

H E GROUP LIMITED
DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL
STATEMENTS
FOR THE YEAR ENDED 31 MAY 2006



H E GROUP LIMITED

DIRECTORS AND ADVISERS

Directors	H R Edeleanu M F Wright P A Durey
Secretary	D Edeleanu
Company number	2079614
Registered office	Whitewall Road Strood Rochester Kent ME2 4DZ
Registered auditors	HLB Vantis Audit Plc 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

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H E GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MAY 2006

The directors present their report and financial statements for the year ended 31 May 2006.

Directors

The following directors have held office since 1 June 2005:

H R Edeleanu

M F Wright

P A Durey

J Lloyd

(Resigned 31 March 2006)

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 H E Services (Plant Hire) Limited, which hires plant and machinery, Masterhitch Europe Limited which sells and manufactures excavator quick hitches, buckets and wearparts and Diggers Direct Limited which is dormant.

The plant hire market remained fairly flat during 2005/06 resulting in only a modest increase in turnover. Costs on the other hand continued to increase quite markedly, particularly fuel prices, leading to a reduction in the group's profitability when compared to the previous year. The directors have met these challenges by continuing to invest in the group's dedicated workforce and by ensuring it is able to provide its customers with the most advanced and productive machines available. Furthermore H E Services (Plant Hire) Limited has recently joined forces with other plant hire companies to provide their customers with specialist machinery not available in their own fleets. The outlook for 2006/07 is much brighter with the plant hire side of the business already having enjoyed its busiest summer ever. Whilst it will always be subject to the vicissitudes of the construction industry, the directors are confident that the group is well placed to meet the plant hire demands of its customers now and in the future.

Through the policy of continuing to update its fleet, H E Group Limited has enjoyed a successful year in the sale of second hand plant with profits exceeding £1.2 million. This has arisen through a combination of sound purchasing decisions taken two to three years ago together with a strong demand for the company's second hand plant, which has an unrivalled reputation in the industry for being scrupulously maintained. Whilst profits of this magnitude are not anticipated for 2006/07, the regular sale and reinvestment in the company's hire fleet is an integral part of the business, and is expected to remain so for the foreseeable future. The directors will continue to manage the size of the company's fleet so as to balance the requirements of today's customers with their assessment of the longer term trends in the construction industry.

Masterhitch Europe Limited has continued to perform in line with the directors' expectations, and overall the directors consider the year end financial positions of the group companies to be satisfactory.

HE GROUP LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

Financial Instruments

The company operates a treasury function which is responsible for managing the liquidity, interest and foreign currency risks associated with its activities.

The company's principal financial instruments include bank overdrafts and loans, the main purpose of which is to raise finance for its operations. In addition, the company has various other financial assets and liabilities such as trade debtors and trade creditors arising directly from operations.

The company manages its cash and borrowing requirements in order to maximise interest income and minimise interest expense, whilst ensuring it has sufficient liquid resources to meet the operating needs of the business.

The company is exposed to fair value interest rate risk on its fixed rate borrowings and cash flow interest rate risk on bank overdrafts and loans.

Investments of cash surpluses and borrowings are made through banks and institutions which must fulfil credit rating criteria approved by the Board. All customers who wish to trade on credit terms are subject to credit verification procedures and trade debtors are reviewed on a regular basis and provision is made for doubtful debts when necessary.

Results and dividends

The consolidated profit and loss account for the year is set out on page 6.

The directors have not recommended a dividend.

Market value of land and buildings

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' interests

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

	Ordinary of £1 each	
	31 May 2006	1 June 2005
H R Edeleanu	100	100
M F Wright	-	-
P A Durey	-	-

Auditors

During the year, Audit Assure change its name to HLB Vantis Audit and subsequently the partnership was incorporated as HLB Vantis Audit Plc. A resolution to re-appoint HLB Vantis Audit Plc as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

H E GROUP LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

Directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the 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 company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure to auditor

(a) so far as the directors are aware, there is no relevant audit information of which the group's auditors are unaware, and

(b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the group's auditors are aware of that information.

