

Company Registration No 02079614 (England and Wales)

H E GROUP LIMITED
DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL
STATEMENTS
FOR THE YEAR ENDED 31 MAY 2010

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H E GROUP LIMITED

DIRECTORS AND ADVISERS

Directors	H R Edeleanu M F Wright P A Durey
Secretary	M F Wright
Company number	02079614
Registered office	Whitewall Road Strood Rochester Kent ME2 4DZ
Registered auditors	McBrides Accountants LLP 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 2010

The directors present their report and financial statements for the year ended 31 May 2010

Principal activities and review of the business

The principal activity of the company during the year has been the hire and sale of plant

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 H E Construction Services Limited which specialises in construction projects. The company has further subsidiaries, all of which are dormant.

During the year, the company has continued to manage the size of its hire fleet in response to changing levels in demand. As predicted last year, the plant sale side of the business returned to profit generating a surplus against book value of £945,000 compared to a £1.065 million loss in 2008/09. This has been assisted by the continued strength of the Euro enabling our "International Plant Sales" division to secure the very best prices for our quality machines.

Plant hire activity in the first half of the year continued to fall following the recession that began in 2008/09. The rate of decline stabilised in the second half, and the month of April even saw an increase in activity on the previous year. Overall turnover fell to £12.3 million (2009: £17.3 million), whilst the gross margin improved to 14.6% (2009: 13.3%) as a result of cost control measures and our ability to maintain strong hire rates in the face of ailing competition.

Masterhitch Europe Limited has continued to perform in line with the directors' expectations, whilst H E Construction Services Limited remains mothballed having only ever traded on a tentative basis.

Regrettably the subsidiary, Diggerland Limited, went into liquidation on 22 December 2009 and its final 7 months' activity is shown as a discontinued operation in the consolidated profit and loss account. The exceptional credit shown in the profit and loss account represents the company's net liabilities on liquidation. H R Edeleanu continues to own the rights to the Diggerland concept and the company has incorporated a new dormant subsidiary to protect the name. Meanwhile, the operation of the Diggerland theme parks has been restarted under license by an independent operator outside of the group, Allsafety Limited.

Overall the group has made a small loss of £93,000 before discontinued activities and tax which is a marked improvement on the previous year.

The recovery has so far been hampered by the timing of the General Election and uncertainty in the run up to the Government's public spending review. We remain hopeful of acquiring work on a number of delayed pipeline contracts and also from the Olympic Games as construction deadlines draw nearer and completion works are accelerated. In the meantime the Board firmly believe that with careful monitoring of costs the company can continue to maintain its competitive edge and long term viability.

The directors consider the liquidity of the business is much stronger than that indicated by its balance sheet due to the revolving nature and ongoing annual disposal of large quantities of its second hand plant. Whilst the directors acknowledge that conditions in certain sectors of the UK market will remain tough in the year ahead, they expect to continue managing the size of the company's fleet to meet changing market conditions and the requirements of its customer base.

Overall the directors consider the year end financial positions of the group companies to be satisfactory.

H E GROUP LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

Financial risk management objectives

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

Interim dividends of £100 per ordinary share were paid to the shareholder on 31 July 2009, 30 October 2009, and 1 April 2010 totalling £30,000 across the year

On 1 February 2010 a preference dividend of £28,000 was paid on the 400,000 preference shares which attract a cumulative dividend of 7% per annum. This is shown in the accounts as interest in accordance with FRS 25

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

The following directors have held office since 1 June 2009

H R Edeleanu

M F Wright

P A Durey

Employee involvement

The group's policy is to consult and discuss with employees at meetings, matters likely to affect employees' interests

Information of matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the group's performance

H E GROUP LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

Disabled persons

The group's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Statement of 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,
- state whether applicable accounting standards have been followed, subject to any material departures discussed and explained in the financial statements,
- 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 adequate 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 2006. 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 auditors

So far as the directors are aware, there is no relevant audit information of which the group's auditors are unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the group's auditors are aware of that information.

