 31 May 2004	<u>1,451,180</u>	<u>19,047,330</u>	<u>166,396</u>	<u>69,679</u>	<u>20,734,585</u>
At 31 May 2003	<u>1,451,882</u>	<u>22,236,573</u>	<u>201,063</u>	<u>123,361</u>	<u>24,012,879</u>

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MAY 2004

11. TANGIBLE FIXED ASSETS *(continued)*

Hire purchase agreements

Included within the net book value of £20,734,585 is £18,027,486 (2003 - £20,853,028) relating to assets held under hire purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £3,481,484 (2003 - £3,766,668).

12. INVESTMENTS

Company

	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
Subsidiary undertakings				
All held by the company:				
HE Services (Plant Hire) Limited	England	Ordinary	100%	Hire of equipment
Masterhitch Europe Limited	England	Ordinary	100%	Manufacture and sale of excavator hitches and buckets
Societe Generale d'Investissement	France	Ordinary	99%	Dormant

Company

	Group companies £
COST	
At 1 June 2003 and 31 May 2004	12
NET BOOK VALUE	
At 31 May 2004	12
At 31 May 2003	12

13. STOCKS

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Raw materials	274,517	249,209	—	—
Work in progress	144,342	107,651	—	—
Finished goods	117,929	140,441	—	6,000
	<u>536,788</u>	<u>497,301</u>	<u>—</u>	<u>6,000</u>

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MAY 2004

14. DEBTORS

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Trade debtors	2,560,678	2,480,632	236,857	117,969
Amounts owed by group undertakings	—	—	1,499,522	1,763,777
Other debtors	1,339,429	1,819,235	1,067,765	1,513,134
Prepayments and accrued income	175,337	59,078	156,782	43,594
	<u>4,075,444</u>	<u>4,358,945</u>	<u>2,960,926</u>	<u>3,438,474</u>

The debtors above include the following amounts falling due after more than one year:

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Other debtors	<u>180,000</u>	<u>340,000</u>	<u>180,000</u>	<u>340,000</u>

Within the company other debtors includes amounts owed by related undertakings of £465,524 (2003: £608,776), of which £180,000 (2003: £340,000) is due after more than one year.

Within the group other debtors includes amounts owed by related undertakings of £725,950 (2003: £844,195), of which £180,000 (2003: £340,000) is due after more than one year.

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MAY 2004

15. CREDITORS: Amounts falling due within one year

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Bank loans and overdrafts	71,490	279,442	70,656	175,058
Trade creditors	730,701	552,798	471,507	327,530
Hire purchase agreements	7,074,856	8,440,340	7,074,856	8,440,340
Corporation tax	11,400	—	—	—
Other taxation and social security	486,789	555,194	22,274	33,433
Other loans	5,398	5,500	5,398	5,500
Other creditors	1,451,024	1,232,947	1,080,212	1,217,852
Accruals and deferred income	410,385	509,040	259,755	253,724
	<u>10,242,043</u>	<u>11,575,261</u>	<u>8,984,658</u>	<u>10,453,437</u>

The bank overdraft is secured and details are given in note 16 to the accounts.

Other creditors for the group and company includes amounts owed to related undertakings of £175,521 (2003: £nil).

Also included in other creditors for the group only is an amount of £337,552 (2003: £nil) advanced to the group under an invoice discounting arrangement. This amount is secured by a second debenture on all of the group's assets.

At the balance sheet date the company and group owed £2,790,313 (2003: £6,317,248) to suppliers of its heavy plant and diggers under normal trade credit terms which was refinanced under three year hire purchase contracts after the year end. All of the plant was in use at the balance sheet date. To reflect the substance of these transactions in the accounts, a total amount of £2,790,313 (2003: £6,317,248) has been allocated to short term and long term hire purchase liabilities in the proportions of £930,104 (2003: £2,105,749) and £1,860,209 (2003: £4,211,749) respectively.

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MAY 2004

16. CREDITORS: Amounts falling due after more than one year

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Bank loans and overdrafts	372,064	445,123	372,064	445,123
Hire purchase agreements	6,133,537	8,316,176	6,133,537	8,316,176
	<u>6,505,601</u>	<u>8,761,299</u>	<u>6,505,601</u>	<u>8,761,299</u>

Interest rates and repayment terms on hire purchase contracts are on normal commercial terms. The bank loan terms of repayment are monthly instalments representing principal and interest and the agreed rate of interest being base rate plus 2.00% per annum. The security given by the company is:

- a) First legal charge over the freehold property known as Whitewall Road, Strood.
- b) Unlimited multilateral guarantee dated 27 March 2002 given by Masterhitch Europe Limited and H E Services (Plant Hire) Limited.
- c) Fixed charge over book debts and a floating charge over all other assets given by the company and Masterhitch Europe Limited.
- d) Parallel charge over a property owned by H R Edeleanu.
- e) An insurance policy over the life of H R Edeleanu.
- f) A fixed equitable charge over all present and future freehold and leasehold property of H E Services (Plant Hire) Limited.