On behalf of the board



3/11/06

H E GROUP LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF H E GROUP LIMITED

We have audited the financial statements of H E Group Limited for the year ended 31 May 2006 set out on pages 6 to 24. 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 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

As described in the Statement of Directors' Responsibilities on page 3 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 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 report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and 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 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.

H E GROUP LIMITED

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

Opinion

In our opinion:

- the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's and the group's affairs as at 31 May 2006 and of the group's 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.

HLB Vantis Audit Plc

HLB Vantis Audit Plc
Chartered Accountants
& Registered Auditors

Nexus House
2 Cray Road
Sidcup
Kent
DA14 5DA

8 November 2006

H E GROUP LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MAY 2006

	Notes	Year ended 31 May 2006 £	Year ended 31 May 2005 £
Turnover	2	14,399,512	13,350,704
Cost of sales		(10,321,832)	(9,208,514)
Gross profit		4,077,680	4,142,190
Administrative expenses		(4,041,926)	(3,566,729)
Other operating income		232,088	168,023
Operating profit	3	267,842	743,484
Profit on disposal of fixed assets		1,204,048	706,758
Profit on ordinary activities before interest		1,471,890	1,450,242
Other interest receivable and similar income		20,448	31,145
Interest payable and similar charges	5	(779,887)	(661,328)
Profit on ordinary activities before taxation		712,451	820,059
Tax on profit on ordinary activities	6	(217,906)	(290,445)
Profit on ordinary activities after taxation		494,545	529,614

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

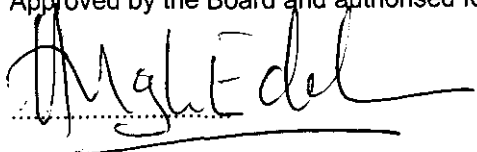
There are no recognised gains and losses other than those passing through the profit and loss account.

H E GROUP LIMITED

BALANCE SHEETS AS AT 31 MAY 2006

		Group		Company	
	Notes	2006	2005	2006	2005
		£	£	£	£
Fixed assets					
Tangible assets	8	30,476,536	24,342,620	30,430,687	24,283,002
Investments	9	-	-	13	13
		<u>30,476,536</u>	<u>24,342,620</u>	<u>30,430,700</u>	<u>24,283,015</u>
Current assets					
Stocks	10	606,161	712,154	-	81,300
Debtors	11	4,960,887	4,862,441	3,821,187	4,024,516
Cash at bank		399,170	95,449	390,745	94,369
		<u>5,966,218</u>	<u>5,670,044</u>	<u>4,211,932</u>	<u>4,200,185</u>
Creditors: amounts falling due within one year	12	(13,676,432)	(10,918,407)	(12,965,301)	(10,364,425)
Net current liabilities		<u>(7,710,214)</u>	<u>(5,248,363)</u>	<u>(8,753,369)</u>	<u>(6,164,240)</u>
Total assets less current liabilities		<u>22,766,322</u>	<u>19,094,257</u>	<u>21,677,331</u>	<u>18,118,775</u>
Creditors: amounts falling due after more than one year	13	(12,410,103)	(9,450,489)	(12,410,103)	(9,442,243)
Provisions for liabilities	14	(3,000,006)	(2,782,100)	(3,000,006)	(2,782,100)
		<u>7,356,213</u>	<u>6,861,668</u>	<u>6,267,222</u>	<u>5,894,432</u>
Capital and reserves					
Called up share capital	16	100	100	100	100
Profit and loss account	17	7,356,113	6,861,568	6,267,122	5,894,332
Shareholders' funds	18	<u>7,356,213</u>	<u>6,861,668</u>	<u>6,267,222</u>	<u>5,894,432</u>

Approved by the Board and authorised for issue on 3/11/06



(H R Edelmann)