On behalf of the board



H R Edeleanu

Director

6/12/10

H E GROUP LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF H E GROUP LIMITED

We have audited the group and parent company financial statements (the "financial statements") of H E Group Limited for the year ended 31 May 2010 set out on pages 6 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 explained more fully in the Directors' Responsibilities Statement set out on pages 1 - 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and parent company's affairs as at 31 May 2010 and of the group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

H E GROUP LIMITED

INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF H E GROUP LIMITED

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

McBrides Accountants LLP

Brian Moleshead (Senior Statutory Auditor)
for and on behalf of McBrides Accountants LLP

10 December 2010

Chartered Accountants
Statutory Auditor

Nexus House
2 Cray Road
Sidcup
Kent
DA14 5DA

McBrides

H E GROUP LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MAY 2010

	Notes	2010 £	2009 £
Turnover	2		
Continuing operations		13,113,962	22,461,587
Discontinued activities		<u>1,480,065</u>	<u>-</u>
		14,594,027	22,461,587
Cost of sales	3	<u>(10,451,437)</u>	<u>(17,722,242)</u>
Gross profit		4,142,590	4,739,345
Administrative expenses	3	(4,253,877)	(5,695,900)
Other operating income	3	<u>217,265</u>	<u>225,418</u>
Operating profit/(loss)	4		
Continuing operations		(101,226)	(731,137)
Discontinued activities		<u>207,204</u>	<u>-</u>
		105,978	(731,137)
Profit/(loss) on disposal of fixed assets		945,023	(1,065,745)
Profit on disposal of discontinued activities		<u>426,541</u>	<u>-</u>
		1,371,564	(1,065,745)
Profit/(loss) on ordinary activities before interest		1,477,542	(1,796,882)
Other interest receivable and similar income	5	53,980	80,251
Interest payable and similar charges	6	<u>(990,357)</u>	<u>(2,335,330)</u>
Profit/(loss) on ordinary activities before taxation		541,165	(4,051,961)
Tax on profit/(loss) on ordinary activities	7	<u>(2,000)</u>	<u>1,112,000</u>
Profit/(loss) on ordinary activities after taxation		<u>539,165</u>	<u>(2,939,961)</u>

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 2010

	Notes	Group 2010 £	2009 £	Company 2010 £	2009 £
Fixed assets					
Intangible assets	10	-	17,899	-	-
Tangible assets	11	26,500,374	36,408,650	26,497,532	36,384,244
Investments	12	-	-	23	201,022
		<u>26,500,374</u>	<u>36,426,549</u>	<u>26,497,555</u>	<u>36,585,266</u>
Current assets					
Stocks	13	640,611	1,014,209	-	335,436
Debtors	14	2,824,924	3,189,690	1,791,074	1,945,644
Cash at bank and in hand		<u>93,244</u>	<u>1,403,890</u>	<u>6,008</u>	<u>1,101,063</u>
		3,558,779	5,607,789	1,797,082	3,382,143
Creditors amounts falling due within one year	15	(11,123,959)	(14,693,775)	(10,189,770)	(13,871,320)
Net current liabilities		<u>(7,565,180)</u>	<u>(9,085,986)</u>	<u>(8,392,688)</u>	<u>(10,489,177)</u>
Total assets less current liabilities		18,935,194	27,340,563	18,104,867	26,096,089
Creditors amounts falling due after more than one year	16	(8,213,310)	(17,079,844)	(8,213,310)	(17,079,844)
Deferred tax liability	17	<u>(2,917,193)</u>	<u>(2,965,193)</u>	<u>(3,125,193)</u>	<u>(2,965,193)</u>
		<u>7,804,691</u>	<u>7,295,526</u>	<u>6,766,364</u>	<u>6,051,052</u>
Capital and reserves					
Called up share capital	19	100	100	100	100
Profit and loss account	20	<u>7,804,591</u>	<u>7,295,426</u>	<u>6,766,264</u>	<u>6,050,952</u>
Shareholders' funds	21	<u>7,804,691</u>	<u>7,295,526</u>	<u>6,766,364</u>	<u>6,051,052</u>