The following aggregate liabilities disclosed under creditors falling due after more than one year are due for repayment after more than five years from the balance sheet date:

Group and Company

	2004	2003
	£	£
Bank loans and overdrafts	<u>91,840</u>	<u>176,899</u>

17. COMMITMENTS UNDER HIRE PURCHASE AGREEMENTS

Future commitments under hire purchase agreements are as follows:

	2004	2003
	£	£
Group and Company		
Amounts payable within 1 year	7,074,856	8,440,340
Amounts payable between 2 to 5 years	6,133,537	8,316,176
	<u>13,208,393</u>	<u>16,756,516</u>

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MAY 2004

18. COMMITMENTS UNDER LOAN AGREEMENTS

Future commitments under bank loan and overdraft agreements:

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Amounts payable within 1 year	71,490	279,442	70,656	175,058
Amounts payable between 2 to 5 years	280,224	268,224	280,224	268,224
Amounts payable after 5 years	91,840	176,899	91,840	176,899
Total of above	<u>443,554</u>	<u>724,565</u>	<u>442,720</u>	<u>620,181</u>

19. DEFERRED TAXATION

The movement in the deferred taxation provision during the year was:

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Provision brought forward	2,415,239	2,058,948	2,415,239	2,058,948
Increase in provision	121,416	356,291	121,416	356,291
Provision carried forward	<u>2,536,655</u>	<u>2,415,239</u>	<u>2,536,655</u>	<u>2,415,239</u>

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Excess of taxation allowances over depreciation on fixed assets	<u>2,536,655</u>	<u>2,415,239</u>	<u>2,536,655</u>	<u>2,415,239</u>

In accordance with Financial Reporting Standard No 19 "Deferred Tax", provision has been made in full for deferred tax liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in the company's tax computation.

20. COMMITMENTS UNDER OPERATING LEASES

At 31 May 2004 the group had annual commitments under non-cancellable operating leases as set out below.

Group	2004		2003	
	Land and buildings	Other items	Land and Buildings	Other items
	£	£	£	£
Operating leases which expire:				
Within 1 year	-	140,118	-	180,626
Within 2 to 5 years	100,000	203,736	146,000	269,853
	<u>100,000</u>	<u>343,854</u>	<u>146,000</u>	<u>450,479</u>

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MAY 2004

20. COMMITMENTS UNDER OPERATING LEASES *(continued)*

At 31 May 2004 the company had annual commitments under non-cancellable operating leases as set out below.

Company	2004		2003	
	Land and buildings £	Other items £	Land and Buildings £	Other items £
Operating leases which expire:				
Within 1 year	-	7,376	-	135,623
Within 2 to 5 years	100,000	-	146,000	12,942
	<u>100,000</u>	<u>7,376</u>	<u>146,000</u>	<u>148,565</u>

21. RELATED PARTY TRANSACTIONS

During the year the company engaged in transactions with HE Services (Ireland) Limited, HE SAS Pension Fund and H R Edeleanu's sole proprietorship. All of these entities are under the control of H R Edeleanu, although none of them are part of the group. In addition, the company engaged in transactions with Diggerland Limited, a company controlled by members of H R Edeleanu's family. Transactions and balances with these entities are shown in the tables below.

During the year the following sales were made between related undertakings (left hand column indicates the company making the sale):

	HE Services (Ireland) Limited		Diggerland Limited		H R Edeleanu Proprietorship	
	2004 £	2003 £	2004 £	2003 £	2004 £	2003 £
HE Group Limited	122,803	25,274	304,070	331,156	19,854	9,717
HE Services (Plant Hire) Ltd	539,142	411,544	13,200	8,684	-	-
Masterhitch Europe Limited	39,942	7,645	3,317	7,333	-	-

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MAY 2004

The inter company debtors/(creditors) positions between related undertakings at the year end were (from the viewpoint of the left hand company's accounts):

	HE Services (Ireland) Limited		Diggerland Limited		H R Edeleanu Proprietorship	
	2004	2003	2004	2003	2004	2003
	£	£	£	£	£	£
HE Group Limited	63,220	7,943	402,303	596,233	(146,146)	4,599
HE Services (Plant Hire) Ltd	246,962	215,969	8,257	14,686	—	—
Masterhitch Europe Limited	678	3,409	4,528	1,356	—	—

During the year management charges were invoiced from HE Group Limited to Diggerland Limited of £24,000 (2003: £22,000).

During the year the company paid rent and rates expenses totalling £159,333 (2003: £168,490) to the HE SAS Pension Fund, and owed £29,375 (2003: £nil) to the scheme at the year end.

During the year the company received interest from Diggerland Limited of £22,700 (2003: £35,427).

Included in other creditors due less than one year are loans from H R Edeleanu and members of his family totalling £5,398 (2003: £5,500).

During the year the company paid £75,000 (2003: £60,417) to Diggerland Limited for promotion of the H E brand.

Members of H R Edeleanu's family received a total of £31,270 (2003: £61,240) in respect of services to the Group.

Other debtors includes loans to H R Edeleanu totalling £nil (2003: £65,000).

22. SHARE CAPITAL

Authorised share capital:

	2004	2003
	£	£
100,000 Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>

Allotted, called up and fully paid:

	2004		2003	
	No	£	No	£
Ordinary shares of £1 each	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MAY 2004

23. RESERVES

Group profit and loss account

	2004	2003
	£	£
Balance brought forward	6,358,628	5,062,245
Retained profit for the year	(26,674)	1,296,383
Balance carried forward	<u>6,331,954</u>	<u>6,358,628</u>

Company profit and loss account

	2004	2003
	£	£
Balance brought forward	5,921,659	4,790,461
Retained profit for the year	(87,538)	1,131,198
Balance carried forward	<u>5,834,121</u>	<u>5,921,659</u>

24. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2004	2003
	£	£
(Loss)/Profit for the financial year	(26,674)	1,296,383
Opening shareholders' equity funds	<u>6,358,728</u>	<u>5,062,345</u>
Closing shareholders' equity funds	<u>6,332,054</u>	<u>6,358,728</u>

25. ULTIMATE CONTROLLING PARTY

The company is under the control of H R Edeleanu who directly controls 100% of the issued share capital.