Director

H E GROUP LIMITED

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MAY 2006

	£	2006 £	£	2005 £
Net cash inflow from operating activities		5,010,633		3,007,829
Returns on investments and servicing of finance				
Interest received	20,448		31,145	
Interest paid	(779,887)		(661,328)	
Net cash outflow for returns on investments and servicing of finance		(759,439)		(630,183)
Taxation		-		(11,400)
Capital expenditure				
Payments to acquire tangible assets	(1,073,178)		(212,865)	
Receipts from sales of tangible assets	7,676,781		6,424,170	
Net cash inflow for capital expenditure		6,603,603		6,211,485
Net cash inflow before management of liquid resources and financing		10,854,797		8,577,731
Financing				
Other new long term loans	400,000		-	
Repayment of long term bank loan	(75,629)		(70,628)	
Capital element of hire purchase contracts	(10,725,392)		(8,802,127)	
Net cash outflow from financing		(10,401,021)		(8,872,755)
Increase in cash in the year		453,776		(295,024)

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MAY 2006

1	Reconciliation of operating profit to net cash inflow from operating activities	2006	2005
		£	£
	Operating profit	267,842	743,484
	Depreciation of tangible assets	4,808,845	3,921,917
	Decrease/(increase) in stocks	105,993	(175,366)
	Decrease/(increase) in debtors	(98,446)	(786,997)
	(Decrease)/Increase in creditors within one year	(73,601)	(695,209)
	Net cash inflow from operating activities	5,010,633	3,007,829

2	Analysis of net debt	1 June 2005	Cash flow	Other non-cash changes	31 May 2006
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	95,449	303,721	-	399,170
	Bank overdrafts	(211,980)	150,055	-	(61,925)
		(116,531)	453,776	-	337,245
	Finance leases	(17,349,902)	10,725,392	(16,342,316)	(22,966,826)
	Debts falling due within one year	(72,769)	(6,288)	-	(79,057)
	Debts falling due after one year	(300,157)	(318,083)	-	(618,240)
		(17,722,828)	10,401,021	-	(23,664,123)
	Net debt	(17,839,359)	10,854,797	(16,342,316)	(23,326,878)

3	Reconciliation of net cash flow to movement in net debt	2006	2005
		£	£
	Increase/(decrease) in cash in the year	453,776	(295,024)
	Cash outflow/(inflow) from decrease/(increase) in debt	10,401,021	8,872,755
	Change in net debt resulting from cash flows	10,854,797	8,577,731
	New finance lease	(16,342,316)	(12,943,636)
	Movement in net debt in the year	(5,487,519)	(4,365,905)
	Opening net debt	(17,839,359)	(13,473,454)
	Closing net debt	(23,326,878)	(17,839,359)

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MAY 2006

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently (except as otherwise stated).

1.3 Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 31 May 2006. As a result, 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. The results of subsidiaries sold or acquired are included in the profit and loss account up to, or from the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

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.

1.4 Turnover

Turnover represents amounts receivable for goods and services net of VAT.

1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Freehold property	2% straight line basis
Plant and 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.

1.6 Leasing and hire purchase commitments

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 profit and loss account on a straight line basis.

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.

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

1 Accounting policies

(continued)

1.7 Investments

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

1.8 Stock and work in progress

Stock is 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.

Work in progress is valued on the basis of direct costs plus attributable overheads 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.

1.9 Pensions

The company operates a defined contribution scheme for the benefit of its employees. Contributions payable are charged to the profit and loss account in the period they are payable. The assets of the scheme are held separately from those of the company.

1.10 Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exception:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

1.11 Foreign currency translation

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.

1.12 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.

1.13 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.