Approved by the Board and authorised for issue on 6/12/10


H R Edeleanu
Director

Company Registration No 02079614

H E GROUP LIMITED

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MAY 2010

	£	2010 £	£	2009 £
Net cash inflow from operating activities		6,351,766		8,474,787
Returns on investments and servicing of finance				
Interest received	53,980		80,251	
Interest paid	(990,357)		(2,335,330)	
Net cash outflow for returns on investments and servicing of finance		(936,377)		(2,255,079)
Capital expenditure and financial investment				
Payments to acquire tangible assets	(4,460)		(205,187)	
Receipts from sales of tangible assets	10,609,019		26,130,784	
Net cash inflow for capital expenditure		10,604,559		25,925,597
Equity dividends paid		(30,000)		(40,000)
Net cash inflow before management of liquid resources and financing		15,989,948		32,105,305
Financing				
Repayment of long term bank loan	(450,855)		(422,210)	
Capital element of hire purchase contracts	(16,996,295)		(30,633,789)	
Net cash outflow from financing		(17,447,150)		(31,055,999)
Decrease in cash in the year		(1,457,202)		1,049,306

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MAY 2010

1	Reconciliation of operating profit/(loss) to net cash inflow from operating activities		2010	2009
			£	£
	Operating profit/(loss)		105,978	(731,137)
	Depreciation of tangible assets		5,171,147	8,429,577
	Amortisation of intangible assets		17,899	2,558
	Decrease in stocks		373,598	21,016
	Decrease in debtors		329,076	4,567,370
	Increase / (decrease) in creditors within one year		354,068	(3,814,597)
	Net cash inflow from operating activities		6,351,766	8,474,787

2	Analysis of net debt	1 June 2009	Cash flow	Other non-cash changes	31 May 2010
		£	£	£	£
	Net cash				
	Cash at bank and in hand	1,403,890	(1,310,572)	(74)	93,244
	Bank overdrafts	(77,325)	(146,630)	-	(223,955)
		1,326,565	(1,457,202)	(74)	(130,711)
	Finance leases	(26,178,592)	16,996,295	(4,922,407)	(14,104,704)
	Debts falling due within one year	(449,952)	34,876	-	(415,076)
	Debts falling due after one year	(3,354,385)	415,979	-	(2,938,406)
		(29,982,929)	17,447,150	(4,922,407)	(17,458,186)
	Net debt	(28,656,364)	15,989,948	(4,922,481)	(17,588,897)

3	Reconciliation of net cash flow to movement in net debt	2010	2009
		£	£
	(Decrease)/increase in cash in the year	(1,457,202)	1,049,306
	Cash outflow from decrease in debt	17,447,150	31,055,999
	Change in net debt resulting from cash flows	15,989,948	32,105,305
	New finance lease	(4,922,407)	(12,022,907)
	Other non-cash changes	(74)	-
	Movement in net debt in the year	11,067,467	20,082,398
	Opening net debt	(28,656,364)	(48,738,762)
	Closing net debt	(17,588,897)	(28,656,364)

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2010

4 Liquid resources

The cash inflows included within receipts from sales of tangible assets represent those received for which the profit on disposal is shown as an exceptional item within the profit and loss account

5 Major non-cash transactions

During the year the company entered into finance leases in respect of capital equipment with a capital value at the inception of the lease of £4,922,407 (2009 £12,022,907)

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MAY 2010

1 Accounting policies

1.1 Accounting convention and basis of preparation

The financial statements are prepared under the historical cost convention

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report on pages 1 to 3. This report also includes the group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments, and its exposures to credit risk and liquidity risk. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the three primary statements on pages 6 to 8 and the notes to the financial statements.

The group operates in the construction industry which is particularly susceptible to the consequences of the current recession and liquidity squeeze. The specific matters affecting the group companies are described in the directors' review of the business on pages 1 and 2. The directors have taken these factors into account in their overall assessment of the basis of preparation of the financial statements, and are of the opinion that funds sufficient for the group's ongoing requirements for the foreseeable future will be forthcoming from its bank and invoice discounting arrangements, and through the sale of second hand plant in accordance with its fleet management policy. Thus the directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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 2010. As a result, a separate profit and loss account for the parent company is omitted from the group accounts by virtue of section 408 of the Companies Act 2006. 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 of H E Services (Plant Hire) Limited and Masterhitch Europe Limited have been consolidated using the merger method of accounting as the original group emerged from a reconstruction whereby the ultimate shareholding and control of each entity was not changed as a result. Subsequent acquisitions have been consolidated using the acquisition method, with resultant goodwill being written off in accordance with the policy below.

1.4 Turnover

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

1.5 Goodwill

Goodwill arising on consolidation of acquisitions is capitalised and amortised over a period of 10 years.

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2010

1 Accounting policies (continued)

1 6 Tangible fixed assets and depreciation

Tangible fixed assets other than freehold land 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	see below
Plant and machinery	17 5% written down value
Fixtures & fittings	25% written down value
Motor vehicles	30% written down value

Freehold property comprises predominantly the company's freehold land and buildings at its Strood headquarters together with smaller sites at Castleford, Droitwich and Rutland. Land is not depreciated, and nor are freehold buildings on the basis that the estimated lives are deemed to be so long and the estimated residual values so high that any charge for depreciation would not be considered material. Freehold property also includes some minor property improvements that are depreciated at 2% straight line per annum, which accounts for the small depreciation charge shown in the financial statements.

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

1 7 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.

1 8 Investments

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

1 9 Stock and work in progress

Stock and work in progress 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.

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 10 Pensions

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

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2010

1 Accounting policies

(continued)

1 11 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 12 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 13 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

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 Cost of sales and net operating expenses

	2010		Total	2009		Total
	Continuing	Discontinued		Continuing	Discontinued	
	£	£	£	£	£	£
Cost of sales	10,013,403	438,034	10,451,437	17,722,242	-	17,722,242
Administrative expenses	3,419,050	834,827	4,253,877	5,695,900	-	5,695,900
Other operating income	(217,265)	-	(217,265)	(225,418)	-	(225,418)
	<u>13,215,188</u>	<u>1,272,861</u>	<u>14,488,049</u>	<u>23,192,724</u>	<u>-</u>	<u>23,192,724</u>

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2010

4	Operating profit/(loss)	2010	2009
		£	£
	Operating profit/(loss) is stated after charging		
	Depreciation of intangible assets	17,899	2,558
	Depreciation of tangible assets	5,171,147	8,429,577
	Loss on foreign exchange transactions	-	83,390
	Operating lease rentals		
	- Plant and machinery	488,007	595,051
	- Other assets	172,500	172,500
	Fees payable to the company's auditor for the audit of the company's annual accounts	8,600	8,600
	Fees payable to the company's auditor and its associates for other services -		
	- The audit of the company's subsidiaries	7,400	9,400
	- Other	16,282	12,143
	Profit on foreign exchange transactions	(111)	-
		<u> </u>	<u> </u>
5	Investment income	2010	2009
		£	£
	Bank interest	6,224	6,928
	Other interest	47,756	73,323
		<u> </u>	<u> </u>
		53,980	80,251
		<u> </u>	<u> </u>
6	Interest payable	2010	2009
		£	£
	On bank overdrafts	1,268	5,292
	On bank loans wholly repayable within five years	246	5,052
	On loans repayable after five years	50,919	150,104
	Hire purchase interest	893,529	2,075,559
	Other interest	44,395	99,323
		<u> </u>	<u> </u>
		990,357	2,335,330
		<u> </u>	<u> </u>