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

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	Operating profit	2006 £	2005 £
	Operating profit is stated after charging:		
	Depreciation of tangible assets	4,808,845	3,921,917
	Operating lease rentals		
	- Plant and machinery	350,011	360,096
	- Other assets	200,500	210,500
	Auditors' remuneration	13,500	13,500
		<u> </u>	<u> </u>
4	Investment income	2006 £	2005 £
	Bank interest	20,448	31,145
		<u> </u>	<u> </u>
5	Interest payable	2006 £	2005 £
	On bank overdrafts	3,468	2,532
	On bank loans wholly repayable within five years	21,428	27,263
	Hire purchase interest	723,613	605,861
	Other interest	31,378	25,672
		<u> </u>	<u> </u>
		779,887	661,328
		<u> </u>	<u> </u>

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

6	Taxation	2006 £	2005 £
	Domestic current year tax		
	Adjustment for prior years	-	45,000
	Current tax charge	-	45,000
	Deferred tax		
	Origination and reversal of timing differences	217,906	245,445
		<u>217,906</u>	<u>290,445</u>
	Factors affecting the tax charge for the year		
	Profit on ordinary activities before taxation	<u>712,451</u>	<u>820,059</u>
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2005 - 30.00%)	<u>213,735</u>	<u>246,018</u>
	Effects of:		
	Disallowable expenditure	3,943	12,017
	Disallowable expenditure relating to depreciation and profits on disposal	1,089,854	966,019
	Capital allowances	(1,318,360)	(1,231,369)
	Corporation tax over/under provision	-	45,000
	Chargeable disposals	10,828	8,815
	Starting rate relief	-	(1,500)
		<u>(213,735)</u>	<u>(201,018)</u>
	Current tax charge	<u>-</u>	<u>45,000</u>

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 capital investments plans which are continually ongoing.

7 Profit for the financial year

As permitted by section 230 of the Companies Act 1985, the holding company's profit and loss account has not been included in these financial statements. The profit for the financial year is made up as follows:

	2006 £	2005 £
Holding company's profit for the financial year	<u>372,790</u>	<u>60,211</u>

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

8 Tangible fixed assets Group

	Freehold property £	Plant and machinery £	Fixtures & fittings £	Motor vehicles £	Total £
Cost					
At 1 June 2005	1,457,834	29,461,920	646,037	255,806	31,821,597
Additions	-	17,231,138	11,920	172,436	17,415,494
Disposals	-	(10,692,942)	-	(122,646)	(10,815,588)
At 31 May 2006	1,457,834	36,000,116	657,957	305,596	38,421,503
Depreciation					
At 1 June 2005	7,356	6,974,087	405,164	92,370	7,478,977
On disposals	-	(4,266,896)	-	(75,959)	(4,342,855)
Charge for the year	736	4,703,284	43,295	61,530	4,808,845
At 31 May 2006	8,092	7,410,475	448,459	77,941	7,944,967
Net book value					
At 31 May 2006	1,449,742	28,589,641	209,498	227,655	30,476,536
At 31 May 2005	1,450,478	22,487,833	240,873	163,436	24,342,620

Included above are assets held under finance leases or hire purchase contracts as follows:

	Plant and machinery £	Fixtures & fittings £	Motor vehicles £	Total £
Net book values				
At 31 May 2006	25,232,200	-	13,883	25,246,083
At 31 May 2005	18,680,549	-	17,354	18,697,903
Depreciation charge for the year				
31 May 2006	4,630,875	-	3,471	4,634,346
31 May 2005	3,253,461	-	3,896	3,257,357

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

Tangible fixed assets (continued)

Company	Freehold property £	Plant and machinery £	Fixtures & fittings £	Motor vehicles £	Total £
Cost					
At 1 June 2005	1,457,834	28,964,469	618,178	232,056	31,272,537
Additions	-	17,228,288	11,920	172,436	17,412,644
Disposals	-	(10,692,942)	-	(122,646)	(10,815,588)
At 31 May 2006	1,457,834	35,499,815	630,098	281,846	37,869,593
Depreciation					
At 1 June 2005	7,356	6,514,242	381,126	86,811	6,989,535
On disposals	-	(4,266,896)	-	(75,959)	(4,342,855)
Charge for the year	736	4,691,258	42,340	57,892	4,792,226
At 31 May 2006	8,092	6,938,604	423,466	68,744	7,438,906
Net book value					
At 31 May 2006	1,449,742	28,561,211	206,632	213,102	30,430,687
At 31 May 2005	1,450,478	22,450,227	237,052	145,245	24,283,002