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2010

7	Taxation	2010 £	2009 £
	Domestic current year tax		
	U K corporation tax	50,000	-
	Adjustment for prior years	-	(45,000)
	Current tax charge	50,000	(45,000)
	Deferred tax		
	Origination and reversal of timing differences	(48,000)	(1,067,000)
		2,000	(1,112,000)
	Factors affecting the tax charge for the year		
	Profit/(loss) on ordinary activities before taxation	541,165	(4,051,961)
	Profit/(loss) on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 28.00% (2009 - 28.00%)	151,526	(1,134,549)
	Effects of		
	Disallowable expenditure	204,766	64,304
	Disallowable expenditure relating to depreciation and profits on disposal	1,127,034	2,658,418
	Capital allowances	(825,169)	(852,937)
	Other tax losses utilised	(283,393)	-
	Corporation tax over/under provision	-	(45,000)
	Brought forward losses relieved	(347,705)	(763,919)
	Chargeable disposals	23,789	28,683
	Small companies relief	(848)	-
		(101,526)	1,089,549
	Current tax charge	50,000	(45,000)

Factors that may affect future tax charges -

Based on current capital investment plans, the company expects to revert to its usual position of being able to claim capital allowances in excess of depreciation in future years at a similar rate to earlier years. This is due to the capital investments plans which are continually ongoing.

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2010

8 Profit/(loss) for the financial year

As permitted by section 408 Companies Act 2006, the holding company's profit and loss account has not been included in these financial statements. The profit/(loss) for the financial year is made up as follows:

	2010	2009
	£	£
Holding company's profit/(loss) for the financial year	745,312	(1,607,453)

9 Dividends

	2010	2009
Ordinary interim paid	30,000	40,000

10 Intangible fixed assets Group

	Goodwill
	£
Cost	
At 1 June 2009 & at 31 May 2010	25,571
Amortisation	
At 1 June 2009	7,672
Charge for the year	17,899
At 31 May 2010	25,571
Net book value	
At 31 May 2010	-
At 31 May 2009	17,899

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2010

11 Tangible fixed assets Group

	Freehold property £	Plant and machinery £	Fixtures & fittings £	Motor vehicles £	Total £
Cost					
At 1 June 2009	4,122,996	41,733,064	1,257,448	286,351	47,399,859
Additions	-	4,922,407	4,460	-	4,926,867
Disposals	-	(14,072,238)	-	(36,971)	(14,109,209)
At 31 May 2010	<u>4,122,996</u>	<u>32,583,233</u>	<u>1,261,908</u>	<u>249,380</u>	<u>38,217,517</u>
Depreciation					
At 1 June 2009	21,323	10,050,931	782,336	136,619	10,991,209
On disposals	-	(4,429,110)	-	(16,103)	(4,445,213)
Charge for the year	<u>4,871</u>	<u>4,969,225</u>	<u>155,389</u>	<u>41,662</u>	<u>5,171,147</u>
At 31 May 2010	<u>26,194</u>	<u>10,591,046</u>	<u>937,725</u>	<u>162,178</u>	<u>11,717,143</u>
Net book value					
At 31 May 2010	<u>4,096,802</u>	<u>21,992,187</u>	<u>324,183</u>	<u>87,202</u>	<u>26,500,374</u>
At 31 May 2009	<u>4,101,673</u>	<u>31,682,133</u>	<u>475,112</u>	<u>149,732</u>	<u>36,408,650</u>

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 2010	17,544,742	-	-	17,544,742
At 31 May 2009	<u>27,038,718</u>	<u>-</u>	<u>-</u>	<u>27,038,718</u>
Depreciation charge for the year				
31 May 2010	4,942,027	-	-	4,942,027
31 May 2009	<u>8,192,923</u>	<u>-</u>	<u>-</u>	<u>8,192,923</u>

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2010

Tangible fixed assets (continued)

Company

	Freehold property £	Plant and machinery £	Fixtures & fittings £	Motor vehicles £	Total £
Cost					
At 1 June 2009	4,122,996	41,221,232	1,224,325	273,226	46,841,779
Additions	-	4,922,407	4,460	-	4,926,867
Disposals	-	(14,072,238)	-	(34,505)	(14,106,743)
At 31 May 2010	<u>4,122,996</u>	<u>32,071,401</u>	<u>1,228,785</u>	<u>238,721</u>	<u>37,661,903</u>
Depreciation					
At 1 June 2009	21,323	9,554,700	754,122	127,390	10,457,535
On disposals	-	(4,429,110)	-	(13,974)	(4,443,084)
Charge for the year	<u>4,871</u>	<u>4,953,624</u>	<u>150,480</u>	<u>40,945</u>	<u>5,149,920</u>
At 31 May 2010	<u>26,194</u>	<u>10,079,214</u>	<u>904,602</u>	<u>154,361</u>	<u>11,164,371</u>
Net book value					
At 31 May 2010	<u>4,096,802</u>	<u>21,992,187</u>	<u>324,183</u>	<u>84,360</u>	<u>26,497,532</u>
At 31 May 2009	<u>4,101,673</u>	<u>31,666,532</u>	<u>470,203</u>	<u>145,836</u>	<u>36,384,244</u>

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 2010	17,544,742	-	-	17,544,742
At 31 May 2009	<u>27,038,718</u>	<u>-</u>	<u>-</u>	<u>27,038,718</u>
Depreciation charge for the year				
31 May 2010	4,942,027	-	-	4,942,027
31 May 2009	<u>8,192,923</u>	<u>-</u>	<u>-</u>	<u>8,192,923</u>

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2010

12 Fixed asset investments Company

	Shares in group undertakings £
Cost and net book value	
At 1 June 2009	201,022
Additions	1
Disposals	(201,000)
At 31 May 2010	23
At 31 May 2009	201,022

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			
H E Services (Plant Hire) Limited	England	Ordinary	100
Masterhitch Europe Limited	England	Ordinary	100
H E Construction Services Limited	England	Ordinary	100
Diggers Direct Limited	England	Ordinary	100
Diggerworld Limited	England	Ordinary	100
H E Services Limited	England	Ordinary	100
Hy-Tools Limited	England	Ordinary	100
Diggerland Limited	England	Ordinary	100

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

	Principal activity
H E Services (Plant Hire) Limited	Hire of equipment
Masterhitch Europe Limited	Excavator hitches and buckets
H E Construction Services Limited	Special construction projects
Diggers Direct Limited	Dormant
Diggerworld Limited	Dormant
H E Services Limited	Dormant
Hy-Tools Limited	Dormant
Diggerland Limited	Dormant

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2010

13 Stocks

	Group 2010 £	2009 £	Company 2010 £	2009 £
Raw materials and consumables	346,225	355,642	-	-
Work in progress	107,575	142,569	-	-
Finished goods and goods for resale	186,811	515,998	-	335,436
	<u>640,611</u>	<u>1,014,209</u>	<u>-</u>	<u>335,436</u>

14 Debtors

	Group 2010 £	2009 £	Company 2010 £	2009 £
Trade debtors	2,617,466	2,825,469	143,792	57,905
Amounts owed by group undertakings	-	-	1,366,058	1,524,045
Other debtors	5,001	55,477	93,394	166,065
Prepayments and accrued income	202,457	308,744	187,830	197,629
	<u>2,824,924</u>	<u>3,189,690</u>	<u>1,791,074</u>	<u>1,945,644</u>

Within the company other debtors includes amounts owed by related undertakings of £Nil (2009 £21,887) and VAT recoverable of £93,394 (2009 £139,179)

Within the group other debtors includes amounts owed by related undertakings of £nil (2009 £42,754)

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2010

15 Creditors amounts falling due within one year

	Group 2010 £	2009 £	Company 2010 £	2009 £
Bank loans and overdrafts	639,031	527,277	522,400	468,071
Net obligations under hire purchase contracts	8,829,800	12,453,133	8,829,800	12,453,133
Trade creditors	240,866	263,769	86,290	57,963
Corporation tax	50,000	-	50,000	-
Taxes and social security costs	396,898	286,307	15,760	9,073
Other creditors	376,712	610,596	313,333	569,413
Accruals and deferred income	590,652	552,693	372,187	313,667
	<u>11,123,959</u>	<u>14,693,775</u>	<u>10,189,770</u>	<u>13,871,320</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 £89,680 (2009 £83,155)

Obligations under hire purchase contracts are secured on the assets concerned

At the balance sheet date the company and group owed £1,037,160 (2009 £2,070,578) 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 £1,037,160 (2009 £2,070,578) has been allocated to short term and long term hire purchase liabilities in the proportions of £345,720 (2009 £690,193) and £691,440 (2009 £1,380,385) respectively.