Included above are assets held under finance leases or hire purchase contracts as follows:

	Plant and machinery £	Fixtures & fittings £	Motor vehicles £	Total £
Net book values				
At 31 May 2006	25,232,200	-	-	25,232,200
At 31 May 2005	18,680,549	-	-	18,680,549
Depreciation charge for the year				
31 May 2006	4,630,875	-	-	4,630,875
31 May 2005	3,253,461	-	-	3,253,461

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

9 Fixed asset investments Company

Shares in
group
undertakings
£

Cost and net book value

At 1 June 2005 & at 31 May 2006

13

At 31 May 2005

13

In the opinion of the directors, the aggregate value of the company's investment in subsidiary undertakings is not less than the amount included in the balance sheet.

Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies:

Company	Country of registration or incorporation	Shares held	
		Class	%
Subsidiary undertakings			
HE Services (Plant Hire) Limited	England	Ordinary	100
Masterhitch Europe Limited	England	Ordinary	100
Diggers Direct Limited	England	Ordinary	100

The principal activity of these undertakings for the last relevant financial year was as follows:

	Principal activity
HE Services (Plant Hire) Limited	Hire of equipment
Masterhitch Europe Limited	Manufacture and sale of excavator hitches and buckets
Diggers Direct Limited	Dormant

10 Stocks and work in progress

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Raw materials and consumables	333,127	305,183	-	-
Work in progress	132,229	148,360	-	-
Finished goods and goods for resale	140,805	258,611	-	81,300
	<u>606,161</u>	<u>712,154</u>	<u>-</u>	<u>81,300</u>

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

11 Debtors

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Trade debtors	3,540,867	2,891,974	221,520	519,156
Amounts owed by group undertakings	-	-	2,394,958	1,661,269
Other debtors	1,205,591	1,744,766	1,009,366	1,640,381
Prepayments and accrued income	214,429	225,701	195,343	203,710
	<u>4,960,887</u>	<u>4,862,441</u>	<u>3,821,187</u>	<u>4,024,516</u>

Amounts falling due after more than one year and included in the debtors above are:

	2006	2005	2006	2005
	£	£	£	£
Other debtors	-	360,000	-	360,000
	<u>-</u>	<u>360,000</u>	<u>-</u>	<u>360,000</u>

Within the company other debtors includes amounts owed by related undertakings of £188,148 (2005: £570,790), of which £nil (2005: £360,000) is due after more than one year.

Within the group other debtors includes amounts owed by related undertakings of £760,385 (2005: £740,640), of which £nil (2005: £360,000) is due after more than one year.

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

12 Creditors : amounts falling due within one year

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Bank loans and overdrafts	140,982	284,749	139,827	258,332
Net obligations under hire purchase contracts	11,174,963	8,199,570	11,166,717	8,192,546
Trade creditors	913,934	787,838	513,317	525,086
Corporation tax	45,000	45,000	45,000	45,000
Taxes and social security costs	105,841	101,499	30,504	32,930
Directors current accounts	-	171	-	171
Other creditors	820,453	1,032,786	786,222	1,006,479
Accruals and deferred income	475,259	466,794	283,714	303,881
	<u>13,676,432</u>	<u>10,918,407</u>	<u>12,965,301</u>	<u>10,364,425</u>

The bank overdraft is secured and details are given in the long term creditors note.

Other creditors for the group includes amounts owed to related undertakings of £73,283 (2005: £28).

At the balance sheet date the company and group owed £3,880,550 (2005: £4,889,822) to suppliers of its heavy plant and diggers under normal trade credit terms which was refinanced under 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 £3,880,550 (2005: £4,889,222) has been allocated to short term and long term hire purchase liabilities in the proportions of £1,679,554 (2005: £1,799,786) and £2,200,996 (2005: £3,090,036) respectively.