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2010

16 Creditors amounts falling due after more than one year

	Group 2010 £	2009 £	Company 2010 £	2009 £
Bank loans	2,538,406	2,954,385	2,538,406	2,954,385
Net obligations under hire purchase agreements	5,274,904	13,725,459	5,274,904	13,725,459
Preference shares classed as a financial liability	400,000	400,000	400,000	400,000
	<u>8,213,310</u>	<u>17,079,844</u>	<u>8,213,310</u>	<u>17,079,844</u>
Loan maturity analysis				
In more than one year but not more than two years	422,026	415,192	422,026	415,192
In more than two years but not more than five years	1,809,312	1,287,861	1,809,312	1,287,861
In more than five years	307,068	1,251,332	307,068	1,251,332
	<u>2,538,406</u>	<u>2,954,385</u>	<u>2,538,406</u>	<u>2,954,385</u>
Net obligations under hire purchase contracts				
Repayable within one year	8,829,800	12,453,133	8,829,800	12,453,133
Repayable between one and five years	5,274,904	13,725,459	5,274,904	13,725,459
	<u>14,104,704</u>	<u>26,178,592</u>	<u>14,104,704</u>	<u>26,178,592</u>

Interest rates and repayment terms on hire purchase contracts are on normal commercial terms

The bank loans include £2,471,118 (2009 £2,810,006) due to HSBC (including short term elements), and terms of repayment are monthly instalments representing principal and interest and the agreed rates of interest on the loans are base rate plus 1% or 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 and floating charges over certain other assets of the company, and those of H E Services (Plant Hire) Limited and Masterhitch Europe Limited
- Parallel charge over a property owned by H R Edeleanu

Bank loans also include £482,364 (2009 £594,331) due to Bank of Ireland (including short term element). This is repayable in monthly instalments representing principal and interest and the rate of interest during the year was 2.1%. This is secured by a chattel mortgage dated 22 June 2007 over the plant which the loan was used to purchase.

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2010

16 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

17 Provisions for liabilities Group

	Deferred taxation £
Balance at 1 June 2009	2,965,193
Profit and loss account	(48,000)
	<u>2,917,193</u>
Balance at 31 May 2010	<u>2,917,193</u>

Company

Balance at 1 June 2009	2,965,193
Profit and loss account	160,000
	<u>3,125,193</u>
Balance at 31 May 2010	<u>3,125,193</u>

The deferred tax liability is made up as follows

	Group 2010 £	2009 £	Company 2010 £	2009 £
Accelerated capital allowances	3,125,193	2,965,193	3,125,193	2,965,193
Tax losses available	(208,000)	-	-	-
	<u>2,917,193</u>	<u>2,965,193</u>	<u>3,125,193</u>	<u>2,965,193</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

Deferred tax has been calculated at 28% (2009 28%)

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2010

18 Pension and other post-retirement benefit commitments

Defined contribution

	2010 £	2009 £
Contributions payable by the group for the year	16,704	16,704

19 Share capital

	2010 £	2009 £
Allotted, called up and fully paid 100 Ordinary of £1 each	100	100

20 Statement of movements on profit and loss account Group

	Profit and loss account £
Balance at 1 June 2009	7,295,426
Profit for the year	539,165
Dividends paid	(30,000)
Balance at 31 May 2010	7,804,591

Company

	Profit and loss account £
Balance at 1 June 2009	6,050,952
Profit for the year	745,312
Dividends paid	(30,000)
Balance at 31 May 2010	6,766,264