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

13 Creditors : amounts falling due after more than one year

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Bank loans	218,240	300,157	218,240	300,157
Net obligations under hire purchase agreements	11,791,863	9,150,332	11,791,863	9,142,086
Preference shares classed as a financial liability	400,000	-	400,000	-
	<u>12,410,103</u>	<u>9,450,489</u>	<u>12,410,103</u>	<u>9,442,243</u>
Analysis of loans				
Wholly repayable within five years	297,297	372,926	297,297	372,926
Included in current liabilities	(79,057)	(72,769)	(79,057)	(72,769)
	<u>218,240</u>	<u>300,157</u>	<u>218,240</u>	<u>300,157</u>
Loan maturity analysis				
In more than one year but not more than two years	82,656	79,057	82,656	79,057
In more than two years but not more than five years	135,584	221,100	135,584	221,100
	<u>218,240</u>	<u>300,157</u>	<u>218,240</u>	<u>300,157</u>
Net obligations under hire purchase contracts				
Repayable within one year	11,174,963	8,199,570	11,166,717	8,192,546
Repayable between one and five years	11,791,863	9,150,332	11,791,863	9,142,086
	<u>22,966,826</u>	<u>17,349,902</u>	<u>22,958,580</u>	<u>17,334,632</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 with the agreed rate of interest being base rate plus 1.5% per annum. The security given by the company is:

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

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

13 Creditors : amounts falling due after more than one year

(continued)

The preference shares are due in more than five years.

These are 400,000 ordinary A shares of £1 which are redeemable at par on one month's notice by the company at any time, but which in any event must be redeemed at par by 15 November 2025.

The shares carry a basic cumulative dividend of 7% per annum and a participating dividend only payable on the attainment of certain profit levels. All dividends due for the period on these shares, whether paid or accrued, are included within the company's interest charge for the year in accordance with FRS 25.

14 Provisions for liabilities and charges

Group

Deferred
taxation
£

Balance at 1 June 2005	2,782,100
Profit and loss account	217,906
	<hr/>
Balance at 31 May 2006	3,000,006
	<hr/>

Company

Balance at 1 June 2005	2,782,100
Profit and loss account	217,906
	<hr/>
Balance at 31 May 2006	3,000,006
	<hr/>

The deferred tax liability is made up as follows:

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Accelerated capital allowances	3,004,589	2,786,683	3,004,589	2,786,683
Tax losses available	(4,583)	(4,583)	(4,583)	(4,583)
	<hr/>	<hr/>	<hr/>	<hr/>
	3,000,006	2,782,100	3,000,006	2,782,100
	<hr/>	<hr/>	<hr/>	<hr/>

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.

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

15 Pension costs

Defined contribution

	2006 £	2005 £
Contributions payable by the group for the year	17,638	8,848

16 Share capital

	2006 £	2005 £
Authorised		
100,000 Ordinary of £1 each	100,000	100,000
Allotted, called up and fully paid		
100 Ordinary of £1 each	100	100

17 Statement of movements on profit and loss account Group

	Profit and loss account £
Balance at 1 June 2005	6,861,568
Profit for the period	494,545
Balance at 31 May 2006	7,356,113

Company

	Profit and loss account £
Balance at 1 June 2005	5,894,332
Profit for the year	372,790
Balance at 31 May 2006	6,267,122

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

18 Reconciliation of movements in shareholders' funds	2006		2005	
	£		£	
Group				
Profit for the financial year	494,545		529,614	
Opening shareholders' funds	6,861,668		6,332,054	
Closing shareholders' funds	7,356,213		6,861,668	
	2006		2005	
	£		£	
Company				
Profit for the financial year	372,790		60,211	
Opening shareholders' funds	5,894,432		5,834,221	
Closing shareholders' funds	6,267,222		5,894,432	

19 Financial commitments

At 31 May 2006 the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2006	2005	2006	2005
	£	£	£	£
Expiry date:				
Within one year	-	-	57,785	27,859
Between two and five years	93,750	64,000	283,929	104,189
In over five years	97,500	107,500	-	-
	191,250	171,500	341,714	132,048

At 31 May 2006 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2006	2005	2006	2005
	£	£	£	£
Expiry date:				
Between two and five years	30,000	30,000	-	-
In over five years	97,500	107,500	-	-
	127,500	137,500	-	-

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

20 Directors' emoluments	2006 £	2005 £
Emoluments for qualifying services	221,601	234,840
Company pension contributions to money purchase schemes	17,638	8,848
	<u>239,239</u>	<u>243,688</u>

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 3 (2005- 3).

Emoluments disclosed above include the following amounts paid to the highest paid director:

Emoluments for qualifying services	<u>61,744</u>	<u>73,790</u>
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21 Employees

Number of employees

The average monthly number of employees (including directors) during the year was:

	2006 Number	2005 Number
Production staff	95	98
Administrative staff	78	73
Management staff	7	7
	<u>180</u>	<u>178</u>

Employment costs

	2006 £	2005 £
Wages and salaries	4,056,996	3,958,384
Social security costs	329,381	321,233
Other pension costs	17,638	8,848
	<u>4,404,015</u>	<u>4,288,465</u>

22 Control

During the current and previous year, the company was under the control of H R Edeleanu, who directly controls 100% of the issued ordinary share capital.

HE GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2006

23 Related party transactions

During the year the group engaged in transactions with HE Services (Ireland) Limited, the 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 group engaged in transactions with Riggsed Limited and Diggerland Limited, companies controlled by members of H R Edeleanu's family.

During the year the group made sales of £1,126,549 (2005: £1,043,917) to HE Services (Ireland) Limited, £25,699 (2005: £147,450) to Riggsed Limited, £271,994 (2005: £nil) to Diggerland Limited and £34,839 (2005: £13,250) to H R Edeleanu's Proprietorship.

At the year end the inter company position regarding related parties with the group was as follows. These are all debtor balances unless stated. £568,194 (2005: £167,675) owed by HE Services (Ireland) Limited, £66,688 (2005: £572,937) owed by Riggsed Limited and £68,956 (2005: £nil) owed by Diggerland Limited. There was also a creditor balance of £73,283 (2005: £nil) owed to H R Edeleanu's Proprietorship.

The debt due from Riggsed Limited above of £66,688 (2005: £572,937) includes a loan advanced to the group totalling £47,676 (2005: £500,000). Of this, £47,676 (2005: £140,000) is due within one year. Simple interest is charged at 6.5% per annum and is calculated on a daily basis.

During the year management charges were invoiced to Riggsed Limited of £6,000 (2005: £24,000) and Diggerland Limited of £18,000 (2005: £nil).

During the year the group paid rent and rates expenses totalling £112,500 (2005: £122,500) to the HE SAS Pension Fund, and was owed £56,547 (2005: £nil) by the scheme at the year end. At the year end there were £nil (2005: £20,000) of accrued expenses in relation to the HE SAS Pension Fund.

During the year the group received interest from Riggsed Limited of £19,699 (2005: £20,795).

Included in other creditors due less than one year are loans from H R Edeleanu and members of his family totalling £nil (2005: £171).

During the year the group paid £75,000 (2005: £nil) to Diggerland Limited and £nil (2005: £75,000) to Riggsed Limited for promotion of H E brand.

Members of H R Edeleanu's family received a total of £42,120 (2005: £42,652) in respect of services to the Group.

24 Post Balance Sheet Events

On 30 September 2006, the company acquired 100% of the ordinary share capital in Diggerland Limited for £200,000. Diggerland Limited already enjoys a close relationship with the group, and so a formal acquisition was viewed by the directors as being a logical step in the development and promotion of both businesses over the long term.