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2010

21	Reconciliation of movements in shareholders' funds	2010	2009
		£	£
	Group		
	Profit/(Loss) for the financial year	539,165	(2,939,961)
	Dividends	(30,000)	(40,000)
		<u>509,165</u>	<u>(2,979,961)</u>
	Net addition to/(depletion in) shareholders' funds	509,165	(2,979,961)
	Opening shareholders' funds	7,295,526	10,275,487
		<u>7,804,691</u>	<u>7,295,526</u>
	Closing shareholders' funds	<u>7,804,691</u>	<u>7,295,526</u>
	Company		
	Profit/(Loss) for the financial year	745,312	(1,607,453)
	Dividends	(30,000)	(40,000)
		<u>715,312</u>	<u>(1,647,453)</u>
	Net addition to/(depletion in) shareholders' funds	715,312	(1,647,453)
	Opening shareholders' funds	6,051,052	7,698,505
		<u>6,766,364</u>	<u>6,051,052</u>
	Closing shareholders' funds	<u>6,766,364</u>	<u>6,051,052</u>

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2010

22 Financial commitments

At 31 May 2010 the group had annual commitments under non-cancellable operating leases as follows

	Land and buildings		Other	
	2010	2009	2010	2009
	£	£	£	£
Expiry date				
Within one year	38,000	-	84,566	34,728
Between two and five years	237,278	351,278	286,915	387,463
In over five years	51,700	102,500	-	-
	<u>326,978</u>	<u>453,778</u>	<u>371,481</u>	<u>422,191</u>

At 31 May 2010 the company had annual commitments under non-cancellable operating leases as follows

	Land and buildings		Other	
	2010	2009	2010	2009
	£	£	£	£
Expiry date				
Between two and five years	79,000	43,000	-	-
In over five years	42,100	92,500	-	-
	<u>121,100</u>	<u>135,500</u>	<u>-</u>	<u>-</u>

23 Directors' emoluments

	2010	2009
	£	£
Emoluments for qualifying services	109,348	134,517
Company pension contributions to money purchase schemes	16,704	16,704
	<u>126,052</u>	<u>151,221</u>

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 2 (2009 - 3)

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2010

24 Employees

Number of employees

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

	2010 Number	2009 Number
Production staff	140	194
Administrative staff	111	122
Management staff	5	5
	<u>256</u>	<u>321</u>

Employment costs

	2010 £	2009 £
Wages and salaries	3,998,249	5,590,746
Social security costs	212,921	432,619
Other pension costs	16,704	16,704
	<u>4,227,874</u>	<u>6,040,069</u>

25 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

H E GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2010

26 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. H E Services (Ireland) Limited went into liquidation in the year.

During the year the group made sales of £23,110 (2009 £200,048) to HE Services (Ireland) Limited and £Nil (2009 £46,426) to H R Edeleanu's proprietorship.

At the year end the group was owed £Nil (2009 £20,867) by HE Services (Ireland) Limited, after providing for bad debts of £Nil (2009 £162,080). There was also a debtor balance of £1,128 (2009 £21,887) owed by H R Edeleanu's Proprietorship.

During the year the group paid rent and rates expenses totalling £129,500 (2009 £182,500) to the HE SAS Pension Fund, and owed £96,552 (2009 £83,155) to the scheme at the year end.

Members of H R Edeleanu's family received a total of £11,400 (2009 £40,103) in respect of services to the group. Included in other creditors due less than one year are loans from H R Edeleanu and members of his family totalling £10,850 (2009 £97,689). These loans are interest free and repayable on demand.

The preference shares disclosed in note 16 are owned by members of H R Edeleanu's family and a dividend (disclosed as interest) of £28,000 (2009 £29,379) was paid in the year.

During the year the company began trading with Allsafety Limited, an independently owned company outside of the group, that began operating the "Diggerland" trade. H R Edeleanu owns the rights to the Diggerland name, and the group provides operating support to Allsafety Limited, such that Allsafety Limited is deemed to be a related party of the group.

The group provided services totalling £259,229 to Allsafety Limited during the year, and was owed £262,043 (inclusive of VAT) at the year end.